

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 1307 Citizens Property Insurance Corporation  
**SPONSOR(S):** Insurance & Banking Subcommittee, Gregory and others  
**TIED BILLS:** **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Insurance & Banking Subcommittee	17 Y, 0 N, As CS	Fortenberry	Luczynski
2) State Administration & Technology Appropriations Subcommittee			
3) Commerce Committee			

### SUMMARY ANALYSIS

The bill makes several changes to the operations of, and requirements for, Citizens Property Insurance Corporation (Citizens), the state-run property insurer:

- Establishes that the Office of Insurance Regulation (OIR) must approve the method that Citizens uses to value dwelling replacement cost.
- Establishes Citizens must charge policyholders a surcharge to offset a projected deficit according to a schedule based upon the number of Citizens' policyholders.
- Defines "demonstrated expertise in insurance" for the purpose of board appointments as at least ten years of responsible experience in specific areas of the insurance industry.
- Establishes that, at the time of appointment, Citizens' executive director must have the experience, character, and qualifications sufficient to qualify as a chief executive officer of an insurer in accordance with the requirements for managers, officers, and directors of private insurers.
- Establishes that when Citizens' personal lines residential or commercial lines residential policyholders receive offers of coverage at renewal from authorized insurers, the risks are not eligible for coverage from Citizens unless the premiums from the authorized insurers are more than a set percentage greater than the renewal premiums for comparable coverage from Citizens. This percentage begins at 5 percent and increases incrementally to 20 percent by 2026.
- Establishes that for new applications for commercial lines residential risks, the risk is not eligible for coverage by Citizens unless the premium for coverage from an authorized insurer is more than 20 percent greater than the premium for Citizens. SB 76 (2021) made the change from 15 percent to 20 percent for personal lines residential risks, but the change was not made for commercial lines residential risks in that bill.
- Eliminates the ability of Citizens to include the cost of reinsurance in its rate calculations if it does not purchase reinsurance.
- Eliminates Citizens' policyholders' ability to decline take-out offers from authorized insurers if the premium provided in the take-out offer is not more than a set percentage than Citizens' premium. This percentage begins at 5 percent and increases incrementally to 20 percent by 2026. The bill also requires that Citizens' notify policyholders of the fact that they have received such an offer and that the offer renders their risks ineligible for Citizens' coverage.
- Establishes that surplus lines insurers may participate in Citizens' take-out program subject to the insurers meeting certain financial requirements and having a depopulation, take-out, or keep-out plan (plan) approved by OIR.

The bill has no effect on state or local government revenues or expenditures. It may have an indeterminate negative impact on the private sector.

The bill is effective on July 1, 2022.

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. EFFECT OF PROPOSED CHANGES:

#### **Citizens Property Insurance Corporation (Citizens)**

Citizens is a state-created, not-for-profit, tax-exempt government entity that is an integral part of the state, whose public purpose is to provide property insurance to those unable to find affordable coverage in the private market.<sup>1</sup> Citizens is overseen by a board of directors (board) and operated by an executive director. Citizens writes both personal and commercial property policies, including the following:

- Standard personal lines policies that are comprehensive multiperil policies providing full coverage of residential property equivalent to the coverage provided in the private insurance market;
- Basic personal lines policies that are similar to dwelling fire policies that provide coverage meeting the requirements of the secondary mortgage market, but are more limited in coverage than under a standard policy;
- Commercial lines residential and nonresidential policies that are generally similar to the basic perils of full coverage obtainable for commercial residential structures and commercial nonresidential structures in the private market;
- Personal lines and commercial lines residential property insurance policies that cover the peril of wind only;
- Commercial lines nonresidential property insurance policies that cover the peril of wind only.<sup>2</sup>

#### **Dwelling Valuation**

##### *Background*

Dwelling coverage, sometimes called “dwelling insurance,” is the part of a homeowners policy that pays for the rebuilding or repair of the physical structure of the home if it is damaged by a covered peril.<sup>3</sup> Coverage may be provided on a replacement cost or actual cash-value basis. Replacement cost includes the cost of materials and labor necessary to rebuild or repair the home. Actual cash value is calculated by subtracting depreciation from replacement cost.

