

ARTICLES REGARDING CITIZENS 2015 RATE INCREASE DUE TO WATER AND REINSURANCE

Insurance Journal

**Citizens: Water Losses the Reason for Rate Increases in South Florida**

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Jacksonville Business Journal

**Why Citizens policy holders are facing rate hikes**

<http://www.bizjournals.com/jacksonville/blog/morning-edition/2015/08/why-citizens-policy-holders-are-facing-rate-hikes.html>

## Citizens: Water Losses the Reason for Rate Increases in South Florida

By [Amy O' Connor](#) | August 26, 2015

In a nearly three-hour [rate hearing on August 25](#), representatives from Florida's Citizens Property Insurance Corp. delved into and defended their recent rate filing, which included significant increases in many Florida regions, before the Florida Office of Insurance Regulation (FLOIR).

Insurance Commissioner Kevin McCarty, who led the FLOIR panel, opened up the hearing by emphasizing that Citizens is not under fire for its submitted rate proposal.

A word from our sponsor:

“This is a fact finding hearing – it is not an adversarial hearing,” he said. “The office has not made a decision relating to the filing... the office is not advocating a position for or against Citizens in this rate request hearing. We are trying to get at the facts for the citizens of Florida.”

While the focus of the hearing was the reason behind the overall rate increases in the state, Citizens emphasized during its testimony that water damage losses in South Florida have been a driving factor for a rise in claims and rates.

Citizens' CEO Barry Gilway said water damage claims, which the company described as not flood-related but instead a water loss as a result of a sudden or accidental discharge of water by a pipe or water-system issues, have increased by 50 percent in severity and frequency.

“I want to be crystal clear on this issue: water losses are the major reason Citizens is seeking rate hikes for the coming year, especially in South Florida. Were it not for water loss... 99 percent of South Floridians –Miami-Dade South Florida policyholders would be seeing rate decreases,” Gilway said.

Gilway described the rise in water damage in South Florida as “very disturbing.” He said two years ago the frequency of water loss damage was 8 percent and has since risen to 13 percent,

with the company now seeing an average of about 1,000 water damage claims a month. The average water damage loss 2.5 years ago was \$9,000 and today is closing in \$15,000, he said.

Water losses are accounting for 33 percent of every premium dollar of Citizens’ policyholders, according to the company.

“We have to respond and have to respond aggressively,” Gilway said.

### **Citizens’ Requested Rate Changes**

Citizens’ policies with proposed rate changes effective Feb. 1, 2016 include:

| <b>File Log #</b> | <b>Overall Proposed Rate Change</b> | <b>Account</b>                                                      |
|-------------------|-------------------------------------|---------------------------------------------------------------------|
| 15-15843          | 1.3% increase                       | Homeowners Multi-Peril (PLA)                                        |
| 15-15848          | 9.0% increase                       | Homeowners Multi-Peril Wind Only (CA)                               |
| 15-16013          | 9.5% increase                       | Property/Personal (Dwelling Fire) Wind Only (CA)                    |
| 15-16016          | 0.9% decrease                       | Property/Personal (Dwelling Fire) (PLA)                             |
| 15-16391          | 10.4% increase                      | Mobile Homeowners Multi-Peril Wind Only (CA)                        |
| 15-16392          | 5.3% decrease                       | Mobile Homeowners Multi-Peril (PLA)                                 |
| 15-16470          | 4.1% decrease                       | Mobile Homeowners (Dwelling Fire)(PLA)                              |
| 15-16471          | 9.8% increase                       | Mobile Homeowners (Dwelling Fire) Wind Only (CA)                    |
| 15-17008          | 5.2% increase                       | Commercial Property Residential Multi-Peril (Ex. Condo Assn.) (CLA) |
| 15-17009          | 5.0% increase                       | Commercial Property Residential Multi-Peril (Condo Assn.) (CLA)     |
| 15-17471          | 9.3% increase                       | Commercial Property Non-Residential Multi-Peril (CLA)               |

There were no rate changes proposed for [sinkhole policies](#).

McCarty said FLOIR and Citizens have been in correspondence over the rates that were filed and Citizens has supplied FLOIR with all the necessary data to back up its rate filing. As a result, FLOIR’s questions were in regards to three primary areas:

- The necessity of Citizens’ purchase of more reinsurance since 2014 while it has at the same time reduced its policy count and corresponding exposure.
- The necessity of Citizens purchase of more pre-event funding given the significant surplus it has accumulated over the years.
- The increase of certain loss trends – Citizens alleged in filings that water losses in certain Florida counties have contributed to increased losses in these areas. FLOIR wanted to

know what was behind such an increase and what other steps Citizens is taking to control these costs.

