

**The Florida Senate**  
**COMMITTEE MEETING EXPANDED AGENDA**

**BANKING AND INSURANCE**  
**Senator Simmons, Chair**  
**Senator Clemens, Vice Chair**

**MEETING DATE:** Wednesday, January 8, 2014  
**TIME:** 4:00 —6:00 p.m.  
**PLACE:** *Toni Jennings Committee Room*, 110 Senate Office Building

**MEMBERS:** Senator Simmons, Chair; Senator Clemens, Vice Chair; Senators Benacquisto, Detert, Diaz de la Portilla, Hays, Lee, Margolis, Montford, Negrón, Richter, and Ring

TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
1	<b>SB 542</b> Brandes (Compare H 471)	Flood Insurance; Adding projected flood losses to the factors that must be considered by the Office of Insurance Regulation in reviewing a rate filing; increasing the membership of the Florida Commission on Hurricane Loss Projection Methodology to include an engineer who is an expert in floodplain management and a meteorologist who specializes in floods; authorizing insurers to offer flood insurance in this state, etc.  BI      01/08/2014 Fav/CS AGG AP	Fav/CS Yeas 12 Nays 0
2	<b>Workshop</b> - Discussion and testimony only on the following (no vote to be taken):  Citizens Property Insurance Corporation  Discussion of Proposed Legislation		Discussed
Other Related Meeting Documents			

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

4/8/14  
Meeting Date

Topic: IAS Bill Number: SB 542 (if applicable)

Name: DONALDAS A. MANF Amendment Barcode: \_\_\_\_\_ (if applicable)

Job Title: MANAGER SALES

Address: 660 E. JEFFERSON Phone: 222-7710

City: TRUW State: FL Zip: 32302 E-mail: MANF@MANFMAN.COM

Speaking:  For  Against  Information

Representing: FLA. SURPLUS LINES ASSOC

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

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THE FLORIDA SENATE

APPEARANCE RECORD

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1/8/14

Meeting Date

Topic FLOOD INSURANCE Bill Number 542 (if applicable)

Name STEPHEN JAMES Amendment Barcode \_\_\_\_\_ (if applicable)

Job Title STAFF ATTORNEY

Address 100 S. MONROE Phone (850) 922-4300

TALLAHASSEE, FL 32301 E-mail \_\_\_\_\_  
Street City State Zip

Speaking:  For  Against  Information

Representing FLA. ASSOC. OF COUNTIES

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

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1/26/14  
Meeting Date

Topic Flood Insurance Bill Number 56542  
(if applicable)

Name Craig Conn Amendment Barcode  
(if applicable)

Job Title Legislative Counsel

Address 301 S. Bromley Phone 222-96864

Tallahassee FL 32302 E-mail  
Street City State Zip

Speaking:  For  Against  Information

Representing Florida League of Cities

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

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1-8-2014

Meeting Date

Topic Flood Insurance Bill Number SB 542 (if applicable)

Name Jay Rabstien Amendment Barcode (if applicable)

Job Title President Elect

Address 1275 Turkey Coast Rd. Phone 850-509-1154

Tallahassee FL 32317 E-mail jrabstien@cuveymortgage.com (Street, City, State, Zip)

Speaking: [X] For [ ] Against [ ] Information

Representing Mortgage Bankers Association of FL

Appearing at request of Chair: [ ] Yes [X] No Lobbyist registered with Legislature: [ ] Yes [X] No

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THE FLORIDA SENATE

APPEARANCE RECORD

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1/8/11  
Meeting Date

Topic Flood Insurance Bill. Bill Number 542 (if applicable)

Name Anthony DiMarco Amendment Barcode \_\_\_\_\_ (if applicable)

Job Title ESLP.

Address 1001 Thomasville Rd Phone 224-2265

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_ E-mail adam@bankersassoc.com

Speaking:  For  Against  Information

Representing Florida Bankers Assoc.

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

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8/8/14  
Meeting Date

Topic Flood Insurance Bill Number SB 542 (if applicable)  
Name Jim Massie Amendment Barcode \_\_\_\_\_ (if applicable)  
Job Title Attorney

Address 1975 Farms Road Phone 850-933-2108  
Tallahassee, FL 32317 E-mail J.MASSIE41@APL.COM

City WAVE State IN Zip SUPPORT  
Speaking:  For  Against  Information  
Representing REINSURANCE ASSOCIATION OF AMERICA

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

1/8/13 Meeting Date

Topic Flood Insurance Bill Number SB 542 (if applicable)

Name Carolyn Jensen Amendment Barcode (if applicable)

Job Title Policy Director

Address 136 S Bronough St Tallahassee FL 32311 Phone 904-1235 E-mail cjensen@flcommerce.com

Speaking: [X] For [ ] Against [ ] Information

Representing FL Chamber of Commerce

Appearing at request of Chair: [ ] Yes [X] No Lobbyist registered with Legislature: [X] Yes [ ] No

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THE FLORIDA SENATE

APPEARANCE RECORD

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1-8-14

Meeting Date

Topic Flood Insurance Bill Number SB 542 (if applicable)

Name TRAVIS MOORE Amendment Barcode \_\_\_\_\_ (if applicable)

Job Title \_\_\_\_\_

Address P.O. Box 781 Phone 727.421.6902

Lakyo FL 33779 E-mail mooret@tampabay.fl.gov  
City State Zip

Speaking:  For  Against  Information

Representing Risk Management Professionals Group

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

1/8/14 Meeting Date

Topic Flood Insurance
Name Reggie Garcia
Job Title
Bill Number HB 542
Amendment Barcode ST16-ACC # 900790 (Sen. Hays)
(if applicable)
(if applicable)

Address PO Box 11069 Tallahassee, Fla. 32302
Street City State Zip
Phone 933-7150
E-mail reggie.garcia.law@vicford.com

Speaking: For Against Information
Representing Fla. Justice Association

Appearing at request of Chair: Yes No
Lobbyist registered with Legislature: Yes No

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THE FLORIDA SENATE

APPEARANCE RECORD

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Jan 8 2014  
Meeting Date

Topic FLOOD INSURANCE Bill Number 542 (if applicable)

Name LOCKE BURT Amendment Barcode (if applicable)

Job Title CHAIRMAN AND PRESIDENT

Address 140 SOUTH OLYMPIC AVE Phone 386-299-1629

ARMAND BEACH FLA 32126 E-mail BURT@ARMANDPE.COM  
City State Zip

Speaking:  For  Against  Information

Representing SECURITY FIRST INSURANCE COMPANY

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

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1-8-13

Meeting Date

Topic FLOOD INSURANCE Bill Number 542  
*(if applicable)*

Name MONTE STEVENS Amendment Barcode \_\_\_\_\_  
*(if applicable)*

Job Title DEPUTY CHIEF OF STAFF

Address 200 E. GAINES ST Phone 413-5042

TALAHASSEE FL 32399  
City State Zip

E-mail MONTE.STEVENS@FLSIR.COM

Speaking:  For  Against  Information

Representing OIR

Appearing at request of Chair:  Yes  No  
Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

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Jan 8, 2014  
*Meeting Date*

Topic Flood Insurance Bill Number SB 542 *as amended*  
(if applicable)

Name John M Sebree Amendment Barcode \_\_\_\_\_  
(if applicable)

Job Title Senior Vice President of Public Policy

Address 200 S Monroe Street Phone 850-224-1400

Tallahassee FL 32301  
City State Zip

Speaking:  For  Against  Information

Representing Florida.Realtors

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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**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.)

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

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BILL: CS/SB 542

INTRODUCER: Banking and Insurance Committee, Senator Brandes and others

SUBJECT: Flood Insurance

DATE: January 9, 2014

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Matiyow/Knudson	Knudson	BI	Fav/CS
2.	_____	_____	AGG	_____
3.	_____	_____	AP	_____

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**Please see Section IX. for Additional Information:**

COMMITTEE SUBSTITUTE - Substantial Changes

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**I. Summary:**

CS/SB 542 creates laws governing the sale of private flood insurance policies, contracts and endorsements by authorized insurers. The bill requires insurers that write flood coverage to provide coverage for “flood” as currently defined by the National Flood Insurance Program (NFIP). The bill also permits insurers to expand flood coverage to include water intrusion originating from outside the structure.

Flood rates may be established using the existing rate review process in s. 627.062, F.S. For flood rate filings made before July 1, 2017, an insurer may utilize three additional options for the development of flood insurance rates:

- A rate filing that is exempt from the filing and review requirements of s. 627.062(2)(a) and (f), F.S. Flood coverage rates developed under this provision are subject to s. 627.062(1), F.S., which requires that rates shall not be excessive, inadequate, or unfairly discriminatory.
- Individual risk rating; and
- If the insurer obtains the written, signed consent of the policyholder it may use a flood coverage rate that has not been approved by the Office of Insured Regulation (OIR).

The bill also:

- Allows flood deductibles to be a stated dollar amount or a percentage of coverage, however, insurers must offer the standard deductibles offered by the NFIP.

- Allows flood insurance policies to be offered that adjusts flood claims on a replacement cost basis or actual cash value.
- Allows the policy limit for flood coverage to be any agreed upon amount.
- Makes the following coverages optional: (1) additional living expense coverage; (2) personal property or contents; and (3) law and ordinance coverage. The insurer must offer, however, law and ordinance coverage comparable to such coverage contained in a NFIP policy.
- Authorizes the use of flood loss projection models to establish rates for flood insurance.
- Authorizes the Florida Commission on Hurricane Loss Projection Methodology to evaluate flood models and expands the commission to include a licensed engineer who is an expert in floodplain management and a meteorologist who specializes in floods.
- Requires the declarations page of the policy to disclose clearly all limitations on coverage or policy limits.
- Requires each flood policy, endorsement, or contract to provide notice that flood insurance is available from the NFIP.
- Requires the insurer to give 45 days prior written notice of cancellation or nonrenewal to the insured and any regulated lending institution or federal agency that is a mortgagee.
- Allows an insurer or insured to cancel during the term of the policy or upon renewal if the cancellation is for a valid reason under the NFIP.
- Requires an insurer seeking to provide flood coverage to notify the OIR at least 30 days before writing flood insurance in this state. The insurer must file a plan of operation and financial projections with the OIR unless the insurer maintains at least \$35 million in surplus and provides coverage as an endorsement to an existing property insurance form.
- Provides that the provisions of s. 627.715, F.S., supersede any conflicting provisions in the insurance code.
- Requires the insurance commissioner to provide a certification if so required by federal law or federal rule as a condition of qualifying for private flood insurance or disaster relief.

## II. Present Situation:

The National Flood Insurance Program (NFIP) was created by the passage of the National Flood Insurance Act of 1968.<sup>1</sup> The NFIP is administered by Federal Emergency Management Agency (FEMA) and provides property owners located in flood-prone areas the ability to purchase flood insurance protection from the federal government. Flood insurance through the NFIP is only available in communities that adopt and enforce federal floodplain management criteria.<sup>2</sup>

### Standard NFIP Flood Insurance

The standard flood insurance policy dwelling form offered by the NFIP<sup>3</sup> is a single peril flood policy that pays for direct physical damage to the insured residential property up to the

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<sup>1</sup> <http://www.fema.gov/media-library/assets/documents/7277?id=2216> (Last accessed by staff on January 2, 2014)

<sup>2</sup> *National Flood Insurance Program: Program Description*, pgs. 2-4., Federal Emergency Management Agency/Federal Insurance and Mitigation Administration (August 1, 2002) <http://www.fema.gov/media-library/assets/documents/1150?id=1480> (Last accessed by staff on January 7, 2014).

<sup>3</sup> The standard form insures one-to-four family residential buildings and single-family dwelling units in a condominium building. The NFIP also offers (a) a general property form that is used to insure five-or-more-family residential buildings and non-residential buildings and (b) a residential condominium building association policy form that insures residential condominium association buildings.

replacement cost<sup>4</sup> (RCV) or actual cash value (ACV) or the policy limit.<sup>5</sup> The maximum coverage limit for a NFIP standard flood insurance policy is \$250,000. The NFIP also offers up to \$100,000 in personal property (contents) coverage, which is always valued at ACV.<sup>6</sup> Most NFIP policies also include Increased Cost of Compliance (ICC) coverage of up to \$30,000 of the cost to comply with state or community floodplain management laws or ordinances after a flood in which a building has been declared substantially damaged or repetitively damaged.<sup>7</sup> The maximum coverage available to a condominium association is \$250,000 per unit multiplied by the total number of units.<sup>8</sup> The limits of coverage for NFIP flood insurance on non-residential buildings are \$500,000 in coverage to the building and \$500,000 in contents coverage.<sup>9</sup>

Flood is defined in the standard NFIP policy as a general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties from:

- Overflow of inland or tidal waters;
- Unusual and rapid accumulation or runoff of surface waters from any source;
- Mudflow; or
- Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above.<sup>10</sup>

The minimum deductibles for NFIP flood coverage are:

- For properties built before the effective date of the first Flood Insurance Rate Map<sup>11</sup> (FIRM) for a community, the minimum deductible is:
  - \$1,500 if the property is insured for \$100,000 or less.
  - \$2,000 if the property is insured for over \$100,000.
- For properties built after the effective date of the first Flood Insurance Rate Map (FIRM) for a community, the minimum deductible is:
  - \$1,000 if the property is insured for \$100,000 or less.
  - \$1,250 if the property is insured for over \$100,000.

<sup>4</sup> To obtain RCV coverage under the NFIP dwelling form, the building must be a single-family dwelling, be the principal residence of the insured at the time of loss (the insured lives there at least 80 percent of the year), and the building coverage of at least 80 percent of the full replacement cost of the building or its the maximum available for the property under the NFIP.

<sup>5</sup> *National Flood Insurance Program: Summary of Coverage*, Federal Emergency Management Agency (FEMA F-679/November 2012) [http://www.fema.gov/media-library-data/20130726-1620-20490-4648/f\\_679\\_summaryofcoverage\\_11\\_2012.pdf](http://www.fema.gov/media-library-data/20130726-1620-20490-4648/f_679_summaryofcoverage_11_2012.pdf) (Last accessed by staff on January 7, 2014).

<sup>6</sup> See footnote 4.

<sup>7</sup> The total amount of a building claim and ICC claim cannot exceed the maximum limit for building property coverage. For a single-family home, this is the \$250,000 maximum limit on coverage to the building. See footnote 4 and footnote 5 at page 26.

<sup>8</sup> *FDIC Compliance Manual*, V – 6.8. <http://www.fdic.gov/regulations/compliance/manual/index.html> (Last accessed by staff on January 7, 2014).

<sup>9</sup> *Reducing Damage from Localized Flooding: A Guide for Communities*, 11-2. <http://www.fema.gov/media-library/assets/documents/1012> (Last accessed by staff on January 7, 2014).

<sup>10</sup> <http://www.fema.gov/national-flood-insurance-program/definitions> (Last accessed by staff on January 2, 2014)

<sup>11</sup> The effective date of the first FIRM for Florida communities can be found at <http://www.fema.gov/cis/FL.pdf> (Last accessed by staff on January 10, 2014).

## **Federal Requirements to Obtain Flood Insurance**

In 1973<sup>12</sup> the U.S. Congress passed the Flood Disaster Protection Act. The Act mandated property owners with mortgages issued by federally regulated or insured lenders must purchase flood insurance if their properties are located in Special Flood Hazard Areas. Special Flood Hazard Areas are defined by FEMA as high-risk areas where there is at least a 1 in 4 chance of flooding during a 30-year mortgage.<sup>13</sup>

The National Flood Insurance Reform Act of 1994<sup>14</sup> (1994 Reform Act) required federal financial regulatory agencies<sup>15</sup> to revise their flood insurance regulations. The 1994 Reform Act applied flood insurance requirements to loans purchased by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and to agencies that provide government insurance or guarantees such as the Small Business Administration, the Federal Housing Administration, and the Veterans Administration. Lending institutions regulated by federal agencies are prohibited from offering loans on properties located in a Special Flood Hazard Area (SFHA) of a community participating in the NFIP unless the property is covered by flood insurance.<sup>16</sup> The amount of flood insurance required by lending institutions must be at least equal to the outstanding principal balance of the loan, or the maximum amount available under the NFIP, whichever is less.

## **The Biggert-Waters Flood Insurance Reform Act**

In 2012<sup>17</sup> the United States Congress passed the Biggert-Waters Flood Insurance Reform Act (Biggert-Waters Act). The Biggert-Waters Act reauthorized the National Flood Insurance Program for 5 years. Key provisions of the legislation require the NFIP to raise rates to reflect true flood risk, make the program more financially stable, and change how Flood Insurance Rate Map updates impact policyholders. These changes by Congress have resulted in premium rate increases for approximately 20 percent of NFIP policyholders nationwide.

The Biggert-Waters Act increases flood insurance premiums purchased through the program for second homes, business properties, severe repetitive loss properties, and substantially improved damaged properties by requiring premium increases of 25 percent per year until premiums meet the full actuarial cost of flood coverage. Most residences immediately lose their subsidized rates if the property is sold, the policy lapses, repeated and severe flood losses occur, or a new policy is purchased. Policyholders whose communities adopt a new, updated Flood Insurance Rate Map (FIRM) that results in higher rates will experience a 5-year phase in of rate increases to achieve rates that incorporate the full actuarial cost of coverage.

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<sup>12</sup> [http://www.fema.gov/media-library-data/20130726-1545-20490-9247/frm\\_acts.pdf](http://www.fema.gov/media-library-data/20130726-1545-20490-9247/frm_acts.pdf) (Last accessed by staff on January 2, 2014).

<sup>13</sup> [http://www.floodsmart.gov/floodsmart/pages/flooding\\_flood\\_risks/defining\\_flood\\_risks.jsp](http://www.floodsmart.gov/floodsmart/pages/flooding_flood_risks/defining_flood_risks.jsp) (Last accessed by staff on January 2, 2014).

