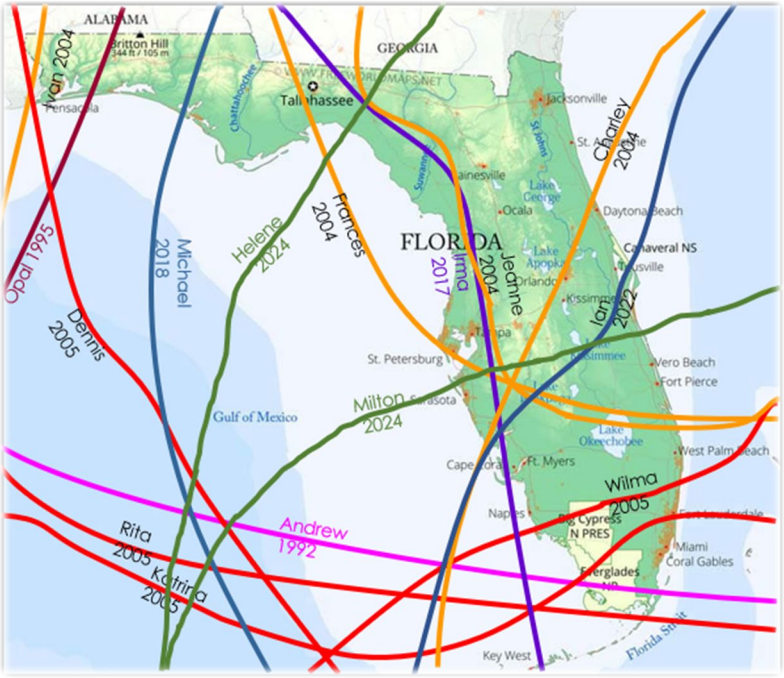
Retention and Cash Build-Up Factor

Tools to Enhance the FHCF's Cash Resources and Reduce Reliance on Debt

Date: July 2025



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EXECUTIVE SUMMARY

Florida faces unparalleled hurricane risk, making its residential property insurance market one of the most vulnerable in the United States. In response to the destabilizing effects of catastrophic hurricanes, most notably Hurricane Andrew in 1992, the Florida Legislature established the Florida Hurricane Catastrophe Fund (FHCF) to protect and advance the state's interest in maintaining residential property insurance capacity.

The FHCF operates as a risk-sharing mechanism, reimbursing insurance companies for a portion of their hurricane-related losses. Two critical components of its design, the industry retention and the cash build-up factor, have enabled the FHCF to build its financial resources to reimburse insurance companies for hurricane losses and to reduce its reliance on issuing bonds to pay for losses after a hurricane occurs.

This paper considers how the current structure of these two key components supports the FHCF's mission and evaluates the potential impacts of modifying the current design.

Findings include:

- The industry retention changes annually in proportion to changes in the total residential insured property values, which helps maintain a level share of FHCF insured losses and a balanced distribution of total expected losses (anticipated insured loss during a contract year) between the insurance industry and the FHCF. Lowering or freezing the retention would increase the frequency of payouts to insurance companies, but would also deplete cash resources quicker, making the FHCF more reliant on debt to pay reimbursements and requiring the FHCF to charge higher premiums for coverage.
- The cash build-up factor has been essential in accelerating the accumulation of cash resources, allowing the FHCF to "pre-fund" future losses. Eliminating this factor would decrease premiums paid by the insurance companies but would also slow the growth of cash needed to pay losses and increase the frequency and amount of emergency assessments levied, shifting the hurricane loss burden from current residential property insurance companies to nearly all Florida property and casualty insurance policyholders.

Together, these mechanisms have enabled the FHCF to build critical cash resources to cover hurricane losses, which is crucial given Florida's recent storm activity. Since 2016, Florida has experienced 11 landfalling hurricanes after a decade-long lull. Six of the storms have led to nearly $14 billion in FHCF reimbursements to insurance companies. Without the current industry retention structure and the cash build-up factor, the FHCF would have paid losses

at a faster rate, depleting its cash more rapidly and may have been required to issue post-event revenue bonds secured by assessments of policyholders to fulfill its obligations.

As Florida's population and property values continue to grow, preserving the FHCF's financial strength is essential. Any changes to its core design must be carefully evaluated for the long-term impact on the FHCF's sustainability and the overall health of Florida's insurance market.

UNDERSTANDING FLORIDA'S HURRICANE RISK

Florida's residential property insurance market is uniquely unpredictable due to its geographical location. By almost any measure, Florida is the riskiest place to insure for hurricanes in the United States:

- Since record-keeping began in 1851, 129 hurricanes have made landfall in Florida: the highest of any U.S. state. Florida was also the site of landfall for 40 major (category 3, 4, or 5) hurricanes during this period and 14 category 4 or 5 hurricanes. More than 40% of all hurricanes that have struck the U.S. have made landfall in Florida.[1]
- Three of the ten costliest hurricanes in U.S. history struck Florida: Ian ($119.6 billion), Irma ($64.0 billion) and Andrew ($60.5 billion).[2]
- Florida has the longest coastline of any state in the continental United States, second only to Alaska.[3]
- Over the last 10 years, Florida's population has increased roughly 15%, and in 2024, Florida's population exceeded 23 million for the first time, with three southeast coastal counties making up approximately 27% of the residents.[4]

A defining moment in Florida's history occurred on August 24, 1992, when Hurricane Andrew struck just south of Miami. The storm's devastating impact revealed significant weaknesses in the state's property insurance market. At least 11 insurance companies[5] were driven into insolvency, while others began reassessing their risk exposure in Florida and began scaling back or threatening to withdraw from the market entirely.

Simultaneously, global reinsurance capacity, the amount of risk that a reinsurer is able or willing to assume from primary insurers, contracted sharply, which pushed prices for reinsurance to unprecedented levels. Many insurance companies found it difficult, or even impossible, to secure adequate reinsurance coverage, regardless of cost. This volatility threatened not only the insurance industry but also critical sectors of Florida's economy such as homebuilding, mortgage lending, and real estate, all of which depend on a stable and affordable insurance market. Without adequate reinsurance hurricane coverage, many insurance companies were unable to offer property insurance to homeowners, placing the broader economy at risk.