### **Citizens' Depopulation Program**

McCarty started the hearing by applauding Citizens' policy count reduction by almost a million policies over the last several years, calling it a "Herculean effort" on the part of Floridians to remove billions of dollars of assessments that could be levied on all policyholders. The clearinghouse and takeout efforts have been successful in returning policyholders to private sector, he said.

"I commend you and your team for the work you have done and the leadership and strides you have made to make that depopulation effort a success in our state," McCarty said.

Gilway said this year there has been a 37 percent reduction in policy count with more expected as the remaining months of the year have historically seen the most reductions in policy count for the company.

However, while Citizens rate proposal lowers rates overall for 60 percent of its personal lines policyholders, Gilway said, the company is seeking an average 3.2 percent increase in statewide rates for personal lines customers, which reflects both longstanding disparities in wind-only rates and recent challenges relating to water losses, he said.

In the wind and coastal areas, Gilway said Citizens has become more of a residual market.

"The remaining policies are the more difficult policies. The good policies as perceived by the insurance companies and private carriers are gone so what we are left with is a 'residual' book of business and frankly that's our charge – to act as a residual mechanism."

Gilway said the company is doing everything in its power to not let operational costs affect policyholders and embarked on an effort to streamline its operations and improve how Citizens does business.

Gilway highlighted the ways Citizens has tried to improve its efficiencies and cut overhead costs, including consolidating offices, updating legacy systems, and improving its investment portfolio.

"Taken together, the efforts have eliminated the assessment on Floridians in the event of a 1 in 100 year storm," he said.

He added, however, that though their policy count is the fewest it ever has been, the policies that remain with Citizens are those in high-risk areas.

John Rollins, chief risk officer for Citizens, said they are recommending rate decreases for a majority of its personal lines account policyholders, who tend to be in the inland regions of the state, but increases for the majority of its coastal account policyholders.

“We will follow the glide path for every individual policyholder,” Rollins said. “No matter how scary some of these cost drivers might be in pockets or regions no one will get more than a 10 percent increase in premium with a very small exception of passing through any rapid cash buildup demanded by the Florida CAT Fund.”

McCarty questioned why Citizens purchased so much reinsurance, which it cited as one of the reasons for the rate increases for wind exposures, when the company’s business and exposure have decreased by 35 percent.

Rollins responded that Citizens has to be able to reinsure a 100 year event to avoid an assessment risk and, questioned if Citizens should reinsure itself like a private company which has to have its portfolio protected up to about 25 to 30 percent. If the answer is “yes,” Rollins said, then the company should have actually purchased more reinsurance than it did. Rollins also added that with reinsurance rates being so low at the moment it made sense for the company to take advantage and have a more secure risk transfer solution.

### **Water Damage Claims**

Gilway said Citizens is focused on combating the water damage loss problem, Gilway said. The company recently had a “water summit” where it brought together legal, underwriting and policy experts to develop strategies to counter the problem.

The company is also working with insureds to let them know to call Citizens first before contacting an attorney or public adjuster, as well as putting an enhanced focus on fraud awareness and working in conjunction with DFS. Rollins said 90 percent of all the representative water claims come from Miami-Dade and 30 percent of those claims the company never gets to look at as they come from a public adjuster.

Citizens is also launching an emergency services and contract to repair program, which will initially be on a volunteer basis. The company stated it would like to work with FLOIR to have the right policy language to respond to those claims.

“This is an out of control situation similar to sinkhole [and it] may take policy and legislative changes to address this,” Gilway said. “We need to focus on solutions for this issue. Every time an attorney or public adjuster gets involved in these claims the costs sky rocket – that’s the bottom line.”

Rollins said the company is putting great effort into what is causing these water issues, but actuarially they have not been able to find a trend or cause for the increase. But the bottom line is that the trend is costly for everyone, Rollins said. “This trajectory is not good for consumers.”

McCarty concluded the testimony by saying FLOIR will carefully review the information that has been provided in the filing and encouraged members of the public to contact the office with any questions or concerns they may have about the proposed rate changes.

