

INTRODUCTION

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Issues to Discuss Today:

Example Of Homeowners Rates

Effects of Mitigation on Rate Adequacy

Impact of Mitigation Credits

Areas to Explore

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FLORIDA HOMEOWNERS RATEMAKING

IMPACT OF MITIGATION CREDITS

Example Non Mitigated Book of Business

	Total	Wind	Non Wind
Premium	1,000,000	625,000	375,000
Non Cat Losses	250,000	-	250,000
Cat Losses (1)	250,000	250,000	-
Net Cost of Reinsurance (2)	250,000	250,000	-
Expenses / Profit (3)	250,000	125,000	125,000
Totals	1,000,000	625,000	375,000

Notes / Assumptions:

1 All Wind Losses are Cat Losses

2 Net Cost of Reinsurance allocated to Wind - Reinsurance Premiums MINUS Expected Reinsurance Recoveries

3 Expense / Profit Split Evenly b/w Wind and Non Wind

FLORIDA HOMEOWNERS RATEMAKING

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Example Non Mitigated Book of Business

	Total	Wind	Non Wind
Premium	1,000,000	625,000	375,000
Non Cat Losses	250,000	-	250,000
Retained Cat Losses (Note 1)	25,000	25,000	-
Gross Cat Reinsurance Premiums (2)	475,000	475,000	-
Expenses / Profit	250,000	125,000	125,000
Totals	1,000,000	625,000	375,000

Notes / Assumptions:

1 Assumed Company Retains **10%** of Catastrophe Risk

2 Contains Net Cost of Reinsurance (\$250) and Ceded Cat (\$225)

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IMPACT OF MITIGATION CREDITS

Example Non Mitigated Book of Business

	Total	Wind	Non Wind
Premium	1,000,000	625,000	375,000
Non Cat Losses	250,000	-	250,000
Retained Cat Losses (Note 1)	25,000	25,000	-
Gross Private Cat Reins Prem (2)	412,500	412,500	-
FHCF Reins Premium (3)	62,500	62,500	-
Expenses / Profit	250,000	125,000	125,000
Totals	1,000,000	625,000	375,000

Notes / Assumptions:

- 1 Assumed Company Retains 10% of Hurricane Risk
- 2 Ceded Cat Amount (\$225) Plus NCR (\$250) Minus FHCF Prem/Losses (\$63)
- 3 FHCF Premium is 25% of Wind Losses

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IMPACT OF MITIGATION CREDITS

Example Non Mitigated Risk to With Mitigation Features

	Non Mitigated Risk			Risks w 60% Mit Credit	
	Total	Wind	Non Wind	Total	Wind
Premium	1,000,000	625,000	375,000	625,000	250,000
Non Cat Losses	250,000	-	250,000	250,000	-
Retained Cat Losses (Note 1)	25,000	25,000	-	10,000	10,000
Gross Private Cat Reins Prem (2)	412,500	412,500	-	165,000	165,000
FHCF Reins Premium (3)	62,500	62,500	-	56,250	56,250
Expenses / Profit (4)	250,000	125,000	125,000	175,000	50,000
Totals	1,000,000	625,000	375,000	656,250	281,250

Premium Deficiency 5.0%

Notes / Assumptions:

- 1 Assumed Company Retains 10% of Hurricane Risk
- 2 **IF - Full Mitigation Reflected in Reins Cost**
- 3 FHCF Premium based on Non Mitigated Risks with a 10% Credit
- 4 Full Mitigation Savings reflected in Expenses
- 5 Non Wind Premium / Costs not impacted by Mitigation Features

Unknowns:

- 1 **Gross Private Reinsurance Premiums on Mitigated Homes**

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IMPACT OF MITIGATION CREDITS

Example No Mitigated to With Mitigation

	Non Mitigated Risk			Risks w 60% Mit Credit	
	Total	Wind	Non Wind	Total	Wind
Premium	1,000,000	625,000	375,000	625,000	250,000
Non Cat Losses	250,000	-	250,000	250,000	-
Retained Cat Losses (Note 1)	25,000	25,000	-	10,000	10,000
Gross Private Cat Reins Prem (2)	412,500	412,500	-	265,000	265,000
FHCF Reins Premium (3)	62,500	62,500	-	56,250	56,250
Expenses / Profit (4)	250,000	125,000	125,000	175,000	50,000
Totals	1,000,000	625,000	375,000	756,250	381,250

Premium Deficiency 21.0%

Notes / Assumptions:

- 1 Assumed Company Retains 10% of Hurricane Risk
- 2 **IF - Half of Mitigation Savings is Reflected in the Net Cost of Reins**
- 3 FHCF Premium based on Non Mitigated Risks with a 10% Credit
- 4 Full Mitigation Savings reflected in Expenses

Unknowns:

- 1 **Gross Private Reinsurance Premiums on Mitigated Homes**

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Impacts

Premium Deficiency in the exhibits causes homes with no mitigation to **subsidize** homes with Mitigation

The Premium Deficiency (Previous Page) creates an increase in the overall rate level.

Every policy gets a rate increase until there is an overall balance in the rate indication.

At that balance point, the mitigated homes are subsidized by the unmitigated homes.

Current procedure does raise my rates when neighbors implement mitigation features.

Assessments magnify inequities in a rate structure.

Areas To Explore

Impact of Mitigation in Catastrophic Events - Distribution of Loss Events for Mitigated or Non Mitigated

How Mitigation Credits impact Model Results

How Model Results w / Mitigation impact the Reinsurance Pricing & **How do they NOT**

How Pricing the Property Risk in Florida can reflect ALL the costs associated with the risk transfer

Incorrect incentives for Mitigation - Does this produce moral hazards?