<sup>14</sup> Title V of the Riegle Community Development and Regulatory Improvement Act of 1994. Pub. L. 103-325, Title V, 108 Stat. 2160, 2255-87 (September 23, 1994).

<sup>15</sup> Office of Comptroller of Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision, National Credit Union Administration, Farm Credit Administration and Federal Reserve.

<sup>16</sup> *FDIC Compliance Manual*, V – 6.1. <http://www.fdic.gov/regulations/compliance/manual/index.html> (Last accessed by staff on January 7, 2014).

<sup>17</sup> <http://www.fema.gov/flood-insurance-reform-act-2012> (Last accessed by staff on January 2, 2014).

### **NFIP Flood Insurance in Florida**

Over 2 million NFIP policies are written on Florida properties, with approximately 268,500 policies receiving subsidized rates.<sup>18</sup> This accounts for approximately 37 percent of the total policies written by the NFIP.

Historically, properties insured in Florida have paid approximately \$3.60 in premium for NFIP flood coverage for every \$1 received in claims payments.<sup>19</sup> The rate impact of the Biggert-Waters Act on subsidized policies in Florida is approximately as follows:

- Approximately 50,000 secondary residences, businesses, and severe repetitive loss properties are subject to immediate, annual 25 percent increases until their premiums are full risk premiums.
- Approximately 103,000 primary residences will lose their subsidy if the property is sold, the policy lapses, the property suffers severe, repeated flood losses, or a new policy is purchased.
- Approximately 115,000 non-primary residences, business properties, and severe repetitive loss properties are subject to the elimination of subsidies once FEMA develops guidance for their removal.

### **III. Effect of Proposed Changes:**

CS/SB 542 creates laws governing the sale of flood insurance policies, contracts and endorsements by authorized insurers.

#### **Condition Covered by Private Market Flood Coverage [s. 627.715(2) and (3), F.S.]**

The bill requires insurers that write flood coverage to provide coverage for “flood” as currently defined by the NFIP. The bill also permits insurers to expand flood coverage to include water intrusion originating from outside the structure which is not otherwise covered within the definition of flood provided in the bill and as also defined by the NFIP. Water intrusion, if offered, is defined by the insurance policy.

The bill defines “flood” in the same way as the NFIP: a general and temporary condition of partial or complete inundation of two acres or more of normally dry land area or of two or more properties, at least one of which is the policyholder’s property. The NFIP definition includes four causes of inundation of normally dry land that constitute flood: (1) overflow of inland or tidal waters; (2) unusual or rapid accumulation or runoff of surface waters from any source; (3) mudflow; or (4) collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels which results in flood.

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<sup>18</sup> Office of Insurance Regulation, *The Biggert-Waters Flood Insurance Reform Act of 2012*, (Presentation to the Florida Senate Banking and Insurance Committee on October 8, 2013). [http://flsenate.gov/PublishedContent/Committees/2012-2014/BI/MeetingRecords/MeetingPacket\\_2346.pdf](http://flsenate.gov/PublishedContent/Committees/2012-2014/BI/MeetingRecords/MeetingPacket_2346.pdf).

<sup>19</sup> Wharton Center for Risk Management and Decision Processes, *Who’s Paying and Who’s Benefiting Most From Flood Insurance Under the NFIP? A Financial Analysis of the U.S. National Flood Insurance Program (NFIP)*, (Issue Brief, Fall 2011).

**Deductibles [s. 627.715(4)(a), F.S.]**

Flood deductibles may be a stated dollar amount or a percentage of coverage. Insurers, however, must offer deductible amounts for flood losses that equal the standard deductibles offered by the NFIP.

**Adjustment of Flood Claims [s. 627.715(4)(b), F.S.]**

The bill authorizes the sale of flood insurance that adjusts claims on a replacement cost basis or actual cash value.

**Option to Restrict Flood Coverage Principal Building [s. 627.415(4)(c), F.S.]**

The bill allows, but does not require, the restriction of flood coverage to the principal building, as defined in the insurance policy.

**Policy Limits [s. 627.715(4)(d), F.S.]**

The policy limit for flood coverage may be any agreed upon amount. This includes the full replacement cost of the property, a set dollar amount, or the amount of the outstanding mortgages on the property.

**Optional Coverage [s. 627.715(4)(e), F.S.]**

Flood insurance is not required to include any of the following coverages: (1) additional living expense coverage; (2) personal property or contents; and (3) law and ordinance coverage.

The insurer is required to offer law and ordinance coverage for flood comparable to the law and ordinance coverage contained in the standard NFIP policy. Such coverage is called increased cost of compliance (ICC) coverage under the NFIP and, for the NFIP standard policy, provides up to \$30,000 to elevate, demolish, or relocate the insured dwelling if such action is required because a floodplain management ordinance finds the structure is substantially damaged or repetitively damaged by flood. Under the NFIP, ICC coverage cannot increase the maximum limit for coverage to the structure (\$250,000 for a dwelling or \$500,000 for a business). The insurer must include the following written disclosure with flood insurance that includes NFIP-type law and ordinance coverage: "Law and ordinance coverage under this policy might have limitations on what is covered in the event of a loss. You should consult with your agent if you have questions about the coverage offered under this policy."

**Notice Provisions [s. 627.715(5), (7) and (9), F.S.]**

The declarations page of the policy must prominently, in at least 12-point type, disclose clearly all limitations on coverage or policy limits on the declarations page. Limitations requiring disclosure include, but are not limited to, deductibles and coverage limited to the amount of outstanding mortgages. The following specific disclosures are required:

- If the dwelling is insured for less than the full replacement cost: “This policy limits flood coverage to less than the full cost of replacement for the property, which may result in high out-of-pocket expenses to you and may put your equity in this property at risk.”
- If the dwelling is insured on an actual cash value basis: “This policy pays you the depreciated value of your property that is damaged by flood, which may result in high out-of-pocket expenses to you if your property needs to be repaired or replaced.”

Each flood policy, endorsement, or contract must provide notice that flood insurance is available from the NFIP.

The insurer must give 45 days prior written notice of cancellation or nonrenewal to the insured and any regulated lending institution or federal agency that is a mortgagee. An insurer or insured may cancel during the term of the policy or upon renewal if the cancellation is for a valid reason under the NFIP.

### **Rate Standards for Flood Coverage [s. 627.715(6), F.S.]**

The bill allows insurers to develop flood insurance rates under the full rate review process provided for in s. 627.062, F.S. Flood insurance rates may be developed using three additional options in any flood insurance rate filing submitted to the OIR before July 1, 2017:

*Rate Filing Exempt from the File and Use and Use and File Requirements* – A rate filing that is exempt from the filing and review requirements of s. 627.062(2)(a) and (f), F.S. This process requires an informational filing by the insurer. The rates are not subject to the “file and use” or “use and file” process under s. 627.062(2)(a), F.S. The OIR is authorized, however, to require the insurer to submit to an examination under which the OIR may determine whether the rate is excessive, inadequate, or unfairly discriminatory.

An insurer must notify the OIR of any change to its flood insurance rates, including the average statewide percentage change in rates, no later than 30 days after the effective date of the change in rates. Insurers that utilize this option must maintain actual data regarding its flood insurance rates for 2 years after the effective date of those rates.

*Individual Risk Rating* – Insurers may individually rate a flood risk, under the procedure provided under current law in s. 627.062(3)(a) and (b), F.S. The insurer must maintain documentation on each individually rated risk that specifies the characteristics and classification of the risk supporting the reason for the risk being individually rated and also maintain modifications to existing forms. Modifications to flood insurance forms are subject to the provisions of this section and provisions of the insurance code that do not conflict with CS/SB 542.

*Consent to Rate* – If the insurer obtains the written, signed consent of the policyholder it may use a flood coverage rate that has not been approved by the OIR. The signed consent form must notify the insured that the rate is not subject to OIR approval. Upon policy renewal, the insurer must provide notice that the rate is not subject to OIR approval. The insurer must maintain a copy of the signed consent form for 3 years and make it available for OIR review. The consent to rate provision in current law under s. 627.171, F.S., contains the same requirements to authorize

insurers to use rates in excess of the insurer's approved rate but limits the practice to 10 percent of the insurer's commercial lines policies and 5 percent of its personal lines (homeowners, auto; etc.) policies.

**Authorization of Flood Loss Projection Models to Establish Flood Rates [s. 627.062, F.S., and s. 627.0628, F.S.]**

The bill authorizes the use of flood models as a factor in rate filings under s. 627.062, F.S. The insurer may project flood losses using a model, method, or an average of models or methods found acceptable or reliable by the Florida Commission on Hurricane Loss Projection Methodology, and as further provided in the statute governing the commission, s. 627.0628, F.S.

To assist the methodology commission in evaluating flood models, the bill expands the membership of the commission to include a licensed professional engineer who is an expert in floodplain management and not regularly retained by a property and casualty insurer and a meteorologist who specializes in flood. The commission is authorized to consider the accuracy and reliability of flood loss projection models. The commission must adopt actuarial methods, principles, standards, models, or output ranges for flood loss by July 1, 2015.

**Placement of Flood Insurance With Surplus Lines Insurers [s. 627.715(8), F.S.]**

A surplus lines agent may export flood coverage of \$1 million or more to an eligible surplus lines insurer without making a diligent effort to seek such coverage from three or more authorized insurers as generally required by s. 626.916(1)(a), F.S. This provision expires July 1, 2017.

**Authorization to Write Flood Insurance [s. 627.715(10), F.S.]**

An insurer seeking to provide flood coverage must notify the office at least 30 days before writing flood insurance in this state. The insurer must file a plan of operation and financial projections with the OIR unless the insurer maintains at least \$35 million in surplus and provides coverage as an endorsement to an existing property insurance form. The insurer must also comply with all other applicable requirements contained in the insurance code.

**Conflict of Laws [s. 627.715(11), F.S.]**

The provisions of s. 627.715, F.S., supersede any conflicting provisions in the rest of the insurance code.

**Certification That Private Flood Insurance Complies With Federal Law and Requirements**

The bill requires the insurance commissioner to provide a certification if so required by federal law or federal rule as a condition of qualifying for private flood insurance or disaster relief. The certification is not subject to review under ch. 120, F.S.

**Effective Date**

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:**

It is anticipated that the implementation of the bill will result in additional private insurers offering flood insurance, thereby increasing competition in the marketplace and providing consumers with more coverage options.

**C. Government Sector Impact:**

The bill requires the Florida Commission on Hurricane Loss projection Methodology to develop standards for the review of flood models. The commission estimates the fiscal impact of the bill is \$350,000. The commission is funded by the Florida Hurricane Catastrophe Fund. The development of such standards will require the commission to incur costs associated with additional commission meetings, research, workshops, consultants, and possible meetings at the location of each modeler. The bill also increases the number of board members of the commission from 12 to 14 members, which would increase the overall travel expenses of the commission.

According to the OIR, the bill will be implemented with existing resources.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Statutes Affected:**

This bill substantially amends the following sections of the Florida Statutes: 627.062 and 627.0628.

This bill creates section 627.715 of the Florida Statutes.

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

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

**CS by Banking and Insurance on January 8, 2014:**

- Limits the use of alternative rate filing options for flood insurance to filings submitted to the OIR before July 1, 2017.
- Limits the ability of a surplus lines agent to export flood insurance to a surplus lines insurer without making a diligent effort to place coverage with authorized insurers to coverage of \$1 million or more. The provision expires July 1, 2017.
- Requires the insurance commissioner to provide a certification if so required by federal law or federal rule as a condition of qualifying for private flood insurance or disaster relief.
- Requires insurers to offer law and ordinance coverage for flood equivalent to NFIP law and ordinance coverage.

**B. Amendments:**

None.

By Senator Brandes

22-00534B-14

2014542\_\_

1 A bill to be entitled  
 2 An act relating to flood insurance; amending s.  
 3 627.062, F.S.; adding projected flood losses to the  
 4 factors that must be considered by the Office of  
 5 Insurance Regulation in reviewing a rate filing;  
 6 amending s. 627.0628, F.S.; increasing the membership  
 7 of the Florida Commission on Hurricane Loss Projection  
 8 Methodology to include an engineer who is an expert in  
 9 floodplain management and a meteorologist who  
 10 specializes in floods; requiring the commission to  
 11 adopt standards and guidelines relating to flood loss  
 12 by a certain date; creating s. 627.715, F.S.;  
 13 authorizing insurers to offer flood insurance in this  
 14 state; providing legislative findings; defining the  
 15 term "flood"; establishing the minimum coverage  
 16 requirements for such policies; providing coverage  
 17 limitations that an insurer may include in such  
 18 policies; requiring such limitations to be noted on  
 19 the policy declarations or face page; providing the  
 20 insurer with rate options; requiring the insurer to  
 21 provide notice that flood insurance is available from  
 22 the National Flood Insurance Program; allowing an  
 23 insurer to export a contract or endorsement to a  
 24 surplus lines insurer without meeting certain  
 25 requirements; providing prior notice requirements for  
 26 cancellation or nonrenewal of a policy; requiring the  
 27 insurer to notify the office before writing flood  
 28 insurance and to file a plan of operation with the  
 29 office; providing that any conflicts with other

Page 1 of 13

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22-00534B-14

2014542\_\_

30 provisions of the Florida Insurance Code are preempted  
 31 by this section; providing an effective date.  
 32  
 33 Be It Enacted by the Legislature of the State of Florida:  
 34  
 35 Section 1. Paragraph (b) of subsection (2) of section  
 36 627.062, Florida Statutes, is amended to read:  
 37 627.062 Rate standards.—  
 38 (2) As to all such classes of insurance:  
 39 (b) Upon receiving a rate filing, the office shall review  
 40 the filing to determine if a rate is excessive, inadequate, or  
 41 unfairly discriminatory. In making that determination, the  
 42 office shall, in accordance with generally accepted and  
 43 reasonable actuarial techniques, consider the following factors:  
 44 1. Past and prospective loss experience within and without  
 45 this state.  
 46 2. Past and prospective expenses.  
 47 3. The degree of competition among insurers for the risk  
 48 insured.  
 49 4. Investment income reasonably expected by the insurer,  
 50 consistent with the insurer's investment practices, from  
 51 investable premiums anticipated in the filing, plus any other  
 52 expected income from currently invested assets representing the  
 53 amount expected on unearned premium reserves and loss reserves.  
 54 The commission may adopt rules using reasonable techniques of  
 55 actuarial science and economics to specify the manner in which  
 56 insurers calculate investment income attributable to classes of  
 57 insurance written in this state and the manner in which  
 58 investment income is used to calculate insurance rates. Such

Page 2 of 13

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22-00534B-14

2014542\_\_

59 manner must contemplate allowances for an underwriting profit  
60 factor and full consideration of investment income that produces  
61 ~~which produce~~ a reasonable rate of return; however, investment  
62 income from invested surplus may not be considered.

63 5. The reasonableness of the judgment reflected in the  
64 filing.

65 6. Dividends, savings, or unabsorbed premium deposits  
66 allowed or returned to ~~Florida~~ policyholders, members, or  
67 subscribers in this state.

68 7. The adequacy of loss reserves.

69 8. The cost of reinsurance. The office may not disapprove a  
70 rate as excessive solely due to the insurer having obtained  
71 catastrophic reinsurance to cover the insurer's estimated 250-  
72 year probable maximum loss or any lower level of loss.

73 9. Trend factors, including trends in actual losses per  
74 insured unit for the insurer making the filing.

75 10. Conflagration and catastrophe hazards, if applicable.

76 11. Projected hurricane losses, if applicable, which must  
77 be estimated using a model or method determined found to be  
78 acceptable or reliable by the Florida Commission on Hurricane  
79 Loss Projection Methodology, and as further provided in s.  
80 627.0628.

81 12. Projected flood losses, if applicable, which may be  
82 estimated using a model, method, or an average of models or  
83 methods determined to be acceptable or reliable by the Florida  
84 Commission on Hurricane Loss Projection Methodology, and as  
85 further provided in s. 627.0628.

86 ~~13.12.~~ A reasonable margin for underwriting profit and  
87 contingencies.

22-00534B-14

2014542\_\_

88 ~~14.13.~~ The cost of medical services, if applicable.

89 ~~15.14.~~ Other relevant factors that affect the frequency or  
90 severity of claims or expenses.

91 Section 2. Paragraph (b) of subsection (2) and subsection  
92 (3) of section 627.0628, Florida Statutes, are amended to read:  
93 627.0628 Florida Commission on Hurricane Loss Projection  
94 Methodology; public records exemption; public meetings  
95 exemption.—

96 (2) COMMISSION CREATED.—

97 (b) The commission shall consist of the following ~~14~~ 12  
98 members:

99 1. The insurance consumer advocate.

100 2. The senior employee of the State Board of Administration  
101 responsible for the operations of the Florida Hurricane  
102 Catastrophe Fund.

103 3. The Executive Director of the Citizens Property  
104 Insurance Corporation.

105 4. The Director of the Division of Emergency Management.

106 5. The actuary member of the Florida Hurricane Catastrophe  
107 Fund Advisory Council.

108 6. An employee of the office who is an actuary responsible  
109 for property insurance rate filings and who is appointed by the  
110 director of the office.

111 7. ~~Seven~~ Five members appointed by the Chief Financial  
112 Officer, as follows:

113 a. An actuary who is employed full time by a property and  
114 casualty insurer that was responsible for at least 1 percent of  
115 the aggregate statewide direct written premium for homeowner's  
116 insurance in the calendar year preceding the member's

22-00534B-14

2014542\_\_

117 appointment to the commission.

118 b. An expert in insurance finance who is a full-time member  
119 of the faculty of the State University System and who has a  
120 background in actuarial science.

121 c. An expert in statistics who is a full-time member of the  
122 faculty of the State University System and who has a background  
123 in insurance.

124 d. An expert in computer system design who is a full-time  
125 member of the faculty of the State University System.

126 e. An expert in meteorology who is a full-time member of  
127 the faculty of the State University System and who specializes  
128 in hurricanes.

