

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 and for  
9 temporary increase in coverage limit options; providing  
10 legislative findings and intent; providing for application  
11 of certain provisions; providing additional definitions;  
12 providing for a reimbursement contract addendum for  
13 certain insurers; providing requirements and procedures  
14 under the addendum; providing for certain reimbursement  
15 premiums for such insurers; providing for calculation of  
16 such premiums; providing for effect on claims-paying  
17 capacity of fund; requiring insurers electing optional  
18 coverages offered by the Florida Hurricane Catastrophe  
19 Fund to make rate filings that reflect savings or  
20 reduction in loss exposure; requiring that the Office of  
21 Insurance Regulation specify, by order, the dates on which  
22 such filings must be made; requiring certain insurers to  
23 make additional rate filings; specifying rate filing  
24 requirements; authorizing the Financial Services  
25 Commission to grant certain waivers; specifying duties of  
26 the office; providing an effective date.

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

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

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

215.555 Florida Hurricane Catastrophe Fund.--

(5) REIMBURSEMENT PREMIUMS.--

(b) The State Board of Administration shall select an independent consultant to develop a formula for determining the actuarially indicated premium to be paid to the fund. The formula shall specify, for each zip code or other limited geographical area, the amount of premium to be paid by an insurer for each \$1,000 of insured value under covered policies in that zip code or other area. In establishing premiums, the board shall consider the coverage elected under paragraph (4)(b) and any factors that tend to enhance the actuarial sophistication of ratemaking for the fund, including deductibles, type of construction, type of coverage provided, relative concentration of risks, and other such factors deemed by the board to be appropriate. The formula may provide for a procedure to determine the premiums to be paid by new insurers that begin writing covered policies after the beginning of a contract year, taking into consideration when the insurer starts writing covered policies, the potential exposure of the insurer, the potential exposure of the fund, the administrative costs to the insurer and to the fund, and any other factors deemed

57 appropriate by the board. ~~The formula shall include a factor of~~  
58 ~~25 percent of the fund's actuarially indicated premium in order~~  
59 ~~to provide for more rapid cash buildup in the fund.~~ The formula  
60 must be approved by unanimous vote of the board. The board may,  
61 at any time, revise the formula pursuant to the procedure  
62 provided in this paragraph.

63 (7) ADDITIONAL POWERS AND DUTIES.--

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

72 (16) TEMPORARY EMERGENCY OPTIONS FOR ADDITIONAL  
73 COVERAGE.--

74 (a) Findings and intent.--

75 1. The Legislature finds that:

76 a. Because of temporary disruptions in the market for  
77 catastrophic reinsurance, many property insurers were unable to  
78 procure reinsurance for the 2006 hurricane season with an  
79 attachment point below the insurers' respective Florida  
80 Hurricane Catastrophe Fund attachment points, were unable to  
81 procure sufficient amounts of such reinsurance, or were able to  
82 procure such reinsurance only by incurring substantially higher  
83 costs than in prior years.

84 b. The reinsurance market problems were responsible, at

85 least in part, for substantial premium increases to many  
86 consumers and increases in the number of policies issued by the  
87 Citizens Property Insurance Corporation.

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

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

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

99 (c) Optional coverage.--For the contract year commencing  
100 June 1, 2007, and ending May 31, 2008, or the contract year  
101 commencing June 1, 2008, and ending May 31, 2009, the board may  
102 offer the optional coverage as provided in this subsection  
103 subject to the approval of the Legislative Budget Commission.

104 (d) Additional definitions.--As used in this subsection,  
105 the term:

106 1. "TEACO options" means the temporary emergency  
107 additional coverage options created under this subsection.

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

112 3. "TEACO reimbursement premium" means the premium charged

113 by the fund for coverage provided under the TEACO options.

