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#### A bill to be entitled

2 An act relating to hurricane preparedness and insurance; providing a short title; amending s. 215.555, F.S.; 3 4 deleting a rapid cash buildup requirement from a 5 reimbursement premium formula factor; expanding the State 6 Board of Administration's reinsurance procurement powers 7 and duties for certain purposes; providing for temporary emergency options for additional coverage; providing 8 9 legislative findings and intent; providing for application 10 of certain provisions; providing additional definitions; providing for a reimbursement contract addendum for 11 certain insurers; providing requirements and procedures 12 under the addendum; providing for certain reimbursement 13 premiums for such insurers; providing for calculation of 14 such premiums; providing for effect on claims-paying 15 capacity of fund; authorizing the board to set retention 16 and capacity levels of the fund; requiring approval by the 17 Legislative Budget Commission; providing a temporary 18 increase in coverage limit options; requiring insurers 19 electing optional coverages offered by the Florida 20 Hurricane Catastrophe Fund to make rate filings that 21 reflect savings or reduction in loss exposure; requiring 22 that the Office of Insurance Regulation specify, by order, 23 24 the dates on which such filings must be made; requiring certain insurers to make additional rate filings; 25 specifying rate filing requirements; authorizing the 26 27 Financial Services Commission to grant certain waivers;

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28 specifying duties of the office; providing an effective 29 date. 30 31 Be It Enacted by the Legislature of the State of Florida: 32 33 Section 1. This act may be cited as the "Homeowners Rate 34 Reduction Act." Paragraph (b) of subsection (5) and paragraph Section 2. 35 (a) of subsection (7) of section 215.555, Florida Statutes, are 36 37 amended, and subsections (16) and (17) are added to that 38 section, to read: 215.555 Florida Hurricane Catastrophe Fund.--39 REIMBURSEMENT PREMIUMS. --(5) 40 (b) The State Board of Administration shall select an 41 independent consultant to develop a formula for determining the 42 actuarially indicated premium to be paid to the fund. The 43 44formula shall specify, for each zip code or other limited 45 geographical area, the amount of premium to be paid by an insurer for each \$1,000 of insured value under covered policies 46 47 in that zip code or other area. In establishing premiums, the board shall consider the coverage elected under paragraph (4)(b) 48 and any factors that tend to enhance the actuarial 49 sophistication of ratemaking for the fund, including 50 51 deductibles, type of construction, type of coverage provided, 52 relative concentration of risks, and other such factors deemed by the board to be appropriate. The formula may provide for a 53 54 procedure to determine the premiums to be paid by new insurers that begin writing covered policies after the beginning of a 55

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56	contract year, taking into consideration when the insurer starts
57	writing covered policies, the potential exposure of the insurer,
58	the potential exposure of the fund, the administrative costs to
59	the insurer and to the fund, and any other factors deemed
60	appropriate by the board. <del>The formula shall include a factor of</del>
61	25 percent of the fund's actuarially indicated premium in order
62	to provide for more rapid cash buildup in the fund. The formula
63	must be approved by unanimous vote of the board. The board may,
64	at any time, revise the formula pursuant to the procedure
65	provided in this paragraph.
66	(7) ADDITIONAL POWERS AND DUTIES
67	(a) The board may procure reinsurance from reinsurers
68	acceptable to the Office of Insurance Regulation for the purpose
69	of maximizing the capacity of the fund and may enter into
70	capital market transactions, including, but not limited to,
71	industry loss warranties, catastrophe bonds, side-car
72	arrangements, or financial contracts permissible for the board's
73	usage under s. 215.47(10) and (11), consistent with prudent
74	management of the fund.
75	(16) TEMPORARY EMERGENCY OPTIONS FOR ADDITIONAL
76	COVERAGE
77	(a) Findings and intent
78	1. The Legislature finds that:
79	a. Because of temporary disruptions in the market for
80	catastrophic reinsurance, many property insurers were unable to
81	procure reinsurance for the 2006 hurricane season with an
82	attachment point below the insurers' respective Florida
83	Hurricane Catastrophe Fund attachment points, were unable to
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84 procure sufficient amounts of such reinsurance, or were able to procure such reinsurance only by incurring substantially higher 85 86 costs than in prior years. 87 b. The reinsurance market problems were responsible, at least in part, for substantial premium increases to many 88 consumers and increases in the number of policies issued by the 89 90 Citizens Property Insurance Corporation. c. It is likely that the reinsurance market disruptions 91 92 will not significantly abate prior to the 2007 hurricane season. 93 2. It is the intent of the Legislature to create a temporary emergency program, applicable to the 2007 and 2008 94 hurricane seasons, to address these market disruptions and 95 enable insurers, at their option, to procure additional coverage 96 97 from the Florida Hurricane Catastrophe Fund. 98 (b) Applicability of other provisions of this 99 section. -- All provisions of this section and the rules adopted 100 under this section apply to the program created by this 101 subsection unless specifically superseded by this subsection. (c) Additional definitions.--As used in this subsection, 102 103 the term: 104 "TEACO options" means the temporary emergency 1. additional coverage options created under this subsection. 105 106 2. "TEACO insurer" means an insurer that has opted to obtain coverage under the TEACO options in addition to the 107 coverage provided to the insurer under its reimbursement 108 109 contract. 110 3. "TEACO reimbursement premium" means the premium charged 111 by the fund for coverage provided under the TEACO options.

