

# Florida Hurricane Catastrophe Fund



Annual Report of Aggregate Net Probable Maximum Losses,  
Financing Options, and Potential Assessments

February 2024

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*The data contained in this report has not been audited. This report was prepared by Raymond James & Associates as financial advisor to the Florida Hurricane Catastrophe Fund.*

# Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments

## Purpose and Scope

Section 627.35191, Florida Statutes, enacted in 2013, requires the Florida Hurricane Catastrophe Fund (FHCF) to provide a report for the upcoming contract year to the Legislature and the Financial Services Commission regarding the aggregate net probable maximum losses, financing options, and potential assessments of the FHCF. More specifically:

### **627.35191 Required Reports.—**

(1) By February 1 of each year, the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation shall each submit a report to the Legislature and the Financial Services Commission identifying their respective aggregate net probable maximum losses, financing options, and potential assessments. The report issued by the fund and the corporation must include their respective 50-year, 100-year, and 250-year probable maximum losses; analysis of all reasonable financing strategies for each such probable maximum loss, including the amount and term of debt instruments; specification of the percentage assessments that would be needed to support each of the financing strategies; and calculations of the aggregate assessment burden on Florida property and casualty policyholders for each of the probable maximum losses.

## Introduction

The FHCF plays a significant role in the provision of property insurance coverage for Florida residents. Eleven years of minimal storm activity from 2006 to 2016 resulted in the FHCF accumulating sufficient reserves to prepare for future storms. However, losses from Hurricanes Irma, Michael and Ian depleted a significant amount of the FHCF's resources. As of December 31, 2023, the FHCF had an estimated fund balance of approximately \$4.3 billion after paying or reserving for losses from Hurricanes Irma, Michael and Ian in the total amount of approximately \$19 billion. In addition, the FHCF has \$2.25 billion out of \$3.5 billion of Series 2020A pre-event bond proceeds available to provide additional liquidity for the upcoming 2024-2025 contract year (\$1.25 billion of the \$3.5 billion total outstanding par amount matures on July 1, 2025 and is therefore not assumed to be available as a claims-paying resource for the 2024-2025 contract year). The FHCF would need to rely on post-event bonding and emergency assessments to pay claims if a storm or storms of moderate to significant magnitude impacted Florida in the 2024-2025 contract year. The analyses presented in this report summarize those resources and how the FHCF would apply them after an event.

## Aggregate Net Probable Maximum Loss

The basic claims payment structure of the FHCF follows:

- Except for certain de minimis exemptions, all admitted insurers writing residential property insurance in Florida, including Citizens Property Insurance Corporation, are required by Section 215.555, Florida Statutes, to obtain FHCF reimbursement coverage.
- The FHCF reimburses each participating insurer for a portion of its hurricane losses under residential policies. All participating insurers, excluding Citizens Property Insurance Corporation (“Citizens”) have the option of selecting a coverage percentage of 45%, 75%, or 90%. Citizens is statutorily required to select the 90% coverage percentage.
- An insurer’s FHCF reimbursement coverage is triggered after it meets its retention (the functional equivalent of a deductible). As of December 31, 2023, the aggregate retention for all participating insurers for contract year June 1, 2023 through May 31, 2024, is approximately \$9.5 billion and for contract year June 1, 2024 through May 31, 2025, is projected to be approximately \$9.9 billion. Once an insurer’s covered losses exceed its share of the aggregate industry retention, it triggers coverage. It is not a requirement that aggregate insurer losses exceed the aggregate industry retention prior to that insurer being eligible for FHCF reimbursement.
- The maximum obligation of the FHCF for a given contract year is specified by statute. The current maximum is \$17 billion. Each participating insurer’s reimbursement coverage is limited to its share of the \$17 billion maximum obligation.
- A participating insurer’s reimbursement premium, retention, and coverage limit are based on its total insured values by ZIP code as of June 30, which must be reported by each insurer annually by September 1 of each year.
- The claims-paying resources of the FHCF include:
  - Reimbursement premiums: cash available from current and past accumulation of available reimbursement premiums and investment income. The fund balance is used before any of the other claims-paying resources are used. The FHCF collected approximately \$1.53 billion in reimbursement premiums and interest earnings, net of expenses and debt service, for the 2023-2024 contract year. As of December 31, 2023, the total preliminary fund balance is approximately \$4.29 billion after the estimates for Hurricanes Irma, Michael, and Ian losses. The FHCF is projected to collect approximately \$1.80 billion in reimbursement premium and interest earnings, net of expenses and debt service, for the 2024-2025 contract year, which results in a total projected fund balance of approximately \$6.06 billion as of December 31, 2024, and available for the 2024-2025 contract year.

