



Insuring Florida Homes

Wind Loss Mitigation

**Florida Commission on Hurricane Loss
Projection Methodology**

October 29, 2009

Role of a Florida Domestic Property Insurance Company



- Develop and manage a portfolio of insured properties. Collect premiums for financing risk.
 - Spread the risk throughout the world using reinsurance and other risk transfer mechanisms. (40% of Premium)
 - Pay attritional losses and wind retention (30% of premium).
 - Commission and other expenses (25%).
 - Profit (5%)

Role of a Florida Domestic Property Insurance Company



- Companies are intermediaries that participate in the experience of their business.
- Balance premiums received against costs and reinsurance premiums.
- Reinsurance costs and regulatory constraints on prices can change rapidly and are not in the company's control.
- Price changes by the company take time to get approved, to be effective, and may require a history of unprofitability.

Role of a Florida Domestic Property Insurance Company

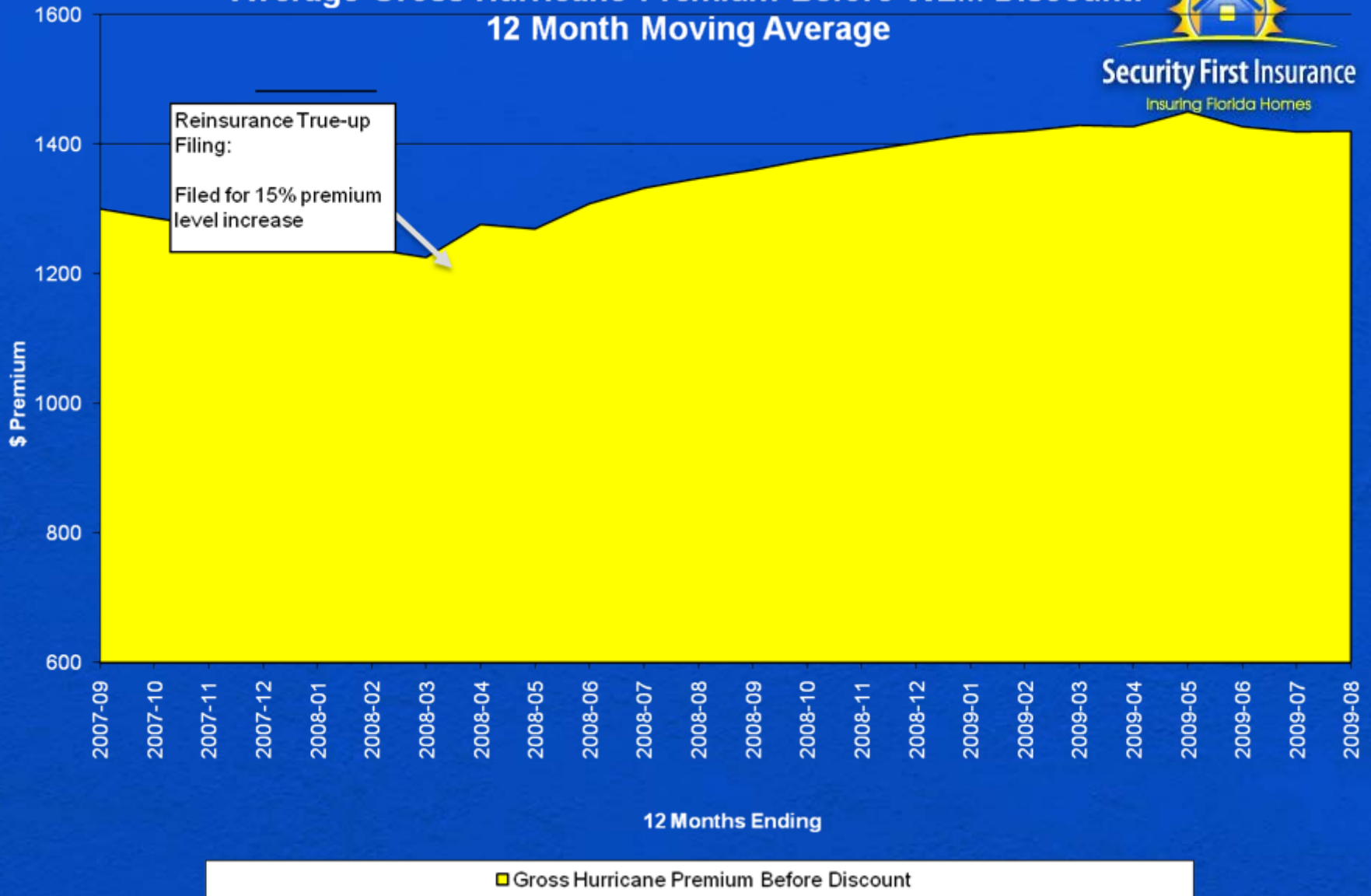


- When costs exceed premiums, there is a loss, and that reduces the company's "surplus".
- The company's ability to absorb losses is limited by the amount of surplus they have above the amount required by regulators and for wind retention.
- The 100,000 foot view of WLM in its entirety is that it reduced premiums substantially WITHOUT reducing costs and the difference has been taken out of surplus.

