

# Ideas and Concepts to Reduce the Size of Citizens

# Introduction

- To address Citizens continued growth there must be a commitment to using existing opportunities that reduce exposure and promote depopulation as well as a commitment to creating a statutory scheme that provides options that are not currently available.
- This presentation is intended to provide concepts and specific ideas to start the discussion.

# Four Key Principles

- Existing statutory provisions encourage Citizens competitiveness with the private market which directly results in growth in Citizens policy count and exposure.
- Citizens can take operational action under current law which may encourage some policy movement to the private market.
- Operational changes which improve loss results positively impact Citizens' surplus/reserves resulting in lower potential assessments to Citizens' customers and all Florida policyholders.
- Operational changes which reduce losses after a catastrophic event could result in lower potential assessments to the Florida insurance buying public.

# Reducing the Size of Citizens

- Gain agreement on strategic role of Citizens in the Florida market and align purpose of Citizens with action plan
- Why Agents Place Business with a Company
  - Price
  - Availability
  - Coverage
  - Eligibility
  - Commission
  - Financial Strength/Reinsurance
  - Ease of Doing Business
- Why Agents Place Business with Citizens
  - Price
  - Eligibility
  - Coverage
  - Financial Perception (Backed by the State)

# Statutory language that encourages growth

- **Statutory Cap on Citizens Rates**
  - Statute requires Citizens to charge actuarially sound rates, however 10% glide path limits attaining actuarially sound rates.
  - Private market continues to increase rates, resulting in greater disparity.
- **Statutory Eligibility Based on 15% Rate Differential**
  - Statute provides eligibility if private market quote is more than 15% higher than Citizens' quote for comparable coverage.
  - Prior to 2007, any offer of coverage from an authorized insurer at approved rates rendered an applicant ineligible for Citizens coverage.
  - Glide path limitation ensures that Citizens' rates remains below market, resulting in more policies being eligible.
- **Statutory Requirement that Citizens Provide Equivalent Coverage**
  - Statutory language requires that Citizens offer coverage equivalent to that provided in the private insurance market under an HO-3, HO-4, or HO-6 policy.
  - Statute also states Citizens can adopt variations of the required policy forms that contain more restrictive coverage.

# Statutory language that encourages growth

- Perpetual Statutory Eligibility
  - Florida law now requires only that an applicant demonstrate initial eligibility and once covered by Citizens is not obligated to reestablish statutory eligibility.
  - Policyholders have the ability to decline a takeout offer.
  - Agents have the ability to decline becoming appointed for a takeout company, thus declining a takeout offer on behalf of policyholders.
- The Office of Insurance Regulation (OIR) Establishes Citizens Rates
  - In establishing rates for Citizens OIR should support the maximum rate allowable under the law.

# Actions Recently Taken to Reduce Exposure/Loss Results

- Implementation of Coverage Changes (Effective 1/2012 and 2/2012)
  - Elimination of coverage for screen enclosures, carports and certain detached structures.
  - Introduction of \$10,000 flooring sublimit for cosmetic damage
  - Implementation of coverage changes from SB 408
    - Limiting claims payment to ACV until repairs are made (holdback)
    - Claims Filing Deadline
      - 2 year limit on sinkhole loss reporting
      - 3 year limit on windstorm/hurricane loss reporting
    - Limit coverage for Sinkhole and Catastrophic Groundcover Collapse to principal building.
    - Structural damage required for sinkhole claims

# Actions Recently Taken to Reduce Exposure/Loss Results

## Operational Changes

- Personal Lines
  - Implemented requirement that new sinkhole coverage request be submitted unbound in 4 high risk counties (Effective 10/11)
    - Requires inspection and underwriting approval prior to binding
    - Plan to request OIR approval to extend to additional 14 counties
  - Implemented Re-inspection Program which verifies windstorm mitigation credits (Effective 04/10)
    - Completed over 60,000 inspections to date
    - Estimated 301,000 inspections to be completed in 2012
  - Implemented underwriting requirement for updating older roofs to ensure properties are adequately protected (Effective 08/10)
    - Requiring roof replacement within 25 years or 50 years depending on roof type (require either proof of update or 3 years remaining life)
    - Re-underwriting project now underway to address in-force book



# Actions Recently Taken to Reduce Exposure/Loss Results

- Commercial Lines
  - Implementing Commercial Re-underwriting Program to validate eligibility, data and rate accuracy, and appropriate coverage limits.
    - Program begins with Wind policies over \$8 million; 2000 policies / 24,000 buildings (Effective 3/12)
  - Establishing Commercial Field Underwriting Team to conduct onsite inspections to ensure property eligibility and rate accuracy.

