

Review of Florida Property Insurance

KEY PLAYERS



Jeb Bush
Florida Governor
1999-2006



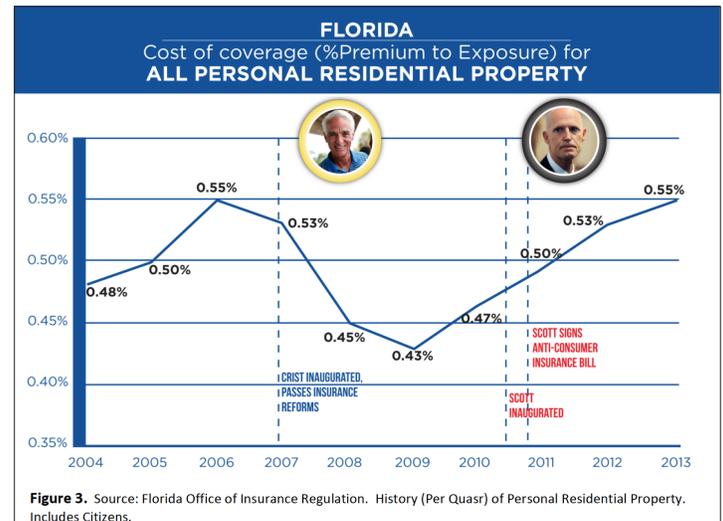
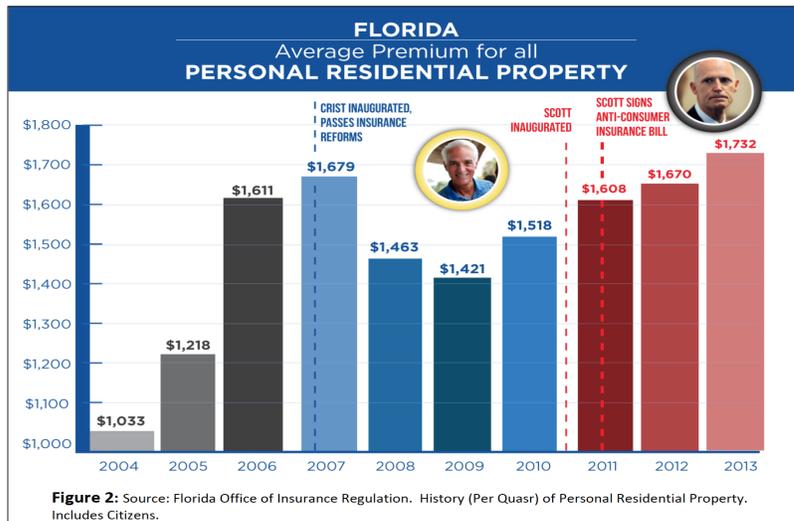
Charlie Crist
Florida Governor
2007-2010



Rick Scott
Florida Governor
2011-Current

Crist Campaign Myth: Homeowners insurance premium in Florida declined as a result of changes made by Crist during his administration from 2007-2010, specifically the passage of House Bill 1A (HB1A)

The "Protecting Your Paycheck" brochure published by Charlie Crist's campaign attributes the decline in premium to Crist putting consumers ahead of insurance companies. The campaign also indicates that homeowners insurance premiums have increased under Governor Rick Scott's administration because Governor Scott puts insurance companies ahead of consumers. To reinforce and clearly present this argument, the Crist campaign produced the following two charts that were based on data compiled by the OIR:



Fact: Homeowners insurance premiums declined during Crist's administration as a result of changes that were made prior to his election as Florida's Governor.

There is an 18- to 24-month time lag from the time insurance law changes are made to when premium changes are reflected in the market and policyholders are affected. The lag occurs because insurance companies are required by law to complete the following:

1. Design policy forms to reflect law changes
2. Submit new forms in a filing for approval by the Office of Insurance Regulation (OIR)
3. Once approved by the OIR, insurance companies must then program changes into their systems
4. Changes are implemented over the 12-month renewal cycle (policy term), and are not provided to all policyholders at once

This makes it impossible for law changes to have an immediate impact on the market. Therefore, the decrease in homeowners insurance premium from 2007 to 2009 was primarily the result of changes to law that were made prior to the start of Crist's term as Florida Governor. Additionally, the increase in homeowners insurance premiums from 2011 to 2013 was the result of changes to law that were made when Charlie Crist was serving as Florida's Governor and not because of actions taken by Governor Rick Scott.

The role of windstorm mitigation credits

During Jeb Bush's administration (January 2009-2007), he approved changes to insurance law that required insurance companies to offer discounts to homeowners in Florida who had homes with features, such as shutters, to better withstand windstorm damage. These discounts are known as windstorm mitigation credits (WMC).

