Insurance & Banking Subcommittee

Wednesday, September 25, 2013
9:00 AM
404 HOB

Will Weatherford
Speaker

Bryan Nelson
Chair

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

Insurance & Banking Subcommittee

Start Date and Time: Wednesday, September 25, 2013 09:00 am

End Date and Time: Wednesday, September 25, 2013 11:00 am

Location: Sumner Hall (404 HOB)

Duration: 2.00 hrs

Presentations and discussion on the following:

--Surplus Lines Insurance
--Implementation and Impact of the 2011 Changes in the Insurance Laws Relating to Sinkholes
--The National Flood Insurance Program

NOTICE FINALIZED on 09/18/2013 15:58 by Ellinor.Martha

The Florida House of Representatives

Regulatory Affairs Committee

Insurance & Banking Subcommittee

Will Weatherford
Speaker

Bryan Nelson
Chair

AGENDA

Wednesday, September 25, 2013
404 HOB
9:00 am – 11:00 am

I. Call to Order

II. Roll Call

III. Presentations and discussion on the following:

A. The National Flood Insurance Program
Richard Koon, Deputy Commissioner of Property & Casualty
Florida Office of Insurance Regulation

B. Surplus Lines Insurance
- *Richard Koon, Deputy Commissioner of Property & Casualty Florida Office of Insurance Regulation*
- *Gary D. Pullen, Executive Director, The Florida Surplus Lines Service Office*

C. Implementation and Impact of the 2011 Changes in the Insurance Laws Relating to Sinkholes
- *Richard Koon, Deputy Commissioner of Property & Casualty Florida Office of Insurance Regulation*
- *Barry Gilway, President/CEO and Executive Director, Citizens Property Insurance Corporation*

IV. Adjournment

303 House Office Building, 402 South Monroe Street, Tallahassee, Florida 32399-1300
(850) 717-4873 Fax: (850) 413-0419

National Flood Insurance Program

FLORIDA OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
Insurance Commissioner

The Biggert-Waters Flood Insurance Reform Act of 2012

House Insurance & Banking Subcommittee

September 25, 2013

Richard Koon,
Deputy Commissioner of Property & Casualty

What is the Biggert-Waters Flood Insurance Reform Act of 2012?

- 5-year federal extension of the National Flood Insurance Program (NFIP)

- Comprehensive reform
  - flood insurance
  - flood hazard mapping
  - grants
  - management of floodplains

Source: FEMA/NFIP

FLORIDA OFFICE OF INSURANCE REGULATION

Why was the Biggert-Waters Flood Insurance Reform Act of 2012 passed?

- Recurring financial deficits/subsidized policies
- Unsustainable premium structure
- Premium structure must reflect the true risks and costs of flooding

Source: FEMA/NFIP

Factors Affecting Flood Insurance Premiums

- Type of building
- Number of floors
- Basement or enclosure
- Flood mitigation techniques (breakaway walls and flood-vents, elevation of the lowest floor)
- Geographic location in reference to flood hazards identified by the community and FEMA

Source: FEMA/NFIP

Florida Office of Insurance Regulation

Key Focus for Rate Impact

- Subsidized policies (not “full-risk rate”)
- Policies affected by remapping

Source: FEMA/NFIP

What Effect will the Act Have on Rates and When?

Date of Implementation	Who Is Affected	What Will Happen
January 1, 2013	Non-primary residences	25% increase in premium each year until full risk rate
October 1, 2013	Owners of business properties, severe repetitive loss properties	25% increase in premium each year until full risk rate
October 1, 2013	Newly insured properties	Full-risk rate
Late 2014	Property owners affected by map changes	Full-risk rate will be phased in over 5 years at a rate of 20% per year until full-risk rate

Source: FEMA/NFIP

NFIP Rate Status Nationally

Nationally: 5.6 million policies

Full-Risk Rates:

80% of policies (4.48 million policies)

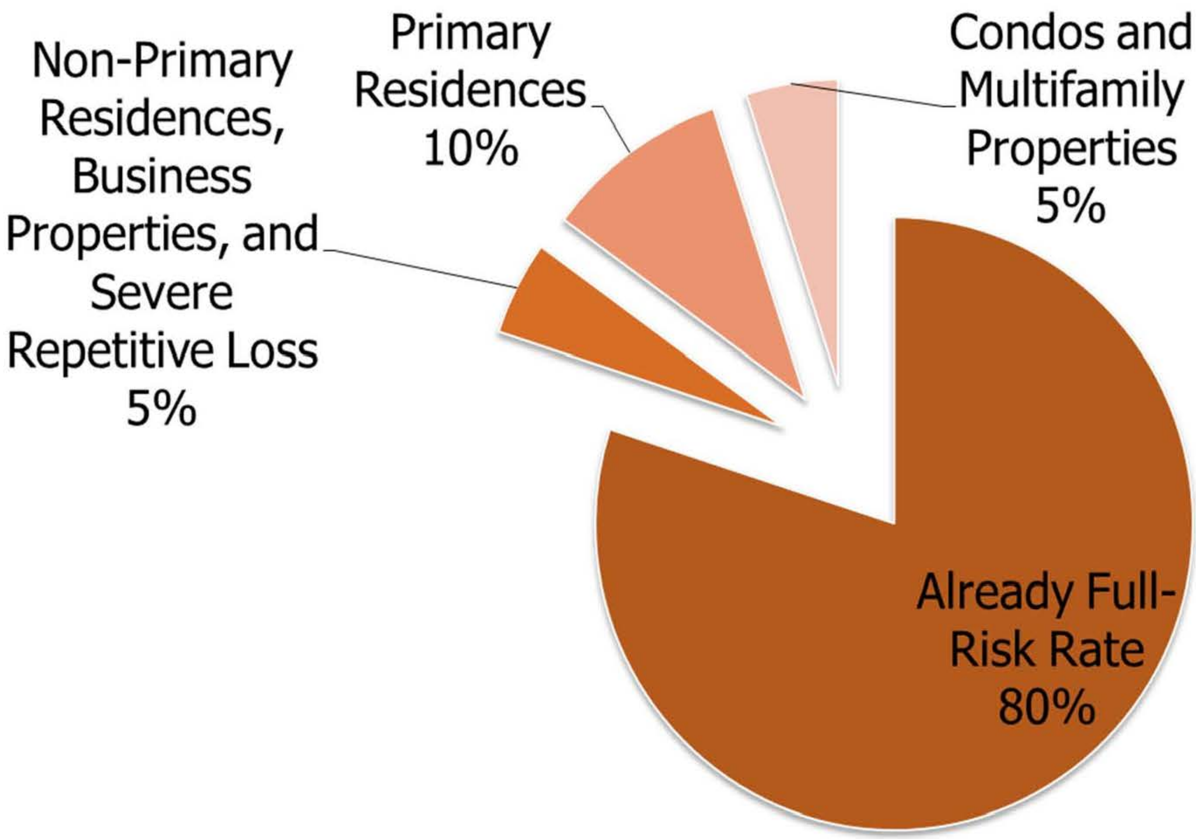
Subsidized Rates:

20% (1.12 million policies)

Source: FEMA/NFIP

Florida Office of Insurance Regulation

NFIP Rate Status Nationally



Source: FEMA/NFIP

NFIP Rate Effect Nationally

- **Of the 20% of subsidized policies...**
  - **Non-primary residences, businesses, and severe repetitive loss properties (5%):** immediate 25% increases.
  - **Currently subsidized primary residences (10%):** no change unless or until triggering event - they sell their property, allow their policy to lapse, or purchase a new policy.
  - **Currently subsidized condominiums and non-condo multifamily structures (5%):** no change until FEMA has developed additional guidance for their removal.

