



Insurance, Business & Financial Affairs Policy Committee

**Wednesday, November 4, 2009
2:00 PM
212 Knott Bldg.**

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

Insurance, Business & Financial Affairs Policy Committee

Start Date and Time: Wednesday, November 04, 2009 02:00 pm
End Date and Time: Wednesday, November 04, 2009 03:30 pm
Location: Webster Hall (212 Knott)
Duration: 1.50 hrs

Presentations by the following:

Tom Cardwell, Commissioner, Office of Financial Regulation

Jack Nicholson, Chief Operating Officer, Florida Hurricane Catastrophe Fund

Susanne Murphy, Executive Vice President of Corporate Operations, Citizens Property Insurance Corporation

NOTICE FINALIZED on 10/28/2009 15:39 by Reshard.Debra



Office of Financial Regulation

Developments in Banking, Securities and Financial Services

November 2009

Presented by:

J. Thomas Cardwell, Commissioner

Agenda

- Banking Industry Trends
- Issues in Securities and Finance
- 2010 Legislative Initiatives
- Questions and Answers

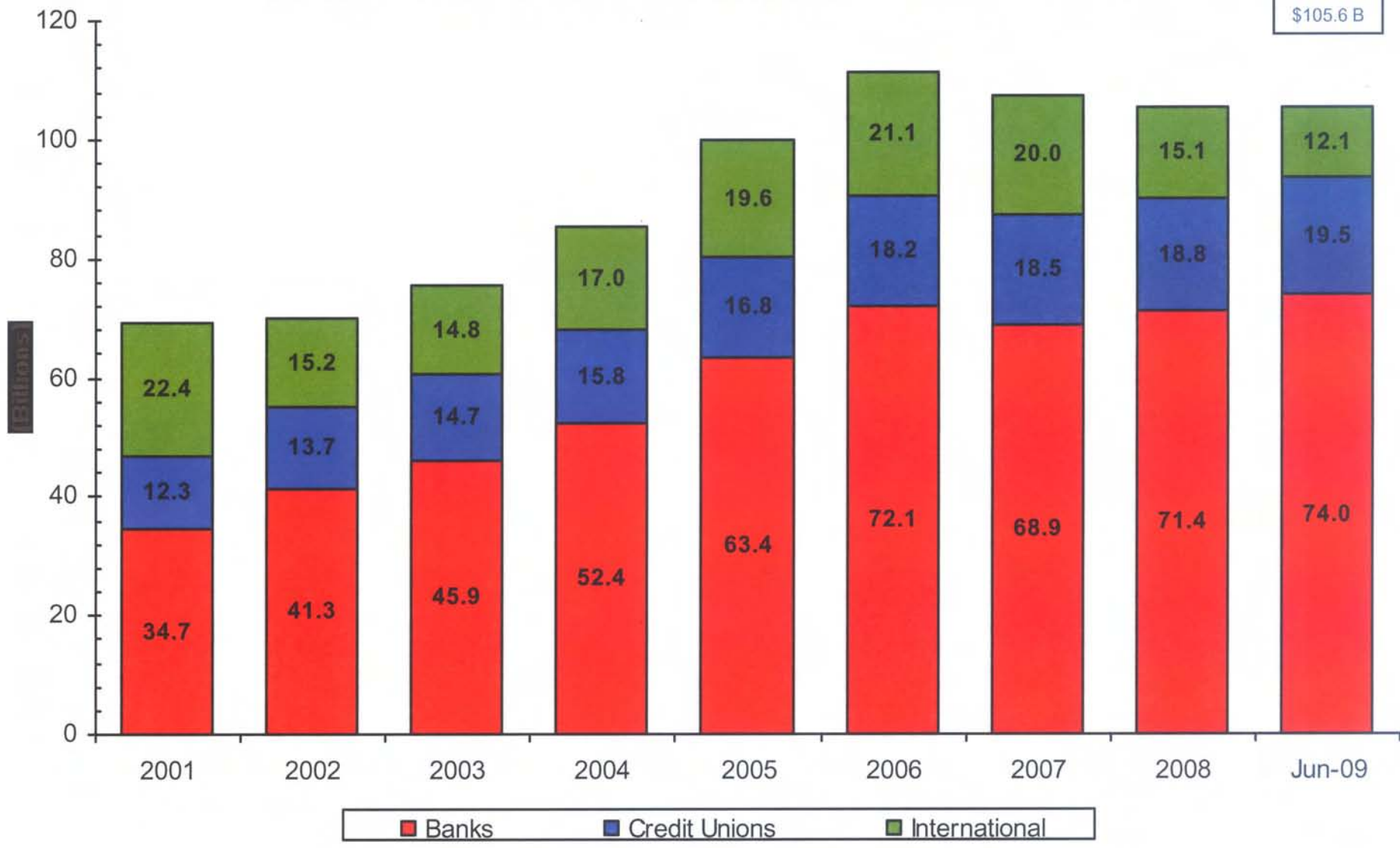
Banking Industry Trends

Florida State-Chartered Financial Institutions

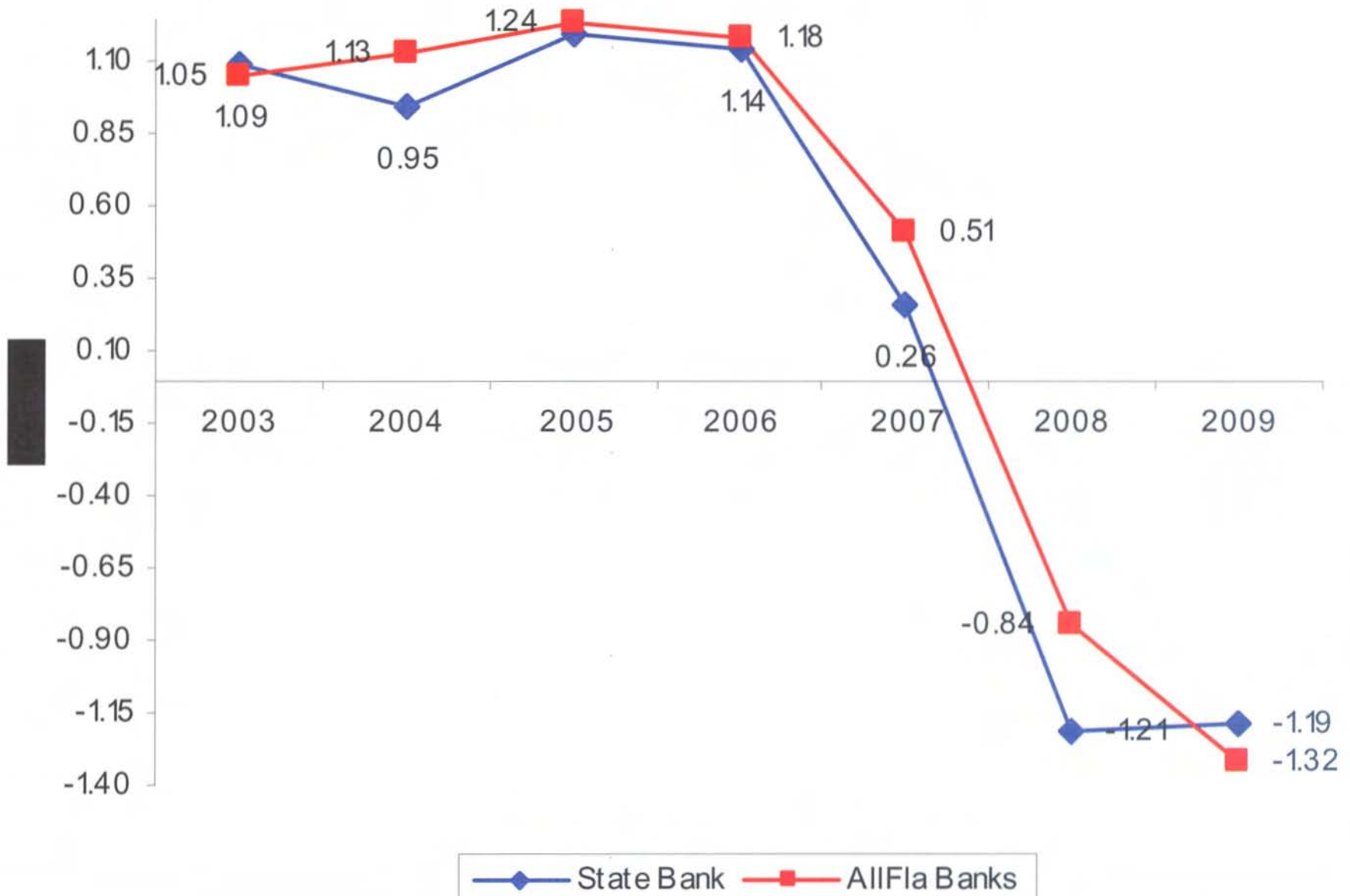
● Banks	202
● Credit Unions	79
● International Offices	40
● Trust Companies	12
● Total	333

