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LEGISLATIVE ACTION

Senate	.	House
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The Committee on Banking and Insurance (Rouson) recommended the following:

Senate Amendment (with directory and title amendments)

Delete lines 149 - 163
and insert:

(b) The State Board of Administration shall select an independent consultant to develop a formula for determining the actuarially indicated premium to be paid to the fund. The rate formula must ~~shall~~ specify, for each zip code or other limited geographical area, the amount of premium to be paid by an insurer for each $1,000 of insured value under covered policies

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in that zip code or other area. In establishing premiums, the board shall consider the coverage elected under paragraph (4)(b) and any factors that tend to enhance the actuarial sophistication of ratemaking for the fund, including deductibles, type of construction, type of coverage provided, relative concentration of risks, and other such factors deemed by the board to be appropriate. Beginning in the 2020-2021 contract year, the fund's formula may provide for a rapid cash build-up factor of up to 25 percent only when the available cash balance as of December 31 of the previous year is less than 70 percent of the statutory capacity. For the purpose of calculating the rapid cash build-up factor trigger, the available cash balance may not be reduced by reserves for projected participating insurer reimbursements ~~The formula must provide for a cash build-up factor~~. ~~For the 2009-2010 contract year, the factor is 5 percent. For the 2010-2011 contract year, the factor is 10 percent. For the 2011-2012 contract year, the factor is 15 percent. For the 2012-2013 contract year, the factor is 20 percent. For the 2013-2014 contract year and thereafter, the factor is 25 percent.~~ The rate formula may provide for a procedure to determine the premiums to be paid by new insurers that begin writing covered policies after the beginning of a contract year, taking into consideration when the insurer starts writing covered policies, the potential exposure of the insurer, the potential exposure of the fund, the administrative costs to the insurer and to the fund, and any other factors deemed appropriate by the board. The formula must be approved by unanimous vote of the board. The board may, at any time, revise the formula pursuant to the procedure provided in this paragraph.

(f) The Office of Insurance Regulation shall retain an independent consultant to audit the formula developed under this subsection beginning with the 2021 contract year and every 3 years thereafter. The audit may not be performed by the independent consultant who developed the formula. The audit must evaluate whether the formula uses actuarially sound principles and whether insurers are paying an actuarially indicated premium. The Office of Insurance Regulation shall also recommend factors, if any, which would enhance the actuarial sophistication of ratemaking for the fund. The Office of Insurance Regulation shall report the findings of the audit and any recommendation to the Financial Services Commission, the President of the Senate, and the Speaker of the House of Representatives on or before March 1 of the year after the contract year audited.

(17) TEMPORARY EMERGENCY OPTIONS FOR ADDITIONAL COVERAGE.—

(a) *Findings and intent.—*

1. The Legislature finds that:

a. Because of temporary disruptions in the market for catastrophic reinsurance, many property insurers were unable to procure affordable reinsurance for the 2019 hurricane season with an attachment point below the insurers’ respective Florida Hurricane Catastrophe Fund attachment points, were unable to procure sufficient amounts of such reinsurance, or were able to procure such reinsurance only by incurring substantially higher costs than in prior years.

b. The reinsurance market problems were responsible, at least in part, for substantial premium increases to many

<u>consumers and potential increases in the number of policies issued by the Citizens Property Insurance Corporation.</u>

<u>c. It is likely that the reinsurance market disruptions will not significantly abate before the 2020 hurricane season.</u>

<u>2. It is the intent of the Legislature to create a temporary emergency program, applicable to the 2020, 2021, and 2022 hurricane seasons, to address these market disruptions and enable insurers, at their option, to procure additional coverage from the Florida Hurricane Catastrophe Fund.</u>

<u>(b) *Applicability of other provisions of this section.*—All other provisions of this section and the rules adopted under this section apply to the program created by this subsection unless specifically superseded by this subsection.</u>

<u>(c) *Optional coverage.*—For the contract year commencing June 1, 2020, and ending May 31, 2021, the contract year commencing June 1, 2021, and ending May 31, 2022, and the contract year commencing June 1, 2022, and ending May 31, 2023, the board shall offer for each of such years the optional coverage as provided in this subsection.</u>

<u>(d) *Additional definitions.*—As used in this subsection, the term:</u>

<u>1. "TEACO addendum" means an addendum to the reimbursement contract reflecting the obligations of the fund and TEACO insurers under the program created by this subsection.</u>

<u>2. "TEACO insurer" means an insurer that has opted to obtain coverage under the TEACO options in addition to the coverage provided to the insurer under its reimbursement contract.</u>

<u>3. "TEACO options" means the temporary emergency additional</u>

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coverage options created under this subsection.

4. “TEACO reimbursement premium” means the premium charged by the fund for coverage provided under the TEACO options.

5. “TEACO retention” means the amount of losses below which a TEACO insurer is not entitled to reimbursement from the fund under the TEACO option selected. A TEACO insurer’s retention options shall be calculated as follows:

a. The board shall calculate and report to each TEACO insurer the TEACO retention multiples. There shall be three TEACO retention multiples for defining coverage. Each multiple shall be calculated by dividing $3 billion, $4 billion, or $5 billion by the total estimated TEACO reimbursement premium, assuming all insurers selected that option. The total estimated TEACO reimbursement premium, for purposes of the calculation under this sub-subparagraph, shall be calculated using the assumption that all insurers have selected a specific TEACO retention multiple option and have selected the 90-percent coverage level.

b. The TEACO retention multiples as determined under sub-subparagraph a. shall be adjusted to reflect the coverage level elected by the insurer. For insurers electing the 90-percent coverage level, the adjusted retention multiple is 100 percent of the amount determined under sub-subparagraph a. For insurers electing the 75-percent coverage level, the retention multiple is 120 percent of the amount determined under sub-subparagraph a. For insurers electing the 45-percent coverage level, the adjusted retention multiple is 200 percent of the amount determined under sub-subparagraph a.

c. An insurer shall determine its provisional TEACO retention by multiplying its provisional TEACO reimbursement premium by the applicable adjusted TEACO retention multiple and shall determine its actual TEACO retention by multiplying its actual TEACO reimbursement premium by the applicable adjusted TEACO retention multiple.

d. For a TEACO insurer that experiences multiple covered events causing loss during the contract year, the insurer’s full TEACO retention shall be applied to each of the covered events causing the two largest losses for that insurer. For other covered events resulting in losses, the TEACO option does not apply and the insurer’s retention shall be one-third of the full retention as calculated under paragraph (2)(e).