Source: FEMA/NFIP

NFIP Rate Status in Florida

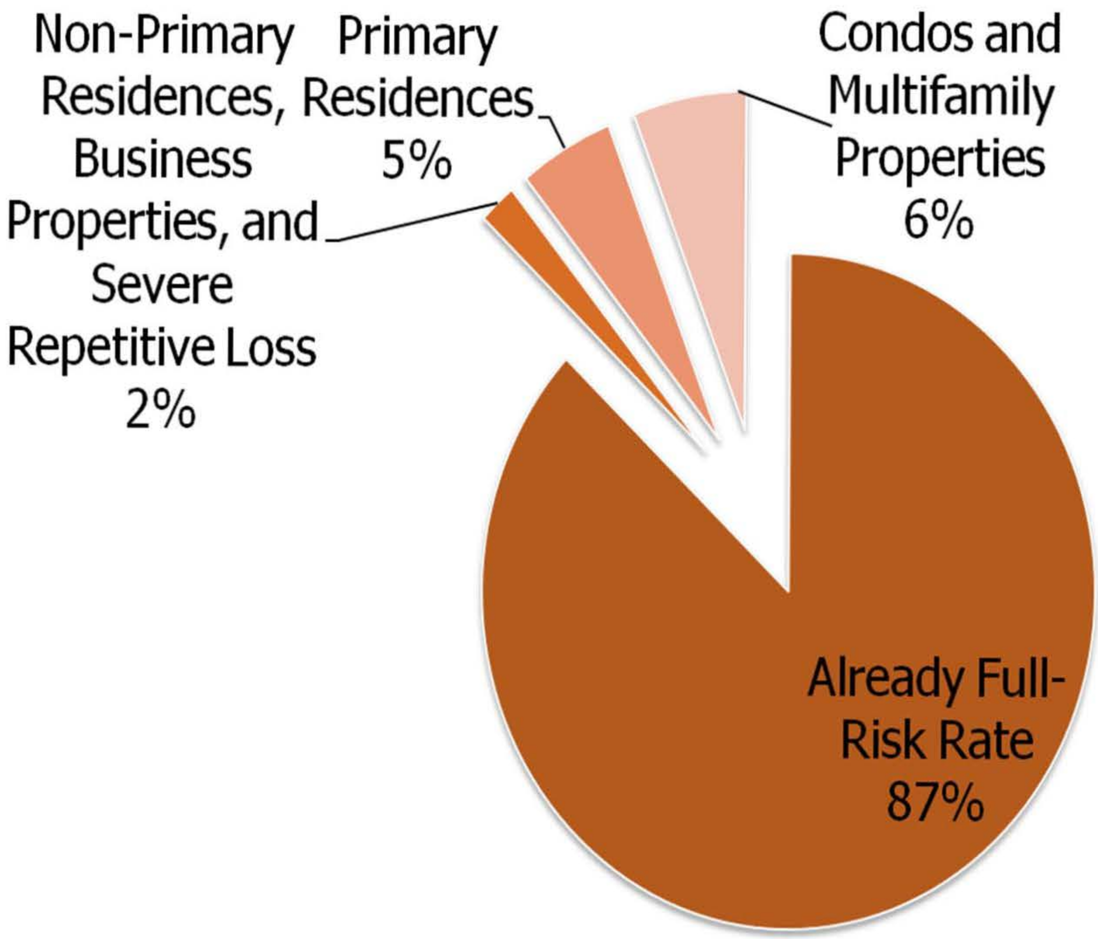
- **Florida**: Just over 2 million policies or 37% of total NFIP policies

<u>Nonsubsidized Rates:</u>
87% of policies (1.78 million policies)

<u>Subsidized Rates:</u>
13% (268,500 policies)

Source: FEMA/NFIP

NFIP Rate Status in Florida



Source: FEMA/NFIP

NFIP Rate Effect in Florida

Of the 13% of subsidized policies...

- **Non-primary residences, businesses, and severe repetitive loss properties (2% or 50,500 policies):** immediate 25% increases.

- **Currently subsidized primary residences (5%, or 103,000 policies):** no change unless or until triggering event (map change, sell home, policy lapse).

- **Currently subsidized condos/non-condo multifamily (6%, or 115,000 policies):** No change until FEMA develops guidance for removal.

Source: FEMA/NFIP

Top 10 Florida Counties Affected by Rate Subsidy Provisions of the Act

County	Subsidized Policies	Policies not subsidized	% of Policies Subsidized
Pinellas	50, 255	91,509	35%
Miami-Dade	47,442	318,934	13%
Lee	30,398	111,735	21%
Broward	19,425	350,051	5%
Sarasota	18,770	49,431	28%
Collier	17,133	85,319	17%
Hillsborough	14,368	54,613	21%
Monroe	11,840	20,104	37%
Pasco	11,352	19,773	36%
Manatee	11,264	28,763	21%

Source: FEMA/NFIP

Florida Office of Insurance Regulation

Remapping Rate Effect Under the Act

- The Act requires remapping of flood zones

- Requires "full-risk rate" for property affected by a remapping. Potential new risks under NFIP.

- Rate change phased in over 5 years at 20% per year until full-risk rate achieved

Source: FEMA/NFIP

Florida Under the NFIP: A Donor State

Estimated Premium from Inception:

$16.1 to $20.7 billion

Estimated Claims from Inception:

$3.7B to $5 billion

Premium Relative to Claims:

Between $3.6 and $4.2 of premium for every $1 in claims (1978-2013)

Source: FEMA/NFIP

Florida Office of Insurance Regulation

Florida Under the NFIP: Premium History

PREMIUM

- **Per NFIP:**
  - 28% ($1.0B) of the nation's in-force written premium (as of July 30, 2013)
  - $3.6 billion (2009-2012) based on insurer annual statements

- **Per Wharton Study**: $16.1 billion (1978-2008)

- **Estimated premium (1978-2013):** $20.1 billion

Sources: FEMA/NFIP & Wharton Study (2011)

Florida Office of Insurance Regulation

Florida Under the NFIP: Claims History

CLAIMS

Per NFIP: 12% (239,695) of the nations flood claims representing 7% ($3.7B) of the nation's total claim payments. (NFIP, 1978-2013)

Per Wharton Study: $4.5 billion (1978-2008)

Sources: FEMA/NFIP & Wharton Study (2011)

Florida Under the NFIP: Policies History

POLICIES:

- Largest number of policies nationally
- 37% (2,049,775) of the nation’s in-force policies

Source: FEMA/NFIP

Current Efforts to Delay Implementation of the Act

- Possible legal action/State of Mississippi
  (Note: MS a “recipient state” per Wharton Study—20 cents premium paid for every $1 received in claims payments)
- Congress (Hearings, Budget, GAO Study)
- Governor Scott Letter

Sources: FEMA/NFIP & Wharton Study (2011)

Conclusion

RECAP:

- Full effect on Florida policyholders still uncertain

- On the one hand--Florida has a high percentage of properties paying full risk rate.

- On the other hand--Unclear how remapping might affect this, especially those under old maps. Will map updates substantially increase the number below full-risk rate?

- Florida is currently an NFIP donor state and historically has paid $4 in premium for every $1 in claims payments received.

- Office seeking additional info from FEMA and monitoring the legal developments

Source: FEMA/NFIP

Questions?

Contact Information:

Richard Koon

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Wharton
UNIVERSITY of PENNSYLVANIA
ISSUE BRIEF Fall 2011

INFORMED DECISIONS ON CATASTROPHE RISK

Who's paying and who's benefiting most from flood insurance under the NFIP?

A Financial Analysis of the U.S. National Flood Insurance Program (NFIP)

The National Flood Insurance Program (NFIP) is a federal program that insures $1.25 trillion of property in the U.S.

Reforming the operation of the NFIP is on the agenda of Congress.