Florida State Chartered Financial Institution Assets

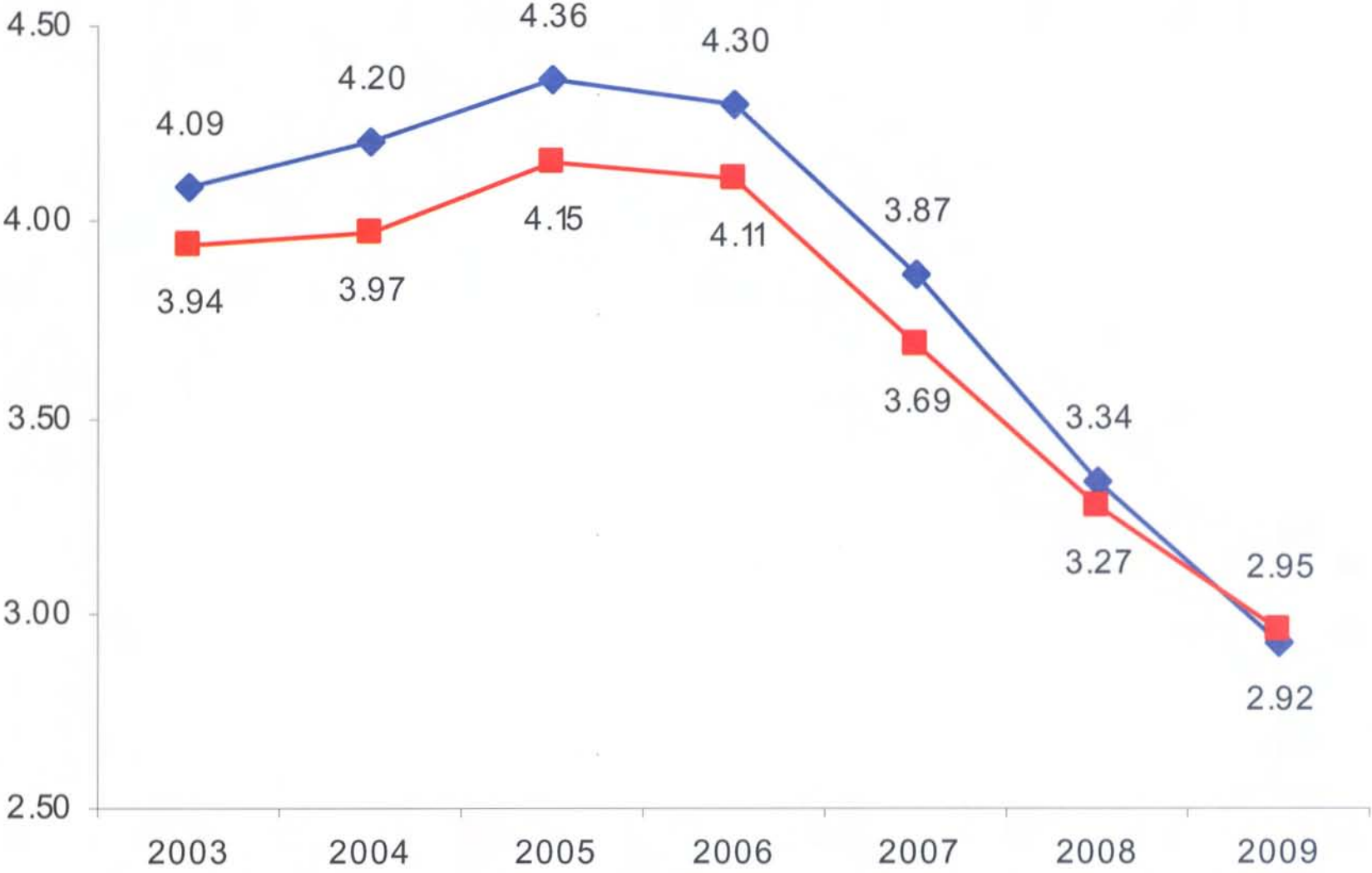
\$105.6 B



Return on Assets - Banks Headquartered in Florida

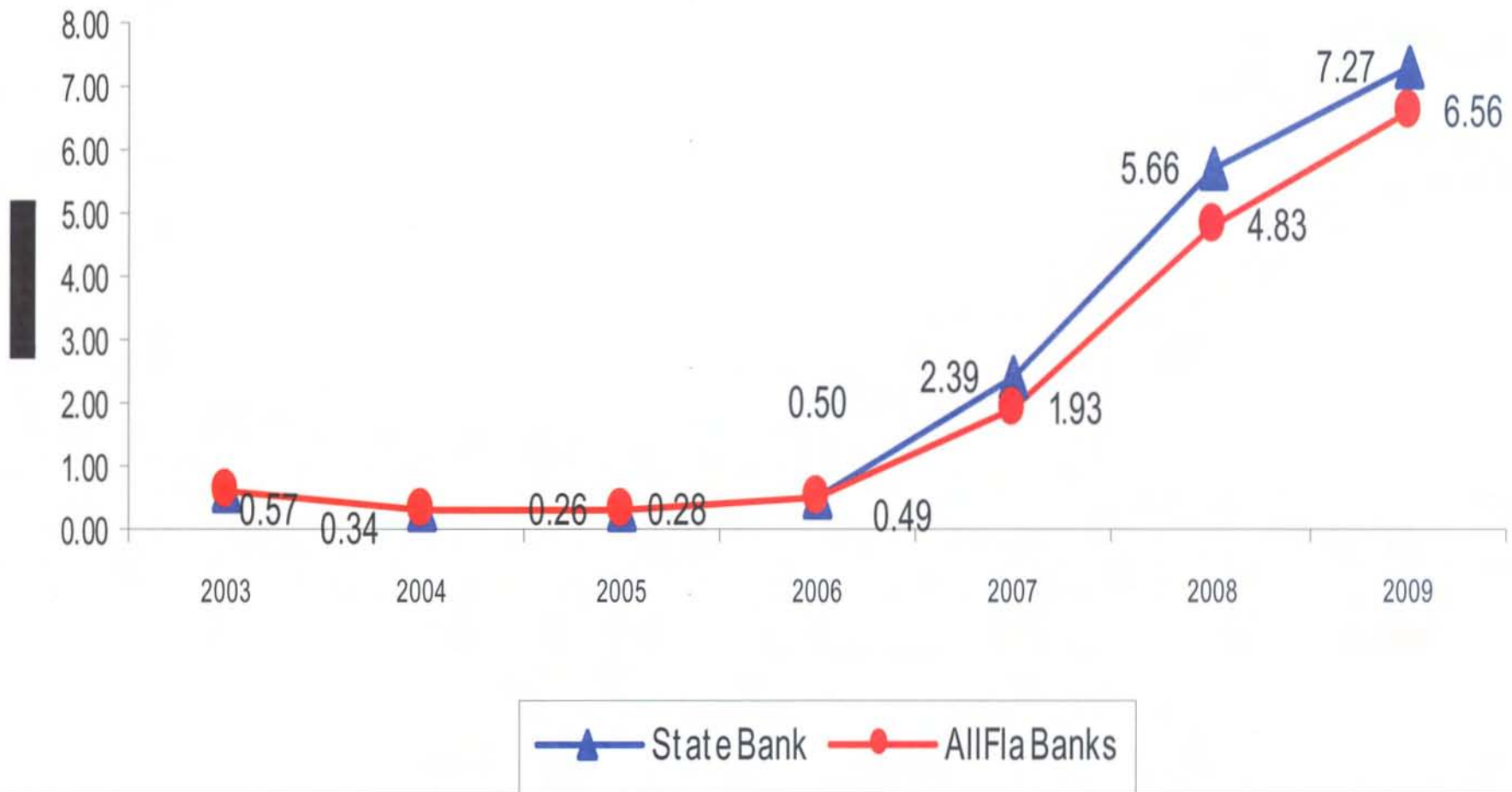


Net Interest Margin - Banks Headquartered in Florida



State Bank AllFla Banks

Delinquent Loans/Total Loans - Banks Headquartered in Florida (90+ Days Past Due)

