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Insurers say storm model manipulated

BY JEROME R. STOCKFISCH THE TAMPA TRIBUNE

TALLAHASSEE -- A state panel has approved a controversial catastrophe model that will be a tool in setting homeowners insurance rates in Florida -- a model the insurance industry suggests may have been manipulated to discount hurricane risk in order to hold down rates.

The model, produced at taxpayer expense by a team based at Florida International University, was intended to provide checks and balances on private risk models that insurers cited in applying for steep rate hikes.

But an early version of the public model projected even higher losses in some cases than private models.

The public model has since undergone several verification reviews and tweaks by actuaries, statisticians and computer and climate experts, a process that has the insurance industry crying foul.

The Property Casualty Insurers Association of America says loss costs as calculated by the public model dropped a statewide average of 27 percent between the last two versions of the model. Projected loss costs fell as much as 62 percent in one county, Brevard.

"What has changed in the science, what has changed in the world, to make those calculations so volatile?" asked William Stander, assistant vice president and regional manager of the insurers' group.

The Florida Commission on Hurricane Loss Projection Methodology nonetheless approved the use of the model in a series of unanimous votes Friday in Tallahassee.

Howard Eaglefeld, a modeling specialist and member of the review team from the state Office of Insurance Regulation, addressed the controversy directly in questioning Shahid Hamid, the Florida International professor who led the modeling team.

"Did the Office of Insurance Regulation or any other party contact you and request you or any members of the modeling team to change the model in such a way as to achieve a predetermined result?" Eaglefeld asked.

Hamid said OIR only defined the scope of the project at its inception.

"I can categorically state that OIR had no influence whatsoever in the development of the model," he said.

Florida officials, from Gov. Charlie Crist to lawmakers to regulators, have been promising lower homeowners' rates since insurance bills skyrocketed, cancellations became common and homeowners rebelled in the wake of the busy 2004 and 2005 hurricane seasons.

In January, the Legislature expanded the state catastrophe fund and the state-backed insurer of last

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resort in strategies that were expected to yield significant savings. But big discounts never showed up on homeowners' bills.

Insurers now hint that the quest for lower insurance rates might be tainting what should be the purely scientific process of creating a risk model.
