

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 893 Coverage by Citizens Property Insurance Corporation

**SPONSOR(S):** Insurance & Banking Subcommittee, Lopez, V. and others

**TIED BILLS:** IDEN./SIM. BILLS: SB 1428

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Insurance & Banking Subcommittee	16 Y, 0 N, As CS	Fortenberry	Lloyd
2) Commerce Committee			

### SUMMARY ANALYSIS

Citizens is a state-created, not-for-profit, tax-exempt governmental entity whose public purpose is to provide property insurance coverage to those unable to find affordable coverage in the voluntary admitted market. It is traditionally considered the property insurer of last resort. Citizens is not a private insurance company. Citizens was statutorily created in 2002 when the Florida Legislature combined the state's two insurers of last resort, the Florida Residential Property and Casualty Joint Underwriting Association (RPCJUA) and the Florida Windstorm Underwriting Association (FWUA).

From 2007 until 2010, Citizens' rates were frozen by statute at the level that had been established in 2006. In 2010, the Legislature established a "glidepath" to impose annual rate increases up to a level that is actuarially sound. Under the original established glidepath, Citizens had to implement an annual rate increase which, except for sinkhole coverage, does not exceed 10 percent above the previous year for any individual policyholder, adjusted for coverage changes and surcharges. In 2021, the Legislature revised this glidepath to increase it one percent age point per year until it reaches 15 percent.

Current law requires Citizens to provide a procedure for determining the eligibility of a potential risk for coverage from Citizens, and specific eligibility requirements based on premium amounts, value of the property insured, and the location of the property. The policies that Citizens writes include standard comprehensive multiperil policies; basic personal lines policies which are similar to dwelling fire policies; commercial lines residential and nonresidential policies which are generally similar to the basic perils of full coverage obtainable for commercial residential structures and commercial nonresidential structures in the private market; and personal lines, commercial lines residential, and commercial lines nonresidential property insurance policies that cover the peril of wind only.

The bill instructs Citizens to reevaluate the area in which it offers policies that provide wind-only coverage. Citizens may amend the wind-eligible areas, subject to legislative approval, by developing new eligibility criteria and rates for such policies. In developing the eligibility and rates, Citizens may consider:

- The market for wind-only coverage in the areas in which such coverage is to be offered.
- The resulting impact to Citizens' overall exposure by offering such coverage in those areas.
- The reasonably prudent measures for limiting its exposure upon offering wind-only coverage in those areas.

The bill establishes that rates for coverage offered in wind-eligible areas are subject to the insurance ratemaking standard, i.e., that rates not be not be inadequate, excessive, or unfairly discriminatory, and the "glidepath." It provides that the Office of Insurance Regulation (OIR) will continue to approve Citizens' wind-only rates.

The bill requires that, by December 1 of every fifth year, beginning in 2030, Citizens submit to the Legislature the eligibility criteria that it has developed regarding wind-only coverage for review and approval. After the Legislature has approved the eligibility criteria and rates, OIR shall implement them.

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

The bill is effective July 1, 2024.

**This document does not reflect the intent or official position of the bill sponsor or House of Representatives .**

**STORAGE NAME:** h0893a.IBS

**DATE:** 2/6/2024

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. EFFECT OF PROPOSED CHANGES:

#### Background

##### APPROVAL OF INSURANCE RATE FILINGS

In general, insurers must file a copy of rates, rating schedules, rating manuals, premium credits or discount schedules, and surcharge schedules, and changes to these documents, for approval by the Office of Insurance Regulation (OIR).<sup>1</sup> OIR must review insurers' rate filings to determine whether rates are excessive, inadequate, or unfairly discriminatory.<sup>2</sup> In doing so, OIR must consider factors including, but not limited to, the following:

- Past and prospective loss experience in and out of Florida.
- Past and prospective expenses.
- Degree of competition among insurers for particular risk to be insured.
- Investment income reasonably expected by the insurer.
- Reasonableness of the judgment reflected in the filing.
- Dividends, savings, or unabsorbed premium deposits allowed or returns to policyholders, members or subscribers in Florida.
- Adequacy of loss reserves.
- Cost of reinsurance.
- Trend factors.
- Conflagration and catastrophe hazards, if applicable.
- Projected hurricane losses.
- Projected flood losses.
- Reasonable margin for underwriting profit and contingencies.<sup>3</sup>

##### CITIZENS PROPERTY INSURANCE CORPORATION (CITIZENS)

Citizens is a state-created, not-for-profit, tax-exempt governmental entity whose public purpose is to provide property insurance coverage to those unable to find affordable coverage in the voluntary admitted market.<sup>4</sup> It is traditionally considered the property insurer of last resort. Citizens is not a private insurance company.<sup>5</sup> Citizens was statutorily created in 2002 when the Florida Legislature combined the state's two insurers of last resort, the Florida Residential Property and Casualty Joint Underwriting Association (RPCJUA) and the Florida Windstorm Underwriting Association (FWUA).<sup>6</sup>

Applicants are eligible for coverage if no admitted private carrier will write them a policy for a premium that is within 20 percent greater than what Citizens would offer for comparable coverage.<sup>7</sup> Citizens may cover homes if the cost of replacing the dwelling, or the dwelling and its' contents, is no more than \$700,000. In Miami-Dade and Monroe counties, Citizens may insure structures valued up to \$1 million as long as OIR continues to determine that these counties do not have a reasonable degree of competition in the personal lines residential market.<sup>8</sup>

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<sup>1</sup> S. 627.062(2)(a), F.S.