- Proceeds from pre-event financing: the FHCF has \$2.25 billion in Series 2020A pre-event bond proceeds outstanding that are available for the 2024-2025 contract year (\$1.25 billion of the total outstanding \$3.5 billion par amount matures on July 1, 2025). However, if any pre-event bond proceeds are used it could be refinanced by post-event bonds.
- Proceeds from any post-event debt: post-event debt is repaid from emergency assessments on most Florida property and casualty premiums of both admitted and non-admitted lines of business (except workers' compensation, medical malpractice, accident and health, and federal flood insurance). The maximum annual assessment percentage is 6% with respect to any one contract year's losses and 10% with respect to all contract years' losses combined. No such post-event debt is outstanding and therefore there are currently no assessments.
- Risk transfer: recoverables from reinsurance and other risk transfer products, if any. The FHCF has purchased reinsurance in the past, but no such risk transfer products are in place as of the date of this report for the 2024-2025 contract year.

Table 1 on the following page shows the net probable maximum loss to the FHCF from storms of the return time specified. The loss calculations were derived from Exhibit VIII of the FHCF 2023 Ratemaking Formula Report prepared by Paragon Strategic Solutions Inc., consulting actuary to the FHCF. The complete 2023 Ratemaking Formula Report can be found at <http://fhcf.paragon.aonbenfield.com/rates-and-premium/2023>. The projected retention for the 2024-2025 contract year is \$9.9 billion, but the ultimate retention may differ based on the results of the ratemaking formula report and/or any legislative changes.

**Table 1**  
**(\$ in billions)**

Return Time (Years)	Gross Probable Maximum Loss <sup>1</sup>	Maximum Net Losses to FHCF <sup>2</sup>	Adjusted Net Losses to FHCF <sup>3</sup>	Projected Year-End Fund Balance <sup>4</sup>	Potential Post-Event Bonding <sup>5</sup>
250	\$95.36	\$17.00	\$16.96	\$6.06	\$10.90
100	63.27	17.00	16.45	6.06	10.40
50	41.67	17.00	15.13	6.06	9.07

Coverages	Amount
2024 Retention (Projected)	\$9.90
FHCF Coverage	\$17.00

<sup>1</sup> Represents gross loss to all Florida residential policyholders from a storm of the indicated return time and excludes loss adjustment expenses.

<sup>2</sup> Based on the maximum statutory limit and the assumption that the FHCF operates as a single industry entity with a single industry retention and industry limit that apply to industry gross losses from total industry exposure and includes 10% loss adjustment expenses.

<sup>3</sup> Based on the assumption that the total FHCF net losses is the sum of losses from approximately 140 individual companies, each with its own retention, limit and exposure distribution and includes 10% loss adjustment expenses. Under this assumption it is unlikely for all insurers to trigger or exhaust the total of all FHCF coverage. Adjusted loss information for 2024 is not available, and may be different from the data shown above as it is derived from the 2023 Ratemaking Formula Report.

<sup>4</sup> FHCF projected fund balance is projected as of 12/31/24.

<sup>5</sup> Adjusted Net Losses to FHCF less Projected Year-End Fund Balance. Assumes the use of post-event financing, which is repaid with emergency assessments but assumes no risk transfer for 2024-2025 contract year.