129 f. A licensed professional engineer who is an expert in  
130 floodplain management.

131 g. A meteorologist who specializes in floods.

132 8. A licensed professional structural engineer who is a  
133 full-time faculty member in the State University System and who  
134 has expertise in wind mitigation techniques. This appointment  
135 shall be made by the Governor.

136 (3) ADOPTION AND EFFECT OF STANDARDS AND GUIDELINES.—

137 (a) The commission shall consider ~~any~~ actuarial methods,  
138 principles, standards, models, or output ranges that have the  
139 potential for improving the accuracy of or reliability of the  
140 hurricane loss projections and flood loss projections used in  
141 residential property insurance rate filings. The commission  
142 shall, ~~from time to time~~, adopt and update findings as to the  
143 accuracy or reliability of particular methods, principles,  
144 standards, models, or output ranges.

145 (b) The commission shall consider ~~any~~ actuarial methods,

22-00534B-14

2014542\_\_

146 principles, standards, or models that have the potential for  
147 improving the accuracy of or reliability of projecting probable  
148 maximum loss levels. The commission shall adopt and update  
149 findings as to the accuracy or reliability of particular  
150 methods, principles, standards, or models related to probable  
151 maximum loss calculations.

152 (c) In establishing reimbursement premiums for the Florida  
153 Hurricane Catastrophe Fund, the State Board of Administration  
154 must, to the extent feasible, employ actuarial methods,  
155 principles, standards, models, or output ranges determined ~~found~~  
156 by the commission to be accurate or reliable.

157 (d) With respect to a rate filing under s. 627.062, an  
158 insurer shall employ and may not modify or adjust actuarial  
159 methods, principles, standards, models, or output ranges  
160 determined ~~found~~ by the commission to be accurate or reliable in  
161 determining hurricane loss factors for use in a rate filing  
162 under s. 627.062. An insurer shall employ and may not modify or  
163 adjust models determined ~~found~~ by the commission to be accurate  
164 or reliable in determining probable maximum loss levels pursuant  
165 to paragraph (b) with respect to a rate filing under s. 627.062  
166 made more than 60 days after the commission has made such  
167 findings. This paragraph does not prohibit an insurer from  
168 averaging model results or output ranges, or using an average  
169 for the purpose of a rate filing under s. 627.062.

170 (e) The commission shall adopt actuarial methods,  
171 principles, standards, models, or output ranges for flood loss  
172 by July 1, 2015.

173 (f) ~~(e)~~ The commission shall revise ~~adopt revisions to~~  
174 previously adopted actuarial methods, principles, standards,

22-00534B-14

2014542\_\_

175 models, or output ranges every odd-numbered ~~odd~~ year.

176 (g) (f) 1. A trade secret, as defined in s. 688.002, which  
 177 ~~that~~ is used in designing and constructing a hurricane loss  
 178 model and which that is provided pursuant to this section, by a  
 179 private company, to the commission, office, or consumer advocate  
 180 appointed pursuant to s. 627.0613, is confidential and exempt  
 181 from s. 119.07(1) and s. 24(a), Art. I of the State  
 182 Constitution.

183 2.a. That portion of a meeting of the commission or of a  
 184 rate proceeding on an insurer's rate filing at which a trade  
 185 secret made confidential and exempt by this paragraph is  
 186 discussed is exempt from s. 286.011 and s. 24(b), Art. I of the  
 187 State Constitution. The closed meeting must be recorded, and no  
 188 portion of the closed meeting may be off the record.

189 b. The recording of a closed portion of a meeting is exempt  
 190 from s. 119.07(1) and s. 24(a), Art. I of the State  
 191 Constitution.

192 c. This subparagraph is subject to the Open Government  
 193 Sunset Review Act in accordance with s. 119.15 and shall stand  
 194 repealed on October 2, 2015, unless reviewed and saved from  
 195 repeal through reenactment by the Legislature.

196 Section 3. Section 627.715, Florida Statutes, is created to  
 197 read:

198 627.715 Flood Insurance.—An insurer may issue an insurance  
 199 policy, contract, or endorsement providing coverage for the  
 200 peril of flood on any structure or the contents of personal  
 201 property contained therein, subject to this section.

202 (1) The Legislature finds that:

203 (a) The National Flood Insurance Program (NFIP) is a

22-00534B-14

2014542\_\_

204 federal program that enables property owners in participating  
 205 communities to purchase flood insurance. A community  
 206 participates in the federal program by adopting and enforcing  
 207 floodplain management regulations that meet or exceed federal  
 208 floodplain management criteria designed to reduce future flood  
 209 risk to new construction in floodplains. The program was created  
 210 by Congress in 1968 because insurance covering the peril of  
 211 flood was often unavailable in the private insurance market and  
 212 was intended to reduce the amount of financial aid paid by the  
 213 Federal Government in the aftermath of flood-related disasters.  
 214 Since the creation of the NFIP, generally flood insurance  
 215 coverage has been unavailable for purchase from private market  
 216 insurance companies.

217 (b) The Biggert-Waters Flood Insurance Reform Act of 2012  
 218 reauthorized and revised the NFIP. The act increases flood  
 219 insurance premiums purchased through the program for second  
 220 homes, business properties, severe repetitive loss properties,  
 221 and substantially improved damaged properties by requiring  
 222 premium increases of 25 percent per year until premiums meet the  
 223 full actuarial cost. Primary residences lose their subsidized  
 224 rates if the property is sold, the policy lapses, repeated and  
 225 severe flood losses occur, or a new policy is purchased.  
 226 Policyholders whose communities adopt a new, updated Flood  
 227 Insurance Rate Map (FIRM) that results in higher rates will  
 228 experience a 5-year phase-in of rate increases to achieve  
 229 required rate levels.

230 (c) The Biggert-Waters Flood Insurance Reform Act of 2012  
 231 also encourages the use and acceptance of private-market flood  
 232 insurance. The Legislature finds, however, that there has been a

22-00534B-14 2014542\_\_

233 long-term inadequacy of private-market flood insurance available  
 234 in this state. Such inadequacy suggests that the private market  
 235 in this state is unlikely to expand unless the Legislature  
 236 provides multiple options for the regulation of flood insurance.  
 237 In addition, the consumers of this state will be protected from  
 238 excessive premiums by the continued oversight of insurance rates  
 239 by the Office of Insurance Regulation and the continued  
 240 availability of flood insurance from the NFIP.

241 (d) The NFIP, as amended by the Biggert-Waters Flood  
 242 Insurance Reform Act of 2012, will prevent many property owners  
 243 from obtaining affordable flood insurance coverage in this  
 244 state. The absence of affordable flood insurance threatens the  
 245 public health, safety, and welfare and the economic health of  
 246 this state. Therefore, the state has a compelling public purpose  
 247 and interest in providing alternatives to coverage from NFIP by  
 248 promoting the availability of flood insurance from private  
 249 market insurers at potentially lower premium rates so as to  
 250 facilitate the remediation, reconstruction, and replacement of  
 251 damaged or destroyed property in order to reduce or avoid harm  
 252 to the public health, safety, and welfare, to the economy of  
 253 this state, and to the revenues of state and local governments  
 254 which are needed to provide for the public welfare.

255 (2) As used in this section, the term "flood" means a  
 256 general and temporary condition of partial or complete  
 257 inundation of 2 acres or more of normally dry land area or of  
 258 two or more properties, at least one of which is the  
 259 policyholder's property, from:

260 (a) Overflow of inland or tidal waters;  
 261 (b) Unusual and rapid accumulation or runoff of surface

22-00534B-14 2014542\_\_

262 waters from any source;  
 263 (c) Mudflow; or  
 264 (d) Collapse or subsidence of land along the shore of a  
 265 lake or similar body of water as a result of erosion or  
 266 undermining caused by waves or currents of water exceeding  
 267 anticipated cyclical levels which result in a flood.

268 (3) At a minimum, coverage for the peril of flood must  
 269 cover a flood as defined in subsection (2). Coverage for the  
 270 peril of flood may also include water intrusion originating from  
 271 outside the structure which is not otherwise covered under the  
 272 definition of flood. A policy, contract, or endorsement  
 273 providing coverage for the peril of flood which includes water  
 274 intrusion originating from outside the structure must also be  
 275 regulated and rated as a flood policy in accordance with this  
 276 section and not as a homeowners or other personal lines  
 277 residential policy under separate provisions of the Insurance  
 278 Code.

279 (4) An insurer may offer a flood coverage policy, contract,  
 280 or endorsement:

281 (a) That has a deductible based on a stated dollar amount  
 282 or a percentage of the coverage amount. At a minimum, an insurer  
 283 must offer deductible amounts applicable to flood losses that  
 284 equal the standard deductibles offered under the National Flood  
 285 Insurance Program;

286 (b) That provides that any loss that is repaired or  
 287 replaced will be adjusted on the basis of:

288 1. Replacement costs up to the policy limits; or  
 289 2. The actual cash value of the property;  
 290 (c) That restricts flood coverage to the principal

22-00534B-14

2014542\_\_

291 building, as defined in the applicable policy;  
 292 (d) In any agreed-upon amount, including coverage limited  
 293 to the amount of all outstanding mortgages applicable to the  
 294 covered property. However, if a policy, contract, or endorsement  
 295 does not limit flood coverage to the replacement cost of the  
 296 covered property, the contract or endorsement may not include a  
 297 provision penalizing the policyholder for not insuring the  
 298 covered property up to replacement cost; or  
 299 (e) That does not cover:  
 300 1. Additional living expenses;  
 301 2. Personal property or contents; or  
 302 3. Ordinance and law coverage.  
 303 (5) Any limitations on coverage or policy limits,  
 304 including, but not limited to, deductibles or coverage limited  
 305 to the amount of all outstanding mortgages, must be prominently  
 306 disclosed on the declarations page or face page of the policy.  
 307 (6) An insurer may establish and use flood coverage rates  
 308 pursuant to one or more of the following options:  
 309 (a) In accordance with the rate standards of s. 627.062,  
 310 including s. 627.062(2)(a)-(b);  
 311 (b) In accordance with the rates, rating schedules, or  
 312 rating manuals filed by the insurer with the office which allow  
 313 the insurer a reasonable rate of return on flood coverage  
 314 written in this state. Flood coverage rates are not subject to  
 315 s. 627.062(2)(a) or (b). An insurer shall notify the office of  
 316 any change to rates within 30 days after the effective date of  
 317 the change. The notice must include the name of the insurer and  
 318 the average statewide percentage change in rates. Actuarial data  
 319 with regard to rates for flood coverage must be maintained by

Page 11 of 13

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22-00534B-14

2014542\_\_

320 the insurer for 2 years after the effective date of such rate  
 321 changes and is subject to examination by the office. The office  
 322 may require the insurer to incur the costs associated with an  
 323 examination. Upon examination, the office, in accordance with  
 324 generally accepted and reasonable actuarial techniques, shall  
 325 consider the rate factors specified in s. 627.062(2)(b)-(d) and  
 326 the standards specified in s. 627.062(2)(e) to determine if the  
 327 rate is excessive, inadequate, or unfairly discriminatory;  
 328 (c) Through individual risk rating as provided in s.  
 329 627.062(3)(a) and (b); or  
 330 (d) With the written consent of the insured signed before  
 331 the policy inception date and filed with the insurer, using a  
 332 flood coverage rate that has not been approved by the office.  
 333 The signed consent form must notify the insured that the rate is  
 334 not subject to the approval of the office. A copy of the form  
 335 shall be maintained by the insurer for 3 years and must be  
 336 available for review by the office. An insurer is not required  
 337 to obtain subsequent written consents upon renewal, but shall  
 338 provide notice at each renewal that the rate is not subject to  
 339 office approval.  
 340 (7) A policy, endorsement, or contract providing coverage  
 341 for the peril of flood must provide notice that flood insurance  
 342 coverage is available from the NFIP.  
 343 (8) A surplus lines agent may export a contract or  
 344 endorsement providing flood coverage to an eligible surplus  
 345 lines insurer without making a diligent effort to seek such  
 346 coverage from three or more authorized insurers under s.  
 347 626.916(1)(a).  
 348 (9) A policy, endorsement, or contract providing coverage

Page 12 of 13

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22-00534B-14

2014542\_\_

349 for the peril of flood must require the insurer to give 45 days'  
350 prior written notice of cancellation or nonrenewal to the  
351 insured and any regulated lending institution or federal agency  
352 that is a mortgagee. An insurer or insured may cancel during the  
353 term of the policy or upon renewal if the cancellation is for a  
354 valid reason under the NFIP.

355 (10) In addition to any other applicable requirements, an  
356 insurer providing flood coverage in this state must:

357 (a) Notify the office at least 30 days before writing flood  
358 insurance in this state; and

359 (b) File a plan of operation and financial projections or  
360 revisions to such plan, as applicable, with the office, unless  
361 the insurer maintains at least \$35 million in surplus and  
362 provides coverage as an endorsement to an existing property  
363 insurance form.

364 (11) With respect to the regulation of flood insurance  
365 coverage written in this state by private insurers, this section  
366 supersedes any other provision in the Florida Insurance Code in  
367 the event of a conflict.

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



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LEGISLATIVE ACTION

Senate	.	House
Comm: RCS	.	
01/08/2014	.	
	.	
	.	
	.	

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The Committee on Banking and Insurance (Hays) recommended the following:

**Senate Amendment (with title amendment)**

Delete everything after the enacting clause  
and insert:

Section 1. Paragraph (b) of subsection (2) of section  
627.062, Florida Statutes, is amended to read:

627.062 Rate standards.—

(2) As to all such classes of insurance:

(b) Upon receiving a rate filing, the office shall review  
the filing to determine if a rate is excessive, inadequate, or



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11 unfairly discriminatory. In making that determination, the  
12 office shall, in accordance with generally accepted and  
13 reasonable actuarial techniques, consider the following factors:

14 1. Past and prospective loss experience within and without  
15 this state.

16 2. Past and prospective expenses.

17 3. The degree of competition among insurers for the risk  
18 insured.

19 4. Investment income reasonably expected by the insurer,  
20 consistent with the insurer's investment practices, from  
21 investable premiums anticipated in the filing, plus any other  
22 expected income from currently invested assets representing the  
23 amount expected on unearned premium reserves and loss reserves.  
24 The commission may adopt rules using reasonable techniques of  
25 actuarial science and economics to specify the manner in which  
26 insurers calculate investment income attributable to classes of  
27 insurance written in this state and the manner in which  
28 investment income is used to calculate insurance rates. Such  
29 manner must contemplate allowances for an underwriting profit  
30 factor and full consideration of investment income that produces  
31 ~~which produce~~ a reasonable rate of return; however, investment  
32 income from invested surplus may not be considered.

33 5. The reasonableness of the judgment reflected in the  
34 filing.

35 6. Dividends, savings, or unabsorbed premium deposits  
36 allowed or returned to ~~Florida~~ policyholders, members, or  
37 subscribers in this state.

38 7. The adequacy of loss reserves.

39 8. The cost of reinsurance. The office may not disapprove a



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40 rate as excessive solely due to the insurer having obtained  
41 catastrophic reinsurance to cover the insurer's estimated 250-  
42 year probable maximum loss or any lower level of loss.

43 9. Trend factors, including trends in actual losses per  
44 insured unit for the insurer making the filing.

45 10. Conflagration and catastrophe hazards, if applicable.

46 11. Projected hurricane losses, if applicable, which must  
47 be estimated using a model or method found to be acceptable or  
48 reliable by the Florida Commission on Hurricane Loss Projection  
49 Methodology, and as further provided in s. 627.0628.

50 12. Projected flood losses, if applicable, which may be  
51 estimated using a model, a method, or an average of models or  
52 methods determined to be acceptable or reliable by the Florida  
53 Commission on Hurricane Loss Projection Methodology, and as  
54 further provided in s. 627.0628.

55 ~~13.12.~~ A reasonable margin for underwriting profit and  
56 contingencies.

57 ~~14.13.~~ The cost of medical services, if applicable.

58 ~~15.14.~~ Other relevant factors that affect the frequency or  
59 severity of claims or expenses.

60

61 The provisions of this subsection do not apply to workers'  
62 compensation, employer's liability insurance, and motor vehicle  
63 insurance.

64 Section 2. Paragraph (b) of subsection (2) and subsection  
65 (3) of section 627.0628, Florida Statutes, are amended to read:

66 627.0628 Florida Commission on Hurricane Loss Projection  
67 Methodology; public records exemption; public meetings  
68 exemption.-



906790

69 (2) COMMISSION CREATED.—

70 (b) The commission shall consist of the following 14 ~~12~~  
71 members:

72 1. The insurance consumer advocate.

73 2. The senior employee of the State Board of Administration  
74 responsible for the operations of the Florida Hurricane  
75 Catastrophe Fund.

76 3. The Executive Director of the Citizens Property  
77 Insurance Corporation.

78 4. The Director of the Division of Emergency Management.

79 5. The actuary member of the Florida Hurricane Catastrophe  
80 Fund Advisory Council.

81 6. An employee of the office who is an actuary responsible  
82 for property insurance rate filings and who is appointed by the  
83 director of the office.

84 7. Seven ~~Five~~ members appointed by the Chief Financial  
85 Officer, as follows:

86 a. An actuary who is employed full time by a property and  
87 casualty insurer that was responsible for at least 1 percent of  
88 the aggregate statewide direct written premium for homeowner's  
89 insurance in the calendar year preceding the member's  
90 appointment to the commission.

91 b. An expert in insurance finance who is a full-time member  
92 of the faculty of the State University System and who has a  
93 background in actuarial science.

94 c. An expert in statistics who is a full-time member of the  
95 faculty of the State University System and who has a background  
96 in insurance.

97 d. An expert in computer system design who is a full-time



906790

98 member of the faculty of the State University System.

99 e. An expert in meteorology who is a full-time member of  
100 the faculty of the State University System and who specializes  
101 in hurricanes.

