

REVIEW OF LEGISLATIVE INTENT LANGUAGE

LEGISLATIVE INTENT LANGUAGE

(6) CITIZENS PROPERTY INSURANCE CORPORATION.—

(a) The public purpose of this subsection is to ensure that there is an orderly market for property insurance for residents and businesses of this state.

1. The Legislature finds that private insurers are unwilling or unable to provide affordable property insurance coverage in this state to the extent sought and needed. The absence of affordable property insurance threatens the public health, safety, and welfare and likewise threatens the economic health of the state. The state therefore has a compelling public interest and a public purpose to assist in assuring that property in the state is insured and that it is insured at affordable rates so as to facilitate the remediation, reconstruction, and replacement of damaged or destroyed property in order to reduce or avoid the negative effects otherwise resulting to the public health, safety, and welfare, to the economy of the state, and to the revenues of the state and local governments which are needed to provide for the public welfare. It is necessary, therefore, to provide affordable property insurance to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. The Legislature intends, therefore, that affordable property insurance be provided and that it continue to be provided, as long as necessary, through Citizens Property Insurance Corporation, a government entity that is an integral part of the state, and that is not a private insurance company. To that end, the corporation shall strive to increase the availability of affordable property insurance in this state, while achieving efficiencies and economies, and while providing service to policyholders, applicants, and agents which is no less than the quality generally provided in the voluntary market, for the achievement of the foregoing public purposes. Because it is essential for this government entity to have the maximum financial resources to pay claims following a catastrophic hurricane, it is the intent of the Legislature that the corporation continue to be an integral part of the state and that the income of the corporation be exempt from federal income taxation and that interest on the debt obligations issued by the corporation be exempt from federal income taxation.

RECOMMENDATION

Staff recommends that the Board receive this report as information. No action by the Board is needed.

SEPTEMBER 12, 2011

OVERVIEW OF THE CONSIDERATION GIVEN IN THE PENDING RATE FILING TO CHANGES MADE IN SB 408

EXECUTIVE SUMMARY

At the Chairman's request, staff has been asked to provide the Board with an overview of the manner in which the provisions of SB 408 were taken into consideration in the sinkhole rate indications included in the filing now pending with the Office of Insurance Regulation. This filing is the subject of a public rate hearing set for Tuesday, September 13, 2011 in Tampa.

SB 408, passed in the 2011 legislative session, is a comprehensive property insurance bill that included an number of changes intended to reform sinkhole insurance. Some of the more significant provision include:

- The creation of a statutory definition of "structural damage";
- The implementation of a 2-year sinkhole claims filing deadline;
- A requirement that an insured effectuate repairs caused by sinkhole damage;
- A limitation on sinkhole coverage to the principal structure, as defined in the policy; and
- Changes to the sinkhole neutral evaluation program administered by the Department of Financial Services.

It is difficult to project how this important legislation will impact losses for 2012. We do not have actual loss experience under the new law to project the impact that this legislation will have on claims experience. Since it is difficult to quantify the impact of SB 408 on future individual claims experience, the impact was quantified with regard to expectation of total future sinkhole losses. The principal assumption that was utilized in our analysis was that the provisions of SB 408 in their entirety will moderate the sinkhole losses and that the ultimate sinkhole loss trends will behave similar to other non-sinkhole loss trends. Use of this methodology to evaluate the provisions of SB 408 resulted in a 60% reduction in projected premium need for sinkhole coverage for 2012.

To ensure that Citizens used an appropriate and reasonable approach to account for the value of the changes made in SB 408, Citizens engaged independent expert witnesses to validate the methodology used. The testimony of these witnesses at the rate hearing on Tuesday will corroborate the methodology used to reflect the impact of SB 408 on the sinkhole rate need.

RECOMMENDATION

Staff recommends that the Board receive this report as information. No action by the Board is needed.

