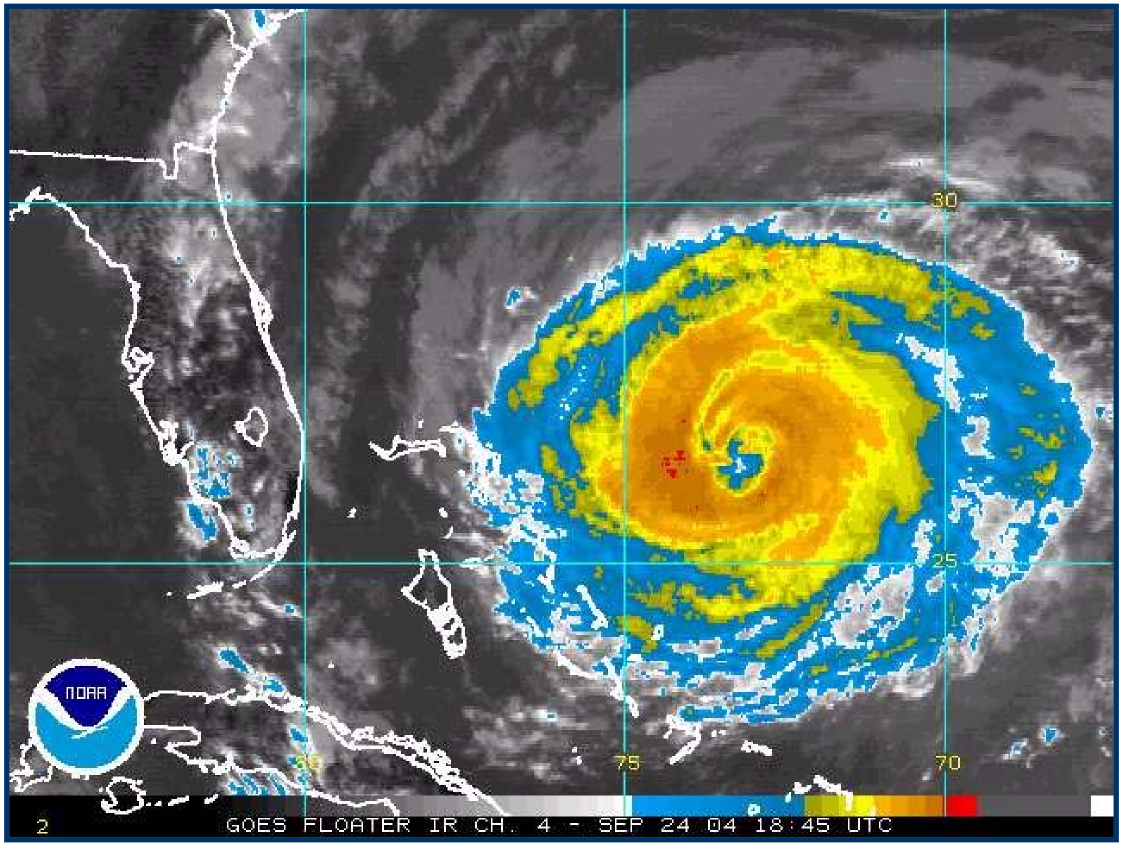
Florida Hurricane Catastrophe Fund

Update for the 2009 – 2010 Contract Year

Senate Banking & Insurance Committee

October 6, 2009



2009 Summary of CS/CS/CS/HB 1495

- **2010 Contract Year begins June 1 and ends December 31, thereafter, Contract Year begins January 1 and ends December 31**
- **“Up to $10 million coverage” option reinstated for the 2009-2011 Contract Years**
- **May and October estimates must now include the estimated claims paying capacity**
- **Implements a “cash build-up” factor, 5% per year to 2013, 25% thereafter**
- **TICL option extended to 2013 Contract Year**
- **TICL option reduced $2 billion per year, phased out over 6 years**
- **TICL premium increases by a factor of 2 this year, up to 6 by 2013**
- **$4 billion SBA option stricken**

- The actual coverage selected for 2009-2010 was $23.173 billion.

  This is broken down as follows:

  $5.557 billion for TICL

  $17.175 billion for the FHCF Mandatory Coverage

  $441 million for the “up to $10 million of optional coverage” below the FHCF’s retention.

- Total 2009-2010 premiums are estimated at $1.466 billion.