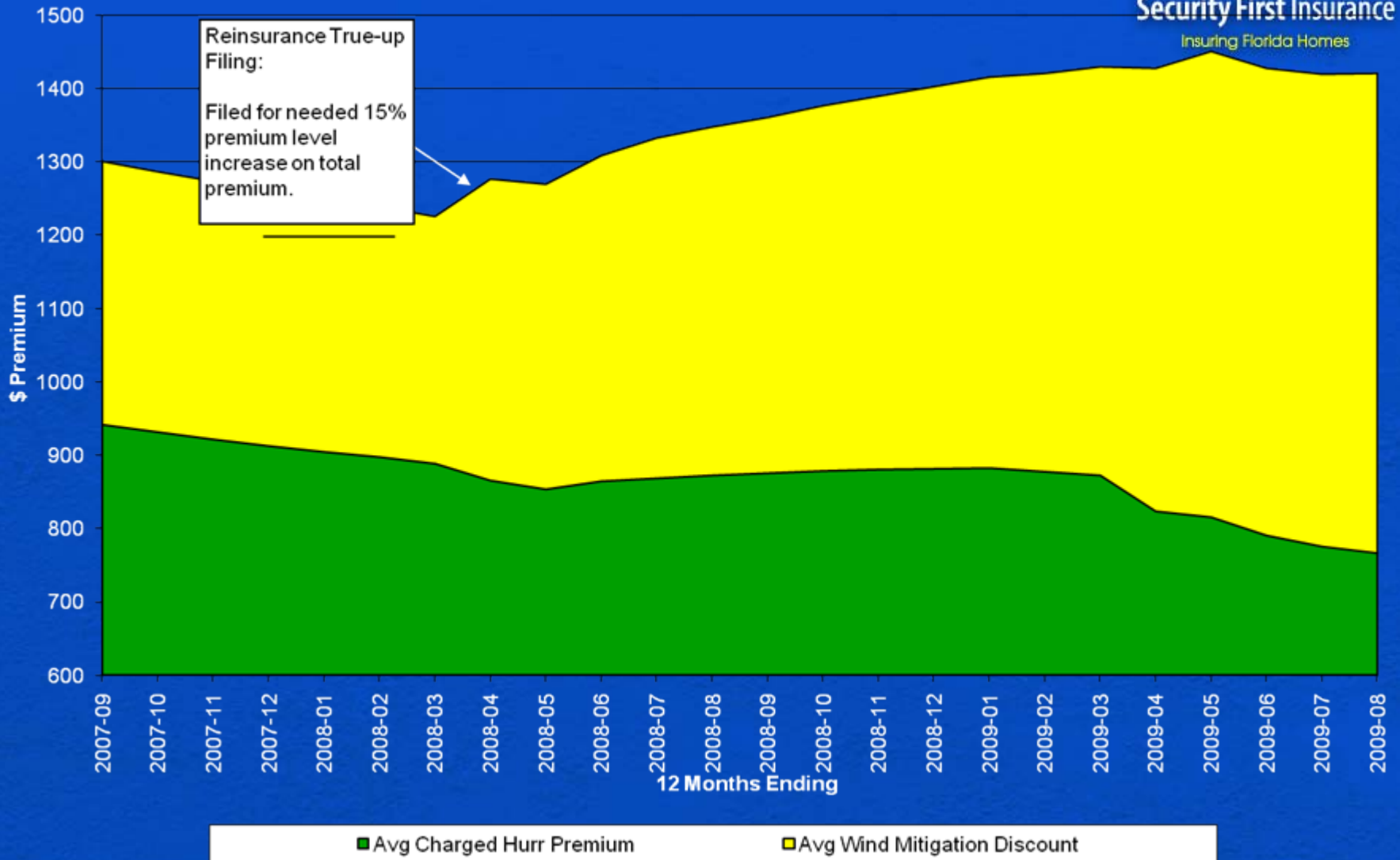
Average Gross Hurricane Premium Before WLM Discount: 12 Month Moving Average