PROPOSED PHASED-IN IMPLEMENTATION OF SINKHOLE RATES

EXECUTIVE SUMMARY

Staff was requested to research and propose for Board consideration a process by which Citizens would implement its approved sinkhole rates on a phased-in basis. In developing this plan, the following were key considerations:

- No reduction in the sinkhole indication is being recommended or proposed, and the filing pending approval by the Office of Insurance Regulation (the office) will continue to seek approval of the full rate indication, which is required by law since sinkhole coverage is not subject to the 10% statutory cap.
- An entirely different statute, Section 627.0629(5), F.S., provides that once a rate is approved, an insurer has latitude in the implementation of the approved rate to phase the approved rate in over multiple years. The statute provides in pertinent part:

627.0629 Residential property insurance; rate filings.—

(5) In order to provide an appropriate transition period, an insurer may implement an approved rate filing for residential property insurance over a period of years. Such insurer must provide an informational notice to the office setting out its schedule for implementation of the phased-in rate filing.

- The impact of the sinkhole filing is significantly different in different territories, both in the dollar amount of the premium increase and in the percentage of the increase. In some territories, the current low sinkhole rate results in a very high percentage increase, with a relatively small dollar increase. In other counties, such as Pasco and Hernando counties, the percentage increase is lower, while the dollar increase is very high. The phased-in approach should consider both premium and percentage increases.
- The implementation of a phased-in approach for sinkhole rates should be as simple to implement as possible and not jeopardize or delay the implementation date for other rates.
- By seeking approval of the full sinkhole rate indication, yet phasing in the approved rates, we are both highlighting the severity of the sinkhole claims crisis while allowing time for the provisions of SB 408 to moderate future rate

need. In order to provide an appropriate transition period for the implementation of the approved sinkhole rates, the Board has the authority to utilize the statutory language in 627.0629(5) which authorizes the phase in of approved rates over a period of years.

RECOMMENDATION

Staff recommends that the Board utilize the provisions of Section 627.0629(5) to implement the sinkhole rates, once approved by the office, on a phased-in basis over a period of years. Staff recommends that the board approve an overall average statewide and territorial premium increase for sinkhole coverage of 50% for the first year, with new indications to be reviewed annually thereafter. Should the sinkhole rates approved by the office differ materially from those that were filed, staff recommends that the board be given an opportunity to reconvene and review the implementation schedule.