History of windstorm mitigation credits:

- 2000** Section 627.0629 of Florida Statute was amended to provide that rate filings for residential property insurance include "actuarially reasonable" discounts, credits or other rate differentials for homes that had features which had been demonstrated to reduce the amount of a loss in a windstorm.
- 2003** The OIR issued Informational Memorandum OIR-03-001M which stated that only credits for wind mitigation should be offered to homeowners. However, the OIR limited the credits to 50% of the amount recommended by Applied Research Associates (ARA) in a study conducted for the OIR.
- 2006** The OIR amended Rule 690-170.017 F.A.C. to require insurers to make new rate filings by March 1, 2007 to double wind mitigation credits to 100% of the ARA's indicated value.

The doubling of wind mitigation credits in December 2006, without a change in base rates, significantly reduced the homeowners insurance premium paid by millions of Floridians. A report on wind mitigation credits, which was prepared in March 2010 by Risk Management Solutions, Inc. (RMS) for the Florida legislature under contract to the Florida Department of Financial Services, reached the following conclusion:

"In its current implementation (i.e. normalized to the weakest building), the WMC table allows 99% of the homes in the state to qualify for some level of credit. At present, RMS estimates that, with 20% of the population inspected, average statewide premiums have reduced by 20%. If the WMC system continues in the absence of a base rate offset, the average premium reductions could ultimately reach 35%."

That same year, studies of WMC prepared by Florida State University and the Florida Commission on Hurricane Loss Projection Methodology reached similar conclusions. Charlie Crist forgot to add this important fact to his chart, so we did it for him.

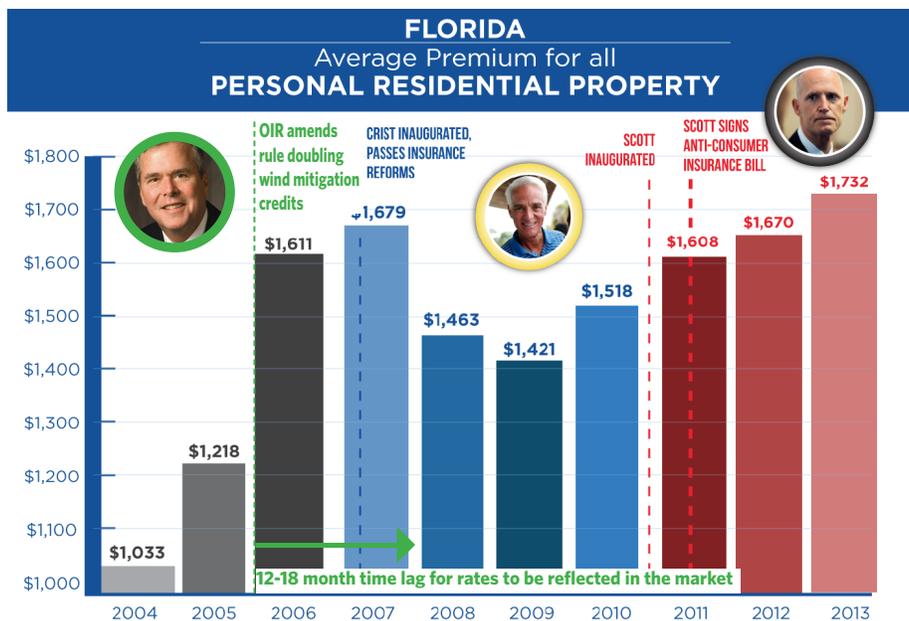


Figure 2: Source: Florida Office of Insurance Regulation. History (Per Quasr) of Personal Residential Property. Includes Citizens.

Conclusion: It was the implementation of wind mitigation credits that caused a decrease in rates, not the policies of Charlie Crist.

The role of the Office of Insurance Regulation

While serving as Florida's Governor, Jeb Bush and Cabinet appointed Kevin McCarty as Florida's first appointed Insurance Commissioner. The appointed insurance commissioner, staff of the Office of Insurance Regulation (OIR), and the rating law that determines how insurance companies file their annual rate requests and how those rate requests are reviewed and approved by the regulators, have remained unchanged for three administrations (Bush, Crist, Scott). This makes it disingenuous for Charlie Crist to state that he moved "aggressively" to change the way property insurance policies are priced and regulated.

The mistake of HB1A and the real impact on Floridians

There are four principal cost drivers of homeowners insurance:

1. Disasters - Florida is subject to more natural hazards (hurricanes, storm surge, floods, and wildfires) than any other state in the US.
2. Amount of Coverage - Florida property owners, on average, purchase more homeowners' insurance coverage than property owners in other states.
3. Cost of Reinsurance - Reinsurance is coverage homeowners insurance companies purchase to protect themselves from hurricane losses and it typically represents at least 35% of the total premium paid for a homeowner's insurance policy.
4. Cost of Non-Hurricane Claims - The cost of claims for damages caused by perils other than a hurricane represents approximately 25% to 35% of the cost of a homeowner's insurance policy.

The last two items can be controlled by changes made to Florida's insurance law. The passage of House Bill 1A in January 2007 was an attempt by Crist while serving as Florida Governor to reduce the cost of reinsurance.

