



Don Meyler Inspections

Florida Commission on Hurricane Loss Project
Methodology Presentation
September 17, 2009



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1. **Brief intro to DMI**
2. **DMI wind inspection data**
3. **Mitigation inspection trends
& selected audit information**
4. **Impacts of mitigation audits**
5. **Conclusion**

About DMI

- ❑ Performing windstorm inspections for 9 years
- ❑ Professional Engineer and State-Certified General Appraiser on staff
- ❑ Only state-wide company using only State-licensed contractors for virtually all 1802 inspections
 - License holders with 1) something to lose 2) being held accountable and 3) physically performing and signing their own 1802 forms
- ❑ A Wind Certification Entity for the My Safe Florida Home program
 - Received 100% audit scores on all 3 technical and administrative audits over the life of the program
- ❑ Currently working with 9 underwriting departments performing wind mitigation reinspections and/or analysis

Inspection Data

- ❑ DMI maintains a secure database of more than 100,000 clean, consistent OIR-B1-1802 windstorm inspection results
 - Identical inspection rules used for every inspection
 - Detailed information regarding attics & opening protection
 - Inspections from October 2007 to present day
 - Results can be anonymously sorted by county or zip code
 - All openings and protective devices recorded on each elevation
 - Each inspection includes detailed notes and up to 12 photos
- ❑ If this information can be appropriately harnessed for the benefit of the Committee we would be pleased to discuss with the appropriate members



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Inspection Data

Example:

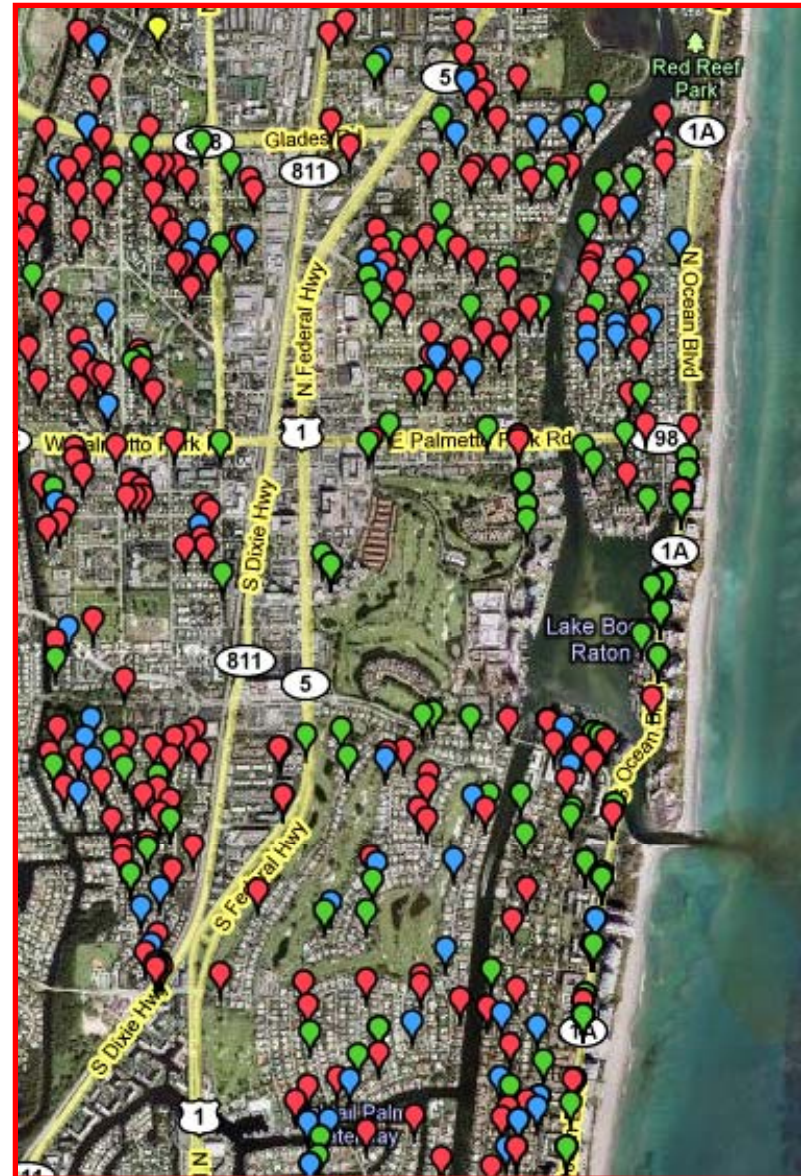
Weakest Opening Protection on H03 homes* in zip code 33432 (Coastal Boca Raton)

