

1 A bill to be entitled

2 An act relating to hurricane preparedness and insurance;
3 providing a short title; amending s. 215.555, F.S.;
4 deleting a rapid cash buildup requirement from a
5 reimbursement premium formula factor; expanding the State
6 Board of Administration's reinsurance procurement powers
7 and duties for certain purposes; providing for temporary
8 emergency options for additional coverage; providing
9 legislative findings and intent; providing for application
10 of certain provisions; providing additional definitions;
11 providing for a reimbursement contract addendum for
12 certain insurers; providing requirements and procedures
13 under the addendum; providing for certain reimbursement
14 premiums for such insurers; providing for calculation of
15 such premiums; providing for effect on claims-paying
16 capacity of fund; authorizing the board to set
17 reimbursement premiums and retention and capacity levels
18 of the fund; requiring approval by the Legislative Budget
19 Commission; providing a temporary increase in coverage
20 limit options; requiring insurers electing optional
21 coverages offered by the Florida Hurricane Catastrophe
22 Fund to make rate filings that reflect savings or
23 reduction in loss exposure; requiring that the Office of
24 Insurance Regulation specify, by order, the dates on which
25 such filings must be made; requiring certain insurers to
26 make additional rate filings; specifying rate filing
27 requirements; authorizing the Financial Services

28 Commission to grant certain waivers; specifying duties of
 29 the office; providing an effective date.

30

31 Be It Enacted by the Legislature of the State of Florida:

32

33 Section 1. This act may be cited as the "Homeowners Rate
 34 Reduction Act."

35 Section 2. Paragraph (b) of subsection (5) and paragraph
 36 (a) of subsection (7) of section 215.555, Florida Statutes, are
 37 amended, and subsections (16) and (17) are added to that
 38 section, to read:

39 215.555 Florida Hurricane Catastrophe Fund.--

40 (5) REIMBURSEMENT PREMIUMS.--

41 (b) The State Board of Administration shall select an
 42 independent consultant to develop a formula for determining the
 43 actuarially indicated premium to be paid to the fund. The
 44 formula shall specify, for each zip code or other limited
 45 geographical area, the amount of premium to be paid by an
 46 insurer for each \$1,000 of insured value under covered policies
 47 in that zip code or other area. In establishing premiums, the
 48 board shall consider the coverage elected under paragraph (4) (b)
 49 and any factors that tend to enhance the actuarial
 50 sophistication of ratemaking for the fund, including
 51 deductibles, type of construction, type of coverage provided,
 52 relative concentration of risks, and other such factors deemed
 53 by the board to be appropriate. The formula may provide for a
 54 procedure to determine the premiums to be paid by new insurers
 55 that begin writing covered policies after the beginning of a

56 contract year, taking into consideration when the insurer starts
 57 writing covered policies, the potential exposure of the insurer,
 58 the potential exposure of the fund, the administrative costs to
 59 the insurer and to the fund, and any other factors deemed
 60 appropriate by the board. ~~The formula shall include a factor of~~
 61 ~~25 percent of the fund's actuarially indicated premium in order~~
 62 ~~to provide for more rapid cash buildup in the fund.~~ The formula
 63 must be approved by unanimous vote of the board. The board may,
 64 at any time, revise the formula pursuant to the procedure
 65 provided in this paragraph.

66 (7) ADDITIONAL POWERS AND DUTIES.--

67 (a) The board may procure reinsurance from reinsurers
 68 acceptable to the Office of Insurance Regulation for the purpose
 69 of maximizing the capacity of the fund and may enter into
 70 capital market transactions, including, but not limited to,
 71 industry loss warranties, catastrophe bonds, side-car
 72 arrangements, or financial contracts permissible for the board's
 73 usage under s. 215.47(10) and (11), consistent with prudent
 74 management of the fund.

75 (16) TEMPORARY EMERGENCY OPTIONS FOR ADDITIONAL
 76 COVERAGE.--

77 (a) Findings and intent.--

78 1. The Legislature finds that:

79 a. Because of temporary disruptions in the market for
 80 catastrophic reinsurance, many property insurers were unable to
 81 procure reinsurance for the 2006 hurricane season with an
 82 attachment point below the insurers' respective Florida
 83 Hurricane Catastrophe Fund attachment points, were unable to

84 procure sufficient amounts of such reinsurance, or were able to
85 procure such reinsurance only by incurring substantially higher
86 costs than in prior years.