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[1] https://www.aoml.noaa.gov/hrd/hurdat/All_U.S._Hurricanes.html
[2] Values based on the 2024 Consumer Price Index adjusted costs
https://www.ncei.noaa.gov/access/billions/dcmi.pdf
[3] U.S. International Borders: Brief Facts
[4] FDEC202502 Post-Conference Packet-aaa3-final.xlsm; econographicnews_2024_Volume 1a.pdf
[5] https://content.naic.org/sites/default/files/jir-za-37-03-el-florida-market-hurricane.pdf

Florida's exposure to hurricane risk continues to be significant, as recent storm activity clearly demonstrates. Since its inception 30 years ago, the FHCF has issued over $23 billion in reimbursements to insurance companies for losses from 13 hurricanes. Notably, two of the costliest hurricanes for the FHCF, Irma and Ian, have occurred since 2017. As of May 31, 2025, reimbursements paid since 2017 account for nearly $14 billion or 60% of all reimbursements issued by the FHCF. Table 1 shows reimbursements paid by the FHCF since its inception:

Table 1

Paid Losses by Hurricane

as of 5/31/2025

	Name	Year	FHCF Reimbursed[1]	Reported Industry Paid in FL[2]	% of Reported Paid in FL
1	Opal	10/4/1995	13,000,000	2,000,000,000	0.7%
2	Charley	8/13/2004	2,192,817,892	5,625,724,216	39.0%
3	Frances	9/5/2004	1,313,617,491	5,417,759,217	24.2%
4	Ivan	9/16/2004	283,602,146	2,427,257,517	11.7%
5	Jeanne	9/25/2004	69,262,522	2,388,968,705	2.9%
6	Dennis	7/10/2005	390,401	215,323,989	0.2%
7	Katrina	8/25/2005	149,992	387,786,477	0.0%
8	Wilma	10/23/2005	5,535,455,718	11,038,707,351	50.1%
9	Irma	9/10/2017	7,524,769,166	16,269,000,000	46.3%
10	Michael	10/10/2018	1,163,191,564	4,886,000,000	23.8%
11	Ian	9/28/2022	5,304,377,384	14,057,851,947	37.7%
12	Idalia	8/30/2023	-	235,992,287	0.0%
13	Helene	9/26/2024	42,832	377,683,654	0.0%
14	Milton	10/9/2024	1,045,485	2,214,616,149	0.0%
Total			**23,401,722,592**	**67,542,671,508**	**34.6%**

[1] Insurers are currently being reimbursed for Hurricanes Ian, Idalia, Helene, and Milton.

[2] Does not reflect the total value of FL residential losses, as insurers do not continue to report their loss development to the FHCF after they have commuted their FHCF coverage for a specific contract year.

RISK SHARING AND THE ROLE OF INSURANCE

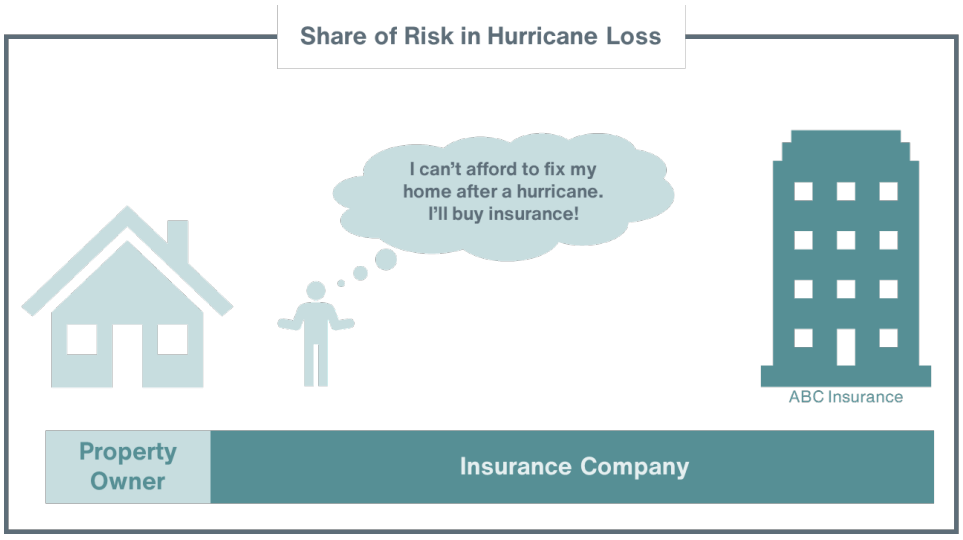
Owning real estate and personal property in Florida exposes the owner to potential damage or destruction of that property in the event of a hurricane. This results in a financial loss to parties that have an interest in that property. To mitigate this risk, property owners typically consider one of the following options:

1. Self-insure the risk,
2. Avoid the risk, or
3. Share the risk with another party.

Self-insurance is generally only viable for property owners with substantial financial resources and no mortgage. An average homeowner may not have the financial resources to rebuild or repair a home damaged or destroyed by a hurricane. Risk avoidance, while effective, can have negative economic consequences for Florida, potentially discouraging property development and prompting population shifts out of the state. The most practical and widely adopted approach is risk transfer, sharing the financial burden with a third party, most commonly through insurance coverage.

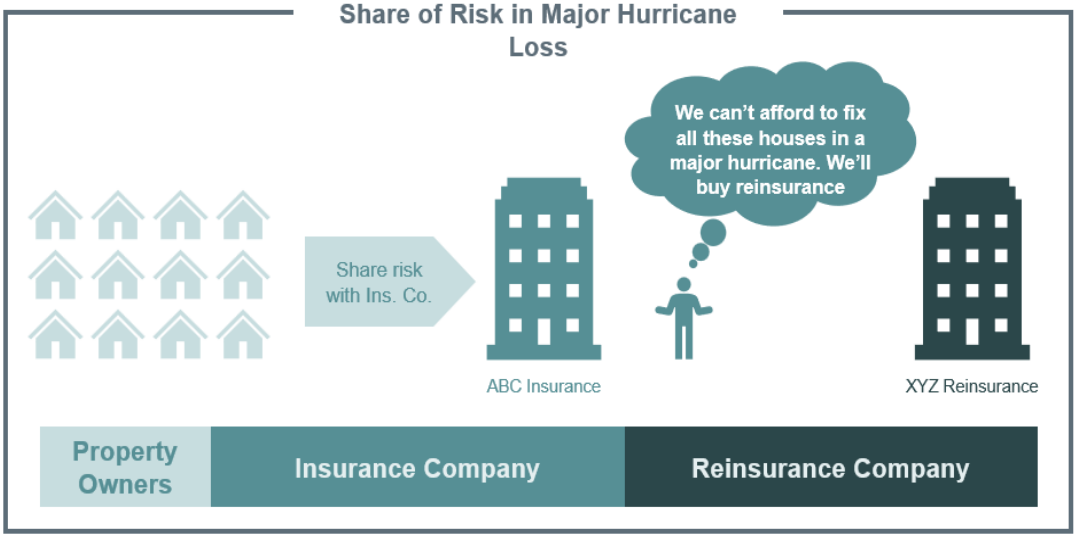
Sharing risk does not reduce the total amount of risk, it simply redistributes the risk. Consider a Florida homeowner with a property valued at $500,000 with a 99% chance the home will not be impacted by a hurricane, and a 1% chance it will sustain $200,000 in damage. In this scenario, the actual loss will either be $0 or $200,000.