Since January 1, 2017, with certain exceptions, a structure that has a dwelling replacement cost of \$700,000 or more, or a single condominium that has a combined dwelling and contents replacement cost of \$700,000 or more, is not eligible for Citizens’ coverage.<sup>4</sup> However, in counties where the Office of Insurance Regulation (OIR) has determined there is not a reasonable degree of competition in the availability of property insurance, the limit for the dwelling replacement cost of a structure, or the dwelling and contents replacement cost of a single condominium eligible for coverage is \$1,000,000.<sup>5</sup>

Insurance companies typically use information on a customer’s application, proprietary formulas, and third-party data to calculate dwelling replacement costs, which differ from market value.<sup>6</sup> Current law does not specify the method by which Citizens must calculate dwelling replacement cost and does not involve OIR in the process of completing such calculations.

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<sup>1</sup> S. 627.351(6)(a)1., F.S.

<sup>2</sup> S. 627.351(6)(c)1., F.S.

<sup>3</sup> Allstate, *What is Dwelling Insurance Coverage?*, <https://www.allstate.com/tr/home-insurance/dwelling-insurance.aspx> (last visited Jan. 29, 2022).

<sup>4</sup> S. 627.351(6)(a)3.d., F.S.

<sup>5</sup> *Id.*

<sup>6</sup> Kin, *What is a Replacement Cost Estimate?*, <https://www.kin.com/faq/replacement-cost-estimate> (last visited Jan. 29, 2022).

### *Effect of the Bill*

The bill establishes that OIR must approve the method that Citizens uses to value dwelling replacement cost. It also removes obsolete language regarding dwelling and contents coverage provided by Citizens.

## **Policyholder Surcharge**

### *Background*

All of Citizens' revenues, assets, liabilities, losses, and expenses are divided into three accounts as follows:

- A personal lines account for personal residential policies issued by Citizens which provides comprehensive, multiperil coverage on risks that are not located in the areas covered by the coastal account and for policies that do not provide coverage for the peril of wind on risks located in the areas covered by the coastal account;
- A commercial lines account for commercial residential and commercial nonresidential policies issued by Citizens which provides coverage for basic property perils on risks that are not located in areas covered by the coastal account and do not provide coverage for the peril of wind on risk located in the areas covered by the coastal account; and
- A coastal account for personal residential policies, and commercial residential and commercial nonresidential property policies issued by Citizens which provides coverage for the peril of wind on risks that are located in the coastal areas.<sup>7</sup>

Upon a determination by the board that an account has a projected deficit, the board must levy a surcharge against all Citizens' policyholders.<sup>8</sup> The surcharge must be levied as a uniform percentage of the premium for the policy, up to 15 percent of the premium, and must be used to offset the deficit.<sup>9</sup> The surcharge is payable upon cancellation or termination of the policy, upon renewal of the policy, or upon issuance of new policy by Citizens within the first 12 months after the levy or the period of time necessary to fully collect the surcharge.<sup>10</sup> The surcharge is not considered premium and is not subject to commissions, fees, or premium taxes.<sup>11</sup> However, failure of the insured to pay the surcharge is considered failure to pay premium.<sup>12</sup>

### *Effect of the Bill*

The bill establishes Citizens must charge policyholders a surcharge to offset a projected deficit according to the following schedule:

- If the total number of Citizens' policyholders is less than one million, a surcharge of 15 percent of the premium;
- If the total number of Citizens' policyholders is at least one million but less than 1.5 million, a surcharge of 20 percent of the premium; and
- If the total number of Citizens' policyholders is at least 1.5 million, a surcharge of 25 percent of the premium.

