

ANALYZING EFFECTS OF THE MY SAFE FLORIDA HOME PROGRAM ON FLORIDA INSURANCE RISK

Prepared for the Florida Department of Financial Services

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PRELIMINARY RECOMMENDATIONS¹

By request of the Department of Financial Services of the State of Florida, Risk Management Solutions (RMS) has conducted an impact analysis of the My Safe Florida Home (MSFH) program. The RMS® U.S. Hurricane Model was used to analyze the impact of the program on individual structures retrofitted with MSFH grant money. Unlike other studies that focus on the benefits to individual structures, this study explores the benefits on a state-wide basis. The study found that the MSFH program has reduced the statewide economic liability and the risk carried by the homeowners of the state.

As of April 2009, less than 1% of the 4.9 million homes in the state of Florida have been retrofitted under the program. Approximately \$93 million in MSFH grants of the \$250 million appropriation have been allocated to roughly 32,000 homes. Aware of the current debate about the merits of funding a continuation of the MSFH program, RMS offers the following four key recommendations based on its analysis.

Recommendation 1: Continue providing grants to retrofit homes in Florida.

The RMS impact analysis illustrates that the grants provided under the MSFH program are beneficial to all stakeholders—the state of Florida, individual homeowners, and the insurance industry. To date, the mitigation grants in the current MSFH program, when combined with homeowner investments, have reduced the total Florida hurricane risk by approximately \$1.50 per dollar in mitigation grants. Risk is measured here by the 100 year loss to the entire single-family residential building stock and is estimated to be approximately \$62 billion (i.e., 1% annual probability of exceeding a loss of \$62 billion). The reduction of \$1.50 per dollar invested in grant money equates to a reduction in the 100-year loss of approximately \$140 million, an amount significantly larger than the \$93 million invested in grants.

Recommendation 2: Prioritize grant eligibility for the homes with the highest risk.

The RMS analysis illustrates that larger benefits per investment dollar are possible if future mitigation grants for the program are targeted at homes contributing the most to the overall state risk. The State of Florida can achieve reductions in statewide 100-year hurricane risk of as much as \$2.75 per \$1.00 in mitigation grants, up from the \$1.50 achieved under the current program. The existing program already focused grants in coastal areas subject to wind-borne debris; however a more thorough building-specific rating approach to grant allocation could achieve even greater impacts.

Recommendation 3: Expand the grant program to include roof retrofits.

The current MSFH program provides matching grants for certain improvements, such as window protection or reinforced garage doors. RMS' analysis shows that expanding mitigation investments to include roofing component upgrades, such as new high wind roof covers, roof deck reinforcements, and roof straps on older structures, will further reduce statewide hurricane risk over time. For example, if all of the homes in Florida were mitigated under the existing program, the maximum reduction in the 100-year loss would be 35%. The inclusion of roofing component mitigation would reduce the 100-year loss by 55%.

Recommendation 4: Establish process to systematically collect and use detailed building information for insurance rate-making in Florida.

It is important that building information used to evaluate wind risk is collected in a manner that is both detailed and comprehensive. The MSFH program has gathered detailed building information, like roof deck attachment, roof anchors, and roof geometry, on 10% of the single family homes in Florida. RMS recommends this effort be continued, with a goal of collecting and making available such information for the entire population of single family homes in Florida.

¹ This document presents the preliminary recommendations derived from a more in-depth report analyzing the effects of the My Safe Florida Home Project on Florida insurance risk. The final report will be released in mid to late-April 2009.

Widespread availability of this detailed information would enable insurers to implement rating plans that would systematically account for a home's specific hurricane resistance. This would resolve some misalignments with the current insurance premium credits for mitigation and would position insurers to actively incentivize voluntary mitigation investments by homeowners above and beyond incentives provided by matching grants from the State.