For many Floridians, self-funding a $200,000 loss is not financially feasible. Nor is it possible to avoid the risk entirely. As a result, homeowners seek to transfer a portion of the risk to a third party, typically through insurance. Homeowners are required to retain a portion of the risk, usually in the form of a deductible. The lower the deductible, the more risk the insurance company assumes and the higher the premium the homeowner pays. In essence, the homeowner is choosing how much of the risk to share, balancing affordability with protection.



Just as property owners must decide how to manage risk, insurance companies must also evaluate their own risk and financial resources to determine how much to retain and how much to transfer to third parties.

Consider an insurance company covering 100 properties all like the one described above and all located in the same area. This company would have a 99% chance of no losses, and a 1% chance of a $20 million loss (100 × $200,000), less the policyholder deductibles. While premiums received from policyholders provide some financial buffer, they may not be sufficient to cover large-scale hurricane losses. To continue to be sustainable, insurance companies must assess their financial resources in advance of a hurricane and decide how much risk they can afford to retain and how much should be transferred through reinsurance.



Reinsurers play a critical role in the risk-sharing framework by assuming a portion of the risk held by insurance companies. Like insurance companies and individual property owners, reinsurers also have limited financial resources. While transferring hurricane risk to reinsurers does not reduce the overall damage caused by a storm, it helps distribute the financial burden across multiple entities, each contributing to the recovery and rebuilding process.

Reinsurers generally serve as the last layer in the risk-sharing hierarchy.[6] When they choose to reduce their risk exposure, the remaining participants, insurance companies and property owners, must absorb a greater share of the risk. If they are unable to do so, the insurance market can become unstable.

[6] Part of the risk-sharing mechanism can include retrocession coverage for reinsurers.

WHY WAS THE FHCF CREATED?

In the aftermath of Hurricane Andrew, the Florida Legislature recognized that an unstable market for property insurance threatened the state's economy. Finding there was a need for a state program to share the risk of loss from hurricanes, the FHCF was created to provide a stable and ongoing source of reimbursement to insurance companies for a portion of their hurricane losses and operate exclusively for the purpose of protecting and advancing the state's interest in maintaining insurance capacity in Florida. By participating in the risk-sharing framework, the FHCF supports the insurance industry and the broader state economy through stable pricing and coverage.

The FHCF fulfills its statutory mission through the following guiding principles:

- **Sustained Insurance Capacity**: Provide ongoing insurance capacity for the state, which is critical to maintaining market stability. This includes ensuring reliable capacity for subsequent seasons, even after hurricane seasons that exhaust the cash balance.
- **Reliable Reimbursement**: Deliver consistent, dependable, and predictable reimbursement to residential property insurance companies.
- **Liquidity and Timeliness**: Maintain sufficient liquidity in investments and access to financing to provide timely and adequate reimbursements following covered events.
- **Financial Independence**: Operate as a self-sustaining entity, primarily funded through premium revenues and investment income. Revenue bonds, backed by emergency assessments[7] on a broad range of property and casualty insurance premiums, should be used only in extraordinary circumstances. Given that such bonds may extend up to 30 years and are akin to taxes on Florida residents, their use should be limited to avoid long-term economic burdens on future generations.
- **Sustainable Structure**: Ensure long-term sustainability of the FHCF by:
    - Maintaining a statutory limit of coverage that can be funded, recognizing there is a limit to the amount of debt the FHCF can issue to fund its obligations.
    - Maintaining a cap on the limit of coverage provided in a single season (i.e., avoiding changes that allow the FHCF to assume 100% of the risk through an

[7] Emergency assessments apply to insurance premiums for all property and casualty lines of business, excluding workers' compensation, medical malpractice, accident and health, and National Flood Insurance Program policies.

uncapped limit), thereby preserving the FHCF's claims-paying capacity for subsequent seasons.

  - Maintaining the co-pay provision[8] and retention, which prevents the FHCF from assuming 100% of the loss and allows the insurance companies to share in the risk of loss, thereby promoting distribution of Florida's hurricane risk globally, and reducing reliance on emergency assessments that increase premiums for policyholders in the state.

- **Market Neutrality**: Avoid creating unfair competitive advantages or disadvantages among residential property insurance companies by providing FHCF coverage based on the same terms and prices, which helps to support the long-term development of a stable and competitive private residential property insurance market.
- **Maintain tax-exempt status:** Safeguard the tax-exempt status of both annual FHCF premium revenue and post-event bonds to ensure continued cost efficiency and financial effectiveness.

[8] Each year, insurance companies select a coverage level, 45%, 75%, or 90%, which represents the portion of losses they retain (similar to a co-pay). The FHCF reimburses the company for losses from covered events that exceed their retention. Reimbursements are calculated based on the selected coverage level, plus a 10% allowance for loss adjustment expense.

KEY COMPONENTS SUPPORTING THE FHCF'S PURPOSE

While several fundamental elements related to the FHCF's legislative design support its long-term sustainability, two key structural components, the industry retention and the cash build-up factor, have been especially critical to its long-term sustainability by allowing the FHCF to accumulate financial resources to pay for losses.

The following sections provide an overview of each component, the benefits of the current design, and the potential implications of statutory changes to each component.

FHCF Industry Retention

Current design

An insurance company's individual FHCF retention functions similarly to a deductible on a homeowner's policy. Just as policyholders are responsible for covering losses up to their deductible amount, insurance companies are responsible for hurricane-related losses up to their individual FHCF retention level. Once an insurance company's hurricane losses exceed its individual FHCF retention, the FHCF reimburses a percentage of the losses above the retention, subject to a maximum payout limit for the season. This allows the insurance company to share part of the risk of loss.