The passage of HB1A in 2007 by Charlie Crist was a short-term fix that created two major problems potentially leaving every policyholder in the state of Florida on the hook for \$36.5 billion:

Problem #1: It increased the amount of reinsurance offered by the Florida Hurricane Catastrophe Fund

HB1A increased the amount of reinsurance coverage provided by the state of Florida through the Florida Hurricane Catastrophe Fund (FHCF). The bill increased the amount of reinsurance coverage available to Florida homeowners' insurance companies from \$16 billion to \$28 billion. HB1A also gave the Governor and Cabinet, acting as the State Board of Administration (SBA), the authority to increase coverage even further by an additional \$4 billion, if circumstances warranted.

This was a major cost-savings for homeowners' insurance companies doing business in Florida because at the time, the cost of the reinsurance provided by the FHCF was more than 50% less than the cost of similar reinsurance provided by private reinsurance companies in London and Bermuda. Insurance companies did not object to these lower costs.

Sounds good, right? Think again.

- » In the event of a storm, every Floridian would be obligated to repay the hurricane loss incurred by the FHCF with interest. This happened after the hurricanes of 2004 and 2005. In the short term, the Florida Hurricane Catastrophe Fund had to issue bonds to raise cash to pay claims. Those bonds were paid off by taxing every auto and homeowners insurance policy with a surcharge of 1.3% of the premium. The total "hurricane tax" on Floridians was nearly \$3 billion for the FHCF. Floridians paid an additional \$1.7 billion to Citizens Property Insurance Corporation to pay for claims from Hurricane Wilma.

This system of post-loss assessments is unfair because, in effect, you end up subsidizing wealthy people or non-residents (seasonal homeowners) who live on the coast or in the most hurricane-prone areas of the state by taxing the auto and homeowners insurance policies of every Floridian.

- » Expanding the amount of reinsurance sold by the FHCF made it more unlikely for the FHCF to be able to pay its claims in full and in a timely manner. Essentially, HB1A created short-term relief in hopes that there wouldn't be any financial crisis during post-disaster recovery.

Charlie Crist assumed that the FHCF (or the state of Florida) would have the ability to raise a significant amount of cash by selling bonds after an event. That is not a sure-bet. It might not always be possible to sell the huge amount of bonds necessary to pay claims. In the summer of 2008, the FHCF faced potential liabilities of \$28 billion. At the time, the FHCF only had \$3 billion in cash on hand. That was supplemented by \$3 billion of pre-event bonds and a \$4.5 billion option from Berkshire Hathaway. Experts at the time estimated that the FHCF could issue an additional \$3 billion in bonds if required to pay claims. That left a shortfall of \$14.5 billion. That meant that the FHCF could only pay 50% of its obligations in the event

of a major storm in 2008. The remaining 50% would result in thousands of Floridians with unpaid claims and no place to live. Fortunately, the state did not experience a hurricane in 2008. **The shortfall in the bonding capacity of the FHCF continued the entire time Crist served as Governor.**

- » There is another issue with the FHCF providing a significant amount of reinsurance in one year and that is the FHCF might not be able to provide any meaningful reinsurance capacity for the year *following* a major hurricane. That would cause a significant increase in homeowners' insurance premium as insurance companies scramble to replace FHCF reinsurance with more expensive reinsurance offered in the private market the year following a major storm.

Problem #2: It decreased the rates charged by Citizens Property Insurance Corporation to the rates charged in 2005 making it more competitive than the private market

Charlie Crist also signed legislation, which made the state-run insurer, Citizens Property Insurance Company, more competitive by decreasing the rates it charged for homeowners insurance by 15% rather than increasing Citizens rates by 18%--the recommended rate increase indicated by the Office of Insurance Regulation. By making Citizens Property Insurance more price competitive, Charlie guaranteed that Citizens would write more business.

What's wrong with that? If there had been a hurricane, these state-run companies did not have the cash to pay all of their potential claims. The shortfall would have been paid by every policyholder in Florida in the form of an assessment applied to every home and auto insurance policy. In 2008, the shortfall between cash on hand and potential claims was \$36.5 billion dollars. **That's \$6,000 for every family in Florida.**

"We would like to be able to say to the legislature that we can pay 100% of our losses, regardless of what happens. Right now, we can't honestly say that we can," ~ Jack Nicholson, COO of FHCF

Source: A.M. Best Company, Inc. August 2011

Charlie Crist Administration			
Year	FHCF Assessable Shortfall	Citizens Assessable Shortfall	Total Assessable Shortfall
2008	\$25,752,400,000	\$10,777,951,778	\$36,530,351,778
2009	\$24,883,728,000	\$10,608,000,000	\$35,491,728,000
2010	\$18,675,000,000	\$4,344,316,000	\$23,019,316,000