- In the United States, basic insurance against flood hazard is primarily provided by the federally-run National Flood Insurance Program (NFIP), which was established in 1968. The program benefits from partnership with private sector insurance companies and agents that write the policies and settle claims on behalf of the federal government (the NFIP retains 100 percent of the underwritten risk).
- Coverage for flood damage resulting from rising water is explicitly excluded in standard homeowners' insurance policies. Amounts greater than the $250,000 building-coverage limit that is available from the NFIP can be obtained from commercial insurers.
- The total value of property insured under the NFIP was $165 billion in 1978, rising to $348 billion in 1990, and $703 billion in 2000 (corrected for inflation). From 2000 to 2009, the total exposure increased by 75 percent, reaching $1.25 trillion at the end of 2011. This increase results from higher average quantity of insurance purchased per policy ($114,000 in 1978 versus $217,000 in 2009) and more people in flood risk areas who need coverage.
- The NFIP has been renewed 11 times since October 1, 2008 for very short periods with short expiration dates.
- The House passed its reform bill in July 2011; the Senate bill will soon be introduced.

More than two-thirds of NFIP policies are located in just five coastal states: Florida, Texas, Louisiana, California and New Jersey.

The aggregate premiums/claims ratio varies significantly across states.

- 20,000 communities across the nation participate in the NFIP. However, data reveal that flood insurance policies are concentrated in a small number of states.
- The state of Florida, which represented less than 6 percent of the U.S. population in 2011, had nearly 40 percent of the total number of flood policies issued by the NFIP in the fall, of 2011.
- Better understanding how much policyholders have paid in premiums versus how much they have collected in claims is important.
- Our analysis of the entire NFIP portfolio between 1978 and 2008 reveals that in some states, policyholders have paid as much as 15 times in premiums than they have collected in claims; in other states, policyholders have received 5 times more in insurance claims than they paid in premiums over this period.

The public-private partnership worked well when faced with the most catastrophic event in its history.

As it was designed to do, the NFIP borrowed from the U.S. Treasury to pay for 2005 and 2008 claims.

- Hurricane Katrina and the failure of the levee system in 2005 led to the most catastrophic loss in the history of this federal program.
- One year after the disaster, virtually all claims were settled, providing insured victims with nearly $16 billion in claims payments and illustrating the effectiveness of the partnership with private insurers.
- Our analysis, which is based on financial data provided to us by the NFIP, shows that at the end of 2004, the NFIP was facing a $1.5 billion cumulative deficit since its inception in 1968 (in 2008 prices). This deficit seemed manageable given the scope of the program and the significant non-claim expenses it faces.
- The program, which was not designed to cover truly catastrophic losses by itself, borrowed over $19 billion from the U.S. Treasury to pay claims from the 2005 and 2008 hurricane seasons, and it is not clear how this debt will be repaid.

During the period 1978-2008, in some states, policyholders cumulatively paid much more in premiums than they received in claims…

others, much less.

The state-level analysis reveals the inherent difficulty in pricing insurance coverage for low probability, high consequence events.

A policyholders' analysis (i.e., excluding all administrative costs and payment to participating insurers and agents who sell NFIP policies and manage claims on behalf of the program) at the *state* level is revealing, too:

SOME STATES PAID **MORE** IN PREMIUMS THAN THEY RECEIVED IN CLAIMS:

- **Florida:** policyholders paid $16.1 billion in premiums but collected only $4.5 billion in claims reimbursements: that is, premiums paid over time were about **3.6 times** the insurance reimbursements (see Figure 1).
- **California:** policyholders paid $3.5 billion in premiums but collected only $710 million in claims reimbursements: that is, premiums paid over time were about **5 times** the insurance reimbursements.
- **Colorado:** policyholders paid more than **15 times** what they collected in insurance reimbursements between 1978 and 2008.

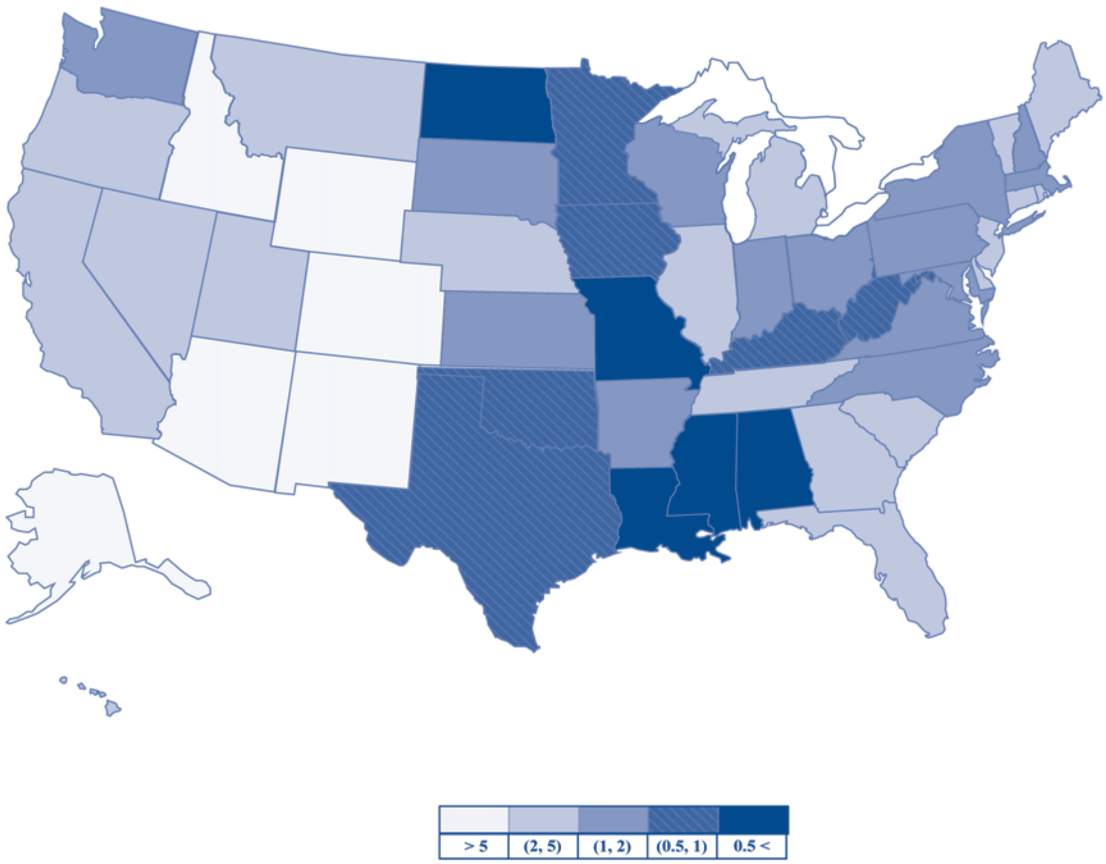
OTHER STATES PAID **LESS** IN PREMIUMS THAN THEY RECEIVED IN CLAIMS:

- **Louisiana:** policyholders paid $4.4 billion in premiums, but collected $16.7 billion in claims; premiums paid for only **one-quarter** of the claims. *Note: excluding paid claims associated with Hurricane Katrina in Louisiana ($13.2 billion), the balance of Louisiana's policyholders over this period would have been positive.*
- **Texas:** policyholders paid $4.5 billion in premiums but collected $6.7 billion in claims; premiums paid for only **two-thirds** of the claims.

- Although we might expect such insurance to display a high volatility, the difference among states is significant given that the analysis looks at a fairly long period, over three decades.
- A massive flood in Florida or California next year would produce changes in the policyholder's cumulative balance for those states.