To determine each insurer's retention, the FHCF calculates an industry-wide retention through its annual ratemaking process. This industry retention is then allocated to companies based on their individual FHCF market share. The size of the aggregate industry retention, which is set in statute, determines the amount of loss retained by individual insurance companies before receiving reimbursements from the FHCF.[9]

The dollar amount of the industry retention has varied since the start of the FHCF. In 2004, it was reset in statute at $4.5 billion, effective June 1, 2005, and designed to grow with exposure (insured property values). In 2010, the statute was further revised to have the retention amount be adjusted annually based on the percentage of reported exposure growth from 2004 to the contract year two years[10] prior to the current contract year. As an example, the total insured value of properties has increased from $1.3 trillion in 2004 to $3.0 trillion in 2023, an increase of 150%. This percentage increase is applied to the $4.5 billion retention set in 2004 to arrive at the industry retention for Contract Year 2025 (the current contract year) of $11.3 billion. This formula allows the industry retention to increase at the

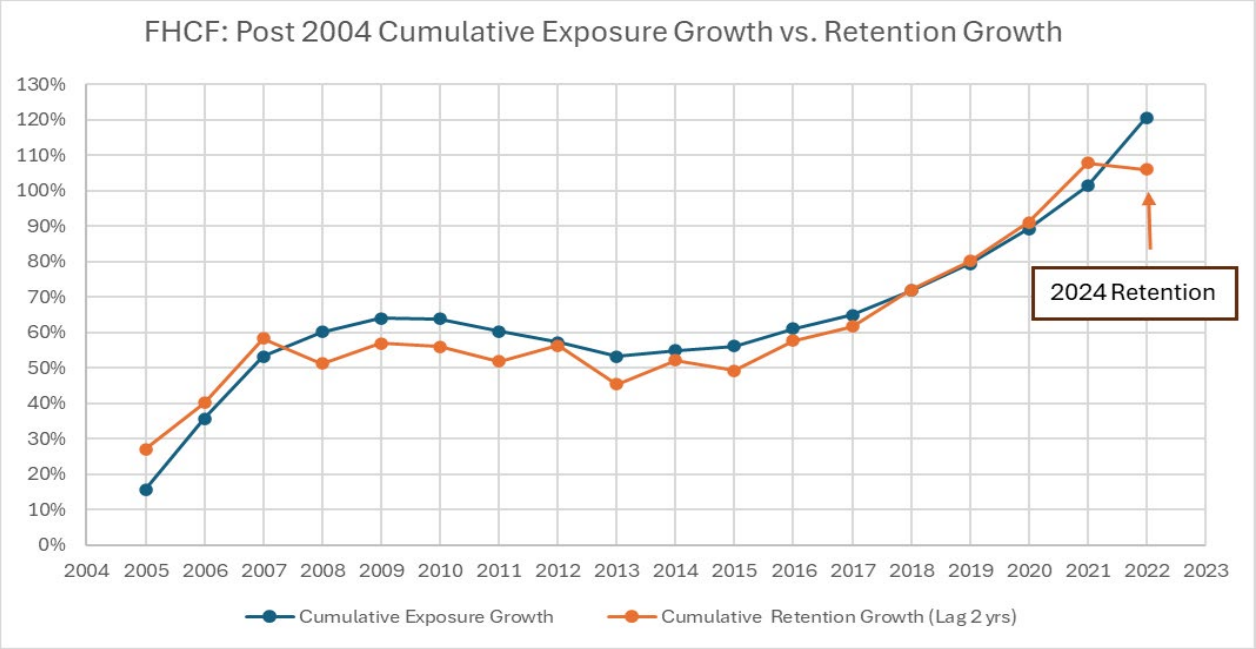
[9] Section 215.555 (2), F.S., provides for the company's retention to be applied to the two events with the largest losses for FHCF covered policies and a drop down in the retention to one-third the original amount for the third event and all other events with lesser losses.

[10] Two years prior is set in statute since this is the most recent examined data available when the industry retention is calculated.

same rate as the insured values for residential properties covered by the FHCF. This concept is very similar to a homeowner's insurance policy written with a percent deductible for hurricane losses. The percentage of loss retained by the homeowner through the deductible becomes larger when the replacement cost of the home increases.

Chart 1 compares the cumulative growth in industry residential exposure[11] to the cumulative growth in the FHCF industry retention. Note how closely the FHCF retention growth parallels the industry exposure growth.[12]

Chart 1



Advantages of the Current Design for the FHCF

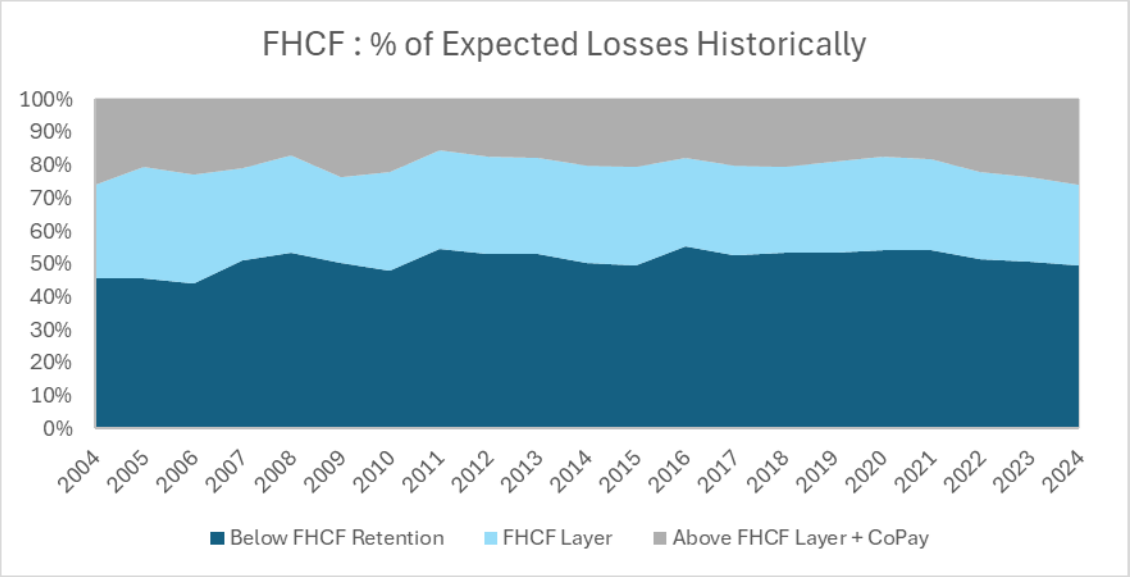
The current structure of the FHCF's industry retention, which increases with exposure over time, helps maintain a consistent FHCF share of total losses, which contributes to rate and premium stability over time, a stabilizing factor for the property insurance market. This allows the FHCF a higher likelihood of fulfilling its obligations year after year. The stability of the FHCF is crucial to the health of the Florida economy both before and after a hurricane. Key elements of the Florida economy, homebuilding, mortgage lending and real estate, depend on the health of the residential property insurance market. The availability of FHCF

