



# Citizens' Rate Development and Impact of Wind Mitigation Credits

Florida Commission on Hurricane Loss Projection Methodology

Tallahassee, Florida

Paul Palumbo

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# Discussion Topics

- Overview of Citizens Policies as of June 30, 2009
- Ratemaking History
- Unique Provisions Governing Citizens Rates
- Rate Development Methodology
- Impact of wind Mitigation Credits on Citizens
- Wind Mitigation Credit Trends
- Suggested Topics for Future Discussion

# Overview of Citizens' Policies as of June 30, 2009



Account and Program	Policy/Building Counts
<b>Personal Lines Account</b>	
Personal Residential Multiperil	623,733
<b>High Risk Account</b>	
Personal Residential Multiperil	91,647
Personal Residential Wind-Only	274,025
Commercial Residential Multiperil	1,954
Commercial Residential Wind-Only	38,912
Commercial Non-Residential Multiperil	68
Commercial Non-Residential Wind-Only	39,601
<b>Commercial Lines Account</b>	
Commercial Residential Multiperil	55,602
Commercial Non-Residential Multiperil	463
Commercial Non-Residential Wind-Only	335
<b>TOTAL</b>	<b>1,126,340</b>

# Ratemaking History






- ✦ Until 2007 the statutory standard governing Citizens rates required that rates be actuarially sound, not competitive with the voluntary market and developed based on the:
  - Top 20 private carriers in Florida for personal lines
  - Top 5 private carriers in Florida for commercial lines
- ✦ In 2007, the rate requirements for Citizens were changed to eliminate the requirement that they be noncompetitive and based on rates of the top private insurers. The new standard now requires simply that rates charge by Citizens be actuarially sound
- ✦ In 2009, the law was further amended to limit rate increases (until actuarially sound rates are achieved) each year to no more than 10% for any single policy, excluding coverage changes, surcharges and the Florida Hurricane Catastrophe Fund (FHCF) rapid cash build-up provision

# Unique Provisions Governing Citizens Rates

Regarding ratemaking, Florida Statute 627.351(6) requires the following practices for Citizens:





-  *“After the public hurricane loss-projection model under s. 627.06281 has been found to be accurate and reliable by the Florida Commission on Hurricane Loss Projection Methodology, that model shall serve as the minimum benchmark for determining the windstorm portion of the corporation's rates.”*
-  *“Rates for coverage provided by the corporation shall be actuarially sound and subject to the requirements of s. 627.062, except as otherwise provided in this paragraph. The corporation shall file its recommended rates with the office at least annually. The corporation shall provide any additional information regarding the rates which the office requires. The office shall consider the recommendations of the board and issue a final order establishing the rates for the corporation within 45 days after the recommended rates are filed. The corporation may not pursue an administrative challenge or judicial review of the final order of the office.”*

# Unique Provisions Governing Citizens Rates (continued)

-  The Office of Insurance Regulation is responsible for setting Citizens rates
-  Citizens is required to use the Public Model, where applicable
-  Rates have been frozen since 2007
-  Current rates are based on 2006 Top 20 Rate Analyses using 2005 data
-  Citizens was not allowed to adjust base rates to account for revised Wind Mitigation Credits





# Rate Development Methodology

Actuarially sound indications for Citizens most recent rate filing were developed using:






-  Wind loss projections based upon modeled results using the Florida Public Hurricane Model for personal residential policies and an accepted version of a private model for commercial policies (the Public Model does not provide commercial loss information)
-  Non-catastrophic loss projections (e.g. water, fire, etc.) based upon five years of loss history
-  Estimates of Citizens operating expenses
-  Net cost of catastrophic reinsurance for both the mandatory and TICL (increased amount) layers of FHCF coverage

# Rate Development Methodology (continued)

Some of the rating elements that are reviewed and can be revised in a filing include:

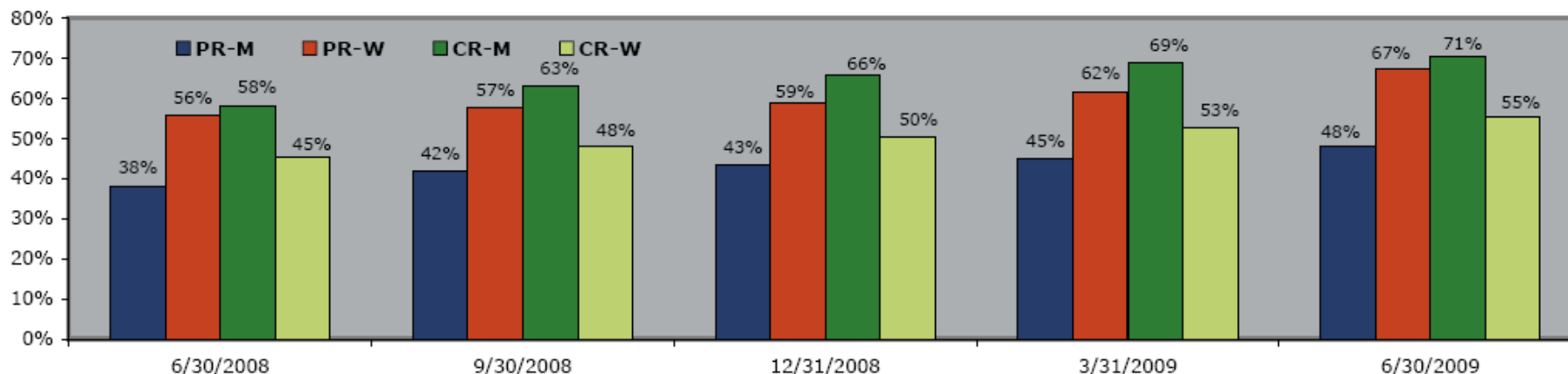
-  Base rates
  
-  Relativities
  - ◆ Amount of Insurance
  - ◆ Territorial
  - ◆ Age of Home
  
-  Credits and debits for optional coverages
  - ◆ Deductibles
  - ◆ Replacement cost
  
-  Protection credits
  - ◆ Alarm
  - ◆ Sprinkler system

# Impact of Wind Mitigation Credits on Citizens

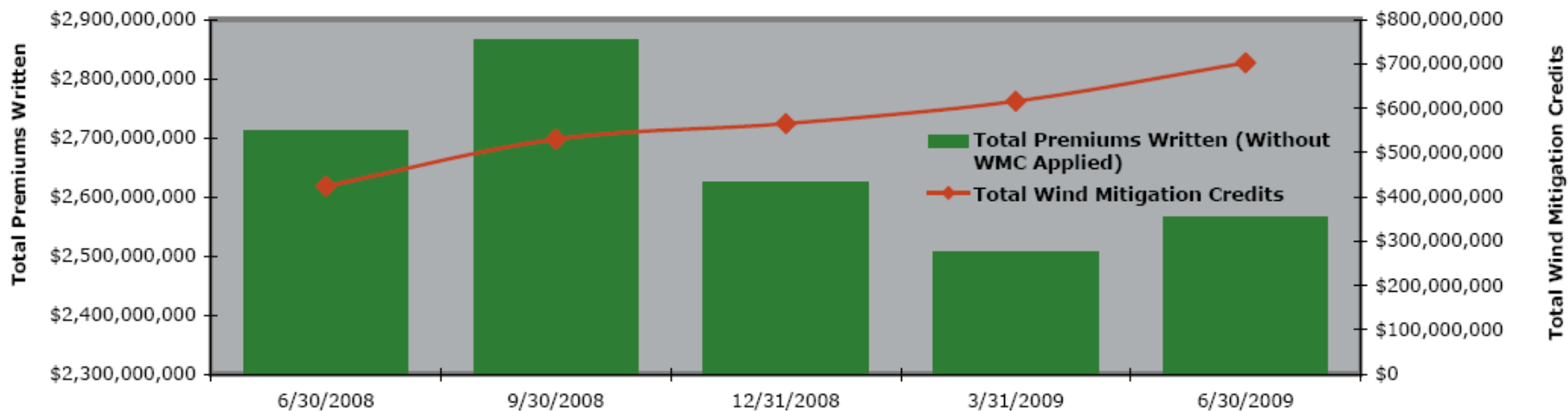
-  In 2007, property insurers in Florida were required to essentially double the wind mitigation credits that were in place
-  Because Citizens rates were frozen, unlike other insurers, Citizens was not permitted to off-set base rates to account for increased mitigation credits
-  The doubling of the mitigation credits also required that an overall credit cap be implemented to preclude negative and inappropriately low premium development
-  Citizens most recent rate filing introduces a multiplicative premium development algorithm for personal residential policies that removes the necessity for an overall cap on credits
-  As of 6/30/09, Citizens provided an estimated \$700M in mitigation credits for a policy base which generated just over an estimated \$2.5B of premium