	Sinkhole Only	Sinkhole Only	Sinkhole	Sinkhole	Sinkhole	Sinkhole	
	Indicated Rate	Phased In Rate	Average Current	Average Indicated	Average Phased	Average	
Territory Name	Increase	Increase	Premium	Premium	Premium	Premium Savings	Number Policies of
						from Phase In	with Sinkhole
192 Alachua	48%	48%	\$ 60.6	\$ 89.7	\$ 89.7	\$ -	334
292 Baker	237%	50%	\$ 3.6	\$ 12.0	\$ 5.3	\$ 3.0	8
601 Bay, Coastal	225%	50%	\$ 6.0	\$ 19.5	\$ 9.0	\$ 10.5	143
721 Bay, Remainder	224%	50%	\$ 10.1	\$ 32.7	\$ 15.1	\$ 17.6	208
392 Bradford	237%	50%	\$ 3.6	\$ 12.1	\$ 5.4	\$ 6.7	18
057 Brevard, Coastal	909%	50%	\$ 7.0	\$ 70.1	\$ 10.4	\$ 59.7	2,770
064 Brevard, Remainder	286%	50%	\$ 16.3	\$ 62.8	\$ 24.4	\$ 38.4	2,009
035 Broward, Ft. Laud. & Hollywood	1332%	50%	\$ 4.0	\$ 56.8	\$ 5.9	\$ 50.8	8,124
361 Broward, Coastal	214%	50%	\$ 13.8	\$ 43.5	\$ 20.7	\$ 22.7	259
037 Broward, Rem. Excl. Ft. Laud. & Hollywood	291%	50%	\$ 10.6	\$ 41.6	\$ 15.9	\$ 25.7	36,245
193 Calhoun	236%	50%	\$ 3.9	\$ 13.1	\$ 5.9	\$ 7.3	5
581 Charlotte, Coastal	193%	50%	\$ 3.0	\$ 8.9	\$ 4.5	\$ 4.3	1,125
711 Charlotte, Remainder	1181%	50%	\$ 5.7	\$ 73.1	\$ 8.6	\$ 64.5	2,913
591 Citrus, Coastal	1838%	50%	\$ 4.6	\$ 89.6	\$ 6.9	\$ 82.6	131
731 Citrus, Remainder	0%	0%	\$ 288.9	\$ 288.9	\$ 288.9	\$ -	229
492 Clay	1348%	50%	\$ 6.1	\$ 88.4	\$ 9.2	\$ 79.3	142
541 Collier, Coastal	713%	50%	\$ 13.8	\$ 112.4	\$ 20.7	\$ 91.6	441
551 Collier, Remainder	1093%	50%	\$ 7.3	\$ 86.9	\$ 10.9	\$ 76.0	915
293 Columbia	234%	50%	\$ 3.9	\$ 12.9	\$ 5.8	\$ 7.1	39
030 Dade, Miami Beach	471%	50%	\$ 19.4	\$ 110.6	\$ 29.0	\$ 81.5	430
031 Dade, Coastal	435%	50%	\$ 20.0	\$ 107.3	\$ 30.1	\$ 77.3	303
032 Dade, Miami	1186%	50%	\$ 3.9	\$ 50.2	\$ 5.9	\$ 44.3	6,942
033 Dade, Hialeah	1409%	50%	\$ 3.3	\$ 49.5	\$ 4.9	\$ 44.6	4,989
034 Dade, Rem Excl M.B., H., M.	875%	50%	\$ 3.9	\$ 37.8	\$ 5.8	\$ 32.0	55,995
712 De Soto	227%	50%	\$ 5.2	\$ 17.0	\$ 7.8	\$ 9.2	46
592 Dixie, Coastal	237%	50%	\$ 8.4	\$ 28.2	\$ 12.5	\$ 15.6	36
732 Dixie, Remainder	237%	50%	\$ 8.5	\$ 28.5	\$ 12.7	\$ 15.8	18
039 Duval, Jacksonville	1206%	50%	\$ 5.3	\$ 69.6	\$ 8.0	\$ 61.6	814
040 Duval, Remainder	237%	50%	\$ 6.1	\$ 20.5	\$ 9.1	\$ 11.4	4
041 Duval, Coastal	214%	50%	\$ 6.3	\$ 19.8	\$ 9.5	\$ 10.4	583
602 Escambia, Coastal	234%	50%	\$ 14.3	\$ 47.6	\$ 21.4	\$ 26.3	35
043 Escambia, Remainder	2680%	50%	\$ 2.7	\$ 76.3	\$ 4.1	\$ 72.2	484
531 Flagler, Coastal	236%	50%	\$ 5.0	\$ 16.8	\$ 7.5	\$ 9.3	69
701 Flagler, Remainder	226%	50%	\$ 5.8	\$ 18.9	\$ 8.7	\$ 10.2	183
