

Possible Recommendations Provided in Presentations/Documentation
December 18, 2009

The following is a list of possible recommendations provided in various presentations given to the Committee.

Inspection Process

- Must get control of the inspection process
- Inspectors must be held accountable
- Require visual verification of all mitigation features; photo documentation to substantiate discounts
- Mitigation format must include written explanations of the features
- Require pictures to accompany the Uniform Mitigation Verification Inspection Form (Form OIR B1-1802) of any mitigation characteristic not visible to the naked eye from outside the structure. For outside characteristics in plain view, prohibit reliance on Internet or GPS pictures more than one (1) year old.
- Require inspection firm to have integrated QA program
- Require specialized training, testing, and certification for mitigation inspections
- Develop standards for use by inspectors in the field
- Provide insurers flexibility in acceptance or oversight of inspection providers
- Establish a mitigation oversight board within the appropriate regulatory body, which would oversee activities related to inspections as well as certify and regulate inspectors
- Utilize licensure requirements and/or steeper penalties
- Increase criminal penalties for multiple instances of fraud; make wind loss mitigation fraud a felony if the amount of the fraud exceeds a certain threshold
- Pursue fraud cases
- Increase the windstorm or hurricane deductible when the policyholder has committed or participated in a fraudulent inspection or inspection report
- Cancel the policy when the policyholder has committed or participated in a fraudulent inspection or inspection report
- Legislature fund at least four dedicated prosecutors to pursue property insurance fraud cases
- Legislature specify penalties for certain types of property insurance fraud clearly spelling those out in the statutes
- Create new windstorm mitigation form that relates to commercial building features
- Inspectors must have commercial experience
- Utilize commercial insurance adjusters
- Require complete [discount verification] forms
- Use property identifier on every page [of discount verification form]
- Add fraud warning [to discount verification form]
- Notify applicants that incorrect statement may negate coverage
- Increase the windstorm or hurricane deductible when the policyholder has committed or participated in a fraudulent inspection or inspection report
- Re-inspection programs needed to confirm quality of results
- Require inspection firms to quantify error rates – do errors vary by individual inspector, how do errors vary by region, how do errors vary by mitigation feature, are the types of errors

statistically significant – proportion of errors in favor of the insured, proportion of errors in favor of the insurer

- Require mandatory inspection of all structures – obviates adverse selection and will encourage private reinsurers to reflect mitigation credits
- Require the licensed inspector to personally perform all inspections or, at a minimum, to be present when the inspection is performed to insure oversight of any employee or subcontractor who may perform some parts of the inspection, such as accessing attics
- Allow insurers to require or request additional documentation as deemed necessary – e.g. permit records, copies of contracts, product approvals, and photos of qualifying features
- Allow qualified and certified inspection firms to apply for preferred vendor status from insurers as a means for underwriters to qualify and/or verify features reported by a licensed inspector
- Prohibit any corporate affiliation between entities in the mitigation inspection chain – i.e. agents and inspectors or insurers and inspectors
- Prohibit, directly or indirectly, the tying of an inspection fee to anything else of value, particularly an insurance premium
- Review recommendations current under study by the OIR regarding the completion and use of the uniform inspection form, such as additional signature lines for inspectors that physically perform the inspection, require the address of the home at the bottom of each page of the form, bold all the exterior opening protections (windows, doors, garage doors and skylights) and indicate whether the opening protections are passive or active, and add a statement for the homeowner’s signature acknowledging that Form 1802 is part of the application process and false certification constitutes insurance fraud, as well as other penalties that may be enacted (such as an increase in any applicable deductible).
- Must have third party quality assurance component behind inspections conducted

Data

- Comprehensive data collection
- Require oversight by experienced managers
- Ensure no conflicts of interest exist
- Movement toward a home rating system will promote mitigation regardless of discounts and create central depository for housing stock information
- Extension of study results to structures, policy types and coverage that were not studied
- Application of “year built” in place of individual dwelling attributes
- Require electronic data collection, automated checks for completeness/accuracy and archiving
- Maintain a statewide database of inspection results – ability to reuse results for up to 5 years, ability to invalidate incorrect results
- Accurate/periodic data collected by insurers. Wind mitigation data collection should be done by insurance companies periodically (every 5 years) on each home. The data collection cost/maintenance should become an allowable annual fee (say \$25 per year).
- My Safe Florida Home Program could provide a base to build a statewide inspection process and database that would reduce costs overall. Can be funded by insurance companies accessing data and licensing of inspectors. No government funding needed. Inspectors upload inspections electronically eliminating fraud from changing the paper forms. Provides a source of information on mitigation and ultimately the effectiveness of mitigation.