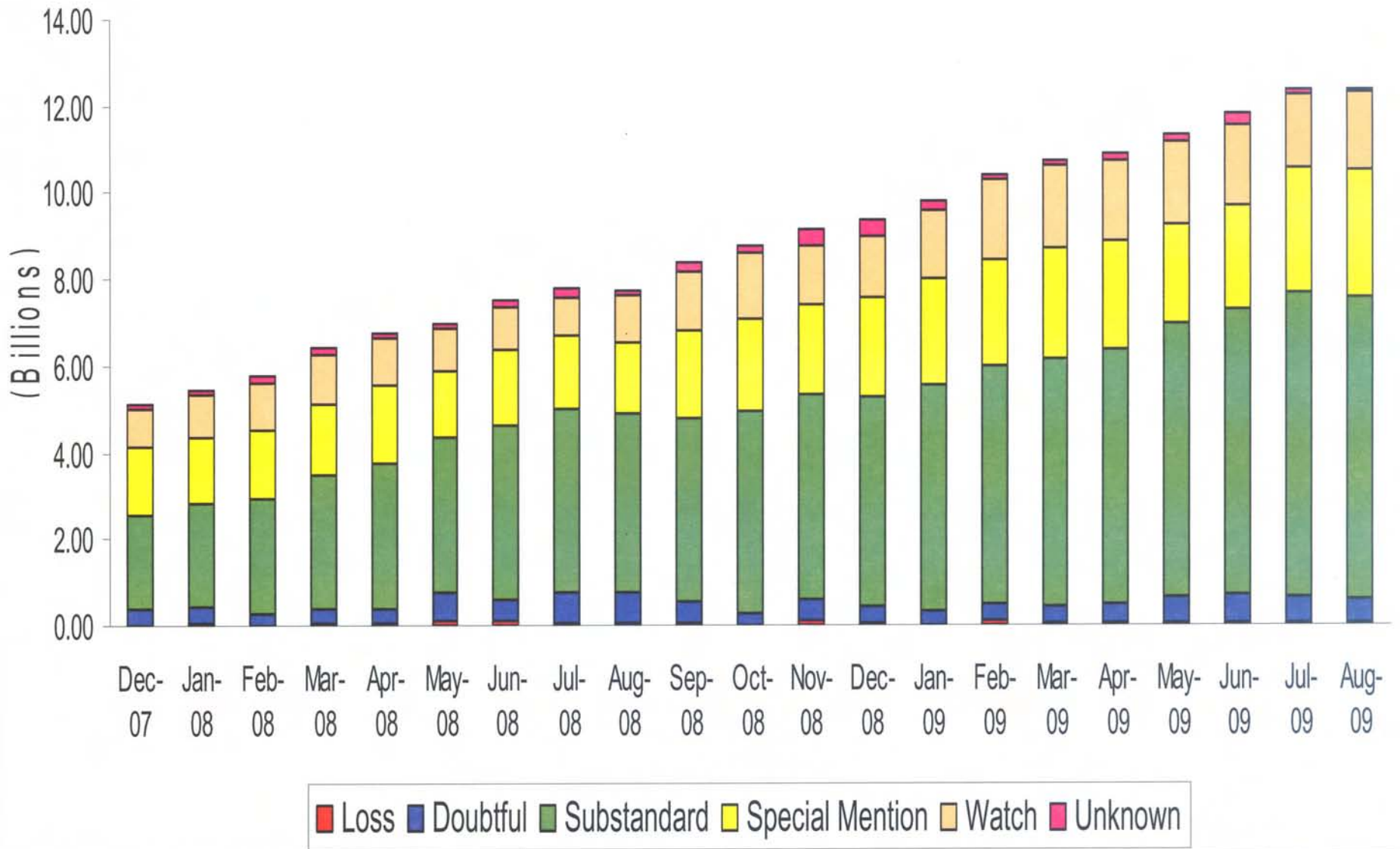


Percent of Unprofitable Banks Headquartered in Florida

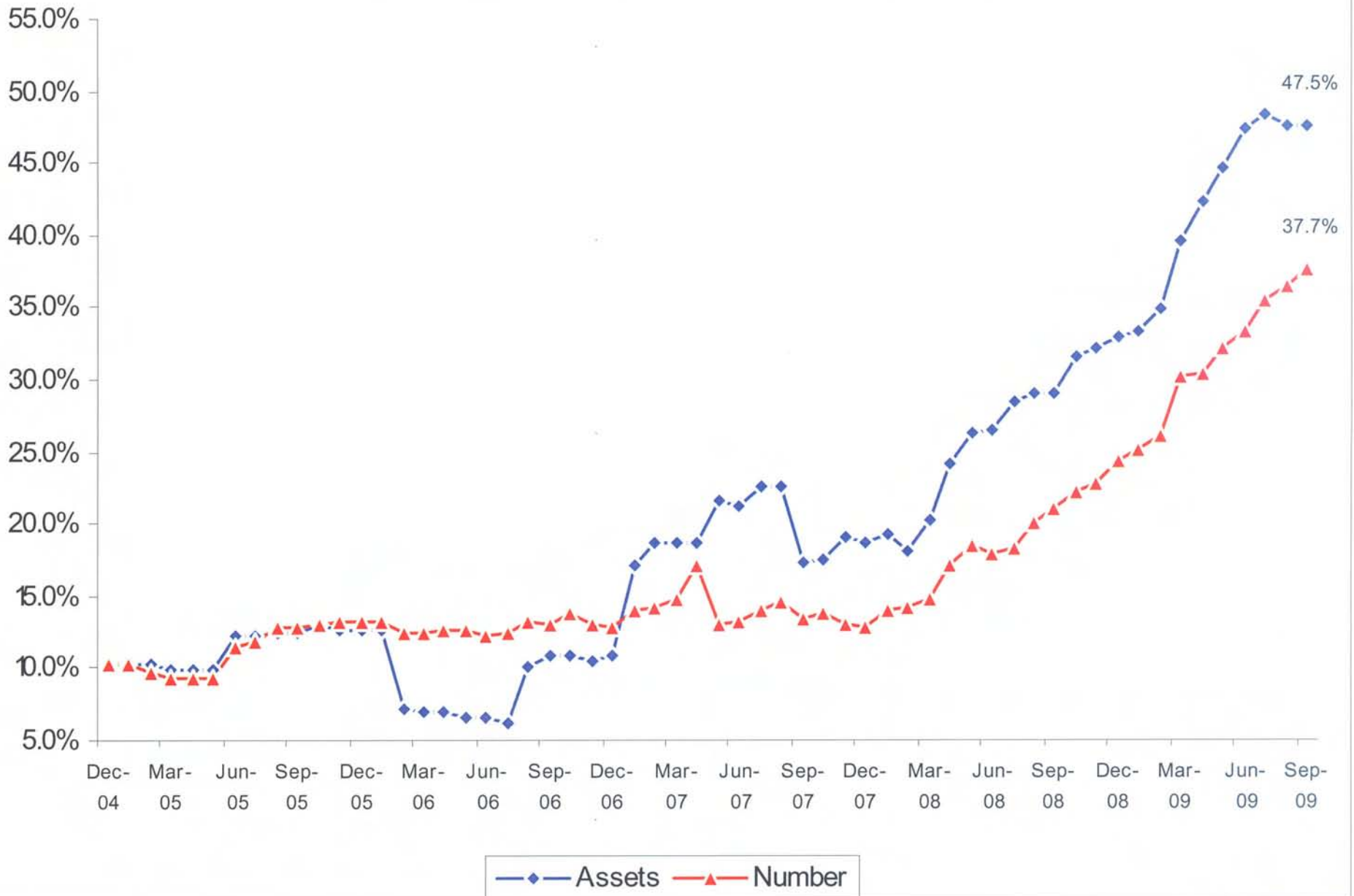


State Chartered Financial Institution Watch List Totals

(Includes Banks, Credit Unions & Foreign Banks)



State Financial Institutions on OFR Watch List



Financial Institution Failures

- Florida State-Chartered Financial Institutions

- 8/1/2008 First Priority Bank
- 10/31/08 Freedom Bank
- 4/24/09 Eastern Financial Credit Union*
- 7/31/09 Integrity Bank
- 8/7/09 First State Bank
- 10/23/09 Hillcrest Bank

* Placed into conservatorship

Financial Institution Failures

- Other Charters

- 1/30/09 Ocala National Bank
- 2/13/09 Riverside Bank of the Gulf Coast
- 5/21/09 BankUnited, FSB
- 8/7/09 Community National Bank of Sarasota County
- 9/25/09 Keys Federal Credit Union
- 10/23/09 Flagship National Bank
- 10/23/09 Partners Bank, FSB

Bank Deposits Are Protected

- Interest Bearing Accounts
 - FDIC insurance coverage increased to \$250K through December 31, 2013
 - National Credit Union Share insurance coverage increased to \$250K through December 31, 2013

Bank Deposits Are Protected

- Non-Interest Bearing Accounts
 - Transaction Account Guarantee Program
 - Program became effective October 14, 2008, and has recently been extended through June 30, 2010
 - Provides depositors with unlimited coverage
 - Includes certain low-interest accounts such as NOW accounts earning less than .50% and lawyer trust accounts

Issues in Securities

- Changes to the Florida Securities and Investor Protection Act
- Auction-Rate Securities

Changes to the Florida Securities and Investor Protection Act

Goals of the New Law:

- Broaden Florida's ability to investigate and pursue securities fraud and money laundering cases
- Increase the Office's enforcement powers
- Strengthen license registration requirements
- Impose tougher penalties

Changes to the Florida Securities and Investor Protection Act

- Highlights of the New Law:
 - Authorizes the Attorney General, in addition to the Office, to investigate and pursue cases involving securities fraud.
 - Clarifies that the Office of Statewide Prosecution can pursue securities fraud and money laundering as substantive crimes. Previously, this could be done only as a RICO predicate.
 - Strengthens the license registration process by imposing statutory disqualifying periods for persons who have been convicted of certain crimes.
 - Increases fines and other penalties for violations, which may include emergency suspension of registrations and permanent bars from the industry.

Auction-Rate Securities

- Auction-rate securities were promoted as being similar to cash deposits or money market accounts.
- Auctions began failing in August 2007 with the markets freezing in February 2008 leaving investors with illiquid investments.
- The Office is part of a multi-state task force of state securities regulators that has been investigating sales practices concerning this investment product.
- Through the efforts of the task force, a number of brokerage firms have repurchased the illiquid investments, which has resulted in Florida investors receiving over \$6 billion in restitution.

Issues in Finance

- Senate Bill 2226: Implementation of the S.A.F.E. Mortgage Licensing Act. The new law requires:
 - Licensure of Mortgage Loan Originators
 - Background Checks
 - National Education & Testing Requirements
 - Participation in National Registry
- Office's Shift in Focus for Examination Process

2010 Legislative Initiatives

- Confidentiality of Credit History Information
- Creation of Mortgage Guaranty Trust Fund
- Regulation of Foreign Trust Representative Offices
- Confidentiality of Securities Examination Techniques

Questions & Answers

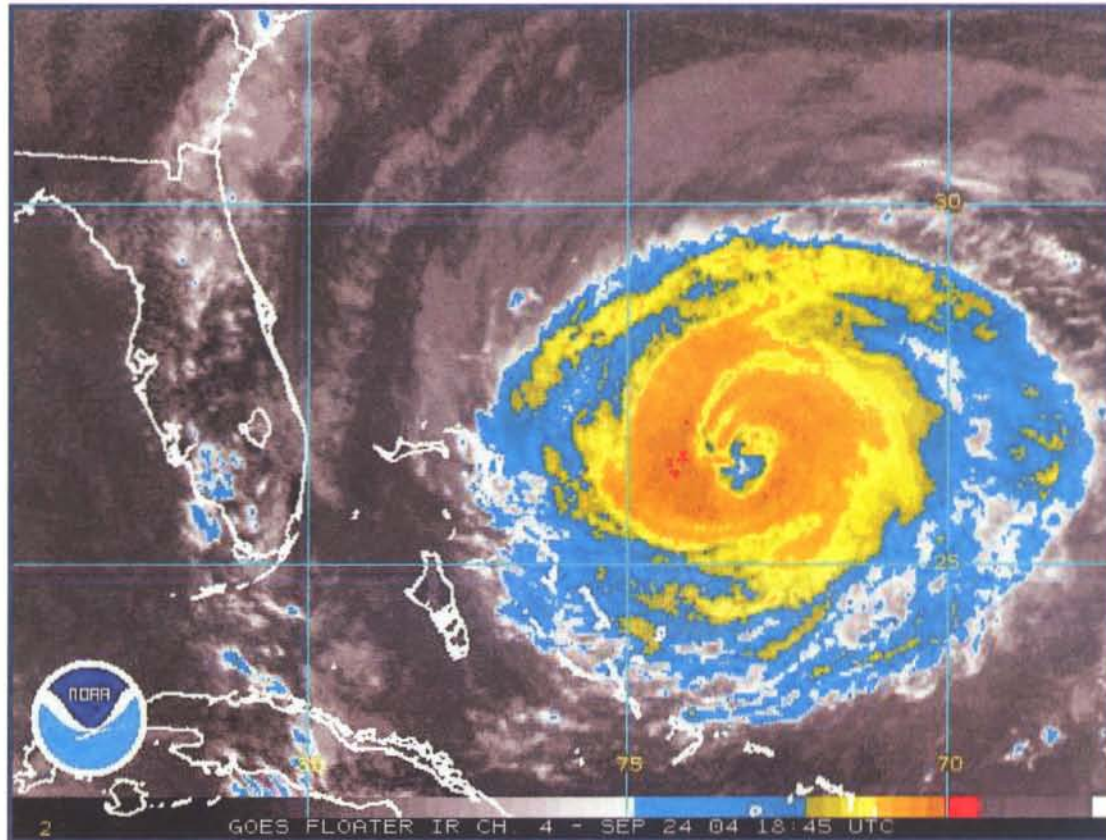
J. Thomas Cardwell, Commissioner
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Florida Hurricane Catastrophe Fund