102 f. A licensed professional engineer who is an expert in  
103 floodplain management and who is not regularly retained by or on  
104 behalf of a property and casualty insurer.

105 g. A meteorologist who specializes in floods.

106 8. A licensed professional structural engineer who is a  
107 full-time faculty member in the State University System and who  
108 has expertise in wind mitigation techniques. This appointment  
109 shall be made by the Governor.

110 (3) ADOPTION AND EFFECT OF STANDARDS AND GUIDELINES.—

111 (a) The commission shall consider ~~any~~ actuarial methods,  
112 principles, standards, models, or output ranges that have the  
113 potential for improving the accuracy of or reliability of the  
114 hurricane loss projections and flood loss projections used in  
115 residential property insurance rate filings. The commission  
116 shall, ~~from time to time,~~ adopt and update findings as to the  
117 accuracy or reliability of particular methods, principles,  
118 standards, models, or output ranges.

119 (b) The commission shall consider ~~any~~ actuarial methods,  
120 principles, standards, or models that have the potential for  
121 improving the accuracy of or reliability of projecting probable  
122 maximum loss levels. The commission shall adopt and update  
123 findings as to the accuracy or reliability of particular  
124 methods, principles, standards, or models related to probable  
125 maximum loss calculations.

126 (c) In establishing reimbursement premiums for the Florida



906790

127 Hurricane Catastrophe Fund, the State Board of Administration  
128 must, to the extent feasible, employ actuarial methods,  
129 principles, standards, models, or output ranges found by the  
130 commission to be accurate or reliable.

131 (d) With respect to a rate filing under s. 627.062, an  
132 insurer shall employ and may not modify or adjust actuarial  
133 methods, principles, standards, models, or output ranges found  
134 by the commission to be accurate or reliable in determining  
135 hurricane loss factors for use in a rate filing under s.  
136 627.062. An insurer shall employ and may not modify or adjust  
137 models found by the commission to be accurate or reliable in  
138 determining probable maximum loss levels pursuant to paragraph  
139 (b) with respect to a rate filing under s. 627.062 made more  
140 than 60 days after the commission has made such findings. This  
141 paragraph does not prohibit an insurer from averaging model  
142 results or output ranges or using an average for the purpose of  
143 a flood insurance rate filing under s. 627.062.

144 (e) The commission shall adopt actuarial methods,  
145 principles, standards, models, or output ranges for flood loss  
146 by July 1, 2015.

147 (f)-(e) The commission shall revise ~~adopt revisions to~~  
148 previously adopted actuarial methods, principles, standards,  
149 models, or output ranges every odd-numbered ~~odd~~ year.

150 (g)-(f) 1. A trade secret, as defined in s. 688.002, which  
151 ~~that~~ is used in designing and constructing a hurricane loss  
152 model and which ~~that~~ is provided pursuant to this section, by a  
153 private company, to the commission, office, or consumer advocate  
154 appointed pursuant to s. 627.0613, is confidential and exempt  
155 from s. 119.07(1) and s. 24(a), Art. I of the State



906790

156 Constitution.

157 2.a. That portion of a meeting of the commission or of a  
158 rate proceeding on an insurer's rate filing at which a trade  
159 secret made confidential and exempt by this paragraph is  
160 discussed is exempt from s. 286.011 and s. 24(b), Art. I of the  
161 State Constitution. The closed meeting must be recorded, and no  
162 portion of the closed meeting may be off the record.

163 b. The recording of a closed portion of a meeting is exempt  
164 from s. 119.07(1) and s. 24(a), Art. I of the State  
165 Constitution.

166 c. This subparagraph is subject to the Open Government  
167 Sunset Review Act in accordance with s. 119.15 and shall stand  
168 repealed on October 2, 2015, unless reviewed and saved from  
169 repeal through reenactment by the Legislature.

170 Section 3. Section 627.715, Florida Statutes, is created to  
171 read:

172 627.715 Flood insurance.—Subject to the requirements of  
173 this section, an insurer may issue an insurance policy,  
174 contract, or endorsement providing coverage for the peril of  
175 flood on any structure or on the contents of personal property  
176 on a form that has been filed with and approved by the office  
177 pursuant to s. 627.410(2) and that may be substantially similar  
178 to the form used by the National Flood Insurance Program (NFIP).

179 (1) The Legislature finds that:

180 (a) The National Flood Insurance Program is a federal  
181 program that enables property owners in participating  
182 communities to purchase flood insurance. A community  
183 participates in the federal program by adopting and enforcing  
184 floodplain management regulations that meet or exceed federal



906790

185 floodplain management criteria designed to reduce future flood  
186 risk to new construction in floodplains. The program was created  
187 by Congress in 1968 because insurance covering the peril of  
188 flood was often unavailable in the private insurance market and  
189 was intended to reduce the amount of financial aid paid by the  
190 Federal Government in the aftermath of flood-related disasters.  
191 After the creation of the NFIP, flood insurance coverage  
192 continued to be generally unavailable for purchase from private  
193 market insurance companies.

194 (b) The Biggert-Waters Flood Insurance Reform Act of 2012  
195 reauthorized and revised the NFIP. The act increases flood  
196 insurance premiums purchased through the program for second  
197 homes, business properties, severe repetitive loss properties,  
198 and substantially improved damaged properties by requiring  
199 premium increases of 25 percent per year until premiums meet the  
200 full actuarial cost. Most residences lose their subsidized rates  
201 if the property is sold, the policy lapses, repeated and severe  
202 flood losses occur, or a new policy is purchased. Policyholders  
203 whose communities adopt a new, updated Flood Insurance Rate Map  
204 (FIRM) that results in higher rates will experience a 5-year  
205 phase-in of rate increases to achieve required rate levels.

206 (c) The Biggert-Waters Flood Insurance Reform Act of 2012  
207 also encourages the use and acceptance of private market flood  
208 insurance. The Legislature finds, however, that there has been a  
209 long-term inadequacy of private market flood insurance available  
210 in this state. Such inadequacy suggests that the private market  
211 in this state is unlikely to expand unless the Legislature  
212 provides multiple options for the regulation of flood insurance.  
213 The Legislature also finds that the consumers of this state



906790

214 would benefit from the availability of competitively priced  
215 private market flood insurance due to the continued availability  
216 of NFIP flood insurance, the likely availability of alternative  
217 private market flood insurance coverage options, and the  
218 oversight of the Office of Insurance Regulation.

219 (d) The NFIP, as amended by the Biggert-Waters Flood  
220 Insurance Reform Act of 2012, will prevent many property owners  
221 from obtaining affordable flood insurance coverage in this  
222 state. The absence of affordable flood insurance threatens the  
223 public health, safety, and welfare and the economic health of  
224 this state. Therefore, the state has a compelling public purpose  
225 and interest in providing alternatives to coverage from NFIP by  
226 promoting the availability of flood insurance from private  
227 market insurers at potentially lower premium rates so as to  
228 facilitate the remediation, reconstruction, and replacement of  
229 damaged or destroyed property in order to reduce or avoid harm  
230 to the public health, safety, and welfare, to the economy of  
231 this state, and to the revenues of state and local governments  
232 which are needed to provide for the public welfare.

233 (2) As used in this section, the term "flood" means a  
234 general and temporary condition of partial or complete  
235 inundation of 2 acres or more of normally dry land area or of  
236 two or more properties, at least one of which is the  
237 policyholder's property, from:

238 (a) Overflow of inland or tidal waters;

239 (b) Unusual and rapid accumulation or runoff of surface  
240 waters from any source;

241 (c) Mudflow; or

242 (d) Collapse or subsidence of land along the shore of a



906790

243 lake or similar body of water as a result of erosion or  
244 undermining caused by waves or currents of water exceeding  
245 anticipated cyclical levels which result in a flood.

246 (3) At a minimum, coverage for the peril of flood must  
247 cover a flood as defined in subsection (2). Coverage for the  
248 peril of flood may also include water intrusion, as defined by  
249 the policy, which originates from outside the structure and is  
250 not otherwise covered under the definition of flood.

251 (4) An insurer may offer a flood coverage policy, contract,  
252 or endorsement:

253 (a) That has a flood deductible based on a stated dollar  
254 amount or a percentage of the coverage amount. At a minimum, an  
255 insurer must offer deductible amounts applicable to flood losses  
256 that equal the standard deductibles offered under the National  
257 Flood Insurance Program;

258 (b) That provides that any flood loss will be adjusted on  
259 the basis of:

- 260 1. The actual cash value of the property; or  
261 2. Replacement costs up to the policy limits as provided  
262 under s. 627.7011(3);

263 (c) That restricts flood coverage to the principal  
264 building, as defined in the applicable policy;

265 (d) In an agreed-upon amount, including coverage limited to  
266 the amount of all outstanding mortgages applicable to the  
267 covered property. However, if a policy, contract, or endorsement  
268 does not limit flood coverage to the replacement cost of the  
269 covered property, the contract or endorsement may not include a  
270 provision penalizing the policyholder for not insuring the  
271 covered property up to replacement cost; or



906790

272 (e) That, as to the peril of flood, does not cover:  
273 1. Additional living expenses;  
274 2. Personal property or contents; or  
275 3. Law and ordinance coverage. However, an insurer, must  
276 offer law and ordinance coverage that is comparable to the law  
277 and ordinance coverage offered in the standard NFIP policy. A  
278 policy, endorsement, or contract that includes the law and  
279 ordinance coverage that must be offered under this paragraph  
280 must include the following disclosure in uppercase bold  
281 lettering of at least 12-point type: LAW AND ORDINANCE COVERAGE  
282 UNDER THIS POLICY MIGHT HAVE LIMITATIONS ON WHAT IS COVERED IN  
283 THE EVENT OF A LOSS. YOU SHOULD CONSULT WITH YOUR AGENT IF YOU  
284 HAVE QUESTIONS ABOUT THE COVERAGE OFFERED UNDER THIS POLICY.  
285 (5) Any limitations on flood coverage or policy limits as  
286 to the peril of flood, including, but not limited to, flood  
287 deductibles or flood coverage limited to the amount of all  
288 outstanding mortgages, must be prominently disclosed on the  
289 declarations page or face page of the policy in uppercase bold  
290 lettering of at least 12-point type and be sufficiently clear so  
291 as to be readily understandable by both the agent and the  
292 property owner.  
293 (a) A policy that limits flood coverage to the amount of  
294 all outstanding mortgages must include the statement: "THIS  
295 POLICY LIMITS FLOOD COVERAGE TO THE AMOUNT OF THE OUTSTANDING  
296 MORTGAGES ON THE PROEPRTY, WHICH MAY RESULT IN HIGH OUT-OF-  
297 POCKET EXPENSES TO YOU AND MAY PUT YOUR EQUITY IN THIS PROPERTY  
298 AT RISK."  
299 (b) A policy that insures a dwelling on the basis of actual  
300 cash value must in include the statement: "THIS POLICY PAYS YOU



906790

301 THE DEPRECIATED VALUE OF YOUR PROPERTY THAT IS DAMAGED BY FLOOD,  
302 WHICH MAY RESULT IN HIGH OUT-OF-POCKET EXPENSES TO YOU IF YOUR  
303 PROPERTY NEEDS TO BE REPAIRED OR REPLACED.”

304 (6) An insurer may establish and use flood coverage rates  
305 in accordance with the rate standards under s. 627.062. For  
306 flood coverage rates filed with the office before July 1, 2017,  
307 the insurer may also elect one or more of the following options:

308 (a) In accordance with the rates, rating schedules, or  
309 rating manuals filed by the insurer with the office which allow  
310 the insurer a reasonable rate of return on flood coverage  
311 written in this state. Flood coverage rates established under  
312 this paragraph are not subject to s. 627.062(2) (a) and (f). An  
313 insurer shall notify the office of any change to rates within 30  
314 days after the effective date of the change. The notice must  
315 include the name of the insurer and the average statewide  
316 percentage change in rates. Actuarial data with regard to rates  
317 for flood coverage must be maintained by the insurer for 2 years  
318 after the effective date of such rate change and is subject to  
319 examination by the office. The office may require the insurer to  
320 incur the costs associated with an examination. Upon  
321 examination, the office, in accordance with generally accepted  
322 and reasonable actuarial techniques, shall consider the rate  
323 factors and standards specified in s. 627.062 to determine if  
324 the rate is excessive, inadequate, or unfairly discriminatory.

325 (b) Through individual risk rating as provided in s.  
326 627.062(3) (a) and (b).

327 (c) With the written consent of the insured signed before  
328 the policy inception date and filed with the insurer, using a  
329 flood coverage rate that has not been approved by the office.



906790

330 The signed consent form must notify the insured that the rate is  
331 not subject to the approval of the office. A copy of the form  
332 shall be maintained by the insurer for 3 years and must be  
333 available for review by the office. An insurer is not required  
334 to obtain subsequent written consents upon renewal, but shall  
335 provide notice at each renewal that the rate is not subject to  
336 office approval.

337 (7) A policy, endorsement, or contract providing coverage  
338 for the peril of flood must provide notice that flood insurance  
339 coverage is available from the NFIP.

340 (8) A surplus lines agent may export a contract or  
341 endorsement providing flood coverage of \$1 million or more to an  
342 eligible surplus lines insurer without making a diligent effort  
343 to seek such coverage from three or more authorized insurers  
344 under s. 626.916(1)(a). This subsection expires July 1, 2017.

345 (9) A policy, endorsement, or contract providing coverage  
346 for the peril of flood must require the insurer to give 45 days'  
347 prior written notice of cancellation or nonrenewal to the  
348 insured and any regulated lending institution or federal agency  
349 that is a mortgagee. An insurer or insured may cancel during the  
350 term of the policy or upon renewal if the cancellation is for a  
351 valid reason under the NFIP.

352 (10) In addition to any other applicable requirements, an  
353 insurer providing flood coverage in this state must:

354 (a) Notify the office at least 30 days before writing flood  
355 insurance in this state; and

356 (b) File a plan of operation and financial projections or  
357 revisions to such plan, as applicable, with the office, unless  
358 the insurer maintains at least \$35 million in surplus and



906790

359 provides coverage as an endorsement to an existing property  
360 insurance form.

361 (11) With respect to the regulation of flood insurance  
362 coverage written in this state by private insurers, this section  
363 supersedes any other provision in the Florida Insurance Code in  
364 the event of a conflict.

365 Section 4. If federal law or rule requires a certification  
366 by a state insurance regulatory official as a condition of  
367 qualifying for private flood insurance or disaster assistance,  
368 the Commissioner of the Office of Insurance Regulation shall  
369 provide such certification, and such certification is not  
370 subject to review under chapter 120.

371 Section 5. This act shall take effect upon becoming a law.

372  
373 ===== T I T L E A M E N D M E N T =====

374 And the title is amended as follows:

375 Delete everything before the enacting clause  
376 and insert:

377 A bill to be entitled  
378 An act relating to flood insurance; amending s.  
379 627.062, F.S.; adding projected flood losses to the  
380 factors that must be considered by the Office of  
381 Insurance Regulation in reviewing certain rate  
382 filings; amending s. 627.0628, F.S.; increasing the  
383 membership of the Florida Commission on Hurricane Loss  
384 Projection Methodology to include an engineer who is  
385 an expert in floodplain management and a meteorologist  
386 who specializes in floods; requiring the commission to  
387 adopt standards and guidelines relating to flood loss



906790

388 by a certain date; creating s. 627.715, F.S.;

389 authorizing insurers to offer flood insurance in this

390 state; providing legislative findings; defining the

391 term "flood"; establishing the minimum coverage

392 requirements for such policies; providing coverage

393 limitations that an insurer may include in such

394 policies; requiring that certain limitations be noted

395 on the policy declarations or face page; providing the

396 insurer with rate options; requiring the insurer to

397 provide notice that flood insurance is available from

398 the National Flood Insurance Program; allowing an

399 insurer to export a contract or endorsement of a

400 certain amount to a surplus lines insurer without

401 meeting certain requirements; providing prior notice

402 requirements for cancellation or nonrenewal of a

403 policy; requiring the insurer to notify the office

404 before writing flood insurance and to file a plan of

405 operation with the office; providing that any

406 conflicts with other provisions of the Florida

407 Insurance Code are preempted by this section;

408 requiring the Commissioner of the Office of Insurance

409 Regulation to provide certification that a condition

410 qualifies for flood insurance or disaster assistance;

411 providing an effective date.



203908

LEGISLATIVE ACTION

Senate	.	House
Comm: RCS	.	
01/08/2014	.	
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The Committee on Banking and Insurance (Hays) recommended the following:

**Senate Amendment to Amendment (906790)**

Delete lines 293 - 300  
and insert:

(a) A policy that limits flood coverage to an amount less than the full replacement cost of the property must include the statement: "THIS POLICY LIMITS FLOOD COVERAGE TO LESS THAN THE FULL COST OF REPLACEMENT FOR THE PROPERTY, WHICH MAY RESULT IN HIGH OUT-OF-POCKET EXPENSES TO YOU AND MAY PUT YOUR EQUITY IN THIS PROPERTY AT RISK."



203908

11           (b) A policy that insures a dwelling on the basis of actual  
12 cash value must include the statement: "THIS POLICY PAYS YOU

**Senate Banking & Insurance  
2014 Citizens Proposals**

**Proposal #1 - Commercial-Residential Clearinghouse, Stair-step and Eligibility Cap.**

Background:

Commercial-residential policies insure the structures that make up a condominium association. Such policies do not cover the individual condominium units. Citizens writes commercial residential multi-peril and wind-only policies. There are currently no eligibility restrictions based upon insured value.

Since 2007, Citizens commercial-residential policy count has decreased 39.8 percent. Currently, Citizens is the largest commercial residential insurer in the state, with 17,150 policies and a 43 percent market share based on insured value. Citizens has a greater market share than the combined market share of the next three largest commercial residential insurers in the state. Because of the high replacement cost values on commercial-residential policies, surplus lines carriers also write a significant amount of commercial residential policies in the state.