2009/2010 Contract Year:
TICL Coverage Selected*

- Participating Insurers Selecting TICL Coverage
  Breakdown of Coverage Selections (share of $X Billion):
  - **122** companies No TICL Coverage (63%)
  - $ 1 B – 5
  - $ 2 B -- 1
  - $ 3 B -- 1
  - $ 4 B -- 2
  - $ 5 B -- 1
  - $ 6 B -- 0
  - $ 7 B -- 0
  - $ 8 B -- 2
  - $ 9 B -- 0
  - $10 B – 61
- **73** total companies Selecting TICL Coverage (37%)
- Coverage Selected **$5,556,993,011 est cov selected**
- Coverage Not Selected **$4,443,006,989**
- Citizens HRA $2,359,050,233
- Citizens PLA/CLA $1,227,987,982
- TOTAL CITIZENS = $3,587,038,215 (64.55% of TICL selected)
- All other companies $1,969,954,796 (35.45% of TICL Selected)

*Estimated and projected based on FHCF mandatory coverage share for 2008/2009.

2009/2010 Contract Year

- Number of Participating Insurers
  - Breakdown of Coverage Selections

    172 companies at 90% coverage

    0 companies at 75% coverage

    23 companies at 45% coverage
- **195** total companies participating

2009/2010 Contract Year

- **25** Participating Insurers Selecting $10 Million Coverage
  - Breakdown of Coverage Selections:

    170 companies No coverage (Most not Eligible)

    55 companies met the statutory definition for eligibility

    $ 1 M -- 1

    $ 2 M -- 1

    $ 3 M -- 1

    $ 4 M – 1 @ $4,629,575

    $ 5 M -- 0

    $ 6 M -- 0

    $ 7 M -- 0

    $ 8 M -- 0

    $ 9 M -- 0

    $10 M -- 21

2009/2010 Initial Season

Mandatory & Optional Coverages Selected

Not Official (For Illustrative Purposes Only)

(Based on Actual TICL and LAC Options Selected for 2009)

TOTAL SELECTED CAPACITY ALL COVERAGES: $23.173 Billion

Not Drawn to scale. Amounts are projected from 2008/2009 premiums or estimated.

Premiums

Premiums	Years	Industry Co-Payments	Coverage	ROL
$ 276M	42 Years-- 2.40%	$31.31B / $0.59B	$5.557B of TICL Coverage Selected	5.0% ROL
$1,080M	32 Years – 3.1%	$26.31B / $1.91B Industry Co-Payments	$17.175B of FHCF Mandatory Coverage (Loss Adjustment Expense is included in the capacity for all coverage layers)	6.3% ROL
$ 110M	9.0 Years – 11.1%		$7.223B Industry Retention** / $441M LAC	50% ROL
$1,466M				

Selected Capacity

$ 5.557B	TICL
$ 17.175B	FHCF
$ 0B	TEACO
$ 0.441B	LAC $10M
$ 23.173B	

**Individual company retentions are their share of the industry retention.

- The estimated capacity for the FHCF per the May 2009 “Estimated Loss Reimbursement Capacity” report is **$16 billion**. Actual claims paying capacity may be more or less than this depending on the market conditions at the time of debt issuance.
- This includes **$8 billion of bonding** and **$8 billion in liquid resources**.
- The FHCF is in the strongest financial position regarding liquid resources than it has ever been.
- The weakness of the FHCF is associated with its ability to issue debt since the financial markets have adversely impacted the FHCF like every other business or government entity with financing needs.
- The liquid resources include

  $4.5 billion form the Cash Balance

  $3.5 billion in Pre-Event Notes
- **NOTE:** The FHCF is only obligated to the extent of its year-end cash balance for paying claims plus the amount of debt it can actually issue by bonding.

- The potential **“shortfall”** is the difference in the maximum coverage purchased and the estimated capacity.
- For 2009-2010, the “shortfall” from the theoretical limit of coverage is currently estimated at **$7.173 billion**.
- The estimated FHCF capacity of $16 billion would be exhausted with a ground up loss event of **$24.18 billion**. This size event has a probability of occurring of **3.3%** (and a return time of 30 years).
- Hurricane **events less than $24.18 billion** would result in the FHCF being able to pay all claims based on both its mandatory and optional coverages. The probability of being able to pay all claims to the extent of coverage purchased is thus estimated at **96.7%.**