# Consideration of Coverage Changes Permitted by Existing Law

- Personal Lines
  - Require 10% sinkhole deductible
  - Eliminate liability coverage
    - Eliminate watercraft liability
    - Evaluate elimination or reduction in limits for personal liability
  - Eliminate or reduce non-essential coverage from contract
    - Eliminate Additional limits for mold/fungi
    - Reduce/Eliminate Coverage B and C and allow option of buy-back
    - Limit coverage for theft/vandalism when dwelling unoccupied
    - Extend sublimits for higher value Coverage C items (guns, jewelry) to all perils
    - Eliminate coverage for in-land marine, jewelry, furs, etc.
    - Remove coverage for “dropped objects”
    - Limit Ordinance and Law coverage to principal building (currently includes Coverage B)

# Consideration of Coverage Changes Permitted by Existing Law

- Commercial Lines
  - Eliminate Special Class Coverage for the following items:
    - Open sided sheds and carports, greenhouses, gazebos and other like structures
    - Signs, non-masonry fences, other decorative structures
  - Increase All Other Perils Deductibles
  - Eliminate or reduce non-essential coverage from contract
    - Eliminate coverage for Loss of Business Income (Non-Residential Multi-Peril)
    - Introduce sub-limit for mold/fungi (Multi-Peril)
    - Eliminate coverage for “increased cost of construction” (Multi-Peril)
    - Reduce debris removal from \$10,000 to \$5,000 (Multi-Peril)
    - Introduce limits on coverage when buildings are partially vacant (Wind)
  - Eliminate Class B and Class C wind mitigation credits in Commercial Residential Wind Program; adopt 2007 OIR credit tables for multi-family buildings

# Consideration of Statutory Changes

- Increase the current statutory glide-path
  - This will allow rates to become actuarially sound more quickly
- Limit the glide-path to a specified number of years
- Better specify the definition of “actuarially sound” rates as applied to Citizens
- Revise Eligibility Requirements
  - Amend and Ultimately phase out the 15% Eligibility Rule
    - Change the 15% threshold to 25%
    - Sunset this statutory eligibility rule to coincide with the end of the glide-path
  - Require documentation of diligent search of voluntary market.
- Eliminate a policyholders ability to decline a takeout offer
- Eliminate an Agents ability to decline a takeout offer
- Enact Statutory language specifying that Citizens is the insurer of last resort.
- Allow Surplus Lines Insurers to Participate in Depopulation
- Eliminate Commercial Non-Residential Coverage
- Remove new business from glide-path restrictions.
- Allow Citizens to pass through the cost of risk transfer outside of the glide-path
- Prohibit Citizens from reducing rates (reinstitute JUA provision)
- Prohibit the appointment of new agents/agencies

# Consideration of Statutory Changes

- Set maximum coverage limits for all lines of business
- Consider Statutory Coverage Changes
  - Eliminate coverage for all detached structures
  - Require Citizens to offer only basic coverage, not coverage equivalent to HO-3 (Named perils policy)
  - Re-evaluate wind/hurricane deductibles
  - Eliminate non-coastal HO-4 and HO-6
  - Evaluate required coverage limits
  - Increase minimum All Other Perils deductible
- Ensure Citizens rates are non-competitive by requiring that each rate filing include an industry expense equalization factor including a factor for risk load
- Allow Citizens to pass through the cost of risk transfer outside of the glide-path
- Prohibit private insurers from offering a multi-line discount if the property insurance policy is written with Citizens
- Require annual proof that voluntary coverage is not available before renewing with Citizens
- Implement very limited payment plans such as no-mortgagee billed or 100% full payment required.
- Limit Citizens to writing only wind policies

# Consideration of Additional Items

- Commission a mitigation study to re-evaluate wind mitigation credits
- Re-evaluate the process for applying for wind mitigation credits
- Conduct a survey of carriers to better understand barriers to depopulation
- Reduce or eliminate ceding commissions
- Conduct a valuation of Citizens book of business
- Expand application of A Rates
- Cease issuing new commercial and personal lines builders risk policies and allow in-force book to roll off
- Review agent commissions
- Re-underwrite the book of business, including replacement cost calculation and “increase of hazard” consideration
- Reduce the number of agents writing Citizens business by implementing mandatory training and submission quality review
- Invest significantly in Citizens fraud investigative teams to enhance fraud detection efforts.
- Add language to the policy that prohibits the use of public adjusters

# Consideration of Additional Items

- Post information on the website about appointed agents
  - Number of years appointed
  - Number of violations
  - Lines of business written
- Additional risk transfer (traditional reinsurance and/or Cat bonds)
- Eliminate prohibition of takeouts in consecutive months
- Publish Citizens algorithm for allocating policies tagged for takeout by multiple insurers in the same window.
- Evaluate additional new business inspection criteria