- Make changes to the way wind rating variables are collected. Specifically collect data for every house and put the inspection process into the hands of the insurance companies. Allow time for this to happen (say over 5 or more years) such that the cost per year for each policyholder is in the range of 25-50 dollars per year.
- Independent review of inspection data prior to release of OIR-B1-1802 to owner
- For Citizens Property Insurance Corporation, require an annual re-inspection program to be filed with the OIR for statistically valid segments of business in areas where discounts are particularly high, such as wind borne debris zones
- Require independent re-inspections for wind borne debris zones for any carrier within the first three years after receiving a Certificate of Authority. Require similar programs for any carrier under a consent order related to misrating of policies or application of credits.
- To reduce the need for continuing inspections of homes, consider a database, possibly maintained by local tax assessors, of mitigation characteristics for new structures and retrofitted structures (Form 1802?) available for insurance purposes to qualified individuals such as insurance agents, realtors, and the homeowner

Ratemaking

- Discounts should be applied to the lost cost portion of the rate (without constituting a modification of the existing discount table)
- Discounts should not be applied to the portion of the rate associated with Coverage B (does not necessitate modifying the existing discount table)
- Wind mitigation rate differentials only apply to the hurricane wind portion of the premium and do not apply to attached or detached exterior structures
- Apply discounts only to the claims component of the wind premium since claims costs are what mitigation is supposed to reduce
- Avoid setting percentages or dollar amounts [for mitigation discounts] without regard to base rates
- Implementation of changes without provision for premium offset
- Watch for duplication with new home credits or BCEGS credits
- Align mitigation credits with base rates, use the wind rating variables in the base insurance rate plan (not just as a credit structure)
- Standardize definitions and rate differential table formats. Minimizes complexity and cost. Insurers must be able to quantify their distribution of business and file base rates that are compatible with the structures that receive no rate differential.
- Make insurance companies responsible for inspections, allow pass through of inspection cost – will reduce errors/fraudulent inspection data
- Allow wind mitigation surcharges; consider rebasing to allow credits and surcharges. Keep the percentages manageable, require less offset to revenue, and incent more mitigation.
- Adjust the language of the Florida Statutes to allow mitigation relativity features to be implemented with surcharges and credits with respect to the base rates. This will allow the mitigation relativity matrix to be renormalized. Ideally this renormalization should be based on company specific distributions of the mitigation features as identified through inspection programs.
- Allow and actively promote custom studies by individual insurance companies to establish new normalization points within either the ARA relativity matrix or another modeled relativity matrix by other modelers

- Simplify Mitigation Relativity Matrix – separate rating characteristics from mitigation factors, only include items that can be changed in the mitigation matrix (rating factors = roof shape, wall construction; mitigation factors = opening protection, roof cover, etc.)
- Remove features and variables that are not actionable retrofit items from the mitigation relativity matrix, simplifying the credit/surcharge application. Because the purpose of the mitigation credits was originally designed to encourage homeowners to harden homes in the state rather than to suppress insurance rates, the mitigation relativity matrix should include credits for features homeowners can realistically change in their homes. Other variables, such as roof shape, are important to include in an accurate rating process, but belong in the base rate calculation, not the mitigation relativity matrix.
- Modify the FHCF premium calculation process. The following variables which have significant impacts on loss costs should be included in the FHCF data call – number of stories, roof cover type (including presence of secondary water resistance), roof slope, and living area (square footage)
- FHCF reinsurance rates should change to reflect mitigation and uncertainty
- If wind loss mitigation credits are mandated by statute or OIR rule, then those wind loss mitigation credits should be reflected in the FHCF rates as well so that our underlying reinsurance costs track with the discounts insurers are forced to provide
- Credits should transition to wind mitigation rate differentials and be applied accurately
- Baseline distribution of business for each insurer must be established to rebalance system for wind mitigation rate differentials. Insurers establish a baseline distribution of business through inspections over a 1-5 year period.
- Changes in homeowner premium averaged over 5 years during baseline and transition
- Systematic updating/validation of wind mitigation rate differentials. Tracks evolution/improvements in Florida Building Code, validated with physical damage data, consistent with insurance loss data, recognizes the building is a system (weak link) and damage is progressive, allows modeler competition through public standards and approved filings.
- Crucial that the state's enforcement of the wind mitigation program result in overall premium levels sufficient to pay claims. Please recommend to policymakers that steps be taken to ensure premium discounts are recalibrated to reflect true mitigation efforts and oversight of home inspections is tightened.
- Use risk based pricing, building higher spatial variations into rating plans
- Expressly allow a company to use the relativities of any approved model for wind loss mitigation credits, and include any variables or risk characteristics that are in the model