87 b. The reinsurance market problems were responsible, at
88 least in part, for substantial premium increases to many
89 consumers and increases in the number of policies issued by the
90 Citizens Property Insurance Corporation.

91 c. It is likely that the reinsurance market disruptions
92 will not significantly abate prior to the 2007 hurricane season.

93 2. It is the intent of the Legislature to create a
94 temporary emergency program, applicable to the 2007 and 2008
95 hurricane seasons, to address these market disruptions and
96 enable insurers, at their option, to procure additional coverage
97 from the Florida Hurricane Catastrophe Fund.

98 (b) Applicability of other provisions of this
99 section.--All provisions of this section and the rules adopted
100 under this section apply to the program created by this
101 subsection unless specifically superseded by this subsection.

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

104 1. "TEACO options" means the temporary emergency
105 additional coverage options created under this subsection.

106 2. "TEACO insurer" means an insurer that has opted to
107 obtain coverage under the TEACO options in addition to the
108 coverage provided to the insurer under its reimbursement
109 contract.

110 3. "TEACO reimbursement premium" means the premium charged
111 by the fund for coverage provided under the TEACO options.

112 4. "TEACO retention" means the amount of losses below
113 which a TEACO insurer is not entitled to reimbursement from the
114 fund under the TEACO option selected. A TEACO insurer's
115 retention options shall be calculated as follows:

116 a. The board shall calculate and report to each TEACO
117 insurer the TEACO retention multiples. There shall be four TEACO
118 retention multiples for defining coverage. Each multiple shall
119 be calculated by dividing \$2 billion, \$3 billion, \$4 billion, or
120 \$5 billion by the total estimated TEACO reimbursement premium
121 assuming all insurers selected that option. Total estimated
122 TEACO reimbursement premium for purposes of the calculation
123 under this sub-subparagraph shall be calculated using the
124 assumption that all insurers have selected a specific TEACO
125 retention multiple option and have selected the 90-percent
126 coverage level.

127 b. The TEACO retention multiples as determined under sub-
128 subparagraph a. shall be adjusted to reflect the coverage level
129 elected by the insurer. For insurers electing the 90-percent
130 coverage level, the adjusted retention multiple is 100 percent
131 of the amount determined under sub-subparagraph a. For insurers
132 electing the 75-percent coverage level, the retention multiple
133 is 120 percent of the amount determined under sub-subparagraph
134 a. For insurers electing the 45-percent coverage level, the
135 adjusted retention multiple is 200 percent of the amount
136 determined under sub-subparagraph a.

137 c. An insurer shall determine its provisional TEACO
138 retention by multiplying its provisional TEACO reimbursement
139 premium by the applicable adjusted TEACO retention multiple and

140 shall determine its actual TEACO retention by multiplying its
141 actual TEACO reimbursement premium by the applicable adjusted
142 TEACO retention multiple.

143 d. For TEACO insurers who experience multiple covered
144 events causing loss during the contract term beginning June 1,
145 2007, and ending March 31, 2008, or the contract year beginning
146 June 1, 2008, the insurer's full TEACO retention shall be
147 applied to each of the covered events causing the two largest
148 losses for that insurer. For other covered events resulting in
149 losses, the TEACO option does not apply and the insurer's
150 retention shall be one-third of the full retention as calculated
151 under paragraph (2) (e).

152 5. "TEACO addendum" means an addendum to the reimbursement
153 contract reflecting the obligations of the fund and TEACO
154 insurers under the program created by this subsection.

155 (d) TEACO addendum.--

156 1. The TEACO addendum shall provide for reimbursement of
157 TEACO insurers for covered events occurring between June 1,
158 2007, and May 31, 2008, and between June 1, 2008, and May 31,
159 2009, in exchange for the TEACO reimbursement premium paid into
160 the fund under paragraph (e). Any insurer writing covered
161 policies has the option of choosing to accept the TEACO
162 addendum.