603 Franklin	234%	50%	\$ 9.3	\$ 31.2	\$ 14.0	\$ 17.2	26
393 Gadsden	222%	50%	\$ 4.8	\$ 15.6	\$ 7.2	\$ 8.3	118
923 Gilchrist	236%	50%	\$ 3.1	\$ 10.5	\$ 4.7	\$ 5.8	30
552 Glades	229%	50%	\$ 3.5	\$ 11.4	\$ 5.2	\$ 6.2	9
604 Gulf, Coastal	234%	50%	\$ 13.4	\$ 44.6	\$ 20.0	\$ 24.6	17
722 Gulf, Remainder	236%	50%	\$ 9.1	\$ 30.4	\$ 13.6	\$ 16.8	2
493 Hamilton	236%	50%	\$ 2.7	\$ 9.2	\$ 4.1	\$ 5.1	7
713 Hardee	233%	50%	\$ 9.0	\$ 29.8	\$ 13.4	\$ 16.4	10
553 Hendry	1482%	50%	\$ 5.2	\$ 82.7	\$ 7.8	\$ 74.8	32
159 Hernando, Coastal	351%	50%	\$ 1,356.0	\$ 6,115.8	\$ 2,034.0	\$ 4,081.7	931
733 Hernando, Remainder	509%	50%	\$ 1,083.5	\$ 6,600.2	\$ 1,625.2	\$ 4,975.0	10,694
714 Highlands	221%	50%	\$ 3.6	\$ 11.6	\$ 5.4	\$ 6.2	109
047 Hillsborough, Tampa	2392%	50%	\$ 155.5	\$ 3,873.9	\$ 233.2	\$ 3,640.7	8,235
080 Hillsborough, Excl. Tampa	1396%	50%	\$ 258.7	\$ 3,870.6	\$ 388.0	\$ 3,482.6	14,537
593 Holmes	236%	50%	\$ 6.1	\$ 20.4	\$ 9.1	\$ 11.3	5
561 Indian River, Remainder	203%	50%	\$ 7.5	\$ 22.8	\$ 11.3	\$ 11.5	492
181 Indian River, Coastal	229%	50%	\$ 20.0	\$ 66.0	\$ 30.1	\$ 36.0	100
693 Jackson	235%	50%	\$ 5.3	\$ 17.7	\$ 7.9	\$ 9.8	31
605 Jefferson, Coastal	0%	0%	\$ 0	\$ 0	\$ 0	\$ -	0
793 Jefferson, Remainder	235%	50%	\$ 4.0	\$ 13.3	\$ 6.0	\$ 7.4	15
893 Lafayette	236%	50%	\$ 2.9	\$ 9.8	\$ 4.4	\$ 5.4	17
692 Lake	0%	0%	\$ 171.3	\$ 171.0	\$ 171.0	\$ 0.0	274
542 Lee, Coastal	206%	50%	\$ 3.5	\$ 10.8	\$ 5.3	\$ 5.5	489
554 Lee, Remainder	2081%	50%	\$ 2.8	\$ 62.1	\$ 4.3	\$ 57.8	4,783
993 Leon	1367%	50%	\$ 4.9	\$ 71.5	\$ 7.3	\$ 64.2	304
594 Levy, Coastal	233%	50%	\$ 8.6	\$ 28.6	\$ 12.9	\$ 15.7	88
734 Levy, Remainder	235%	50%	\$ 3.5	\$ 11.7	\$ 5.3	\$ 6.5	45
931 Liberty	236%	50%	\$ 13.0	\$ 43.5	\$ 19.5	\$ 24.1	1
932 Madison	236%	50%	\$ 2.8	\$ 9.5	\$ 4.2	\$ 5.2	13
582 Manatee, Coastal	211%	50%	\$ 7.8	\$ 24.2	\$ 11.7	\$ 12.5	511
735 Manatee, Remainder	1286%	50%	\$ 4.8	\$ 66.0	\$ 7.1	\$ 58.9	3,343
792 Marion	185%	50%	\$ 39.1	\$ 111.7	\$ 58.7	\$ 52.9	449
182 Martin, Coastal	229%	50%	\$ 26.6	\$ 87.7	\$ 39.9	\$ 47.7	22
010 Martin, Remainder	664%	50%	\$ 11.4	\$ 87.3	\$ 17.1	\$ 70.2	559
005 Monroe, Excl. Key West	219%	50%	\$ 7.1	\$ 22.7	\$ 10.7	\$ 12.0	185
007 Monroe, Key West	237%	50%	\$ 7.4	\$ 25.1	\$ 11.2	\$ 13.9	11
532 Nassau, Coastal	227%	50%	\$ 3.5	\$ 11.4	\$ 5.2	\$ 6.2	215
892 Nassau, Remainder	237%	50%	\$ 3.5	\$ 11.7	\$ 5.2	\$ 6.5	47
606 Okaloosa, Coastal	232%	50%	\$ 10.5	\$ 34.8	\$ 15.7	\$ 19.1	79
723 Okaloosa, Remainder	212%	50%	\$ 2.7	\$ 8.4	\$ 4.0	\$ 4.3	543