[11] Insurance companies participating in the FHCF must report their exposure (insured property values) on covered policies in effect as of June 30. This information is due each year by September 1.
[12] The 2024 projected exposure trend used in ratemaking was 9.37% based on high inflation in prior years. However, the actual 2024 exposure trend was 5.67%, resulting in a lower actual retention.

coverage after a major hurricane is one of the factors that enable insurance companies to make a long-term commitment to the Florida market. Availability of coverage in a post-hurricane environment can keep an insurer from deciding to leave Florida.

Chart 2 illustrates how percentages of modeled expected loss (anticipated insured loss during a contract year) are divided into three categories: losses below the FHCF retention, losses covered by the FHCF, and losses above the FHCF limit (including the industry co-pay). It also highlights the consistent proportion of FHCF layer coverage (in light blue) since 2004. While the dollar amount of the FHCF retention and total expected losses change over time, the relative percentages across these categories have remained fairly stable, which again contributes to the FHCF's rate and premium stability.

Chart 2

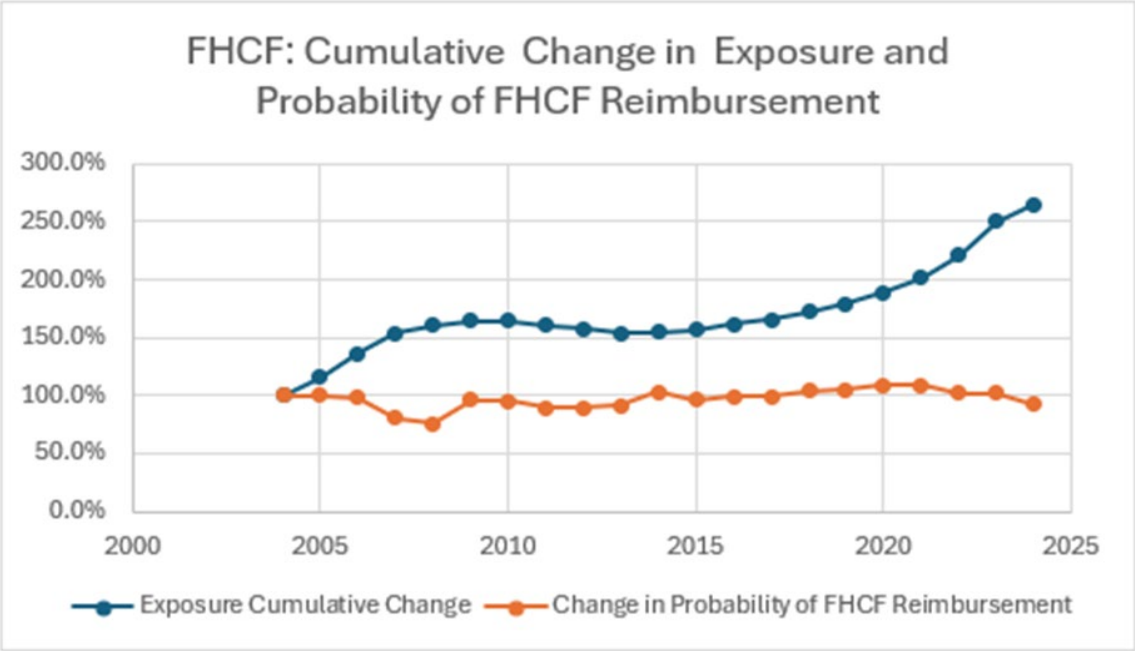


For all contract years combined since 2004, the modeled share of FHCF expected layer losses is 28% and the modeled share of expected losses below the retention is 51%.[13] However, as illustrated in Table 1, the actual proportion of the losses paid by the FHCF has varied for each historical event, with the FHCF paying a larger share of the losses for events with higher overall losses.

[13] These expected loss estimates are based on the modeled loss estimates used in FHCF ratemaking and are the basis for the FHCF's rates and premium charged to insurance companies.

Chart 3 further highlights the consistency of FHCF layer losses over time. Despite significant growth in exposure since 2004, the probability of FHCF reimbursements being triggered in a given contract year has remained relatively constant.

Chart 3



To summarize, the benefits of the FHCF maintaining a consistent share of losses over time include:

- **Contributes to FHCF rate and premium stability** by helping the FHCF maintain stable rates relative to exposures over time (excluding changes caused by other factors including models, statutes, operating expenses, limits and financial products). This contributes to price stability within the FHCF's portion of the reinsurance market.
- **Maintains level timing risk** by maintaining a stable frequency of contract years with FHCF reimbursements, which increases the long term accumulation of assets for major hurricane losses.
- **Enables higher accumulation of FHCF cash resources** to cover losses for truly catastrophic hurricanes; thereby reducing the FHCF's reliance on debt to fund reimbursements, which are repaid with assessments.
- **Contributes to the FHCF maintaining a favorable credit rating** by supporting greater asset accumulation and fewer contract years with reimbursements. This, in turn, could lower the cost of borrowing when issuing post event bonds following a hurricane.

- **Supports a sustainable capacity year after year**, increasing the likelihood the FHCF can provide reimbursements when needed.