- Hurricane (A) (33%)
- Basic (B) (<1%)
- Not Rated (C) (18%)
- Wood Panels (<1%)
- None (49%)



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*600 homes



Recent Wind Inspection Trends

- ❑ Mitigation form volumes have increased, controls have not
 - Several thousand new 1802 signatories have appeared
 - Who is checking on these inspectors?

- ❑ Sophisticated agent and homeowner behavior documented in the FAIA Report on Mitigation ...
 - Can “shop” for vendors, results
 - Historically bear no responsibility for inspection quality

- ❑ ... is leading to undesirable outcomes
 - A “race to the bottom” in quality/price to the bare minimum 1802 form that “won’t be rejected”
 - Pervasive “it’s not my signature on the form” mentality



Recent Wind Inspection Trends

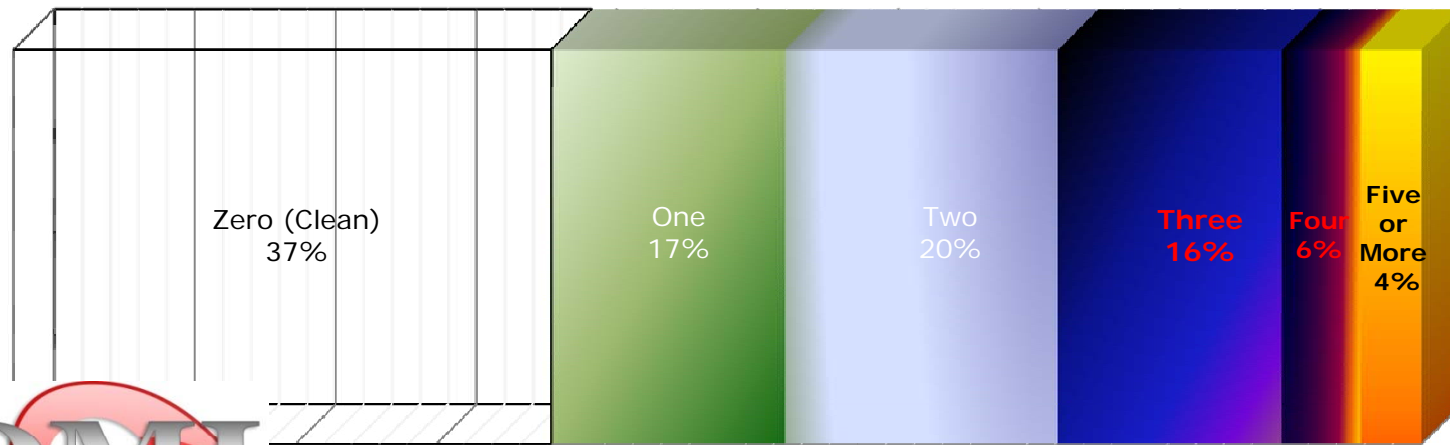
- Increasing concern in underwriting departments ...
 - Virtually all legislation appears to focus on consumer achievement of discounts rather than accuracy and risk management aspects
 - Underwriters historically have lacked the resources to “police” the quality and business practices of thousands of 1802 signatories
- ... is leading to a change in tactics
 - Audits are underway, looking for patterns of abuse, incompetence, collusion, and fraud
 - “Preferred” or “Recommended” vendor concepts are being used: “White Lists” and “Black Lists”
 - Underwriters are establishing new inspection processes that avoid the pitfalls of the current environment



