Adopted Minutes of December 14, 2005, Meeting of Task Force on Long-Term Solutions For Florida's Hurricane Insurance Market

The Task Force on Long-Term Solutions for Florida's Hurricane Insurance Market convened its fifth meeting on Wednesday, December 14, 2005, at 9:00 a.m. at Pensacola Junior College, 1000 College Boulevard, Building 2, Room 252, Hagler Auditorium, Pensacola, Florida.

Chair **Kevin M. McCarty**, Commissioner, Office of Insurance Regulation, called the meeting to order and recognized a quorum.

In addition to Chair McCarty, attending were the following Task Force members: **Steve Burgess**, Insurance Consumer Advocate, State of Florida; **Richard Cain**, Vice President, State Farm Insurance Company; **Leslie Chapman-Henderson**, President/CEO, Federal Alliance for Safe Homes, and Vice-Chair of the Task Force; **Dave Cobb**, President, Freedom Insurors, Inc.; **Randy Dumm**, Ph.D., Associate Professor of Risk Management and Insurance, Florida State University; **Dan Gilmore**, President, Florida Homebuilders' Association; **Blair Glenn**, Mortgage Banking Executive and Senior Vice President, Wachovia Mortgage Corporation; **George Grawe**, Counsel, Allstate Floridian Insurance Company; **Tony Grippa**, Executive Vice President, Brown & Brown; **Robert P. Hartwig**, Ph.D., Senior Vice President and Chief Economist, Insurance Information Institute; **Harold Humphrey**, Vice Chairman, InSource, Inc.; and **James Wurdeman**, President/CEO, Poe Financial Group.

Chair McCarty welcomed members of the Task Force, staff and members of the public who were attending.

1. Approval of Minutes of November 30, 2005, Task Force Meeting. Task Force members unanimously approved written minutes of the Task Force's fourth meeting on November 30, 2005, as presented to them in advance.

2. Update of Florida Building Code Commission Survey and Building Performance. Mr. Tim Reinhold, Vice President of Engineering, Institute for Business and Home Safety, made a presentation to the Task Force on "Assessing the Performance of Modern Building Codes & Standards in Reducing Hurricane Damage", a study prepared by the Institute for Business and Home Safety. He distributed a copy of "Post 2004 Hurricane Field Survey – an Evaluation of the Relative Performance of the Standard Building Code and the Florida Building Code" by Kurt Gurley, Associate Professor, Department of Civil and Coastal Engineering, University of Florida.

Mr. Reinhold summarized key characteristics of damage caused by Hurricanes Charley, Jeanne, Francis, Ivan, Dennis and Wilma in 2004 and 2005 and findings, primarily from Charlotte County, that strengthening building codes and design standards works in preventing substantial hurricane damage. He particularly noted that design standards for manufactured housing had changed substantially since 1976 and especially after 1994 with "clearly superior performance" for housing built under post-1994 standards.

He observed that adopting hazard resistant building codes are estimated to have benefit/cost ratios of 4 to 16 for wind and seismic damage; for each extra dollar in costs there is a long term savings of 4 to 16 dollars. Investing in mitigation activities has a benefit/cost ratio of 4 across a range of FEMA mitigation program and provides future savings to the US Treasury of more than $3.50 for each dollar spent.

Special problems identified through these studies include windborne debris, internal building pressures, unprotected openings, components and cladding, double entry doors, roof coverings, soffits, garage doors, and residential screen enclosures.

Mr. Reinhold, noting that "Peace of Mind" is marketable, cited surveys showing that 75% of the public favored homes built to withstand natural disasters and 62% were willing to pay up to 6% more for such homes. Incremental costs of building stronger and better homes ranged between 5% and 10% of basic building costs.

He concluded that buildings built under the latest codes, where enforcement of the codes was good, performed very well structurally. Keys are a good, up-to-date code, uniform and thorough enforcement, builders and subs who understand and appreciate risks, and special instructions for key functions. He noted that many builders do not yet have the knowledge needed to install roofs, windows and doors properly for hurricane protection. He also noted that after proper installation, homeowners need to maintain properties so that the protections remain strong.

