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**HOUSE OF REPRESENTATIVES
COMMITTEE ON
INSURANCE
ANALYSIS**

BILL #: CS/HB 1361

RELATING TO: Insurance; Citizens Property Insurance CPIC

SPONSOR(S): Committee on Insurance and Representative(s) Atwater, Barreiro, and Heyman

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

(1) INSURANCE YEAS 12 NAYS 1
(2) STATE ADMINISTRATION
(3) COUNCIL FOR COMPETITIVE COMMERCE
(4)
(5)

I. SUMMARY:

Effective July 1, 2002, the Residential Property and Casualty Joint Underwriting Association (RPCJUA) would become the Citizens Property Insurance Corporation (Citizens). All policies of the RPCJUA and the Florida Windstorm Underwriting Association (Windstorm Pool) would be transferred to Citizens. Citizens could not disqualify a policyholder from continued coverage if the policyholder's agent were "unable" or "unwilling" to be appointed by an insurer making an offer of coverage. Also, the Windstorm Pool would be prohibited from requiring flood insurance as a condition of eligibility for coverage.

The Treasurer would appoint a new board by July 1, 2002. Personal lines residential rates would be subject to the same rate floor applicable to RPCJUA policies. Rate plans used by the Windstorm Pool on January 1, 2002, would remain in effect under Citizens. However, annual premium increases for personal lines residential policies issued or renewed on or after July 1, 2003, would be limited to 15 percent and apply to homestead properties or residences valued at less than $500,000. Rate arbitration would no longer be available as an option to challenge a Department of Insurance rate order.

Citizens would be required to adopt a quota share primary insurance program. Rates for personal lines residential risks under quota share agreements would be based on a formula. The board would be required to report annually to the Legislature showing the change in the probable maximum loss for a 100-year event for wind-only coverages and policies under the proposed quota share program. If certain percentage reductions in probable maximum loss were not achieved, then the boundaries of the high risk area (former Windstorm Pool area) would be reduced.

Coverage under the Florida Hurricane Catastrophe Fund coverage would be expanded to include additional living expense coverage.

Citizens' would impose a new charge in an amount equal to the state premium tax. Also, the assessment base of Citizens would include surplus lines insureds. Citizens could issue debt obligations free from state and local taxes. Citizens also would be exempt from the state corporate income tax. Depending on a number of factors, this could have a negative impact on the state General Revenue Fund. Please see Section III., FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT, of this analysis.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1. Less Government Yes [] No [] N/A [X]

2. Lower Taxes Yes [X] No [X] N/A []

   Increases—Citizens' would impose a new charge in an amount equal to the state premium tax, although the bill does not indicate who would pay it. Based on premium taxes paid by the RPCJUA and the Windstorm Pool for 2001, this could amount to approximately $7.5 million.

   Decreases—To the extent Citizens receives income attributable to policies that would heretofore have been written by the Windstorm Pool, which is not now exempt from the state corporate income tax, this income would no longer be taxed under the bill. In 2001, the Windstorm Pool paid an estimated $12.3 million in state corporate income taxes. Deducting increased premium tax payments resulting from the elimination of a premium tax credit for state corporate income tax payments, Windstorm Pool would pay approximately $10.5 million less in state taxes in fiscal year 2002-03. Also, bond issues by Citizens would be exempt from state and local taxes. Please see Section III., FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT, of this analysis for further discussion.

   Additionally, the Internal Revenue Service has issued a private letter ruling indicating that Citizens would qualify for an exemption from the federal income tax and be able to issue tax-free debt.[1] At a minimum, this would represent savings not now enjoyed by the Windstorm Pool to the extent that it does not experience losses that would otherwise have reduced or eliminated its federal income tax expense. That is, the fact that the Windstorm Pool paid federal income tax of $74 million this year, does not mean $74 million would be saved by a tax exemption. If the Windstorm Pool experienced losses, carry back and carry forward provisions could operate to reduce or eliminate any tax liability from a prior or future year.

   The private letter ruling was issued based on a previous version of the bill.

3. Individual Freedom Yes [X] No [] N/A []

4. Personal Responsibility Yes [] No [] N/A [X]

5. Family Empowerment Yes [] No [] N/A [X]

   For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Residual Market Property Insurers

Florida has two property insurers of last resort for those unable to obtain coverage in the voluntary market: the Florida Windstorm Underwriting Association (Windstorm Pool) created in 1970 and the Residential Property and Casualty Joint Underwriting Association (RPCJUA) created in 1992. Both have been created pursuant to an act of the Legislature.

