The Florida Senate

Issue Brief 2012-226 *September 2011*

Committee on Banking and Insurance

CITIZENS PROPERTY INSURANCE

Statement of the Issue

Citizens Property Insurance Corporation (Citizens or the Corporation)
Citizens is a state-created, not-for-profit, tax-exempt governmental entity whose public purpose is to provide property insurance coverage to those unable to find affordable coverage in the voluntary admitted market. Citizens is not a private insurance company, and its book of business is divided into three statutorily separate accounts:

> *Personal Lines Account (PLA)* – Multi-peril policies which consist of homeowners, mobile homeowners, dwelling fire, tenants, condominium unit owners and similar policies covering damage to property from windstorm and from other perils.
>
> *Commercial Lines Account (CLA)* – Multi-peril policies which consist of condominium association, apartment building and homeowners' association policies covering damage to property from windstorm and from other perils, as well as Commercial Non-Residential Multi-peril policies.
>
> *Coastal Account (Coastal)* – Wind-only and Multi-peril policies which consist of personal lines wind-only policies, commercial residential wind-only policies and commercial non-residential wind-only policies issued in limited eligible coastal areas which cover damage to property from windstorm only. It also consists of personal and commercial residential multi-peril policies in specified coastal areas (wind-only zones) issued since 2007 which cover damage to property from windstorm and from other perils. Recently some Commercial Non-Residential Multi-peril policies have been added as well.

Each of the three Citizens accounts has separate calculations with regard to surplus and deficits. By statute, assets of each account may not be comingled or used to fund losses in another account. Due to lack of storm activity for the last 5 years, the current surplus held by Citizens for all three accounts is $5.742 billon: $2.686 billion Coastal and $3.056 billion PLA/CLA.

As of July 31, 2011, Citizens reported it had a total of 1,408,584 policies in-force throughout the state.

PLA - Personal Residential Multi-Peril	946,938
Coastal - Personal Residential Wind-Only	245,752
Coastal - Personal Residential Multi-Peril	166,944
Coastal - Commercial Residential Wind-Only	13,016
Coastal - Commercial Residential Multi-Peril	809
Coastal - Commercial Non-Residential Wind-Only	26,716
Coastal - Commercial Non-Residential Multi-Peril	225
CLA - Commercial Residential Multi-Peril	6,971
CLA - Commercial Non-Residential Multi-Peril	1,213
Total	**1,408,584**

Assessments

In the event Citizens incurs a deficit, i.e., its obligations to pay claims exceed its capital plus reinsurance recoveries, it may levy assessments on most of Florida's property and casualty insurance policyholders in a specific sequence set by statute. The three Citizens' accounts calculate deficits and resulting assessment needs independently:

Citizens Policyholder Surcharges: If Citizens incurs a deficit, Citizens will first levy surcharges on its policyholders of up to 15 percent of premium per account for a maximum total of 45 percent. This surcharge is collected over 12 months on all Citizens' policies and collected upon issuance and renewal. Citizens estimates its current total surcharge capacity to be $1.172 billion: $391 million surcharge capacity for Coastal and $781 million surcharge capacity for PLA/CLA. *(See Page 3)*

Regular Assessments: Upon the exhaustion of the Citizens policyholder surcharge for a particular account, Citizens may levy a regular assessment of up to 6 percent of premium or 6 percent of the deficit per account, for a maximum total of 18 percent. The regular assessment is levied on all lines of property and casualty policies in the state except workers' compensation and medical malpractice, but is not levied on Citizens' policies. Property and casualty insurers with policies subject to the regular assessment provide the assessment to Citizens up front and subsequently recover it from their policyholders at the issuance of a new policy or at renewal of existing policies. Citizens has usually been able to collect regular assessment funds within 30 days after being levied. Citizens Regular Assessment capacity is projected to be around $5.580 billion: $1.860 billion Regular Assessment capacity for Coastal and $3.720 billion Regular Assessment capacity for PLA/CLA. *(See Page 3)*

Emergency Assessments: Upon the exhaustion of the Citizens' policyholder surcharge and regular assessment for a particular account, Citizens may levy an emergency assessment of up to 10 percent of premium or 10 percent of the deficit per account, for a maximum total of 30 percent. This assessment can be collected for as many years as is necessary to rectify a deficit. Emergency assessments are levied on all lines of property and casualty policies (except workers' compensation and medical malpractice) in the state, including Citizens' own policies. Initially, property and casualty insurers with policies subject to the emergency assessment collect the assessment from policyholders at the issuance of a new policy or at renewal of existing policies and then remit the assessments periodically to Citizens. Thus, Citizens will not collect funds raised by an emergency assessment immediately after the assessment is levied, but will collect funds intermittently throughout the collection period as policies are renewed and new policies are written. Given that Citizens Emergency Assessment capacity is unlimited, the projected 1-100 year storm Emergency Assessment estimate is $6.468 billion for Coastal only. *(See Page 3)*

