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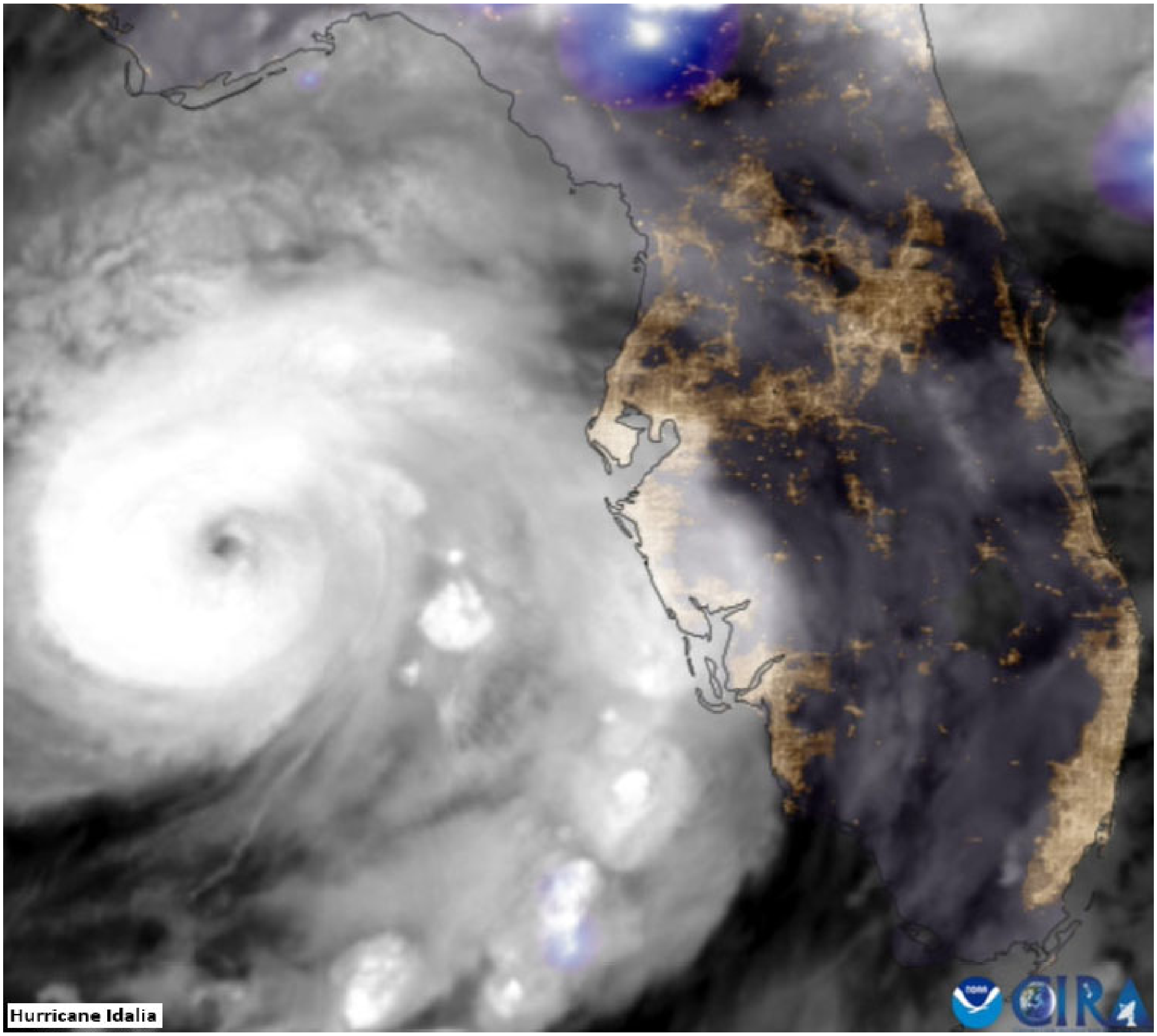
Florida Hurricane Catastrophe Fund