Figure 1. NFIP Policyholders' Balance by State, 1978–2008

Ratio of flood insurance premiums collected by the NFIP from policyholders, over flood claims paid to the policyholders, by state, for data available 1978–2008 (in 2008 prices)



Colorado	15.1	Illinois	4.2	Connecticut	2.5	Massachusetts	1.6	Oklahoma	0.9
New Mexico	10.4	Nebraska	3.8	New Jersey	2.3	South Dakota	1.5	West Virginia	0.7
Wyoming	7.9	Hawaii	3.7	Tennessee	2.2	Virginia	1.4	Minnesota	0.7
Idaho	7.2	Florida	3.6	South Carolina	1.9	Indiana	1.4	Texas	0.7
Alaska	6.4	Montana	3.6	Wisconsin	1.9	Ohio	1.4	Iowa	0.5
Arizona	6.1	Utah	3.3	Arkansas	1.9	Washington	1.3	North Dakota	0.4
California	4.9	Georgia	3.0	New York	1.9	Kansas	1.2	Missouri	0.4
Michigan	4.5	Nevada	3.0	Maine	1.8	Pennsylvania	1.1	Alabama	0.4
Rhode Island	4.3	Delaware	2.9	Maryland	1.6	North Carolina	1.1	Louisiana	0.3
Vermont	4.2	Oregon	2.6	New Hampshire	1.6	Kentucky	0.9	Mississippi	0.2

This map presents the cumulative policyholders' balance as a ratio of flood insurance premiums collected by the NFIP from policyholders in that state, over flood claims paid to the policyholders of that state (in 2008 prices) during the period 1978–2008. The ratio for each state is provided in the table. A ratio near 1 means that payments and claims are about equal. The states that paid less in premiums than they received in claims are in darker shades.

For more information, please access the full study or contact the author:

Erwann Michel-Kerjan (2010). **Catastrophe Economics. The National Flood Insurance Program.** *Journal of Economic Perspectives,* Vol. 24, No. 4, 165-186.

ISSUE BRIEFS DISTILL KEY FINDINGS FROM EXTENSIVE RESEARCH BY THE WHARTON RISK CENTER. COMPREHENSIVE RESULTS CAN BE FOUND IN THE FULL STUDIES.

UNIVERSITY of PENNSYLVANIA
Risk Management and Decision Processes Center
The Wharton School
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500 Jon M. Huntsman Hall
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Issue Brief: *Who's paying and who's benefiting most from flood insurance under the NFIP?*

INFORMED DECISIONS ON CATASTROPHE RISKS issue briefs are published by the Wharton Risk Management and Decision Processes Center of the University of Pennsylvania. For additional information, contact Carol Heller, hellerc@wharton.upenn.edu or 215-898-5688.

About the Wharton Risk Center

Established in 1984, the **Wharton Risk Management and Decision Processes Center** develops and promotes effective corporate and public policies for dealing with catastrophic events including natural disasters, technological hazards, terrorism, pandemics and other crises. The Risk Center research team – over 50 faculty, fellows and doctoral students – investigate how individuals and organizations make choices under conditions of risk and uncertainty under various regulatory and market conditions, and the effectiveness of strategies such as alternative risk financing, incentive systems, insurance, regulation, and public-private collaborations at a national and international scale. The Center actively engages multiple viewpoints, including top representatives from industry, government, international organizations, interest groups and academia. More information is available at http://www.wharton.upenn.edu/riskcenter.

About the Author

Erwann O. Michel-Kerjan (ErwannMK@wharton.upenn.edu) teaches at the Wharton School and is the Wharton Risk Center's managing director. He also chairs the OECD Secretary-General Board on Financial Management of Catastrophes which advises the governments of its 34 member countries on catastrophe risk management. In 2007, he was named a Young Global Leader by the World Economic Forum (Davos), a five-year nomination bestowed to recognize the most extraordinary leaders of the world under the age of forty. He currently co-leads with Carolyn Kousky (Resources for the Future) a multi-year NSF-supported research program on the reform of the NFIP. Recent books include *The Irrational Economist* (with P. Slovic, PublicAffairs, 2010) and *At War with the Weather* (with H. Kunreuther, MIT Press, 2009), which in 2011 received the prestigious Kulp Wright Award for the most influential contribution to the field of risk management and insurance.

Surplus Lines
Insurance

Surplus Lines Insurance

House Insurance & Banking Subcommittee

September 25, 2013

Richard Koon,
Deputy Commissioner of Property & Casualty

Surplus Lines Insurers

- Are not required to be licensed by the Office (but must have a Letter of Eligibility)
- Regulated for solvency in Florida and in their home state and file financial statements in Florida
- Must have $15M in surplus and three years of successful operation in home state
- Only permitted to write coverage not available in the private market
- Not covered by the Florida Insurance Guaranty Association (FIGA), which pays the claims of insolvent insurers
- Policy forms and rates are not reviewed or approved by the Office

Surplus Lines Policies

- Must have a notice that reads:

  "This insurance is issued pursuant to the Florida Surplus Lines Law. Persons insured by surplus lines carriers do not have the protection of the Florida Insurance Guaranty Act to the extent of any right of recovery for the obligation of an insolvent insurer."

- Policies issued on or after October 1, 2009 shall have stamped or printed on the face of the policy in at least 14-point, boldface type:

  "SURPLUS LINES INSURERS' POLICY RATES AND FORMS ARE NOT APPROVED BY ANY REGULATORY AGENCY."

- Personal residential policies must include disclosure that coverage may be available and may be less expensive from Citizens Property Insurance Corporation. Notice must also state that Citizens assessments are higher and coverage by Citizens policy may be less.

Florida Office of Insurance Regulation

Surplus Lines Eligibility

- Diligent effort must be made to procure voluntary insurance
  - "Diligent effort" means seeking coverage from and receiving rejections from at least three authorized insurers writing the type of coverage. If policy is for residential structure with dwelling replacement cost of $1M or more, only one rejection is needed.

- Diligent effort is not required for those commercial lines of business subject to informational rate filings in Section 627.062(3)(d)1. , F.S. (e.g. Commercial General Liability, Commercial Excess/Umbrella, Directors & Officers, Nonresidential Multiperil, etc.).

Surplus Lines Eligibility (cont.)

When compared to what is available, and in actual use, by a majority of the authorized insurers for the same coverage on a similar risk, the:

- Premium rate for the surplus lines policy shall not be lower
- Policy or contract form under which the insurance is exported shall **not** be more favorable to the insured as to coverage or rates*
- Deductible amounts shall be the same as those available under similar policies (with the exception of windstorm insurance and extended coverage for fire insurance)

** Coverage may be exported under a unique form that is filed with the Office and not disapproved because it is found that "the use of such special form is not reasonably necessary for the principal purposes of the coverage or that its use would be contrary to the purposes of this Surplus Lines Law with respect to the reasonable protection of authorized insurers from unwarranted competition by unauthorized insurers." (Section 626.916(1)(c), F.S.)*

Questions?