He observed that more support is needed for wind field mapping and "ground truth" measurements, research and testing of methods for evaluating building envelope performance, cost effective retrofit methods, formal forensic studies for major failures and better criteria for building envelope performance. Issues and opportunities include reducing water penetration, preventing soffit failures and developing loads and test protocols, evaluating relative importance of installation vs. product changes vs. age in roofing performance, developing roof cover test methods and roof edge testing technology, and determining the effect of code changes on performance of ancillary structures and improvements to attached structures.

Task Force members asked questions and made observations about flood elevations, varying requirements for windows depending on the height of a building, attachments to manufactured housing, structural wind loads, water penetration prevention for windows and doors (including sliding doors), tile vs. shingle roofs, soffits, methods of attaching roof coverings, retrofitting costs, awareness of consumers about retrofitting needs and opportunities, and the internal pressurization option (the trade-off between protecting openings such as windows and the strength of the basic building structure).

On the internal pressurization option, Mr. Reinhold noted that the Florida Building Code allows architects and builders the option to choose whether to strengthen and protect openings, such as windows, or, in the alternative, to strengthen the basic building structure. He explained that 10-to-15 years ago the emphasis was on preserving the basic structure from internal pressures caused by strong winds. He noted that the pendulum of opinion now is changing in recognition of the need of homeowners to live in the structure after a disaster and therefore the need to protect openings as well to have a strong basic structure. The basic objective is to protect the interior of the home from wind and water damage in addition to designing the basic structure to resist strong winds.

Mr. Reinhold reported that ASCE 7 had been amended in 2003 to remove the option of only designing the basic structure for internal pressure but that Florida's Code prohibits the option from being removed. He observed that both need to be done: designing a strong, wind-resistant basic structure and strengthening and protecting all openings, such as windows, to prevent wind and water damage in the interior.

The Chair asked Mr. Reinhold to prepare statewide recommendations on building code changes, code enforcement activities, and related matters so that the Task Force could review them and incorporate many of them into the Task Force's report. He observed that the objectives should be to make homes safer for families and, at the same time, to reduce insurance risk exposure.

3. Mitigation and Building Code Issues and Emergency Management. Mr. Thaddeus L. Cohen, Secretary, Florida Department of Community Affairs (DCA), made a presentation to the Task Force on the activities of the DCA to assist in managing Florida's growth, preserve its natural resources, provide community assistance (such as weatherization programs to improve homes), assist with preparation and evacuation prior to and during a disaster, and assist with post-disaster relief and rebuilding.

Secretary Cohen noted that the DCA is helping to define the coastal high hazard areas and to assist the Coastal High Hazards Study Commission, helping to define hurricane evacuation zones, and otherwise providing statutory guidance on growth (such as limiting public expenditures in high hazard areas). DCA has helped to establish new building codes, product approval requirements for wind-related products, building code training requirements for licensed building professionals, and ASCE 7-98 standards.

DCA's Residential Construction Mitigation Program (RCMP) is funded by the Florida Hurricane Catastrophe Fund and provides $10 million annually in grant funds to reduce the state's vulnerability to wind-related damages, including $7 million per year to improve the wind resistance of residences and mobile homes. This program includes a low-to-moderate residential retrofit program, a low interest loan program, a mobile home tie-down program, and a research program based at Florida International University. Secretary Cohen expressed his strong opinion that the tie-down program for mobile homes built prior to 1994 standards is simply an attempt "to tie-down wind debris" and that he was seeking to redistribute funds appropriated for this purpose.

Secretary Cohen noted that the low interest loan program was authorized by the 2005 Legislature and is under development. A pilot program will encourage lending institutions to assist low income homeowners with mitigation activities. "Write-downs" of mortgage balances or interest rates could give incentives to homeowners to retrofit their existing homes so that they meet building code standards.

He described DCA's Small Cities Community Development Block Grant (CDBG) Program that includes a disaster recovery initiative, disaster recovery workshops and peer-to-peer technical assistance. A recent supplemental award to Florida allocated over $100 million of Federal funds that were targeted to 37 counties. These funds are being used for infrastructure projects (such as storm water mitigation), housing projects (including demolition, replacement and establishing land trusts to buy vulnerable properties) and business revitalization.

DCA provides technical assistance to local governments in prioritizing future mitigation projects. It administers federal mitigation grant programs such as the Flood Mitigation Assistance Program and the Hazard Mitigation Grant program. It is assisting with shelter retrofitting as well as residential retrofitting. Schools are now the primary resource for shelters and need to be supplemented with substantial numbers of additional spaces.