<sup>2</sup> S. 627.062(1), F.S.

<sup>3</sup> S. 627.062(2)(b), F.S.

<sup>4</sup> The term "admitted market" means insurance companies licensed to transact insurance in Florida.

<sup>5</sup> Section 627.351(6)(a)1., F.S.

<sup>6</sup> Section 2, ch. 2002-240, Laws of Fla.

<sup>7</sup> S. 627.351(6)(c)5.a, F.S.

<sup>8</sup> S. 627.351(6)(a)3, F.S. If OIR makes a finding that other counties are not competitive, Citizens would be able to insure properties up to \$1 million in value in those counties, as well.

From 2007 until 2010, Citizens' rates were frozen by statute at the level that had been established in 2006. In 2010, the Legislature established a "glidepath" to impose annual rate increases up to a level that is actuarially sound. Under the original established glidepath, Citizens had to implement an annual rate increase which, except for sinkhole coverage, does not exceed 10 percent above the previous year for any individual policyholder, adjusted for coverage changes and surcharges. In 2021, the Legislature revised this glidepath to increase it one percentage point per year until it reaches 15 percent, as follows:<sup>9</sup>

- 11 percent for 2022.
- 12 percent for 2023.
- 13 percent for 2024.
- 14 percent for 2025.
- 15 percent for 2026 and all subsequent years.

Current law requires Citizens to provide a procedure for determining the eligibility of a potential risk for coverage from Citizens, and 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.

The policies that Citizens writes include the following:

- Standard Personal Lines Policies – comprehensive multiperil policies providing full coverage of residential property equivalent to the coverage provided in the private insurance market;
- Basic Personal Lines Policies – 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 – 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 – cover the peril of wind only;
- Commercial Lines Nonresidential Property Insurance Policies – cover the peril of wind only.<sup>10</sup>

## **Effect of the Bill**

The bill instructs Citizens to reevaluate the area in which it offers policies that provide wind-only coverage. Citizens may amend the wind-eligible areas, subject to legislative approval, by developing new eligibility criteria and rates for such policies. In developing the eligibility and rates, Citizens may consider:

- The market for wind-only coverage in the areas in which such coverage is to be offered.
- The resulting impact to Citizens' overall exposure by offering such coverage in those areas.
- The reasonably prudent measures for limiting its exposure upon offering wind-only coverage in those areas.

The bill establishes that rates for coverage offered in wind-eligible areas are subject to s. 627.351(6)(n), F.S., which provides for OIR review and approval of Citizens rates, consistent with the rate-making standard in s. 627.062, F.S., which requires rates to not be inadequate, excessive, or unfairly discriminatory, and subjects these rates to the glidepath limitation.

The bill requires that, by December 1 of every fifth year, beginning in 2030, Citizens submit to the Legislature the eligibility criteria that it has developed regarding wind-only coverage for review and approval. After the Legislature has approved the eligibility criteria, OIR shall implement them.

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<sup>9</sup> S. 627.351(6)(n)5., F.S.

<sup>10</sup> S. 627.351(6)(c)1., F.S.

The bill also defines “wind-eligible area” as the area that is eligible for coverage by the Florida Windstorm Underwriting Association, as those areas were defined on January 1, 2002. The purpose of this definition is to differentiate between the areas currently eligible for wind-only coverage and those that may be eligible after Citizens reevaluates the area in which it offers wind-only policies.

**B. SECTION DIRECTORY:**

**Section 1.** Amends s. 627.351, F.S., relating to insurance risk apportionment plans.

**Section 2.** Provides an effective date of July 1, 2024.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

**A. FISCAL IMPACT ON STATE GOVERNMENT:**

1. Revenues:

None.

2. Expenditures:

None.

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

1. Revenues:

None.

2. Expenditures:

None.

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

The bill may have an indeterminate positive or negative impact on the private sector. A reevaluation of the wind-eligible areas could have a positive or negative impact on rates for wind-only policies issued by Citizens.

**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:**

None.

**IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES**

On February 6, 2024, the Insurance & Banking Subcommittee considered the bill, adopted one amendment, and reported the bill favorably as a committee substitute. The amendment made the following changes to the bill:

- Required Citizens Property Insurance Corporation (Citizens) to seek approval of its eligibility criteria for wind-only coverage every 5 years, beginning in 2030, rather than every year as proposed in the bill; and
- Required approval of the wind-only eligibility by the Legislature, but requires approval of the wind-only rates by the Office of Insurance Regulation, rather than the Legislature.

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