Contact Information:

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FLORIDA OFFICE OF
INSURANCE REGULATION

The Florida Surplus Lines Service Office

Serving Florida's Surplus Lines Industry

Gary D. Pullen
Executive Director

FSLSO

- Role of the Surplus Lines Market
- Regulatory Framework of the Surplus Lines Market
- Role of the Florida Surplus Lines Service Office
- Overview of the Florida Surplus Lines Market

Role of the Surplus Lines Market

Private Sector Market of Last Resort

Distressed Risk
Unfavorable attributes that have made it unacceptable to admitted insurers

Unique Risk
A specialized or unusual risk

High-Capacity Risk
Requires high limits of insurance

Role of the Surplus Lines Market

The Distribution System

Major Lines of Business

Rank	Coverage Code	Premium
1	Commercial Property	$2,059,209,741
2	Commercial General Liability	$505,351,624
3	Commercial Package (Property & Casualty)	$266,632,581
4	Homeowners-HO-3	$158,852,034
5	Excess Commercial General Liability (Not Umbrella)	$85,371,764
6	Miscellaneous E&O Liability	$82,314,665
7	Miscellaneous Medical Professionals	$72,248,026
8	Windstorm &/or Hail	$67,244,527
9	Condominium Package (Commercial)	$59,145,627
10	Commercial Umbrella Liability	$49,246,477
11	Lawyers Professional Liability	$47,663,055
12	Pollution & Environment Liability	$41,535,827
13	Dwelling Property	$40,706,851

Rank	Coverage Code	Premium
14	Windstorm	$35,098,707
15	Builders Risk	$33,949,299
16	Miscellaneous Liability	$30,459,158
17	Condo Unit-Owners HO-6	$30,240,395
18	Hospital Professional Liability	$22,901,682
19	Directors & Officers Liability (Profit)	$22,435,584
20	Personal & Pleasure Boats & Yachts	$21,822,293
21	Garage Liability	$21,743,292
22	Difference in Conditions	$19,436,175
23	Homeowners HO-8	$18,198,702
24	Excess Flood- Residential	$18,122,163
25	Inland Marine (Commercial)	$17,698,662

Regulatory Framework of the Surplus Lines Market

Areas of Regulation

Agent Licensing	• *Specialty License*
Eligibility of Risk	• *Diligent Search Requirement*
Insurer Eligibility	• *Capitalization Requirements*
Disclosure	• *Limited Regulatory Oversight and Protection*
Documentation	• *Reporting of Policy Transactions*
Taxation	• *Premium Receipts Tax and Assessments*

Regulatory Framework of the Surplus Lines Market

Differences in Regulation

Rate and Form Regulation	• *Exempt from Regulatory Approval*
Guaranty Funds	• *No Protection Provided*
Insurer Licensing	• *Licensed only in Home Jurisdiction*

Major Insurers

Rank	Insurer Name	Premium
1	Lloyd's Underwriters at London	$890,967,509
2	QBE Specialty Insurance Company	$413,316,567
3	Lexington Insurance Company	$343,448,585
4	Scottsdale Insurance Company	$164,362,219
5	Landmark American Insurance Company	$152,847,603
6	Westchester Surplus Lines Insurance Company	$107,631,416
7	Arch Specialty Insurance Company	$104,606,200
8	Steadfast Insurance Company	$83,894,732
9	Ironshore Specialty Insurance Company	$68,716,597
10	Voyage Indemnity Insurance Company	$65,193,911
11	Rockhill Insurance Company	$64,013,954
12	Chubb Custom Insurance Company	$55,066,309
13	Empire Indemnity Insurance Company	$54,939,053

Rank	Coverage Code	Premium
14	Chartis Specialty Insurance Company	$54,566,382
15	Columbia Casualty Company	$50,541,871
16	Geovera Specialty Insurance Company	$50,154,925
17	Century Surety Company	$46,618,321
18	Colony Insurance Company	$46,204,213
19	Nautilus Insurance Company	$45,902,474
20	Essex Insurance Company	$45,152,595
21	Mt. Hawley Insurance Company	$42,985,167
22	Aspen Specialty Insurance Company	$42,189,405
23	Altera Excess & Surplus Insurance Company	$41,422,259
24	Liberty Surplus Insurance Corporation	$41,344,571
25	Princeton Excess and Surplus Lines Insurance Company	$40,080,349

Role of the Florida Surplus Lines Service Office

Background

- Created through Florida Statute 626.921
  - Statutorily mandated, not-for-profit association of all Florida Surplus Lines Agents
  - All surplus lines agents, shall, as a condition of holding a surplus lines license, be deemed a member of the Service Office Association and shall report to and file with the Service Office a copy of or information on each surplus lines insurance policy or document as provided in the plan of operation

FSLSO

Role of the Florida Surplus Lines Service Office

Regulatory Oversight

Department of Financial Services
- Chief Financial Officer appoints Board of Governors

Office of Insurance Regulation
- Examination
- Approval of Budget and Service Fee

FSLSO

Role of the Florida Surplus Lines Service Office

Consumer Protection

- Looking for Coverage
- Insurer Financials
- Market Information
- Disaster Assistance

FSLSO

Role of the Florida Surplus Lines Service Office

Agent Regulatory Oversight

- Compliance Reviews
- Premium Reconciliation

FSLSO

Role of the Florida Surplus Lines Service Office

Tax Administration

- Tax Estimator
- Billing and Payment Reconciliation
- Non-admitted Multi-State Insurance Agreement

FSLSO

Role of the Surplus Lines Market

Regulatory Framework of the Surplus Lines Market

Role of the Florida Surplus Lines Service Office

Overview of the Florida Surplus Lines Market

Premium Volume

Florida Surplus Lines Premium Written

2012

Q1	$978,953,321
Q2	$1,465,390,811
Q3	$861,311,519
Q4	$894,337,034
Total	$4,199,992,685

Premium Volume

Florida Surplus Lines Premium and Policies Written for Commercial Lines

2012

Premium	Policies
$3,756,325,307	458,211

Florida Surplus Lines Premium and Policies Written for Residential Lines

2012

Premium	Policies
$325,173,752	141,866

Taxes, Fees and Assessments

Total Taxes, and Assessments Billed for FSLSO Clients *2012*

Citizens Property Insurance Corporation	Florida Hurricane Catastrophe Fund	Division of Emergency Management	Florida Department of Financial Services	Nonadmitted Insurance Multi-State Agreement
$24,283,990	$46,138,948	$982,179	$171,731,199	$1,434,768

For More Information

www.fslso.com

FSLSO

2011 Changes in
Insurance Laws re:
Sinkholes

Sinkhole Insurance Overview

House Insurance & Banking Subcommittee

September 25, 2013

Richard Koon,
Deputy Commissioner of Property & Casualty

Primary Sinkhole Provisions of SB 408

- Addition of new definition of structural damage, and modifications to definitions of catastrophic ground cover collapse, sinkhole, sinkhole activity and sinkhole loss.

- Insurer may choose to restrict catastrophic ground cover collapse coverage and sinkhole loss coverage to the principal building (excludes damage to appurtenant structures, driveways, sidewalks, decks, or patios).

- Requiring loss payments be used to repair sinkhole damage based on specifications of engineer's report.

- Insurer may require that the policyholder, upon demanding testing after denial of a claim without sinkhole testing, pay the lesser of 50% of the cost of testing or $2,500 to be refunded if a sinkhole exists.

FLORIDA OFFICE OF INSURANCE REGULATION

Primary Sinkhole Provisions of SB 408 (cont.)

- Notice of sinkhole claim must be given to the insurer in accordance with the terms of the policy within 2 years after the policyholder knew or reasonably should have known about the sinkhole loss.

- For partial loss on a dwelling covered under replacement cost, may limit payments to actual cash value minus deductible initially, and pay any remaining amounts necessary to perform such repairs as work is performed and expenses incurred. May also provide this as an option for personal property.

Florida Office of Insurance Regulation

Requirements for Insurance Coverage: Catastrophic Ground Cover Collapse (CGCC) & Sinkhole

- Every insurer **must provide coverage** for CGCC. (Section 627.706 (1)(a), F.S.)

- Every insurer **shall make available** coverage for sinkhole insurance. *(Section 627.706(1)(b), F.S.)*

FLORIDA OFFICE OF INSURANCE REGULATION

Catastrophic Ground Cover Collapse (CGCC) vs. Sinkhole Loss

- **"Catastrophic ground cover collapse (CGCC)"** means geological activity that results in all the following:

    1. The abrupt collapse of the ground cover;
    2. A depression in the ground cover clearly visible to the naked eye;
    3. Structural damage to the covered building, including the foundation; and
    4. The insured structure being condemned and ordered to be vacated by the governmental agency authorized by law to issue such an order for that structure.

- **"Sinkhole loss"** means structural damage to the covered building, including the foundation, caused by sinkhole activity.