In total, over $320 million is available to DCA for mitigation programs. This includes $10 million from the Florida Hurricane Catastrophe Fund, $100 million in CDBG block grant funds, $25 million in pre-disaster mitigation grant programs, $3.5 million to retrofit repetitive loss structures, additional FEMA funds, and funds from other programs.

DCA also monitors building code programs of local governments and recognizes them for a specified level of effectiveness by a recognized rating organization. It administers the state's Building Codes and Standards Program with a commission that establishes rules for construction products and practices. Major emphasis is being placed on establishing building code training requirements for licensed designers, contractors and code enforcement staff. DCA has conducted workshops and symposia, established a panel to monitor research studies and make recommendations, developed an amendment plan based on these studies and recommendations, and sought resources to conduct additional research.

Secretary Cohen emphasized that everyone, including contractors, construction workers and homeowners, need to be much better educated about building code requirements and how structures actually are being built. He noted that increased training and education was very important, along with inspections and enforcement of actual practices by building officials, contractors, construction foremen and homeowners, so that the level of expertise and expectations would improve.

Secretary Cohen reported on DCA's Division of Emergency Management which has received high praise for its efforts before, during and after major hurricanes in 2004 and 2005 and, in addition, received recognition for its work to assist Mississippi after Hurricane Katrina. Members of the Task Force discussed Florida's hurricane evacuation plans and procedures with the Secretary who noted that county and state emergency operations staff meet daily by conference call during pending hurricanes to coordinate responses, have substantial experience in dealing with actual events, use advanced technology and conduct practice exercises so that all participants know what to expect from each other.

Chair McCarty thanked Secretary Cohen for his presentation and for DCA's assistance to the people of Florida and Mississippi.

4. Mitigation and House Hardening. Mr. Garrett Walton, Co-Executive Director, Rebuild Northwest Florida, outlined the proposed "Wind Retrofit Project" sponsored by Rebuild Northwest Florida. He was assisted by Mr. Miles Anderson of the Division of Emergency Management.

Mr. Walton described plans to assist homeowners to "harden" their homes by having licensed contractors make physical improvements to the structures that meet building code requirements. Homeowners apply for the program, triggering an initial assessment of the needs of the particular home and a realistic appraisal of the costs and benefits of improvement possibilities. The program is not "needs-based" but is administered by Rebuild Northwest Florida which is a "needs-based" organization. Rebuild's board will make final decisions about which homeowners will receive assistance. The program will be funded through a mix of homeowner contributions, insurance proceeds, and state and federal hurricane mitigation grants. It is not for mobile homes.

Monroe and Miami-Dade counties have had similar programs. The Rebuild Northwest Florida project is larger than any other program so far. Every county in a federally-designated disaster area should be eligible for state and federal grants.

The average cost of retrofitting a single home to conform to building codes, based on Habitat for Humanity's historical experience in Monroe County, is between $6000 and $8000 per home. A 100% payback from retrofitting was realized in 5-to-7 years in Monroe County.

Task Force members had questions about the scalability of the program, especially about the management processes that might be available to ensure adequate follow-through with such an intensely-focused program. Mr. Walton noted that a major problem, especially in Northwest Florida, was in finding sufficient licensed Florida professionals to do the necessary work since most were already fully occupied in repairing Katrina damage. Mr. Walton observed that the program need not be restricted to areas that already had experienced hurricane damage but could serve to prevent future damage in areas that had not been touched by hurricanes recently, although that would reduce the amount of insurance proceeds available. Insurance credits for mitigation might offer some substitute.

5. Task Force Discussion on Legislative Charges Related to Citizens Property Insurance Corporation and Related Issues. The Task Force then continued its discussions, begun at its previous meetings, on issues related to Citizens Property Insurance Corporation (Citizens) that had been identified in legislation creating the Task Force. This discussion was facilitated by Roderick N. Petrey, Esq., President of the Collins Center for Public Policy, and assisted by Ms. Tracey Lowe of the Collins Center.

