



Florida's Public Hurricane Loss Projection Model

Presentation to the Senate Subcommittee on General Government Appropriations

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Project Scope

- **What are the benefits of having a public model?**
- **How is the public model funded?**
- **How much does the public model cost?**
- **What additional steps could be taken to increase private funding for the public model?**
- **What options could the Legislature consider regarding the public model?**

Background

- The **Public Hurricane Loss Projection Model** was created to provide the Office of Insurance Regulation an additional regulatory tool
- Since 2000, the Legislature has provided OIR **\$11 million** for model creation, operation, and maintenance
- Several public and private entities use the model: **OIR, Citizens Property Insurance Corp., Florida Hurricane Catastrophe Fund, private insurers**

Public Model Has Several Benefits

- Provides OIR an **independent tool** to facilitate its review of the reasonableness of insurer rate filings
- **More transparent** than private models because its assumptions, methods, theories, and components are described in technical reports and other publications
- Offers an **additional source of information** for insurers to consider when evaluating risk exposure associated with their portfolio of policies

Public Model Supported Primarily By State Funds

- FIU receives annual **funding from OIR**, most of which is used to support the model's routine operation and maintenance - **\$588,409** from Insurance Regulatory TF in FY10-11
- FIU also receives **fees for providing modeling services** to other state entities and private insurers - **\$190,160** in FY10-11
 - Citizens - \$28,122
 - Catastrophe Fund - \$32,700
 - Private insurers - \$129,338

Annual Expenditures Vary; FIU Tries to Minimize Costs

- Annual **direct expenditures** for operating, maintaining, and updating the public model - **\$723,937** in FY10-11
- FIU and partner universities report taking **steps to minimize** operational and maintenance costs
 - Use graduate students to process insurer data, receive discounted computer processing services, do not charge for all faculty and staff time – estimated annual value for FIU **\$189,333**
 - Receive in-kind support from National Oceanic and Atmospheric Administration – estimated annual value **\$150,000**

Legislature Has Taken Steps to Increase Private Funding

- May 2011: Legislature amended state law to allow user fees based on reasonable cost associated with public model operation and maintenance
- November 2011: FIU representatives reported establishing higher user fees
 - Under new fee structure, an insurer that paid \$4,253 in FY10-11 would pay \$6,071 in FY11-12 (43% increase)
- FIU representatives reported considering further fee increases, but that higher fees depend on insurer demand

Additional Efforts Could Be Made to Increase Private Funding

- FIU could **market the public model** to insurers
 - Not previously marketed because it was initially developed for the sole use of OIR
 - University representatives estimated that annual cost for a marketing/business manager would be approximately **\$100,000**

- FIU could **enhance the public model** to make it more useful to insurers
 - University representatives reported that adding a storm surge component could make the model more attractive to insurers
 - They estimated that it would take approximately one year and at least **\$250,000** to make an existing university storm surge model compatible with the public model

Legislature Could Consider Other Options for the Public Model

- **Discontinue state funding**
 - Saves nearly \$600,000 per year in state funds but OIR would lose an independent benchmarking tool
- **Reduce state funding as it is offset by increasing fees paid by insurers**
 - Reduces reliance on state funds but is heavily dependent on increased use by private insurers
- **Continue the current funding mechanism**
 - Preserves OIR's regulatory toolkit but state would continue to spend \$600,000 a year that could be used for other purposes

Questions?

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