2024/2025 Member Handbook



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INTRODUCTION

The purpose of this handbook is to provide an overview of the operations of the Florida Hurricane Catastrophe Fund (FHCF), company requirements, and available sources of information regarding the FHCF and does not constitute legal or other professional advice. While this Handbook summarizes the key features of the FHCF based on current legislation, the FHCF may be affected by legislative changes, as well as ongoing changes to the rules of the State Board of Administration of Florida (SBA). Florida Statutes, along with the Rules adopted by the State Board of Administration of Florida (SBA), should be consulted as the authoritative source on all FHCF policies and requirements. We encourage companies to review current legislation and any rules applicable to issues affecting them.

MISSION

The FHCF was created in November 1993 during a special legislative session after Hurricane Andrew. The enabling legislation is codified in Section 215.555, Florida Statutes. The mission of the FHCF is to provide a stable and ongoing source of timely reimbursement to residential property insurers for a portion of their catastrophic hurricane losses for the purpose of protecting and advancing the State's interest in maintaining insurance capacity.

ORGANIZATION

The FHCF is structured as a state trust fund under the direction and control of the SBA. Its trustees are the Governor, the Chief Financial Officer, and the Attorney General. A nine-member advisory council provides the SBA with information and advice. Paragon Strategic Solutions Inc. (Paragon) is the FHCF Administrator as well as the Actuarial Consultant to the SBA. In addition to hiring staff and contracting with other professionals, Section 215.555, Florida Statutes, gives the SBA the authority to adopt rules in order to implement the Statute.

FINANCIAL STRUCTURE

Participating companies are charged an actuarially-determined premium for the coverage provided, and the FHCF's accumulated premium, and investment earnings thereon, may be used only to pay companies according to their reimbursement contracts, and to pay other obligations and expenses as specified in the Statute. The SBA is responsible for investing the FHCF's assets. When the FHCF's available assets are not sufficient to meet its obligations, the FHCF can rely on the proceeds of revenue bonds backed by assessments on most types of property and casualty insurance premiums. The FHCF also engages in financing and risk-transfer activities intended to improve liquidity and minimize the need for assessments.

COVERED EVENTS

FHCF coverage is on a per occurrence basis (subject to an annual aggregate limit) and applies to any storm declared to be a hurricane by the National Hurricane Center which causes insured losses in Florida. A Covered Event begins when a hurricane causes damage in Florida and continues throughout any subsequent downgrades in storm status by the National Hurricane Center regardless of whether the hurricane makes landfall. Any storm, including a tropical storm, which does not become a hurricane is not a Covered Event.

COVERED POLICIES

Covered policies are those policies issued by authorized insurers (not reinsurers), including Citizens Property Insurance Corporation (Citizens), which provide coverage for hurricane losses for residential structures located in the State of Florida, including appurtenant structures, contents, and additional living expense. This includes commercial-residential, residential, mobile home, tenants, condominium unit owners, and some endorsements to such policies. Covered policies include policies covering the peril of wind removed from Citizens or by an authorized insurer under the terms and conditions of an executed assumption agreement that has been approved by the Office of Insurance Regulation.

Covered policies also include collateral protection insurance policies covering personal residences which protect both the borrower's and lender's financial interest, in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy, or the coverage amount the homeowner has been notified of by the collateral protection insurer, or the coverage amount the homeowner requests from the collateral protection insurer, if such policy can be accurately reported as required in Section 215.555, Florida Statutes.

A Covered policy does not include any policy or exposure excluded under Article VI of the Reimbursement Contract.

COMPANY PARTICIPATION

All authorized insurers in Florida, including Citizens, which write FHCF covered policies are required by Section 215.555, Florida Statutes, to enter into a Reimbursement Contract (Contract) with the SBA and to pay an annual reimbursement premium to the FHCF.

PETITIONING FOR EXEMPTION

No Covered Policies:

If a company does not have Covered Policies as of June 30 of the current Contract Year but was an active participant in the FHCF for the preceding Contract Year, a letter requesting to petition for exemption from the FHCF must be received by the FHCF Administrator no later than September 1 of the current Contract Year. See Rule 19-8.012, Florida Administrative Code (F.A.C.) for more information. This Rule is available online at https://fhcf.sbafla.com.