Update for the 2009 – 2010 Contract Year

House Insurance, Business & Financial Affairs Committee

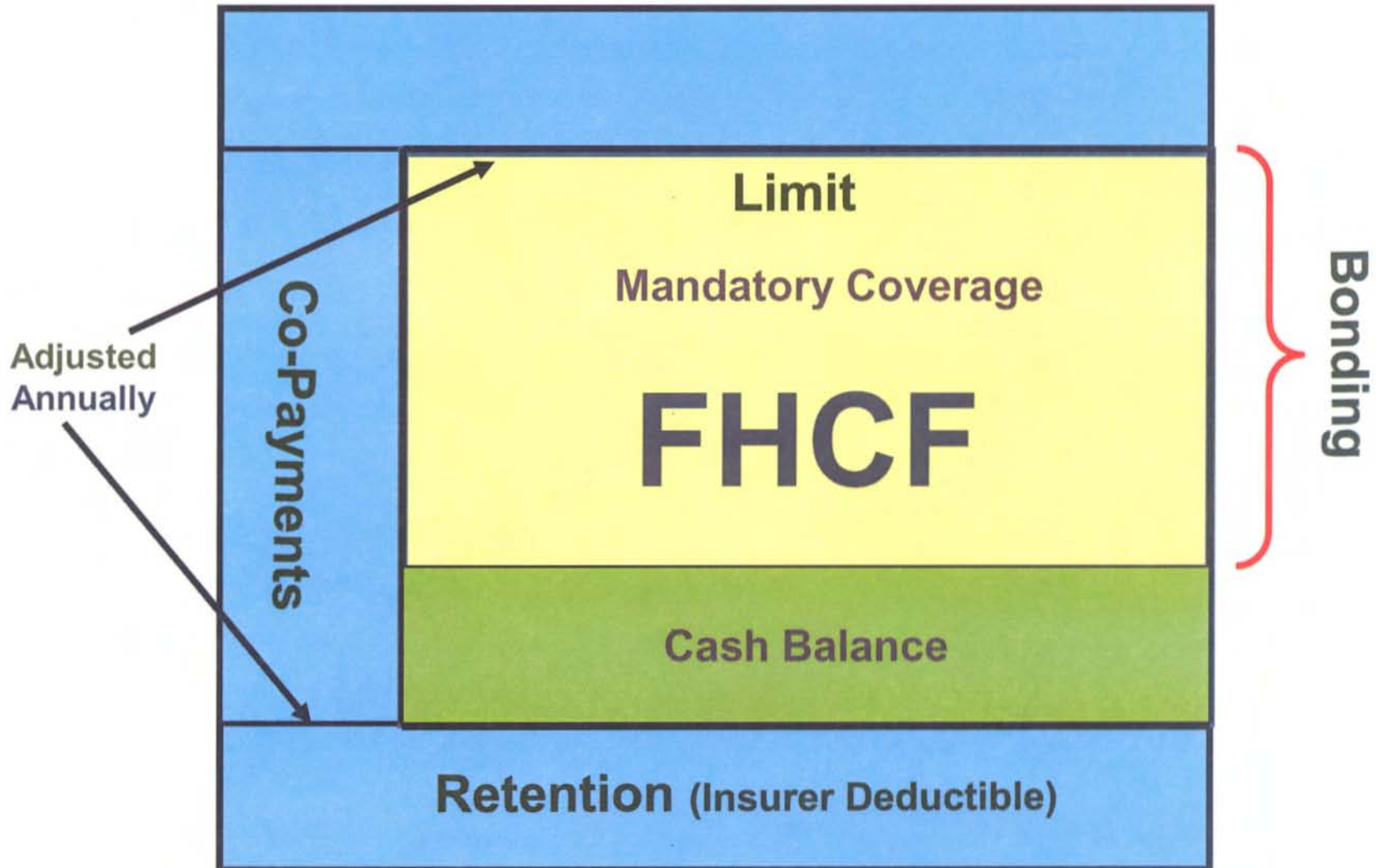
November 4, 2009



2007 Special Session Legislation

- HB 1A was passed in the Special Legislative Session in 2007 for the purpose of lowering residential property insurance cost.
- This was primarily done by expanding the FHCF. Replacing private reinsurance with FHCF coverage.
- The expansion of coverage was done by offering optional coverage to insurers to purchase additional coverage both above and below the mandatory coverage.
- The coverage above (TICL) was priced much lower than the private market reinsurance it was intended to replace. This was expected to result in a 24% reduction in residential property rates. The actual reduction has been reported to be about 14.5%.
- The coverage below (TEACO) was priced closer to private reinsurance pricing to provide a market but to discourage insurers from buying coverage that triggers easily with a small hurricane thus resulting in frequent bonding requiring emergency assessments.
- Provided for up to \$10 million of optional coverage below the FHCF's retention to certain specified insurers.

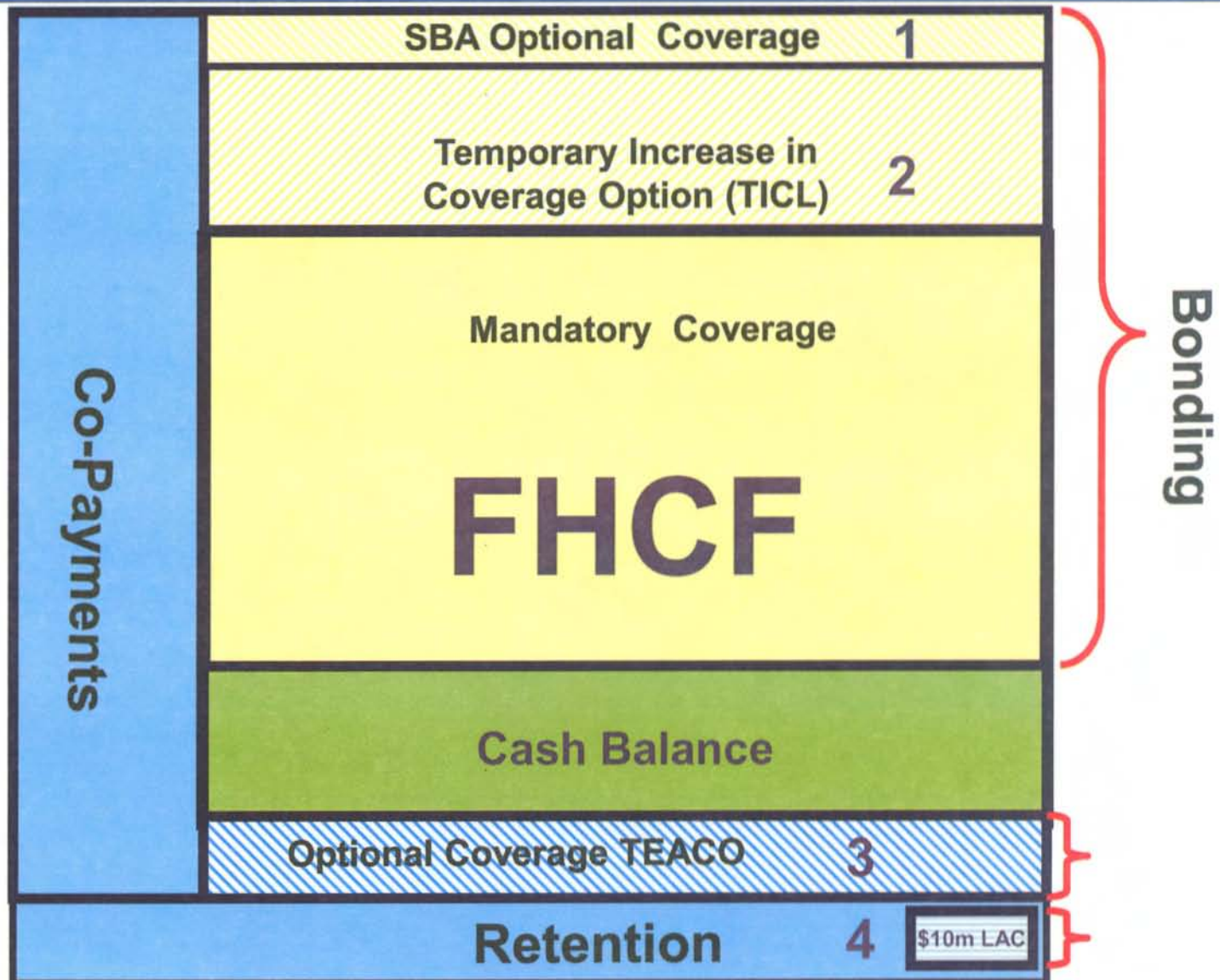
Basic Structure of the FHCF



Not Drawn to scale.

Structure of the FHCF

with Optional Coverages



Not Drawn to scale.

Financial Markets Problems have had Adverse Impact on the FHCF

- The FHCF's claims paying capacity is made up of its cash resources plus the amounts it is able to bond.
- With the expansion of FHCF coverage due to HB 1A, bonding became an even more significant component of the FHCF's capacity.
- In the late summer of 2007, the financial markets began to experience several liquidity problems.
- It became apparent that large bonding issues would be difficult to accomplish.
- It was questionable whether the maximum capacity of the FHCF could be funded.

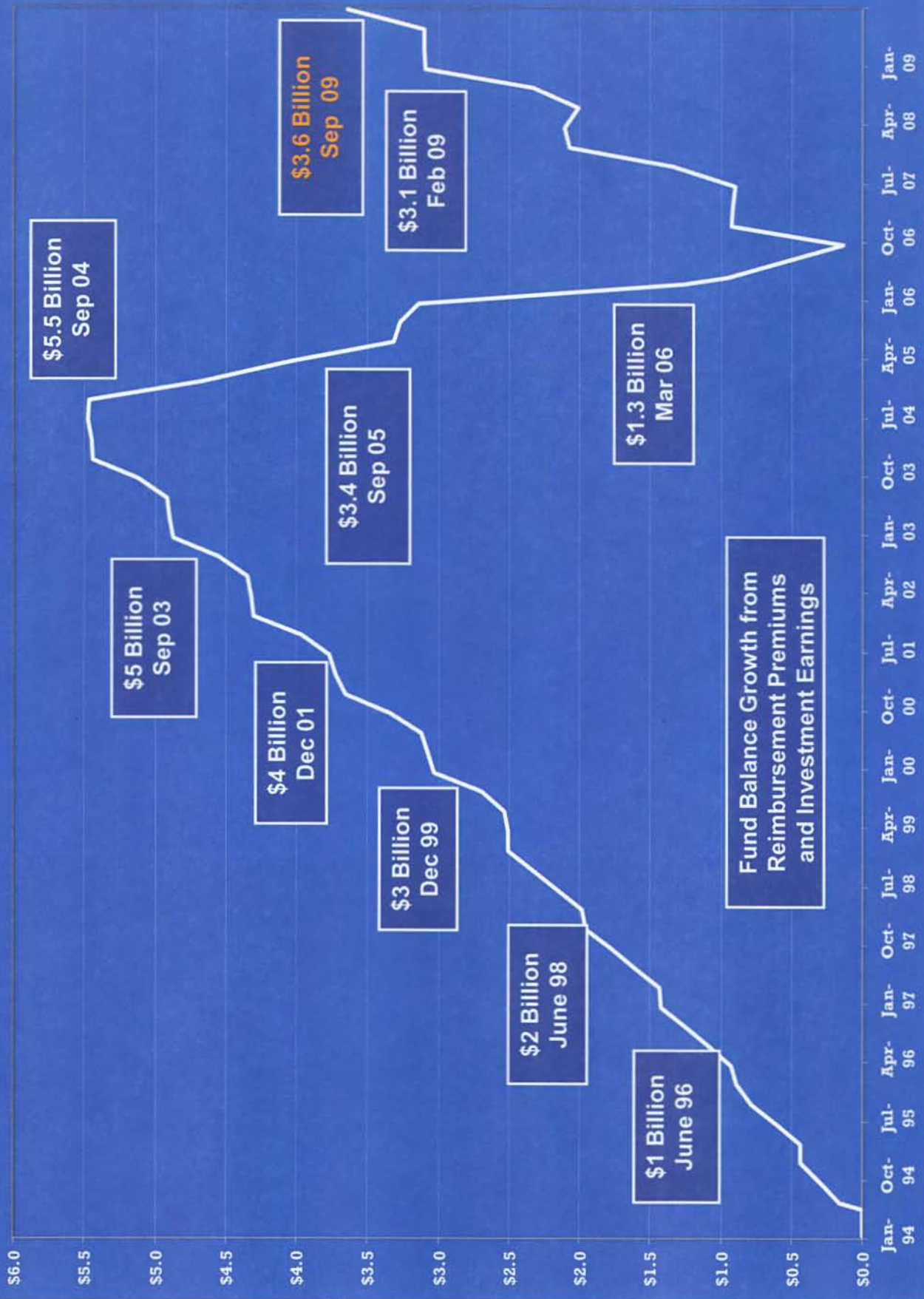
FHCF Capacity Estimates

- **May 2007** -- **\$28.4 billion**
- **October 2007** -- **\$27.8 billion**
- **May 2008** -- **\$29.1 billion**
- **October 2008** -- **\$13.3 billion**
- **May 2009** -- **\$15.8 billion**
- **October 2009** -- **\$19.0 billion**

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 available for some insurers was reinstated for the 2009 thru 2011 Contract Years
- 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 a factor of 6 by 2013
- \$4 billion SBA option stricken

FHCF Operating Fund Asset Growth From Inception to September 2009



Debt Issuance & Other Financing Arrangements

- **Post-Event Debt Issuance**

- Series 2006A Floating Rate Notes (July 6, 2006): **\$1,350,025,000** issued due to shortfall occurring after the 2005 Hurricane Season. Duration 6 years until July 1, 2012.
- Series 2008A Revenue Bonds (July 31, 2008): **\$625,000,000** issued due to additional losses arising from the 2005 Hurricane Season. Duration 6 and 7 years with bullet maturities in 2013 & 2014 (July 1, 2014).