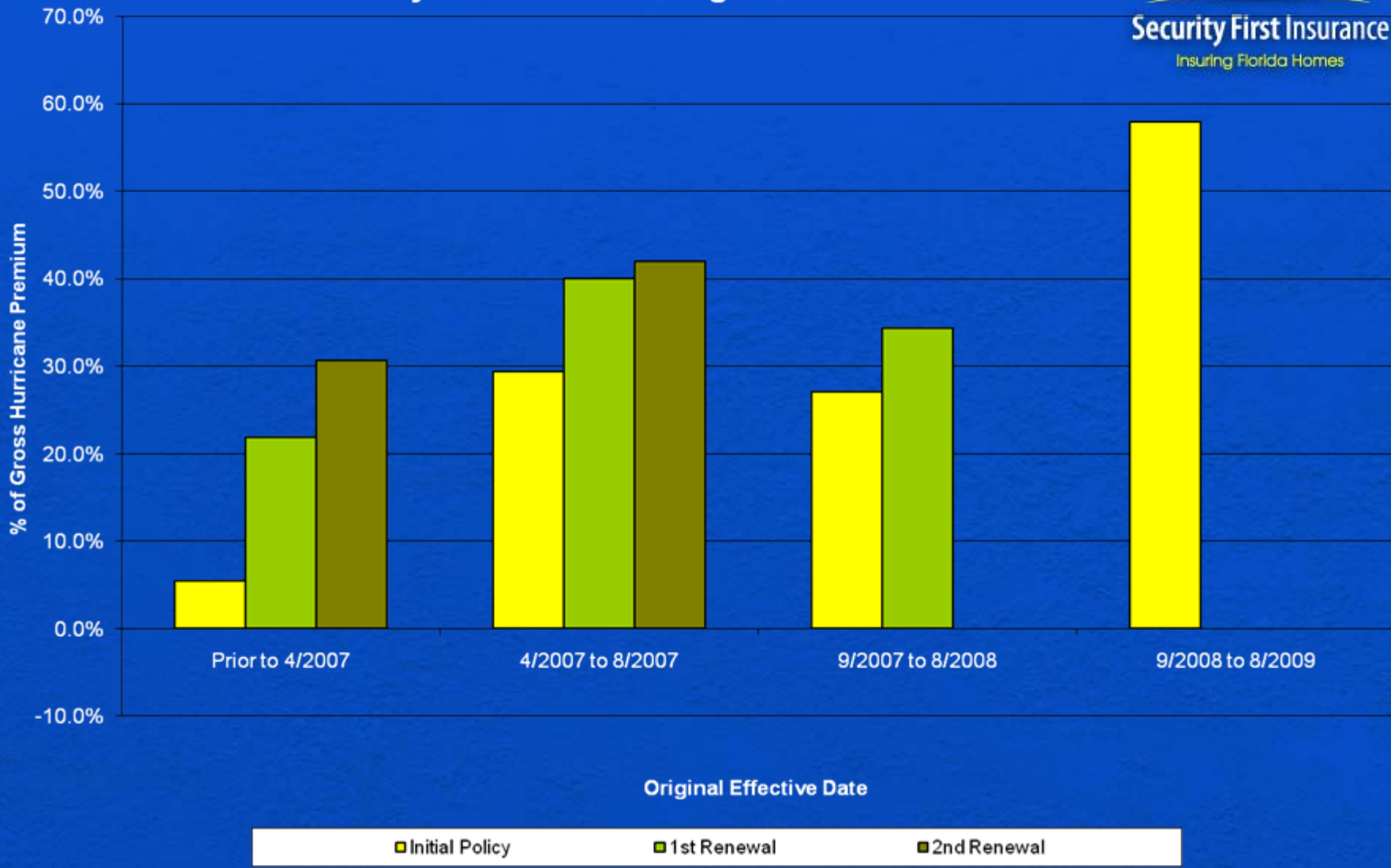
Security First Insurance
Insuring Florida Homes