Implications of Changing the Industry Retention

Lowering the Retention

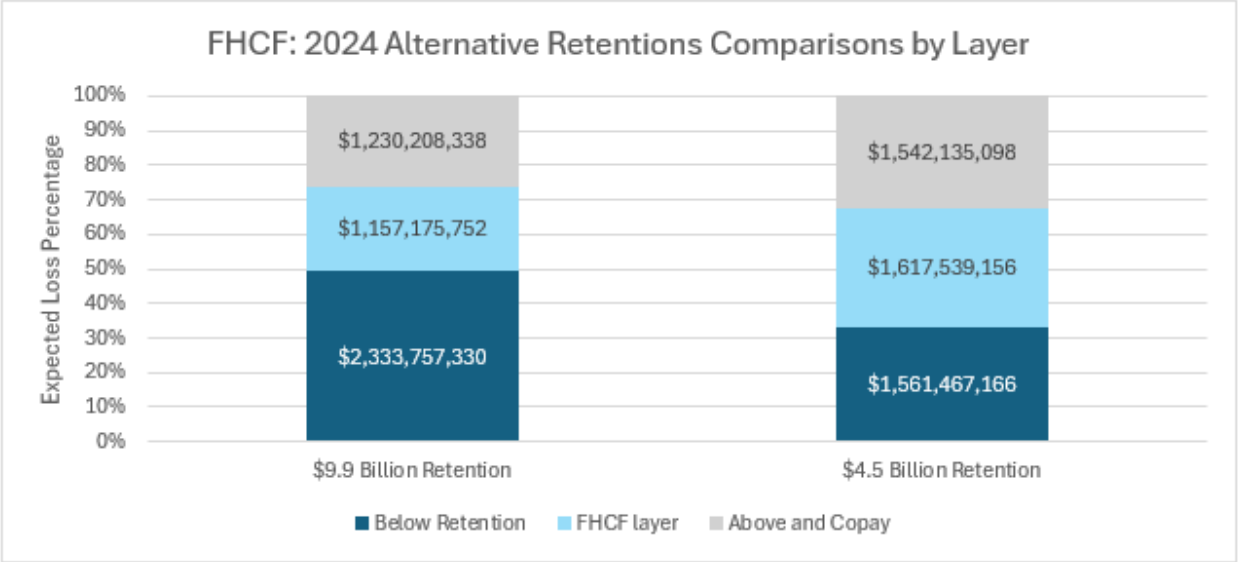
If the FHCF industry retention were lowered, while still being adjusted annually with exposure growth, reimbursements would occur more frequently for higher probability, lower loss events and the FHCF's share of losses for those events would increase.. Potential implications include:

- **Higher premium charge**: Requires rate increases for the FHCF to reflect the higher level of loss reimbursements relative to exposures.
- **Accelerates cash depletion and raises the risk of exhausting assets quicker**: By triggering FHCF reimbursements more often for moderate events, it can reduce the capacity available for subsequent hurricane seasons.
- **Greater reliance on debt for financing**: Increases the likelihood of issuing bonds and imposing emergency assessments on a broad range of policyholders, shifting the financial burden from insurance companies to nearly all Florida property and casualty insurance policyholders.
- **Threat to market stability**: Weakens the FHCF's ability to provide consistent capacity year after year for its portion of the reinsurance market, potentially destabilizing the insurance market, especially if post-event bond market access is constrained or unavailable after a major storm.
- **Credit rating risk**: Could negatively affect the FHCF's strong credit ratings,[14] increasing borrowing costs and reducing bonding capacity due to perceived financial instability.

[14] As noted in the May 2025 *Report of the Claims-Paying Capacity Estimates* prepared by Raymond James, the FHCF's Financial Advisor, the FHCF's current outstanding debt is rated Aa2, AA, AA, and AA respectively by Moody's, Standard & Poor's, Fitch, and Kroll. Less than 1% of U.S. corporations have ratings in the "AA" category by any three of the four rating agencies, a distinction largely attributed to the strength of the FHCF's pledged revenue stream.

Chart 4 illustrates how the shares of expected losses would change in a single year if the 2024 retention of $9.9 billion was lowered to $4.5 billion. As shown in the second column, the FHCF layer would increase from $1.157 billion to $1.617 billion. In other words, the portion of the losses covered by the FHCF would increase from 24% to 34% of expected losses.

Chart 4



As stated above, an increased share of loss would require the FHCF to raise its rates. As a rough illustration, a 30% rate increase for the 2024 contract year would have generated approximately $430 million of additional premium. However, the increase in the FHCF's layer for smaller events could potentially have been up to $4.4 billion ($9.9 billion retention minus $4.5 billion retention), requiring significantly more use of current assets. This greater asset depletion from smaller events would increase the likelihood of needing to issue bonds in the following hurricane season.

The annual hurricane losses in the state of Florida are inherently volatile, ranging from $0 in a year with no losses, to tens of billions of dollars if a category 5 hurricane hits a densely populated area. Just as property owners and insurance companies look to transfer and share these losses, there is also sharing of the volatility in losses that each participant (property owner, insurance company, FHCF, and reinsurers) are responsible for paying.

Lowering the retention shifts a greater portion of the losses from higher probability, lower loss events, and their associated volatility, from insurance companies to the FHCF and reinsurers. While the expected losses the insurance companies are responsible for paying

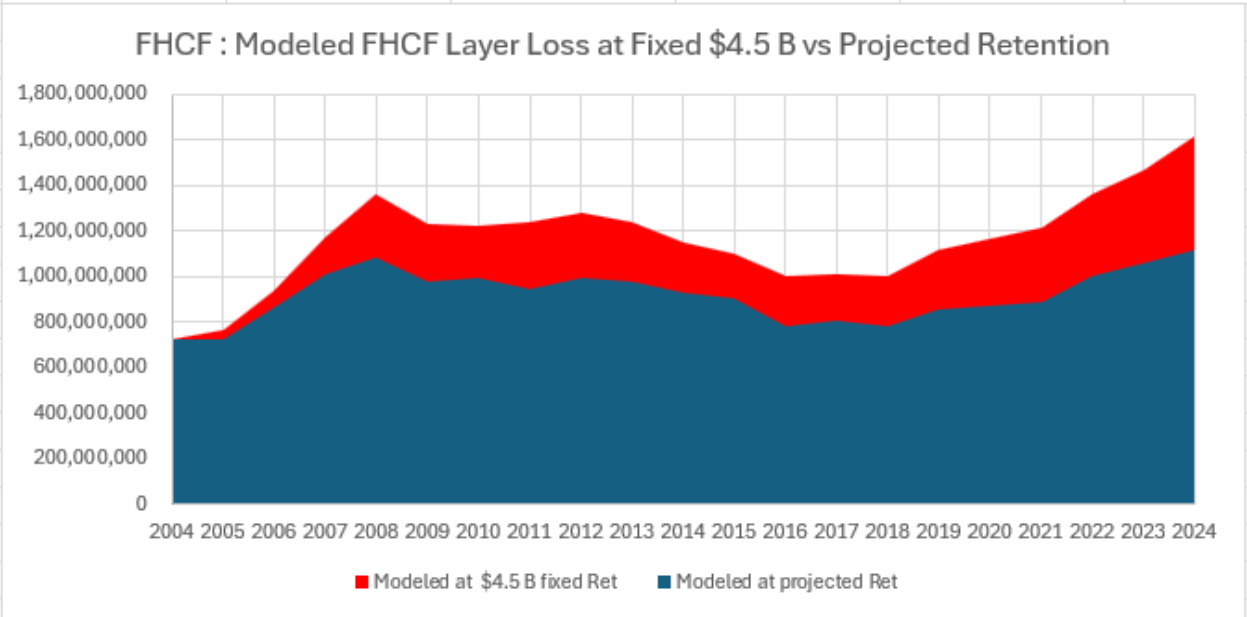
annually are more predictable and stable, the expected losses the FHCF and reinsurers must pay become less predictable.