- **Pre-Event Debt Issuance**

- Series 2006B Extendible Floating Rate Notes (July 21, 2006): ~~\$2,800,000,000~~ issued to provide additional liquidity for the 2006 and future hurricane seasons. Duration 5 years, all retired by February 17, 2009.
- Series 2007A Floating Rate Notes (October 3, 2007 – delivered 10/3, 10/4, 10/5, 10/10, 10/12, 10/15): **\$3,500,000,000** issued to provide liquidity for the 2007 and future hurricane seasons. Duration 5 years, mature on October 15, 2012.

- **Other Financing Arrangements**

- 2008 Revenue Bonds Put Option Agreement (August 8, 2008): ~~\$4,000,000,000~~ option where Berkshire Hathaway, Inc. agreed to purchase FHCF bonds at 6.5% interest upon a triggering event of \$16 billion in losses determined by an index by May 15, 2009. Duration 9 months which has now expired. Cost \$224 million.

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 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 estimated coverage selected**
- Coverage Not Selected **\$4,443,006,989**

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

Chart #1

2009/2010 Initial Season

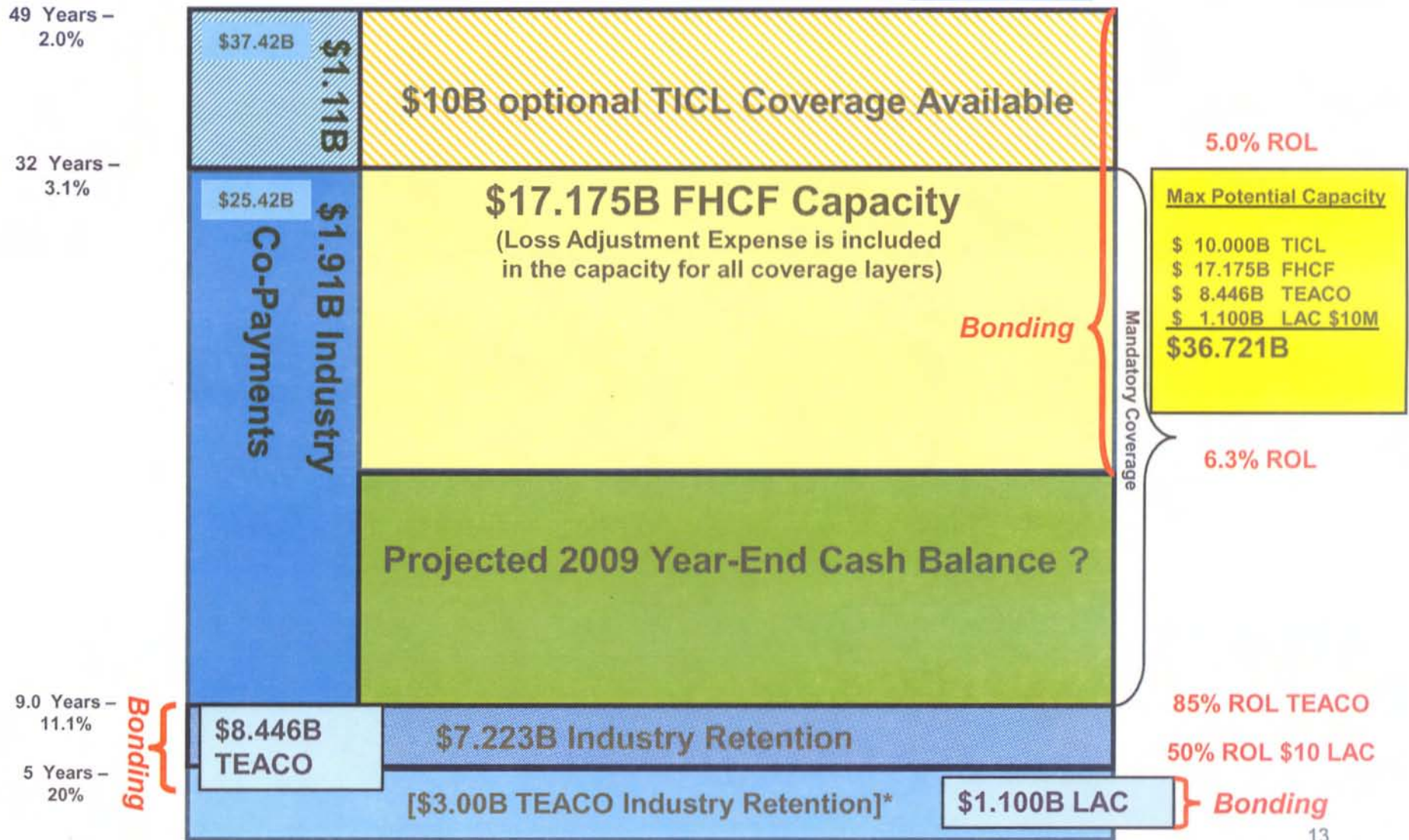
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(For Illustrative Purposes Only)

Mandatory & Optional Coverages Available

(Based on All Optional Coverages Being Selected for 2009)

TOTAL POTENTIAL CAPACITY ALL COVERAGES: \$36.721 Billion

Not Drawn to scale.



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

Chart #2

2009/2010 Initial Season

Mandatory & Optional Coverages Available

Not Official
(For Illustrative
Purposes Only)

(Based on All Optional Coverages Being Selected for 2009 Excluding TEACO)

TOTAL POTENTIAL CAPACITY ALL COVERAGES: \$28.275 Billion

Not Drawn to scale.