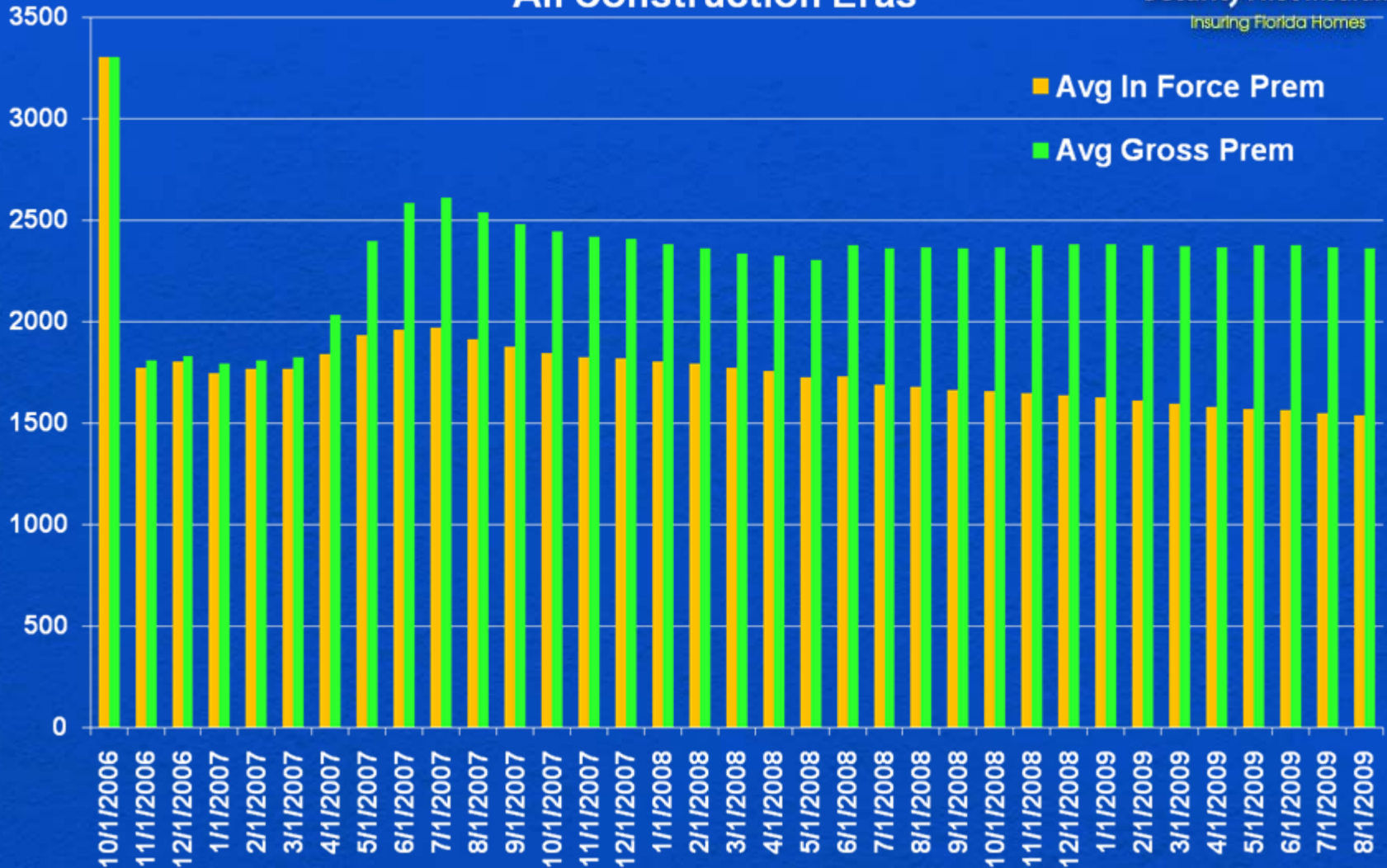
Average Charged Hurricane and Wind Mitigation Discounts: 12 Month Moving Average



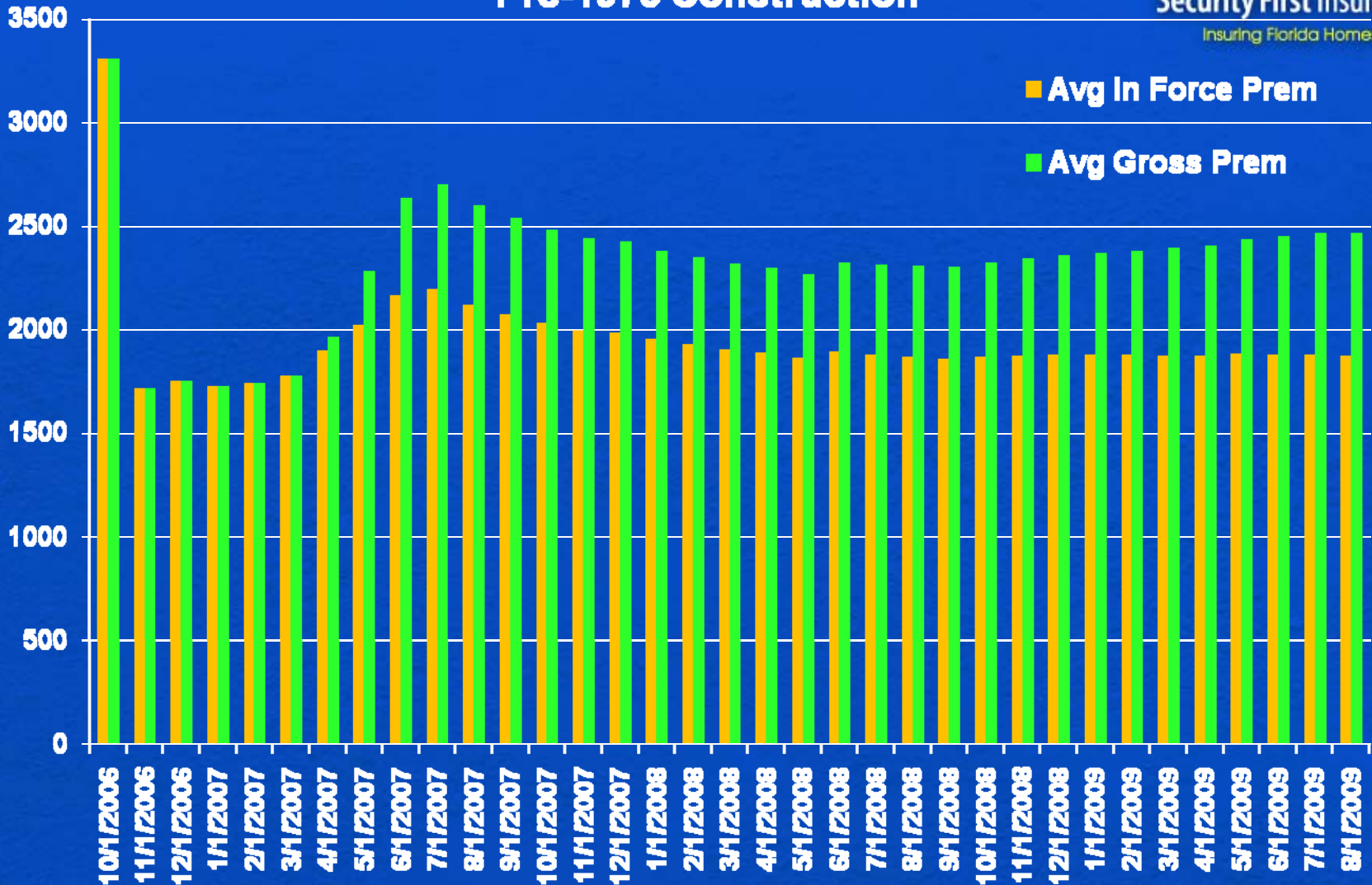
Wind Mitigation Credit % of Gross Hurricane Premium by Issuance and Original Effective Date



