

**Property & Casualty Insurance Reform Committee**  
**Final Recommendations**  
**November 15, 2006**

**Residential Insurance Market/Consumer Issues**

1. Transparency for consumers (residential and commercial). Require the premium notice and policy to:
  - Specify premium mitigation discounts available (by dollar amount) for each policy holder on each mitigation measure and for a combination of various mitigation measures, in a format specified by the Office of Insurance Regulation.
  - Identify amounts recouped for assessments by Citizens Property Insurance Corporation, the Florida Hurricane Catastrophe Fund, or the Florida Insurance Guaranty Association, respectively. Prohibit abbreviations.
  - Identify the amount of any premium increase that is due to a rate increase and the amounts that are due to coverage changes.
  - Identify the amount (by dollar) of the agent's commission.
  - Identify the amount of insurance premium tax by dollar amount.
  - Require plain language in insurance policies.
2. Move the Office of the Consumer Advocate under the Financial Services Commission (Cabinet) rather than the Chief Financial Officer for oversight. Request the Legislature review the authority currently vested in the Consumer Advocate regarding independence and effectiveness for Florida consumers.
3. Require insurers to offer a policy that excludes windstorm coverage from a residential property insurance policy if the policyholder signs a written rejection of such coverage on a form approved by OIR with appropriate disclosures. Insurers would still be required to offer a policy that includes windstorm coverage (in windstorm and non-windstorm areas of the state).
4. Require insurers to offer dwelling limits for windstorm coverage that only covers the outstanding balance of the mortgage.
5. Require insurers to offer policies that provide no personal contents coverage.
6. Eliminate maximum allowable deductibles. That is, allow insurers to offer deductibles of any amount in addition to the 2 percent, 5 percent, and 10 percent deductibles that must be offered.
7. Revise the Florida Market Assistance Plan to provide for more efficiency. Refine the FMAP guidelines to allow that during the 10-day waiting period applicable to Citizens policies, that an exclusion is in place for an potential insured who has a real estate closing during the 10-day waiting period.

## **Florida's Commercial Insurance Market/Property Casualty Joint Underwriting Association (PCJUA)**

8. Develop a plan to depopulate Citizens commercial risks to either the PCJUA or create a new statewide entity for all commercial risks. Prohibit Citizens from writing builders risk or commercial-commercial policies. Revise and update the PCJUA statute or new entity by expanding and updating the assessment base for the PCJUA. Seek to achieve IRS tax-exempt status for the PCJUA (similar to Citizens)
9. Begin state funded research concerning mitigation for commercial structures. Evaluate whether strengthening the state's building code for commercial structures should be consider and the grading of commercial structures.
10. Adopt statutory language to allow risk pooling for windstorm property coverage all "like" entities such as public hospitals, public educational facilities, and community colleges.
11. The Legislature shall review the market needs for adding commercial carriers to the CAT fund and consider optional CAT fund coverage to commercial insurers, for a limited time period.

## **Florida Building Code**

12. Put a uniform statewide building code in place that requires American Society of Civil Engineers (ASCE) wind lines to be adopted and prohibit any changes in future statewide building codes unless such a change enhances the structural integrity of the code as it relates to wind protection.
13. Develop a code plus standard that the insurance industry would recognize for maximizing premium discounts.
14. Encourage local governments to promote and advocate for code plus structures by providing incentives to builders like density bonuses, lower impact fees, and concurrency credits when new construction is built at higher levels than the current approved building code.

## **Mitigation**

15. Maintain and expand the commitment to the Mitigation Program being administered by the Department of Financial Services. Earmark a portion of future mitigation funding to be used for Citizens policyholders.
16. Require the modeling firms (RMS, AIR, ARA, EQE, FIU) to recalibrate their models to take into account the results of mitigation in Florida.

17. Require uniform mitigation verification inspection forms to be developed for all insurers. Specify the length of time an executed form is valid (spoilage).
18. Ensure that insurance companies appropriately adjust premiums for homeowners when meaningful and verifiable mitigation measures are undertaken. (Premium discounts) Credits with smaller ranges should be developed while allowing market competition in the credit process.
19. Authorize the creation of a not-for-profit corporation to raise funds from the private sector for additional mitigation grants.
20. Recommend an appropriation from the Legislature solely for free inspections to encourage more homeowners to mitigate regardless of whether matching grants are available.
21. Create a sales tax rebate program where consumers can apply to the Fla. Dept. of Revenue for sales tax credits/rebates for approved mitigation materials and supplies. Require the filing of a mitigation verification inspection form as proof of purchase with the Dept. of Revenue.
22. Ensure insurance companies and agents are providing specific information to homeowners who want to know the premium discounts available for various mitigation options and the means for obtaining the discounts (e.g., continuing education requirements for agents).
23. Develop public/private partnerships to educate homeowners regarding the advantages of fortifying their homes.
24. Adopt and fund a uniform grading system for evaluating the hurricane strength of homes and commercial buildings.
25. Require wind mitigation inspectors to be licensed or certified by the state with exceptions for licensed contractors. Licensed contractors shall be exempt, if a continuing education course in mitigation is completed.
26. Encourage local governments to participate in the state mitigation program.