163 2. The TEACO addendum shall contain a promise by the board
164 to reimburse the TEACO insurer for 45 percent, 75 percent, or 90
165 percent of its losses from each covered event in excess of the
166 insurer's TEACO retention, plus 5 percent of the reimbursed
167 losses to cover loss adjustment expenses. The percentage shall

168 be the same as the coverage level selected by the insurer under
169 paragraph (4) (b).

170 3. The TEACO addendum shall provide that reimbursement
171 amounts shall not be reduced by reinsurance paid or payable to
172 the insurer from other sources.

173 4. The TEACO addendum shall also provide that the
174 obligation of the board with respect to all TEACO addenda shall
175 not exceed an amount equal to two times the difference between
176 the industry retention level calculated under paragraph (2) (e)
177 and the \$2 billion, \$3 billion, \$4 billion, or \$5 billion
178 industry TEACO retention level options actually selected, but in
179 no event may the board's obligation exceed the actual claims-
180 paying capacity of the fund plus the additional capacity created
181 in paragraph (f). If the actual claims-paying capacity and the
182 additional capacity created under paragraph (f) fall short of
183 the board's obligations under the reimbursement contract, each
184 insurer's share of the fund's capacity shall be pro rated based
185 on the premium an insurer pays for its normal reimbursement
186 coverage and the premium paid for its optional TEACO coverage as
187 each such premium bears to the total premiums paid to the fund
188 times the available capacity.

189 5. The priorities, schedule, and method of reimbursements
190 under the TEACO addendum shall be the same as provided under
191 subsection (4).

192 6. A TEACO insurer's maximum reimbursement under the TEACO
193 addendum shall be calculated by multiplying the insurer's share
194 of the estimated total TEACO reimbursement premium as calculated
195 under sub-subparagraph (c)4.a. by an amount equal to two times

196 the difference between the industry retention level calculated
197 under paragraph (2)(e) and the \$2 billion, \$3 billion, \$4
198 billion, or \$5 billion industry TEACO retention level specified
199 in sub-subparagraph (c)4.a. as selected by the TEACO insurer.

200 (e) TEACO reimbursement premiums.--

201 1. Each TEACO insurer shall pay to the fund, in the manner
202 and at the time provided in the reimbursement contract for
203 payment of reimbursement premiums, a TEACO reimbursement premium
204 calculated as specified in this paragraph.

205 2. The TEACO reimbursement premiums shall be calculated
206 based on the assumption that, if all insurers entering into
207 reimbursement contracts under subsection (4) also accepted the
208 TEACO option:

209 a. The industry TEACO reimbursement premium associated
210 with the \$2 billion retention option would be equal to 50
211 percent of the difference between the industry retention level
212 calculated under paragraph (2)(e) and the \$2 billion industry
213 TEACO retention level.

214 b. The industry TEACO reimbursement premium associated
215 with the \$3 billion retention option would be equal to 40
216 percent of the difference between the industry retention level
217 calculated under paragraph (2)(e) and the \$3 billion industry
218 TEACO retention level.

219 c. The TEACO reimbursement premium associated with the \$4
220 billion retention option would be equal to 35 percent of the
221 difference between the industry retention level calculated under
222 paragraph (2)(e) and the \$4 billion industry TEACO retention
223 level.

224 d. The TEACO premium associated with the \$5 billion
225 retention option would be equal to 30 percent of the difference
226 between the industry retention level calculated under paragraph
227 (2) (e) and the \$5 billion industry TEACO retention level.

228 3. Each insurer's TEACO premium shall be calculated based
229 on its share of the total TEACO reimbursement premiums based on
230 its coverage selection under the TEACO addendum.

231 (f) Effect on claims-paying capacity of the fund.--For the
232 contract term commencing June 1, 2007, and the contract year
233 commencing June 1, 2008, the program created by this subsection
234 shall increase the claims-paying capacity of the fund as
235 provided in subparagraph (4) (c)1. by an amount equal to two
236 times the difference between the industry retention level
237 calculated under paragraph (2) (e) and the \$2 billion industry
238 TEACO retention level specified in sub-subparagraph (c)4.a. The
239 additional capacity shall apply only to the additional coverage
240 provided by the TEACO option and shall not otherwise affect any
241 insurer's reimbursement from the fund.

