

Bill No. PCS for SB 1980 (070118)

Barcode 625466

CHAMBER ACTION

Senate

House

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Comm: WD
04/05/2006 08:16 PM

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The Committee on Banking and Insurance (Garcia) recommended
the following amendment:

Senate Amendment (with directory and title amendments)

On page 16, between lines 17 and 18,

insert:

(16) TEMPORARY EMERGENCY ADDITIONAL COVERAGE OPTION.--

(a) Findings and intent.--The Legislature finds that

many property insurers have been unable to procure reinsurance
for the 2006 hurricane season with an attachment point below
the insurers' respective Florida Hurricane Catastrophe Fund
attachment points, because of temporary disruptions in the
market for catastrophic reinsurance. It is the intent of the
Legislature to create a temporary emergency program,
applicable only to the 2006 hurricane season, to address this
market disruption and enable insurers, at their option, to
procure additional coverage from the Florida Hurricane
Catastrophe Fund. It is the further intent of the Legislature
to structure this program in a manner that requires insurers
to pay premiums for this coverage which are comparable to the

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1 premiums the insurer would have paid for comparable
2 reinsurance coverage but for the 2006 reinsurance market
3 emergency and also in a manner that minimizes subsidies from
4 the general public.

5 (b) Applicability of other provisions of this
6 section.--All provisions of this section and the rules adopted
7 under this section apply to the program created by this
8 subsection unless specifically superseded by this subsection.

9 (c) Additional definitions.--As used in this
10 subsection, the term:

11 1. "TEACO option" means the temporary emergency
12 additional coverage option created under this subsection.

13 2. "TEACO insurer" means an insurer that has opted to
14 obtain coverage under the TEACO option in addition to the
15 coverage provided to the insurer under its reimbursement
16 contract.

17 3. "TEACO reimbursement premium" means the premium
18 charged by the fund for coverage provided under the TEACO
19 option.

20 4. "TEACO retention" means the amount of losses below
21 which a TEACO insurer is not entitled to reimbursement from
22 the fund under the TEACO option. A TEACO insurer's retention
23 shall be calculated as follows:

24 a. The board shall calculate and report to each TEACO
25 insurer the TEACO retention multiple. The TEACO retention
26 multiple shall be equal to \$3 billion divided by the total
27 estimated TEACO reimbursement premium. The total estimated
28 TEACO reimbursement premium for purposes of the calculation
29 under this sub-subparagraph shall be calculated using the
30 assumption that all insurers have selected the TEACO option
31 and have selected the 90-percent coverage level.

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1 b. The TEACO retention multiple as determined under
 2 sub-subparagraph a. shall be adjusted to reflect the coverage
 3 level elected by the insurer. For insurers electing the
 4 90-percent coverage level, the adjusted retention multiple is
 5 100 percent of the amount determined under sub-subparagraph a.
 6 For insurers electing the 75-percent coverage level, the
 7 retention multiple is 120 percent of the amount determined
 8 under sub-subparagraph a. For insurers electing the 45-percent
 9 coverage level, the adjusted retention multiple is 200 percent
 10 of the amount determined under sub-subparagraph a.

11 c. An insurer shall determine its provisional TEACO
 12 retention by multiplying its provisional TEACO reimbursement
 13 premium by the applicable adjusted TEACO retention multiple
 14 and shall determine its actual TEACO retention by multiplying
 15 its actual TEACO reimbursement premium by the applicable
 16 adjusted TEACO retention multiple.

17 d. For TEACO insurers who experience multiple covered
 18 events causing loss during the contract year beginning June 1,
 19 2006, the insurer's full TEACO retention shall be applied to
 20 each of the covered events causing the two largest losses for
 21 that insurer. For each additional covered event resulting in
 22 losses, the insurer's retention shall be reduced to one-third
 23 of the full retention as calculated under paragraph (2)(e).
 24 The TEACO addendum shall provide for the reimbursement of
 25 losses for each covered event based on the full TEACO
 26 retention with adjustments made to reflect the reduced
 27 retentions after January 1 of the contract year if the insurer
 28 reports its losses as specified in the reimbursement contract.

29 5. "TEACO addendum" means an addendum to the
 30 reimbursement contract reflecting the obligations of the fund
 31 and TEACO insurers under the program created by this

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1 subsection.

2 (d) TEACO addendum.--

3 1. The TEACO addendum shall provide for reimbursement
4 of TEACO insurers for covered events occurring between June 1,
5 2006, and May 31, 2007, in exchange for the TEACO
6 reimbursement premium paid into the fund under paragraph (e).
7 Any insurer writing covered policies shall have the option of
8 choosing to accept the TEACO addendum.