Premiums for commercial residential policy are typically paid by the condominium associations. The associations collect the monies from their unit owners in the form of condominium dues and assessments.

Recommendations:

- 1. Establish a criteria for a commercial-residential clearinghouse so that private insurers and surplus lines carriers can make offers of coverage on policies currently written by Citizens.**

This proposal is similar to the residential clearinghouse established last Session in SB 1770. It requires Citizens to establish a commercial clearinghouse where the private market can review policies and make comparable offers in an effort to shrink Citizens exposure in the Commercial Account. Citizens estimates that once operational, 5 to 15 percent of its commercial-residential policies would initially be attractive to the private market through a clearinghouse. However, Citizens does believe they would need at least 18 months to properly develop and implement such a program.

- 2. Stair-step Citizens policy limits for commercial-residential policies as is done with personal lines residential policies.**

Another provision last year in SB 1770 was to allow a stair-step approach for eligibility on personal residential policies. The stair-step starts at \$1 million and reduces down to \$700,000 over 3 years. This proposal would stair-step eligibility for commercial-residential policies from \$25 million to \$5 million over 4 years. This change will effect just 5 percent of Citizens commercial-residential buildings it insures and will reduce 47 percent of Citizens exposure and 39 percent of the 1-100 year probable maximum loss (PML) with regards to the Commercial Account.

**Senate Banking & Insurance  
2014 Citizens Proposals**

**3. Cap the total insured value per building at \$5 million.**

Citizens currently writes coverage for 68,586 commercial-residential buildings of which 3,736 (5 percent) have total insured values of \$5 million or more. This proposal would reduce 47 percent of Citizens exposure and 39 percent of the 1-100 year probable maximum loss (PML) with regards to the Commercial Account.

**Senate Banking & Insurance  
2014 Citizens Proposals**

**Proposal #2 - Actuarially Sound Rates for Commercial Non-Residential Policies**

Background:

Unlike residential policies, commercial non-residential policies mainly cover for profit businesses such as office buildings, storefronts, warehouses, motels and hotels. They also insure churches and synagogues, private daycare centers, and private nursing homes. Insured value for commercial non-residential multi-peril policies written by Citizens are capped at \$2.5 million per building. Commercial non-residential wind-only policies are written as a first layer of coverage up to \$1 million per building in the Coastal Account.

Since 2007 Citizens has decreased its commercial non-residential policy count by 39.8 percent. However, Citizens currently writes 21,467 commercial non-residential policies of which 19,910 are wind-only policies. On a statewide average Citizens wind-only commercial non-residential policies are 24.3 percent below being actuarially sound. In some territories the average amount below being actuarially sound for wind-only commercial non-residential policies is as high as 77 percent. As a result of these underfunded commercial policies, all Citizens' policyholders are at risk for as much as a 25 percent surcharge and assessment, and the non-citizens policyholders' are at risk for as much as a 12 percent assessment to cover shortfalls for these types of commercial policies.

Recommendation:

- 1. At a date certain all commercial non-residential policies in Citizens must be actuarially sound.**

This policy change will ensure businesses insured through Citizens no longer receive subsidized insurance rates. Most of Citizens commercial wind-only and multi-peril policies in the Coastal Account are underfunded. These underfunded policies on commercial businesses puts the rest of Citizens' policyholders and the private market at risk of surcharges and assessments to cover the short falls in the event of a big storm.

**Senate Banking & Insurance  
2014 Citizens Proposals**

**Proposal #3 - Wind-Only Policies**

Background:

Wind-only policies originated in the 1970's under the original Florida Windstorm Underwriting Association which proceeded Citizens Property Insurance Corporation. A standard multi-peril homeowner's policy covers wind damage as well as the All Other Perils (AOP). The AOP covers fire, water damage, theft, etc. On the coast, Citizens writes most all of the wind-only policies while the private market, including surplus lines, writes most of the AOP. Historically, the rate set for wind-only policies sold by Citizens has been, and continues to be, well below the actuarially sound rate needed to pay claims in the event of a big storm. There are 219,975 personal-lines residential wind-only policies in Citizens. On a statewide average Citizens personal-lines residential wind-only policies are 35.3 percent below being actuarially sound. Furthermore, there are 29,792 commercial-residential and non-residential wind-only policies in Citizens. On a statewide average these commercial wind-only policies are 53.9 percent below being actuarially sound. If not for the allowance of surcharge and assessment on Citizens policyholders and additional assessments on the rest of Florida's insurance markets including automobile, Citizens would go insolvent in the event of a big storm. Additionally, the clearinghouse established last years by SB 1770 is expected to have little effect on depopulating wind-only policies as very few private insurers' offer wind-only policies, nor can any private insurers write at Citizens suppressed rates.

Recommendations:

- 1. Stop Citizens from writing new wind-only policies in the Coastal Account and have them sell multi-peril policies as they do in the Personal Lines Account.**

With this proposal Citizens will still cover the wind portion of the new policy and Citizens will also cover the AOP. While a multi-peril policy sold by Citizens is still rated below being actuarially sound, the AOP portions tend to be closer to being actuarially sound which should help Citizens reduce the likelihood of surcharges and assessments. Additionally, the new multi-peril policies can easily be placed into the clearinghouse as currently operated.

- 2. For the purposes of the clearinghouse, submit personal-lines residential wind-only policies as if they were written by Citizens as a multi-peril policy.**

This policy change would require Citizens to price wind-only policies as if they were a multi-peril policy. If a private insurer participating in the clearinghouse agrees to write that policy at the Citizens rate the policy is no longer eligible for Citizens. If the insurer making the offer does not currently write the AOP on that policy it would require the consumer to switch carriers unless the AOP carrier is willing to match the full multi-peril offer. Currently the clearinghouse is not expected to have much impact on wind-only policies as there is not a private market writing only wind coverage. The clearinghouse is designed to allow insurers writing multi-peril policies to make offers on other multi-peril policies written by Citizens. Citizens estimates they would need at least a year to develop and add this process into the clearinghouse.

**Senate Banking & Insurance  
2014 Citizens Proposals**

**Proposal #4 - Citizens Policyholder Surcharge**

Background:

Citizens is made up of three accounts; the Personal Lines Account (PLA), Commercial Lines Account (CLA) and the Coastal Account (COASTAL). In the event either of the accounts were to run a deficit Citizens policyholders would be required to pay a surcharge up to 15 percent per account for a maximum surcharge of 45 percent. If more than 45 percent is needed, the Private Markets are assessed 2 percent for any remaining Coastal Account deficits. If additional funding is still needed Citizens' policyholders and the non-policyholders of Citizens, including automobile policies, can be further assessed another 10 percent per account for a total of 30 percent.

Recommendation:

**1. Shift 5 percent of the PLA 15 percent Surcharge to the Coastal Account.**

The Personal Lines Account is on a statewide average, 3.7 percent from being actuarially sound. The Coastal Account on a statewide average is 24.1 percent from being actuarially sound. It is the underfunding of the Coastal Account that places the most risk of assessments being passed onto policyholders not insured by Citizens, including every automobile policyholder in the state. With this policy change the total surcharge risk to a Citizens' policyholder remains the same at no more 45 percent. However, the 70 percent of policyholders not in Citizens and the 100 percent automobile owners in the state will be better protected from assessment in storms where the underfunding of the Coastal Account is the cause for assessments.

**Senate Banking & Insurance  
2014 Citizens Proposals**

**Proposal #5 - Glide Path Eligibility for Higher Value Homes**

Background:

Citizens was created to be an insurer of last resort for those who cannot find insurance. Over time it has morphed into an insurer of last resort for those who cannot find affordable insurance. Currently there are 46,041 homes/condos written by Citizens with a replacement cost value of \$400,000 or more. These homes/condos represent 6 percent of the total residential policies written by Citizens. Replacement cost values represent the cost of the structure on the land and does not include the property value more commonly referred to as market value. A \$400,000 replacement cost value for just the structure will tend to have a much higher market value.

Recommendation:

- 1. Remove from the glide path thus reinstating actuarially sound rates for homes with a replacement cost value greater than \$400,000.**

It is well understood Citizens is often the only insurer willing to write in a given territory. However, many individuals who are in Citizens can easily afford to pay an actuarially sound rate, which is simply put the cost required to insure that risk. Of the 125,760 non-homesteaded i.e. second homes, in Citizens 104,052 (83 percent) do not have a mortgage lien, and most were paid for in cash. There appears to exist a wealthy subset of individuals in Citizens who are not in Citizens because they can't afford insurance but rather Citizens was the only policy available to them. Therefore, this proposal allows for those individuals with homes greater than \$400,000 to remain in Citizens, however, they must pay an actuarially sound rate for their home. Continuing to provide subsidized rates to the wealthy for insurance on their high-end first and second homes puts all families in Florida at risk of high surcharges and assessments on their homeowners and automobile policies.

**Senate Banking & Insurance  
2014 Citizens Proposals**

**Proposal #6 - Clearinghouse Eligibility Offers for Higher Value Homes**

Background:

Currently any new policy submitted to the clearinghouse is ineligible for coverage with Citizens if a private carrier is willing to write the coverage within 15 percent of Citizens rate.

Additionally, any renewal policy submitted through the clearinghouse is ineligible for coverage if a private carrier is willing to write the coverage at equal to or less than Citizens rate.

Recommendation:

- 1. Increase the clearinghouse eligibility offer on renewal to 15 percent for homes that have a replacement cost value of \$300,000 or more.**

There are 101,273 (14 percent) homes and condos in Citizens that have a replacement cost value greater than \$300,000. Most of these are multi-peril policies that will be submitted through the clearinghouse. Just like all other renewals, private insurers participating in the clearinghouse must offer the same rate as Citizens or less to make these risks ineligible for Citizens. This proposal addresses these high-end homes where the private market is available but unable to match Citizens current suppressed rates. The 15 percent only applies to offers received through the clearinghouse and is the same rate that is applied to all new business entering Citizens regardless of home value.

### Non-Residential Commercial Exposure

- Stop writing non-residential commercial risks

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### Commercial Residential Exposure

1. Limit the total insured value (TIV) for commercial residential risks to \$10 million
2. Allow Citizens to individually rate risks with values over \$2.5 million
3. Clarify FHCF coverage for personal residential risks by removing the exclusion for condominium units rented more than six times per year
4. Increase the FIGA limit for condominium unit claims from \$100,000 per unit to \$200,000 per unit

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### Personal Residential Wind-Only Exposure

1. Stop writing new wind-only policies on July 1, 2014.
2. Non-renew all existing wind-only policies beginning Jan 1, 2015.

#### Benefits of Non-Renewal

1. All customers will maintain access to Citizens at subsidized rates
2. Customers will have one policy instead of two
3. Customers will get the benefit of having policies rated through the Clearinghouse
4. There will be increased opportunities for depopulation
5. Citizens will get the profits on the ex-wind accounts that they are missing
6. Citizens will avoid the cost of making additional wind-only rate filings

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### Other Recommendations

1. Prohibit Citizens from reducing rates for any policy form in any territory
2. Change the standard for determining Citizens rate adequacy from a subjective standard (actuarially sound) to an objective standard (at least 10% higher than the rates charged by the top 20 writers)
3. Expand the amount of business that admitted carriers can write on a "consent to rate" basis and eliminate the requirement that the insured sign a new consent form at each policy renewal



# Overview and Recommendations to Reduce Citizens' Exposure

Senate Committee on  
Banking and Insurance  
January 8, 2014

# Where's the problem?

Account-Product Line	Policies In-Force	Total Exposure
PLA - Personal Residential Multi-Peril (PR-M)	664,229	125,303,473,758
COASTAL - Personal Residential Wind-Only (ePAS PR-W)	217,900	73,898,150,330
COASTAL - Personal Residential Multi-Peril (PR-M)	142,435	27,030,141,821
COASTAL - Commercial Residential Wind-Only (CR-W)	9,705	41,962,577,757
COASTAL - Commercial Residential Multi-Peril (CR-M)	896	12,819,290,071
COASTAL - Commercial Non-Residential Wind-Only (CNR-W)	19,724	12,135,048,589
COASTAL - Commercial Non-Residential Multi-Peril (CNR-M)	233	345,156,600
CLA - Commercial Residential Multi-Peril (CR-M)	6,108	35,539,297,726
CLA - Commercial Non-Residential Multi-Peril (CNR-M)	1,561	1,734,876,898
<b>Total</b>	<b>1,062,791</b>	<b>330,768,013,550</b>

Source: Citizens Property Insurance Corporation  
Data as of November 30, 2013

# Where's the problem?

76% of Citizens' In-force policies provided full coverage to personal residential risks.

However, **more than half (54%)** of Citizens' exposure is for policies other than personal residential multi-peril policies:

- **4.3%** (22,000) of Citizens exposure is commercial lines
- **27.3%** (17,000) of Citizens exposure is commercial residential
- **22.3%** (217,000) of Citizens exposure is personal residential wind-only

# This is an old problem

Citizens Mission Review Task Force  
considered this problem in 2009

Member	Occupation	Member Type
Braden Kirk Ball	Sr. Vice President and COO, Fisher-Brown, Inc.	Agent
J Scott Johnson	Exec. Vice President, Florida Assn of Insurance Agents	Agent
Senator Locke Burt	Chairman and President, Security First Insurance Co.	Domestic Insurer
Jason Schupp	Sr. Vice President, Zurich North America Insurance Co.	Commercial Insurer
Russell Beck	Executive Vice President, St. Johns Insurance Co.	Domestic Insurer
Gary Micetich	Sr. Vice President, Markel Corporation	Excess & Surplus Insurer
Bruce Douglas	Chairman, Emeritus Douglas Capital Management	Consumer
Teri Johnston	Co-Owner, Affiliated Design & Construction Managers	Consumer
Chip Merlin	Managing Partner, Merlin Law Group	Consumer
Sharon Binnum	CFO Citizens Property Insurance Corporation	Citizens Prop. Ins. Corp.
Belinda Miller	Deputy Commissioner, Property & Casualty	Office of Ins. Regulation

# What did the Mission Review Task Force learn about Citizens' commercial risks?



## Commercial Non-Residential

- 22,000 Risks
- \$14B in Exposure

# Mission Review Task Force Recommendation

- Repeal the statutory requirement that Citizens offer commercial non-residential policies

# What did the Mission Review Task Force learn about Citizens' commercial residential risks?



## Commercial Residential

- 27,000 Risks
- \$90B in Exposure

# Finding: Citizens was underpricing commercial residential risk

$$\text{(Citizens' Premium)} - \text{(Acquisition Cost)} - \text{(Cost of FHCF Reinsurance)} = \text{(Citizens Remaining Premium)}$$

Risk Description	Private Market Expiring Premium	Citizens' Premium	78% of Citizens Premium (22% Acquisition Cost)	Cost of FHCF Reinsurance for Risk	Citizens Remaining Premium
Broward County \$1,440,000	\$8,512	\$4,203	\$3,278	\$3,243	\$36
Miami-Dade \$2,048,400	\$9,137	\$4,523	\$3,528	\$3,037	\$491
Broward \$9,463,960	\$23,038	\$12,981	\$10,125	\$12,243	-\$2,118
Miami-Dade \$6,658,000	\$23,059	\$13,576	\$10,589	\$10,481	\$108

**Key: In most cases, Citizens wasn't ever covering their cost of FHCF reinsurance. Coverage was grossly underpriced then and it remains underpriced today.**

# Mission Review Task Force Recommendation

- Conduct a study to determine methods by which commercial residential risks can be depopulated from Citizens

# Since the study was never conducted, here are my recommendations

1. Limit the total insured value (TIV) for commercial residential risks to \$10 million
2. Allow Citizens to individually rate risks with values over \$2.5 million
3. Clarify FHCF coverage for personal residential risks by removing the exclusion for condominium units rented more than six times per year
4. Increase the FIGA limit for condominium claims from \$100,000 per unit to \$200,000 per unit

# Citizens Coastal Account Overview

# History of Citizens' Coastal Account

1970

Florida Windstorm Underwriting Association (FWUA) created to provide windstorm coverage for commercial and residential risks where coverage was unavailable.

1972

FWUA begins offering policies in the Keys and Monroe County.

1973-  
1992

Additions to the FWUA were made including the cities of Daytona Beach, Ormond Beach, Sarasota, and Panama City Beach

1993

Legislature expands FWUA to cover risks located east of I-95 in Miami-Dade, Broward, and Palm Beach counties (elsewhere, FWUA was generally limited to 1,000 feet from coast and barrier islands). Legislature also creates Florida Hurricane Catastrophe Fund (FHCF).

# History of Citizens' Coastal Account

2002

Citizens was created by Legislature as the pooled successor to FRPCJUA and FWUA. FWUA became newly named High Risk Account (HRA). Boundaries of HRA frozen.

2002

Boundaries of HRA frozen.

2002

FS 627.351(6)(y) adopted. Statute required a mandatory reduction in HRA probable maximum loss (PML, a.k.a. 100-year storm loss risk) by 25% from benchmark measured at February 1, 2001. If mandated reductions were not met, boundaries of HRA were automatically reduced to areas seaward of 1,000 feet from the Intercostal Waterway.

2007

HB1A permits Citizens to write multi-peril policies statewide, even in windpool areas.

# History of Citizens' Coastal Account

2009

Citizens Mission Review Task Force recommends the Legislature readdress the boundaries of the HRA. Recommendation to stop writing wind only policies fails on a vote of 6 to 4.