A. <u>Information Presentation by Citizens.</u> Suzanne Murphy, Esq., Citizens' Corporate Counsel, distributed to members of the Task Force materials that had been requested at the Task Force's previous meeting on November 30 and presented the information as follows:

- <u>Depopulation history for PLA & HRA from 1998 to present.</u> Ms. Murphy presented data (Attachment A to materials she distributed) that showed a total of 982,579 total policies assumed from 1998 to date, with 894,566 PLA policies and 88,013 HRA policies. Separate breakouts were presented for each year.
- <u>Since 2002, number of PLA & HRA policies coming into Citizens compared to those assumed under the depopulation program.</u> Ms. Murphy presented a table (Attachment B) that showed increasing numbers of policies taken out of the PLA since 2002 (increasing from 21,783 in 2002 to 218,695 in 2005) but also showed substantial increases in the numbers of PLA policies in force at year-end in the same time periods (increasing from 206,256 in 2002

to 435,401 in 2005). No HRA policies were taken out in 2002 and 2003 but 12, 457 were taken out in 2004 and 75,556 were taken out in 2005. During the same time period, HRA policies in force at year-end remained relatively stable (397,676 in 2002 and 400,573 in 2005). According to Ms. Murphy, the take-out program has had substantial impact in keeping PLA policies from growing more than they have and in stabilizing the number of HRA policies. The number of PLA policies, for instance, would have been at least 30% higher if the take-out program had not existed and the number of HRA policies would have grown by more than 20%. Ms. Murphy noted that it is very difficult to determine whether or not a particular policyholder has received offers for coverage from private companies. Homeowners and agents who apply to Citizens for coverage certify that private coverage is not available but Citizens has no means of checking the accuracy of that information or determining the efforts made by homeowners and agents to find private coverage. Citizens' rates have not kept up with voluntary market rates in the past. That should change now that Citizens is establishing "actuarially sound" rates and updating them at least twice a year.

- Map by county showing PLA and HRA policies in force, exposures, and premiums. Ms. Murphy presented data (Attachment C) to reflect the geographic concentration of policies and policy distribution by county. She also presented information showing that coverage in sinkhole areas has contributed significantly to policy growth, especially in the Tampa Bay area, and that sinkhole claims have increased loss costs on multi-peril policies. Total sinkhole policies in force in the Tampa Bay area, for example, increased from 1,012 at the end of 2001 to 140,171 at the end of 2004, an increase of 13,751%. She also noted that mobile home policies had increased slightly in the HRA account from 12,552 in November 2003 to 14,056 in November 2005 but had increased substantially in the HRA account from 12,028 in October 2003 to 62,029 in October 2005, an increase of over 50,000 policies in two years.

Task Force members then discussed the changes in Citizens' PLA and HRA policies in the last few years, noting especially the dramatic growth in sinkhole coverage in the Tampa Bay area and in mobile home PLA coverage. Task Force members agreed that significant rate changes proposed by Citizens may encourage private insurers to write more policies that otherwise would have been assumed by Citizens, or to take more existing policies out of Citizens, because Citizens will become the highest-cost provider and the private companies can be more competitive with rates.

Task Force members also asked about various rate calculations. Ms. Murphy noted that Citizens has a seasonable surcharge for homes that are not occupied year-round. Applicants are asked how many months they live in a home a year. For PLA policies, policyholders absent three months or more a year are surcharged. For HRA policies, the absence period is six months or more. Ms. Murphy noted that risk exposure increases for insured homes that are not occupied for such periods of time and given owner attention for maintenance and storm protection.

Task Force members also asked about Citizens' mitigation discounts and credits. Vice-Chair Chapman-Henderson repeated her request for detailed information, including specific available discounts and credit, the number of policyholders who are receiving discounts and credits, savings to individual policyholders, and total savings to all Citizens' policyholders. Ms. Murphy said that Citizens was presenting information at its upcoming Board meeting that shows the mitigation discounts and credits that a typical homeowner might receive. She stated that information requested by the Vice Chair would be presented at the next meeting of the Task Force.