## **Primary Residence**

### *Background*

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<sup>7</sup> S. 627.351(6)(b)2.a., F.S.

<sup>8</sup> S. 627.351(6)(b)2.i., F.S.

<sup>9</sup> S. 627.351(6)(b)2.i.(I), F.S.

<sup>10</sup> S. 627.351(6)(b)2.i.(II), F.S.

<sup>11</sup> S. 627.351(6)(b)2.i.(IV), F.S.

<sup>12</sup> *Id.*

Currently Florida statutes regarding Citizens do not define or otherwise mention a primary residence or establish different rates or coverage based upon whether a property is an insured's primary residence.

### *Effect of the Bill*

The bill defines "primary residence" as a residential dwelling that an insured has listed as a homestead either on an insurance application or has informed Citizens of by other means and is owned by a citizen of, or lawful permanent resident of, the United States. However, the definition is not utilized in any current provision of law or new provisions of the bill.

## **Qualifications of Citizens' Board Members**

### *Background*

Citizens is overseen by its board, which consists of nine individuals who are residents of different geographical areas of Florida.<sup>13</sup> The Governor, Chief Financial Officer, President of the Senate, and Speaker of the House, each appoint two members of the board.<sup>14</sup> The Governor appoints one additional member who serves solely to advocate on behalf of consumers.<sup>15</sup> At least one of the two members appointed by each appointing officer must have demonstrated experience in insurance.<sup>16</sup> However, current law does not define the insurance experience that the board members must have in order to qualify for their board positions.

### *Effect of the Bill*

The bill defines "demonstrated expertise in insurance" as at least ten years of responsible experience:

- In property and casualty insurance as a full-time employee, an officer or owner of a licensed insurance agency, or an insurer writing residential property insurance; or
- As an insurance regulator or an executive or officer of an insurance trade association.

## **Qualifications of Citizens' Executive Director**

### *Background*

Citizens is run by an executive director that is engaged by the board and serves "at the pleasure of the board."<sup>17</sup> The executive director is subject to confirmation by the Senate.<sup>18</sup> He or she is responsible for employing other staff as Citizens requires, subject to review and agreement by the board.<sup>19</sup> However, current law does not specify the experience, character, or qualifications that an individual must have in order to be qualified to serve as Citizens' executive director.

Florida law provides guidance regarding the qualifications necessary for individuals to serve as officers and directors of private insurers within the state.<sup>20</sup> In general, OIR must not grant or continue to grant authority to transact insurance to any insurer, which has management, officers, or directors that it finds to be incompetent or untrustworthy, or "so lacking in insurance company managerial experience as to make the proposed operation hazardous to the insurance-buying public."<sup>21</sup> Additionally, OIR must not grant or continue authority to transact insurance to any insurer if any person in control of the insurer "does not possess the financial standing and business experience for the successful operation of the insurer."<sup>22</sup>

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<sup>13</sup> S. 627.351(6)(c)4., F.S.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> See s. 624.404(3), F.S.

<sup>21</sup> S. 624.404(3)(a), F.S.

<sup>22</sup> S. 624.404(3)(b), F.S.

### *Effect of the Bill*

The bill establishes that, at the time of appointment, Citizens' executive director must have the experience, character, and qualifications sufficient to qualify as a chief executive officer of an insurer in accordance with s. 624.404(3), F.S.

### **Competitiveness of Citizens' Rates and Eligibility for Coverage**

Current law requires Citizens to provide a procedure for determining the eligibility of a potential risk for coverage from Citizens and provides specific eligibility requirements based on premium amounts, value of the property insured, and the location of the property. Risks not meeting the statutory eligibility requirements cannot be insured by Citizens. Citizens also has additional eligibility requirements set out in their underwriting rules. These rules are approved by OIR and set out in Citizens' underwriting manuals.<sup>23</sup>

Citizens' rate cap, also known as the "glide path," is not closing the gap between Citizens rates and private market rates. Instead, because of the rate cap and the increasing rates of private property insurance, the gap is growing and making Citizens more like a competitor to private insurers than an insurer of last resort. Because Citizens' rates are often well below those of private carriers, Citizens may be more competitive than otherwise intended. Due to Citizens' structure, its rates do not contain certain elements that the rates of private insurers contain. Citizens does not pay taxes like private insurers and does not need to purchase as much reinsurance as private insurers because of Citizens' higher levels of capital and surplus.