[1] Letter from the Internal Revenue Service to Tom Gallagher, Florida Treasurer and Insurance Commissioner, PLR-163640-01, February 20, 2002.

RPCJUA. The RPCJUA writes full homeowners and similar policies statewide, except it excludes windstorm coverage in Windstorm Pool-eligible areas. As of January 31, 2002, the RPCJUA covered 110,705 properties with an aggregate insured value of $12.9 billion. Almost all of these properties are located in Dade, Broward, and Palm Beach Counties.

Windstorm Pool. The Windstorm Pool covers only the perils of windstorm and hail in portions of 29 coastal counties.[2] Inside Windstorm Pool-eligible areas, insurers are free to write policies that exclude windstorm coverage. The Windstorm Pool insures both residential and commercial property.

As of January 31, 2002, the Windstorm Pool insured 409,955 properties, with an aggregate insured value of $98 billion. This includes 269,363 properties in Dade, Broward, Palm Beach, and Monroe counties with an aggregate insured value of $63.5 billion. As of December 31, 2002, the Windstorm Pool's average annual expected loss was $294 million and its probable maximum loss for a 100-year event was $4.7 billion.

The typical Windstorm Pool policyholder has two property insurance policies: one for the peril of wind and hail issued through the Windstorm Pool, a second for "all other perils" (e.g., fire, theft) issued through either a voluntary market insurer or the RPCJUA. If located within a flood zone, a Windstorm Pool policyholder also could have a third policy – one for the peril of flood issued through the federal flood insurance program.

Governance. The Windstorm Pool operates pursuant to a plan of operation approved by the Department of Insurance (Department) and is governed by a 15-member board of directors, including 12 representatives of the insurance industry and 3 consumer representatives, including the Insurance Consumer Advocate within the Department. The RPCJUA operates pursuant to a plan of operation approved by the Department and is governed by a 13-member board, the majority of which are appointed by the Insurance Commissioner and include 7 members representing insurers and 6 members representing consumers and other noninsurer interests.

Funding. Both the Windstorm Pool and the RPCJUA are funded by a combination of premiums, recoveries from the Florida Hurricane Catastrophe Fund after major hurricanes, and assessments levied against property insurance companies and their policyholders statewide. Both entities also have the power to borrow, including the issuance of revenue bonds backed by these assessments, when other resources are not sufficient to pay claims.

The Windstorm Pool began implementing a new rate structure on July 1, 2000. This new rate structure resulted from arbitration after it had initially been rejected by the Insurance Commissioner, and provides for phased-in rate changes intended to assure that the rates of the Windstorm Pool are actuarially sound. Under the new rate structure, the maximum rate increase was 20 percent in the first year, 30 percent in the second year, and 40 percent for the remaining 4 years of the phase-in. The rate increase is already fully phased in for 24 percent of Windstorm Pool homeowners (that is, 24 percent of Windstorm Pool homeowners will see no further rate increases under the current plan). Another 30 percent of Windstorm Pool homeowners will be at their full rate by June 30, 2003. By June 30, 2004, 94 percent of Windstorm Pool homeowners will be at their full, actuarially-indicated premium.

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[2] Counties eligible for coverage through the Windstorm Pool include parts of Bay, Brevard, Broward Charlotte, Collier, Dade, Duval, Escambia, Flagler, Franklin, Gulf, Hernando, Indian River, Lee, Levy, Manatee, Monroe, Nassau, Okaloosa, Palm Beach, Pasco, Pinellas, St. Lucie, Santa Rosa, Sarasota, Volusia, Wakulla, and Walton, and all of Monroe County. In Dade, Broward, and Palm Beach Counties, the Windstorm Pool includes the areas east of Interstate 95. In the other counties, the Windstorm Pool-eligible area typically is restricted to approximately 1,000 to 1,500 feet from the coast.

Since 1993, the Windstorm Pool has levied assessments five times for a total of $236 million. The RPCJUA has levied assessments twice for a total of $40.5 million.