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112 "TEACO retention" means the amount of losses below 4. 113 which a TEACO insurer is not entitled to reimbursement from the 114 fund under the TEACO option selected. A TEACO insurer's 115 retention options shall be calculated as follows: 116 a. The board shall calculate and report to each TEACO insurer the TEACO retention multiples. There shall be four TEACO 117 118 retention multiples for defining coverage. Each multiple shall be calculated by dividing \$2 billion, \$3 billion, \$4 billion, or 119 120 \$5 billion by the total estimated TEACO reimbursement premium 121 assuming all insurers selected that option. Total estimated 122 TEACO reimbursement premium for purposes of the calculation 123 under this sub-subparagraph shall be calculated using the 124 assumption that all insurers have selected a specific TEACO 125 retention multiple option and have selected the 90-percent 126 coverage level. 127 The TEACO retention multiples as determined under subb. 128 subparagraph a. shall be adjusted to reflect the coverage level 129 elected by the insurer. For insurers electing the 90-percent coverage level, the adjusted retention multiple is 100 percent 130 131 of the amount determined under sub-subparagraph a. For insurers electing the 75-percent coverage level, the retention multiple 132 133 is 120 percent of the amount determined under sub-subparagraph 134 a. For insurers electing the 45-percent coverage level, the 135 adjusted retention multiple is 200 percent of the amount determined under sub-subparagraph a. 136 An insurer shall determine its provisional TEACO 137 с. 138 retention by multiplying its provisional TEACO reimbursement 139 premium by the applicable adjusted TEACO retention multiple and

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140 shall determine its actual TEACO retention by multiplying its actual TEACO reimbursement premium by the applicable adjusted 141 142 TEACO retention multiple. d. For TEACO insurers who experience multiple covered 143 144 events causing loss during the contract term beginning June 1, 2007, and ending March 31, 2008, or the contract year beginning 145 June 1, 2008, the insurer's full TEACO retention shall be 146 147 applied to each of the covered events causing the two largest losses for that insurer. For other covered events resulting in 148 149 losses, the TEACO option does not apply and the insurer's 150 retention shall be one-third of the full retention as calculated 151 under paragraph (2)(e). "TEACO addendum" means an addendum to the reimbursement 152 5. 153 contract reflecting the obligations of the fund and TEACO 154 insurers under the program created by this subsection. 155 (d) TEACO addendum. --156 The TEACO addendum shall provide for reimbursement of 1. 157 TEACO insurers for covered events occurring between June 1, 2007, and May 31, 2008, and between June 1, 2008, and May 31, 158 159 2009, in exchange for the TEACO reimbursement premium paid into the fund under paragraph (e). Any insurer writing covered 160 161 policies has the option of choosing to accept the TEACO 162 addendum. 2. The TEACO addendum shall contain a promise by the board 163 164 to reimburse the TEACO insurer for 45 percent, 75 percent, or 90 165 percent of its losses from each covered event in excess of the 166 insurer's TEACO retention, plus 5 percent of the reimbursed 167 losses to cover loss adjustment expenses. The percentage shall