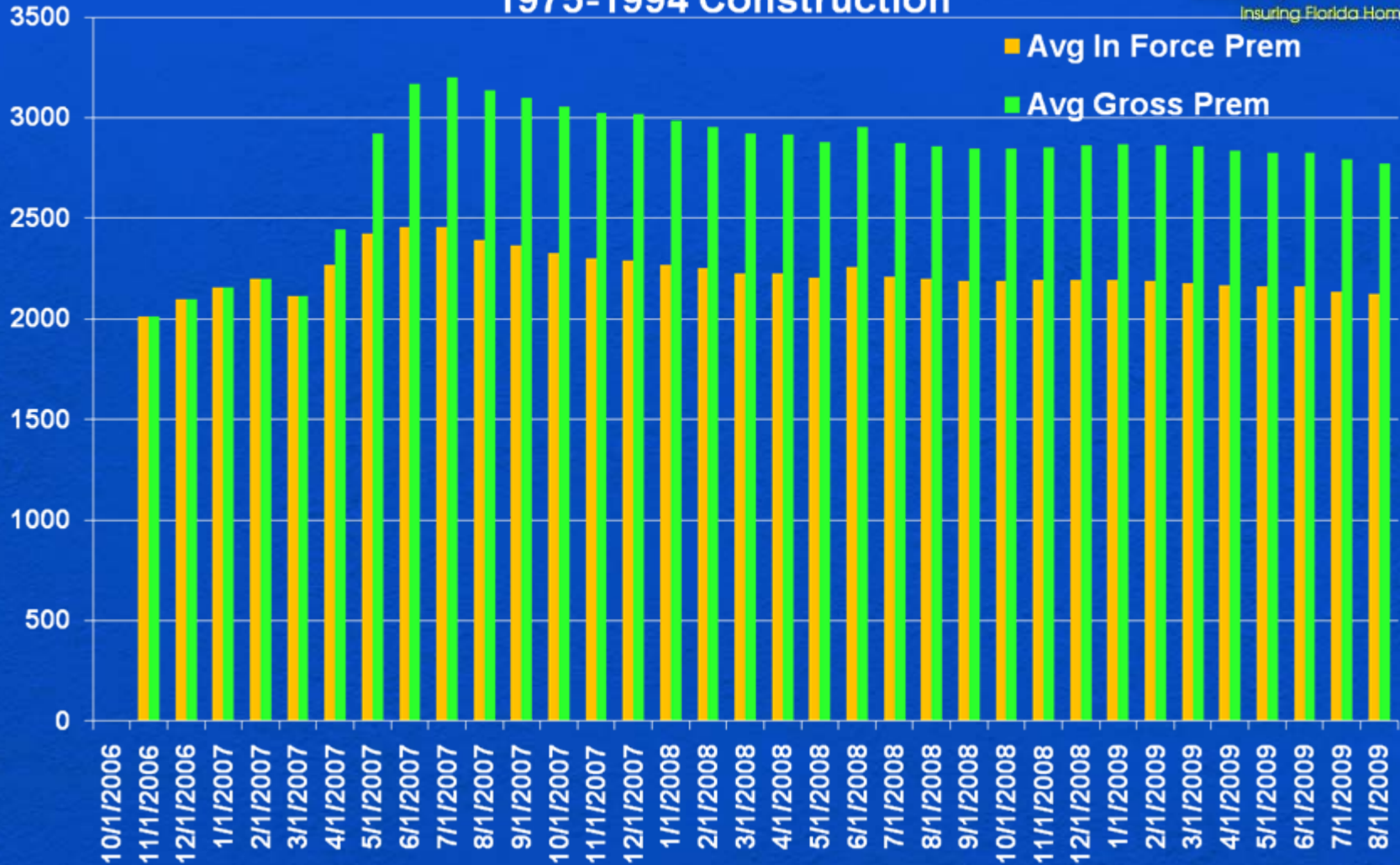
Security First Insurance Company Gross vs. Actual Premiums WLM Credits - HO-3 (excluding Takeout) All Construction Eras



