



MEMORANDUM

To: Guy Carpenter & Co.

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Date: March 9, 2006

Re: FLORIDA LEGISLATIVE UPDATE AND SUMMARY

The information set forth in this memorandum and materials provided are not intended to constitute, and shall not be deemed to be, legal advice or opinion of a general or specific nature. Any questions of a specific nature should be directed to an attorney for review and evaluation based upon the facts and circumstances involved. The dissemination of any information set forth herein does not waive any Attorney-Client privilege, any confidentiality protections with respect to any Attorney-Client communications, or any other privileges which may otherwise apply.

INTRODUCTION

The 2006 Florida Legislative Session (“Session”) officially began on March 7, 2006, and continues until May 5, 2006. However, before the beginning of Session, legislative committees and councils held meetings to review and debate filed bills.

Bills are initially submitted to the internal bill drafting services for the House of Representatives and the Senate by the sponsoring Senator or Representative. The bills are then filed and numbered by the Secretary of the Senate and the Clerk of the House of Representatives. The Senate and House bill filing deadline is the first day of Session, March 7, 2006, at 12:00 p.m.; however, the House allows Committee bills to be filed until April 3, 2006. After the bills are filed, the Speaker of the House of Representatives and the President of the Senate refer the bills to their applicable committees or councils for debate and possible amendment. Once a bill is reported favorably by its committees and/or councils of reference, the bill is placed on the House or Senate calendar for consideration by the entire body. The proposed bills must pass both Chambers, and are subject to approval or veto by the Governor, or may become law without the Governor’s signature.

This Memorandum is divided into five main areas. Part I discusses the Florida Legislature, focusing on key committees in both houses of the Legislature. Part II provides a summary of Florida Chief Financial Officer (“CFO”) Tom Gallagher’s positions on various insurance issues. Part III of the Memorandum reviews the Florida Office of Insurance



Regulation's ("OIR") legislative priorities. Part IV contains an overview of a document recently issued by Citizens Property Insurance Corporation ("Citizens"). Finally, Part V is a review of legislation that has been proposed by various interest groups.

I. THE FLORIDA LEGISLATURE

Florida House of Representatives

Speaker of the House – Allan Bense (R – Panama City)

Speaker Pro Tempore – Leslie Waters (R – St. Petersburg)

Majority Leader – Andy Gardiner (R – Orlando)

Minority Leader – Christopher Smith (D – Fort Lauderdale)

Insurance Committee Chairman – Dennis Ross (R – Lakeland)

Commerce Council Chairman – Frank Farkas (R – St. Petersburg)

Currently, the Florida House is predominantly Republican, with eighty-five Republicans and thirty-five Democrats. Allan Bense, the Speaker of the House, is widely regarded as having a strong pro-business agenda, and he has specifically made tort reform a priority. The Speaker Pro Tempore, Leslie Waters, has a significant background in insurance, and will likely be active on many legislative issues relating to insurance.

Committees and Councils to Watch

Insurance Committee: The House Insurance Committee is chaired by Dennis Ross (R – Lakeland). Chairman Ross has traditionally been receptive to insurance industry concerns. The House Insurance Committee staff has recently released a Proposed Committee Bill ("PCB") regarding property insurance that makes significant changes to the structure and function of Citizens; contains a rapid cash build-up feature for the Florida Hurricane Catastrophe Fund ("FHCF"); provides for mitigation incentives; provides for rate modernization; changes the public hearing requirement on rate filings from 15% to 25%; rescinds the requirement that insurers pay replacement costs for personal property; prohibits emergency rulemaking regarding claim reporting, premium payment and cancellations/non-renewals, but requires Florida's OIR to adopt rules in advance for use in a natural disaster situation; and, repeals the panhandle exemption to the Florida Building Code.