Freezing the Retention

If the industry retention is fixed at a specific amount and not adjusted as exposure increases, the same potential implications outlined for a lower retention would still apply. However, a key distinction in this scenario is that as exposure grows, a static retention results in the FHCF covering a larger share of losses each year. This will lead to larger and more frequent reimbursements, ultimately requiring higher rates to maintain actuarial soundness.[15] Additionally, the FHCF may face a greater risk of reaching its maximum allowable assessment percentage[16] due to the need for more frequent assessments.

Chart 5 illustrates the additional expected loss cost in the FHCF layer that would have occurred if the FHCF industry retention had remained fixed at $4.5 billion since 2004 (shown in red). These added loss costs would have caused higher FHCF rates for each contract year.

Chart 5



[15] The financial integrity of a program based on actuarial principles requiring premiums charged to be adequate, but not excessive, to cover future losses and expenses.
[16] Section 215.555 (6), F.S., provides for an annual assessment not to exceed 6% of premium for obligations in single contract year and an aggregate annual assessment not to exceed 10%.

To further demonstrate the impact of freezing the retention, Table 2 shows the additional reimbursements that would have been required had the FHCF industry retention remained fixed at $4.5 billion. Under this scenario, the FHCF would have paid an additional $4.9 billion in reimbursements for Hurricanes Irma, Michael and Ian.

Table 2

Florida Hurricane Catstrophe Fund
If Industry Retention Was Frozen At $4.5 Billion
Data Through 05/31/2025
$ Billions

Year	2017		2018		2022		
Event	Irma		Michael		Ian		Total
Actual Retention	6.795		7.194		8.610		
	FHCF Reimbursements						
Actual	7.525		1.163		6.765		15.453
As if $4.5 B Retention	9.170		1.841		9.381		20.392
Increase	1.645		0.678		2.616		4.939
% Increase	22%		58%		39%		32%
% Increase In Count Of Companies With Reimbursments	17%		47%		25%		25%

In summary, the current FHCF retention structure that is designed to grow with exposure over time contributes to FHCF rate stability, maintains a consistent frequency of reimbursements across contract years, and supports long-term accumulation of assets (which can improve the FHCF's credit rating and reduce potential borrowing costs).

Cash Build-Up Factor

Implementation of the Cash Build-Up Factor

The FHCF's sources of funding for reimbursements are annual reimbursement premiums from participating insurance companies, investment income on accumulated assets, and post-event bond proceeds.

In years without major hurricanes, premiums accumulate and generate investment income. If reimbursable hurricane losses exceed available funds, the FHCF issues post-event bonds to cover the shortfall.

Post-event bond proceeds were needed to reimburse insurance companies' losses from Hurricane Wilma in 2005. The FHCF borrowed $2.65 billion, which was repaid through emergency assessments on nearly all Florida property and casualty insurance policyholders for eight years until the debt was repaid and the assessment was terminated on January 1, 2015.

In 2006, the FHCF's available resources were limited to one year's premium plus its projected borrowing capacity, which was insufficient to cover its $15.5 billion limit. To help the FHCF expedite building back cash resources, the Legislature implemented a one-time 25% rapid cash build-up factor, which was an additional amount charged on insurance companies' FHCF premium to allow the FHCF to build up cash resources.

Following the 2008 global financial crisis, markets were constrained and the FHCF's borrowing capacity declined significantly.[17] To reduce reliance on debt and accelerate cash accumulation, the Legislature established a permanent cash build-up factor within the FHCF's premium formula. Introduced at 5% in 2009, it increased annually by 5% until reaching 25% in 2013, where it has remained.

Impact of the Cash Build-Up Factor on FHCF Assets

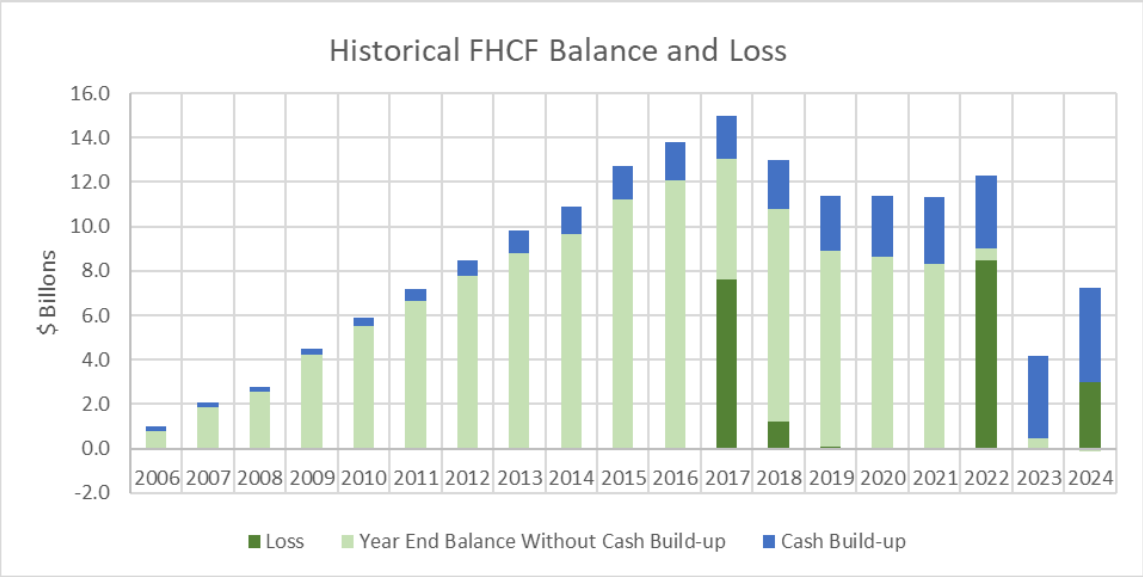
The FHCF has accumulated $3.7 billion[18] in assets, plus an additional $0.5 billion in investment income, through the cash build-up factor for a total of $4.2 billion, effectively "prepaying" for future hurricane losses and reducing the need to issue post-event bonds by increasing available cash resources. For example, in the 2024 contract year, the FHCF