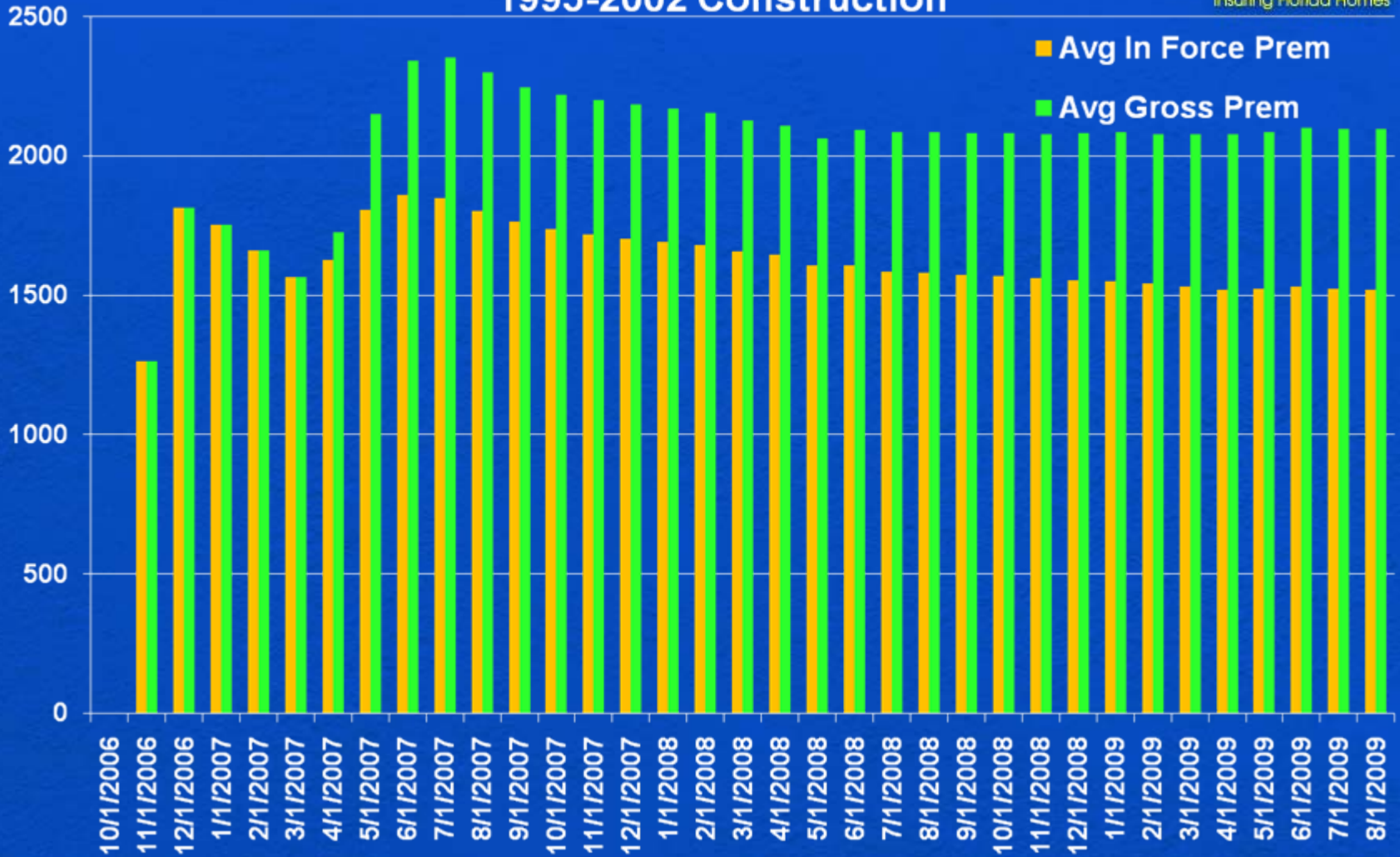
Security First Insurance Company Gross vs. Actual Premiums WLM Credits - HO-3 (excluding Takeout) Pre-1975 Construction



