

Catastrophe Modeling Regulation

The Florida Experience

Catastrophe Modeling Regulation

- Florida Commission on Hurricane Loss Projection Methodology
- Florida Office of Insurance Regulation
- Reinsurer and Rating Agency

Florida Commission

- Statutory Charge
 - Provide the most actuarially sophisticated guidelines and standards for projection of hurricane losses possible
- Panel of Experts
 - 3 Actuaries
 - Statistician, Meteorologist, Finance, Computer, Catastrophe Fund, Citizens, Consumer Advocate, Emergency Management

Florida Commission

- Professional Team
 - Includes a structural engineer
 - Does on site visits to modelers
 - Conducts in-depth audit lasting 2+ days
 - Advises Commission on whether it could verify that Standards were met
- Standards, Disclosures, Audits
 - Two day meetings held in July and Sept. to develop Standards for modelers to meet
 - All modelers must submit Disclosure items as public documents

Florida Commission

- Effect of Commission Findings
 - Reimbursement premiums for the FHCF must be based on models found accurate to the extent feasible
 - Insurers may use models found accurate and these are admissible and relevant in a rate filing only if OIR and the consumer advocate have access to all assumptions and may disclose them in a rate proceeding
 - Neither acceptance nor rejection by the Commission is binding on FHCF, OIR, or insurers

Florida Commission

- Appropriateness for Monitoring Modeler Activities
 - Only examines models submitted to it
 - Most sensitive determinations done under Trade Secret protection despite the Sunshine or open meeting law
 - No monitoring or control of versions and variations of models found acceptable
 - Lack of clarity on to whom it is responsible
 - Defines accurate as meeting Standards and reliable as consistently producing statistically similar results without bias

Florida Office of Insurance Regulation

- Regulates rates and solvency of insurers
- Required to hold public hearing on any residential property rate filing based on a computer model if more than +15%
- Actuary's analysis under Standard of Practice 38
 - Must have basic understanding
 - Must evaluate appropriateness of use
 - Must determine that validation has been done
 - Must understand user inputs

Florida Office of Insurance Regulation (Continued)

- Actuary's analysis under Standard of Practice 38 (Continued)
 - Reasonableness of model output considering alternate models
 - Appropriate adjustments and their disclosure
 - Justify material departures from Standard and effect of departure
- Questions asked of filers using models designed to allow OIR to make statutory determination in accordance with Standard

Reinsurers and Rating Agencies

- Require, use, and develop models without regard to any regulatory framework
- Net cost of reinsurance must be considered in determining rate adequacy
- Net investment and business volume greatly affected by rating agency decisions

Catastrophe Modeling Regulation

- Questions
- Additional Information about Commission available at www.sbafla.com/methodology