Reinsurance

A direct insurance writer will often spread its risk by purchasing reinsurance coverage from a reinsurance carrier. The reinsurance contract will specify the layer of the direct writer's risk that is shifted to the reinsurer and the premium that the direct writer must pay the reinsurer to assume the risk. For the contract year 2011-2012, Citizens has purchased private reinsurance coverage totaling $575 million for the Coastal account. *(See Page 3)*

The Florida Hurricane Catastrophe Fund (FHCF or CAT fund)

The CAT fund is a tax-exempt state managed trust fund that reimburses (reinsures) insurers for a portion of their hurricane losses to residential property. To access the CAT fund an insurer must have incurred losses above the retention levels calculated and set by statute. When faced with a multi-storm season, insurers must reach their full retention levels on the two largest storms of the season. The retention level is then reduced to one-third the normal amount for any other storms that season. The current retention levels for Citizens' accounts are $1.738 billion for Coastal and $1.19 billion for PLA/CLA. If Citizens were to incur losses above their retention levels, the CAT fund could provide Citizens with an additional $6.591 billion in coverage: $4.010 billion would be available for Coastal and $2.581 billion would be available for PLA/CLA. *(See Page 3)*

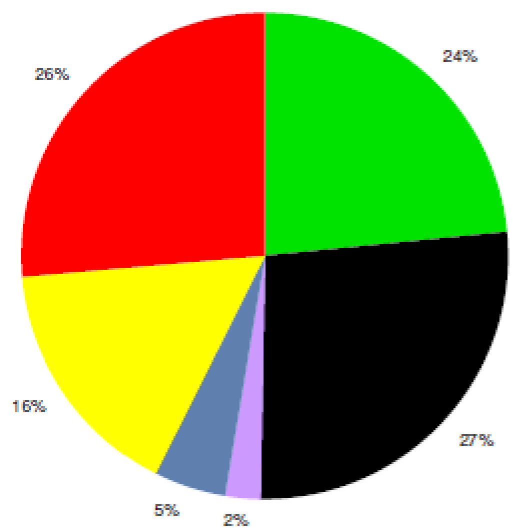
CITIZENS 2011 PROJECTED CLAIMS RESOURCES

	PLA/CLA	COASTAL	TOTAL
Projected Surplus, 12/31/11	3.056 billion	2.686 billion	5.742 billion
FHCF Reimbursements	2.581 billion	4.010 billion	6.591 billion
Private Reinsurance	0.000 billion	0.575 billion	0.575 billion
Citizens Policyholder Surcharge	0.781 billion	0.391 billion	1.172 billion
Regular Assessments	3.720 billion	1.860 billion	5.580 billion
Totals*	**10.138 billion**	**9.522 billion**	**19.660 billion**

*Totals do not include Emergency Assessments as the amounts collected though Emergency Assessments are limited only to the amounts of remaining deficit. No more than 10% per policy can be assessed each year, but Emergency Assessments may be levied for as many years as is needed to cure any remaining deficits.

1-in-100 Yr Event

Probability of Single-Event Occurrence = 1%



(in billions)

	PLA/CLA	Coastal Account	Total
Probable Maximum Loss	$ 8.528	$ 15.990	$ 24.518
Claims-Paying Resources:			
Accumulated Surplus	$ 3.056	$ 2.686	$ 5.742
FHCF Reimbursements	2.581	4.010	6.591
Private Reinsurance	-	0.575	0.575
Citizens Policyholder Surcharges	0.781	0.391	1.172
Regular Assessments	2.111	1.860	3.971
Emergency Assessments	-	6.468	6.468
Total	8.528	15.990	24.518

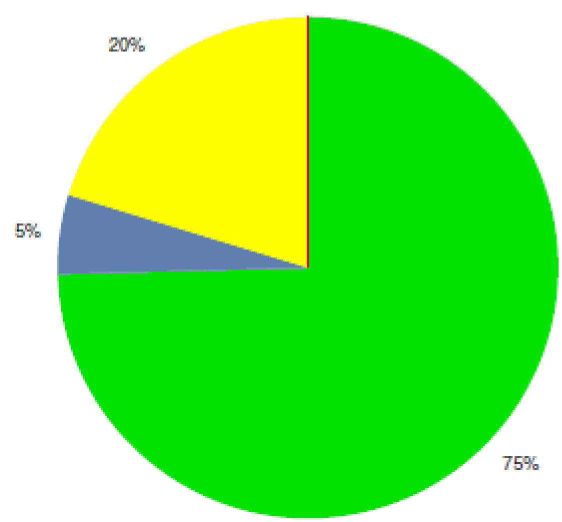
Discussion

During the 2004 and 2005 hurricane seasons, Florida was struck by a total of eight major storms that caused significant damage throughout the state. In 1992, Hurricane Andrew struck southeast Florida, and to date it remains the second most costly storm in United States history. Citizens has modeled how it would be affected if Florida encountered identical storm scenarios in the 2011 and 2012 hurricane seasons.

