PCB IN 06-01
Property and Casualty Insurance

Summary

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PROPERTY INSURANCE PCB

Section 8. Citizens' Provisions: Homestead/Non-Homestead Property

Separate treatment for homestead property and non-homestead property

Restructure Citizens to remove the subsidy from any properties other than primary residences of Florida residents. Citizens would still make coverage available to all property owners who are currently eligible for Citizens, but the current system which assesses all Florida property owners when Citizens sustains a deficit would apply only with respect to Citizens coverage of homestead properties.

For homestead properties, rate adequacy to cover 50-year PML

Retain existing requirements for Citizens rates, and add a provision stating that rates will be deemed to be inadequate if they are not sufficient to generate the funding (through cash flow, interest earnings, Cat Fund coverage, private reinsurance, and other funds) to enable Citizens to sustain a 50-year Probable Maximum Loss event in any year without creating a deficit in any Citizens account covering homestead property.

Use the current assessment base to protect homestead properties

Eligibility for homestead accounts. Retain the three existing Citizens accounts (commercial-residential, personal lines, and high-risk), but eligibility for coverage under these accounts is limited to properties (single family homes, condo units, and certain condo associations) qualified as homestead property as defined by law. With respect to condominium association policies, the association would be eligible for a Citizens policy only if at least 50% of the units in the association are qualified as homesteads.

Coverages; wind-only vs. full coverage. The coverages provided and the geographic areas eligible for wind-only policies would be the same as they are today.

Deficit assessments. In the event of a deficit in one of the homestead-only accounts, the assessment process and the assessment base would be the same as they are today.

For non-homestead properties, turn Citizens into a non-subsidized insurance pool

Non-homestead account. Create a new Citizens account for non-homestead properties. This account would write windstorm-only policies (residential, commercial-residential, and commercial-commercial) in the Citizens high-risk area and would write full personal lines residential policies in the rest of the state.

Rate adequacy to cover a 250-year PML. Retain existing requirements for Citizens rates, and add a provision stating that rates for the non-subsidized pool will be deemed to be inadequate if they are not sufficient to generate the funding (through cash flow, interest earnings, Cat Fund coverage, private reinsurance, and other funds) to enable Citizens to sustain a 250-year Probable Maximum Loss event in any year without creating a deficit in the non-homestead account.

Assessable policies for non-homestead properties. The non-homestead account would, somewhat like a self-insurance fund, issue assessable policies. When the resources of the account are not sufficient to pay current and anticipated claims and expenses, Citizens would levy an assessment, payable immediately rather than upon policy renewal, on all non-homestead account policyholders. If these mid-term assessments were insufficient to pay current and anticipated claims and expenses, Citizens could also levy an assessment payable upon issuance or renewal of any Citizens non-homestead policy.

Each assessment on Citizens non-homestead policies would be capped at 100% of premium.

In the event that these assessments were not sufficient to pay current and anticipated claims and expenses, Citizens could provide a loan from another account to the non-homestead account, payable on terms and conditions determined by the Citizens board.

Deductibles. The minimum deductible for properties covered by the non-homestead account with an insured value of $250,000 or more would be 5% of the insured value

Disclosures. The assessable nature of the Citizens non-homestead policies would be displayed prominently on the application and declarations page, and the policyholder would have to sign an acknowledgement before the policy could be issued. The disclosures would also include a notice that alternative coverage under a non-assessable policy may be available in the non-admitted insurance market.

Fraud. (Section 15) The statute prohibiting false or fraudulent insurance applications would be amended to specify that a fraudulent claim of homestead status in connection with issuance or renewal of a Citizens policy constitutes felony insurance fraud.

Advantages

1. The use of the 50-year PML as the benchmark for rate adequacy for homestead properties and the use of the 250-year PML as the benchmark for rate adequacy in the non-subsidized pool should assure that Citizens would have enough premium revenue to procure reinsurance to cover losses not covered by the Cat Fund and should substantially reduce the amount and likelihood of assessments.

2. Peeling off the non-homestead properties from the main part of Citizens substantially reduces the potential size of the losses that could ultimately result in assessments on the general public. Additionally, to the extent that the current system constitutes a subsidy that transfers money from property owners generally to high-risk coastal property owners, this approach has the advantage of limiting that subsidy to a person's primary residence and excluding vacation homes of non-residents and Florida residents alike.

3. Many owners of coastal non-homestead properties would seek coverage in the non-admitted market, deciding that they were better off with a non-assessable surplus lines policy, even though it might initially cost more than the assessable Citizens non-homestead policy. A larger role for non-admitted insurers is an answer to the question of how Florida can attract new capital to its insurance markets.