Tax Status. *State.* The RPCJUA is exempt from the state corporate income tax. The Windstorm Pool is not exempt and will pay an estimated $10 million in corporate income taxes for 2001. Both the RPCJUA and the Windstorm Pool are subject to the state premium tax. Together, they will pay an estimated $7.5 million in 2001.

Federal. The Windstorm Pool is currently required to pay federal income taxes, and it is not able to issue bonds on a tax-free basis. (Tax-free bonds carry a lower rate of interest than taxable bonds, and the ability to issue tax-free bonds would therefore represent a substantial savings to the issuing entity.) For the past five years, the FWUA has paid a total of $172 million in federal income taxes, $74 million of which will be paid for 2001.

The RPCJUA sued the Internal Revenue Service (IRS) to obtain a tax exemption after attempts at negotiation with the IRS failed. On February 7, 2002, the U.S. District Court for the Northern District of Florida ruled that the RPCJUA was entitled to an exemption from income taxes.[3] The ruling was based largely on the court's findings that the RPCJUA board was under the control of the Insurance Commissioner and that it functioned largely as if it were a part of the Department. The ruling did not address the issue of tax-free bonding. Based on the totality of the circumstances, the court found the RPCJUA to be an integral part of state government. The IRS has 60 days from the date of the trial court's ruling to appeal.

The Florida Hurricane Catastrophe Fund (Cat Fund) received an exemption from income taxes and the right to issue tax-free bonds after negotiations with the IRS based on its status as an integral part of state government. The basic factors the IRS relied on, in negotiations and in private letter rulings were: control by a governmental entity (the State Board of Administration), a broad funding source for a limited benefit (all property and casualty policies except for workers' compensation are subject to assessments to pay property insurance losses), state financial contributions to the fund, use of some investment earnings of the fund to support state activities (hurricane loss mitigation), and the reversion of moneys in the fund to the state upon dissolution of the fund.

In 1995, the Legislature first required the RPCJUA to charge the same rates charged by the insurer with the highest rates in the county, among the top twenty insurers in the state by premium volume.

Beginning in 1995, the Legislature, the Department, and the RPCJUA began offering financial incentives to insurers willing to remove policies written by the RPCJUA. Incentives have included the payment of take-out bonuses and the approval of assessment exemptions. Reducing the exposure of the RPCJUA would reduce the potential assessment liability of insurers and their policyholders for deficits incurred by the RPCJUA.

Agent Compensation. The Windstorm Pool pays agents a commission of 15 percent for commercial policies and 11 percent for residential policies. Commissions are paid at policy inception for the entire policy period and upon renewal.

The RPCJUA pays a commission of 12.5 percent for commercial policies and 10 percent for residential policies.

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[3] Florida Residential Property and Casualty Joint Underwriting Association v. United States of America, Case No. 4:00cv351/RV, (February 7, 2002, N.D., Fla.)

When a policy is removed from the RPCJUA as part of a take-out agreement in which the insurer is paid a take-out bonus, the agent of record is entitled by law to retain the unearned commission on the policy. In addition, the insurer is required to pay the agent the insurer's usual and customary commission, if the term of the policy is greater than six months, or 50 percent of that commission, if the term of the policy is six months or less. As an alternative, the insurer may offer to allow the agent to continue servicing the policy for one year and pay the agent the insurer's usual and customary commission. The agent does not have the option of being paid a commission at the RPCJUA rate.

Unlike for the RPCJUA, the Legislature has made no special provision for compensating agents when policies they place into the Windstorm Pool are removed before policy issuance or within 30 days of coverage or removed as a part of a take-out plan. However, Windstorm Pool practice has been for agents to retain this commission when a policy is removed mid-term.

C. EFFECT OF PROPOSED CHANGES:

Residual Market Property Insurers

<u>Statement of Purpose and Intent.</u> The bill would state that it is in the public interest and a public purpose to make sure property in this state is insured and those unable to obtain coverage in the voluntary market are able to qualify for coverage in the residual market.

<u>Creation of Citizens Property Insurance Corporation.</u> As of July 1, 2002, the RPCJUA would become the "Citizens Property Insurance Corporation." All policies of the RPCJUA and the Windstorm Pool would be transferred to Citizens effective July 1, 2002.[4] RPCJUA policies would be transferred into either the personal lines account or commercial lines account, and Windstorm Pool policies would be transferred into the high-risk account. For purposes of the Florida Hurricane Cat Fund, the personal and commercial lines account would be treated as a separate insurer as would the high-risk account.