Specifically relating to Citizens, the House PCB provides that the Citizens High Risk Account ("HRA") would only be available for new policies that insure homestead properties. Any non-homestead properties already in the HRA account would remain. However, a new account would be created for any new policies that insure non-homestead properties. Citizens would be required to charge rates for this new account sufficient to cover a 250-year PML. Any deficit would be paid by assessments made on the policyholders in that new account only (capped at 100% of the premium). Minimum deductibles for properties covered by the non-homestead account would be 5% for properties valued at \$250,000 or more. The PCB also requires Citizens' rates in existing accounts to cover a 50 year PML, restricts insurance coverage to dwellings valued at more than \$1 million, delays the implementation of the Citizens windstorm boundary reductions until 2010 and requires private insurers to provide claims



servicing functions for wind-only policies. This PCB has not been heard in committee at this time and has not been placed on the Insurance Committee agenda.

The House Insurance Committee is also expected to draft a PCB regarding No-Fault Insurance. The date of the release of that PCB is not known at this time.

Other legislation of interest includes House Bill 355 regarding the termination of agents. As originally filed, this bill extended the time period by which an insurer is required to give an agent notice of termination. Current law sets this time at 60 days or another amount of time as specified by contract. Originally, House Bill 355 extended the advance notice period to 120 days and rescinded the provision allowing insurers and agents to contract for another advance notice period. The bill was heard in the House Insurance Committee on February 7, 2006, and the Committee reinstated the language allowing insurers and agents to contract for another period of time. We expect the supporters of this bill to attempt to amend the bill again to remove the provision allowing insurers and agents to contract for a specified advance notice provision. This will be an ongoing issue throughout Session.

Representative Priscilla Taylor (D – Riviera Beach) has proposed a bill that would create a new state-run insurance facility specifically for “hurricane coverage.” As originally drafted, this new facility would have replaced the FHCF; however, Representative Taylor intends to amend the bill to create a new and separate statewide insurance facility. Although participation in this facility would not be mandatory, the facility would cover damages up to \$500,000 for policyholders participating in it. Representative Taylor recently held a workshop on the bill where members of the insurance industry provided suggestions and comments. Representative Taylor has promised several changes and additions to the current draft of the bill.

Additionally, several bills have been filed relating to Citizens. These include bills intended to reduce sinkhole claims and litigation and bills relating to the use of sales tax revenues to pay for deficits in Citizens and addressing the definition of “competition” for purposes of setting Citizens’ rates. These bills are in the early stages of the legislative process.

The House Insurance Committee recently approved HB 217, entitled the “Sinkhole Relief Act,” sponsored by Representative John Legg (R-Port Richey). The companion bill is SB 286, sponsored by Senator Mike Fasano (R-New Port Richey).

In proposing this legislation, Senator Fasano and Representative Legg cite the need for the continued presence of Citizens as the major property insurer in Pasco County and other Tampa bay areas, which have a history of sinkhole claims, as the impetus for their proposals. These bills create several requirements and processes for sinkhole claims, including a new two-step process for verifying the presence of a sinkhole, both phases of which require testing by either an engineer or professional geologist and written reports with findings and recommendations for repairs. These bills also allow insurers to directly pay a contractor or other person designated by the homeowner to make repairs. Additionally, these bills establish an alternative dispute resolution process for resolving disputes between homeowners and insurance companies utilizing “neutral evaluators” designated by the Department of Financial Services (“DFS”). Policyholders can appeal an unfavorable decision by the evaluator in court but, in that



event, the insurance company would not be liable to pay the policyholder's attorneys' fees incurred in connection with the appeal.

Most bills relating to insurance will be first referred to the House Insurance Committee and, as part of that process, must also be heard in the Commerce Council. The Chairman of the Commerce Council is Representative Frank Farkas (R – St. Petersburg), who is a chiropractor. Representative Farkas is receptive to many insurance issues; however, in the past he has opposed legislation creating medical fee schedules or similar standards.

The Florida Senate

President of the Senate - Tom Lee (R – Brandon)
President Pro Tempore - Charlie Clary (R – Destin)
Republican Leader - Alex Villalobos (R – Miami)
Democratic Leader - Les Miller (D – Tampa)

The Senate also has a Republican majority, with twenty-six Republicans and fourteen Democrats. The Senate President, Tom Lee, is currently running for Chief Financial Officer, and is well-versed on insurance issues.

