

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/HB 819 Florida Commission on Hurricane Loss Projection Methodology

SPONSOR(S): Insurance & Banking Subcommittee; Raschein

TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Insurance & Banking Subcommittee	11 Y, 0 N, As CS	Cooper	Cooper
2) Government Operations Appropriations Subcommittee			
3) Regulatory Affairs Committee			

SUMMARY ANALYSIS

In 1995 the Legislature established the Florida Commission on Hurricane Loss Projection Methodology (Commission) to serve as an independent body within the State Board of Administration. The Commission adopts findings on the accuracy or reliability of the methods, standards, principles, models and other means used to project hurricane losses. Individual insurers are required to use the Commission's findings in order to support or justify a rate filing.

The Commission is comprised of 11 members. Members of the Commission include experts in insurance finance, statistics, computer system design, and meteorology who are full-time faculty members in the State University System and appointed by the Chief Financial Officer (CFO), an actuary member from the Florida Hurricane Catastrophe Fund's (FHCF) Advisory Council, an actuary employed with a property and casualty insurer appointed by the CFO, an actuary employed by the Office of Insurance Regulation, the Executive Director of Citizens Property Insurance Corporation, the senior employee responsible for FHCF operations, the Insurance Consumer Advocate, and the Director of Emergency Management. The Commission sets standards for loss projection methodology and examines the methods employed in proprietary hurricane loss models used by private insurers in setting rates to determine whether they meet the Commission's standards.

Only hurricane loss models or methods the Commission deems accurate or reliable can be used by insurers in rate filings to estimate hurricane losses used to set property insurance rates. Additionally, insurers have 60 days after the Commission finds a model accurate and reliable to use the model to predict the insurer's probable maximum loss levels in a rate filing.

The bill adds another member to the Commission, who will be appointed by the CFO. The member is to be a licensed professional structural engineer with expertise in wind mitigation techniques.

Because of travel and per diem expenses for the additional member, the bill will have a slight fiscal impact on the State Board of Administration. The bill will not have a fiscal impact on the private sector.

The effective date of the bill is July 1, 2013.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

In 1995 the Legislature established the Florida Commission on Hurricane Loss Projection Methodology (Commission) to serve as an independent body within the State Board of Administration.¹ The Commission adopts findings on the accuracy or reliability of the methods, standards, principles, models and other means used to project hurricane losses. Individual insurers are required to use the Commission's findings in order to support or justify a rate filing.

The Commission is comprised of 11 members. Members of the Commission include experts in insurance finance, statistics, computer system design, and meteorology who are full-time faculty members in the State University System and appointed by the CFO, an actuary member from the FHCF Advisory Council, an actuary employed with a property and casualty insurer appointed by the CFO, an actuary employed by OIR, the Executive Director of Citizens, the senior employee responsible for FHCF operations, the Insurance Consumer Advocate, and the Director of Emergency Management. The Commission sets standards for loss projection methodology and examines the methods employed in proprietary hurricane loss models used by private insurers in setting rates to determine whether they meet the Commission's standards.

Only hurricane loss models or methods the Commission deems accurate or reliable can be used by insurers in rate filings to estimate hurricane losses used to set property insurance rates. Additionally, insurers have 60 days after the Commission finds a model accurate and reliable to use the model to predict the insurer's probable maximum loss levels in a rate filing.

The bill adds another member to the Commission, who will be appointed by the CFO. The member is to be a licensed professional structural engineer with expertise in wind mitigation techniques. Structural engineering is a branch of civil engineering dealing primarily with the design and construction of structures.² Engineers in Florida are licensed and regulated by the Board of Professional Engineers created within the Department of Business and Professional Regulation.³ Wind mitigation specifically targets the structural and nonstructural aspects that prevent or lessen damage caused by high winds that occur with storms.⁴

B. SECTION DIRECTORY:

Section 1. Provides legislative intent.

Sections 2. Amends s. 627.0628(2)(b), F.S., relating to the membership of the Commission.

Section 3. Provides an effective date of July 1, 2013.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

¹ The Commission is created in s. 627.0628, F.S. This statute also provides the composition and duties of the Commission.

² <http://www.merriam-webster.com/dictionary/structural%20engineering> (last viewed on March 17, 2013).

³ Chapter 471, F.S.

⁴ Booklet entitled "Florida's Foundation, Make Mitigation Happen," Florida's Division of Emergency Management, p.2, available at www.floridadisaster.org/mitigation/.../Wind%20Mitigation%20Book1 (last viewed on March 17, 2013).

2. Expenditures:

Minimal impact on the State Board of Administration. See Fiscal Comments

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

The State Board of Administration is required to cover the operating expenses of the Commission as a cost of administration of the FHCF. Members of the Commission serve without compensation, but are reimbursed for per diem and travel expenses pursuant to s. 112.061, F.S. Thus, there will be an increase in those expenses to reimburse the additional member to the Commission.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable. This bill does not appear to: require counties or municipalities to spend funds or take an action requiring the expenditure of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The bill does not grant nor require additional rule-making.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

The Insurance & Banking Subcommittee on March 19, 2013, considered and adopted a proposed committee substitute for HB 819.

The difference between the bill as filed and the committee substitute is the original bill added two members to the Commission, changed their review and approval of models to an annual basis, and required the Commission to undertake a study of the effects of wind versus water on projections of wind loss from hurricanes. The committee substitute only adds one member to the commission and does not include the other changes.

The staff analysis reflects the provision contained in the committee substitute.