De Minimis Exemption due to Limited Exposure:

Section 215.555, Florida Statutes, allows the SBA to consider an exemption for a company with less than $10 million of FHCF covered exposure (not premium), provided the company submits a written request to the FHCF Administrator. Such requests must be received no later than September 1 of the current Contract Year and may not be withdrawn. See Rule 19-8.012, F.A.C. for more information. The SBA may not grant an exemption if the aggregate number of anticipated exemptions adversely affects the actuarial soundness of the FHCF.

REIMBURSEMENT CONTRACT

The annual FHCF contract period is from June 1st through May 31st. Contracts must be executed and returned to the FHCF's Administrator no later than March 1st of each Contract Year. Included in the executed contract is the company's selected coverage level of 45%, 75%, or 90%. All companies that are members of the same insurer group, as designated by the National Association of Insurance Commissioners (NAIC), must elect the same coverage level.

There is also an Addendum to the Contract applicable to a company that, upon mutual agreement with the SBA, provides coverage of an unsound insurer's covered policies through an assumption or an assignment of the unsound insurer's reimbursement contract. The Contract and Addendum are available online at https://fhcf.sbafla.com.

REIMBURSEMENT PREMIUM

A company's annual reimbursement premium for the FHCF coverage is based on an actuarial formula specifying the amount of premium to be paid for each $1,000 of insured value for covered policies in each 5-digit Florida ZIP Code by type of business, construction class, and deductible group. The coverage level chosen by the company and mitigation features reported are also considered in the premium calculation. Pursuant to Section 215.555(5)(b), Florida Statutes, the FHCF premium includes a 25% cash build-up factor.

Paragon has been retained by the SBA as the independent actuarial consultant to develop the reimbursement premium formula and the rates to be used in determining the annual reimbursement premium due from each company. The annual rates, rating region definitions, and Ratemaking Formula Report are available online at https://fhcf.sbafla.com.

REIMBURSEMENT PREMIUM INSTALLMENTS

The annual reimbursement premium for FHCF coverage is payable in three installments: August 1st, October 1st, and December 1st of the Contract Year. Due to the timing of the exposure reporting and final premium calculation, the first two installments are provisional billings, each based on one third of a company's prior Contract Year premium. The third installment is based on the final premium calculated from the company's exposure reported to the FHCF in the Data Call submission, less the amounts received from the provisional billings. Companies with a final premium of $5,000 or less for the prior Contract Year will be billed a full provisional premium in that amount for the first installment.

REPORTING REQUIREMENTS – EXPOSURE DATA

In order to calculate the premium for FHCF coverage, each company must report its total covered property exposure in force under covered policies **as of June 30th** to the FHCF categorized by certain rating factors. This information is statutorily required to be reported by September 1st and must be submitted to the SBA via the Web Insurer Reporting Engine (*WIRE)*. The exposure reporting requirements are specified in the Data Call, Form FHCF-D1A, sent to each insurer at the beginning of the Contract Year. The Data Call is also available online at https://fhcf.sbafla.com.

WEB INSURER REPORTING ENGINE (*WIRE*)

The Web Insurer Reporting Engine, or *WIRE*, is the mechanism for reporting exposure as required under the FHCF Data Call. Each FHCF company has a *WIRE* account. In order to access the *WIRE* validation and submission tools, a company must ensure a Data Call/*WIRE* Account Manager has been designated on the Company Contact Information Form (Form FHCF C-1) submitted to Paragon annually. Once registered, the Account Manager can log in and register a maximum of six additional *WIRE* users to perform submission functions on behalf of the company, which must include at least two company officers with authority to certify and sign the submission statements.

Companies prepare and save a policy-level exposure data file, which is validated and submitted via *WIRE*. In addition, companies can upload any supporting documents (such as cover letters or other explanatory information), complete the submission confirmation form, and sign the required officer statements all online. Once a submission is complete, *WIRE* will aggregate the data and provide it to Paragon for premium calculation.