242 (g) Setting of reimbursement premiums of the
243 fund.--Notwithstanding paragraph (e), for the contract year
244 commencing June 1, 2007, and thereafter, the board may set the
245 TEACO reimbursement premiums, consistent with prudent management
246 of the fund and subject to the approval of the Legislative
247 Budget Commission.

248 (h) Setting of retention and capacity levels of the
249 fund.--For the contract year commencing June 1, 2009, and
250 thereafter, the board may set the retention and capacity levels
251 of the fund, consistent with prudent management of the fund and

252 subject to the approval of the Legislative Budget Commission.

253 (17) TEMPORARY INCREASE IN COVERAGE LIMIT OPTIONS.--

254 (a) Findings and intent.--

255 1. The Legislature finds that:

256 a. Because of temporary disruptions in the market for
257 catastrophic reinsurance, many property insurers were unable to
258 procure sufficient amounts of reinsurance for the 2006 hurricane
259 season or were able to procure such reinsurance only by
260 incurring substantially higher costs than in prior years.

261 b. The reinsurance market problems were responsible, at
262 least in part, for substantial premium increases to many
263 consumers and increases in the number of policies issued by
264 Citizens Property Insurance Corporation.

265 c. It is likely that the reinsurance market disruptions
266 will not significantly abate prior to the 2007 hurricane season.

267 2. It is the intent of the Legislature to create options
268 for insurers to purchase a temporary increased coverage limit
269 above the statutorily determined limit in subparagraph (4)(c)1.,
270 applicable for the 2007 and 2008 hurricane seasons, to address
271 market disruptions and enable insurers, at their option, to
272 procure additional coverage from the Florida Hurricane
273 Catastrophe Fund.

274 (b) Applicability of other provisions of this
275 section.--All provisions of this section and the rules adopted
276 under this section apply to the coverage created by this
277 subsection unless specifically superseded by provisions in this
278 subsection.

279 (c) Additional definitions.--As used in this subsection,

280 the term:

281 1. "FHCF" means Florida Hurricane Catastrophe Fund.

282 2. "FHCF reimbursement premium" means the premium paid by
283 an insurer for its coverage as a mandatory participant in the
284 FHCF, but does not include additional premiums for optional
285 coverages.

286 3. "Payout multiple" means defined as the number or
287 multiple created by dividing the statutorily defined claims-
288 paying capacity as determined in subparagraph (4)(c)1. by the
289 aggregate reimbursement premiums paid by all insurers estimated
290 or projected as of calendar year-end.

291 4. "TICL" means the temporary increase in coverage limit.

292 5. "TICL options" means the temporary increase in coverage
293 options created under this subsection.

294 6. "TICL insurer" means an insurer that has opted to
295 obtain coverage under the TICL options addendum in addition to
296 the coverage provided to the insurer under its FHCF
297 reimbursement contract.

298 7. "TICL reimbursement premium" means the premium charged
299 by the fund for coverage provided under the TICL option.

300 8. "TICL coverage multiple" means the coverage multiple
301 when multiplied by an insurer's reimbursement premium that
302 defines the temporary increase in coverage limit.

303 9. "TICL coverage" means the coverage for an insurer's
304 losses above the insurer's statutorily determined claims-paying
305 capacity based on the claims-paying limit in subparagraph
306 (4)(c)1., which an insurer selects as its temporary increase in
307 coverage from the fund under the TICL options selected. A TICL

308 insurer's increased coverage limit options shall be calculated
309 as follows:

310 a. The board shall calculate and report to each TICL
311 insurer the TICL coverage multiples based on three options for
312 increasing the insurer's FHCF coverage limit. Each TICL coverage
313 multiple shall be calculated by dividing \$1 billion, \$2 billion,
314 \$3 billion, or \$4 billion by the total estimated aggregate FHCF
315 reimbursement premiums for the 2007-2008 reimbursement contract
316 year and for the 2008-2009 reimbursement contract year.