Committee to Watch

The Senate Banking and Insurance Committee: The Committee has issued a PCB regarding Florida's Automobile No-Fault law. The PCB would repeal the sunset provision in current law relating to Personal Injury Protection ("PIP") insurance. The PCB contains provisions creating a medical fee schedule for services provided as a result of a PIP claim, eliminates the ability of a court to add a contingency fee multiplier to attorneys' fees awards and provides additional resources to combat fraud. For future reference, the bill has been numbered Senate Bill (SB) 2114. Recently, the Senate Banking and Insurance Committee held a workshop on the PCB, where interested parties presented testimony to the members of the Banking and Insurance Committee.

Representatives from the insurance industry were generally supportive of SB 2114 but stated that the bill "didn't go far enough" and should be amended to include additional provisions to address and/or eliminate the current abuse and fraud in the PIP system. Several medical providers testified against the fee schedule portion of the bill and testified that a fee schedule would perpetuate fraud rather than eliminate it. Also, the Academy of Florida Trial Attorneys presented testimony against the attorneys' fee limitations contained in the bill.

The Committee also work-shopped Senate bill 2112 relating to the definition of clinics and clinic licensure. This bill requires clinics that are seeking reimbursement for PIP benefits to either obtain a license or apply for an exemption from licensure. The bill also includes certain types of health care providers in the definition of a "clinic" and revises requirements for applying for licensure as a health care clinic.



Clinic representatives testified against the bill, stating that the increased paperwork and fees associated with the licenses will deter clinics from accepting PIP patients. Proponents of the bill stated that the changes contained in the bill were necessary to fight insurance fraud.

The Committee also reported all bills placed on the agenda favorably out of the Committee. You may find a copy of the Committee packet that contains a bill analysis on each of the bills presented in the Committee at the following website under the Banking and Insurance Committee link:

<http://www.flsenate.gov/Committees/index.cfm?Mode=Meeting%20Packets&Submenu=3&Tab=committees&CFID=124856260&CFTOKEN=34562036>. The only item on the agenda that was not addressed was the workshop on the public records relating to Motor Vehicle Crash Victim reports. This was not addressed because the Committee ran out of time.

Additionally, Senators Peadar Kirby, Haridopolis, Jones, Fasano and Baker have filed Senate Bill 656 which would, in essence, allow a consumer to refuse the release of certain information relating to his or her credit to third parties. The bill has been referred to the Senate's Banking and Insurance Committee and to the Commerce and Consumer Services Committee. The Senate bill has not been heard in any Senate Committee at this time; however, the House companion bill, House Bill 37, has been approved by three House Committees.

We have also attached a list and short summary of additional bills that may be of interest.

II. CHIEF FINANCIAL OFFICER TOM GALLAGHER

In the 2005 legislative session, the Florida Legislature passed Senate Bill 1486 relating to property insurance. Among other matters, Senate Bill 1486 created two task forces, one relating to long-term solutions for the Florida property insurance market and another to address the creation of a standard personal lines insurance policy. Insurance Commissioner Kevin McCarty is the current chairman of the Long-Term Solutions Task Force, and the CFO's Deputy Chief of Staff, Rick Mahler, chaired the Standard Personal Lines Advisory Committee.

Additionally, CFO Gallagher has publicly endorsed legislation using increased sales tax revenues to subsidize deficits in Citizens. Citizens notified the Legislature that it is facing a deficit of more than \$1.4 billion and an approximate 11% statewide assessment as a result of the 2005 hurricane season. Citizens also estimates it will qualify for \$399 million in recovery from the FHCF, which may trigger a FHCF deficit for 2005.