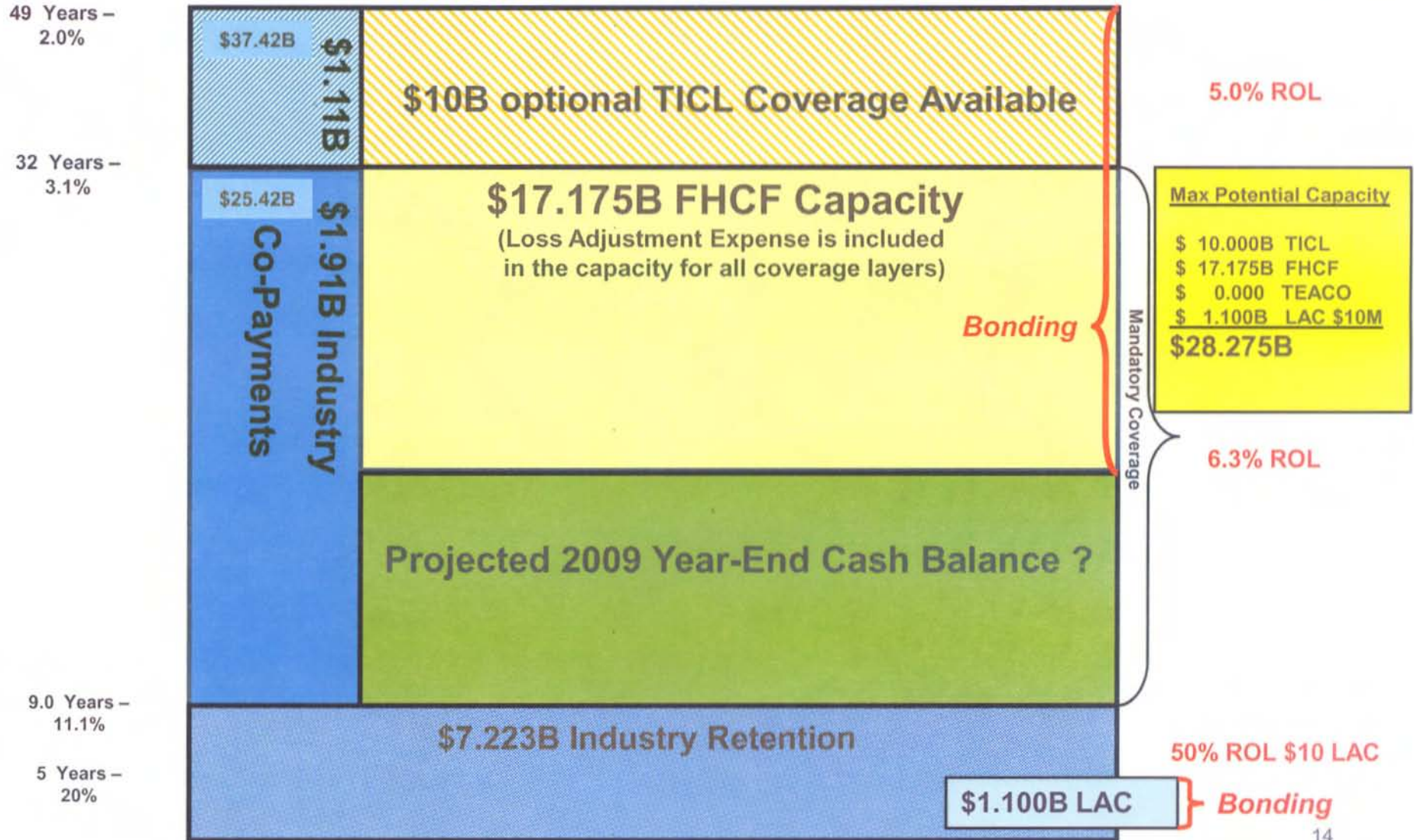


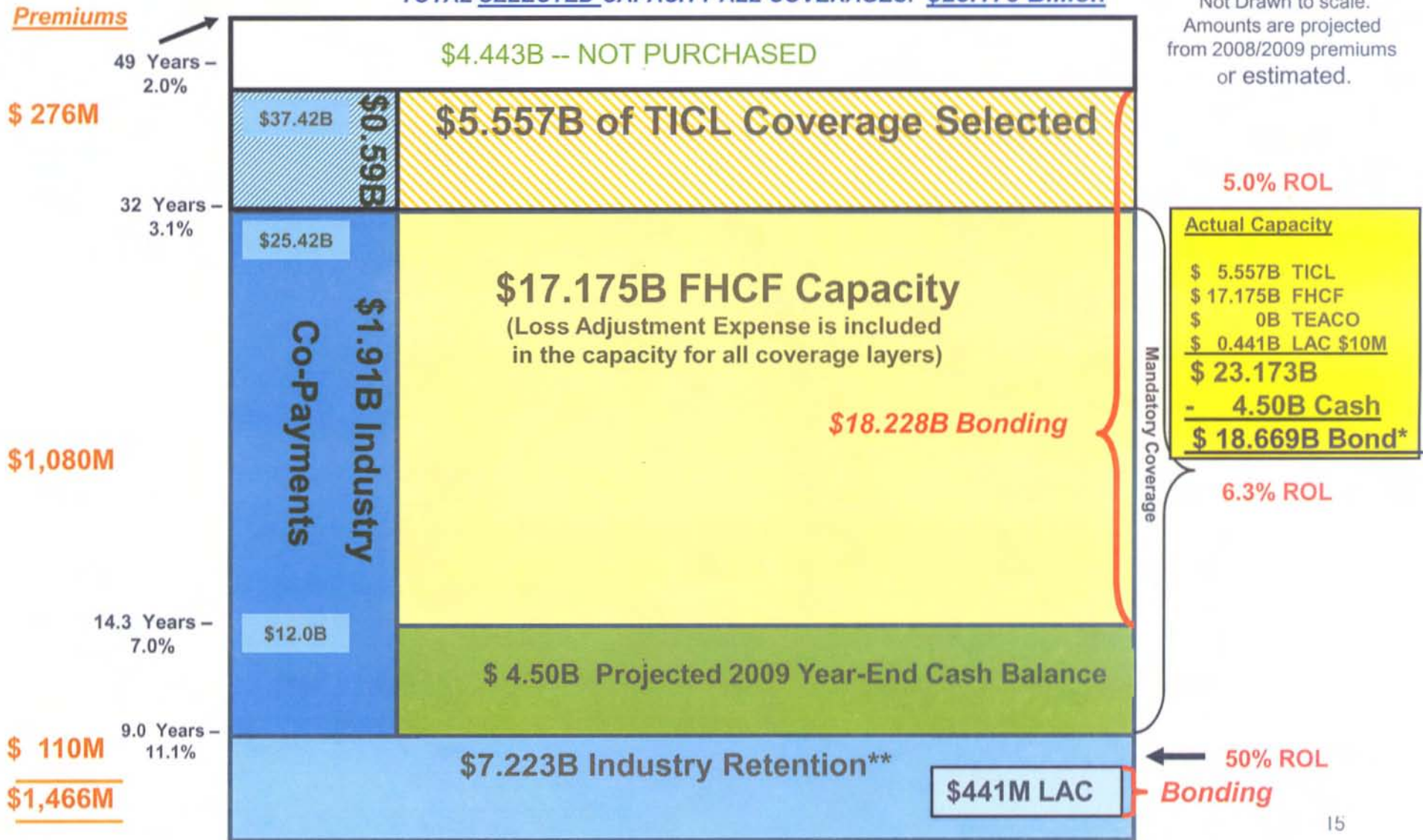
Chart #3

2009/2010 Initial Season

Not Official
(For Illustrative Purposes Only)

Mandatory & Optional Coverages Selected

(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.

* 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.

Chart #4

2009/2010 Initial Season

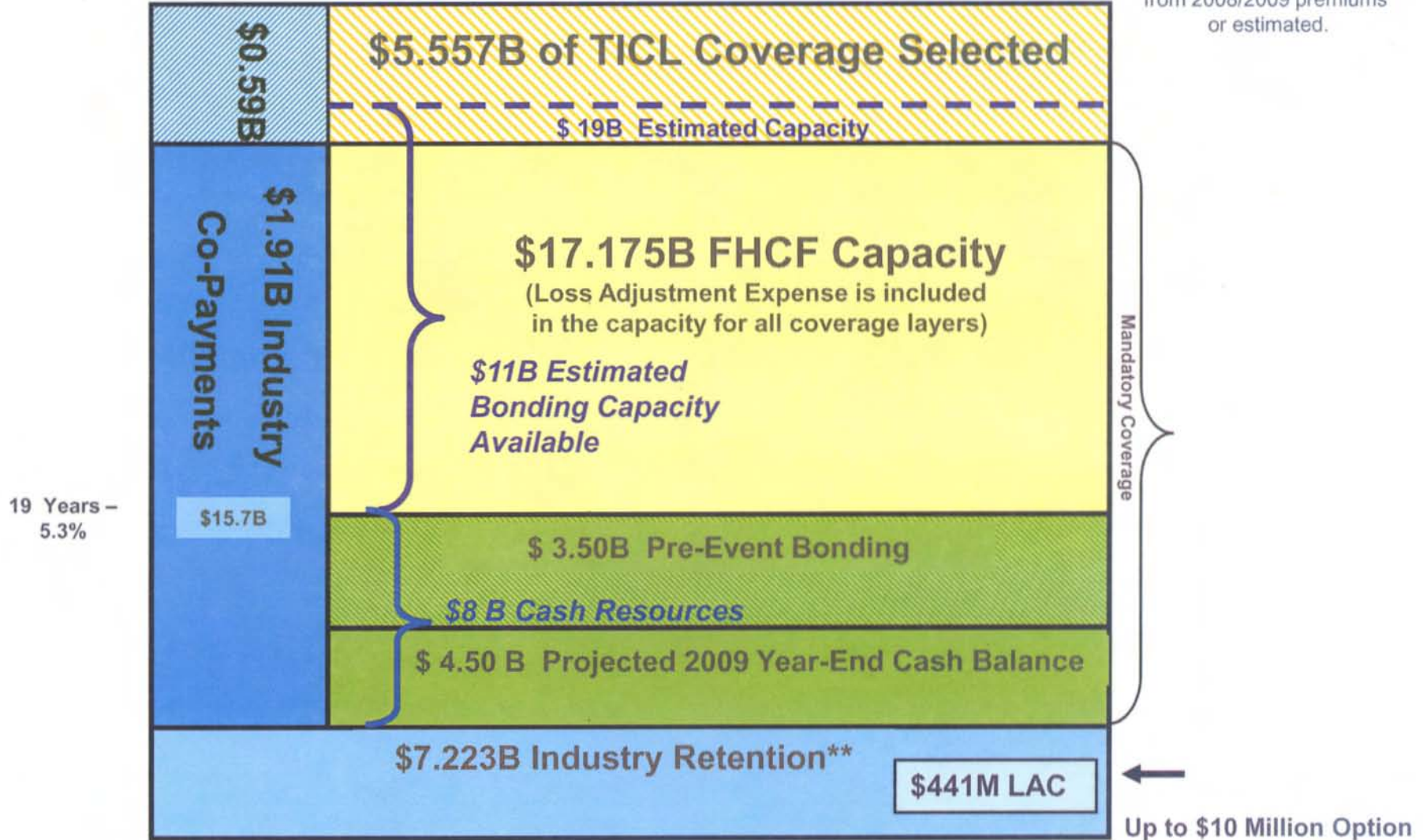
Mandatory & Optional Coverages Selected

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.



* 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.

Not Drawn to scale.

Chart #5

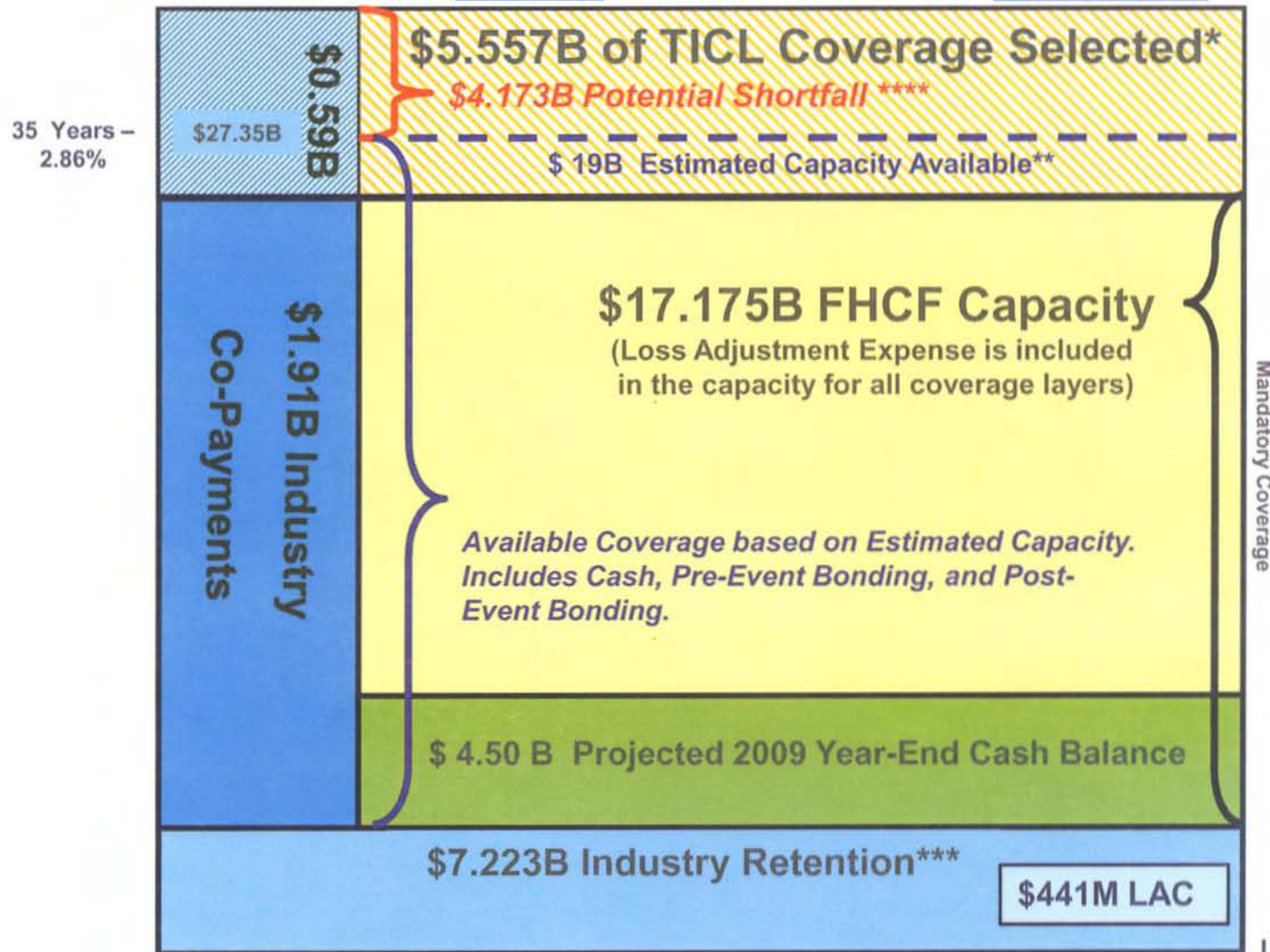
2009/2010 Initial Season

NOT OFFICIAL
(For Illustrative
Purposes Only)

Mandatory & Optional Coverages Selected

(Based on Actual TICL and LAC Options Selected for 2009)
TOTAL SELECTED CAPACITY ALL COVERAGES: \$23.173 Billion

Not Drawn to scale.



Up to \$10 Million Option
Not Drawn to scale.

* Amounts are projected from 2008/2009 premiums.
 ** This number is based on the May 2009 Estimated Loss Reimbursement Capacity.
 *** Individual company retentions are their share of the industry retention.
 **** The potential shortfall is from the maximum theoretical capacity which includes the \$441 LAC coverage amounts.

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 “potential 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 strong** 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.

Contact Information

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Citizens Property
Insurance



*House Insurance, Business, and Financial Affairs
Committee*

November 4, 2009

Citizens – Who We Are

- Citizens is a State-created, not-for-profit, tax-exempt government entity whose public purpose is to provide property insurance coverage to those unable to find affordable coverage in the voluntary admitted market.
- Citizens is governed by an eight member board of Governors two of whom are appointed by each of the following State leaders:
 - Governor
 - Chief Financial Officer
 - Senate President
 - Speaker of the House
- Citizens operates pursuant to a plan of operation which is reviewed and approved by the Financial Services Commission.
- Citizens is also subject to regulation by the Florida Office of Insurance Regulation.
- Citizens is currently the largest property insurer in Florida with just over 1 million policies and coverage for over \$413 billion of insured property, and represents approximately 22% of the residential premium in the State.

Citizens' – Types of Coverage We Write

Personal Lines Account (PLA)

- Personal residential multi-peril policies including homeowners, dwelling fire, mobile home, tenants and condominium unit owners.

