

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Banking and Insurance Committee

BILL: SB 2306

INTRODUCER: Senator Gaetz

SUBJECT: Residential Property Insurance - Mitigation Discounts

DATE: March 22, 2008

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Knudson	Deffenbaugh	BI	Pre-meeting
2.			CA	
3.			FT	
4.			GA	
5.				
6.				

I. Summary:

The bill requires that windstorm mitigation discounts for residential property insurance be based on the numerical rating assigned to a structure by the uniform home grading scale adopted by the Financial Services Commission pursuant to s. 215.55865, F.S.

Specifically, the bill requires the Office of Insurance Regulation to develop, by February 1, 2009, a proposed method for insurers to establish windstorm mitigation premium credits (discounts) that correlate to the numerical rating of a structure pursuant to the uniform home rating scale. By October 1, 2009, the Financial Services Commission must adopt rules requiring insurers to make rate filings which revise their credits pursuant to this method, consistent with generally accepted actuarial principles and wind loss mitigation studies.

This bill substantially amends section of the Florida Statutes: 627.0629.

II. Present Situation:

Uniform Home Grading Scale

Chapter 2007-1, L.O.F. (HB 1-A) required the Financial Services Commission to adopt by rule a uniform home grading scale to grade a home's ability to withstand the wind load from a hurricane. The previous year, chapter 2006-12, L.O.F. (SB 1980) required the Office of Insurance Regulation to conduct a study and develop a program to provide an objective rating system that will allow homeowners to evaluate the relative ability of Florida properties to withstand the wind load from a hurricane. Pursuant to these legislative mandates, the OIR contracted with the Shimberg Center for Affordable Housing of the University of Florida to develop the rating scale, which during development was called the Hurricane Structure Rating

System. The University of Florida subcontracted with Applied Research Associates, Inc. (ARA) to design, develop, and test the rating system. An advisory board of experts from the public and private sectors oversaw the development of grading scale and gave its unanimous approval to the rating system on March 21, 2007. The rating system is based largely on research done on single-family, site-built homes from 2001 to 2002, and is not accurate when applied to manufactured housing or multifamily structures. The Financial Services Commission adopted the rating system by rule effective November 1, 2007, renaming it the Uniform Home Grading Scale (UHGS).

The Uniform Home Grading Scale produces scores between 1 and 100 and measures the relative ability of a structure to withstand the forces associated with a sustained hurricane or severe tropical storm. The UHGS currently does not produce scores of 100 at the top of the scale, as it has been designed to accommodate future building code improvements and implementation of code-plus mitigation techniques. The UHGS takes into account the construction features of the home, the wind zone location of the home, and the terrain surrounding the home. In evaluating the home itself, eight primary wind resistive building features are considered:

- Roof Shape (Hip and Other)
- Secondary Water Resistance
- Roof Cover (whether meeting enhanced post 2001 Florida Building Code requirements)
- Roof Deck Attachment (three levels of strength)
- Roof-Wall Connection (Four levels of strength)
- Opening Protection (Three levels of protection for wind-borne debris)
- Number of Stories
- Roof Covering Type (Tile and non-tile)

Eleven secondary factors are also considered: dimensional lumber deck, masonry walls, reinforced masonry walls, opening coverage, unbraced gable ends, foundation restraint, reinforced concrete roof deck integral with reinforced concrete or reinforced masonry walls, soffits, vinyl siding, and the leak potential of doors, windows and skylights.

Because the home's construction, location, and surrounding terrain are considered in the final rating, a score rendered by the scale can be interpreted consistently across the state regardless of wind zone location. In more severe wind zones a home will need to have stronger construction features to achieve a high score than a home located in a milder wind zone. Homes built compliant with the 2001 Florida Building Code (or later) will receive a score between 40 and 90, with code plus improvements and effective loss mitigation raising the score within that range.

Calculation of Windstorm Mitigation Premium Credits

Section 627.0629, F.S., requires rate filings for residential property insurance to include actuarially reasonable discounts, credits, or other rate differentials, or appropriate reductions in deductibles to consumers who implement windstorm damage mitigation techniques to their properties. The windstorm mitigation measures that must be evaluated for purposes of mitigation discounts include fixtures or construction techniques that enhance:

- Roof strength;
- Roof-to-wall strength;
- Wall-to-floor-to-foundation strength;
- Opening Protections;
- Window, door, and skylight strength.

In evaluating the propriety of windstorm mitigation discounts, the OIR uses factors developed by a 2002 study on wind-resistive features of residential structures conducted by Applied Research Associates, Inc., on behalf of the Florida Department of Community Affairs. The study estimates the effects of mitigation features in reducing hurricane damage to residential structures in Florida. Prior to 2007, the OIR required insurers to offer discounts as mandated by statute, but also permitted them to offer a lower discount than are indicated by the 2002 study. Pursuant to Rule 69O-170.017, F.A.C., however, the OIR now requires insurers to provide the full discount as based upon the 2002 study, unless a modification is supported by a detailed alternate study.

Section 627.711, F.S., requires insurers to clearly notify an applicant or policyholder of a personal lines residential property insurance policy of the availability and range of premium discounts for wind mitigation. The notice must be provided when the policy is issued and upon each renewal. The notification must be done on a form developed by the OIR. Further, all insurers are required to use the uniform mitigation verification inspection form developed by rule by the Financial Services Commission when factoring discounts for wind insurance. The form as adopted by the commission (OIR-BI-1655) informs the consumer of the estimated premium discount as a percentage of their premium payment, and the annual dollar amount by which the premium will be reduced. The form evaluates six general features (roof covering, roof attachments, roof to wall connections, roof shape, secondary water resistance, and shutters). Homes built in 2002 or after automatically receive a 68 percent new home discount on the hurricane-wind portion of premium, plus additional discounts for shutters and roof shape, if applicable.

III. Effect of Proposed Changes:

Section 1. Amends s. 627.0629, F.S. The bill requires that windstorm mitigation discounts for residential property insurance be based on the numerical rating assigned to a structure by the uniform home grading scale adopted by the Financial Services Commission pursuant to s. 215.55865, F.S.

By February 1, 2009, the OIR, in consultation with the Department of Financial Services (DFS) and the Department of Community Affairs (DCA) must develop and make publicly available a proposed method for insurers to establish discounts, credits, or other rate differentials for hurricane mitigation features which directly correlate to the uniform home grading scale. The proposed method may include proposed changes to the uniform home grading scale. By October 1, 2009, the Financial Services Commission must adopt rules requiring insurers to make rate filings for residential property insurance which revise insurers' mitigation discounts to directly correspond with the uniform home grading scale. The rules may include changes to the uniform home grading scale that the commission determines are necessary, and may specify the minimum required discounts. However, the discounts must be consistent with generally accepted actuarial principles and wind loss mitigation studies.

Section 2. The bill is effective upon becoming a law.

IV. Constitutional Issues:**A. Municipality/County Mandates Restrictions:**

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:**A. Tax/Fee Issues:**

None.

B. Private Sector Impact:

Using the uniform home grading scale to determine hurricane mitigation credits may create more consistency and uniformity in how mitigation credits are provided by insurers, and greater understanding by policyholders and insurance agents.

C. Government Sector Impact:

The bill requires the OIR, in consultation with the DFS and DCA to develop a means by which hurricane mitigation discounts directly correlate with the uniform home grading scale. The requirement may require additional resources to be accomplished.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Additional Information:**A. Committee Substitute – Statement of Substantial Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