- How are takeout bonuses calculated and are they an expense in the actuarial analysis? Ms. Murphy outlined the way bonuses will be calculated if Citizens' board approves, as it is expected to do, a new program at its upcoming board meeting (Attachment D). She noted that Citizens is required by law to design incentive programs and make every best effort to encourage licensed insurance companies to assume policies. In all incentive programs, takeout companies must remove a percentage of selected policies from Miami-Dade, Broward or Palm Beach Counties and retain policies for a minimum of three years to qualify for a bonus. Various takeout programs have minimum numbers of policies ranging from 10,000 to 50,000 and maximum bonuses as a percentage of premium ranging from 12.5% to 25.0% depending on the number of policies assumed, their locations, and their classification as PLA or HRA. Additional bonuses will be available for companies who keep policies out of Citizens for at least five years. Ms. Murphy noted that bonuses are not used as an expense item in the actuarial rate filing because an "actuarially sound" rate is meant to reflect expected losses and expenses.

Task Force members discussed the takeout bonus program. Ms. Murphy noted that terminations of policies at the insured's request would result in pro-rata bonuses as opposed to those that are cancelled or non-renewed by the insurer short of the required three-year or five-year period. She also noted that bonuses are paid from Citizens' surplus and arguably contribute to calculations of Citizens' deficits.

- Is reinsurance used as an expense items in the actuarial analysis? Ms. Murphy noted that the net cost of reinsurance is included in rate filings.
- Information on reinsurance layering distribution and on relative costs of reinsurance. Ms. Murphy noted that F.S. Ch. 627.351(6)(c)(9) requires that Citizens "make its best efforts to procure catastrophe insurance at reasonable rates, to cover its projected 100-year probable maximum loss as determined by [its] board of governors." She presented information on Citizens' reinsurance practices in Attachment E and observed that Citizens had not purchased reinsurance at any time prior to the 2005 hurricane season because reinsurance rates were not reasonable given the probability of risk. Citizens' Board approved the purchase of reinsurance in June 2005 and policies for the PLA and HRA are now in force. Characteristics and costs of the coverage are found in Attachment E.
- Data on Citizens' service improvements implemented to date. Ms. Murphy outlined Citizens' service improvements in communication, exchange of information with agents, claims handling and adjusting staff, role of Miami-Dade office, office redundancy and penalty clauses in adjuster contracts. She presented a written summary of her comments.
- Has Citizens modified its Cat Plan and is it following through? Ms. Murphy provided an overview of Citizens' 2005 Cat Plan (Attachment F) including transition to a traditional insurance adjusting model, development of an administrative plan, acquisition of key catastrophe resources, vendor solicitation, selection and contracting, operational plan modifications and claim tracking system.

Task Force members asked questions about communications with agents. Ms. Murphy noted that Citizens uses e-mail communications and has no indication that messages have been blocked or otherwise not delivered. She observed that consumer assistance requests from the public to the

Department of Financial Services regarding Citizens' issues had plummeted in 2005 as a result of Citizens' improvements. Ms. Murphy noted that Citizens has a catastrophe claims staff of 20-to-25 in-house that oversees all 1500 contracted adjusters and 1000 in house adjusters. She also noted that Citizens specifies the quality required for companies providing E&O coverage to its agents.

- <u>Breakdown of Citizens total operating expenses/allocated loss adjustment expenses per year.</u> In Attachment G, Ms. Murphy presented Citizens' operating expenses and loss adjustment expenses for PLA, CLA, HRA and Total for 2003, 2004 and 2005 (as of 9/30/05). She noted that these figures are largely pre-Wilma figures and that she does not yet know when end-of-year figures will be available.

Ms. Murphy suggested that it would be appropriate to review statutory and other requirements concerning catastrophe reserves for Citizens and private companies.

Ms. Murphy noted that additional information requested of Citizens about other issues will be available for future meetings of the Task Force.

B. <u>Issue Discussion Facilitated by Collins Center.</u> Using information presented by Ms. Murphy and others, Mr. Petrey presented each of the eight major issues regarding Citizens that had been identified by the Legislature and facilitated discussion by Task Force members about each one.

DECISION PAPER #1: The operation and role of Citizens Property Insurance Corporation, including: How to ensure that the corporation operates as an insurer of last resort which does not compete with insurers in the voluntary market, but which charges rates that are not excessive, inadequate, or unfairly discriminatory.

In addition to information presented by Ms. Murphy, Members of the Task Force reviewed a side-by-side comparison, prepared by the Office of Insurance Regulation (OIR), of standard coverage offered by Citizens and standard coverage offered by private carriers. Most coverage items are very similar. Mobile home coverage differs but few mobile home policies are offered by private insurers. The Task Force previously had reviewed rates charged by Citizens.