Commercial Lines Account (CLA)

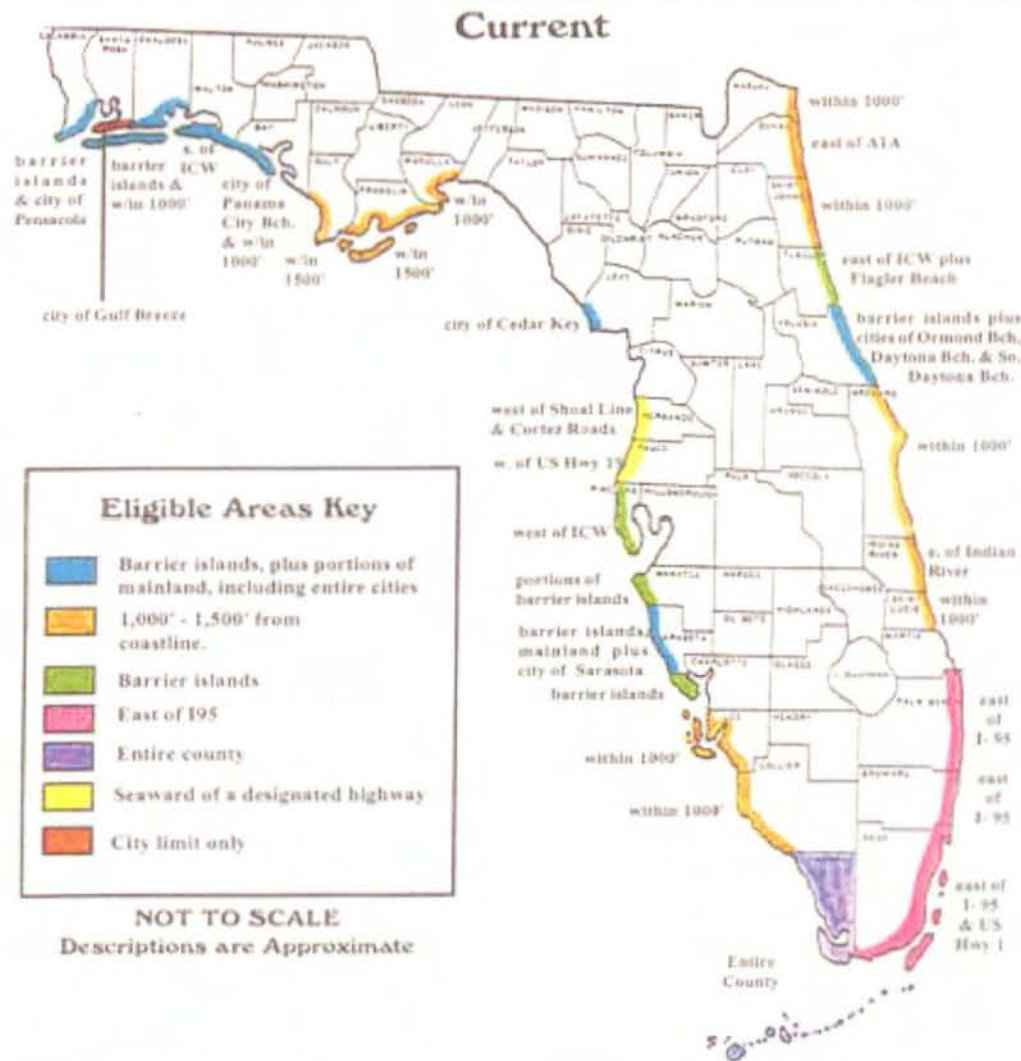
- Commercial residential multi-peril policies including condominium associations, apartment buildings and homeowners association policies.
- Commercial non-residential wind-only policies (e.g., office buildings, retail, etc.), both assumed from the former PCJUA and new policies written by Citizens, located outside of the coastal HRA eligible areas.
- Commercial non-residential multi-peril (required to include wind coverage) policies (e.g., office buildings, retail, etc.) located outside of the coastal HRA eligible areas.

High-Risk Account (HRA)

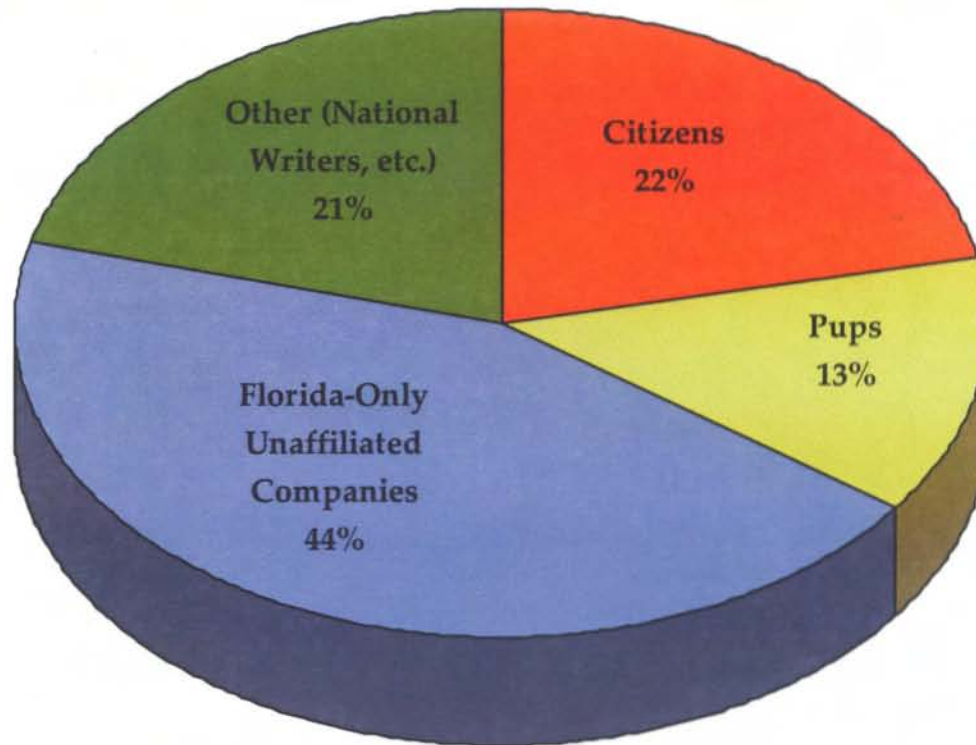
- Wind-only and multi-peril policies for personal residential, commercial residential, and commercial non-residential risks located in eligible coastal HRA areas.

High Risk Account (HRA) Coverage Areas

The shaded areas indicate statutorily defined HRA (wind-only) eligible coastal areas of Florida.



Florida Insurance Residential Admitted Market Breakdown



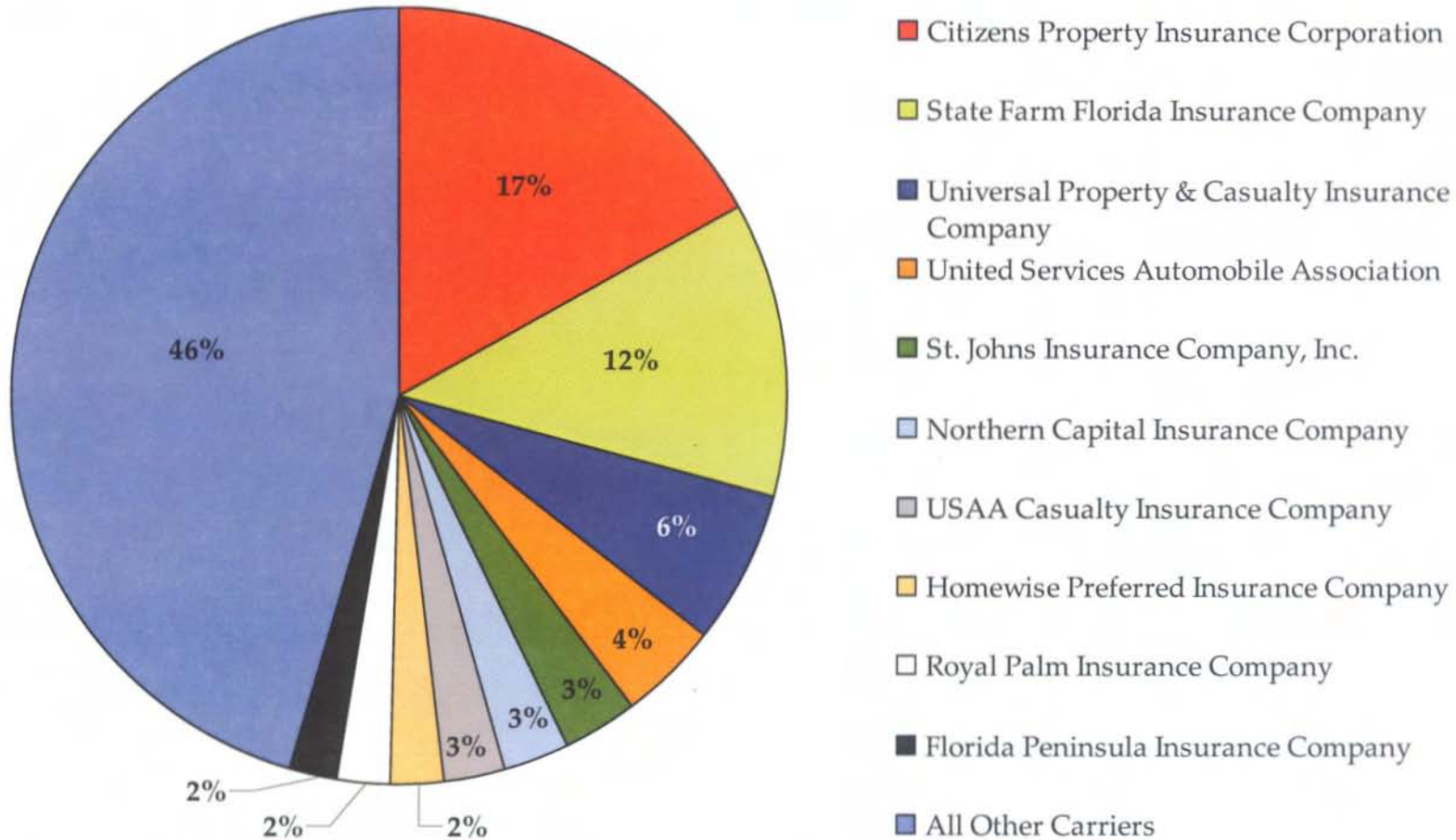
■ Citizens ■ Pups ■ Florida-Only Unaffiliated Companies ■ Other (National Writers, etc.)

- The Florida residential property insurance admitted market is divided into 4 major parts divided among: (1) Citizens; (2) the Florida only subsidiaries “pups” of the major national writers; (3) the Florida-only domestic companies; and (4) non-domestic nationwide property writers, such as USAA, etc.