2009/2010 Initial Season

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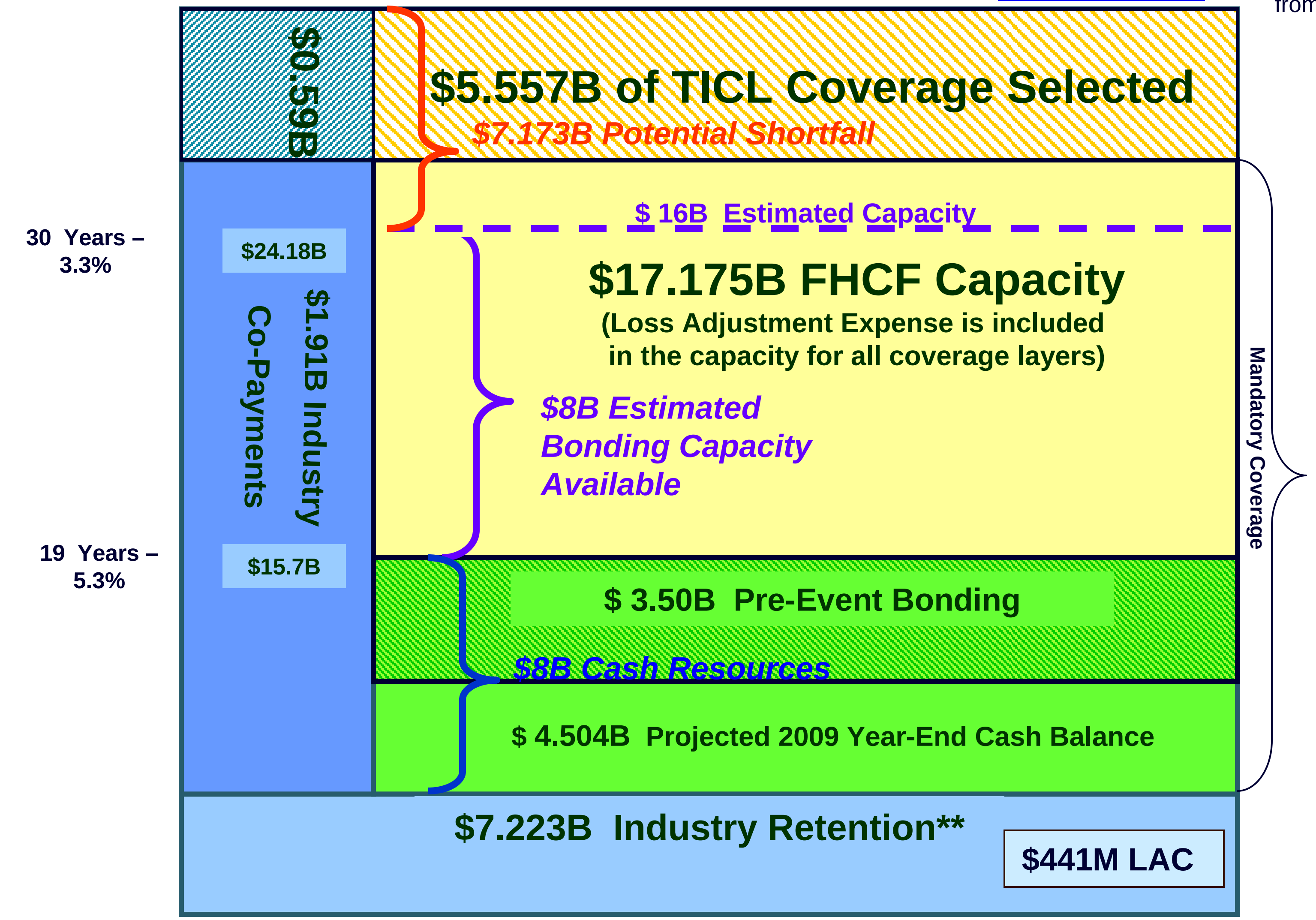
TOTAL SELECTED CAPACITY ALL COVERAGES: $23.173 Billion



* This number includes the $18.228B plus the $441M needed to fund the LAC Coverage.
**Individual company retentions are their share of the industry retention.

- The estimated potential **“shortfall”** has been reduced by over **$11 billion** since the first of the year.
- This is due to a number of factors including:
  - Legislation
  - Insurer actual selections of optional coverage
  - Improvements in bonding estimates
  - Larger FHCF premiums
- Today, the FHCF has less potential liabilities and more potential resources than was anticipated six months earlier.

Conclusions

- The enactment of CS/CS/CS/HB1495 has resulted in a transfer of risk back to the private markets (perhaps as much as **$6.4 billion**).
- The phase out of optional coverages will transfer more risk back to the private market over the next five years.
- Until the financial markets improve there will **continue to be a "theoretical shortfall"** in the FHCF's ability to provide its maximum capacity limits.
- The legislation allows for the **greater build up of liquid resources** in preparation for the next large event or series of events.
- Although the FHCF's bonding capabilities are impaired by the current financial markets, its **liquid resources are stronger than they have ever been** with **$8 billion** representing $4.5 billion of year-end cash balance for paying claims and $3.5 billion in pre-event notes.
- It would take a ground up event of $15.7 billion (probability of 5.3% -- return time of 19 years) to exhaust the current liquid resources of the FHCF. The FHCF has about a **95% probability** of being able to pay claims with its currently available liquid resources.