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168	be the same as the coverage level selected by the insurer under
169	paragraph (4)(b).
170	3. The TEACO addendum shall provide that reimbursement
171	amounts shall not be reduced by reinsurance paid or payable to
172	the insurer from other sources.
173	4. The TEACO addendum shall also provide that the
174	obligation of the board with respect to all TEACO addenda shall
175	not exceed an amount equal to two times the difference between
176	the industry retention level calculated under paragraph (2)(e)
177	and the \$2 billion, \$3 billion, \$4 billion, or \$5 billion
178	industry TEACO retention level options actually selected, but in
179	no event may the board's obligation exceed the actual claims-
180	paying capacity of the fund plus the additional capacity created
181	in paragraph (f). If the actual claims-paying capacity and the
182	additional capacity created under paragraph (f) fall short of
183	the board's obligations under the reimbursement contract, each
184	insurer's share of the fund's capacity shall be pro rated based
185	on the premium an insurer pays for its normal reimbursement
186	coverage and the premium paid for its optional TEACO coverage as
187	each such premium bears to the total premiums paid to the fund
188	times the available capacity.
189	5. The priorities, schedule, and method of reimbursements
190	under the TEACO addendum shall be the same as provided under
191	subsection (4).
192	6. A TEACO insurer's maximum reimbursement under the TEACO
193	addendum shall be calculated by multiplying the insurer's share
194	of the estimated total TEACO reimbursement premium as calculated
195	under sub-subparagraph (c)4.a. by an amount equal to two times

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196	the difference between the industry retention level calculated
197	under paragraph (2)(e) and the \$2 billion, \$3 billion, \$4
198	billion, or \$5 billion industry TEACO retention level specified
199	in sub-subparagraph (c)4.a. as selected by the TEACO insurer.
200	(e) TEACO reimbursement premiums
201	1. Each TEACO insurer shall pay to the fund, in the manner
202	and at the time provided in the reimbursement contract for
203	payment of reimbursement premiums, a TEACO reimbursement premium
204	calculated as specified in this paragraph.
205	2. The TEACO reimbursement premiums shall be calculated
206	based on the assumption that, if all insurers entering into
207	reimbursement contracts under subsection (4) also accepted the
208	TEACO option:
209	a. The industry TEACO reimbursement premium associated
210	with the \$2 billion retention option would be equal to 50
211	percent of the difference between the industry retention level
212	calculated under paragraph (2)(e) and the \$2 billion industry
213	TEACO retention level.
214	b. The industry TEACO reimbursement premium associated
215	with the \$3 billion retention option would be equal to 40
216	percent of the difference between the industry retention level
217	calculated under paragraph (2)(e) and the \$3 billion industry
218	TEACO retention level.
219	c. The TEACO reimbursement premium associated with the \$4
220	billion retention option would be equal to 35 percent of the
221	difference between the industry retention level calculated under
222	paragraph (2)(e) and the \$4 billion industry TEACO retention
223	level.
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224 The TEACO premium associated with the \$5 billion d. 225 retention option would be equal to 30 percent of the difference 226 between the industry retention level calculated under paragraph 227 (2)(e) and the \$5 billion industry TEACO retention level. 228 3. Each insurer's TEACO premium shall be calculated based on its share of the total TEACO reimbursement premiums based on 229 230 its coverage selection under the TEACO addendum. Effect on claims-paying capacity of the fund. -- For the 231 (f) 232 contract term commencing June 1, 2007, and the contract year 233 commencing June 1, 2008, the program created by this subsection 234 shall increase the claims-paying capacity of the fund as 235 provided in subparagraph (4)(c)1. by an amount equal to two 236 times the difference between the industry retention level 237 calculated under paragraph (2)(e) and the \$2 billion industry 238 TEACO retention level specified in sub-subparagraph (c)4.a. The 239 additional capacity shall apply only to the additional coverage 240 provided by the TEACO option and shall not otherwise affect any 241 insurer's reimbursement from the fund. Setting of retention and capacity levels of the 242 (q) 243 fund.--For the contract year commencing on April 1, 2009, and 244 thereafter, the board may set the retention and capacity levels of the fund, consistent with prudent management of the fund and 245 246 subject to the approval of the Legislative Budget Commission. TEMPORARY INCREASE IN COVERAGE LIMIT OPTIONS .--247 (17)248 (a) Findings and intent.--249 1. The Legislature finds that: 250 Because of temporary disruptions in the market for a. 251 catastrophic reinsurance, many property insurers were unable to