2004 - 2005 Storms

In the years 2004 and 2005, eight named storms made landfall in Florida. In 2004, Florida was struck by hurricanes Charley, Frances, Ivan and Jeanne, and in 2005, Florida was struck by hurricanes Dennis, Katrina, Rita and Wilma. If the storms of the 2004 and 2005 seasons were to have instead occurred in 2011 and 2012, Citizens estimates that its combined claims costs would be approximately $7.649 billion. Taking into account Citizens current $5.742 billion surplus, Citizens estimates its policyholders would face a surcharge totaling no more than 15 percent per policy for a collective total of $391 million. Additionally, all other policyholders in Florida would face a regular assessment of no more than 6 percent per policy needed to pay for the remaining $1.553 billion of Citizens losses as a result of the eight storms. Although the aggregate losses would exceed the retention level for CAT Fund coverage, none of the separate hurricanes, by themselves, would be enough to trigger the coverage, so no CAT Fund assistance would be available in this scenario. It should also be noted the PLA/CLA accounts would not sustain more in losses than is currently held in the surplus, therefore no surcharges or assessments would be warranted and $37 million of surplus would remain.

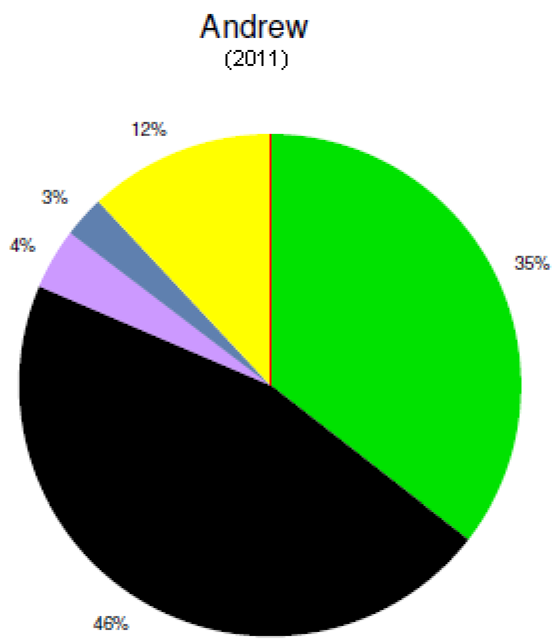
2004 & 2005
Storms



2011 & 2012	PLA/CLA	(in billions) Coastal Account	Total
Probable Maximum Loss	$ 3.019	$ 4.630	$ 7.649
Claims-Paying Resources:			
Accumulated Surplus	$ 3.019	$ 2.686	$ 5.706
FHCF Reimbursements	-	-	-
Private Reinsurance	-	-	-
Citizens Policyholder Surcharges	-	$ 0.391	$ 0.391
Regular Assessments	-	$ 1.553	$ 1.553
Emergency Assessments	-	-	-
Total	$ 3.019	$ 4.630	$ 7.649

Hurricane Andrew

Hurricane Andrew was a 1-in-50 year category 5 hurricane that hit Southeast Florida on August 24, 1992. To date it remains the second costliest hurricane in the U.S., causing damage totaling more than $26.5 billion. If Hurricane Andrew were to hit Florida in 2011 exactly as it did in 1992, Citizens estimates that it's policyholders would incur a total of $14.651 billion in insured losses. Taking into account Citizens current $5.742 billion surplus, Citizens estimates $6.726 billion could be recovered from the CAT fund and another $575 million would be collected from private reinsurance. Additionally, Citizens policyholders would face a surcharge totaling no more than 15 percent per policy for a collective total of $391 million. All other Florida policyholders of the subject lines of property and casualty insurance would face a Regular Assessment of no more than 6 percent per policy which Citizens estimates would be needed to make up for the remaining $1.752 billion in losses. With this scenario the PLA/CLA accounts would not sustain more in losses than is currently held in surplus, and as a result, $535 million of surplus would remain. However, the CAT fund retention levels for all accounts would be reached resulting in $6.726 billion in CAT fund assistance.



(in billions)

	PLA/CLA	Coastal Account	Total
2011 Probable Maximum Loss	$ 5.301	$ 9.350	$ 14.651
Claims-Paying Resources:			
Accumulated Surplus	$ 2.521	$ 2.686	$ 5.207
FHCF Reimbursements	$ 2.780	$ 3.946	$ 6.726
Private Reinsurance	-	$ 0.575	$ 0.575
Citizens Policyholder Surcharges	-	$ 0.391	$ 0.391
Regular Assessments	-	$ 1.752	$ 1.752
Emergency Assessments	-	-	-
	$ 5.301	$ 9.350	$ 14.651