[17] After the global financial crisis, A.M. Best applied a "haircut" to the FHCF's coverage for rating purposes of private insurance companies due to the FHCF's reliance on post-event bonding during that period after having its fund balance depleted from the 2004/2005 hurricanes.
[18] This value is through Contract Year 2024.

projected a year-end fund balance of $7.1 billion in assets, compared to just $2.9 billion if the cash build-up factor had not been enacted.

As shown in Chart 6, hurricanes prior to Hurricane Ian in 2022 did not require the use of the FHCF's accumulated cash from the cash build-up factor. However, by Contract Years 2023 and 2024, the majority of the FHCF's available assets were derived from cash build-up factor contributions. Without the assets generated from the cash build-up factor, the FHCF may have needed to issue $0.6 billion of post-event bonds, repaid with emergency assessments, to cover the initial $3.5 billion reserve for Hurricane Milton as of December 31, 2024.

Chart 6



The cash build-up factor accelerates the accumulation of cash, equivalent to collecting five years of premiums in four, and allows the FHCF to be less reliant on debt, repaid by emergency assessments, to pay its obligations. This reduces both the likelihood and size of post-event bonds and assessments. Unlike post-event assessments, which are spread across nearly all Florida property and casualty insurance premiums (only 22% come from residential property policies), cash build-up factor contributions are funded by the insurance companies directly benefiting from FHCF coverage, making them a more equitable funding mechanism.

Additionally, the cash build-up factor, by increasing cash resources, can improve the FHCF's claims-paying capacity each year. This increases the likelihood that subsequent season capacity will be available, which is a foundational component of the FHCF's overall mission.

Risks of Eliminating the Cash Build-up Factor

The cash build-up factor was enacted to improve the FHCF's ability to cover hurricane losses without needing to issue post-event revenue bonds backed by emergency assessments. Eliminating the cash build-up factor will increase the FHCF's reliance on debt by reducing the ability of the FHCF to pay losses out of its cash balance. The impact would be greatest after a major hurricane loss, as elimination of the cash build-up factor increases the time it will take to fully recharge the FHCF's cash resources after a major loss.

Furthermore, if the cash build-up factor were reintroduced after being eliminated, it would lead to an immediate increase in FHCF rates for insurance companies. This rate increase following a major hurricane would be in addition to other likely FHCF rate increases attributable to higher costs for any pre-event financing and reinsurance needed to provide liquidity and claims-paying capacity for the following contract year. It would also be in addition to probable increases in insurance companies' private reinsurance costs. Other implications include:

- **Weakened Liquidity**: Limits the FHCF's ability to accumulate cash for future hurricane losses.
- **Higher Risk of Emergency Assessments**: Increases the likelihood and size of potential assessments on a broad base of policyholders, not just homeowners. For example, 42% of emergency assessment revenue comes from private auto policies, and 25% from commercial lines. Emergency assessments on a full coverage auto policy in Florida could be as high as:

Average annual policy cost*	6% Assessment (maximum single year)	10% Assessment (maximum aggregate event years)
$3,268	$196	$327
*Average cost of car insurance in Florida|AutoInsurance.com		

- **Credit Market Concerns**: Reduced revenues may negatively impact credit ratings and increase borrowing costs.
- **Reduced Multi-Season Capacity**: Limits the FHCF's ability to provide coverage in subsequent seasons, threatening FHCF's sustainability and therefore the market and the state's economic stability.
    - Insurance companies depend on reliable FHCF coverage to remain committed to the Florida market after major events.

In summary, the cash build up factor allows the FHCF to accumulate assets more rapidly, reducing both the likelihood (timing risk) and the magnitude of post-hurricane bonding and

assessments. Since these assets are proportionate to FHCF premiums, they are also proportionate to the underlying hurricane risk of residential property insurers. This approach produces a more balanced allocation of hurricane losses compared to post-event assessments, which are applied broadly to almost the entire insurance industry, including automobile and commercial non-residential policies.

CONCLUSION

A stable and well-functioning private residential property insurance market is essential to Florida's long-term economic growth and the FHCF is a cornerstone of that stability, especially when you consider Florida's vulnerability to hurricanes. For the FHCF to fulfill its mission, it must be sustainable. It must have the financial strength and operational certainty to reimburse insurance companies promptly and reliably year after year. Insurance companies, in turn, must be able to depend on the FHCF as they structure their own reinsurance programs and manage their exposure to catastrophic risk.

Over time, the FHCF has proven to be a consistent and stabilizing force in a potentially volatile market. Its design does not need to be complex, but it must be dependable. The FHCF's long-term sustainability hinges on preserving two foundational elements:

- The FHCF industry retention that adjusts with changes in the value of insured residential property values, similar to how a homeowner's percent hurricane deductible changes when their property value changes.
- The cash build-up factor, which accelerates the growth of cash resources, reduces the need to borrow money after a hurricane by issuing post-event revenue bonds repaid by assessments, and strengthens the FHCF's ability to reimburse insurance companies timely for their hurricane losses.

As Florida's population and insured exposures continue to grow, any changes to the FHCF's structure, such as lowering or freezing the retention or eliminating the cash build-up factor, must be carefully evaluated. These decisions have significant implications for the FHCF's ability to fulfill its mission, maintain liquidity, and avoid placing undue financial burdens on policyholders, Florida residents and the state's economy.

Preserving the integrity of the FHCF is not only fiscally responsible, but also essential to ensuring Florida's residential property market remains insurable, investable, and resilient in the face of future hurricanes.