The Task Force decided that new proposed rate changes by Citizens, actuarially sound with the "Top 20" as a floor, were positive indications that Citizens could avoid future competition with voluntary market insurers and operate more as a true residual market. They agreed that these changes, with semi-annual rate reviews in the future, should result in adequate rates. They did not think that Citizens' rates were unfairly discriminatory or excessive for the risks they assume.

DECISION PAPER #2: The operation and role of Citizens, including: Whether the bonuses paid by the corporation to carriers taking policies out of the corporation provide a cost-effective means of reducing the potential liability of the corporation.

The Task Force discussed information previously presented by Ms. Murphy about Citizens depopulation bonus program. Mr. Wurdeman observed that building an insurance business through takeouts, as opposed to only writing new business, seemed to be sound and reliable. Chair McCarty observed that only one company formed specifically to acquire takeout policies had failed and the failure may have been for reasons other than the takeout business. New companies are reviewed carefully for financial strength.

The Task Force agreed that the takeout bonus program was a cost-effective means of reducing the potential liability of Citizens. Because the bonuses are taken from Citizens' surplus, several Task Force members expressed concern that they may help to create larger deficits but most agreed that reduction in Citizens' exposure balanced that concern. They noted that legislative changes may be useful to encourage new companies to keep policies out longer than three years and to have some requirement to write new business.

DECISION PAPER #3: The operation and role of Citizens, including: Whether the Consumer Choice law should be repealed or amended to ensure that the corporation serves as the insurer of last resort.

Task Force members noted that figures about how many policyholders remained with Citizens because of the Consumer Choice law varied widely. Some insurers do not want to deal with new agents or have decided that the costs of the program exceed the benefits. Agents are concerned about new takeout companies that may not be financially sound and may trigger limited FIGA coverage for the homeowner. Chair McCarty noted that takeout companies are sound and that it is difficult to see how Citizens can truly be a "last resort" residual market if agents and policyholders can insist that Citizens continue to provide coverage when private insurers are willing to take policies.

The Task Force agreed that the Consumer Choice issue should continue to be open for debate and discussion.

DECISION PAPER #4: The operation and role of Citizens, including: Whether coverage amounts should be limited.

Task Force members received additional information from Gary Pullen, Executive Director of the Florida Surplus Lines Service Office, about coverage by surplus lines carriers, noting that surplus lines had about 4% of the Florida homeowners' insurance marketplace in 2002, 2003 and 2004 with 134,000 policies written to date in 2005. Mr. Pullen described various limits on surplus lines coverage. He had surveyed agents about surplus lines coverage for coverage of residences valued at $1 million or more. Five agents indicated that they do write coverage with wind for amounts of $1 million or more. Several agents indicated that they would provide layered coverage with Citizens insuring amounts up to $1 million and surplus lines carriers taking amounts over $1 million. But several agents would not provide such layered coverage, partly because the surplus coverage would be built on the underlying policy and both the underlying policy and the surplus policy would have to cover the same events.

Citizens will provide additional information to the Task Force about the projected effects on its exposure and premiums if coverage were limited to $1 million. Task Force members noted Ms. Murphy's previous comments that Citizens already has premium surcharges for part-time residents because of increased risks when homes are not occupied during hurricane season.

DECISION PAPER #5: The operation and role of Citizens, including: Whether the corporation has hired an adequate level of permanent claims and adjusting staff in addition to outsourcing its claims-adjusting functions to independent adjusting firms.

Task Force members agreed that they had sufficient information on staffing of Citizens. The Task Force agreed that costs and duplication of effort might be reduced through voluntary, paid servicing of Citizens policies by private companies if private companies had “skin in the game” and the program had good quality controls. They did not think that such a program should be mandatory. The Task Force will look at ways those conditions might be implemented in a voluntary program.

DECISION PAPER #6: The operation and role of Citizens, including: The effect of reducing or expanding the areas that are eligible for coverage in the high-wind, high-risk account.

The Task Force received information from the Florida Hurricane Catastrophe Fund that the wind exposure statewide, if Citizens wrote all wind coverage statewide, would be $1.59 trillion based on reported exposure as of June 30, 2005. Task Force members expressed concern that this large exposure would become a liability of the State of Florida and not involve any private risk capital. The Task Force will review additional information about effects of expanding HRA areas.