Wind Mitigation Audit Highlights

- ❑ DMI has conducted several thousand inspections for underwriters
- ❑ When the original inspection is available to us:
 - 37% are clean
 - 37% have one or two errors
 - 26% have three or more errors

Distribution of Incorrect Answers Per Form (Out of 8 Possible)



Wind Mitigation Audit Highlights

- ❑ What are some of the attributes the “bad apples” have in common?
 - Typically contain unlikely or impossible combinations of credits
 - Signature often “stamped” by a signatory who did not physically perform the inspection
 - The same inspector names & inspection companies show up repeatedly
 - Very seldom performed by WCEs in the My Safe Florida Home program



Wind Mitigation Audit Highlights

- ❑ Overall, 75% of audited Hurricane (Class A) Ratings for opening protection have been unwarranted
 - Photographic evidence of one or more deficient openings has been obtained in every single case
 - A portion of these relate to a few openings, such as glazed garage doors or unprotected front doors with glazing
 - Often these homeowners will harden their homes when presented with the DMI deficiency report
 - However, it is not uncommon to see 20+ unprotected openings on a home currently receiving Hurricane (Class A) opening protection credit



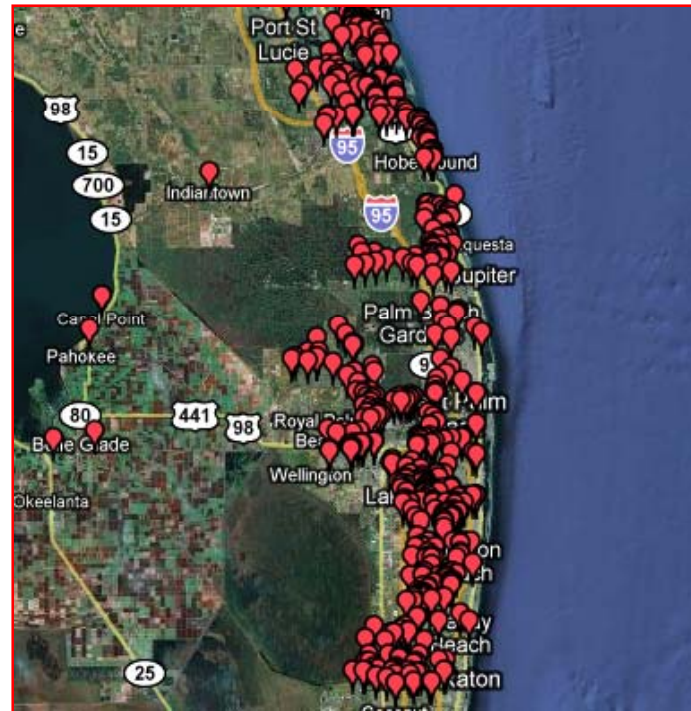
Wind Mitigation Audit Highlights

- ❑ Other questions incorrectly answered upon reinspection and their error rates:
 - (Q1) FBC Roof 29%
 - (Q2) Roof Deck Attachment 18%
 - (Q5) Gable End Bracing 18%
 - (Q3) Roof-to-Wall Attachment 15%
 - (Q4) Roof Geometry 15%
- ❑ Average error rate across all questions is 19%, or 1.5 errors per inspection.
- ❑ These figures are meant to be illustrative but not extrapolated onto other data populations
 - Some reinspections were specifically targeted due to red flags