(Sections 627.706(2)(a) and 627.706(2)(j), F.S.)

FLORIDA OFFICE OF INSURANCE REGULATION

Sinkhole Activity Definition

“Sinkhole activity” - means settlement or systematic weakening of the earth supporting the covered building only if the settlement or systematic weakening results from contemporaneous movement or raveling of soils, sediments, or rock materials into subterranean voids created by the effect of water on a limestone or similar rock formation.

(Section 627.706(2)(i) ,F.S.)

FLORIDA OFFICE OF INSURANCE REGULATION

Structural Damage Definition

"**Structural damage**" means a covered building, regardless of the date of its construction, has experienced the following:

1. Interior floor displacement or deflection in excess of acceptable variances as defined in ACI 117-90 or the Florida Building Code, which results in settlement-related damage to the interior such that the interior building structure or members become unfit for service or represents a safety hazard as defined within the Florida Building Code;

2. Foundation displacement or deflection in excess of acceptable variances as defined in ACI 318-95 or the Florida Building Code, which results in settlement-related damage to the primary structural members or primary structural systems that prevents those members or systems from supporting the loads and forces they were designed to support to the extent that stresses in those primary structural members or primary structural systems exceeds one and one-third the nominal strength allowed under the Florida Building Code for new buildings of similar structure, purpose, or location;

3. Damage that results in listing, leaning, or buckling of the exterior load-bearing walls or other vertical primary structural members to such an extent that a plumb line passing through the center of gravity does not fall inside the middle one-third of the base as defined within the Florida Building Code;

4. Damage that results in the building, or any portion of the building containing primary structural members or primary structural systems, being significantly likely to imminently collapse because of the movement or instability of the ground within the influence zone of the supporting ground within the sheer plane necessary for the purpose of supporting such building as defined within the Florida Building Code; or,

5. Damage occurring on or after October 15, 2005, that qualifies as "substantial structural damage" as defined in the Florida Building Code.

(Section 627.706(2)(k), F.S.)

Florida Office of Insurance Regulation

Questions?

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Citizens Property Insurance Corporation

Barry Gilway, President/CEO and Executive Director

September 25, 2013

Catastrophic Ground Collapse

- **Included with basic coverage and subject to 10% glide path**
- Depression in ground cover that is clearly visible to naked eye
- Abrupt collapse of ground cover
- Structural damage to the covered building, including the foundation
- Insured structure is condemned and ordered vacated by the authorized governmental agency

- Citizens has had 7 catastrophic ground collapse claims

Non-Catastrophic Sinkhole Claims

- **Sinkhole loss** means **structural damage** to the covered building, including the foundation, caused by sinkhole activity.
- **“Structural Damage”** Definition(s)
  1. Interior floor displacement in excess of acceptable variance
  2. Foundation displacement in excess of acceptable variance
  3. Listing, leaning, or buckling of the exterior load bearing walls
  4. Damage resulting in the primary structural members or systems being significantly likely to collapse
  5. Damage occurring on or after October 15, 2005, that qualifies as substantial structural damage.

CITIZENS
PROPERTY INSURANCE CORPORATION

Implementation of SB 408

LEGISLATIVE

- Placed time limits for bringing sinkhole claim
  - Supplemental/reopened sinkhole claim must be given to the insurer within 2 years
- Changed definition, statutorily, of a sinkhole loss
  - Created definition of "structural damage" for purposes of determining if a sinkhole loss had occurred
- Authorized insurers and required Citizens to restrict catastrophic ground cover collapse and sinkhole loss coverage to the principal building
  - Limited claim payments to the 'principal building'; other structures no longer covered
- Clarified additional living expense coverage available only if structural damage to the covered building
- Allowed an insurer to require a property inspection prior to issuing sinkhole loss coverage
- Modified insurer's ability to non renew a policy on the basis of filing a sinkhole claim
  - May only be non renewed if payments for sinkhole loss equal or exceed policy limits or
  - If the policyholder does not repair the structure in accordance with the engineering recommendations
- Certification of Proper Completion of Sinkhole Repairs
  - Once building stabilization or foundation repairs of a sinkhole loss are completed, the professional engineer must file with the Clerk of Court a copy of the report, certification, the legal description of the real property, and the name of the county clerk of court

CITIZENS
PROPERTY INSURANCE CORPORATION

Implementation of SB 408

CLAIMS

- Current claim activity is a mix of pre and post SB 408 claims
- Moved sinkhole claims handling to staff field team, single adjuster model
- Updated Claims investigation to reflect new language for Sinkhole Loss
- Changed Letters and engineer firm assignment forms to reflect new language/definitions
- Majority of claim handling activities remained unchanged after coverage decision made

PRODUCT

- Implemented a mandatory 10% sinkhole deductible
  - 5/1/2012 for new business and 6/1/2012 for renewals
- Modified all residential policy forms to reflect legislative revisions
  - 1/1/2012 for all new and renewal policies
  - 1/1/2013 all policies have legislative revisions; have gone through renewal cycle
- Commercial policies contained Structural language prior to change

UNDERWRITING

- Endorsements down 22% from 2011 to 2012
  - Hernando down 30%, Hillsborough down 21%, Pasco down 27%
- October 2011 pre binding inspection in four counties: Hernando, Hillsborough, Pasco, and Pinellas
- January 2012 inspection expanded to 12 additional counties: Alachua, Citrus, Hamilton, Lake, Manatee, Marion, Polk, Seminole, Sumter, Suwannee, Wakulla, and Washington
- Sinkhole underwriting centralized