### **Florida Hurricane Catastrophe Fund**

27. The Legislature should maintain the current retention level but consider offering coverage below the retention level/attachment point (first layer of coverage) on a voluntary basis to all admitted companies participating in the CAT Fund. Any change should only be temporary/short term. The rate for the temporary, below the current retention level, CAT Fund coverage should be increase to a “near market rate: but still allowing for savings which can be passed to consumers.

Require insurers who access this temporary layer of CAT Fund coverage to pass this savings on to consumers after making a new rate filing.

28. Investigate raising the upper limit (currently \$15 billion) to foster greater participation and determine how this modification will effect availability and affordability of premiums and determine what the private market's needs are above the upper limit of the CAT Fund.
29. Research moving the renewal date (sometime before June) to increase flexibility and maximize carrier participation in the CAT Fund. Review whether such a date change could produce premium savings to consumers.
30. Amend the State Constitution to limit the use of the assets of the CAT Fund (i.e., restrict legislative appropriations) to the purposes currently required by statute. Require that any appropriation from the CAT Fund in excess of \$10 million be in a separate bill for that purpose only and be approved by a super-majority (e.g., three-fourths) of the membership of each house of the Legislature.

### **Reinsurance Market**

31. Amend the reinsurance law to give insurers credit on their financial statements for other risk transfer or capital markets instruments, subject to the approval of OIR, provided there is a fully funded transfer of risk.
32. Reduce or eliminate the trust fund (collateral) requirement for non-U.S. insurers based on a determination by the OIR of the adequacy of regulation of the country of licensure and the financial strength of the assuming insurer.

### **Citizens Property Insurance Corporation (Citizens)**

33. Require OIR to set rates for Citizens on a semi-annual or annual basis, based on the highest rate approved for the voluntary market, this, eliminating the need, cost and time delay of rate filings.
34. Allow Citizens to write the full policy. Do away with the wind boundaries and the distinction of wind and ex-wind policies in the wind boundaries.
35. Require Citizens policyholders to upgrade their homes to meet the statewide building code over some period of time or risk higher hurricane deductibles applicable to their policies. An exception should be made for low income policyholders. Or alternatively, permit Citizens to surcharge properties until they are retrofitted to meet building code requirements.
36. Allow authorized insurers to write non-homestead Citizens' policies on an individual risk rate basis.

37. Allow as an incentive for companies taking out substantial numbers of policies (10,000 or more) from Citizens to charge Citizens' rates for a period of three years after such takeout.
38. Clarify the requirements in SB 1980 regarding the offer of quarterly and semi-annual payment premium payment plans to Citizens policyholders.
39. As a depopulation incentive, require the Citizens Board to review the agent commission structure for reductions upon renewal.

### **Market Incentives/Barriers**

40. Provide additional funding to the Insurance Capital Build-up Incentive Program for 2007 with some capital being set aside for insurers specifically writing manufactured housing policies. The Legislature should consider lowering the total surplus requirement for an eligible insurer from the current \$50 million. The Legislature should also consider relaxing the requirement that insurers maintain a 2 to 1 ratio of net premiums to surplus. Finally, the Legislature should consider providing that the date of application for a surplus note and the date of issuance of such funds must be prior to April 1, 2007. (Prior to the 2007 storm season and in time to purchase reinsurance.)
41. To protect insurance policyholders, the minimum surplus requirement for property insurers (currently \$5 million) should be evaluated for a possible upward revision.
42. Promote and facilitate the use of capital markets risk transfer alternatives by amending the insurance laws to authorize OIR approval of Special Purpose Reinsurance Vehicles for the securitization of an insurer's risk (NAIC Model Act).
43. Provide authorization for a state facility (e.g., within the State Board of Administration) to hold and invest funds invested (risked) by non-insurance entities, such as pension funds for individuals, covering specified hurricane losses for Florida insurers.
44. Authorize the CAT Fund or State Board of Administration to use catastrophe bonds, sidecars, and other capital market products to transfer the risk of CAT Fund coverage.
45. Allow for state participation in an insurance exchange or possibly the establishment of an insurance exchange in Florida to securitize and market to investors specified levels of hurricane catastrophe risk of insurers. Alternatively, work with existing exchanges that trade risk transfer products (e.g., the Chicago Mercantile Exchange) to determine if a Florida hurricane risk contract can be structured.

46. Adopt changes to the captive insurer law to liberalize Florida law and encourage the maximum use of captives by Florida's businesses and the maximum formation of captives in Florida, where appropriate.
47. Seek an IRS opinion allowing insurers to deduct catastrophe reserves if such reserves are deposited with an maintained by the state (such as the State Board of Administration). Seek an IRS opinion allowing insurers to deduct a "catastrophe premium equalization deduction" charged and held by the state in a segregated account for the benefit of insurers for use in the event of a catastrophe.
48. Request the Legislature to review the Federal Emergency Management Act's (FEMA) reimbursement procedure for public school facilities and determine how the state university system's facilities are insured under Florida law compared to public school facility structures.

### **Federal Issues**

49. Endorse H.R. 4366 (national CAT Fund), H.R. 4836 (tax exempt CAT savings account), and S. 3116 (tax exempt CAT reserves). Endorse the filing of legislation that provides federal income tax credit for all home retrofitting expenses (mitigation) or premium grants provided by State or local government.
50. Seek federal funding of windstorm analysis/studies equivalent to federal funding for earthquake analysis/studies.
51. The Governor, President of the Senate and Speaker of the House of Representatives will write to our Congressional leadership supporting these federal issues.