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

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

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

139 c. An insurer shall determine its provisional TEACO  
140 retention by multiplying its provisional TEACO reimbursement

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

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

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

157 (e) TEACO addendum.--

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

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

169 losses to cover loss adjustment expenses. The percentage shall  
170 be the same as the coverage level selected by the insurer under  
171 paragraph (4) (b).

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

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

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

194 6. A TEACO insurer's maximum reimbursement under the TEACO  
195 addendum shall be calculated by multiplying the insurer's share  
196 of the estimated total TEACO reimbursement premium as calculated

197 under sub-subparagraph (d)4.a. by an amount equal to two times  
198 the difference between the industry retention level calculated  
199 under paragraph (2) (e) and the \$3 billion, \$4 billion, or \$5  
200 billion industry TEACO retention level specified in sub-  
201 subparagraph (d)4.a. as selected by the TEACO insurer.

202 (f) TEACO reimbursement premiums.--

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

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

211 a. The industry TEACO reimbursement premium associated  
212 with the \$3 billion retention option would be equal to 85  
213 percent of the difference between the industry retention level  
214 calculated under paragraph (2) (e) and the \$3 billion industry  
215 TEACO retention level.

216 b. The TEACO reimbursement premium associated with the \$4  
217 billion retention option would be equal to 80 percent of the  
218 difference between the industry retention level calculated under  
219 paragraph (2) (e) and the \$4 billion industry TEACO retention  
220 level.

221 c. The TEACO premium associated with the \$5 billion  
222 retention option would be equal to 75 percent of the difference  
223 between the industry retention level calculated under paragraph  
224 (2) (e) and the \$5 billion industry TEACO retention level.



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

228 (g) Effect on claims-paying capacity of the fund.--For the  
 229 contract term commencing June 1, 2007, and the contract year  
 230 commencing June 1, 2008, the program created by this subsection  
 231 shall increase the claims-paying capacity of the fund as  
 232 provided in subparagraph (4)(c)1. by an amount equal to two  
 233 times the difference between the industry retention level  
 234 calculated under paragraph (2)(e) and the \$3 billion industry  
 235 TEACO retention level specified in sub-subparagraph (d)4.a. The  
 236 additional capacity shall apply only to the additional coverage  
 237 provided by the TEACO option and shall not otherwise affect any  
 238 insurer's reimbursement from the fund.

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

240 (a) Findings and intent.--

241 1. The Legislature finds that:

242 a. Because of temporary disruptions in the market for  
 243 catastrophic reinsurance, many property insurers were unable to  
 244 procure sufficient amounts of reinsurance for the 2006 hurricane  
 245 season or were able to procure such reinsurance only by  
 246 incurring substantially higher costs than in prior years.

247 b. The reinsurance market problems were responsible, at  
 248 least in part, for substantial premium increases to many  
 249 consumers and increases in the number of policies issued by  
 250 Citizens Property Insurance Corporation.

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

253        2. It is the intent of the Legislature to create options  
254 for insurers to purchase a temporary increased coverage limit  
255 above the statutorily determined limit in subparagraph (4)(c)1.,  
256 applicable for the 2007 and 2008 hurricane seasons, to address  
257 market disruptions and enable insurers, at their option, to  
258 procure additional coverage from the Florida Hurricane  
259 Catastrophe Fund.

260        (b) Applicability of other provisions of this  
261 section.--All provisions of this section and the rules adopted  
262 under this section apply to the coverage created by this  
263 subsection unless specifically superseded by provisions in this  
264 subsection.

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

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

268        2. "FHCF reimbursement premium" means the premium paid by  
269 an insurer for its coverage as a mandatory participant in the  
270 FHCF, but does not include additional premiums for optional  
271 coverages.

272        3. "Payout multiple" means the number or multiple created  
273 by dividing the statutorily defined claims-paying capacity as  
274 determined in subparagraph (4)(c)1. by the aggregate  
275 reimbursement premiums paid by all insurers estimated or  
276 projected as of calendar year-end.