The *WIRE* system is available online at https://fhcfwire.sbafla.com and is accessible only to persons who have been registered as *WIRE* users by companies participating in the FHCF.

NEW PARTICIPANTS

Companies that begin to write covered policies on or after the beginning of the FHCF's Contract Year on June 1st are considered new participants for that Contract Year. A company that removes exposure from Citizens pursuant to an assumption agreement effective on or after June 1st and had written no other covered policies before June 1st is also considered a new participant. Coverage under the FHCF commences on the effective date of coverage of the insurer's first FHCF covered policy or the date covered policies are removed from Citizens pursuant to an assumption agreement. New participants must notify the FHCF immediately upon writing FHCF covered policies. The FHCF will then send the Contract and any applicable Addenda to be executed, along with a premium invoice of $1,000. The $1,000 premium shall be a provisional premium until the company's final FHCF premium is calculated.

Companies that begin writing covered policies or remove policies from Citizens pursuant to an assumption agreement prior to December 1st of the Contract Year will be sent a Data Call with supplemental instructions for new participants in November. New participants are also required to submit their Data Call file through *WIRE*. The Data Call instructions are the same document used by current participants except that these new participants must report their total covered property exposure in force under covered policies as of November 30th to the FHCF by February 1st of the Contract Year. The Data Call is available online at https://fhcf.sbafla.com.

To recognize that these new participants have limited exposure during the first Contract Year, the actual premium (determined by processing the company's exposure data) will be divided in half. The provisional premium will be credited, and the resulting amount will be the total premium due for the company for the remainder of the Contract Year. However, if that amount is less than $1,000, $1,000 will be the final premium. The final premium payment is due no later than April 1st of the Contract Year. The company's retention and maximum recovery from the FHCF will be based on the final adjusted premium.

For companies that begin writing covered policies or remove policies from Citizens pursuant to an assumption agreement on or after December 1st of the Contract Year, the $1,000 premium shall be the final premium for the Contract Year. As such, the insurer shall not report any exposure data for this contract period.

COMPANY RETENTION – FHCF COVERAGE

As the reimbursement premium formula is developed for the Contract Year, a retention multiple is established for each coverage level. A company's full retention for its FHCF coverage is calculated by multiplying its annual reimbursement premium for FHCF coverage by the multiple corresponding to the selected coverage level.

$17.000 Billion xs $9.929 Billion

Coverage Level	2024/2025 Retention Multiple	Premium	Full Retention (Premium x Retention Multiple)
90%	6.3136	$1,000,000	$6,313,600
75%	7.5763	$833,333	$6,313,600
45%	12.6271	$500,000	$6,313,600

While the retention remains the same regardless of the coverage level selected, the portion of subject losses reimbursed by the FHCF depends upon the coverage option selected.

Since FHCF coverage is on a per occurrence basis, a company will need to exceed its full retention for each event before recoveries from the FHCF are triggered, except as noted in the following section.

DROP-DOWN RETENTION – FHCF COVERAGE

Section 215.555, Florida Statutes, provides for a drop-down retention in certain circumstances. A company's full FHCF retention for its FHCF coverage shall apply to each of the company's largest two hurricanes (in terms of losses covered by the FHCF). The company's full retention would then be adjusted to 1/3 for any other hurricanes occurring during the Contract Year. If applicable, the 1/3 adjustment(s) will be made after January 1st of the Contract Year.

FHCF CAPACITY – FHCF COVERAGE

Reimbursement of covered losses is limited by the actual claims paying capacity of the FHCF. However, the FHCF's capacity cannot exceed $17 billion for the Contract Year. The actual claims paying capacity is the balance of the fund as of 12/31 of the Contract Year (amount of assets available to pay claims, not including bond proceeds) in which the covered event occurs, plus the amount the SBA is able to raise through the issuance of revenue bonds and the purchase of reinsurance, if any.