### **Eligibility for Personal and Commercial Lines Residential Coverage at Renewal**

#### *Background*

Both personal lines residential and commercial lines residential policyholders cannot renew Citizens' insurance policies if an authorized insurer offers to insure their property at a premium equal to or less than Citizens' renewal premium.<sup>24</sup> Additionally, the insurance from the authorized insurer must be comparable to the insurance from Citizens in order for the renewal premium eligibility requirement to apply.<sup>25</sup>

#### *Effect of the Bill*

The bill establishes that when Citizens' personal lines residential or commercial lines residential policyholders receive offers of coverage at renewal from authorized insurers, the risks are not eligible for coverage from Citizens unless the premiums from the authorized insurers are more than the following percent greater than the renewal premiums for comparable coverage from Citizens:

- 5 percent for policies that renew during 2023.
- 10 percent for policies that renew during 2024.
- 15 percent for policies that renew during 2025.
- 20 percent for policies that renew during 2026 and during all subsequent years.

The bill also establishes that policies removed from Citizens under an assumption agreement may remain on Citizen's policy forms through the end of the assumption period so that Citizens may continue to provide service to the policyholder for the claims that are payable by the assuming insurer.

### **Eligibility for New Commercial Lines Residential Coverage**

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<sup>23</sup> See Citizens Property Insurance Corporation, *Revised Underwriting Manuals*, <https://www.citizensfla.com/-/20160329-revised-underwriting-manuals> (last visited Jan. 30, 2022).

<sup>24</sup> S. 627.351(6)(c)5., F.S.

<sup>25</sup> *Id.*

## *Background*

New applicants are eligible for commercial lines residential coverage from Citizens if no authorized insurer will write them a policy for a premium that is less than 15 percent greater than what Citizens would offer them for comparable coverage.<sup>26</sup> However, new applicants are eligible for personal lines residential coverage if no authorized insurer will write them a policy for a premium that is less than 20 percent greater than what Citizens would offer them for comparable coverage.<sup>27</sup>

### *Effect of the Bill*

The bill establishes that for new applications for commercial lines residential risks, the risk is not eligible for coverage by Citizens unless the premium for coverage from an authorized insurer is more than 20 percent greater than the premium for Citizens.<sup>28</sup>

## **Purchase of Reinsurance**

### *Background*

Current law requires that Citizens make its best efforts to procure catastrophe reinsurance at reasonable rates to cover its projected 100-year probable maximum loss (PML).<sup>29</sup> Due to the high cost of reinsurance in recent years, some years Citizens has determined that it is not available at reasonable rates and has not purchased it. If catastrophe reinsurance is not available at reasonable rates, Citizens need not purchase it, but Citizens shall include the costs of reinsurance to cover its projected 100-year PML in its rate calculations even if it does not purchase it.<sup>30</sup>

### *Effect of the Bill*

The bill changes existing statutory language regarding Citizens' purchase of reinsurance so that Citizens is no longer able to include the cost of reinsurance in its rate calculations if it does not purchase reinsurance.

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<sup>26</sup> S. 627.351(6)(c)5., F.S.

<sup>27</sup> *Id.*

<sup>28</sup> SB 76 (2021) made the change from 15 percent to 20 percent for personal lines residential risks, but the change was not made for commercial lines residential risks in that bill.