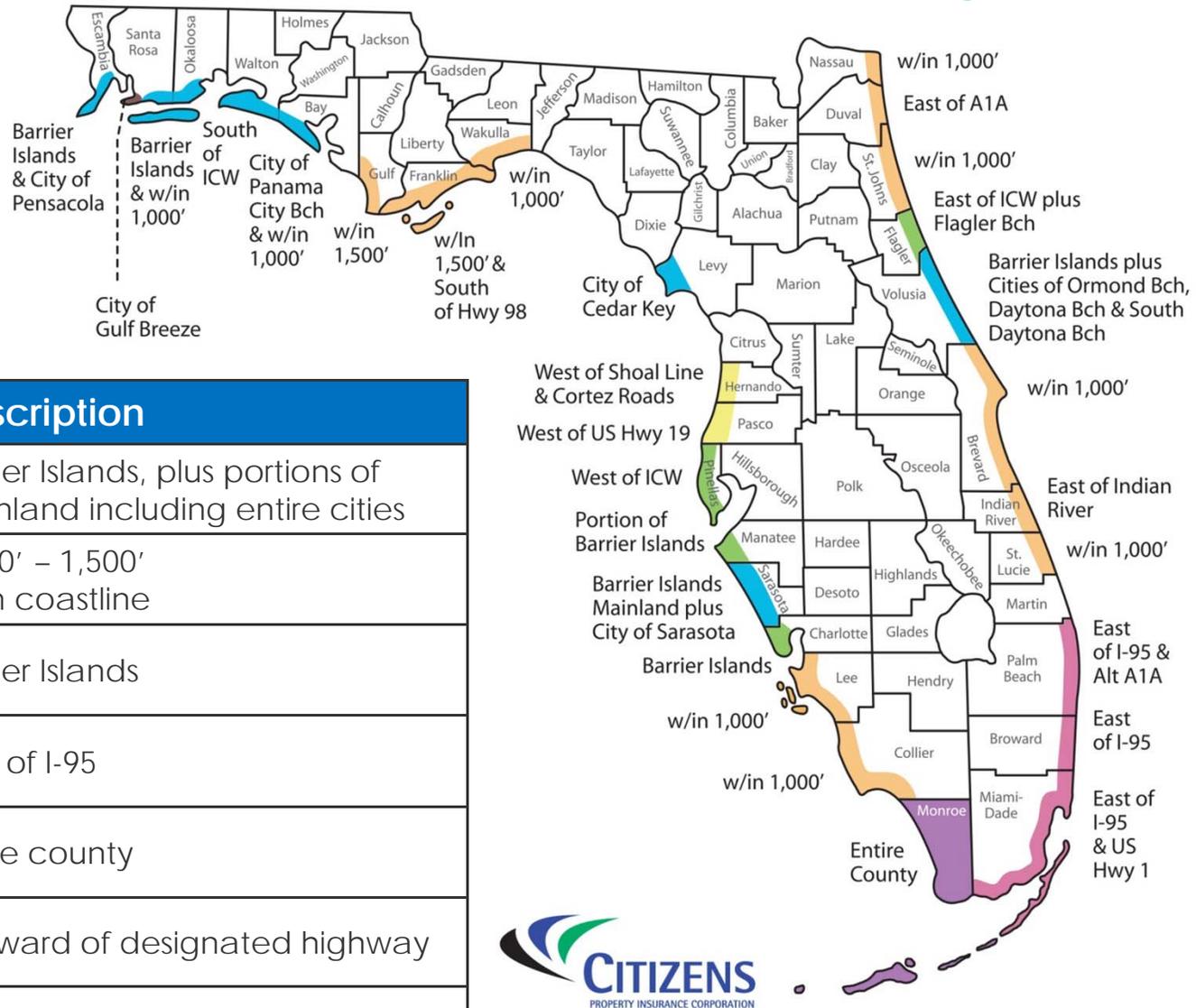
2011

SB408 eliminates the mandatory reduction in the boundaries of the HRA

2013

SB1770 authorizes Personal Lines Clearinghouse for both PLA and Coastal policies, requires feasibility report on a Commercial-Residential Clearinghouse

# Citizens' Coastal Account Coverage Areas



Legend	Description
	Barrier Islands, plus portions of mainland including entire cities
	1,000' – 1,500' from coastline
	Barrier Islands
	East of I-95
	Entire county
	Seaward of designated highway
	City limit only
	Non-shaded areas are not included in the Coastal Account



The Coastal Account includes commercial and residential wind-only coverage in 29 of 67 Florida counties. In 2008, Citizens began offering multi-peril policies in these same counties.

# Citizens Coastal Account Wind-Only Personal Residential Risks

# What did the Mission Review Task Force recommend to reduce Citizens' exposure from personal residential wind-only risks?

- Review the current boundary of the Coastal Account because it's inconsistent and difficult to understand and administer

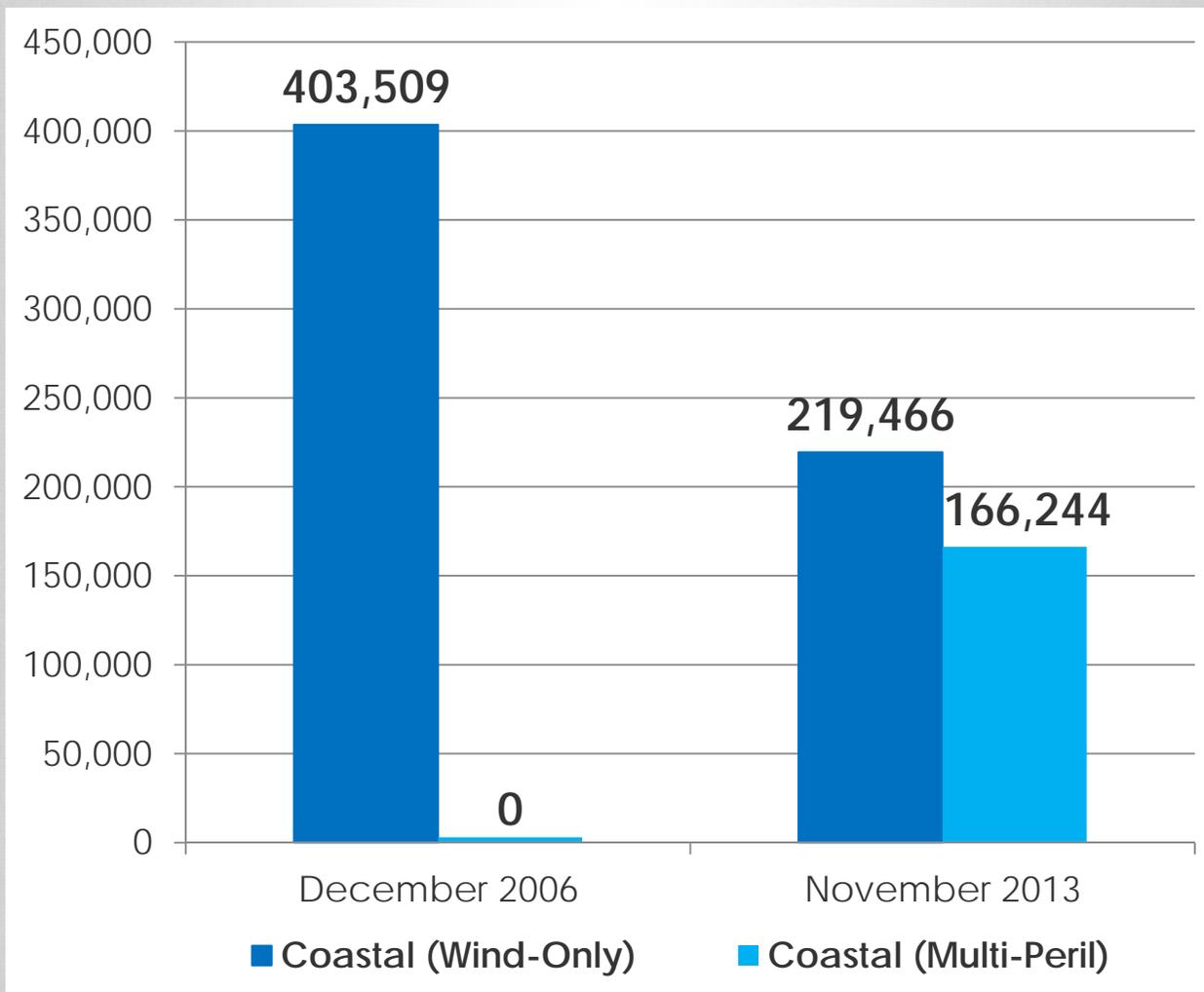
# What did the Mission Review Task Force learn about Citizens' wind-only personal residential risks?



## Wind-Only Personal Residential

- 217,000 Risks
- \$74B in Exposure

# Changing Composition of Personal Residential Policies in Citizens' Coastal Account



Source: Citizens Property Insurance Corporation

# History of Depopulation in Citizens' Coastal Account (Multi-Peril)

Year	# of Policies
2007	0
2008	21,519
2009	16,842
2010	2,231
2011	7,750
2012	24,034
2013	37,550
<b>Total</b>	<b>109,926</b>

Source: Citizens Property Insurance Corporation

# Wind-Only Personal Residential In-Force Policies By Company

Company	Total Policies	Homeowners (Excl Tenant and Condo) Owner Occupied	Condominium Unit Owners	All Other
Citizens	219,780	137,842	49,079	32,859
Weston Insurance	6,484	0	5,457	1,027
Florida Peninsula	6,329	2,368	3,961	0
Fireman's Fund Insurance Company	3,465	1,893	1,246	326
Fireman's Fund	1,812	1,571	240	1
<b>Total</b>	<b>237,870</b>	<b>143,674</b>	<b>59,983</b>	<b>34,213</b>

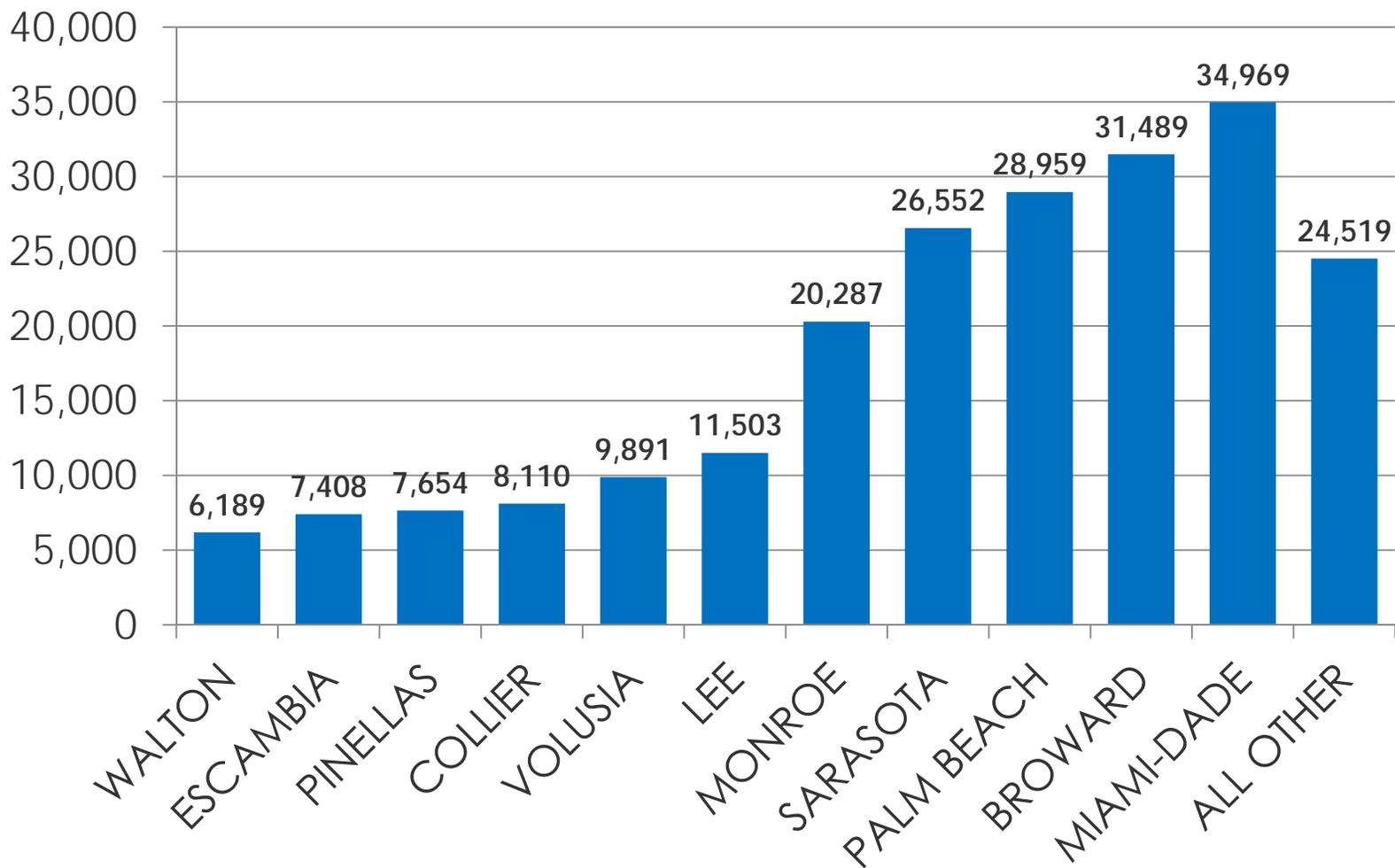
Source: Florida Office of Insurance Regulation Quarterly Supplemental Reporting  
Data as of September 30, 2013

# Ex-Wind Personal Residential In-Force Policies By Company

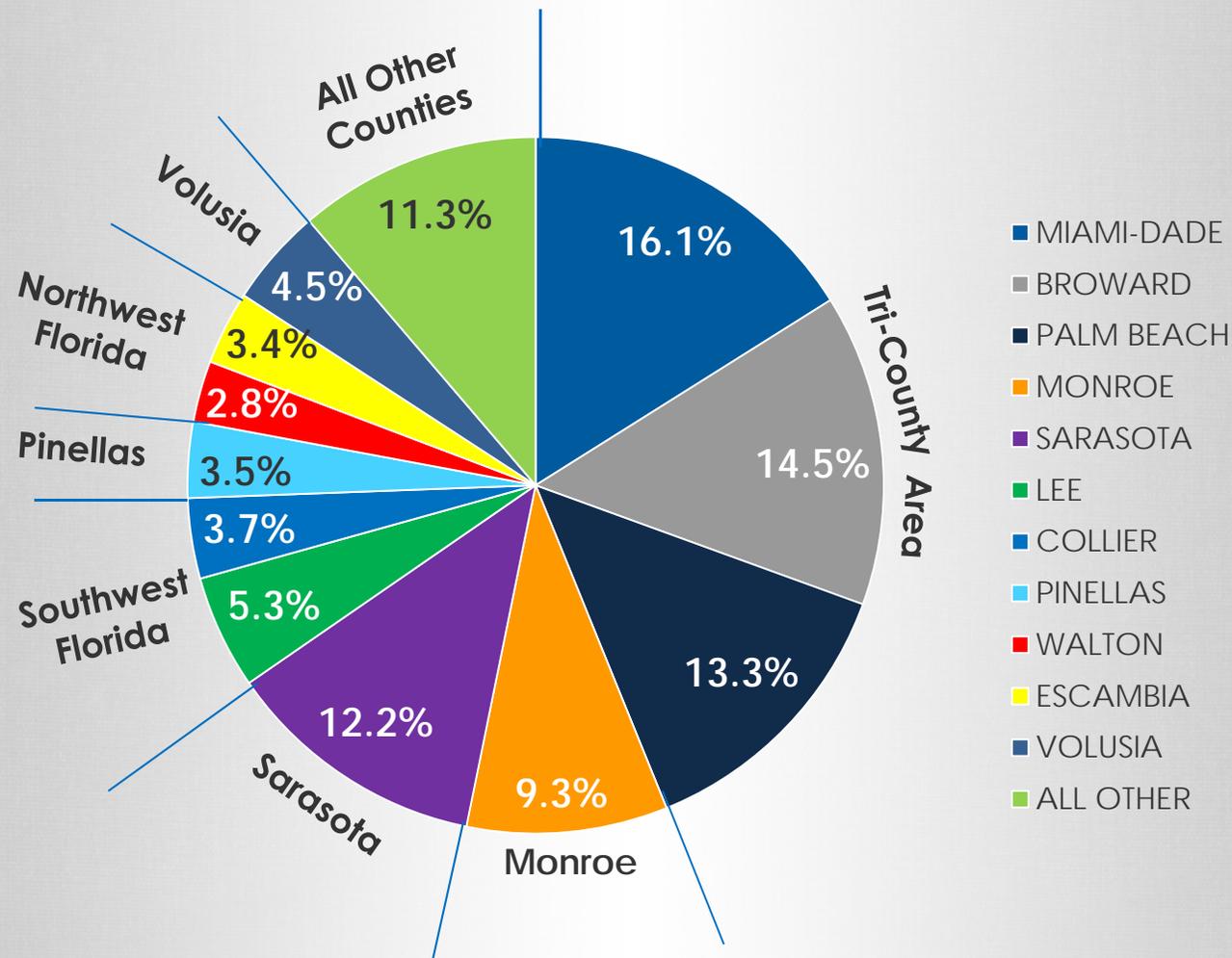
Company	Total Policies	Homeowners (Excl Tenant and Condo) Owner Occupied	Condominium Unit Owners	All Other
FLORIDA FAMILY INS CO	47,919	11,829	28,483	7,607
AMERICAN STRATEGIC	43,673	22,723	3,480	17,470
CITIZENS	35,442	11,591	5,369	18,482
STATE FARM	34,257	27,351	5,629	1,277
TOWER HILL	25,870	20,163	3,159	2,548
USAA	22,154	13,869	6,263	2,022
BANKERS	15,514	5,449	2,960	7,105
ALLSTATE	15,272	10,963	3,016	1,293
CHUBB	11,916	3,742	6,985	1,189
UNIVERSAL INS HOLDINGS	10,377	2,399	5,890	2,088
ALL OTHER COMPANIES	62,617	38,352	16,923	7,342
<b>STATEWIDE TOTAL</b>	<b>366,175</b>	<b>190,139</b>	<b>95,968</b>	<b>80,068</b>

Source: Florida Office of Insurance Regulation Quarterly Supplemental Reporting  
Data as of September 30, 2013

# Citizens' Wind-Only Personal Residential Policies By County



# Citizens' Wind-Only Personal Residential Policies By County



# Citizens Wind-Only Personal Residential Policies by Policyholder Mailing Address

Usage Reported to Citizens	Policyholder Mailing Address Type	Total Policies
<b>Primary</b>	FL	141,415
	FOREIGN	390
	MILITARY	8
	US (Excl FL)	10,045
<b>Primary Total</b>		<b>151,858</b>
<b>Rental</b>	FL	18,743
	FOREIGN	942
	MILITARY	38
	US (Excl FL)	16,458
<b>Rental Total</b>		<b>36,181</b>
<b>Seasonal/Secondary</b>	FL	6,716
	FOREIGN	1,986
	MILITARY	9
	US (Excl FL)	16,027
<b>Seasonal/Secondary Total</b>		<b>24,738</b>
<b>All Other</b>	FL	1,109
	FOREIGN	387
	MILITARY	1
	US (Excl FL)	3,256
<b>All Other Total</b>		<b>4,753</b>
<b>Total</b>		<b>217,530</b>

- 21% have a mailing address located outside of Florida
- 2% have a mailing address located outside of the U.S.
- 70% signed an application indicating that the home was being used as a primary residence

# Citizens Wind-Only Policies Personal Residential Homestead Analysis

Type of Policy	Total Policies	With Homestead	Without Homestead	% Without Homestead
Homeowners (HO)	132,580	104,761	27,819	21.0%
Condominium Owners (Condo)	45,446	13,831	31,615	69.6%
Dwelling Fire (DP)	22,602	1,560	21,042	93.1%
Mobile Homeowners (MH)	4,598	2,144	2,454	53.4%
Renters (HO4)	1,062	148	914	86.1%
<b>Total</b>	<b>206,288*</b>	<b>122,444</b>	<b>83,844</b>	<b>40.6%</b>

Citizens provides wind-only insurance to 83,844 property owners who don't qualify for a homestead exemption. This represents 40.6% of the personal residential wind-only policies issued by Citizens.