Section 8. Homestead Intent Language

Adds language to 627.351(6)(a) further clarifying that the legislative intent for "Citizens" is that "The corporation shall provide insurance for homesteaded residential property and may provide insurance for residential and commercial property…"

Section 8. Citizens Eligibility Revised

Restricts eligibility for homeowner's insurance with Citizens to homes with a dwelling value less than $1 million. Exempts admitted insurers in the private market who want to insure these homes from the OIR's rate approval.

Section 8. Citizens Windstorm Boundaries

Delays the implementation of the Citizens' windstorm boundary reduction until 2010 & 2015.

Section 8. Policy and Claims Administration of Citizens' Claims By Private Insurers

Requires private insurers to provide claims servicing functions for wind only policies currently written by Citizens to streamline the adjusting process for the consumer.

Requires Citizens to reimburse the private insurers for services rendered.

Section 8. Ethical Requirements for Citizens' Employees

Requires Citizens' employees and members of its board of governors to comply with the Code of Ethics for public employees and officers.

Section 1. Homestead Tax Assessment Exemption

Exempts hurricane mitigation improvements to homestead property from increasing the property's assessed value. Mitigation improvements included are: storm shutters, impact-resistant glazing, hurricane clips or straps, or generators for disaster preparedness.

Section 2. CAT Fund Premium Revision

Provides language for a 25% rapid cash build-up in the CAT Fund.

Sections 3 & 4. Mitigation Endowment

Creates the Florida Hurricane Damage Prevention Endowment. The endowment would provide for **no interest** loans for the purpose of hurricane damage prevention based on the following priorities:

a. single-family owner-occupied dwellings located in the areas designated as high-risk areas for purposes of Citizens Property Insurance Corporation coverage
b. single-family owner-occupied dwellings covered by Citizens Property Insurance Corporation, wherever located.
c. single-family owner-occupied dwellings that are more than 40 years old
d. all other single-family owner-occupied dwellings
e. all other residential properties

Program is available to only homestead property with an insured value of $500,000 or less.
Program is administered through commercial financial institutions.
Appropriates $100 million endowment.

Section 5. Rate Modernization

Allows residential property insurers to increase or decrease their filed rates by 10% statewide or 25% within a rating territory without OIR approval of the rate change.

Requires annual reports regarding the impact of flexible rate regulation.

Section 6. Use Of Hurricane Models In Rate Filing

Limits the OIR and the Insurance Consumer Advocate from questioning specified aspects about the hurricane models an insurer uses to justify its rate filing if the Florida Commission on Hurricane Loss Projection Methodology has reviewed the hurricane model used.

Section 7. Public Hearings on Rate Filings

Requires a public hearing on residential property rate filings of 25% or more, rather than 15%.

Section 9. Electronic Payment of Claims

Facilitates the payment of insurance claims by electronic means.

Section 10. Law and Ordinance

Clarifies that unless the policyholder refuses law and ordinance coverage, the policy is deemed to include law and ordinance coverage at 25% of the dwelling limit.

Section 10. Replacement Costs

Requires insurers to pay replacement costs without reservation or holdback of any depreciated value on dwellings only. That requirement is deleted for personal property.

Section 11. Natural Disaster Emergency Rule Making

Requires the OIR to adopt rules in advance of the disaster regarding claim reporting, premium payment, and temporary postponement of cancellations and non-renewals for use in natural disaster situations.

Prohibits emergency rulemaking in these three areas.

Sections 12, 13 & 14. FIGA Hurricane Bonds

Authorizes the Florida Insurance Guaranty Association (FIGA) to contract with a city or county, or a combination of such entities, to issue tax-exempt revenue bonds for hurricane recovery. The provisions of the bill closely follow the law enacted by the 1992 Legislature to enable FIGA to pay the hurricane-related claims of insurers who became insolvent following Hurricane Andrew. As in 1993, FIGA will guarantee the tax-exempt bonds through the imposition of an emergency assessment of up to 2 percent in addition to the regular FIGA assessment. The guaranty association is authorized to charge the emergency assessment for the life of the bonds.

Section 15. Fraud Provisions

The statute prohibiting false or fraudulent insurance applications would be amended to specify that a fraudulent claim of homestead status in connection with issuance or renewal of a Citizens policy constitutes felony insurance fraud.

Section 16. Repeal of Panhandle Exemption to the Florida Building Code

Requires all of Florida to comply with the existing building code regarding hurricane protection and wind-resistant features.

Section 17. Effective Date.

Provides for an effective date of upon becoming a law.