<sup>29</sup> S. 627.351(6)(c)9., F.S. Probable maximum loss refers to the value that may be reasonably expected to be lost in a single casualty. IRMI, <https://www.irmi.com/term/insurance-definitions/probable-maximum-loss> (last visited Feb. 3, 2022). If an insurer is buying reinsurance to cover its 100-year probable maximum loss, it is purchasing reinsurance to cover the maximum loss that has a chance of occurring once in 100 years.

<sup>30</sup> *Id.*

## Citizens' Take-out Program/Depopulation

### Eligibility After a Take-out Offer

#### *Background*

Florida law requires that Citizens create programs to help return its policyholders to the private property insurance market and to reduce the risk of additional assessments for all Floridians in the event that Citizens is unable to meet its obligations.<sup>31</sup> In 2016, the Legislature passed requirements that by January 1, 2017, Citizens amend its operations relating to take-out agreements, whereby private insurers remove policies from Citizens.<sup>32</sup> As part of these requirements, a policy may not be taken out of Citizens unless Citizens:

- Publishes a periodic schedule of cycles during which an insurer may identify, and notify Citizens of, policies the insurer requests to take out;<sup>33</sup>
- Maintains and makes available to the agent of record a consolidated list of all insurers requesting to take out a policy; the list must include a description of the coverage offered and the estimated premium for each take-out request;
- Provides written notice to the policyholder and the agent of record regarding all insurers requesting to take-out the policy and regarding the policyholder's option to accept a take-out offer or to reject all take-out offers and to remain with Citizens. The notice must be in a format prescribed by Citizens and include, for each take-out offer:
  - The amount of the estimated premium;
  - A description of coverage; and
  - A comparison of the estimated premium and coverage offered by the insurer to the estimated premium and coverage provided by Citizens.<sup>34</sup>

#### *Effect of the Bill*

The bill eliminates Citizens' policyholders' ability to decline take-out offers from authorized insurers if the premium provided in the take-out offer is not more than the following percent greater than the renewal premium for comparable coverage from Citizens:

- 5 percent for policies effective on or after January 1, 2023.
- 10 percent for policies effective on or after January 1, 2024.
- 15 percent for policies effective on or after January 1, 2025.
- 20 percentage for policies effective on or after January 1, 2026, and in all subsequent years.

The bill requires that Citizens' notify policyholders of the fact that they have received such an offer and that the offer renders their risks ineligible for Citizens' coverage.

The bill also eliminates a 36-month exception where a policyholder whose policy has been taken-out of Citizens can still be considered a renewal if the authorized insurer that took the policy raises the policyholder's rates.

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<sup>31</sup> S. 627.351(6)(q)3.a., F.S.

<sup>32</sup> Ch. 2016-229, Laws of Fla.

<sup>33</sup> These requests from insurers must include a description of the coverage offered and an estimated premium for it and must be submitted to Citizens in a form prescribed by Citizens.

<sup>34</sup> S. 627.351(6)(ii), F.S.

## Surplus Lines Insurer Participation in Citizens' Take-out Program

### *Background*

With certain exceptions, Florida law requires any person transacting insurance to have a certificate of authority issued by the OIR.<sup>35</sup> Authorized insurers in Florida are subject to the provisions of the Florida Insurance Code<sup>36</sup> and regulation primarily by OIR.<sup>37</sup> OIR's regulatory authority over authorized insurers includes solvency and financial strength, insurance policy forms and rates, and market conduct of insurers. States also realized that there are risks for which insurance in the admitted market are not available because insurers are unable or unwilling to write policies for them. Therefore, they allow insurers that are not otherwise authorized to sell policies to sell surplus lines insurance if they meet certain requirements.

Surplus lines insurers are still considered "unauthorized" insurers<sup>38</sup>, and may write only surplus lines policies if they are made "eligible" by OIR. Except as specifically stated, surplus lines insurers are not subject to regulation by OIR under ch. 627, F.S., which includes statutory provisions regarding rating standards and insurance policy forms.<sup>39</sup> Currently, surplus lines insurers are not permitted to participate in Citizens' take-out program.