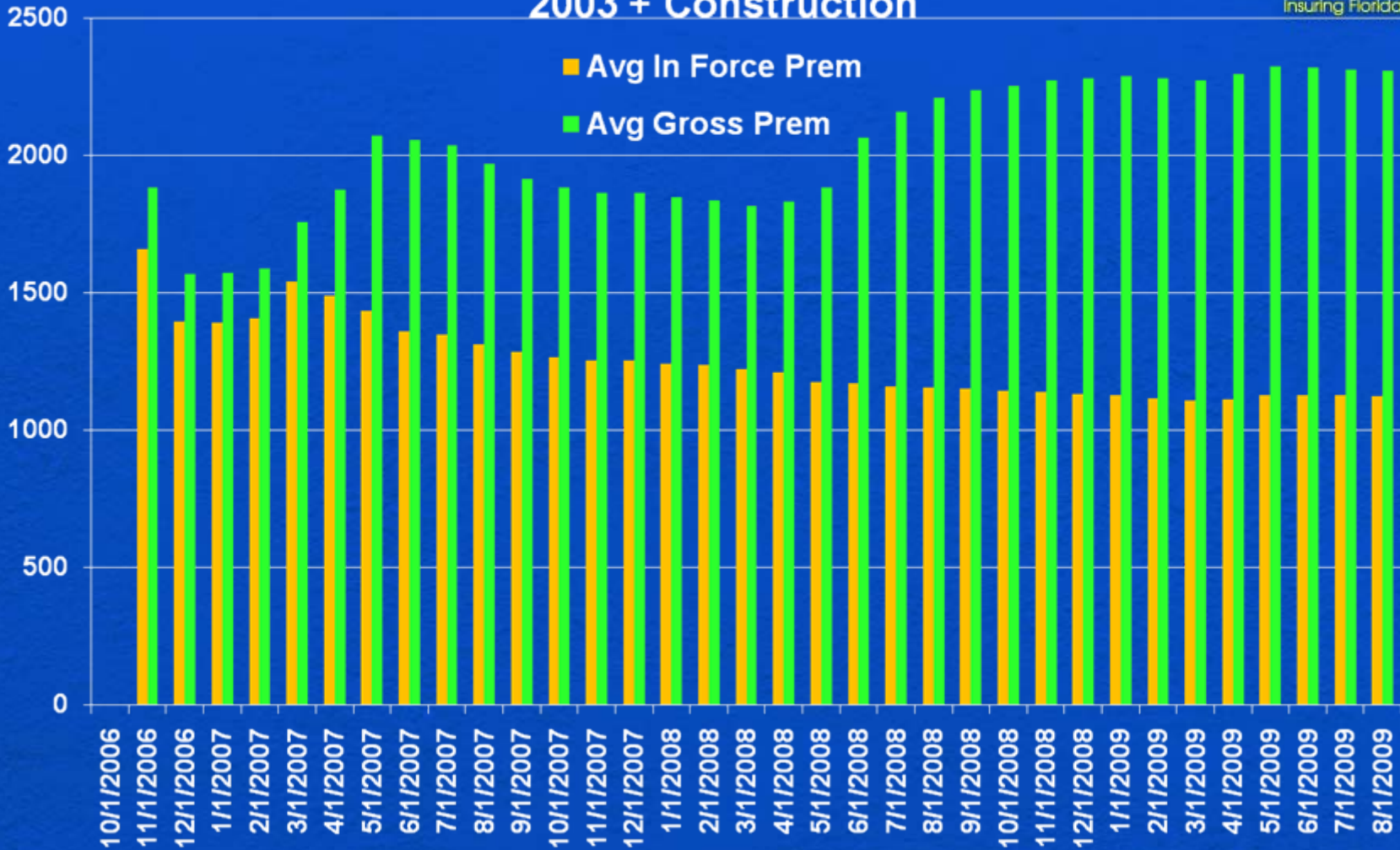
Security First Insurance Company Gross vs. Actual Premiums WLM Credits - HO-3 (excluding Takeout) 1975-1994 Construction



Security First Insurance Company Gross vs. Actual Premiums WLM Credits - HO-3 (excluding Takeout) 1995-2002 Construction



Security First Insurance Company Gross vs. Actual Premiums WLM Credits - HO-3 (excluding Takeout) 2003 + Construction



Where did all of the surplus go?