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252 procure sufficient amounts of reinsurance for the 2006 hurricane 253 season or were able to procure such reinsurance only by 254 incurring substantially higher costs than in prior years. The reinsurance market problems were responsible, at 255 b. 256 least in part, for substantial premium increases to many consumers and increases in the number of policies issued by 257 258 Citizens Property Insurance Corporation. 259 c. It is likely that the reinsurance market disruptions 260 will not significantly abate prior to the 2007 hurricane season. 2. It is the intent of the Legislature to create options 261 262 for insurers to purchase a temporary increased coverage limit above the statutorily determined limit in subparagraph (4)(c)1., 263 264 applicable for the 2007 and 2008 hurricane seasons, to address 265 market disruptions and enable insurers, at their option, to 266 procure additional coverage from the Florida Hurricane 267 Catastrophe Fund. It is the further intent of the Legislature to 268 structure this coverage in a manner that requires insurers to 269 pay premiums that are comparable to the premiums the insurer 270 would have paid for comparable reinsurance coverage but for the 271 current emergency in the reinsurance market and also in a manner 272 that minimizes subsidies from the general public over the long 273 run by providing the optional increase in coverage limit for 2 274 years. (b) Applicability of other provisions of this 275 276 section.--All provisions of this section and the rules adopted 277 under this section apply to the coverage created by this 278 subsection unless specifically superseded by provisions in this 279 subsection.

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280 (c) Additional definitions. -- As used in this subsection, 281 the term: 282 1. "FHCF" means Florida Hurricane Catastrophe Fund. "FHCF reimbursement premium" means the premium paid by 283 2. 284 an insurer for its coverage as a mandatory participant in the FHCF, but does not include additional premiums for optional 285 286 coverages. "Payout multiple" means defined as the number or 287 3. 288 multiple created by dividing the statutorily defined claims-289 paying capacity as determined in subparagraph (4)(c)1. by the 290 aggregate reimbursement premiums paid by all insurers estimated 291 or projected as of calendar year-end. "TICL" means the temporary increase in coverage limit. 292 4. 293 5. "TICL options" means the temporary increase in coverage 294 options created under this subsection. 295 "TICL insurer" means an insurer that has opted to 6. 296 obtain coverage under the TICL options addendum in addition to 297 the coverage provided to the insurer under its FHCF 298 reimbursement contract. 299 "TICL reimbursement premium" means the premium charged 7. 300 by the fund for coverage provided under the TICL option. 301 8. "TICL coverage multiple" means the coverage multiple 302 when multiplied by an insurer's reimbursement premium that 303 defines the temporary increase in coverage limit. 304 "TICL coverage" means the coverage for an insurer's 9. 305 losses above the insurer's statutorily determined claims-paying 306 capacity based on the claims-paying limit in subparagraph 307 (4)(c)1., which an insurer selects as its temporary increase in