Numbers may not add due to rounding.

## Financing Options

The FHCF undertakes two basic types of financing: (1) pre-event financing to provide liquid funds to reimburse participating insurers in a timely manner; and (2) post-event financing designed to provide the ultimate source of payment of covered claims in excess of cash on hand and risk transfer, if any.

The FHCF has \$2.25 billion of pre-event debt available for the 2024-2025 contract year from its Series 2020A pre-event financing (\$1.25 billion of the \$3.5 billion par amount outstanding matures on July 1, 2025). The proceeds of pre-event financings are available to pay future claims. Pre-event interest expenses are designed to be paid primarily from the interest earnings on the invested proceeds of the pre-event bonds (which are retained pending their use to pay future claims) and any remaining interest expenses are paid from reimbursement premiums. There are no assessments associated with pre-event bonds of the FHCF. However, if the proceeds of pre-event bonds are ever used to pay claims, the FHCF can refinance such pre-event bonds using post-event bond proceeds secured by emergency assessments.

The FHCF has no post-event bonds outstanding and therefore there are no assessments.

The FHCF has the statutory authority to amortize its debt over a term of up to 30 years. Given the magnitude of the losses summarized in Table 1 on the prior page, the FHCF could use this full term (or any shorter term) for any post-event bonds associated with the financing of these losses. As summarized in Table 1, bonding needs of the amounts required for all three scenarios are large by municipal bond standards. Subject to market conditions, access to the market at times can be uncertain and therefore it is critical to understand the potential challenges the FHCF may face after a large event. For this reason, pursuant to Section 215.555(4)(c)(2), Florida Statutes, in May and October of each contract year, the FHCF is required to publish its estimated borrowing capacity, estimated claims-paying capacity and projected balance of the fund at December 31 of each year. The FHCF's most recent estimates were published in October 2023, which are available on the FHCF's website at <https://fhcf.sbafla.com/reports/>.

Per the FHCF's financial advisor, Raymond James & Associates, conditions in the municipal and corporate markets are volatile as interest rates increased dramatically during 2023 as a result of the Federal Reserve raising the Fed Funds rate to 5.25%-5.50%. This kept corporate and municipal issuance relatively low from a historical standpoint in 2023 with approximately \$1.4 trillion and \$381 billion of issuance, respectively, as compared to their respective 10-year averages of \$1.6 trillion and \$416 billion. While overall issuance is below historical averages in the corporate and municipal markets, the largest single municipal issuance in 2023 was \$3.5 billion of taxable bonds for the Texas Natural Gas Security Finance Corporation and the largest single issuance in the corporate bond market was \$31 billion from Pfizer. In addition, the largest cumulative issuance in 2023 from a municipal issuer was the State of California with over \$8.5 billion of issuance over the calendar year. So far in 2024, Jefferson County, Alabama (BBB+ rated) has issued the largest municipal bond transaction of the year with \$2.2 billion of tax-exempt bonds to refinance its 2013 bonds with a 30-year maturity. In addition, the FHCF has some additional factors working in its favor independent of fixed income market trends: the FHCF has no post-event bonds outstanding, and the FHCF is a well-regarded, highly-rated credit (long-term ratings of AA/AA/Aa3 from Standard & Poor's, Fitch, and Moody's, respectively).

Although financial market conditions are currently moderately conducive to favorable debt issuance, it is not possible to guarantee future financial market conditions. If long-term bonding in sufficient amounts is not immediately available, the FHCF may need to explore alternatives, including issuing bonds in multiple tranches over time and/or interim financing alternatives. The FHCF statute provides that the FHCF's liability is limited to the amount it can actually raise from bonding and other available claims payment sources. The timing of FHCF reimbursements to insurers depends on the magnitude of insurers' losses and how soon the insurers' payments exceed their FHCF retentions.