08/2009 HO3 Policy Count	47,995
Gross Premium / Policy	\$2,148
Net Premium / Policy	\$1,681
Wind Mitigation Discount	\$467
Annual Wind Mitigation Premium Lost	<u>\$22,413,665</u>
SFIC Surplus As Of September 30, 2009	\$18,011,939
SFIC Surplus As Of September 30, 2008	\$20,486,441

Problems with WLM Discounts

- No premium offset when implemented.
 - A premium offset for the “doubling” could have increased our surplus more than 25% in the past 12 months.
 - Does NOT show up in the indicated change.
 - Is NOT recouped.
 - No clear process to adjust rates now to compensate.
- Minimal reduction in costs to offset the discounts.
 - Existing housing stock is not being hardened against hurricane at anything close to the rate of discount application.
 - No reduction in reinsurance costs.
- Fraud and errors in inspection process and coding of discount data.
 - Data quality not good enough to use secondary modifiers in the modeling process.

Security First Response

- New WLM Inspection / Re-Inspection Process
- Education for all company personnel.
- Preparing data to present rate change proposal.

Security First WLM Inspection Program



- Created “Preferred Inspection Network” with a single transparent internet platform for WLM inspections.
 - New business inspected through our network is not subject to re-inspection.
 - Special price for preferred network inspections.
 - If OIR-1802 is submitted by a non-preferred inspector, we apply the credits as required and immediately order a re-inspection.
 - Initiated a process to re-inspect all in-force policies at an ultimate potential cost of over \$4,000,000.
 - Re-Inspections thus far in Miami-Dade County only.

Security First WLM Inspection Program – Initial Results



WLM Inspections Ordered	2,447	
# Pending Appointments	1884	
# Scheduled Appointments	73	
# Completed	490	
# Processed By underwriting	368	
Average Annual Premium Change Per Inspection	\$ 160.31	
No Change to Premium	115	31%
Lower Premium	41	11%
Higher Premium	212	<u>58%</u>
		100%
\$0 - \$500 Increase	169	80%
\$501-\$1,000 Increase	33	16%
> \$1,000 Increase	10	<u>5%</u>
		100%

OIR Proposed Form Revisions



- Revisions to OIR-B1-1802.
 - Approach uses “Building Code” to determine the WLM credits without provision as to whether the home actually qualifies.
 - Homes are not required to be maintained or repaired to code, and there is no provision to accurately flag non-compliant structures.
 - Homes built under the “Panhandle Exception” continue to have “new Construction” credits applied, regardless of whether their construction complies with the code.
 - Proposed change to the form would grant an automatic 88% discount to all 1995-2001 homes in Miami-Dade and Broward counties by according them FBC 2001 compliance.
 - Could result in a premium loss of 1% over our entire book of business.
 - Will discourage companies from writing in these counties.
 - Could increase Citizens policies there at lower rates.

OIR Proposed Form Revisions



- Revisions to OIR-B1-1802.
 - Who can sign an 1802 .
 - What is important to us is not who signs it but whether we have confidence that it is correct.
 - Defining “classes” of approved inspectors is irrelevant to us.
 - The entire process needs to be secure.
 - The time period that the form is “valid” is irrelevant to us.
 - The form becomes “invalid” as far as we are concerned when we re-inspect and find that it is incorrect.
 - The form may become invalid as soon as the rules change.

OIR Proposed Form Revisions



- Revisions to OIR-B1-1655.
 - This form is required to accompany policy documents to the insured so that they will understand what additional WLM credits may be available to them.
 - States unequivocally that a home built under the 2002 Florida Building Code or later (also including the 1994 South Florida Building Code for homes in Miami-Dade and Broward Counties) are eligible for a minimum 68% discount on the hurricane portion of your premium.
 - Homes built under the “Panhandle Exception” continue to have “new Construction” credits applied, regardless of whether their construction complies with the code.
 - No requirement that a home must be maintained to the minimum standards of that code.
 - Repairs and additions that are completed without a building permit.

Inspection Issue Is Cost



- Companies will create their own inspection networks and do re-inspections.
 - As business moves between companies it will be subject to additional inspections and re-inspections.
 - The cost will find its way into the premiums – eventually.
- My Safe Florida Home Program could provide a base to build a statewide inspection process and database that would reduce costs overall.
 - Can be funded by insurance companies accessing data and licensing of inspectors. No government funding needed.
 - Inspectors upload inspections electronically eliminating fraud from changing the paper forms.
 - Provides a source of information on mitigation and ultimately the effectiveness of mitigation.

Challenge - Getting from the Science of Wind Mitigation to Practical Application



- Extension of study results to structures, policy types and coverage that were not studied.
- Application of “year built” in place of individual dwelling attributes.
- Implementation of changes without provision for premium offset.



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