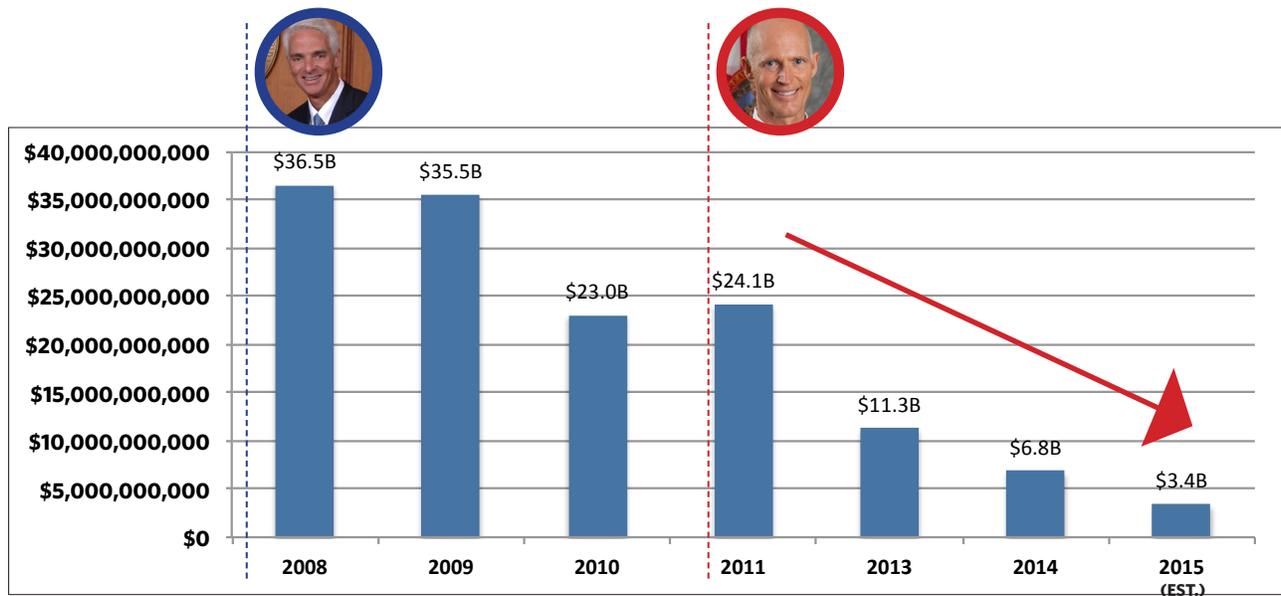
Rick Scott Administration			
Year	FHCF Assessable Shortfall	Citizens Assessable Shortfall	Total Assessable Shortfall
2011	\$12,862,353,937	\$11,228,533,224	\$24,090,887,161
2013	\$7,146,000,000	\$4,144,000,000	\$11,290,000,000
2014	\$4,539,000,000	\$2,290,000,000	\$6,829,000,000
2015 (Est.)	\$3,400,000,000	\$0	\$3,400,000,000

Source: Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments

Every single year that Charlie Crist was in office, Florida did not have enough money to pay 100% of policyholder claims in the event of a hurricane.

Governor Scott feels it is irresponsible to bet on Florida's financial future on whether or not a hurricane hits.

Under Governor Scott, the potential liability for an assessable shortfall in the claims paying capacity of the Florida Hurricane Catastrophe Fund has been reduced from \$36.5 billion to \$6.8 billion, that's a reduction of 80%. **That decreases the potential cost from \$6,000 per family under the Crist administration to \$1,000 per family under the Scott administration.**



Source: Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments

If Governor Scott is re-elected, it's estimated that the liability for a potential shortfall will be reduced to less than \$500 per family by the summer of 2015.

Charlie doesn't agree with Governor Scott. Charlie has said that, if he's elected in November, he wants to increase the size of the Florida Hurricane Catastrophe Fund like he did in 2007. That would add billions of dollars in potential liabilities to hard working Floridians that are struggling to pay their bills. It's a bad bet for Florida. We don't have to gamble with Florida's future, hoping a hurricane won't hit.

Lynne McChristian of the Insurance Information Institute labeled the Scott model as "pay now" while Crist's is offering "pay later."

"The pay-later model is the riskiest. It puts taxpayers — all taxpayers, not just policyholders of Citizens --- at risk for long-term assessments, forces the state to borrow money that may not be easy, cheap to find and can pile up debt for years after multiple storms," McChristian said. **"Crist's rate-reduction proposal appears "arbitrary," rather than based on actual claims costs, which include historical losses from natural disasters."**

Source: The News Service of Florida, October 8, 2014

In 2009, Crist Reverses Course to Correct Issues Resulting From HB1A, Leaving a Trail of Increased Costs in Homeowners Insurance for Years to Come

To correct this mistake, the legislature passed and Crist signed HB 1495 in 2009. That bill resulted in the following:

- Increased the cost of reinsurance provided by the FHCF by 25%
- Eliminated the authority of the Governor and the Cabinet to increase the amount of coverage provided by the FHCF by \$4 billion
- Reduced the amount of coverage provided by the FHCF by \$12 billion over a period of 4 years

The premium increases caused by HB1495 would be felt by Floridians for years to come. Citizens' customers would start to see increases in 2010 and non-customers would start to see increases in 2011.