A representative for FLOIR would not comment on how the hearing will impact the office's decision, saying FLOIR cannot comment on a pending rate filing. It has 45 days to review each of the filings and a rate decision on the homeowners, mobile homeowners and dwelling fire filings is expected on September 8 or 9. The other filing decisions will occur at a later date.

Public comments were received at the hearing and the general public is allowed to provide feedback on these filings via the [ratehearings@floir.com](mailto:ratehearings@floir.com) email address until September 1, 2015.

## Why Citizens policy holders are facing rate hikes

Aug 26, 2015, 8:00am EDT Jim Turner, The News Service of Florida

Citizens Property Insurance was historically reserved for poorer Florida residents – but that changed with a surge in the number of tropical storms and hurricanes.

A "disturbing" rise in water-damage claims in South Florida is driving **Citizens Property Insurance Corp.** to seek an average 3.2 percent increase in rates for many homeowners, the president of the state-backed insurer said Tuesday.

Without the surge in reported residential water damage over the past two years, which is causing the agency to alter its approach to such claims, Citizens would be asking for an average statewide rate decrease, Citizens President and CEO [Barry Gilway](#) said during a rate hearing before the Office of Insurance Regulation.

"You can't move away from the fundamental issue, when you take a look at Miami-Dade, and you take a look at the rest of the state, there really is no major differences in ages of home or any other characteristics," Gilway told Insurance Commissioner [Kevin McCarty](#). "So it leads you to the obvious conclusion, and the conclusion basically is there is more fraud associated with these types of claims."

As it is, Citizens customers in Miami-Dade, Broward, Palm Beach and Monroe counties, which comprise a large portion of Citizens' portfolio, are more likely to see rates increases than homeowners in other parts of the state under the rate proposals. And the reason is the water claims, Gilway said.

"If the Miami-Dade average (water damage) claim were the same as the rest of the state, 99 percent of all Miami-Dade policyholders would be getting an 8 to 9 percent decrease, not an 8 to 9 percent increase," he said.

McCarty gave no hint if his office would approve the proposed rates.

The new rates, if approved by the state regulators by the second week of September, would go into effect Feb. 1.

The rates vary by county and depend on a property's location, the home's style, and the type of policy.

The overall statewide average increase would be 3.2 percent, with homeowners' multi-peril personal-line accounts going up an average of 1.3 percent and wind-only coastal accounts going up 9 percent. Multi-peril coverage for mobile-home owners would go down 5.3 percent on average. There is no proposed change to sinkhole rates.

The increase in claims, primarily in Miami-Dade County, is driven by attorneys who specialize in water damage, which adds to attorney fees and adjuster costs, Gilway said.

"The issue for us is, we don't even have a chance to work with a policyholder to come up with a fair settlement," Gilway said after the hearing. "You saw the numbers, 30 percent of all the water damage claims come in with representation. We have not even talked to the insured. And 90 percent of all the claims coming in with representation come from Miami-Dade."

In 2012, about one in 12 homeowners in Miami-Dade County with a Citizens policy made a water-damage claim, with the average cost just under \$9,000. In the past 12 months, Gilway said, one in eight Miami-Dade policyholders with Citizens filed such a claim, with damage costs running on average approaching \$15,000.

"We're averaging 1,000 water-damage claims a month," said Gilway, who described the increase as "disturbing."

John Rollins, Citizens chief risk officer, said a majority of the claims come from reports of pipe failure. Citizens doesn't cover flood and storm surge.

One change being made is that only Citizens adjusters, who are being trained as to what to look for in water claims, will respond to water claims in South Florida, Gilway said.

Gilway said he doesn't anticipate the need to get the Legislature to enact new laws to address the increase in water-damage claims. But he said he's working with Rep. Frank Artiles, a Republican from Miami who has been a critic of the agency, on rules for making water-damage claims with the state-backed agency.

The proposal would establish "mandatory" appraisal rules --- similar to sinkhole claims --- in which both sides on a water-damage claim would get to select an appraiser and if the two sides don't agree, the issue would go before a mediator. The move would keep attorneys out of the issue, Gilway said.

The rate proposals come as Citizens has dropped from 1.5 million policies in 2012 to 589,456 policies as of July 31. Gilway said he expects the number of policies to be just above 500,000 by the end of the year.



# Advocate: Review Citizens insurance rate hike

NEWS SERVICE OF FLORIDA

Published: Wednesday, September 2, 2015 at 1:40 p.m.