CITIZENS PROPERTY INSURANCE CORPORATION

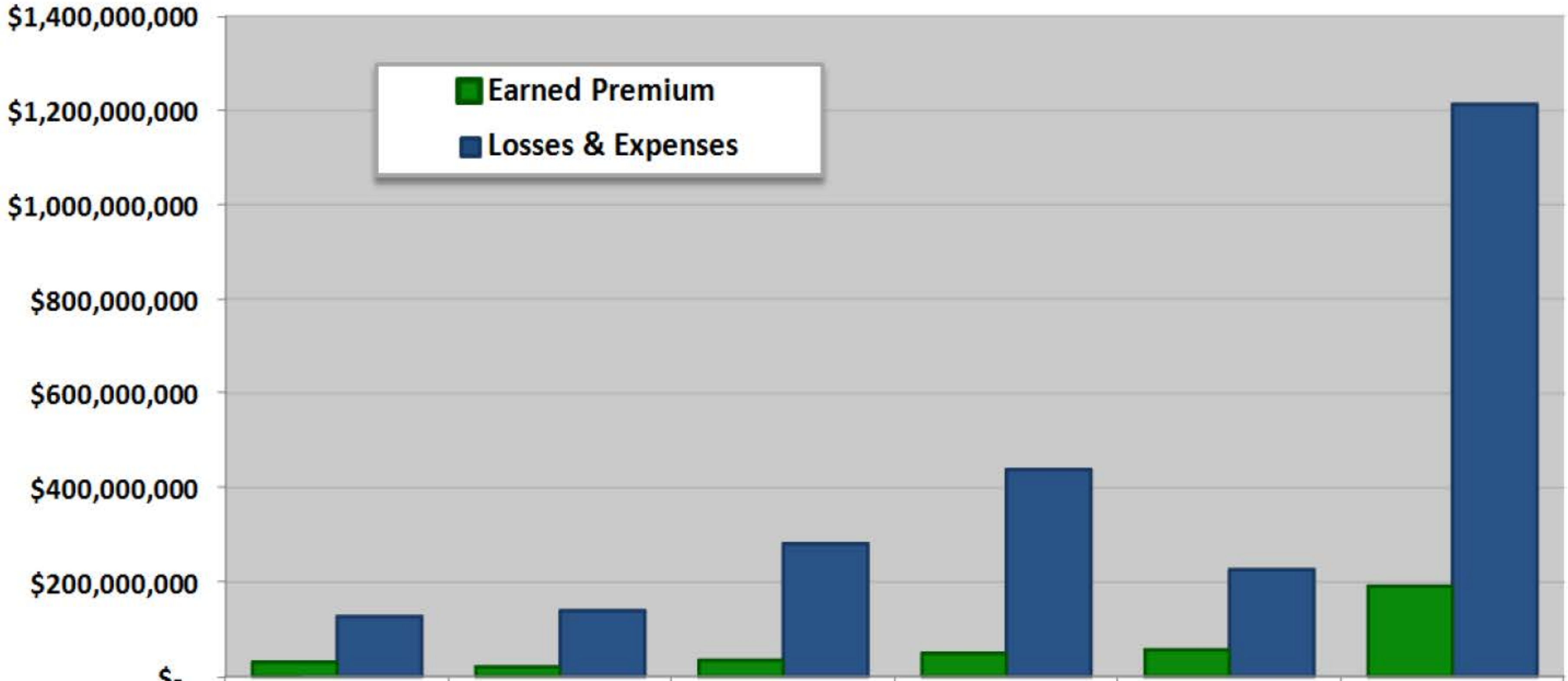
Sinkhole Premium and Losses

Data Evaluated as of August 2008 – September 2012

County	Earned Premium	Incurred Loss	Difference
Hernando	$52,813,533	$657,031,909	($604,218,376)
Pasco	$59,634,479	$292,119,024	($232,484,545)
Hillsborough	$27,806,623	$166,660,062	($138,853,439)
Remaining Counties	$51,064,534	$97,171,819	($ 46,107,285)
Total	$191,319,169	$1,212,982,814	($1,021,663,645)

CITIZENS
PROPERTY INSURANCE CORPORATION

Historical Sinkhole Premium and Losses



	2008	2009	2010	2011	2012	Total
Earned Premium	$30,723,568	$20,233,294	$34,271,313	$49,354,300	$56,736,692	$191,319,167
Losses & Expenses	$126,977,019	$139,686,127	$281,283,155	$438,230,791	$226,805,720	$1,212,982,813

CITIZENS
PROPERTY INSURANCE CORPORATION

Sinkhole Loss Ratios

Year	Loss Ratios
2011	873.88%
2012	316.84%
2013 Through 2nd Quarter	PLA – 179.22% Coastal – 256.12%

CITIZENS PROPERTY INSURANCE CORPORATION

Historical Homeowners Sinkhole Rate Change

Year	Indicated Sinkhole Rate Change	Change in Indicated Rate from Prior Year
2011	307.8%	-
2012	476.3%	157.7% ↑
2013	263.2%	(44.7%) ↓
2014	222.6%	(15.4%) ↓

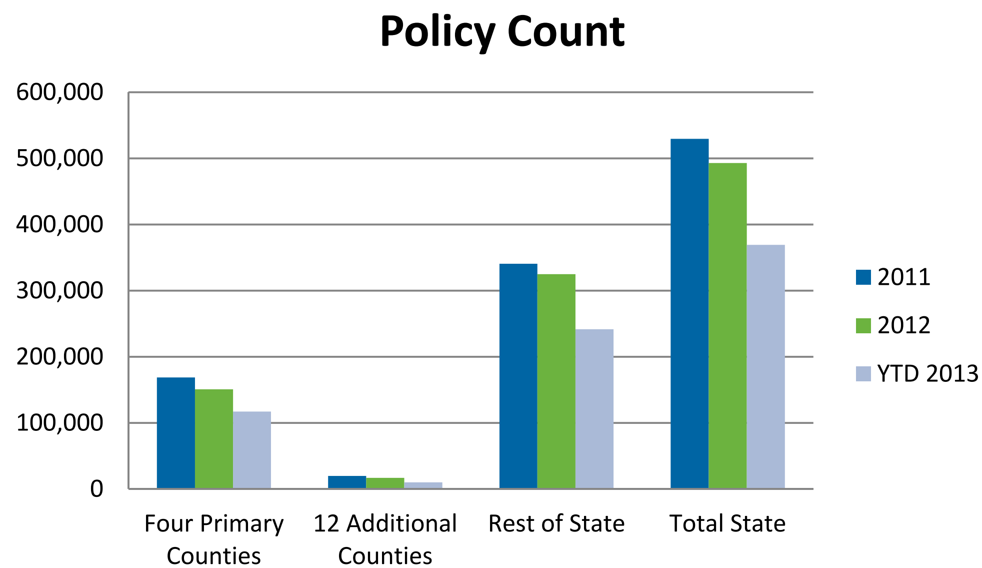
CITIZENS PROPERTY INSURANCE CORPORATION

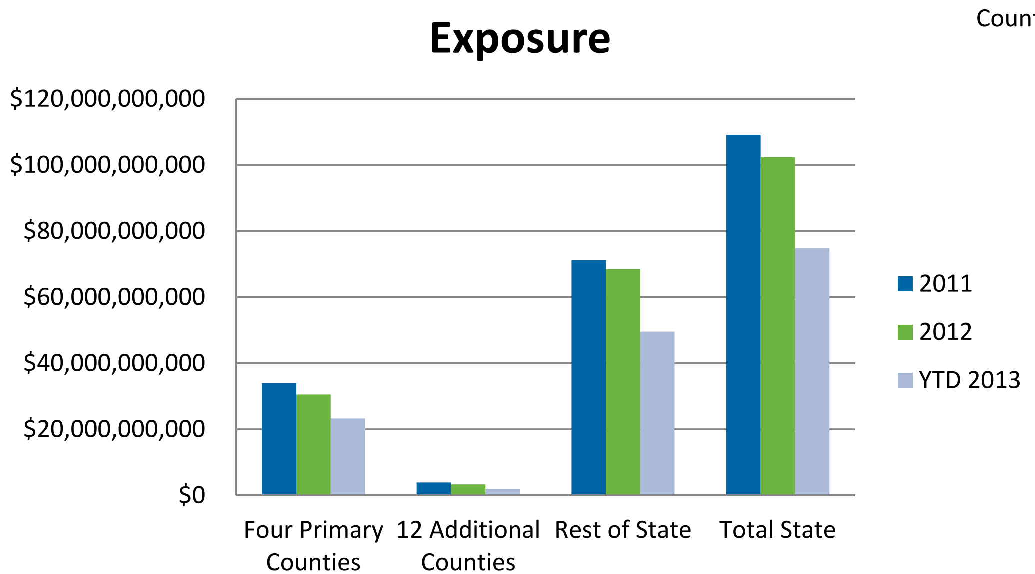
Indicated Sinkhole Rate & Premium Change

			Average Premium		
County	Indicated % Change	Filed and Approved % Change	Current	Proposed	Difference
Hernando	451%	20%	$1,688	$2,026	$338
Pasco	177%	20%	$1,829	$2,195	$366
Hillsborough	235%	50%	$ 383	$ 574	$191

Sinkhole Policy Count and Exposure

- Four primary counties are Hernando, Hillsborough, Pasco, and Pinellas
- Additional counties added in 2012 are Alachua, Citrus, Hamilton, Lake, Manatee, Marion, Polk, Seminole, Sumter, Suwannee, Wakulla, and Washington