# Wind Mitigation Credit Trends

**Windstorm Mitigation Credit (WMC) Trend Analysis**  
**Percentage of Policies Including Wind with WMC**



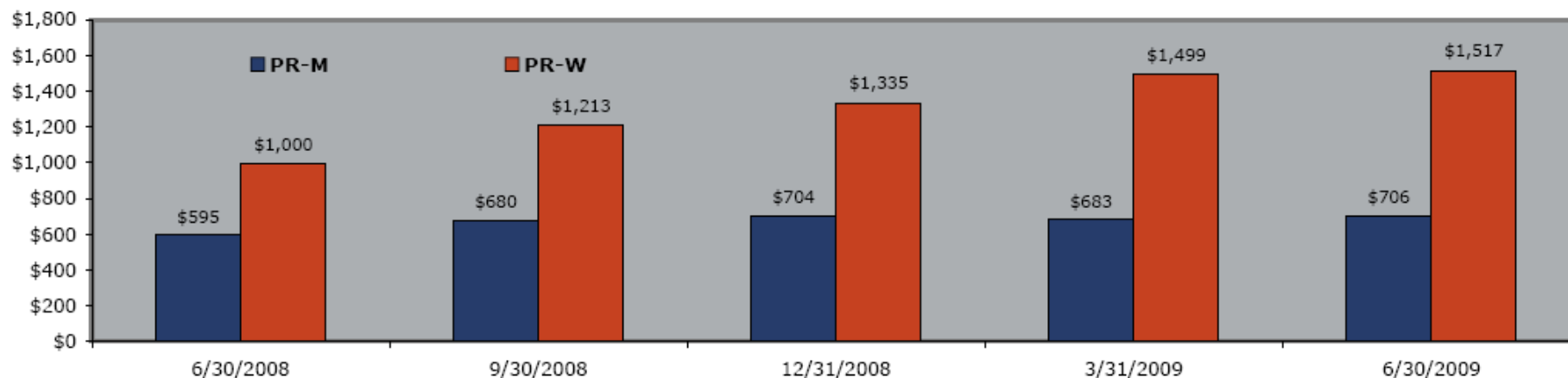
**Total Premiums Written versus Total Wind Mitigation Credits**



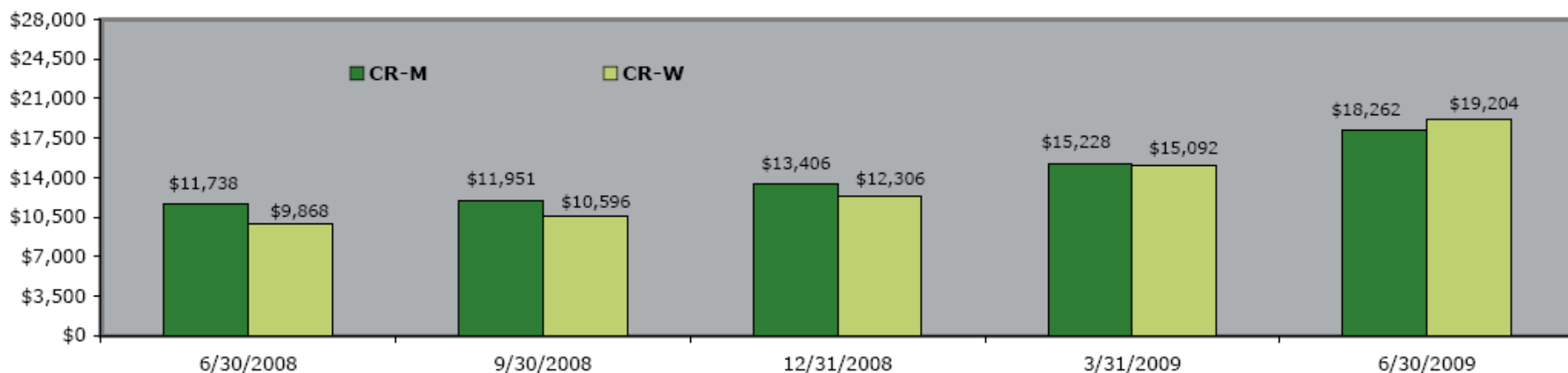
**Note:** Only those personal residential and commercial residential policies including the peril of wind are included in this analysis. Excludes takeout policies.

# Wind Mitigation Credit Trends (continued)

**Windstorm Mitigation Credit (WMC) Trend Analysis**  
**Average Wind Mitigation Credits (\$) - Personal Residential**








**Average Wind Mitigation Credits (\$) - Commercial Residential**



**Note:** Only those personal residential and commercial residential policies including the peril of wind are included in this analysis. Excludes takeout policies.

# Suggested Topics for Future Discussion

While credits for wind mitigation features are important as an inducement to hardening homes and protecting people, these credits should be validated and implemented in an actuarially appropriate manner. With that in mind, Citizens has identified a number of topics that may be appropriate for future discussion, including:

-  Effect of the overlap in credits among wind mitigation credits, age of home credits and building code effectiveness grading scale credits
-  Appropriateness of developing wind mitigation credits from a single source and applying them to rates developed by a different source
-  Appropriateness of the sample size and limited terrain categories used to validate or develop wind mitigation credits
-  Reliability of reported policy level wind mitigation features
-  FHCF premium development does not recognize policy level wind mitigation features

# Contact Information

Paul Palumbo  
Senior Vice President of Underwriting  
Paul.Palumbo@Citizensfla.com  
850.513.3849

[www.CitizensFla.com](http://www.CitizensFla.com)