The cost of non-hurricane claims rises while Crist is in office.

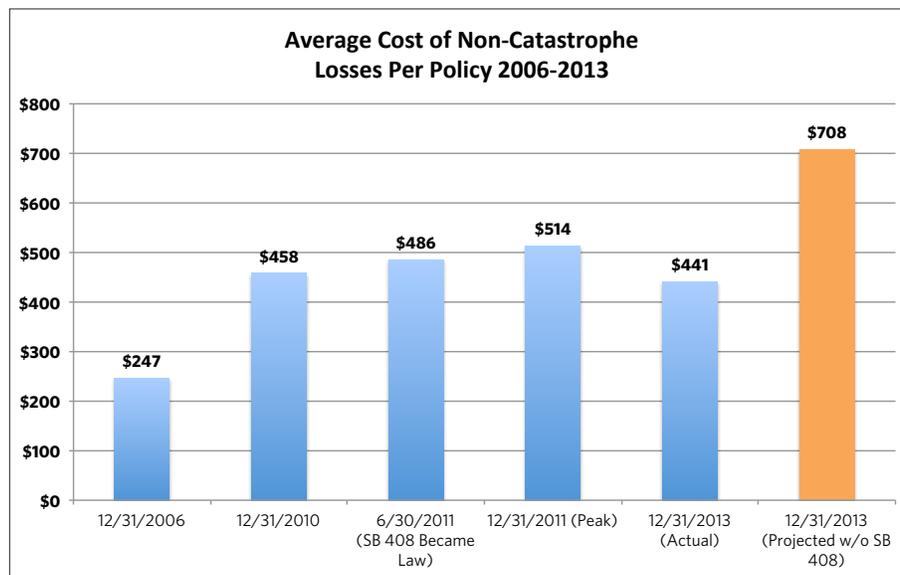
During the time that Charlie Crist was Governor, the cost of non-hurricane claims rose dramatically. Between December 31, 2006 and December 31, 2010, costs increased 85.4% from \$247 to \$458 per policy. If this trend continued, it was estimated that the cost per policy would reach \$708 by December 31, 2013. After grossing up the projected loss cost increases by 20% to cover the increased company expense and premium tax owed on the increased premium, the price of homeowners insurance for the average Florida homeowner would increase by \$300 unless the law was changed.

During Charlie Crist's administration and while running for U.S. Senate, he had a chance to stop rising claims costs. He chose not to by vetoing SB 2044 in 2010. This bill, if passed into law, would have reduced claim costs by eliminating the fraud that was occurring with sinkhole and water damage claims. Therefore, the veto of SB 2044 prevented Florida policyholders from obtaining a premium decrease on their homeowners insurance and could be viewed as anti-consumer.

The announced reason for the veto was the inclusion of a provision in the bill that allowed insurance companies to make an expedited rate filing for changes in reinsurance costs. Ironically, that same provision (passed when SB 408 was signed into law by Governor Rick Scott in 2011) is what made it possible for insurance companies to quickly pass along premium decreases to Florida policyholders due to a decline in reinsurance costs.

"[Charlie] yet again has found a way to mischaracterize the substance of legislation to advance his own political career," said Atwater, President of the Florida Senate. "Once again he is the master of the game."

Source: Palm Beach Post, June 2, 2010



Source: ISO HO FastTrack

By signing SB 408 in 2011, Governor Scott put a stop to rising costs. In fact, the cost of non-catastrophe claims per policy are 3.7% less today than they were when he first took office.

In 2010, Governor Rick Scott is hired to clean up the mess left behind by Charlie Crist

In contrast to Charlie Crist's risky approach of increasing the amount of reinsurance sold by the FHCF, Governor Scott has concentrated on reducing premiums by attacking the other "cost drivers" which increase premiums. The most important change was allowing insurance companies to pay the actual cash value of a loss upfront and simply requiring people to repair the damage to their homes prior to receiving the balance of their replacement cost coverage. This reduced insurance claim costs, and by requiring repairs, improved neighborhoods after homes were damaged.

Charlie Crist's campaign brochure has labeled this change (passed in 2011 as part of SB 408) as "anti-consumer." In fact, this change simply returns Florida law to where it was prior to 2006. And, it is consistent with the law in 49 other states. This provision was part of SB 2044 which Charlie vetoed in 2010 when he was running for US Senate. He didn't mention this provision in his veto message, and it could easily be argued that the veto delayed the premium reductions that consumers are now seeing by 12 months.

Crist's campaign brochure also did not mention the fact that SB 408 tripled the amount of money required to start a new homeowner's insurance company from \$5 million to \$15 million, strengthening Florida's private homeowners insurance market and increasing financial requirements of insurance companies. It would be hard to characterize this provision as "anti-consumer" and "pro-insurance company."