Recognizing the importance of timely payment of reimbursements, the FHCF engages in efforts to maintain needed liquidity. Pre-event financing is one of the means used by the FHCF to assure that liquid assets are in place to assist the FHCF in meeting its future obligations. Over the course of its history, the FHCF has issued $14 billion in pre-event debt, using staggered maturities that reduce market access risk and smooth costs.

The expenses associated with these pre-event bonds are self-funded through the FHCF's investment earnings on these funds and through reimbursement premiums as necessary.

Each year as the FHCF prepares administratively for the upcoming hurricane season, consideration is given to the projected financial condition of the FHCF, the availability and affordability of statutorily allowed financing mechanisms, and the estimated borrowing capacity. The overarching goal is to determine the best method to maximize the FHCF's ongoing claims-paying capacity for the current and future seasons

Pursuant to Section 215.555(4)(c)(2), Florida Statutes, the FHCF is required in May and October of each year to publish the fund's estimated borrowing capacity, estimated claims-paying capacity, and the projected balance of the fund at December 31. For more information on the FHCF's claim-paying capacity estimates, please visit the FHCF website at https://fhcf.sbafla.com.

FHCF COVERAGE STRUCTURE

The projected payout multiple determines the FHCF coverage limit provided to each company, and is calculated as follows:

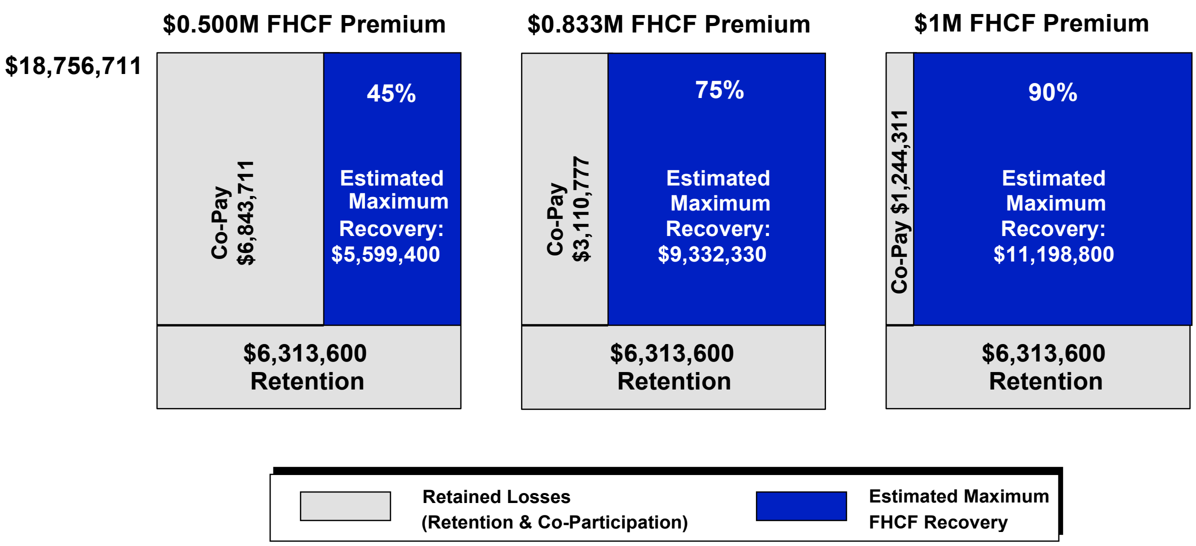
Projected Maximum Claims Paying Capacity		Estimated Aggregate FHCF Premium		Projected Payout Multiple
$17,000,000,000	/	$1,518,018,133	=	11.1988

The final payout multiple will equal the actual claims paying capacity of the FHCF (not to exceed $17 billion) divided by the total reimbursement premiums billed as of December 31st. The maximum amount a company could recover from the FHCF under the Contract Year is calculated as follows:

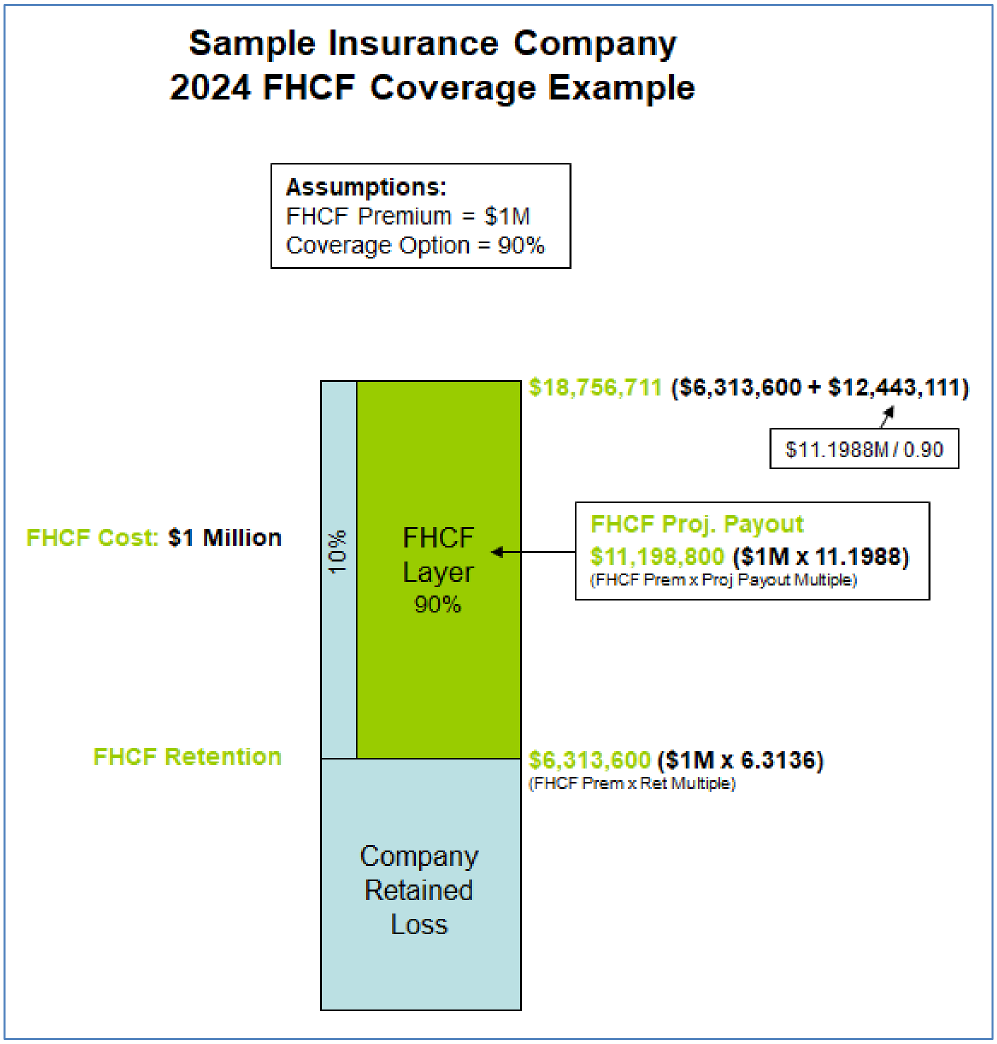
FHCF Annual Reimbursement Premium x Final Payout Multiple = Maximum Recovery

Note that these calculations include the additional 10% of FHCF reimbursed losses paid as an allowance for loss adjustment expense.

FHCF reimbursement is the selected percentage (45%, 75%, or 90% coverage level) of covered losses above a company's retention. For a company with a ground-up subject loss of approximately $18.76 million, the FHCF coverage reimbursements for each coverage level is illustrated below and on the following page (illustration not drawn to scale and 10% loss adjustment expense allowance not taken into consideration).



Following is another illustration of the FHCF structure at the 90% coverage option.



See the section on Drop-Down Retention (discussed earlier) for additional information on the loss reimbursement structure.

