STORAGE NAME: h0995.in
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HOUSE OF REPRESENTATIVES
COMMITTEE ON
INSURANCE
ANALYSIS

BILL #: HB 995

RELATING TO: Depopulation of the Florida Residential Property and Casualty Joint Underwriting Association

SPONSOR(S): Representative Gay

COMPANION BILL(S): SB 1464 (i)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) INSURANCE
(2) GENERAL GOVERNMENT APPROPRIATIONS
(3)
(4)
(5)

I. SUMMARY:

HB 995 would repeal a provision that prohibits the Florida Residential Property and Casualty Joint Underwriting Association from offering take-out bonuses and assessment exemptions to insurance companies that take policies out of the association when the policy count of the association falls below 250,000. Currently, there are 212,704 policies in the RPCJUA.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

The Legislature created the Residential Property and Casualty Joint Underwriting Association (RPCJUA) in December 1992 in response to the disruption of the property insurance market as the result of Hurricane Andrew, which caused $16 billion of insured losses in August 1992. The RPCJUA was created to provide personal residential and commercial residential property insurance to those who are insurable, but are unable to find coverage in the voluntary market. By September 1996, the RPCJUA had 784,414 policies that included windstorm coverage representing over $80.5 billion in exposure. Of the 784,414 policies, 334,805 or 42 percent were located in Dade, Broward, Palm Beach and Monroe counties. The total exposure for those policies was $43.05 billion, which represented 53 percent of the total exposure of the RPCJUA.

In 1995 and 1996, the Legislature created incentives under subsection (6) of s. 627.351, F.S. (so-called “general” depopulation authority), and s. 627.3511, F.S. (so-called “specific” depopulation authority), for authorized voluntary market insurers to take over risks that were insured by the RPCJUA. These incentives primarily consisted of cash rewards and exemptions from RPCJUA regular deficit assessments.

Section s. 627.3511, F.S., specifically authorizes two types of financial incentives for take-out insurers: cash bonuses and RPCJUA assessment exemptions. Under s. 627.3511, F.S., the RPCJUA is authorized to pay insurers bonuses of up to $100 for each policy removed from the RPCJUA. According to this statute, an insurer must take-out at least 25,000 policies and provide coverage for at least 3 years to qualify for the per policy bonuses, which are funded through premium revenues. As of March 1, 1999, the RPCJUA has awarded more than $72 million in take-out bonus payments. These funds are held in escrow until the take-out company has held the policies for three years. The first release of escrow funds will occur in March 1999.

An insurer may receive exemptions from regular deficit assessments levied by the RPCJUA for policies removed from the RPCJUA. According to s. 627.3511, F.S., to qualify for the exemption an insurer must remove at least 50,000 policies from the RPCJUA and 40 percent of the policies must cover properties in Dade, Broward and Palm Beach counties, or, 30 percent of the policies in the take-out plan must cover properties in those three counties and an additional 50 percent of the policies taken out must cover other coastal counties.

Citing the general depopulation language in s. 627.351(6)(g)3.a., F.S., the RPCJUA has implemented take-out programs that offer higher bonuses and smaller bundles of policies. The Coastal Countdown program offers bonuses of up to $200 for a minimum of 5,000 policies taken from the RPCJUA. Of those 5,000 policies, at least 1,500 must come from Dade County and the remaining 3,500 must be taken from Broward or Palm Beach counties. If these minimum geographic standards are met, an insurer will receive bonuses of $200 for each policy taken out of Dade county, $150 for each policy taken from Broward or Palm Beach counties, and $100 for each policy taken from any other coastal county. Also under the Coastal Countdown program, an insurer could qualify for a 100 percent exemption from regular deficit assessments for three years for removing a minimum of 5,000 policies from the RPCJUA.

The RPCJUA is prohibited from giving bonuses or exemptions from assessments to insurers after the policy count in the association falls below 250,000 policies. As of December 1998, the policy count fell below 250,000 to 224,079. Currently, the RPCJUA has 212,704 representing $32 billion in exposure. Of the policies remaining in the RPCJUA, 196,561 policies or 92 percent are located in Dade, Broward, Palm Beach, and Monroe counties. The total exposure of those policies is $30.9 billion, which is 96 percent of the total exposure of the RPCJUA.

B. EFFECT OF PROPOSED CHANGES:

HB 995 would repeal a provision that prohibits the RPCJUA from offering take-out bonuses and assessment exemptions to insurance companies that take policies out of the association when the policy count of the association falls below 250,000.

This bill would take effect upon becoming a law, and by its terms operate retroactively to March 1, 1999.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

N/A

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

N/A

(3) any entitlement to a government service or benefit?

N/A

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

N/A

b. Does the bill require or authorize an increase in any fees?

N/A

c. Does the bill reduce total taxes, both rates and revenues?

N/A

d. Does the bill reduce total fees, both rates and revenues?

N/A

e. Does the bill authorize any fee or tax increase by any local government?

N/A

3. <u>Personal Responsibility:</u>

   a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

      N/A

   b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

      N/A

4. <u>Individual Freedom:</u>

   a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

      N/A

   b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

      N/A

5. <u>Family Empowerment:</u>

   a. If the bill purports to provide services to families or children:

      (1) Who evaluates the family's needs?

          N/A

      (2) Who makes the decisions?

          N/A

      (3) Are private alternatives permitted?

          N/A

      (4) Are families required to participate in a program?

          N/A

      (5) Are families penalized for not participating in a program?

          N/A

   b. Does the bill directly affect the legal rights and obligations between family members?

      N/A

   c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Repeals paragraph (b) of subsection (5) of s. 627.3511, F.S.

E. SECTION-BY-SECTION ANALYSIS:

N/A

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

N/A

3. Long Run Effects Other Than Normal Growth:

N/A

4. Total Revenues and Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

N/A

3. Long Run Effects Other Than Normal Growth:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   By offering insurance companies exemptions from regular deficit assessments levied by the RPCJUA, the assessment base of the RPCJUA would be narrowed, thus making other insurance companies shoulder more of the burden for regular deficit assessments.

   The take-out bonuses offered by the RPCJUA are paid for through premium revenues. In the event of losses by the RPCJUA, there would be less revenues available to pay claims. This could trigger the need for a regular deficit assessment.

2. Direct Private Sector Benefits:

   The RPCJUA would continue to offer incentives to companies willing to take policies out of the RPCJUA. If exposure in the RPCJUA is decreased, there is less chance for assessments on insurers and their policyholders.

3. Effects on Competition, Private Enterprise and Employment Markets:

   N/A

D. FISCAL COMMENTS:

N/A

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

N/A

B. REDUCTION OF REVENUE RAISING AUTHORITY:

N/A

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

N/A

V. COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON INSURANCE:

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