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	Indicated Rate	Phased In Rate	Average Current	Average Indicated	Average Phased	Average	
Territory Name	Increase	Increase	Premium	Premium	Premium	Premium Savings	Number Policies of
						from Phase In	with Sinkhole
555 Okeechobee	226%	50%	\$ 5.3	\$ 17.4	\$ 8.0	\$ 9.4	25
049 Orange, Orlando	2021%	50%	\$ 3.5	\$ 74.6	\$ 5.3	\$ 69.4	173
090 Orange, Excl. Orlando	2270%	50%	\$ 3.5	\$ 83.7	\$ 5.3	\$ 78.4	754
511 Osceola	2018%	50%	\$ 3.4	\$ 72.5	\$ 5.1	\$ 67.4	227
362 Palm Beach, Coastal	761%	50%	\$ 12.6	\$ 108.6	\$ 18.9	\$ 89.7	486
038 Palm Beach, Remainder	972%	50%	\$ 4.1	\$ 44.3	\$ 6.2	\$ 38.1	23,880
595 Pasco, Coastal	202%	50%	\$ 1,272.4	\$ 3,842.4	\$ 1,908.5	\$ 1,933.8	1,231
736 Pasco, Remainder	221%	50%	\$ 1,472.3	\$ 4,723.9	\$ 2,208.5	\$ 2,515.5	9,308
042 Pinellas, Coastal	2186%	50%	\$ 3.3	\$ 76.6	\$ 5.0	\$ 71.6	2,367
046 Pinellas, Saint Petersburg	129%	50%	\$ 37.7	\$ 86.4	\$ 56.5	\$ 29.9	14,863
081 Pinellas, Rem. Excl. Saint Pete.	5%	5%	\$ 242.6	\$ 254.6	\$ 254.6	\$ -	31,167
050 Polk	696%	50%	\$ 10.5	\$ 83.6	\$ 15.7	\$ 67.9	488
992 Putnam	230%	50%	\$ 5.5	\$ 18.2	\$ 8.3	\$ 9.9	101
533 Saint Johns, Coastal	2248%	50%	\$ 4.2	\$ 97.7	\$ 6.2	\$ 91.4	670
702 Saint Johns, Remainder	218%	50%	\$ 3.4	\$ 10.9	\$ 5.1	\$ 5.7	345
183 Saint Lucie, Coastal	231%	50%	\$ 13.0	\$ 43.1	\$ 19.5	\$ 23.5	45
562 Saint Lucie, Remainder	286%	50%	\$ 18.5	\$ 71.5	\$ 27.8	\$ 43.7	822
607 Santa Rosa, Coastal	234%	50%	\$ 9.3	\$ 31.1	\$ 14.0	\$ 17.1	7
724 Santa Rosa, Remainder	217%	50%	\$ 9.6	\$ 30.6	\$ 14.4	\$ 16.1	337
583 Sarasota, Coastal	2051%	50%	\$ 3.5	\$ 74.4	\$ 5.2	\$ 69.2	2,256
715 Sarasota, Remainder	1184%	50%	\$ 4.9	\$ 62.8	\$ 7.3	\$ 55.5	4,169
512 Seminole	1007%	50%	\$ 8.0	\$ 88.6	\$ 12.0	\$ 76.6	333
921 Sumter	230%	50%	\$ 3.5	\$ 11.6	\$ 5.3	\$ 6.3	123
933 Suwannee	236%	50%	\$ 11.7	\$ 39.3	\$ 17.6	\$ 21.7	19
596 Taylor, Coastal	236%	50%	\$ 167.8	\$ 563.1	\$ 251.7	\$ 311.4	37
737 Taylor, Remainder	237%	50%	\$ 6.5	\$ 22.0	\$ 9.8	\$ 12.2	8
922 Union	237%	50%	\$ 3.4	\$ 11.4	\$ 5.1	\$ 6.4	7
062 Volusia, Coastal	203%	50%	\$ 5.4	\$ 16.3	\$ 8.1	\$ 8.2	901
063 Volusia, Remainder	1775%	50%	\$ 3.2	\$ 60.0	\$ 4.8	\$ 55.2	3,476
608 Wakulla, Coastal	234%	50%	\$ 9.8	\$ 32.6	\$ 14.6	\$ 18.0	26
725 Wakulla, Remainder	235%	50%	\$ 7.7	\$ 25.8	\$ 11.6	\$ 14.2	22
609 Walton, Coastal	227%	50%	\$ 11.1	\$ 36.1	\$ 16.6	\$ 19.5	137
726 Walton, Remainder	236%	50%	\$ 6.2	\$ 21.0	\$ 9.4	\$ 11.6	17
934 Washington	236%	50%	\$ 3.7	\$ 12.5	\$ 5.6	\$ 6.9	9