(e) *TEACO addendum.*—

1. The TEACO addendum shall provide for reimbursement of TEACO insurers for covered events occurring during the contract year in exchange for the TEACO reimbursement premium paid into the fund under paragraph (f). Any insurer writing covered policies has the option of choosing to accept the TEACO addendum for any of the three contract years that the coverage is offered.

2. The TEACO addendum shall contain a promise by the board to reimburse the TEACO insurer for 45 percent, 75 percent, or 90 percent of its losses from each covered event in excess of the insurer’s TEACO retention, plus 10 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 TEACO addendum shall provide that reimbursement amounts shall not be reduced by reinsurance paid or payable to

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the insurer from other sources.

4. The TEACO addendum shall also provide that the obligation of the board with respect to all TEACO addenda shall not exceed an amount equal to two times the difference between the industry retention level calculated under paragraph (2)(e) and the $3 billion, $4 billion, or $5 billion industry TEACO retention level options actually selected, but in no event may the board's obligation exceed the actual claims-paying capacity of the fund plus the additional capacity created in paragraph (g). If the actual claims-paying capacity and the additional capacity created under paragraph (g) fall short of the board's obligations under the reimbursement contract, each insurer's share of the fund's capacity shall be prorated based on the premium an insurer pays for its normal reimbursement coverage and the premium paid for its optional TEACO coverage as each such premium bears to the total premiums paid to the fund times the available capacity.

5. The priorities, schedule, and method of reimbursements under the TEACO addendum shall be the same as provided under subsection (4).

6. A TEACO insurer's maximum reimbursement under the TEACO addendum shall be calculated by multiplying the insurer's share of the estimated total TEACO reimbursement premium as calculated under sub-subparagraph (d)5.a. by an amount equal to two times the difference between the industry retention level calculated under paragraph (2)(e) and the $3 billion, $4 billion, or $5 billion industry TEACO retention level specified in sub-subparagraph (d)5.a. as selected by the TEACO insurer.

(f) *TEACO reimbursement premiums.—*

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1. Each TEACO insurer shall pay to the fund, in the manner and at the time provided in the reimbursement contract for payment of reimbursement premiums, a TEACO reimbursement premium calculated as specified in this paragraph.

2. The TEACO reimbursement premiums shall be calculated based on the assumption that if all insurers entering into reimbursement contracts under subsection (4) also accepted the TEACO option:

a. The industry TEACO reimbursement premium associated with the $3 billion retention option would be equal to 85 percent of the difference between the industry retention level calculated under paragraph (2)(e) and the $3 billion industry TEACO retention level.

b. The TEACO reimbursement premium associated with the $4 billion retention option would be equal to 80 percent of the difference between the industry retention level calculated under paragraph (2)(e) and the $4 billion industry TEACO retention level.

c. The TEACO reimbursement premium associated with the $5 billion retention option would be equal to 75 percent of the difference between the industry retention level calculated under paragraph (2)(e) and the $5 billion industry TEACO retention level.

3. Each insurer’s TEACO reimbursement premium shall be calculated based on its share of the total TEACO reimbursement premiums based on its coverage selection under the TEACO addendum.

(g) *Effect on claims-paying capacity of the fund.*—For the contract term commencing June 1, 2020, the contract year

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commencing June 1, 2021, and the contract term beginning June 1, 2022, the program created by this subsection shall increase the claims-paying capacity of the fund as provided in subparagraph (4)(c)1. by an amount equal to two times the difference between the industry retention level calculated under paragraph (2)(e) and the $3 billion industry TEACO retention level specified in sub-subparagraph (d)5.a. The additional capacity shall apply only to the additional coverage provided by the TEACO option and shall not otherwise affect any insurer's reimbursement from the fund.

====== D I R E C T O R Y C L A U S E A M E N D M E N T ======

And the directory clause is amended as follows:

Delete lines 97 - 99

and insert:

Section 1. Paragraph (c) of subsection (2) and paragraph (b) of subsection (5) of section 215.555, Florida Statutes, are amended, and paragraph (f) of subsection (5) and subsection (17) are added to that section, to read:

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

And the title is amended as follows:

Delete lines 6 - 12

and insert:

policies; providing that the fund's rate formula may provide for a rapid cash build-up factor only if certain conditions are met; specifying a limitation on calculating the trigger for the cash build-up factor; requiring the Office of Insurance Regulation to retain

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an independent consultant to audit the fund's reimbursement premium formula at specified intervals; specifying requirements for the audit; requiring the office to report audit findings and certain recommendations to the Financial Services Commission and the Legislature; providing legislative findings and intent; providing applicability; requiring the State Board of Administration to offer temporary emergency additional coverage options (TEACO) to insurers during specified contract years; defining terms; specifying requirements for the TEACO addendum to the reimbursement contract; specifying requirements for, and calculations of, TEACO reimbursement premiums; specifying the effect of the TEACO program on the fund's claims-paying capacity; amending s. 319.30,