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

278        5. "TICL options" means the temporary increase in coverage  
279 options created under this subsection.

280        6. "TICL insurer" means an insurer that has opted to

281 obtain coverage under the TICL options addendum in addition to  
 282 the coverage provided to the insurer under its FHCF  
 283 reimbursement contract.

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

286 8. "TICL coverage multiple" means the coverage multiple  
 287 when multiplied by an insurer's reimbursement premium that  
 288 defines the temporary increase in coverage limit.

289 9. "TICL coverage" means the coverage for an insurer's  
 290 losses above the insurer's statutorily determined claims-paying  
 291 capacity based on the claims-paying limit in subparagraph  
 292 (4) (c)1., which an insurer selects as its temporary increase in  
 293 coverage from the fund under the TICL options selected. A TICL  
 294 insurer's increased coverage limit options shall be calculated  
 295 as follows:

296 a. The board shall calculate and report to each TICL  
 297 insurer the TICL coverage multiples based on twelve options for  
 298 increasing the insurer's FHCF coverage limit. Each TICL coverage  
 299 multiple shall be calculated by dividing \$1 billion, \$2 billion,  
 300 \$3 billion, \$4 billion, \$5 billion, \$6 billion, \$7 billion, \$8  
 301 billion, \$9 billion, \$10 billion, \$11 billion, and \$12 billion  
 302 by the total estimated aggregate FHCF reimbursement premiums for  
 303 the 2007-2008 reimbursement contract year and for the 2008-2009  
 304 reimbursement contract year.

305 b. The TICL insurer's increased coverage shall be the FHCF  
 306 reimbursement premium multiplied by the TICL coverage multiple.  
 307 In order to determine an insurer's total limit of coverage, an  
 308 insurer shall add its TICL coverage multiple to its payout

309 multiple. The total shall represent a number that, when  
310 multiplied by an insurer's FHCF reimbursement premium for a  
311 given reimbursement contract year, defines an insurer's total  
312 limit of FHCF reimbursement coverage for that reimbursement  
313 contract year.

314 10. "TICL options addendum" means an addendum to the  
315 reimbursement contract reflecting the obligations of the fund  
316 and insurers selecting an option to increase an insurer's FHCF  
317 coverage limit.

318 (d) TICL options addendum.--

319 1. The TICL options addendum shall provide for  
320 reimbursement of TICL insurers for covered events occurring  
321 between June 1, 2007, and May 31, 2008, and between June 1,  
322 2008, and May 31, 2009, in exchange for the TICL reimbursement  
323 premium paid into the fund under paragraph (e). Any insurer  
324 writing covered policies has the option of selecting an  
325 increased limit of coverage under the TICL options addendum and  
326 shall select such coverage at the time that it executes the FHCF  
327 reimbursement contract.

328 2. The TICL addendum shall contain a promise by the board  
329 to reimburse the TICL insurer for 45 percent, 75 percent, or 90  
330 percent of its losses from each covered event in excess of the  
331 insurer's retention, plus 5 percent of the reimbursed losses to  
332 cover loss adjustment expenses. The percentage shall be the same  
333 as the coverage level selected by the insurer under paragraph  
334 (4) (b).

335 3. The TICL addendum shall provide that reimbursement  
336 amounts shall not be reduced by reinsurance paid or payable to

337 the insurer from other sources.

338 4. The priorities, schedule, and method of reimbursements  
339 under the TICL addendum shall be the same as provided under  
340 subsection (4).

341 (e) TICL reimbursement premiums.--

342 1. Each TICL insurer shall pay to the fund, in the manner  
343 and at the time provided in the reimbursement contract for  
344 payment of reimbursement premiums, a TICL reimbursement premium  
345 calculated as specified in this paragraph.