On reducing areas that are eligible for HRA coverage, Task Force members agreed that such areas should not be reduced at this time while private companies are reevaluating their exposures and Citizens is changing its rates to meet actuarially sound standards. Any reduction in HRA territories should be postponed for 2-to-3 years. Task Force members thought that an existing requirement to reduce these areas should be repealed.

Task Force members discussed the possibility of combining HRA and PLA accounts, noting possible penalties for retiring bonds for such accounts. Additional information will be provided on the possible effects of combining accounts.

DECISION PAPER #7: The operation and role of Citizens, including: Whether the corporation should purchase reinsurance or take other actions that reduce the potential for debt refinancing and deficit assessments.

Task Force members agreed that Citizens should voluntarily purchase reinsurance as needed based on sound business decisions of its Board of Governors after reviewing risk exposures, other available resources and costs.

DECISION PAPER #8: The operation and role of Citizens, including: An evaluation of the infrastructure and administration of the corporation and how to improve service, claims handling, and communications and the exchange of information with agents of policyholders of the corporation.

The Task Force agreed that it had sufficient information about the infrastructure and administration of Citizens. It will review a planned report of the Auditor General and other reports on Citizens when they are produced.

On related matters, the Chair asked the Collins Center to prepare a decision paper on the requirements and consequences of combining Citizens' HRA and PLA accounts, including requirements to meet bond obligations.

6. Public Testimony. Mr. Guy Marvin, President of the Florida Insurance Council, stated that wind-only zones should not be reduced, that Citizens should not write non-wind coverage in designated high risk areas, that Citizens may need a requirement to develop a surplus, that legislation should contemplate catastrophe reserves, that HRA coverage should be limited to $1 million, that differentiating between permanent and part-time residents may present legal problems, and that private insurers should not be required to undertake adjusting and customer tasks for Citizens.

Mr. William Stander, representing the Property Casualty Insurers of America, also did not think that private companies should be required to undertake adjusting and customer tasks for Citizens. Mr. Stander opined that Citizens should exclude policies valued over $1 million because he did not know if the PML would be helped if they only excluded the excess over $1 million. He thought that private takeout companies were well-regulated for financial strength and that the Task Force should review SB 1486 for the information burdens it has placed on private companies. Mr. Stander observed that many requirements in SB 1486 required substantial new record-keeping and related information gathering and reporting duties that companies were struggling to fulfill.

Mr. Gerald Wester, representing the American Insurance Association and several other insurance clients, did not think that the wind-only territory should be reduced and that the law requiring reduction should be repealed or, at a minimum, moved out two to three years. He thought that changing boundaries was not going to reduce pricing; companies would not go into formerly high-risk areas to pick up the wind coverage and Citizens would end up with larger numbers of PLA policies. The better practice would be to ensure that Citizens' rates are "actuarially sound" and not competitive and to encourage companies to write or take-out wind coverage. He also thought that residences of $1 million or more should have a significant surcharge if they don't qualify for homestead exemption, and that private companies should not be required to undertake adjusting and customer tasks for Citizens. Instead a "carrot" approach should be used to provide incentives for companies to voluntary take on these tasks for reasonable compensation.

Mr. George Rodgers, Windstorm Damage Mitigation Agent for the University of Florida, described mitigation training programs for licensed contractors and demonstration programs for retrofitting. He noted that knowledge of complex building codes was essential but that, even with such knowledge, builders did not undertake some important mitigation steps because doing so increased pricing of homes and made them less competitive. He observed that consumers needed to be better educated so that they would demand sound building practices. Florida House in Sarasota was a good example of sound water and energy conservation practices as well as hurricane damage mitigation practices. He noted that maintaining homes properly helps to mitigate damage in the future and that home inspections by real estate and mortgage companies can be improved to include damage mitigation inspections.

Mr. Rodgers emphasized that construction workers, foremen and contractors need much better training and that everyone, including homeowners and building officials, need to inspect construction sites frequently to ensure that actual practices conform to code requirements.

7. Meeting Schedule. The Task Force is scheduled to meet on January 18 and 19, 2005, at Florida International University's Biscayne Bay Campus in Miami, Florida, and on January 31-February 1, 2005, at the University of Central Florida in Orlando, Florida.

Chair McCarty adjourned the meeting at 3:00 p.m.