The legislative proposal endorsed by CFO Gallagher (SB 1012/HB 551) would reduce Citizens' hurricane assessments by using the extra hurricane-related sales tax revenue generated by storm repairs and purchases to offset Citizens' losses. Last year, the state received an extra \$359 million in sales tax revenue resulting from purchases related to the four hurricanes that impacted Florida in 2004. If the extra sales tax revenue had been used to off-set the Citizens' deficit, last year's assessment on Florida homeowners would have been approximately 2% rather than the assessment of 6.8%. Likewise, if this year's hurricane-related sales tax revenues, estimated to be approximately \$485 million, were applied to off-set the Citizens' assessment, the



assessment would likely be reduced to approximately 5% instead of the expected 11% assessment.

CFO Gallagher is proposing legislation that would require insurers to pay 20% of an insurance claim's proceeds directly to policyholders and immediately pay policyholders for additional living expenses or to replace damaged belongings.

CFO Gallagher has also endorsed federal legislation creating Catastrophe Savings Accounts. CFO Gallagher recently announced that U.S. Congressman Tom Feeney from Orlando has filed a bill to create Catastrophe Savings Accounts (CSAs). These CSAs would give homeowners in Florida, and across the country, the opportunity to put money aside tax-free to financially prepare for major catastrophes.

The legislation discussed above is in the early stages of development, and there has not been committee action taken on these measures.

Standard Personal Lines Advisory Committee

CFO Gallagher was delegated authority to appoint a Standard Personal Lines Advisory Committee to develop a checklist and a standard homeowners' policy. The committee, comprised of ten members, began its work in August 2005.

The CFO's stated goals were to better protect and prepare Floridians for a catastrophic event and to provide them with information they need to shop for property coverage. The reforms recommended by the Standard Personal Lines Advisory Committee include a consumer coverage checklist and a quick check guide to assist Floridians in purchasing adequate coverage to rebuild and to repair their homes after a catastrophe.

The Committee developed a Consumer Quick Check Guide ("Guide") that outlines specific coverage and limits generally provided under most homeowners' insurance policies. Gallagher has stated that he hopes this Guide will be a valuable tool to consumers when shopping for coverage. The committee also drafted a proposed Checklist of Coverage which offers homeowners a comprehensive checklist to use when purchasing property coverage. The committee further recommended that insurance agents be required to review this checklist with their customers at the time policies are purchased.

The Committee also recommended further work in the development of a standard homeowners' policy. The Committee stated that additional technical and legal resources are needed to properly evaluate, develop and address policy provisions consistent with applicable statutes and evolving judicial decisions interpreting the law.

The Committee's recommendations have been submitted to the President of the Senate and the Speaker of the House. The Consumer Quick Check Guide, Checklist of Coverage, Committee's report and all appendices are available on the DFS website at www.fldfs.com/StandardPersonalLinesAdvisoryCommittee/



The Task Force on Long-Term Solutions for Florida's Hurricane Insurance Market

The Task Force on Long-Term Solutions for Florida's Hurricane Insurance Market (the "Task Force") was created in the 2005 legislative property package to analyze issues in the Florida property insurance market and to make recommendations to the Florida Legislature regarding property insurance. The Task Force has held several meetings focusing on issues relating to the affordability and availability of homeowners' insurance in Florida. The prevailing theme throughout the recent meetings has been the need for a national catastrophe plan, including a federal funding mechanism for large disasters. The Task Force has issued a report that contains several recommendations to the Florida Legislature relating to property insurance including, but not limited to, a rapid cash build-up feature for the FHCF, the restructuring of Citizens and efforts to encourage hurricane mitigation by insureds. Many of these recommendations are also included in the House of Representative's PCB discussed above.