EMERGENCY ASSESSMENT

To service any outstanding post-event revenue bonds that are issued to reimburse insurers for their reimbursable losses under a covered event, the SBA may direct the Office of Insurance Regulation to levy an emergency assessment. The maximum assessment is 6% in any Contract Year, up to an aggregated annual assessment of 10%. The assessment applies to all property and casualty lines of business in Florida, including property and casualty lines of business of surplus lines, but excludes those lines specifically exempted in Section 215.555, F.S. (currently, workers' compensation, medical malpractice, accident and health, and National Flood and Crop Insurance Program policies). There were no post-event revenue bonds outstanding as of June 1, 2024.

For more information regarding emergency assessments, including assessable lines, please review Rule 19-8.013, F.A.C., entitled "Revenue Bonds Issued Pursuant to Section 215.555(6), Florida Statutes" (available online at https://fhcf.sbafla.com).

REPORTING REQUIREMENTS – LOSS DATA

Section 215.555, Florida Statutes, requires that companies report their losses from covered events for the Contract Year by filing a Proof of Loss Report, Form FHCF-L1A, no later than December 31st, and quarterly thereafter. Under certain circumstances, earlier reporting may be required. Note that companies must submit a Detailed Claims Listing to support the losses reported in its first Proof of Loss Report that qualifies the company for reimbursement under a specific hurricane. Instructions for the Detailed Claims Listing, as well as other periodic due dates, are specified in the Contract Year Detailed Claims Listing Instructions, Form FHCF-DCL. Loss reporting procedures are further clarified in the Contract, available online at https://fhcf.sbafla.com.

Companies are required to report estimated incurred ground-up losses for covered policies on both an incurred basis and a paid basis. The FHCF will reimburse the allowance for loss adjustment expense, limited to 10% of reimbursable losses, which will be calculated by the FHCF based on reported paid losses. Prior to reimbursement, a company's loss reports are reviewed and tested for reasonableness. As soon as practicable after receiving loss reports, the FHCF will determine and pay reimbursement amounts due to the insurer. Adjustments will be made, as necessary, following subsequent loss reports.

FHCF reimbursement amounts will not be reduced by reinsurance paid or payable to the insurer from other sources.

Section 215.555, Florida Statutes, also provides for advances in the interim for insurers that may otherwise become insolvent, Citizens, and limited apportionment companies which meet certain criteria.

ONLINE LOSS REPORTING

The FHCF Online Claims System must be used to submit loss reports and Detailed Claims Listings, when required. It may also be used to view prior online loss report submissions and payment documentation. The system may be accessed online at https://fhcfclaims.paragon.aon.com.

A maximum of seven users may be registered in the system (at least two users must be officers since Proof of Loss Reports require sign-off by two officers). All users may enter loss data, but only officers will be given submission rights. Officer authority will be verified by the FHCF and an Officer Registration letter must be signed by each officer and returned to the FHCF Administrator. Once the online registration process is fully complete, a company will be able to electronically certify, sign, and submit FHCF loss reports.

COMMUTATION OF LOSSES

The Contract calls for the commutation of FHCF losses not less than three years or more than five years after the end of the Contract Year in which losses occurred. The Contract also provides for commutations for zero dollars prior to the three-year point if a company does not expect any reimbursements from the FHCF. While a company may request that the SBA consider beginning the commutation process after three years and before five years, doing so is at the discretion of the SBA. Any remaining claims and losses which are not finally settled and which may be reimbursable losses under the Contract will be reported to the FHCF and a final reimbursement will be determined and issued. For more information regarding the commutation process, see Article XI – Commutation, of the Contract.

FHCF EXAMINATIONS

The SBA has two separate examination programs to test the accuracy and completeness of exposure data and the accuracy of losses reported to the FHCF. The examinations are limited in scope and should not be relied upon by the insurer as a determination of complete compliance with the applicable FHCF statutes, rules, and reporting requirements.

For an exposure examination, it is important that companies retain all records, information, and policy level details that are used to prepare the Data Call submission required to be sent to the FHCF by September 1st of the Contract Year. The Advance Preparation Instructions for an exposure examination are listed in FHCF Form-EAP1 for the applicable Contract Year.