### *Effect of the Bill*

The bill establishes that surplus lines insurers may participate in Citizens' take-out program subject to the insurers meeting certain financial requirements and having a depopulation, take-out, or keep-out plan (plan) approved by OIR. In considering a surplus lines insurer's request for approval of its plan, OIR must determine whether the surplus lines insurer:

- Maintains a surplus of \$50,000,000 on a company or pooled basis;
- Has a superior, excellent, exceptional, or equivalent financial strength rating by a rating agency acceptable to OIR;
- Maintains reserves, surplus, reinsurance, and reinsurance equivalents sufficient to cover the insurer's 100-year probable maximum hurricane loss at least twice in a single hurricane season and submits such reinsurance to OIR to review for purposes of the plan;
- Provides prominent notice to the policyholder before the assumption of the policy that surplus lines policies do not receive coverage from the Florida Insurance Guaranty Association<sup>40</sup> and provides an outline of any substantial differences in coverage between the existing policy and the policy it is offering to the policyholder;
- Provides policy coverage similar to the coverage that Citizens provides.

The bill establishes that to obtain approval of a plan, the surplus lines insurer must file the following information with OIR:

- Information OIR requests to demonstrate that the insurer complies with the statutory requirements regarding competence and trustworthiness of its officers;<sup>41</sup>
- A service-of-process consent and agreement form executed by the insurer;
- Proof that the insurer has been an eligible or authorized insurer for at least three years;
- An authenticated copy of the insurer's current audited financial statement;
- A completed certified copy of the latest official financial statement required by the insurer's domiciliary state, if different from the audited financial statement;

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<sup>35</sup> S. 624.401, F.S. In the Florida Insurance Code (FIC), a person also includes a business entity such as an insurer.

<sup>36</sup> Section 624.404, F.S., provides that an insurer must be in compliance with the FIC to qualify for and hold authority to transact insurance in the state. The FIC is chapters 624-632, 634, 635, 636, 641, 642, 648, and 651, F.S. S. 624.01, F.S.

<sup>37</sup> In general, OIR has regulatory authority over insurers and the Department of Financial Services (DFS) has regulatory authority over insurance agents and agencies.

<sup>38</sup> S. 624.09(2), F.S.

<sup>39</sup> S. 626.913(4), F.S.

<sup>40</sup> The Florida Insurance Guaranty Association provides a "mechanism for the payment of covered claims under certain insurance policies to avoid excessive delay in payment and to avoid financial loss to claimants or policyholders because of the insolvency of an insurer." S. 631.51, F.S.

<sup>41</sup> See s. 624.404(3), F.S. and s. 624.34, F.S.

- A copy of the insurer's United States trust account agreement, if applicable.

The bill also establishes that, within ten days after the date of assumption of policies that it has taken-out from Citizens, the surplus lines insurer must remit to the Bureau of Collateral Management (BCM) within the Department of Financial Services (DFS) a special deposit equal to the unearned premium, minus unearned commissions, on the assumed policies. According to the bill, the surplus lines insurer is also required to provide the BCM with an accounting of the policies assumed within ten days of the assumption, a quarterly filing with the BCM regarding the unearned premium on the policies in force for those assumed from Citizens, and additional deposits if the deposit previously made to the BCM is insufficient to cover the unearned premium on the assumed policies.

The bill provides that, if an order of liquidation is entered in any state against the surplus lines insurer, DFS may use the special deposit for payment of unearned premium or policy claims, return all or part of the deposit to the receiver in the surplus lines insurer's state of domicile, or use the funds in accordance with any action authorized under ch. 631, part I, F.S.,<sup>42</sup> or in compliance with an order from a court having jurisdiction over the insolvency.