The FHCF's role in the property and casualty insurance marketplace in the State of Florida is to act as a stabilizing factor, especially after a large event, as all participating insurers in the state could rely on reimbursement from the FHCF in order to pay claims for covered hurricane losses. The FHCF's liquidity position is therefore of great importance for the insurance market stability and the State's economic conditions.

## Assessment Impact

The FHCF can finance based on the projected or actual dollar losses generated by the hurricane or hurricanes in order to finance up to its statutory obligation, as shown in Table 1. These post-event bonds would be repaid using emergency assessments.

Table 2 shows the estimated annual assessment impact from the varying hurricane loss scenarios.

**Table 2**  
**(\$ in millions)**

Return Time (Years)	Potential Post-Event Bonding	Required Annual Assessment Financed Over 10 Years <sup>1</sup>	Required Annual Assessment Financed Over 10 Years (%) <sup>2</sup>	Required Annual Assessment Financed Over 30 Years <sup>3</sup>	Required Annual Assessment Financed Over 30 Years (%) <sup>2</sup>
250	\$10,904	\$1,412	1.95%	\$792	1.09%
100	10,395	1,346	1.85%	755	1.04%
50	9,074	1,175	1.62%	659	0.91%

<sup>1</sup> Assumes annual assessment for 10 years using an interest rate of 5%. There is no certainty that FHCF covered loss reimbursements can be financed at assumed interest rates. The amount which can be financed after an event could be financed over a shorter period of time or could be smaller and is subject to financial market conditions following the event.

<sup>2</sup> Assumes annual assessment base of \$72.6 billion, which was the base for 2022. If this base is smaller or larger, required assessment percentages would be marginally higher or lower than shown above.

<sup>3</sup> Assumes annual assessment for 30 years using an interest rate of 6%. There is no certainty that FHCF covered loss reimbursements can be financed at assumed interest rates. The amount which can be financed after an event could be financed over a shorter period of time or could be smaller and is subject to financial market conditions following the event.

## Conclusion

Projected Hurricane Ian and Idalia losses of approximately \$10 billion have significantly lowered the FHCF's projected available fund balance as of December 31, 2024, to approximately \$6.1 billion. The FHCF has \$2.25 billion of additional liquidity from its Series 2020A pre-event bonds for total liquid resources of approximately \$8.4 billion, which results in a shortfall of liquid resources of approximately \$8.6 billion based on its maximum statutory limit of \$17 billion. In October 2023, the FHCF received authorization to issue additional pre-event bonds in an amount not to exceed \$3.8 billion to bolster its liquid resources.

For catastrophic events requiring funds beyond the available fund balance of approximately \$6.1 billion, the FHCF will rely on post-event bonding and other revenue sources for claims-paying capacity. The currently available Series 2020A pre-event bond proceeds of \$2.25 billion and any bond proceeds from a potential Series 2024A pre-event financing serves as a source of liquidity that can be used in the upcoming hurricane season and post-event bonds can be used to repay pre-event bonds when expended. The maximum potential financing amount is approximately \$10.9 billion for the 2024-2025 contract year (a 1-250 year event), which would require a 1.09% emergency assessment if financed over 30 years or a 1.95% emergency assessment if financed over 10 years. If post-event bonding is required, conditions in the financial markets are relatively stable despite volatile market conditions due to uncertainties regarding the longevity of inflation

and when the Federal Reserve will begin to cut rates, among other macroeconomic conditions that are affecting the fixed income markets. However, the FHCF is a strongly rated credit with a large and growing assessment base and can and may execute one or more post-event financings over a 12-month period in order to accommodate participating insurers that experience rapid loss development and exhaust their FHCF payout limits.

The ability of the FHCF to pay claims in a sufficient and timely manner is critical to the health of the Florida insurance market, property owners, residents, and the Florida economy in general. The FHCF is in a moderately weaker financial position for the 2024-2025 contract year than in prior years, but it has the ability to access the markets over a 12-24 month period in order to meet its maximum statutory liability. While there is always some market risk, additional funding for the FHCF from pre-event bonds mitigates the potential market risk.