The Task Force has heard testimony from several members of the industry as well as representatives from the DFS, the OIR and the FHCF. Jack Nicholson, Senior Officer of the FHCF, reported to the Task Force that the FHCF was "out of cash" and requested the Task Force include a rapid cash build-up method in its recommendations to the Legislature. Mr. Nicholson also stated that the FHCF supports legislation protecting the corpus of the FHCF from being used for any purpose other than paying claims pursuant to the FHCF's reimbursement contracts. Additionally, Mr. Nicholson said that the FHCF Advisory Council endorsed the position that the FHCF statutory capacity limit should grow each year by either its reported exposure growth or the growth in the FHCF assessment base premium. Mr. Nicholson made clear that this was merely a position of the Advisory Council and has not been adopted by the State Board of Administration. The draft report contains a recommendation for a rapid cash build-up and acknowledges discussion of FHCF growth.

The Task Force also requested certain information from Citizens including information regarding the consolidation of all Citizens' accounts and its rating methodology. Citizens stated that combining the Citizens accounts into one account would cause various problems, including potential issues arising from agreements Citizens currently has with its bondholders.

The Task Force also discussed whether to repeal consumer choice, but has not defined a position on this issue. It appears that the Task Force will identify the various advantages and disadvantages to consumer choice, rather than take a formal position.

In summary, the key recommendations contained in the latest draft report from the Task Force include:

- (1) Properties valued at \$1 million or more would be ineligible for coverage in the Citizens High Risk Account;
- (2) Delaying next year's requirement that the HRA boundaries be reduced to achieve a 25% reduction in the account's PML. Commissioner McCarty made a recommendation, which the Task Force accepted, stating that studies should be conducted into possible expansion or contraction of HRA territories throughout Florida or whether Citizens should issue wind-only



policies at all. Throughout the Task Force meetings, Commissioner McCarty contended that Citizens could also issue the profitable all-other-perils coverage in HRA areas and the added premium would improve its overall financial status;

- (3) Continuing the takeout bonuses for Citizens;
- (4) Recommending that the Legislature use increases in sales tax revenues to avoid or reduce assessments from Citizens and replenish cash reserves in the FHCF;
- (5) Recommending that the Legislature consider an increase in limits from \$300,000 to \$500,000 for Florida Insurance Guaranty Association ("FIGA") claims;
- (6) Requiring Citizens to establish actuarially sound seasonal occupancy surcharges;
- (7) Requiring Citizens to develop limited benefit policies to be offered in certain circumstances. A Citizens representative noted the Association is developing an HO-8 policy and already offers a dwelling fire policy. One specific recommendation was the development of an actual cash value policy for older mobile homes;
- (8) Requiring Citizens to consider the insurability of pool cages and other attached or free-standing structures;
- (9) Proposing a constitutional amendment requiring a three-fourths majority vote in the House and Senate for any appropriation from the FHCF other than the \$10 million a year required for mitigation under Florida's agreement with the Internal Revenue Service to maintain a tax exemption for the program. Representative Berfield and Senator Alexander have filed bills relating to this topic;
- (10) Requiring a rapid cash build-up surcharge for FHCF premium of an unspecified amount; and,
- (11) Recommending a national catastrophe fund.

The Task Force is also recommending an expedited rate approval process for smaller rate increases. The Task Force has rejected a proposal related to rate modernization under which flex band rating would apply so that an insurer would have the option to implement a rate increase or decrease of no more than 10% without approval from the OIR. However, flex band rating language is contained in the recently released House Insurance Committee's PCB relating to property insurance.

Additionally, the Task Force is recommending deregulation of insurance rates for properties valued at more than \$1 million, which would no longer be eligible for coverage in Citizens' High Risk Account. The rationale supporting this proposal is that these properties will otherwise be insured by the surplus lines industry, where rates currently are not regulated by the OIR. The Task Force is recommending that if a voluntary market carrier, whose rates are otherwise approved by OIR, is willing to cover these risks, it could insure these properties at an



unregulated rate as well. The report also emphasized the need for adequate rates in order to attract capital to Florida and cover the hurricane risk and further stated that Citizens' rates must be adequate.

In addition, the Task Force adopted recommendations relating to mitigation techniques, including the use of shutters or other protections in windborne debris areas. The Task Force will recommend the repeal of the statutory Panhandle carve-out, which currently exempts properties within one mile of the Gulf of Mexico, in Franklin through Escambia counties, from having to comply with increased Florida Building Code standards related to windborne debris. The Task Force also adopted recommendations that strengthen other aspects of the Florida Building Code which would apply throughout the State.