Modeling

- Rely on data and validated engineering models as much as possible. Isolate and clearly identify use of judgment.
- Simple average of wind mitigation rate differentials results across models should be avoided. Models are not independent.
- Expand analysis to include loss results from multiple models, loss results by coverage – application to other structures, contents, ale and application to condos and renters forms
- Commission obtains funding and contracts with a Study Manager to perform a consensus study on premium credits from cat models
- Study Manager develops a standardized feature definitions and combinations and a standardized reporting form for modelers

- Study Manager contracts with modelers to provide indicated mitigation credits based on standard assumptions from each Commission accepted model
- Study Manager aggregates reports, disguising individual modeler data to protect trade secrets, and develops statistically reasonable range of credits for each feature combination
- Commission adopts Study Manager consensus study, reports to Legislature
- Legislature passes statute requiring rule adopting Commission report as basis for “presumed approved” ranges of mitigation credits and rule allowing credits to replace current credits with base rate offset subject to a swing limit capping premium charges for any one property

Miscellaneous

- Allow insurers to conduct inspections or re-inspections as a normal cost of operation – reduces and amortizes the cost of inspections, allows insurers to fully characterize their entire book of business, and gives re-insurers confidence needed to recognize mitigation features in their pricing
- Mandate that Citizens re-inspect a major portion of their policies for wind loss mitigation accuracy and institute procedures to obtain accurate information on new policies. This will prevent policyholders who will see an increase due to a re-inspection by their insurance company from taking an incorrect form over to Citizens.
- Coordinated long term goal/vision. A must for moving mitigation forward and cleaning up existing problems/disconnects. We need to get back to basics and emphasize cost-effective mitigation. Process must be treated as an integrated system that supports the long term goals.
- Clarify statute and rules regarding “windstorm” or “hurricane”
- Make mitigation cheaper – long term loans, amortization over 30 years instead of 5 years, link loans to mortgage payment, refinance, or at time of sale – grants from public money like the My Safe Florida Home Program, target grant program to those locations that are facing the largest increases under a revised rating plan that includes some possible increases which will minimize the impact of the new rating plan on the population.
- Make sure everybody in risk transfer chain has a stake in mitigation. Align the mitigation signal with reinsurance programs.
- Make sure insurance companies are incentivized to promote mitigation
- Remove the statute 627.711(2) that requires the Form 1802 to be accepted by the company if signed by a licensed contractor. This just adds cost to the system as we will need to re-inspect anyway when an insured selects a source whose accuracy we cannot rely on.
- Form a task force to evaluate the My Safe Florida Home Program and develop a model program that establishes a solid base for inspections and an industry sourced revenue stream. Consider the following: 1) All wind loss mitigation inspections would be required to be done by a licensed My Safe Florida Home inspector. The program would maintain training and performance standards; 2) Inspections would be presented by the inspector directly to a database where the insurance company would access them; 3) Revenue for the My Safe Florida Home program would come from fees paid by inspectors for their My Safe Florida Home accreditation and insurance companies when they access inspections.
- Form a task force to review the implications of the new wind loss mitigation study and recommend how it should be applied. Note that the manner in which the original was put in made sure that policyholders only realized discounts, and changes could and should create relative premium increases this time around.