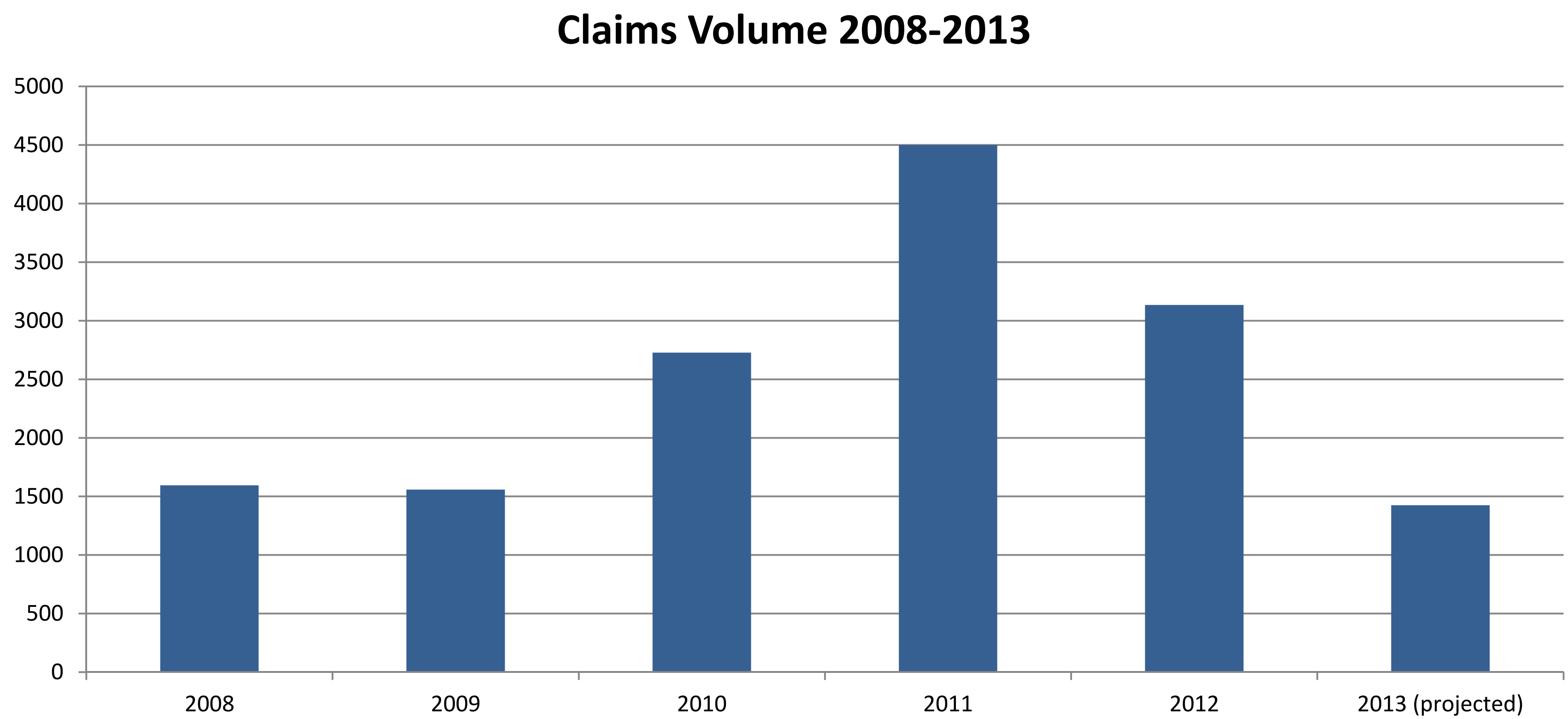


Optional Sinkhole Endorsement

Homeowner and Dwelling Policies (Data as of 06/30/13)	Number of Policies	Percent of Policies	
		With Sinkhole Endorsement	Without Sinkhole Endorsement
Hernando	28,667	31%	69%
Hillsborough	58,661	64%	36%
Pasco	47,831	21%	79%
Pinellas	99,112	64%	36%
Sinkhole Prone County Total	234,271	51%	49%
All Other Counties	441,910	57%	43%
Statewide Total	676,181	55%	45%

Citizens Property Insurance Corporation

Claims Volume



- New claim volume down, similar to 2009 volume

Claims Experience

2012 Sinkhole Claims

	Paid	Reserved
Total Indemnity	$79,650,477	$155,618,453*
Post SB 408 Indemnity	$921,355	$3,696,882*

*not including IBNR

- Total 3135 claims
- 643 on post SB 408 policy or 20.5%

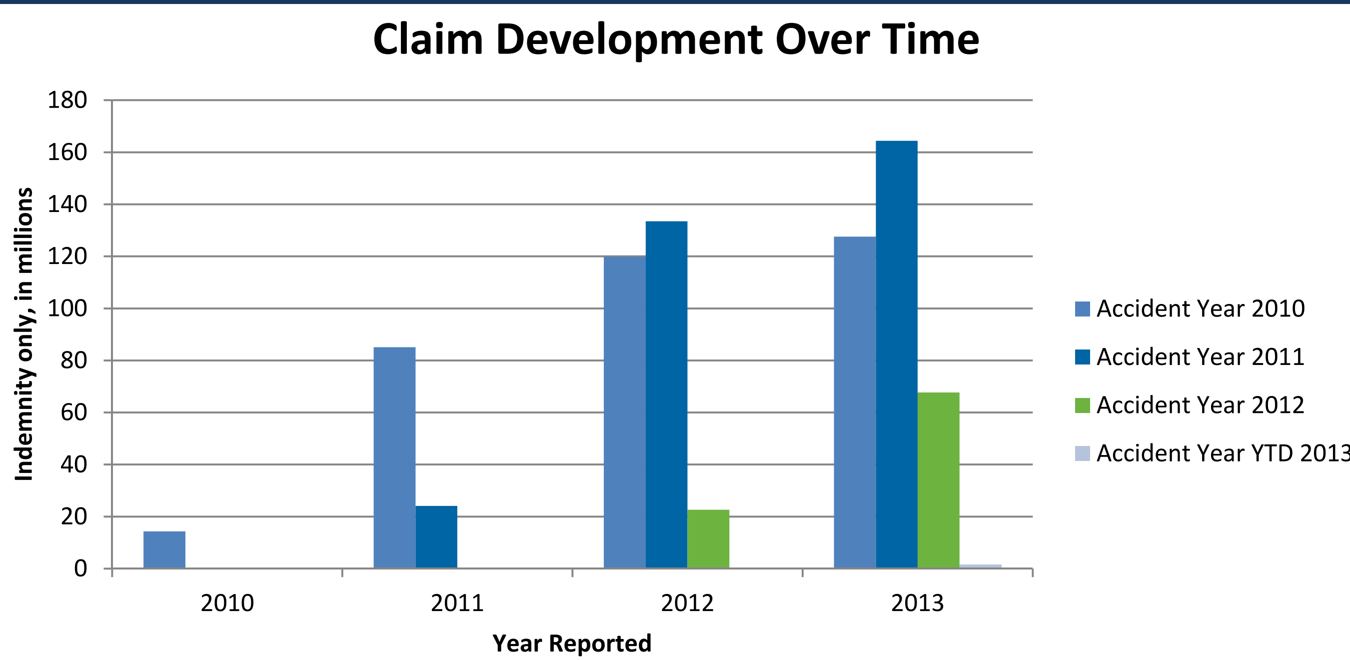
2013 Sinkhole Claims - YTD through August

	Paid	Reserved
Total Indemnity	$1,595,479	$32,137,441*
Post SB 408 Indemnity	$655,617	$17,387,971*

*not including IBNR

- Total 950 claims
- 706 on post SB 408 policy or 74.3%

Claim Development



Above is indemnity only, does not include LAE

- LAE paid YTD 2013 through August- $4,210,797.18
- Current combined indemnity and LAE, paid and reserved for 2013 claims, $38,512,365.48 (not including IBNR)
- Current total case reserves and IBNR for sinkhole, Indemnity and LAE - $597,932,022

Other factors affecting total paid on 2013 claims

- Adherence to statutory provisions
    - Limit total paid to ACV, excluding stabilization cost, until insured enters stabilization contract
    - Pursuing repair in majority of cases even if estimated amounts exceed policy limit