<u>Coverage.</u> Like the RPCJUA, Citizens would provide personal and commercial residential property insurance coverage. But, unlike the RPCJUA, Citizens also would write nonresidential commercial property insurance coverage.

<u>Eligibility for Coverage.</u> Eligibility would generally be the same as for the RPCJUA and the Windstorm Pool, but Citizens could not deny coverage to a policyholder receiving an offer of coverage in the voluntary market if the policyholder's agent is "unable" or "unwilling" to be appointed by the insurer making the offer of coverage. The Department would be permitted to remove territory from the area eligible for wind-only and quota share coverage if it finds certain criteria have been met. The Windstorm Pool would be prohibited from requiring flood insurance as a condition of eligibility for coverage.

<u>Governance.</u> The Treasurer would appoint a new 7-member board by July 1, 2002, subject to confirmation by three Cabinet members. Both the board and its executive staff would serve at the pleasure of the Treasurer. The Treasurer also would designate the board chair. The Treasurer would be required to appoint a technical advisory group to offer advice to the board.

<u>Funding.</u> *Rates and rate arbitration.* The requirement that RPCJUA rates for personal lines residential policies be no lower than the average rates charged by the insurer having the highest average rates in the county among the top 20 insurers with the greatest total direct written premium

[4] The Department would be granted the authority to postpone the transfers beyond this date if it finds it cannot be accomplished because of emergency conditions.

in the state for that particular line of insurance would be retained and applied to personal lines residential policies, but not to commercial residential and nonresidential policies and to “wind-only” policies.

Rates for personal lines “wind only” policies, those now issued only by the Windstorm Pool, are not now subject to the top 20 rate floor and would remain so. Instead, rates would continue to be required to be actuarially sound and not competitive with voluntary market rates. Rate plans used by the Windstorm Pool on January 1, 2002, would remain in effect under Citizens. The next rate phase in, that permitting windstorm rate increases of up to 40 percent scheduled to take effect July 1, 2002, would not be affected and could proceed. However, annual premium increases for personal lines residential policies issued or renewed on or after July 1, 2003, would be limited to 15 percent and apply to homestead properties or residences valued at less than $500,000. Arbitration would no longer be available as an alternative to an administrative challenge to a rate order issued by the Department.

Tax revenues. The RPCJUA exemption from the state corporate income tax would be extended to Citizens. Additionally, bonds issued by Citizens would be declared exempt from state and local taxes “of any kind” other than property taxes. To the extent Citizens receives income attributable to policies that would heretofore have been written by the Windstorm Pool, which is not exempt from this tax, this income would no longer be taxed. In 2001, the Windstorm Pool has estimated it will pay $12.3 million in state corporate income taxes.

Citizens would collect an amount equal to the premium tax for use by Citizens as an additional financial resource, presumably from Citizens’ participating insurers or policyholders. Based on premium taxes paid by the RPCJUA and the Windstorm Pool in 2001, this could amount to approximately $7.5 million during the first year after the effective date of this bill.

Assessments. The assessment base of Citizens for both regular and emergency assessments[5] would be expanded beyond that currently enjoyed by the RPCJUA to include not only insurers writing commercial nonresidential coverage, but also those persons insured through a surplus lines insurer.

Rather than funding deficits in one account by assessing insurers in the same account based on relative premium volume, as is now the case for the RPCJUA, insurers in all accounts would be assessed when insurers in any one account require an assessment to fund a deficit.

Quota share primary insurance program. Citizens would be required to adopt a quota share primary insurance program in its plan of operation for hurricane coverage for eligible risks, the details of which would be worked out by the board with all agreements approved by the Department. This proposal would use the transfer of liabilities concept central to a quota share reinsurance arrangement.[6]

Under the program, Citizens and an authorized insurer could agree to each assume responsibility for a specific percentage of the hurricane coverage for residential risks within the Windstorm Pool-

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[5] When premium and other financial resources are insufficient to pay losses, then the RPCJUA and the Windstorm Pool may levy assessments to cover the deficit. This includes “regular” assessments levied against voluntary market insurers on a market share basis (and passed on to all property insurance policyholders) and “emergency” assessments collected by insurers directly from these same policyholders.