According to the bill, before a surplus lines insurer assumes a policy from Citizens, surplus lines brokers representing the surplus lines insurer shall obtain written or e-mail confirmation from each producing agent stating that the agent is willing to participate in the take-out program with that surplus lines insurer. The bill further establishes that if both a surplus lines insurer and an authorized insurer select a policyholder for removal from Citizens, Citizens must give priority to the offer from the authorized insurer.

The bill provides that the following risks are not eligible for Citizens coverage if they are offered comparable coverage from qualified surplus lines insurer at a premium no greater than 15 percent above the premium charged by Citizens:

- A risk that has a dwelling replacement cost of \$700,000 or more.
- A single condominium unit that has a dwelling and content replacement cost of \$700,000 or more.

However, the bill also establishes that a risk that has a dwelling replacement cost below \$700,000, or a single condominium unit that has a combined dwelling and contents replacement cost below \$700,000 remains eligible for Citizens coverage if a qualified surplus lines insurer offers it coverage.

## B. SECTION DIRECTORY:

**Section 1.** Amends s. 627.022, F.S., relating to scope of this part.

**Section 2.** Amends s. 627.351, F.S., relating to insurance risk apportionment plans.

**Section 3.** Amends s. 627.3517, F.S., relating to consumer choice.

**Section 4.** Amends s. 627.3518, F.S., relating to Citizens Property Insurance Corporation policyholder eligibility clearinghouse program.

**Section 5.** Provides an effective date of July 1, 2022.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

#### 1. Revenues:

None.

#### 2. Expenditures:

None.

<sup>42</sup> Ch. 631, part 1, F.S., establishes the requirements for rehabilitation and liquidation of insolvent insurers in Florida.

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

None.

2. Expenditures:

None.

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

To the extent that less policyholders are eligible for Citizens' coverage, they may pay more in insurance premiums on the private market. Therefore, the bill may have an indeterminate negative impact on the private sector.

**D. FISCAL COMMENTS:**

None.

**III. COMMENTS**

**A. CONSTITUTIONAL ISSUES:**

1. Applicability of Municipality/County Mandates Provision:

Not applicable. This bill does not appear to affect county or municipal governments.

2. Other:

None.

**B. RULE-MAKING AUTHORITY:**

The bill neither authorizes nor requires administrative rulemaking.

**C. DRAFTING ISSUES OR OTHER COMMENTS:**

Lines 564–567 of the bill define the term “primary residence.” However, that term is not used elsewhere in the bill and the definition may be unnecessary. Additionally, as written, the definition is unclear as to whether the primary residence must be owned by the insured or may be owned by another citizen of the United States or lawful permanent resident and declared a homestead by someone other than the owner. If the bill is amended to use the term elsewhere, it is recommended to amend the definition for clarity about who may own the property that is declared to be a homestead.

**IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES**

On February 2, 2022, the Insurance & Banking Subcommittee considered the bill, adopted three amendments, and reported the bill favorably as a committee substitute. The amendments made the following changes to the bill:

- Phased in the percentage, by which an authorized insurer's renewal offer for a Citizens' policyholder may exceed Citizens' premium and make a policyholder ineligible for Citizens' coverage, by 5 percent per year until it reaches 20 percent in 2026.
- Clarified that a policy removed from Citizens under an assumption agreement may remain on Citizens' policy forms for the remainder of the assumption period so that Citizens may continue to provide service to the policyholder for the claims that are payable by the assuming insurer.
- Changed existing statutory language regarding Citizens' purchase of reinsurance so that Citizens is no longer able to include the cost of reinsurance in its rate calculations if it does not purchase reinsurance.

- Phased in the percentage, by which an authorized insurer's take-out offer may exceed Citizens' premium and make a policyholder ineligible for Citizens' coverage, by percent per year until it reaches 20 percent in 2026.
- Eliminated language that creates a 36-month exception whereby a policyholder whose policy has been taken-out of Citizens can still be considered a renewal if the authorized insurer that took the policy raises the policyholder's rates.

The analysis is drafted to the committee substitute as passed by the Insurance & Banking Subcommittee.