Example: Palm Beach & Martin

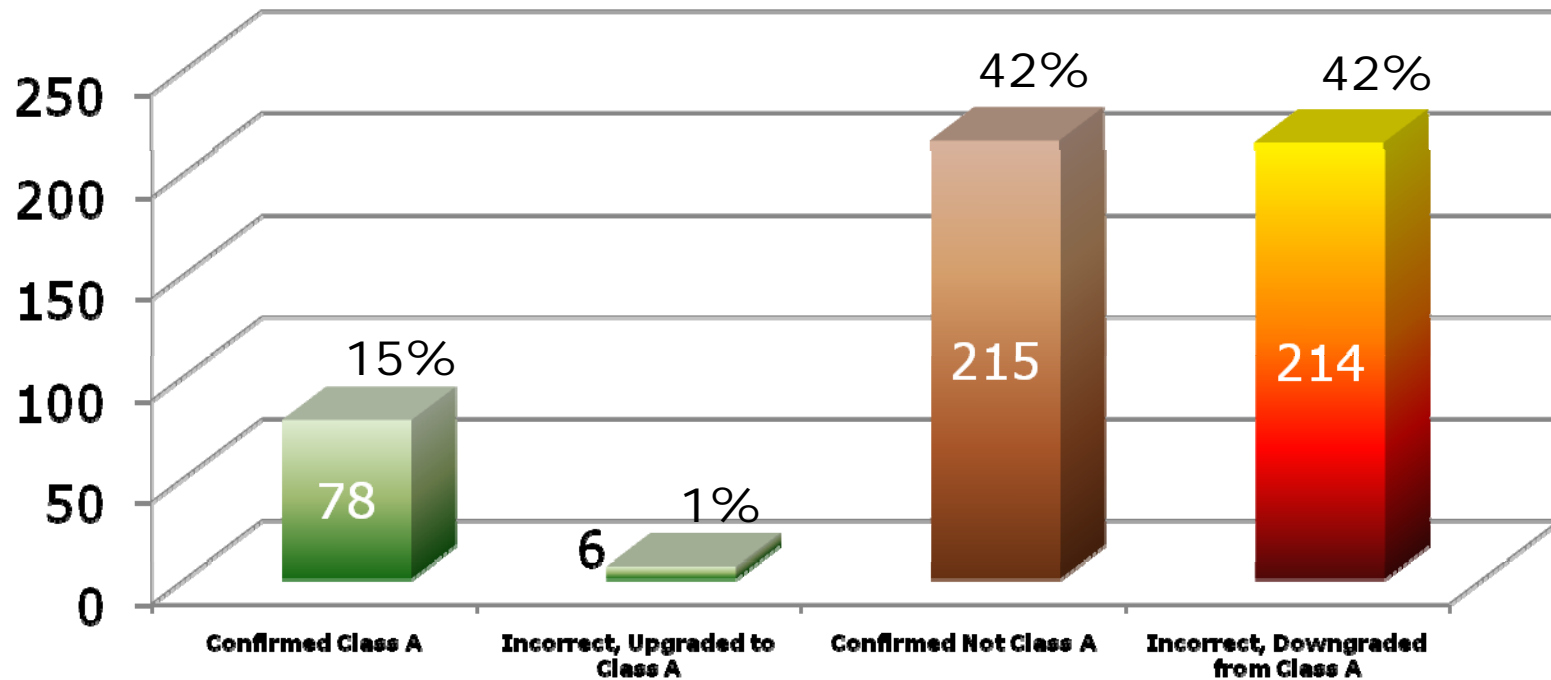
- ❑ In August 2009, DMI completed comprehensive reinspections on 513 homes in Palm Beach and Martin Counties for which we had copies of the original inspection reports



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Example: Palm Beach & Martin