Interestingly, the Task Force's report also includes language regarding implementation concerns due to the various requirements contained in the 2005 property legislative package. The Task Force heard testimony and received correspondence from insurance industry trade groups outlining major expenses and software problems for insurers in implementing last year's property package.

Although the Task Force discussed enhancing the FHCF, including the so-called "Beta Plan," the Task Force did not come to a final position on this. Under the "Beta Plan," carriers would be required to meet the full Cat Fund retention only once a season and to use cumulative losses as a result of a series of storms to reach the trigger. The Task Force also discussed increasing the FHCF capacity regardless of whether there is an increase in cash reserves.

The Task Force has issued a set of recommendations to the Florida Legislature. We have enclosed the recently approved draft report that was finalized by the Task Force on March 6, 2006. The report is also available at the following website:
www.fldfs.com/hurricaneinsurancetaskforce.

III. THE OFFICE OF INSURANCE REGULATION

Legislative Priorities

The OIR has also released its legislative priorities for 2006. The priorities relating to property insurance include the following:

- (1) Encourage the creation of a National Catastrophe Insurance Program through a Resolution containing the following objectives:
 - (a) Promote personal responsibility through mitigation;
 - (b) Provide disaster savings accounts with tax advantage;
 - (c) Create tax-deferred insurance company catastrophe reserves;
 - (d) Encourage strong building codes; and,
 - (e) Allow for aggregate risk pooling funded by a premium set-aside in the exposed lines of business.



(2) The OIR is also expected to endorse the recommendations of the Task Force on Long-Term Solutions to Florida's Property Insurance Market as discussed above.

Elected or Appointed Insurance Commissioner

There has been recent discussion regarding whether the Florida Insurance Commissioner should be an elected official or appointed by the Cabinet. Currently, Florida has an appointed insurance official, Commissioner Kevin McCarty, who regulates insurance company rates and insurance policy forms, provides financial oversight of companies and engages in market investigations. Commissioner McCarty was appointed by the Florida Cabinet after the Florida Constitution was revised to reduce the Cabinet from six members to three plus the Governor.

Senator Ron Klein (D – Delray Beach) has publicly stated that he believes Floridians would be well served if they were able to elect the Insurance Commissioner. Senator Klein and Representative Seiler have filed legislation that, if approved, would place this issue on the November 2006 ballot (Senate Bill 2132 and House Bill 1317). Essentially, the proposal would create a new Cabinet position for the Insurance Commissioner, and insurance companies would be prohibited from donating to the candidates running for Insurance Commissioner.

Recently, House Insurance Chairman Ross has indicated that he is also open to the idea of an elected Insurance Commissioner. However, the Governor has stated that he is opposed to this proposal.

Checklist of Coverage

The OIR has recently released the final version of the property insurance checklist that must now be furnished with homeowners' insurance policies. Although most companies have already implemented some version of this checklist, companies are now required to submit a checklist that is compliant with the checklist promulgated by the OIR. You may find a copy of the checklist at the following link: http://www.floir.com/HotTopics_Other.htm.

Credit Scoring

Recently the Financial Services Commission ("FSC"), upon recommendation of the OIR, approved a credit scoring rule that is currently under challenge in Court. The Florida Insurance Council, Property Casualty Insurers Association of America, American Insurance Association and National Association of Mutual Insurance Companies have filed an action to determine the OIR's ability to restrict insurance companies' use of credit scoring. Although the rule was approved, the rule has not been formally adopted and the OIR is enjoined from requesting adoption by the FSC while the rule is being challenged in Court. The rule limits insurers' ability to use credit scoring information when determining rates.