[6] Quota share reinsurance is a form of proportional reinsurance requiring the insurer to transfer, and the reinsurer to accept, a given percentage of every risk within a defined category of business written by the insurer. The reinsurer shares losses in the same proportion as it shares premium.

eligible areas as they existed on January 1, 2002. Eligible risks could include policies written in the voluntary market, since the program is not limited to policies previously written in the Windstorm Pool.

Quota share agreements for hurricane coverage entered into by Citizens:

- must require the authorized insurer to assume a minimum of 10 percent of the losses;
- must require a uniform percentage of coverage for hurricane losses covered under the agreement by county or rating territory; and
- would require Department approval.

Citizens would be required to adopt a quota share primary insurance program. Rates for personal lines residential risks under quota share agreements would be based on a formula set forth in the bill. The board would be required to file an annual report with the Legislature showing the increase or decrease in the probable maximum loss[7] for a 100-year event for wind-only coverages and the proposed quota share program. If certain percentage reductions in probable maximum loss are not achieved, the boundaries of the high risk area (former Windstorm Pool-eligible area) would be reduced.

Existing Financial Obligations. Legislative intent would be expressed stating that nothing in the bill be construed to compromise, diminish, or interfere with creditors' rights under existing financing arrangements of the RPCJUA and the Windstorm Pool, and that these obligations pass unchanged to Citizens.

Tax Status. The bill would express through legislative intent that the income of the Citizens Property Insurance Corporation be exempt from federal taxation and that Citizens be able to issue tax-free debt obligations. Certain other changes proposed in the bill are designed to help achieve tax exempt status for Citizens.[8]

Guaranty Fund Participation. Citizens would be required to pay assessments levied by the Florida Insurance Guaranty Association; however, assessments would be limited to payment of covered claims arising from insurer insolvencies related to hurricane losses.

Reporting Requirements. Citizens would be required to file quarterly financial statements with the Department and to report monthly on the types, premium, exposure and distribution of policies-in-force.

Agent Compensation. If before policy issuance or during the first 30 days of coverage, in the case of a personal lines risk, or before policy issuance in the case of a commercial risk, a risk accepts an offer of coverage through a market assistance plan or other mechanism, the insurer would be required to:

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[7] Probable maximum loss is the highest expected dollar value of loss from a given peril at a given probability.

[8] In a private letter ruling dated February 20, 2002, the Internal Revenue Service stated that Citizens would qualify for an exemption from the federal income tax and be able to issue tax-free debt. At a minimum, this would represent savings not now enjoyed by the Windstorm Pool to the extent that it does not experience losses that would otherwise reduce their federal income tax expense. However, the private letter ruling was issued based on a previous version of the bill, although the differences between these two versions should not alter the ruling. See footnote 1.

- pay to the producing agent, for the first year, the insurer's usual and customary commission or a fee equal to that paid by Citizens, whichever is greater, if the agent is unwilling or unable to accept appointment by the new insurer; or

- offer to allow the producing agent to continue to service the policy for at least one year and pay the agent the greater of the insurer's usual and customary commission or fee equal to that paid by Citizens.

If removed pursuant to a take-out plan, the agent of record also would be able to retain any unearned commission.

Depopulation Programs. The requirement that the RPCJUA adopt programs to reduce both new and renewal writings would be applied to Citizens. The Department would be required to approve these programs.

FLORIDA HURRICANE CATASTROPHE FUND

Coverage under the Florida Hurricane Catastrophe Fund would be expanded to include losses attributable to additional living expense coverages (up to 20 percent of the value of the residential structure or 40 percent of the value of the residential contents). It would exclude loss of rental value, business interruption, or loss adjustment expenses.

D. SECTION-BY-SECTION ANALYSIS:

This section of the analysis need be completed only in the discretion of the committee.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

See III.D., FISCAL COMMENTS.

2. Expenditures:

None

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The bill would exempt bonds issued by Citizens from any local taxes other than property taxes. This could reduce local government revenues in an indeterminate amount depending on the number and size of bond issues.

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Offering residual market property insurance through a single corporation could lower administrative costs.

To the extent that changes in the bill result in Citizens obtaining a federal income tax exemption, the savings would increase the resources available to Citizens and help reduce the need for or amount of any future assessment.