\*Analysis excludes 11,242 policies that could not be matched to county data.

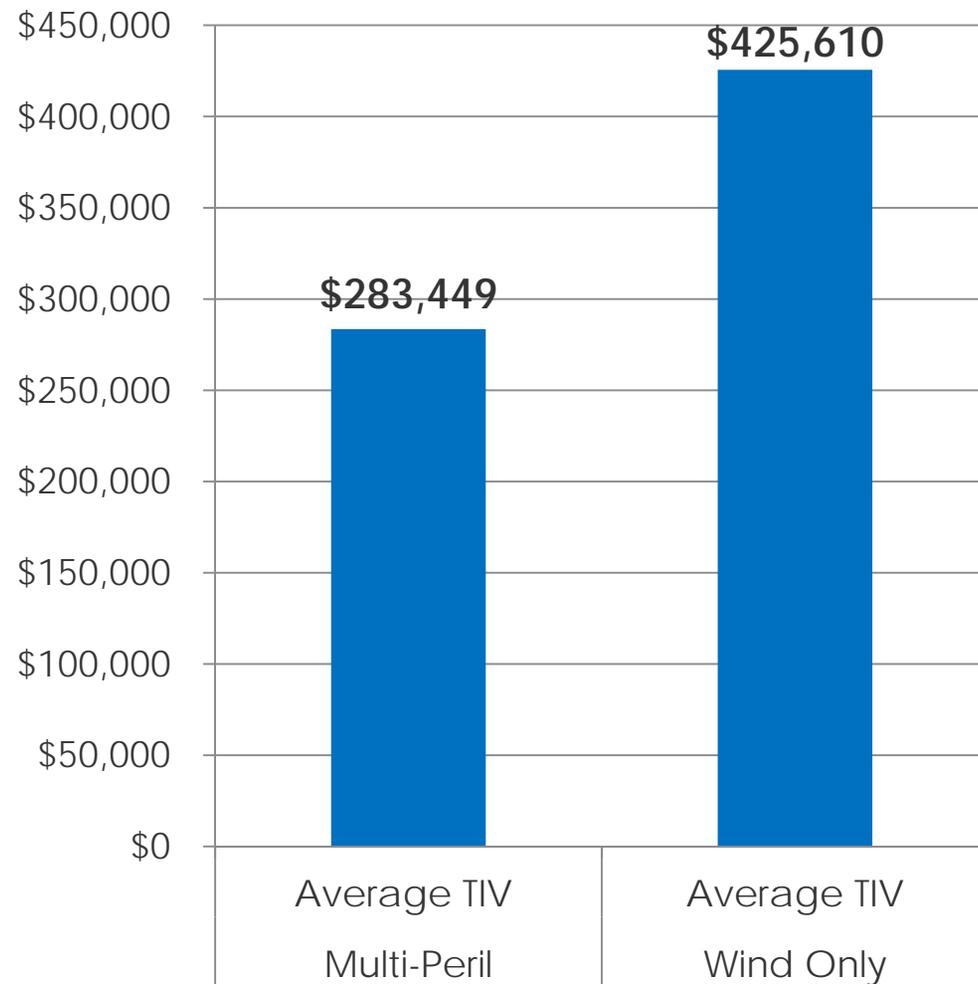


# Citizens Wind-Only Personal Residential Policies Homestead Analysis

70% of Citizens' policyholders indicated on the insurance application that the property was used as a primary residence. However, only 59% of those same policyholders qualified for a homestead exemption.

According to a study conducted by the Coalition Against Insurance Fraud in 2010, 18% of Americans felt that it was not unethical to misrepresent the facts on an insurance application. **That figure has doubled since 1997.**

# Citizens Wind-Only and Multi-Peril Coverage Comparison



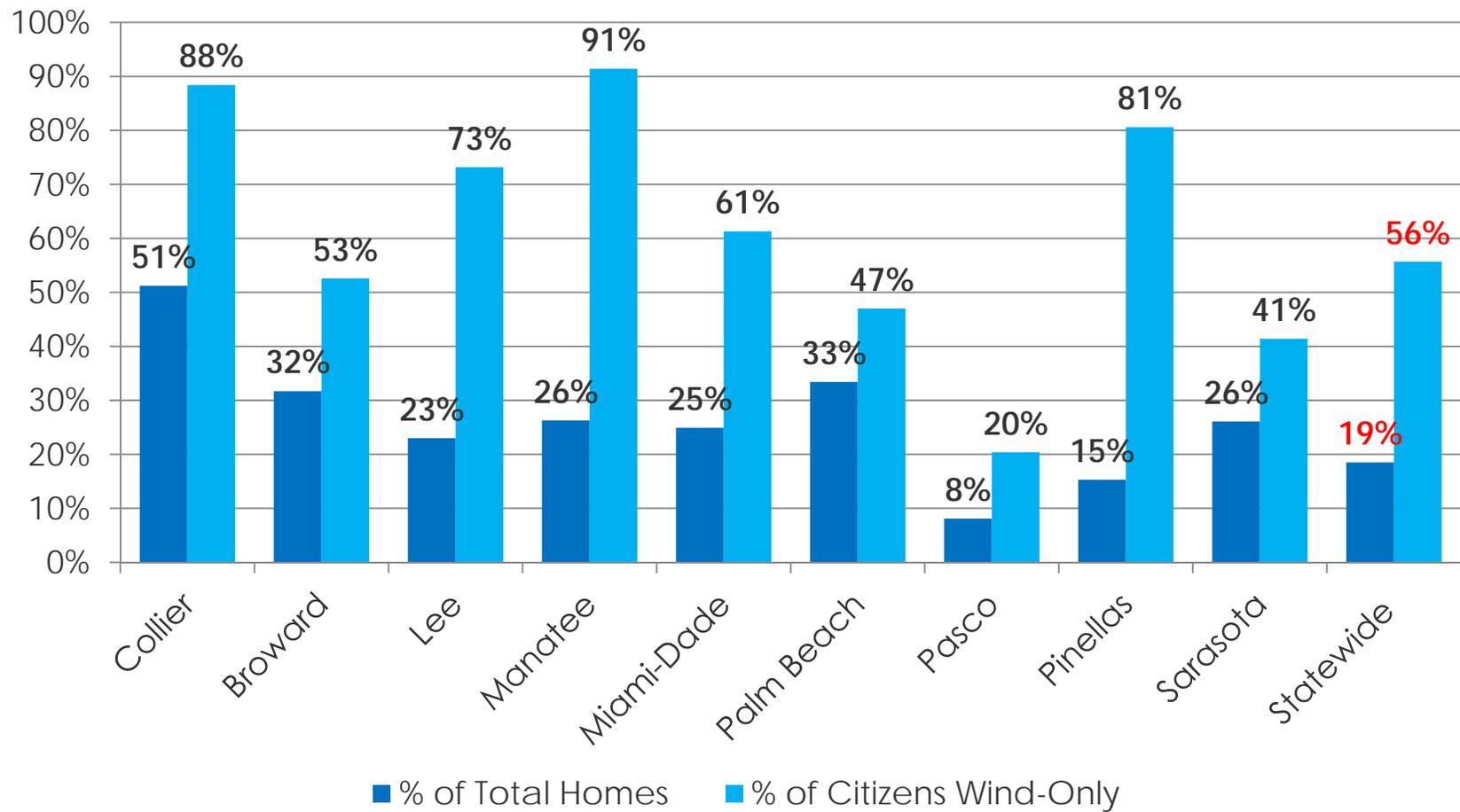
The average TIV for wind-only policies is nearly 50% more than the average TIV for multi-peril policies.

# Citizens Homeowners Wind-Only Policies By Assessed Value Range

- 56% of the homes insured by a Citizens' wind-only policy have an assessed value more than \$200,000.
- Only 18.5% of the 5 million single family homes in Florida are assessed at values more than \$200,000.

Total Assessed Value Range	Without Homestead		With Homestead		Total	
	Policy Count	Avg Premium	Policy Count	Avg Premium	Policy Count	Avg Premium
\$1-\$200,000	9,772	\$1,470	46,412	\$1,642	56,184	\$1,612
\$200,001-\$400,000	8,061	\$2,364	29,818	\$2,514	37,879	\$2,482
\$400,001-\$1,000,000	6,475	\$3,639	21,290	\$3,710	27,765	\$3,693
Greater Than \$1,000,000	1,236	\$5,173	3,879	\$5,214	5,115	\$5,204
<b>Totals</b>	<b>25,544</b>		<b>101,399</b>		<b>126,943</b>	

# Citizens Wind-Only Policies Single Family Homes With Assessed Values Over \$200,000



Source:  CoreLogic<sup>®</sup> and Office of Economic and Demographic Research

# Citizens Wind-Only Policies Personal Residential Occupied Housing Units By Florida Senate District

Senate District	Senator	Total Occupied Housing Units	Citizens Wind-Only Policies	Citizens Wind-Only %
1	Don Gaetz	187,168	14,858	8%
2	Greg Evers	182,733	9,674	5%
3	Bill Montford	180,730	3,318	2%
4	Aaron Bean	192,731	2,231	1%
5	Charles S. Dean Sr.	188,705	380	0%
6	John Thrasher	191,677	8,850	5%
7	Rob Bradley	178,787	-	-
8	Dorothy L. Hukill	196,002	6,969	4%
9	Audrey Gibson	178,513	-	-
10	David Simmons	182,747	-	-
11	Alan Hays	197,162	-	-
12	Geraldine F. Thompson	167,147	-	-
13	Andy Gardiner	186,711	-	-
14	Darren Soto	158,386	-	-
15	Kelli Stargel	182,146	-	-
16	Thad Altman	198,988	2,275	1%
17	John Legg	186,185	-	-
18	Wilton Simpson	193,902	1,932	1%
19	Arthenia L. Joyner	177,027	-	-
20	Jack Latvala	213,186	1,196	1%

Source: 2<sup>nd</sup> Annual Insurance Market Report – FSU Storm Risk Center: released January 2013 (Data as of 12/31/11)

# Citizens Wind-Only Policies Personal Residential Occupied Housing Units By Florida Senate District

Senate District	Senator	Total Occupied Housing Units	Citizens Wind-Only Policies	Citizens Wind-Only %
21	Denise Grimsley	175,409	-	-
22	Jeff Brandes	218,046	7,064	3%
23	Garrett Richter	193,016	9,426	5%
24	Tom Lee	170,567	-	-
25	Joseph Abruzzo	182,415	5,933	3%
26	Bill Galvano	194,863	1,750	1%
27	Jeff Clemens	183,581	11,783	6%
28	Nancy C. Detert	215,629	29,224	14%
29	Jeremy Ring	177,411	18	0%
30	Lizbeth Benacquisto	205,318	12,924	6%
31	Christopher L. Smith	175,619	7,946	5%
32	Joe Negron	204,196	4,912	2%
33	Eleanor Sobel	187,058	5,913	3%
34	Maria Lorts Sachs	229,509	31,802	14%
35	Gwen Margolis	207,662	32,574	16%
36	Oscar II Braynon	154,674	5,462	4%
37	Anitere Flores	147,603	-	-
38	Rene Garcia	147,409	-	-
39	Dwight Bullard	155,754	26,564	17%
40	Miguel Diaz de la Portilla	174,430	528	0%
<b>Total</b>		<b>7,420,802</b>	<b>245,506</b>	<b>3%</b>

Source: 2<sup>nd</sup> Annual Insurance Market Report – FSU Storm Risk Center: released January 2013 (Data as of 12/31/11)

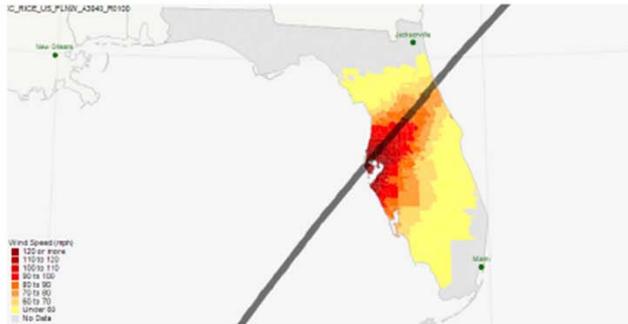
# Policy Choices (choose any one or combination of the following):

1. Do nothing.
2. Stop writing new wind-only policies on July 1, 2014.
3. Limit wind-only coverage to personal residential homes located within 1000 feet of the coast.
4. Limit wind-only coverage to personal residential homes with assessed values less than \$200,000.
5. Limit wind-only coverage to personal residential homes with homestead exemption.
6. Non-renew all existing wind-only policies beginning Jan 1, 2015.

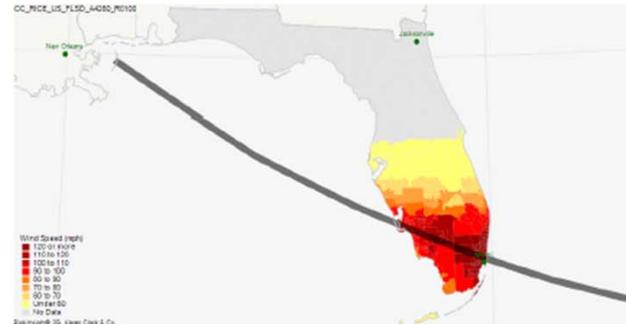
# Why "Do nothing" is not an option

## Citizens Potential Hurricane Losses Total Portfolio (RiskInsight)

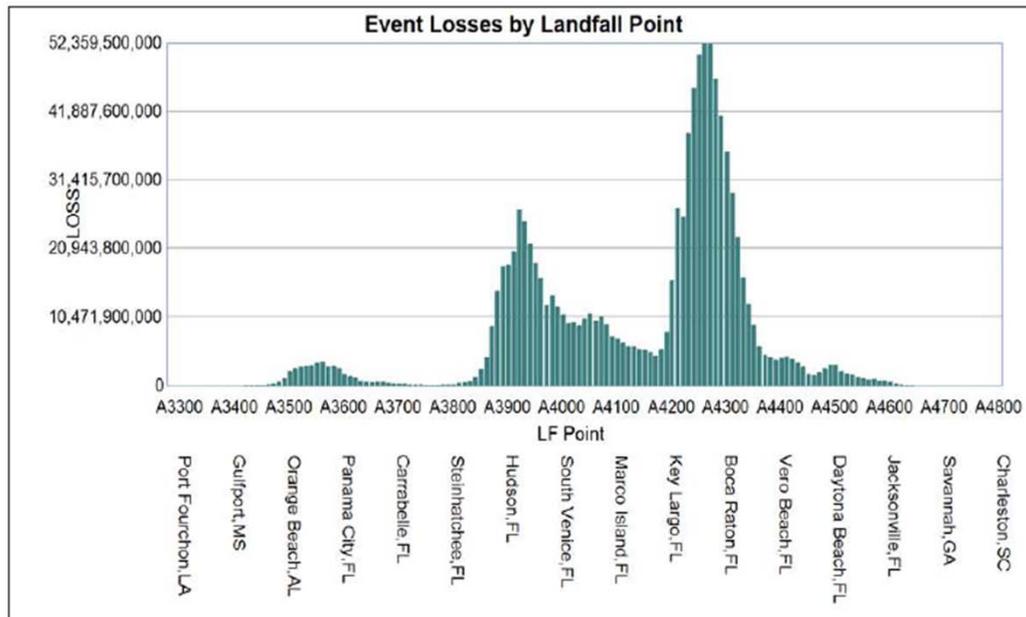
**100-Yr Characteristic Event  
Tampa landfall  
Total Loss: \$27 Billion**



**100-Yr Characteristic Event  
Miami landfall  
Total Loss: \$52 Billion**



### Total Portfolio Multi-Peril 100-Year Characteristic Event Loss Estimates (June 2012)



# Why should Citizens stop offering wind-only policies?

1. All customers will maintain access to Citizens at subsidized rates
2. Customers will have one policy instead of two
3. Customers will get the benefit of having policies rated through the Clearinghouse
4. There will be increased opportunities for depopulation
5. Citizens will get the profits on the ex-wind accounts that they are missing
6. Citizens will avoid the cost of making additional wind-only rate filings

What impact will these recommendations have on rates?