For a claims examination, a company is required to retain a Detailed Claims Listing to support any Proof of Loss Report submitted to the FHCF for an advance or reimbursement. In addition, a company must provide claims files and any other records needed to support reported losses. Detailed information required for a claims examination is listed in FHCF Form-LAP1 for the applicable Contract Year.

The SBA notifies a company at least 60 days prior to the commencement of an examination and provides detailed instructions for preparing data, records, and reports for use by the examiner. Companies are required to provide advance records within 30 days of the date of the notice letter. If delays in providing required information result in the SBA having to reschedule an examination, and expenses are incurred in addition to the usual and customary costs of the examination, the company may be required to reimburse the FHCF for those expenses.

Companies are required to retain detailed records of all reported exposures and losses until the FHCF has completed an examination and commutation for the Contract Year (if applicable) has been concluded. Retention of records is imperative, as an examination may result in a re-filing or other corrective action, or an adjustment to a company's FHCF premium or loss recovery.

LEGISLATION AND SBA RULES

As indicated in the introductory section of this Handbook, the FHCF was created in 1993 by the Florida Legislature. The enabling legislation is codified in Section 215.555, Florida Statutes.

Specific policies and provisions of the FHCF are outlined in the rules of the SBA. The rulemaking process includes workshops, public hearings, and final approval by the SBA Trustees. The rules are continually being updated to accommodate new procedures and forms necessary for the administration of the FHCF. All proposed amendments to the rules are published in the *Florida Administrative Register*. Once the proposed amendments have been adopted, the amended rules are published in the Florida Administrative Code. All rules (proposed and adopted) are available online at https://fhcf.sbafla.com.

Rules of the SBA – Contract Year

- 19-8.001 Purpose
- 19-8.010 Reimbursement Contract
- 19-8.012 De Minimis FHCF Premium and Ineligibility for Participation Exemptions
- 19-8.013 Issuance of Revenue Bonds
- 19-8.028 Reimbursement Premium Formula
- 19-8.029 Insurer Reporting Requirements and Responsibilities

FHCF KEY DATES

June
- Data Call sent to current participants.
- 1 - Start of the FHCF Contract Year.
- 30 - Exposure “as of” date (insurance in force as of June 30th of the Contract Year).

July
- 1 - First provisional premium installment invoiced.
- 1 - Participating companies can begin Data Call file validation using *WIRE*.

August
- Annual rule adoption process for the next Contract Year begins.
- 1 - First provisional premium installment due.
- 1 - Construction code mappings, proposed methodology for reporting mixed-occupancy single structures, and proposed methodology for reporting of collateral protection policies, if applicable, should be submitted to Paragon no later than August 1st.

September
- 1 - Deadline to petition for De Minimis exemption.
- 1 - Data Call submission in *WIRE* due (insurance in force as of June 30th of the Contract Year).
- 15 - Second provisional premium installment invoiced.

October
- FHCF exposure examinations for Contract Year 2024/2025 begin.
- 1 - Second provisional premium installment due.

November
- 15 - Final premium installment invoiced (based on June 30th exposure).
- Data Call sent to New Participants.
- 30 – Exposure “as of” date (insurance in force as of November 30th of the Contract Year).

December
- 1 - Final premium payment due.
- 31 - Initial POL due for the current Contract Year (if there is a covered event(s)).

February
- Reimbursement Contract and Company Contact Information Form sent to current participants.
- Projected Payout Summary is provided.
- 1 - Data Call submission in *WIRE* due from New Participants writing their first policy on or after June 1 but before December 1 (insurance in force as of November 30th of the Contract Year).

February - March
- New Participants’ final premium installment invoiced (based on November 30th exposure).

March
- 1 - Subsequent Contract Year Reimbursement Contract and Company Contact Information Form due.
- 31 - Quarterly POL due for any hurricanes occurring during the current Contract Year (and each quarter-end thereafter).

April
- 1 - New Participants’ final premium due.

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