Charlie Crist's Promises This Year

Let's look at Charlie's five campaign promises that are outlined in "Protecting Your Paycheck" brochure:

Charlie's 1st Promise: Work to lower insurance premiums by doing things like requiring insurance companies pass reinsurance savings on to consumers. This is already the law in Florida. Insurance companies are required to make an annual rate filing that reflects their true costs of doing business. That filing must be signed by officers of the company under oath. That makes it a crime to submit false information.

What Charlie's Campaign brochure didn't tell you is that for the first time in five years, homeowners' insurance rates are going down, not up. In the last 18 months, 24 insurance companies that provide homeowners' insurance to over 50% of the people in Florida have reduced their prices. These price reductions have averaged 5.9% and have been as high as 17%. Even more exciting is the fact that these price reductions are going to continue next year because both Citizens and the FHCF are going to remove the 2.3% assessment, which many people call a hurricane tax, that has been added to the price of every home and auto policy in the state of Florida since the hurricanes of 2004 and 2005.

To provide a more accurate view of what's really happening in Florida homeowners' insurance market, we have added data from the June 30 Quarterly Supplemental Report issued by the Florida Office of Insurance Regulation to the two charts that originally appeared in Charlie Crist's campaign brochure.

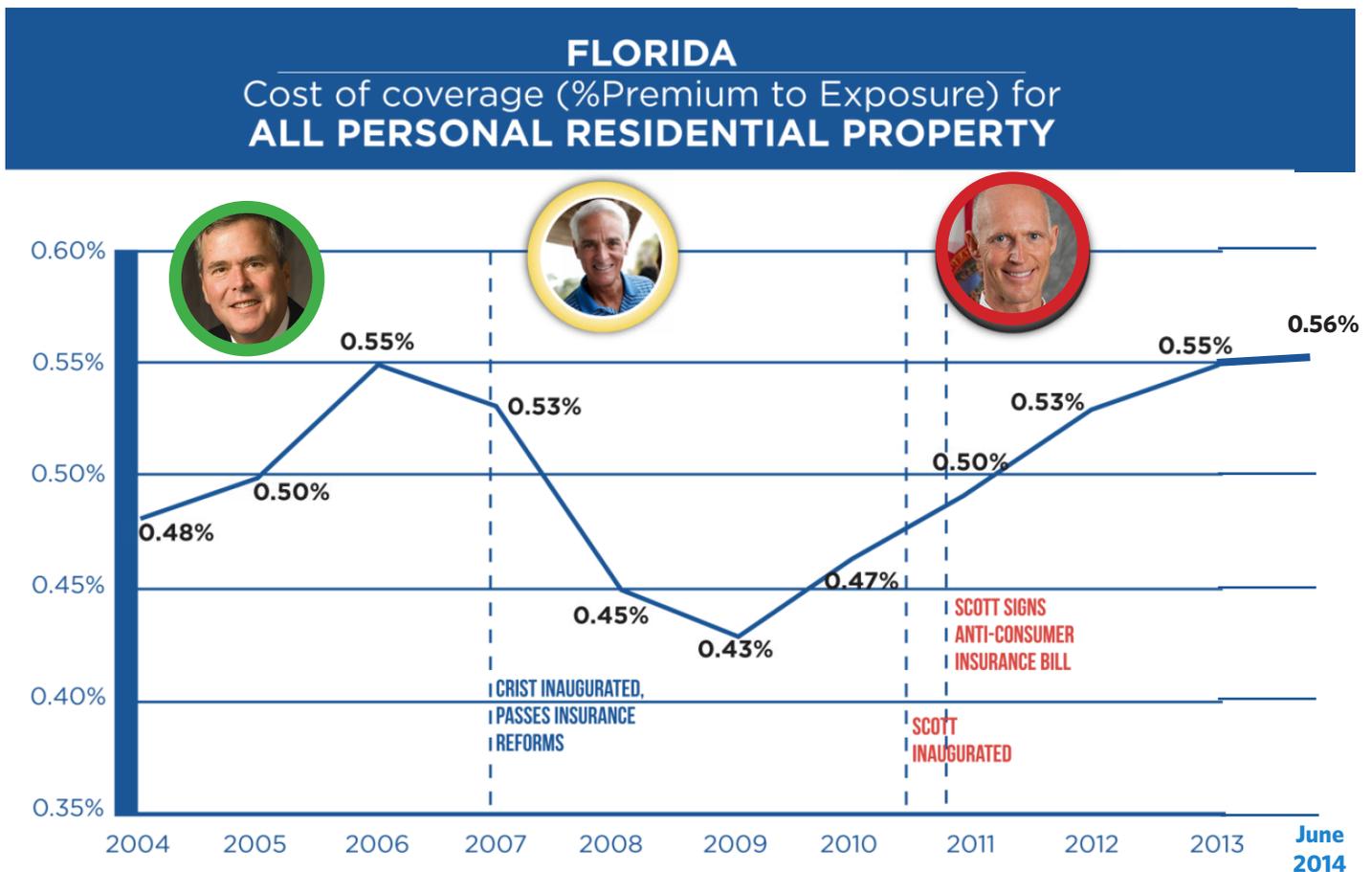


Figure 3. Source: Florida Office of Insurance Regulation. History (Per Quasr) of Personal Residential Property. Includes Citizens.