# Average Florida Homeowners Insurance Rates

## Owner-Occupied HO3 Homeowners Policy (Excl Tenant and Condo) 2007-2013

Date	Average Policy Premium		Premium Rate Per \$1,000 of Coverage		Average Total Insured Value (TIV)		Policies In-Force	
	Citizens	All Other Companies	Citizens	All Other Companies	Citizens	All Other Companies	Citizens	All Other Companies
March 31, 2007	\$2,746	\$1,838	\$9.83	\$4.88	\$278,362	\$376,296	419,574	3,350,772
December 31, 2007	\$2,458	\$1,891	\$8.84	\$4.47	\$278,243	\$423,357	399,343	3,090,348
December 31, 2008	\$2,155	\$1,641	\$7.05	\$3.86	\$305,439	\$425,503	270,350	3,340,959
December 31, 2009	\$2,094	\$1,641	\$6.28	\$3.51	\$333,384	\$467,935	271,355	3,405,122
December 31, 2010	\$2,147	\$1,788	\$6.49	\$3.64	\$330,776	\$491,069	464,064	3,086,567
December 31, 2011	\$2,265	\$1,896	\$6.68	\$3.87	\$339,030	\$490,357	599,637	2,895,586
December 31, 2012	\$2,291	\$2,011	\$7.57	\$4.11	\$302,709	\$489,378	495,731	2,962,786
September 30, 2013	\$2,456	\$2,100	\$8.67	\$4.30	\$283,182	\$487,792	433,678	3,009,441
<b>Market Share</b>							<b>12.6%</b>	<b>87.4%</b>
<b>Percent Change</b>	<b>-10.6%</b>	<b>14.3%</b>	<b>-11.8%</b>	<b>-11.9%</b>	<b>1.7%</b>	<b>29.6%</b>	<b>3.4%</b>	<b>-10.2%</b>

Source: Florida Office of Insurance Regulation Quarterly Supplemental Report (QUASR)

The average rate per \$1,000 of coverage has decreased 12% since 2007. Citizens' average policy premium has decreased 11% (-\$290) during the same time period. The average premium paid by customers of the private market has increased 14.3% (\$262) due to the 30% increase in total insured value of the average policy.

# 2013 Homeowners (HO3) Rate Decreases

Company	Rate Decrease
American Strategic	-7.6%
American Traditions	-6.8%
Ark Royal	-6.3%
Florida Family	-4.0%
Modern USA	-7.2%
Safe Harbor	-5.6%
Security First Insurance	-9.2%
Universal North America	-8.2%
Universal Property and Casualty	-2.5%

Source: Florida Office of Insurance Regulation

# The affect of non-renewing all Citizens' wind-only personal residential policies

1. There would be no impact on rates in 2014
2. The impact on rates in 2015 is unknown because:
  - a) The price of the ex-wind coverage is unknown
  - b) It's unclear which Citizens' rating plan (either new business or business with an effective date prior to January 1, 2011) would apply
  - c) The eligibility is unknown for policies processed through the clearinghouse
  - d) Citizens' approved rates for 2015 are unknown

# Other recommendations to reduce the size of Citizens

1. Prohibit Citizens from reducing rates for any policy form in any territory
2. Change the standard for determining Citizens rate adequacy from a subjective standard (actuarially sound) to an objective standard (at least 10% higher than the rates charged by the top 20 writers [a/k/a Louisiana standard])
3. Expand the amount of business that admitted carriers can write on a "consent to rate" basis and eliminate the requirement that the insured sign a new consent form at each policy renewal

# Thank You

**Locke Burt**

Chairman and President  
Security First Insurance

[LBurt@SecurityFirstFlorida.com](mailto:LBurt@SecurityFirstFlorida.com)

(386) 523-2300



THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

January 8, 2014  
Meeting Date

Topic CITIZENS PROPERTY INSURANCE Bill Number 110 (if applicable)

Name LOCKE BURT Amendment Barcode (if applicable)

Job Title CHAIRMAN AND PRESIDENT

Address 140 SOUTH ATLANTIC AVE Phone 386-299-1629

ORLANDO BEACH, FLORIDA 32176 E-mail BURT@ORLANDO.PE.COM  
City State Zip

Speaking:  For  Against  Information

Representing SECURITY FIRST INSURANCE COMPANY

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting. S-001 (10/20/11)

THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

01/08/11  
Meeting Date

Topic Citizens-Clearinghouses Bill Number N/A (if applicable)  
Name Berry Gilway Amendment Barcode \_\_\_\_\_ (if applicable)  
Job Title President/CEO  
Address 2312 WillemCentx Blvd, Phone 513.3757  
Tallahassee State FL E-mail \_\_\_\_\_  
City \_\_\_\_\_ Zip \_\_\_\_\_

Speaking:  For  Against  Information

Representing Citizens Property Insurance

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

01/08/14  
Meeting Date

Topic Citizens Bill Number W/A (if applicable)

Name John Rollins Amendment Barcode \_\_\_\_\_ (if applicable)

Job Title Chief Risk Officer

Address 2312 Killbuck Center Blvd Phone 513.3757

Street Tallahassee City Tallahassee State FL Zip \_\_\_\_\_

Speaking:  For  Against  Information

Representing \_\_\_\_\_

Appearing at request of Chair:  Yes  No Lobbyist registered with Legislature:  Yes  No

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# CourtSmart Tag Report

**Room:** EL 110

**Caption:** Senate Banking & Insurance

**Case:**

**Judge:**

**Type:**

**Started:** 1/8/2014 4:03:12 PM

**Ends:** 1/8/2014 5:58:59 PM **Length:** 01:55:48

**4:03:14 PM** Meeting called to order  
**4:03:18 PM** Roll call  
**4:04:04 PM** Chairman Simmons makes opening statement  
**4:06:06 PM** Chairman Simmons recognizes Senator Brandes to introduce SB 542 (Flood Insurance)  
**4:07:15 PM** Senator Brandes presents SB 542, Floor Insurance.  
**4:09:38 PM** President Gaetz, Leaders Smith & Benacquisto interrupt presentation to give Senator Margolis roses for 40th anniversary in legislature.  
**4:10:38 PM** Senator Margolis recognized.  
**4:11:47 PM** Senator Brandes resumes presenting on SB 542.  
**4:12:05 PM** Amendment to the amendment is taken up.  
**4:12:15 PM** Senator Brandes explains amendment to the amendment.  
**4:12:43 PM** Senator Detert recognized.  
**4:13:34 PM** Back on amendment as amended.  
**4:14:03 PM** Senator Margolis recognized.  
**4:15:07 PM** Senator Margolis asked about difference between wind storm and flood insurance.  
**4:16:47 PM** Senator Brandes responds to Senator Margolis.  
**4:17:38 PM** Senator Margolis responds.  
**4:18:46 PM** Senator Detert recognized.  
**4:21:19 PM** Senator Detert expresses concern about out dated flood zone maps.  
**4:21:52 PM** Senator Brandes responds to Senator Detert.  
**4:22:04 PM** Senator Brandes stated it's an appropriations issue and that Florida should be drawing its own maps.  
**4:22:41 PM** Need to do a better job of educating communities about discounts, etc.  
**4:23:02 PM** Leader Benacquisto recognized.  
**4:23:23 PM** What protections will be put into place by OIR with regards to solvency and adequate reserves and would banks lend too  
**4:23:46 PM** Homeowners for amount not equal to home value.  
**4:24:01 PM** Senator Brandes responds to Senator Benacquisto's questions.  
**4:25:09 PM** Senator Brandes addresses safeguards contained in bill.  
**4:25:52 PM** Senator Hays recognized and asks if Citizens is included in this bill.  
**4:26:36 PM** Senator Brandes responds.  
**4:27:05 PM** Senator Hays addresses issues of separate policies and Citizens writing flood insurance.  
**4:28:07 PM** Senator Brandes stated he'd work with Senator Hays to insure door is closed on Citizens providing flood insurance.  
**4:28:31 PM** Chairman Simmons asks if there's any objection to the amendment (strike all) as amended.  
**4:29:01 PM** Strike all amendment adopted.  
**4:29:18 PM** Chairman Simmons moves to public comment.  
**4:29:43 PM** John Sebree recognized to address the committee.  
**4:31:06 PM** Monte Stevens, Deputy Chief of Staff, OIR, waives in support.  
**4:31:20 PM** Locke Burt, Chairman and President, Security First Insurance Group, waives in support.  
**4:31:28 PM** Reggie Garcia, Florida Justice Association, addresses the committee.  
**4:35:03 PM** Senator Lee recognized.  
**4:35:12 PM** Mr. Garcia responds to Senator Lee's question regarding erosion.  
**4:36:00 PM** Chairman Simmons recognizes Senator Margolis.  
**4:36:10 PM** Senator Margolis addresses Mr. Garcia and committee.  
**4:36:57 PM** Senator Lee recognized.  
**4:37:14 PM** Senator Lee speaks to case regarding difference between (definition of) flood and wind damage.  
**4:37:51 PM** Travis Moore, Risk Management Professional Group, waives in support.  
**4:38:08 PM** Carolyn Johnson, Policy Director, Florida Chamber of Commerce, waives in support.  
**4:38:30 PM** Jim Massie, Attorney, Reinsurance Assoc. of America, waives in support.  
**4:38:43 PM** Anthony DiMarco, Florida Bankers Association, addresses committee.  
**4:39:36 PM** Jay Ralstin, President Elect, Mortgage Bankers Assoc. of Florida, addresses committee.  
**4:40:48 PM** Kraig Conn, Legislative Counsel, Florida League of Cities, waives in support.

4:41:03 PM Stephen James, Staff Attorney, Florida Assoc. of Counties, waives in support.  
4:41:17 PM Douglas Mang, Florida Surplus Lines Assoc., waives in support.  
4:41:37 PM Bill open for debate.  
4:41:43 PM Vice Chair Clemens recognized.  
4:42:12 PM Senator Richter recognized in debate.  
4:43:44 PM Senator Detert recognized.  
4:45:00 PM Senator Hays recognized.  
4:45:10 PM Address specificity of surplus lines - to guard against companies being excluded.  
4:45:41 PM Senator Brandes recognized to close.  
4:45:56 PM Senator Brandes waives close.  
4:46:04 PM Senator Clemens moves to CS the bill.  
4:46:19 PM Roll call on CS/SB 542.  
4:46:42 PM CS/SB 542 passes.  
4:47:09 PM Chairman Simmons moves to Tab 2 - Citizens Property Insurance.  
4:50:25 PM Chairman Simmons recognizes Locke Burt, Chairman and President, Security First Insurance Company.  
4:50:45 PM Mr. Burt begins his presentation.  
4:57:38 PM Mr. Burt provides history of Citizens' Coastal Account.  
4:59:38 PM Senator Clemens recognized.  
5:00:02 PM Mr. Burt responds.  
5:00:53 PM Senator Clemens responds.  
5:01:29 PM Mr. Burt responds to Senator Clemens.  
5:04:26 PM Chairman Simmons poses question to Mr. Burt.  
5:04:50 PM Mr. Burt responds.  
5:04:58 PM Chairman Simmons asks follow up question.  
5:07:16 PM Mr. Burt recommends to stop writing wind only policies.  
5:07:37 PM Senator Detert recognized.  
5:07:56 PM Senator Detert says it makes perfect sense to just cover the coast. Is it possible to have a coastal only coverage?  
5:08:17 PM Mr. Burt responds.  
5:08:21 PM Senator Detert poses an additional question to Mr. Burt.  
5:08:38 PM Mr. Burt responds that it's better for customers to have one policy versus multiple.  
5:09:01 PM Senator Detert asks for clarification.  
5:09:13 PM Mr. Burt responds.  
5:09:25 PM Chairman Simmons asks Mr. Burt to address wind only personal residential accounts.  
5:09:42 PM Mr. Burt responds there are 219,466 wind only coastal accounts.  
5:10:21 PM Chairman Simmons poses question to Mr. Burt re: wind-only and multi-peril policies.  
5:11:05 PM Mr. Burt responds.  
5:11:35 PM Chairman Simmons asks if location of policies are known.  
5:12:02 PM Mr. Burt responds that they have the addresses of policies, but they haven't been mapped.  
5:12:41 PM Chairman Simmons address the committee.  
5:13:39 PM Mr. Burt responds.  
5:13:54 PM Chairman Simmons poses another question to Mr. Burt.  
5:14:15 PM Chairman Simmons responds.  
5:14:38 PM What about the disparity and unfairness between people at Citizens'?  
5:15:05 PM Chairman Simmons asks Mr. Gilway to confirm his statement.  
5:15:21 PM Chairman Simmons recognizes Barry Gilway, President/CEO, Citizens Property Insurance.  
5:15:47 PM Mr. Gilways recognizes a caution and states there's no market for wind coverage.  
5:16:17 PM Have to be careful of availability of wind coverage and multi-peril product that incorporates wind.  
5:16:36 PM Stronger argument to eliminate multi-peril and there's a ready market for multi-peril products.  
5:17:01 PM Have to be careful not to withdraw only market for wind in Florida.  
5:17:29 PM Senator Detert recognized.  
5:17:35 PM Why don't we have coastal accounts only?  
5:17:46 PM Mr. Gilway responds.  
5:18:25 PM Need to be careful how to approach issue.  
5:18:50 PM Chairman Simmons poses question to Mr. Gilway.  
5:20:35 PM How to address actuarially unsound coastal wind only and multi-peril accounts.  
5:21:12 PM Mr. Gilway responds that basis for structure of wind-only and multi-peril accounts are different.  
5:23:22 PM Chairman Simmons addresses Mr. Gilway.  
5:23:56 PM Senator Margolis responds.  
5:24:19 PM States that this will impact every condominium along coast.  
5:24:40 PM Chairman Simmons states it will hurt a lot of people, but we need to address issue.  
5:24:54 PM What percentage are written by private insurers already?

**5:25:04 PM** Mr. Gilway responds that there are only 4 players in the market place.

**5:25:31 PM** 58% of market being written by private companies. Why are we having Citizens write these type of policies?

**5:26:12 PM** Mr. Gilway says the 4 major players write for tower condos; Citizens writes for smaller and older condos. Different markets.

**5:26:54 PM** Asks that we address issue cautiously.

**5:27:02 PM** Mr. Burt addresses committee. States current system is not fair.

**5:28:46 PM** Addresses unfairness of current system.

**5:28:59 PM** 41% of wind only policy (84,000) do not have a homestead in Florida (page 26 of handout).

**5:29:57 PM** Could be second home, do they have mortgages, etc. - Chairman Simmons/Senator Clemens.

**5:30:25 PM** Mr. Burt refers committee to page 28 of presentation/report.

**5:30:49 PM** Average Citizens customer purchases \$283,449 of coverage. Average wind only purchases \$425,610 in coverage.

**5:31:55 PM** Mr. Burt addresses assessed value of homes under Citizens Homeowners Wind only policies.

**5:32:44 PM** Senator Montford recognized.

**5:33:05 PM** What is the other side of the equation?

**5:33:23 PM** Mr. Gilway responds.

**5:33:49 PM** Ability to pay is not a factor in providing Citizens Homeowners insurance coverage.

**5:34:21 PM** Chairman Simmons states we're only looking at fairness.

**5:35:50 PM** It's not a question of making a distinction between wealthy and non-wealthy.

**5:36:14 PM** Mr. Burt directs committee to slide 29 and average premium of policies.

**5:39:11 PM** Senator Margolis recognized.

**5:40:05 PM** Chairman Simmons poses question to Mr. Burt and Mr. Gilway.

**5:40:17 PM** What about freezing accounts of wind only policies and looking at private companies or purchase multi-peril policy?

**5:41:14 PM** Mr. Gilway responds.

**5:42:17 PM** Chairman Simmons responds.

**5:45:15 PM** Mr. Gilway responds.

**5:46:16 PM** Senator Hays recognized.

**5:46:22 PM** Senator Hays addresses Mr. Gilway.

**5:46:55 PM** Mr. Gilway responds.

**5:48:18 PM** Chairman Simmons addresses Mr. Gilway.

**5:49:00 PM** Mr. Gilway responds.

**5:49:24 PM** Senator Lee responds to rate suppression issue.

**5:50:24 PM** What is private market availability and is there sufficient capacity to absorb policies? Unrealistic snapshot in time?

**5:52:06 PM** Nothing fair about insurance. Entirely based on unfairness. Someone pays claim. Someone pays premium.

**5:52:31 PM** Going to take a long, long time to get us to actuarially sound.

**5:52:52 PM** Mr. Gilway recognized. Completely agrees with Senator Lee.

**5:53:44 PM** Chairman Simmons responds to Mr. Gilway.

**5:54:33 PM** Which proposals do you agree to (as presented by Mr. Burt)?

**5:54:47 PM** What do we do to get out of this? Has to be a rational way to get out of this.

**5:55:00 PM** Mr. Gilway addresses key options.

**5:55:17 PM** Commercial is a huge issue. Lower cap, implement over time. and provide way to move down.

**5:55:53 PM** Implement commercial clearinghouse.

**5:56:15 PM** Drop down A rate.

**5:56:41 PM** Increase glide path in certain segments.

**5:57:20 PM** Chairman Simmons asks Mr. Gilway to provide in writing which proposals are viable.

**5:57:42 PM** Senator Richter recognized.

**5:57:46 PM** What about surplus lines?

**5:57:53 PM** Mr. Gilway responds.

**5:58:06 PM** Senator Richter asks follow up question.

**5:58:14 PM** Mr. Gilway responds.

**5:58:27 PM** Chairman Simmons thanks presenters, Senator Lee, etc.

**5:58:45 PM** Senator Lee moves to adjourn.