(As of 03/31/09; based on premium written)

Personal Residential Premiums Written Market Share

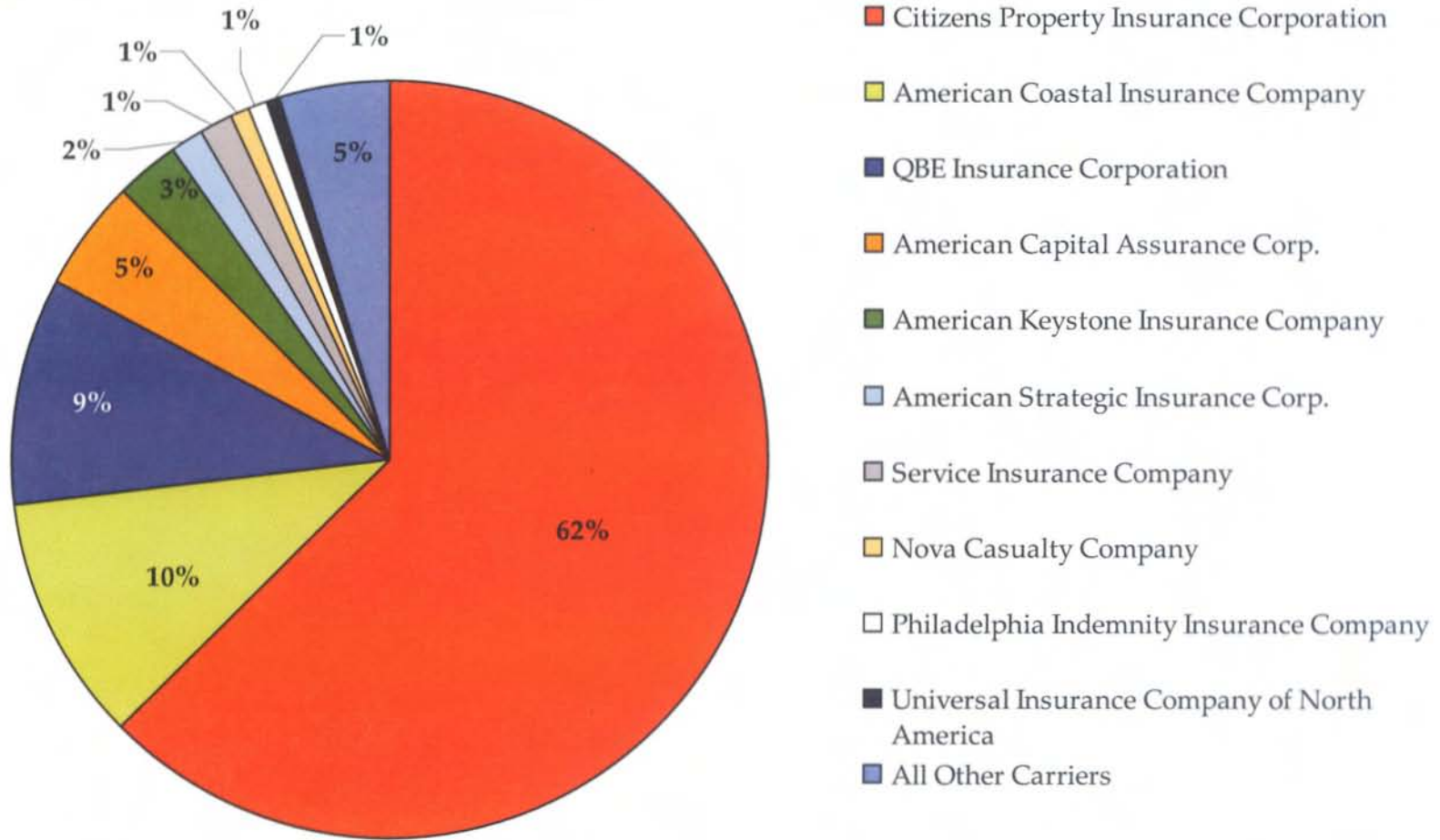
As of March 31, 2009



Source: Florida Office of Insurance Regulation, Quarterly Supplemental Report (QUASR). Includes licensed carriers only. Surplus lines companies are not included in the market share calculation.

Commercial Residential Premiums Written Market Share

As of March 31, 2009



Source: Florida Office of Insurance Regulation, Quarterly Supplemental Report (QUASR). Includes licensed carriers only. Surplus lines companies are not included in the market share calculation.

Citizens' Financial Resources

- Citizens has at its disposal both the typical resources available to all property and casualty companies that conduct business in the state, as well as special assessment powers granted to Citizens by the state legislature.

Typical Financial Resources

- Insurance Premiums
- Investment Income
- Operating Surplus from Prior Years
- Florida Hurricane Catastrophe Fund Reimbursements
- Private Reinsurance (if purchased)

Unique Financial Resources

- Citizens' Policyholder Surcharges
- Regular Assessments
- Emergency Assessments
- Pre-event liquidity resources (debt issuances and lines of credit which, if drawn upon, must be repaid)

Estimated Claims Paying Ability - 2009 Hurricane Season

<i>(in \$ millions)</i>				
	Description	PLA/CLA	HRA	Pro-Forma Combined
a	Surplus (year-end 2008)	\$2,165	\$1,006	\$3,171
b	Net Income 2009 (Budgeted)	\$353	\$364	\$717
c = a + b	Total Available for Claims from Surplus	\$2,518	\$1,370	\$3,888
d	Pre-event Liquidity Available ¹	\$400	\$2,646	\$3,046
e	Projected FHCF Coverage (Mandatory Layer) ²	\$2,000	\$4,000	\$6,000
f	Projected FHCF Coverage (TICL Layer) ²	\$1,100	\$2,300	\$3,400
g	Private Reinsurance	\$0	\$0	\$0
h = e + f + g	Total Reinsurance	\$3,100	\$6,300	\$9,400
i = c + d + h	Total Funds Available to Pay Claims	\$6,018	\$10,316	\$16,334
(includes surplus, pre-event liquidity, reinsurance)				

Notes:

- 1) Pre-Event Liquidity reflects current liquidity for PLA/CLA and HRA. This does not represent risk transfer and any monies drawn must be repaid.
- 2) FHCF coverage is based on preliminary exposure data, rating factors and coverage multiples. The final retentions and coverage amounts may be significantly different from these estimations.

Citizens' Modeled Loss Report

As of March 31, 2009

PML Occurrence – Single Event (in thousands) ¹

Return Period	HRA (High Risk Account) ²	PLA (Personal Lines Account)	CLA (Commercial Lines Account) ³
10	\$2,484,813	\$880,078	\$404,161
20	\$4,554,846	\$1,563,747	\$806,679
30	\$6,309,678	\$2,097,080	\$1,123,885
50	\$9,460,175	\$2,969,100	\$1,636,231
100	\$15,246,034	\$4,544,306	\$2,578,306

Notes:

- 1) PMLs in these tables were calculated using RiskLink version 7.0, Historical (long-term) and Stochastic (mid-term) event sets, weighted, including loss amplification (demand surge) and excluding storm surge. Citizens prepares its PMLs with a weighted rate comprised of 67% Stochastic rate and 33% Historical Rate.
- 2) Beginning August 2007, HRA includes personal residential multi-peril policies in the wind-eligible territories. Beginning December 2007, HRA includes commercial residential multi-peril policies in the wind-eligible territories. HRA PR-W (SPL re-writes) losses are as of May 2009, due to processing delays in March.
- 3) The CLA modeled losses exclude the commercial non-residential wind-only policies (Commercial Inland Wind program).

Citizens' Reliance on Assessments

- Citizens' total exposure is \$413 billion.
- The 1-in-100 year storm would cost \$22.5 billion.
- Citizens' surplus is \$3.9 billion.
- Coverage from the FHCF is \$9.4 billion.
- The remaining \$9.2 billion would be covered by assessments.
- While Citizens is in its best ever financial position, with projected combined surplus + FHCF reimbursements of just over \$13 billion, we continue to rely on assessments to fund catastrophe losses in the event of a large storm or several smaller storms.

Exposure statistic as of 8/31/09. Modeling estimates as of 3/31/09. Surplus is projected as of 12/31/09.

Overview of Assessments

1.

Citizens Policyholder Surcharge

Up to 15% per account for HRA, PLA, and/or CLA deficits
Applies at new business/renewal for all Citizens' policyholders

2.

Regular Assessment

Up to 6% per account for HRA, PLA and/or CLA deficits
Applies at new business/renewal for all non-Citizens' policyholders

3.

Emergency Assessment

Up to 10% per year per account for HRA, PLA and/or CLA deficits
Applies at new business/renewal for all Citizens' and non-Citizens' policyholders

Citizens' Rates – as prescribed in 627.351(6)(n), F.S.

- Are required to be actuarially sound and are subject to the requirements of s. 627.062, F.S.
- Have been frozen by statute at December 31, 2006 levels since January of 2007.
- Beginning on or after January 1, 2010 the corporation shall implement a rate increase each year which does not exceed 10% percent for any single policy issued by the corporation, excluding coverage changes and surcharges.
- Recommended rate changes are filed by the corporation with the Office of Insurance Regulation. The office must establish rates for the corporation within 45 days of receiving the rate recommendations.
- The corporation may also implement an increase to reflect the effect on the corporation of the cash build-up factor of the Florida Hurricane Catastrophe Fund.

Citizens' Rate Filings

Personal Residential					
Line of Business		APPROVED RATES			
		Indicated Rate Change Including Cash Built-Up	Proposed Rate Change Including Cash Built-Up	Filing Date	Hearing Date
Multi-Peril	HO-3	35.8%	5.4%	9/14/2009	10/20/2009
	HO-4	9.9%	0.2%	9/14/2009	10/20/2009
	HO-6	11.4%	4.5%	9/14/2009	10/20/2009
	DP-1	92.3%	10.7%	9/16/2009	10/20/2009
	DP-3	56.1%	8.6%	9/16/2009	10/20/2009
	MHO-3	10.9%	1.7%	9/24/2009	10/20/2009
	MHO-4	-	-5.1%	9/24/2009	10/20/2009
	MPDP-1	12.5%	2.1%	9/24/2009	10/20/2009
Wind-Only	SUBMITTED FILING				
	HO-3/HW-2	34.7%	7.7%	10/7/2009	11/10/2009
	HO-4/HW-4	2.2%	-5.6%	10/7/2009	11/10/2009
	HO-6/HW-6	22.0%	5.5%	10/7/2009	11/10/2009
	DW-2	34.7%	5.9%	10/7/2009	11/10/2009
	MW-3	126.7%	11.8%	10/7/2009	11/10/2009

Citizens' Rate Filings

Commercial Residential					
Line of Business		APPROVED RATES			
		Indicated Rate Change Including	Proposed Rate Change Including	Filing Date	Hearing Date
Multi-Peril	Apt Building	17.5%	10.2%	9/18/2009	10/20/2009
	Condo Assn	17.5%	10.2%	9/18/2009	10/20/2009
	Home Assn	17.5%	10.2%	9/18/2009	10/20/2009
Wind-Only	SUBMITTED FILING				
	Apt Building	64.3%	9.6%	10/5/2009	11/10/2009
	Condo Assn	64.3%	9.6%	10/5/2009	11/10/2009
	Home Assn	64.3%	9.6%	10/5/2009	11/10/2009
Commercial Non-Residential					
Line of Business		SUBMITTED FILING			
		Indicated Rate Change	Proposed Rate Change	Filing Date	Hearing Date
Multi-Peril		N/A	N/A	N/A	N/A
Wind-Only		123.6%	9.9%	10/5/2009	11/10/2009