346 2. Each insurer's TICL premium shall be calculated based  
347 on the additional limit of increased coverage that it selects.  
348 Such limit is determined by multiplying the TICL multiple  
349 associated with one of the twelve options times the insurer's  
350 FHCF reimbursement premium. For the amount of increased coverage  
351 based on the option of using \$1 billion to derive the TICL  
352 multiple, the rate-on-line for such coverage shall be 20  
353 percent. For the option using \$2 billion, the rate-on-line shall  
354 be 19 percent; for the option using \$3 billion, the rate-on-line  
355 shall be 18 percent; for the option using \$4 billion, the rate-  
356 on-line shall be 17 percent; for the option using \$5 billion,  
357 the rate-on-line shall be 16 percent; for the option using \$6  
358 billion, the rate-on-line shall be 15 percent; for the option  
359 using \$7 billion, the rate-on-line shall be 14 percent; for the  
360 option using \$8 billion, the rate-on-line shall be 13 percent;  
361 for the option using \$9 billion, the rate-on-line shall be 12  
362 percent; for the option using \$10 billion, the rate-on-line  
363 shall be 11 percent; for the option using \$11 billion, the rate-  
364 on-line shall be 10 percent; and for the option using \$12

365 billion, the rate-on-line shall be 9 percent.

366 (f) Effect on claims-paying capacity of the fund.--For the  
367 contract terms commencing June 1, 2007, and June 1, 2008, the  
368 program created by this subsection shall increase the claims-  
369 paying capacity of the fund as provided in subparagraph (4)(c)1.  
370 by an amount not to exceed \$12 billion dollars and shall depend  
371 on the TICL coverage options selected and the number of insurers  
372 that select the TICL optional coverage. The additional capacity  
373 shall apply only to the additional coverage provided under the  
374 TICL options and shall not otherwise affect any insurer's  
375 reimbursement from the fund if the insurer chooses not to select  
376 the temporary option to increase its limit of coverage under the  
377 FHCF.

378 (g) Setting of reimbursement premiums of the  
379 fund.--Notwithstanding subparagraph (e)2., for the contract  
380 years commencing June 1, 2007, and June 1, 2008, the board may  
381 set the TICL reimbursement premiums, consistent with prudent  
382 management of the fund and subject to the approval of the  
383 Legislative Budget Commission; however, the board shall not  
384 lower the rate-on-line below 10 percent per option.

385 (h) Increasing the claims-paying capacity of the  
386 fund.--For the contract years commencing June 1, 2007, and June  
387 1, 2008, the board may increase the claims-paying capacity of  
388 the fund as provided in paragraph (f) by an amount not to exceed  
389 \$2 billion in two \$1 billion options and shall depend on the  
390 TICL coverage options selected and the number of insurers that  
391 select the TICL optional coverage. Each insurer's TICL premium  
392 shall be calculated based upon the additional limit of increased

393 coverage that the insurer selects. Such limit is determined by  
394 multiplying the TICL multiple associated with one of the two  
395 options times the insurer's FHCH reimbursement premium. The  
396 board may set the reimbursement premium associated with the  
397 additional coverage provided in this paragraph; however, the  
398 rate-on-line for such coverage shall be no lower than 10  
399 percent.

400 Section 3. An insurer that elects the TEACO or TICL  
401 coverage option required to be offered by the Florida Hurricane  
402 Catastrophe Fund under s. 215.555(16) and (17), Florida  
403 Statutes, must make a rate filing with the Office of Insurance  
404 Regulation which reflects 100 percent of the savings or the  
405 reduction in loss exposure to the insurer. At a minimum, the  
406 insurer must provide a 25-percent reduction in premium based on  
407 the savings obtained under the TEACO or TICL coverage option.  
408 The Financial Services Commission may grant a waiver of the 25-  
409 percent reduction requirement for good cause and if the insurer  
410 has made best efforts to meet the 25-percent reduction  
411 requirement. The office shall specify, by order, the date or  
412 dates on which such filings must be made, in order to provide  
413 rate relief to policyholders as soon as practicable.

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