IV. CITIZENS PROPERTY INSURANCE CORPORATION

Citizens recently released a document that contains recommendations to the Legislature that included, among other things, the following:



- (1) Restricting eligibility for coverage from Citizens to houses with less than \$1 million in coverage A and condominium units with less than \$1 million in coverages A and C;
- (2) Limiting sinkhole coverage to a cap of \$10,000 and a buyback of up to \$50,000 and providing an appeal process for sinkhole claims; and,
- (3) Requiring insurers to provide adjusting services for HRA claims (there was no discussion of compensation).

Citizens also assisted in drafting the Report to be issued by the Task Force on Long-Term Solutions for Florida's Hurricane Insurance Market. We expect Citizens to support the recommendations contained in the Report.

V. LEGISLATION PROPOSED BY OTHER INTERESTED GROUPS

Florida Alliance on Hurricane Insurance (the "Alliance")

The Alliance is a group of insurers, insurance agents, banks, realtors, business groups, builders and home and condominium owners. Because this group encompasses so many different interests, the recommendations made by the Alliance are rather general. The Alliance has published a list of legislative recommendations that include the following:

- (1) Actuarially sound Citizens rates;
- (2) Retain the current boundaries for the Citizens High Risk Account;
- (3) Improve customer service for Citizens;
- (4) Require Citizens to develop plans to employ a large number of emergency adjusters, but do not subject Citizens to artificial claims settlement deadlines;
- (5) Consider instituting a servicing carrier for Citizens;
- (6) Adopt a constitutional amendment to limit the Florida Hurricane Catastrophe Fund to catastrophic hurricane losses;
- (7) Strengthen building codes; and,
- (8) Encourage less regulation.

Florida Association of Insurance Agents ("FAIA")

This group has proposed the creation of a Windstorm Coverage Fund ("WCF") that would establish an alternative fund to Citizens that is composed of three elements: an administrative portion, rapid cash build-up portion and various exposure reduction concepts.

Specifically, the FAIA proposes restructuring the Citizens High Risk Account into a WCF, which would essentially be a funding mechanism and would require private insurers to perform certain functions such as administration, agent appointment and training, policy processing and claims adjusting. The private insurers would keep a portion of the premium to perform these functions. This would leave the risk bearing, rating, storm modeling and exposure reduction functions for the WCF. Insurers would forward to the WCF the net premium (retaining the portion applicable to the functions they are to perform) for the wind policies that they do not retain. After a certain period, insurers could seek reimbursement from WCF for any



losses and expenses that exceed the premium they retained. Also, insurers could insure as much of the wind exposure (and receive related premium) as they want and, along with it, assume the responsibility to pay claims.

The FAIA proposal would fund a rapid cash build-up for WCF in two ways. First, it would access general revenue funds by using storm-related sales tax to offset against future assessments. Secondly, it would include policies other than property policies in the assessment base.

Attached hereto please find copies of the reports and bill discussed in the above memorandum:

- (1) The Task Force on Long-Term Solutions to Florida's Hurricane Insurance Market's report;
- (2) The House property PCB, as well as a summary of the PCB;
- (3) House Bill 355 and Senate Bill 1060 relating to the termination of agents;
- (4) House Bill 217 and Senate Bill 286 entitled the "Sinkhole Relief Act";
- (5) House Bill 1317 and Senate Bill 2132 relating to an elected Insurance Commissioner;
- (6) The Senate PCB relating to PIP insurance; and,
- (7) A list and short summary of additional bills that may be of interest to Guy Carpenter & Co.

As we discussed, we also will be providing you with weekly legislative updates and bill summaries beginning Friday, March 17, 2006.

Should you have any questions or require any additional information, please do not hesitate to contact me.

The information set forth in this memorandum and materials provided are not intended to constitute, and shall not be deemed to be, legal advice or opinion of a general or specific nature. Any questions of a specific nature should be directed to an attorney for review and evaluation based upon the facts and circumstances involved. The dissemination of any information set forth herein does not waive any Attorney-Client privilege, any confidentiality protections with respect to any Attorney-Client communications, or any other privileges which may otherwise apply.