FLORIDA

Average Premium for all PERSONAL RESIDENTIAL PROPERTY

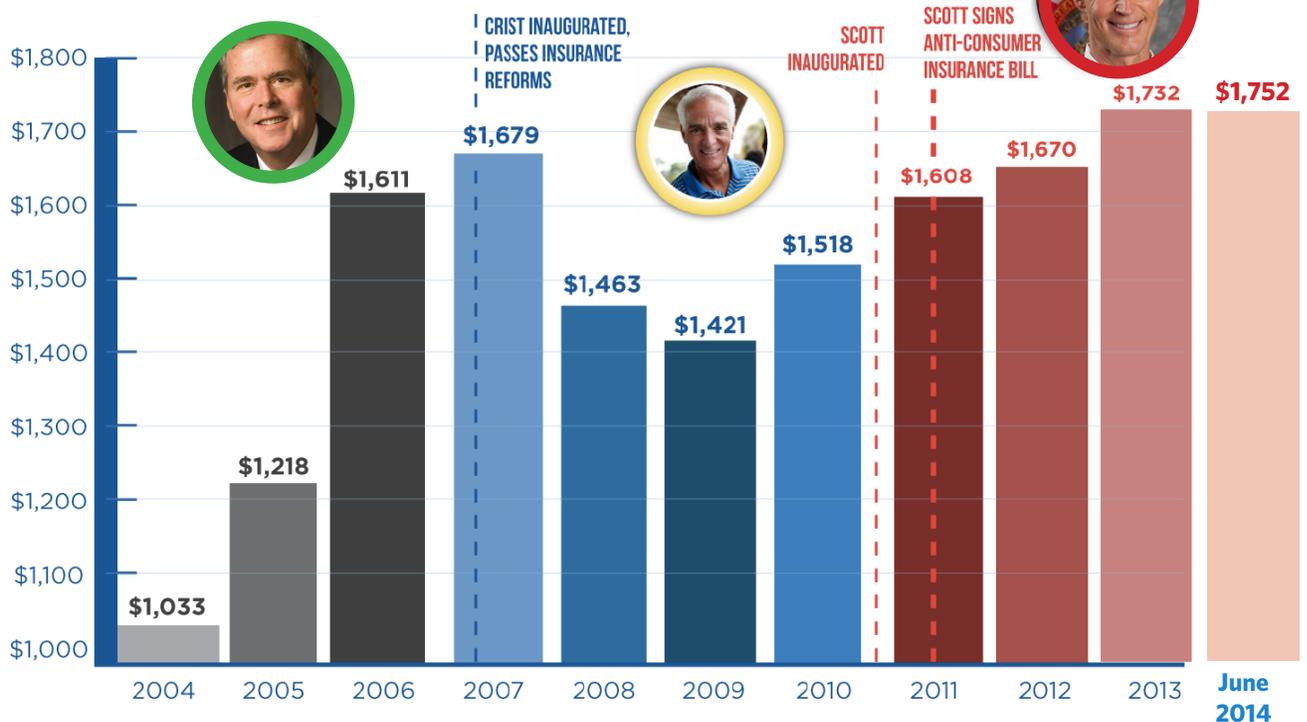


Figure 2: Source: Florida Office of Insurance Regulation. History (Per Quasr) of Personal Residential Property. Includes Citizens.

These two charts make several things clear:

- The rapid increase in average policy premium that Florida policyholders experienced beginning in 2010 has stopped and will likely decrease in 2015 with the removal of the 2.3% hurricane tax and as homeowners' insurance companies continue to lower rates.
- The cost of coverage (% premium to exposure) has leveled off. Surprisingly, the cost of coverage is the same as it was when Jeb Bush was in office in 2006.

Charlie's 2nd Promise: Work with the legislature to repeal anti-consumer insurance laws passed by Rick Scott. The Crist campaign brochure only mentions SB 408 passed in 2011 as anti-consumer. According to the Crist campaign the following provisions of SB 408 are objectionable:

- Reducing the time limit on filing a claim for hurricane damage from five years to three years. Response: The homeowners' insurance policy requires prompt notice of any claim. Do you really need more than three years to figure out that your home has been damaged by a hurricane?
- Allowing companies to increase the deductibles on sinkhole activity coverage to as much as 10%. Response: That's a lie. HB1A, which Charlie championed in 2007 removed sinkhole activity coverage from the base homeowners' insurance policy and made it an optional endorsement by amending F.S. 627.706 (section 30 of the bill). This change to the law required consumers who wanted sinkhole activity coverage to pay an additional premium for coverage that was previously included in the base homeowners' insurance policy. F.S. 627.706 provided that insurance companies "may" include a deductible amount of 1%, 2%, 5%, or 10% of the policy dwelling limits. Neither HB1A passed in 2007 nor SB408 passed in 2011 changed that portion of the law.
- Requiring the payment of actual cash value (ACV) up front for losses to a structure and making the payment of the full replacement cost subject to completing repairs. According to the Crist campaign brochure "the new law made it harder for residential and commercial property owners to recover losses" and "it limited the amounts of recovery in some circumstances to actual cash value (the value of the property minus depreciation) instead of the replacement costs." Response: SB 408 simply returned Florida law to where it was prior to 2006. The provision in SB 408 is the same as the law in every other state in the United States. Requiring a damaged home to be repaired after a loss is simply good public policy. There is no evidence that this method of loss payment makes it harder for consumers to get paid or limits the amount of their recovery as claimed by the Crist campaign.

Charlie Crist's campaign has also characterized the reductions in coverage sold by Citizens Property Insurance Company as anti-consumer and blamed those changes on Governor Rick Scott. That's not true. In fact, Citizens' coverage changes were developed by Citizens' staff and approved by Citizens' Board of Governors. Only two of the eight members of the Citizens' Board of Governors are appointed by Governor Rick Scott. The majority of the coverage changes made were designed to decrease Citizens' exposure to a hurricane loss and therefore decrease the likelihood of an assessment. The major coverage changes for Citizens that occurred over the last four years include:

- Eliminate coverage for homes valued over \$1 million.
- Reduce coverage for contents in the base policy from 50% of the structure coverage to 25%. Consumers were offered the option to increase the coverage by paying an additional premium. Very few chose to purchase the additional coverage.
- Reduce coverage for appurtenant structures in the base policy from 10% of the structure coverage to 2%. Consumers were offered the option to increase the coverage by paying an additional premium, but most elected not purchase the coverage.
- Eliminate the option to increase personal liability coverage from \$100,000 - \$300,000.

The only change in Citizens' coverage mandated by SB408 was that sinkhole activity coverage provided by Citizens Property Insurance Corporation could not cover losses to appurtenant structures, driveways, sidewalks, and patios.

Charlie's 3rd Promise: Require transparency for all insurers. In response to the Pulitzer Prize winning series by Paige St. John in 2010, the legislature in SB 2044 gave the OIR expanded authority to examine MGAs and required the extensive reporting of intercompany transactions and the financial results of affiliated companies. Charlie vetoed that bill.

Charlie's 4th Promise: Increase the coverage of the FHCF. That's a bad idea for Floridians. It was tried in HB1A in 2007 and abandoned in HB 1495 in 2009. The cost of reinsurance being provided by the FHCF could be reduced by eliminating the rapid cash build-up factor (currently 25% of premium) and lowering the retention of the FHCF.

Charlie's 5th Promise: Advocate for a national catastrophe fund. That's an appropriate position for a candidate running for the US Senate. A national catastrophe fund will increase the burden on taxpayers, weaken the private market, and incentivize building in environmentally sensitive areas.

Governor Scott's Record of Positive Changes to Florida's Homeowners' Insurance Market

In 2013, in a report to the Florida Legislature entitled The State of Florida's Property Insurance Market, researchers at Florida State University concluded:

"There are three main benefits to having the private market: accurate pricing of risk, incentives to mitigate, and diversification of risk beyond Florida"

Governor Scott's first term has been marked by efforts to reduce the role of the state government in providing homeowners insurance and reinsurance to Floridians, decreasing premiums by attacking the "cost drivers" of premium increases, and by encouraging increased competition among the private companies writing homeowners insurance in Florida. The results have been impressive:

- Homeowners premiums began to decrease in 2013
- The Florida Hurricane Catastrophe Fund has reduced its exposure from \$28 billion to \$14 billion, decreasing the chances of an assessment for future hurricane losses
- The number of policies in Citizens Property Insurance Corporation has been significantly reduced from 1.3 million policies when Governor Scott took office to 900,000 policies today. This reduces the chance of an assessment on non-Citizens customers. These assessments would be similar to the assessments that occurred and were charged to Florida policyholders after Hurricane Wilma.
- Non-catastrophe claims have been reduced by attacking fraud and abuse in the claims process
- New companies have been started. This increases competition - reducing prices and expanding the number of consumer choices for insurance coverage

Charlie Crist wants to reverse these positive trends by duplicating the failed policies that he advocated in 2007 - a bigger role for state government and more state regulation. That didn't work for Florida in 2007 and it won't work for Florida in 2015.

There is more work to do to improve the homeowners insurance market in Florida and make insurance rates as low as possible. The FHCF can and should be reduced further. Citizens can and should be reduced further. Abuses that are occurring daily with the assignment of benefits in water claims can be eliminated.

Let's keep working.