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308 coverage from the fund under the TICL options selected. A TICL insurer's increased coverage limit options shall be calculated 309 310 as follows: 311 a. The board shall calculate and report to each TICL 312 insurer the TICL coverage multiples based on three options for 313 increasing the insurer's FHCF coverage limit. Each TICL coverage 314 multiple shall be calculated by dividing \$1 billion, \$2 billion, \$3 billion, or \$4 billion by the total estimated aggregate FHCF 315 316 reimbursement premiums for the 2007-2008 reimbursement contract 317 year and for the 2008-2009 reimbursement contract year. 318 b. The TICL insurer's increased coverage shall be the FHCF 319 reimbursement premium multiplied by the TICL coverage multiple. 320 In order to determine an insurer's total limit of coverage, an 321 insurer shall add its TICL coverage multiple to its payout multiple. The total shall represent a number that, when 322 323 multiplied by an insurer's FHCF reimbursement premium for a given reimbursement contract year, defines an insurer's total 324 325 limit of FHCF reimbursement coverage for that reimbursement 326 contract year. 327 10. "TICL options addendum" means an addendum to the 328 reimbursement contract reflecting the obligations of the fund 329 and insurers selecting an option to increase an insurer's FHCF 330 coverage limit. (d) 331 TICL options addendum. --332 1. The TICL options addendum shall provide for 333 reimbursement of TICL insurers for covered events occurring 334 between June 1, 2007, and May 31, 2008, and between June 1, 335 2008, and May 31, 2009, in exchange for the TICL reimbursement

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premium paid into the fund under paragraph (e). Any insurer writing covered policies has the option of selecting an increased limit of coverage under the TICL options addendum and shall select such coverage at the time that it executes the FHCF reimbursement contract. The TICL addendum shall contain a promise by the board 2. to reimburse the TICL insurer for 45 percent, 75 percent, or 90 percent of its losses from each covered event in excess of the insurer's retention, plus 5 percent of the reimbursed losses to cover loss adjustment expenses. The percentage shall be the same as the coverage level selected by the insurer under paragraph (4)(b). 3. The TICL addendum shall provide that reimbursement amounts shall not be reduced by reinsurance paid or payable to the insurer from other sources. 4. The priorities, schedule, and method of reimbursements under the TICL addendum shall be the same as provided under subsection (4). (e) TICL reimbursement premiums. --1. Each TICL insurer shall pay to the fund, in the manner and at the time provided in the reimbursement contract for payment of reimbursement premiums, a TICL reimbursement premium calculated as specified in this paragraph. 2. Each insurer's TICL premium shall be calculated based on the additional limit of increased coverage that it selects. Such limit is determined by multiplying the TICL multiple associated with one of the four options times the insurer's FHCF reimbursement premium. For the amount of increased coverage

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364	based on the option of using \$1 billion to derive the TICL
365	multiple, the rate-on-line for such coverage shall be 20
366	percent. For the option using \$2 billion, the rate-on-line shall
367	be 17.5 percent, for the option using \$3 billion, the rate-on-
368	line shall be 15 percent, and for the option using \$4 billion,
369	the rate-on line shall be 14 percent.
370	(f) Effect on claims-paying capacity of the fundFor the
371	contract terms commencing June 1, 2007, and June 1, 2008, the
372	program created by this subsection shall increase the claims-
373	paying capacity of the fund as provided in subparagraph (4)(c)1.
374	by an amount not to exceed \$4 billion dollars and shall depend
375	on the TICL coverage options selected and the number of insurers
376	that select the TICL optional coverage. The additional capacity
377	shall apply only to the additional coverage provided under the
378	TICL options and shall not otherwise affect any insurer's
379	reimbursement from the fund if the insurer chooses not to select
380	the temporary option to increase its limit of coverage under the
381	FHCF.
382	Section 3. An insurer that elects the TEACO or TICL
383	coverage option required to be offered by the Florida Hurricane
384	Catastrophe Fund under s. 215.555(16) and (17), Florida
385	Statutes, must make a rate filing with the Office of Insurance
386	Regulation which reflects 100 percent of the savings or the
387	reduction in loss exposure to the insurer. At a minimum, the
388	insurer must provide a 25-percent reduction in premium based on
389	the savings obtained under the TEACO or TICL coverage option.
390	The Financial Services Commission may grant a waiver of the 25-
391	percent reduction requirement for good cause and if the insurer
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392	has	made	best	efforts	to	meet	the	25	percent	reduction
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- 393 requirement. The office shall specify, by order, the date or
- 394 dates on which such filings must be made, in order to provide
- 395 rate relief to policyholders as soon as practicable.
- 396

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