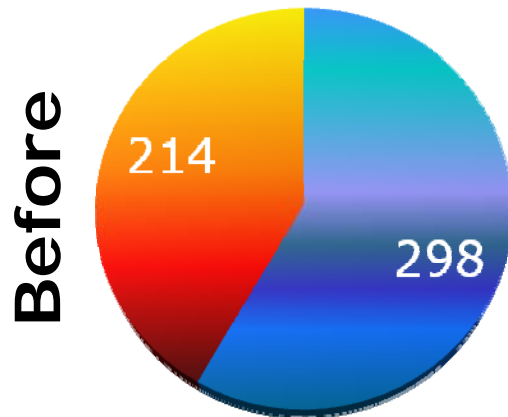
- August 2009 Audit Inspection Results regarding Class A Opening Protection (513 inspections):



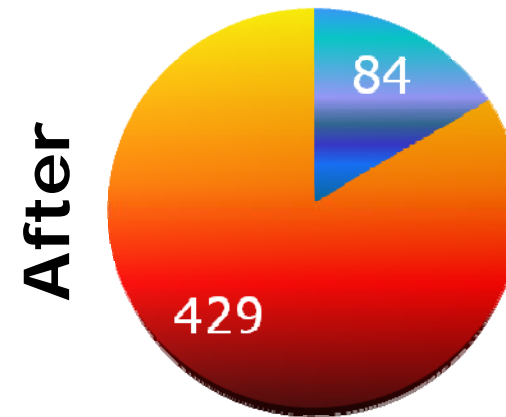
Example: Palm Beach & Martin

- Opening Protection Composition Before and After Audit:

■ Class A ("Hurricane"): 58.3%
■ Other: 41.7%



■ Class A ("Hurricane"): 16.4%
■ Other: 83.6%



- In other words, 72% of those with an existing Class A credit in this sample in reality had one or more photographable deficiencies



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Wind Mitigation Audit Impacts

- ❑ This audit activity is generating four significant outcomes for underwriters:
 1. Solid underwriting data is being collected on the customers who have taken mitigation efforts seriously.
 2. Additional premiums are being obtained from policyholders who are now paying the appropriate premium.
 3. Customers are hardening their homes in order to legitimately achieve the discounts they were formerly receiving in error.
 4. Those policyholders not interested in maintaining their policy when charged the correct premium are looking elsewhere.



Wind Mitigation Audit Impacts

- Let's examine this 4th group:
 4. *Those policyholders not interested in maintaining their policy when charged the correct premium are looking elsewhere.*
 - Policyholders with the most inaccurate original inspections are the most likely to be in this group.
 - Policyholders who "move on" are still in possession of an inaccurate and possibly fraudulent mitigation form.
 - Barriers to the form's resubmission to any other carrier are few (after all, it was already successfully submitted once)
 - The last underwriting departments to put sufficient controls in place will be the unwitting recipients of an ever-increasing proportion of the 'worst' inspection data.
 - Many controls, such as checking license numbers, provide virtually no protection against this type of problem.



Wind Mitigation Audit Recap

- ❑ The Bad News
 - About two thirds of wind inspections have one or more unwarranted credit, and about one quarter have three or more.
 - While its obvious all mitigation inspections are not created equal, The good inspection forms and the bad inspection forms often look similar at first glance.
- ❑ The Good News
 - Through a combination of data analysis, underwriting procedures and controls and an effective audit program, underwriters have the tools available to take control of this problem.
 - The results of these efforts are reinforcing the original purpose of the incentives, discouraging complacency and rewarding Floridians for making the right decisions to harden their homes.



Points to Consider

- ❑ It seems to us it will be difficult to determine the appropriateness of 1) current insurance rates and 2) current mitigation discount percentages until a significant number of the unwarranted credits currently on the books are cleaned up and premiums are restored to their proper levels.
- ❑ There are immediate, non-legislative, non-regulatory alternatives to halt the current slide towards “lowest common denominator” wind mitigation and 4-point inspections and root out fraud.
 - Exception: One regulatory improvement that would have an immediate impact is a revised signature block on the OIR-B1-1802 form to: 1) prohibit inspector anonymity and 2) clarify penalties.
- ❑ We hope the Committee will examine whether or not there are ways responsible inspection companies can participate in the Committee’s work on an ongoing basis.



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