Policyholders could choose to remain in the residual market even if they received an offer from a voluntary market insurer. This could affect depopulation efforts, making it difficult to reduce the potential for assessments against non-residual market policyholders that fund residual market deficits.

Citizens would be required to collect an amount equal to the state premium tax for use by Citizens. In the aggregate, approximately $7.5 million would be collected, presumably from either Citizens' policyholders or participating insurers, based on the amount of premium tax now collected.

D. FISCAL COMMENTS:

In 2001, the Windstorm Pool will pay an estimated $12.3 million in state corporate income taxes. However, the proposed exemption from the state corporate income tax for Citizens would not necessarily result in a $12.3 million reduction in state general revenue funds for fiscal year 2002-03, since the proposed exemption could have the effect of increasing the amount of state premium taxes paid by the Windstorm Pool (this is because state corporate income tax payments may be used to offset premium tax payments). According to the Windstorm Pool, the premium tax offset would have resulted in a $1.8 million increase in premium tax payments by the Windstorm Pool.

The recurring nature of any impact would depend upon a number of factors, especially losses suffered by Citizens. Losses would reduce the amount of corporate income tax payable in a given year.

In sum, the general revenue impact could fluctuate dramatically from year to year, but given the present scenario would be approximately a negative $10.5 million ($12.3 million minus $1.8 million) for fiscal year 2002-03.

IV. <u>CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION</u>:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill would exempt bonds issued by Citizens from any local taxes other than property taxes. This could reduce local government revenues in an indeterminate amount depending on the number and size of bond issues.

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

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

As long as financing obligations of the RPCJUA and the Windstorm Pool are outstanding, the Citizens is to maintain three separate accounts. Once those obligations have ended, it may consolidate into one account. For purposes of the Cat Fund, the bill would treat the personal and commercial lines account as separate and distinct from the high risk account. If Citizens consolidates into a single account, it is not apparent how they would maintain their distinction under the Cat Fund or if that is even intended once consolidation occurs.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On February 25, 2002, the Committee on Insurance adopted eight amendments and reported the bill favorably as a committee substitute. The committee substitute differs from the original bill in that the committee substitute would:

- apply the current Windstorm Pool rate plan to Citizens' wind-only policies and provide for a continuation of the phase-in until the full actuarially-indicated levels are reached. Beginning July 1, 2003, the amendment would provide that the maximum premium increase to any policyholder subject to these rates is 15 percent. It also would provide that the 15 percent cap does not apply to second homes (non-homestead property), or to properties valued at $500,000 or more according to the Property Appraiser's most recent official appraisal.

- provide a rate formula for personal lines residential risks under quota share agreements authorized in the bill.

- make the appointment of Citizens' board members subject to confirmation by three members of the Cabinet.

- require Citizens to report to the Legislature by February 1st of each year, the change in its 100-year probable maximum loss for wind and quota share coverages (combined), as compared to a benchmark consisting of the Windstorm Pool probable maximum loss based on exposures as of November 30, 2000. It also would provide that beginning February 1, 2007, if the probable maximum loss is not at least 25 percent below the benchmark, Citizens must reduce the territory eligible for wind-only and quota-share coverage to achieve the 25 percent reduction. Beginning February 1, 2012, if the probable maximum loss is not at least 50 percent below the benchmark, all territory inland of a line 1000 feet inland of the Intracoastal Waterway would be removed from the eligible area.

- provide a procedure and criteria under which the department, after public hearing, may remove territory from the area eligible for wind-only and quota-share coverage.

- would provide that effective January 7, 2003, references in this bill to the Treasurer are deemed to be references to the Chief Financial Officer, and references to the Department of Insurance are deemed to be references to the Department of Insurance and Financial Services (or other successor to the Department of Insurance).

- expand the coverage of the Florida Hurricane Catastrophe Fund to include losses attributable to additional living expense coverages (up to 20 percent of the value of the residential structure or 40 percent of the value of the residential contents). It also would exclude loss of rental value, business interruption, or loss adjustment expenses.

- prohibit the Windstorm Pool from requiring flood insurance as a condition of eligibility for coverage. If the policyholder elects not to have flood insurance, the burden would be on the policyholder to prove that a claim for water damage was not caused by flooding.

VII. SIGNATURES:

COMMITTEE ON INSURANCE:

Prepared by:	Staff Director:
Stephen T. Hogge	Stephen T. Hogge