Florida's new insurance consumer advocate wants Insurance Commissioner Kevin McCarty to "strongly consider" the large amount of reinsurance purchased by the state-backed Citizens Property Insurance before making any decision on the company's requested 3.2 percent rate hike.

Consumer advocate Sha'Ron James also asked McCarty in a letter Monday to review Citizens' debt financing and water-loss claims before setting rates for 2016.

Reinsurance is essentially backup coverage purchased by insurers.

"Although Citizens' private risk transfer/reinsurance program has contributed to a 100 percent annual assessment reduction, the purchase of additional reinsurance has led to the need for increased premiums, despite the decrease in the number of policies and the significant reduction in reinsurance costs worldwide," James wrote to McCarty. "Therefore, the Office (of Insurance Regulation) should strongly consider and fully assess whether Citizens' reinsurance program exceeds the level of adequacy needed to fulfill its obligation to its current policyholders and to the consumers of the state of Florida."

The Office of Insurance Regulation is reviewing the proposed rate hike, which on average comes to 3.2 percent. The new rates would vary by county and depend on a property's location, the home's style and the type of policy.

Citizens President and CEO Barry Gilway argued last month that a "disturbing" rise in water-damage claims in South Florida has driven the need for the proposed rate increase.

Citizens entered the six-month Atlantic storm season with a \$7.5 billion surplus, the highest in its history, and \$3.9 billion in reinsurance coverage from private, offshore firms. The reinsurance is intended to protect policyholders across Florida from having to pay assessments for storm damages on Citizens-covered property.

The new rates, if approved by state regulators by the second week of September, would go into effect Feb. 1.

The rate proposal comes as Citizens has dropped from 1.5 million policies in 2012 to 589,456 policies as of July 31. Gilway said he expects the number of policies to be just above 500,000 by the end of the year.

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## Insurer Citizens fires back over rate-hike, reinsurance questions

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By [Charles Elmore](#) - Palm Beach Post Staff Writer

Florida's state-run and biggest insurer is pushing back against [a consumer advocate questioning a proposed 3.2 percent rate hike](#) — including hundreds of millions of dollars billed to customers for back-up coverage from private offshore companies.

“Risk transfer through reinsurance is a critical part of Citizens’ mission,” wrote John Rollins, the chief risk officer of [Citizens Property Insurance Corp.](#), in a letter Wednesday to state insurance consumer advocate Sha’Ron James.

“Both our policyholders and all insurance-buying Floridians should expect that the premium they pay up front represents the entire cost of the protection they receive, without the uncertainty or surprise of post-storm assessments,” Rollins said.

Despite a decade with no hurricanes, reinsurance costs are one reason why Citizens says average bills need to go up, including 4.6 percent in Palm Beach County. A year ago, Citizens slightly lowered overall premiums. Now company officials blame water-damage claims in South Florida as a pressing issue driving the hike.

Offshore reinsurance costs — about 10 percent of each premium dollar, a company spokesman said — did not exist at Citizens five years ago.

The company says it sought deals to avoid assessments or “storm taxes” to Citizens customers and those of other Florida insurers after big, rare storms.

James, who took over as state-paid advocate last month, called for careful scrutiny.

“I urge the Office of Insurance Regulation to strongly consider the impact of Citizen’s reinsurance program” as well as debt-financing deals and water-loss claims, James wrote to insurance commissioner Kevin McCarty Monday. She asked for a close look at whether the reinsurance plan “exceeds the level of adequacy needed to fulfill its obligations.”



Money paid to reinsurers in Bermuda or Europe stays in their pockets if short-term contracts are not tapped. In contrast, money added to the Citizens surplus of more than \$7 billion grows in storm-free years and remains available to pay claims.

Rollins defended the strategy: “In 2015, for the first time in its history, Citizens has secured enough reinsurance, at historically low rates, to blunt the possibility of assessments even in a benchmark severe event, known as the ‘100-year storm.’ “

He continued, “Better yet, much of this \$6.9 billion in protection kicks in more often for smaller storms, such as a named storm with a 10 percent chance of striking each year, and it covers the case of multiple storms in a season.”

As for assessments after a storm, many people do not realize they can happen, Rollins said.

“Studies have shown that, despite many educational efforts, most consumers are unaware of the possibility of post-storm assessments in the event of a Citizens deficit,” he said. “Such assessments would also arrive at the worst possible time, during recovery from a major storm after they have already paid deductibles and other uninsured storm costs.”