9 2. The TEACO addendum shall contain a promise by the
10 board to reimburse the TEACO insurer for 45 percent, 75
11 percent, or 90 percent of its losses from each covered event
12 in excess of the insurer's TEACO retention, plus 5 percent of
13 the reimbursed losses to cover loss adjustment expenses. The
14 percentage shall be the same as the coverage level selected by
15 the insurer under paragraph (4)(b).

16 3. The TEACO addendum shall provide that reimbursement
17 amounts may not be reduced by reinsurance paid or payable to
18 the insurer from other sources.

19 4. The TEACO addendum shall also provide that the
20 obligation of the board with respect to all TEACO addenda may
21 not exceed an amount equal to two times the difference between
22 the aggregate retention level calculated under paragraph
23 (2)(e) and the \$3 billion aggregate TEACO retention level
24 specified in sub-subparagraph (c)4.a.

25 5. The priorities, schedule, and method of
26 reimbursements under the TEACO addendum shall be the same as
27 those provided under subsection (4).

28 6. A TEACO insurer's maximum reimbursement under the
29 TEACO addendum for any one covered event shall be calculated
30 by multiplying the insurer's share of the estimated total
31 TEACO reimbursement premium as calculated under

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1 sub-subparagraph (c)4.a. by an amount equal to the difference
 2 between the aggregate retention level calculated under
 3 paragraph (2)(e) and the \$3 billion aggregate TEACO retention
 4 level specified in sub-subparagraph (c)4.a. A TEACO insurer's
 5 maximum reimbursement under the TEACO addendum for all covered
 6 events shall be calculated by multiplying the insurer's share
 7 of the estimated TEACO reimbursement premium as calculated
 8 under sub-subparagraph (c)4.a. by an amount equal to two times
 9 the difference between the aggregate retention level
 10 calculated under paragraph (2)(e) and the \$3 billion aggregate
 11 TEACO retention level specified in sub-subparagraph (c)4.a.

12 (e) TEACO reimbursement premiums.--

13 1. Each TEACO insurer shall pay to the fund, in the
 14 manner and at the time provided in the reimbursement contract
 15 for payment of reimbursement premiums, a TEACO reimbursement
 16 premium calculated as specified in this paragraph.

17 2. The TEACO reimbursement premium shall be calculated
 18 based on the assumption that, if all insurers entering into
 19 reimbursement contracts under subsection (4) also accepted the
 20 TEACO option, the aggregate TEACO reimbursement premium would
 21 be equal to 22.5 percent of the increase in claims-paying
 22 capacity referred to in paragraph (f).

23 3. Consistent with the requirements of subparagraph 2.
 24 and in furtherance of the legislative intent that TEACO
 25 insurers pay premiums that are comparable to the premiums the
 26 insurer would have paid for comparable reinsurance coverage
 27 but for the 2006 reinsurance market emergency, the TEACO
 28 reimbursement premium calculation shall include both the
 29 annualized average loss for the TEACO option and a risk load
 30 intended to make TEACO reimbursement premiums comparable to
 31 premiums charged in the private-sector reinsurance market for

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1 comparable coverage for the 2004 and 2005 hurricane seasons.

2 4. Based on the provisions of subparagraphs 2. and 3.,
3 the board shall adopt a factor or factors that shall be
4 applied to a TEACO insurer's reimbursement premium under
5 subsection (5) in order to determine the insurer's TEACO
6 reimbursement premium. The factor or factors must be approved
7 by unanimous vote of the board.

8 (f) Effect on claims-paying capacity of the fund.--For
9 the contract year commencing June 1, 2006, only, the program
10 created by this subsection shall increase the claims-paying
11 capacity of the fund as provided in subparagraph (4)(c)1. by
12 an amount equal to two times the difference between the
13 aggregate retention level calculated under paragraph (2)(e)
14 and the \$3 billion aggregate TEACO retention level specified
15 in sub-subparagraph (c)4.a.

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18 ===== D I R E C T O R Y C L A U S E A M E N D M E N T =====

19 And the directory clause is amended as follows:

20 On page 8, line 22, delete that line

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22 and insert: amended, and subsection (16) is added to that
23 section, to read:

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26 ===== T I T L E A M E N D M E N T =====

27 And the title is amended as follows:

28 On page 1, line 12, after the first semicolon,

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30 insert:

31 providing for a temporary emergency additional

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1 coverage option;

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