317 b. The TICL insurer's increased coverage shall be the FHCF
318 reimbursement premium multiplied by the TICL coverage multiple.
319 In order to determine an insurer's total limit of coverage, an
320 insurer shall add its TICL coverage multiple to its payout
321 multiple. The total shall represent a number that, when
322 multiplied by an insurer's FHCF reimbursement premium for a
323 given reimbursement contract year, defines an insurer's total
324 limit of FHCF reimbursement coverage for that reimbursement
325 contract year.

326 10. "TICL options addendum" means an addendum to the
327 reimbursement contract reflecting the obligations of the fund
328 and insurers selecting an option to increase an insurer's FHCF
329 coverage limit.

330 (d) TICL options addendum.--

331 1. The TICL options addendum shall provide for
332 reimbursement of TICL insurers for covered events occurring
333 between June 1, 2007, and May 31, 2008, and between June 1,
334 2008, and May 31, 2009, in exchange for the TICL reimbursement
335 premium paid into the fund under paragraph (e). Any insurer

336 writing covered policies has the option of selecting an
337 increased limit of coverage under the TICL options addendum and
338 shall select such coverage at the time that it executes the FHCF
339 reimbursement contract.

340 2. The TICL addendum shall contain a promise by the board
341 to reimburse the TICL insurer for 45 percent, 75 percent, or 90
342 percent of its losses from each covered event in excess of the
343 insurer's retention, plus 5 percent of the reimbursed losses to
344 cover loss adjustment expenses. The percentage shall be the same
345 as the coverage level selected by the insurer under paragraph
346 (4) (b).

347 3. The TICL addendum shall provide that reimbursement
348 amounts shall not be reduced by reinsurance paid or payable to
349 the insurer from other sources.

350 4. The priorities, schedule, and method of reimbursements
351 under the TICL addendum shall be the same as provided under
352 subsection (4).

353 (e) TICL reimbursement premiums.--

354 1. Each TICL insurer shall pay to the fund, in the manner
355 and at the time provided in the reimbursement contract for
356 payment of reimbursement premiums, a TICL reimbursement premium
357 calculated as specified in this paragraph.

358 2. Each insurer's TICL premium shall be calculated based
359 on the additional limit of increased coverage that it selects.
360 Such limit is determined by multiplying the TICL multiple
361 associated with one of the four options times the insurer's FHCF
362 reimbursement premium. For the amount of increased coverage
363 based on the option of using \$1 billion to derive the TICL

364 multiple, the rate-on-line for such coverage shall be 20
365 percent. For the option using \$2 billion, the rate-on-line shall
366 be 17.5 percent, for the option using \$3 billion, the rate-on-
367 line shall be 15 percent, and for the option using \$4 billion,
368 the rate-on line shall be 14 percent.

369 (f) Effect on claims-paying capacity of the fund.--For the
370 contract terms commencing June 1, 2007, and June 1, 2008, the
371 program created by this subsection shall increase the claims-
372 paying capacity of the fund as provided in subparagraph (4)(c)1.
373 by an amount not to exceed \$4 billion dollars and shall depend
374 on the TICL coverage options selected and the number of insurers
375 that select the TICL optional coverage. The additional capacity
376 shall apply only to the additional coverage provided under the
377 TICL options and shall not otherwise affect any insurer's
378 reimbursement from the fund if the insurer chooses not to select
379 the temporary option to increase its limit of coverage under the
380 FHCF.

381 Section 3. An insurer that elects the TEACO or TICL
382 coverage option required to be offered by the Florida Hurricane
383 Catastrophe Fund under s. 215.555(16) and (17), Florida
384 Statutes, must make a rate filing with the Office of Insurance
385 Regulation which reflects 100 percent of the savings or the
386 reduction in loss exposure to the insurer. At a minimum, the
387 insurer must provide a 25-percent reduction in premium based on
388 the savings obtained under the TEACO or TICL coverage option.
389 The Financial Services Commission may grant a waiver of the 25-
390 percent reduction requirement for good cause and if the insurer
391 has made best efforts to meet the 25 percent reduction

CS/HB 3A

2007

392 requirement. The office shall specify, by order, the date or
393 dates on which such filings must be made, in order to provide
394 rate relief to policyholders as soon as practicable.

395 Section 4. This act shall take effect upon becoming a law.