MIAMIBEACH

OFFICE OF THE CITY MANAGER
NO. LTC # 222-2006

LETTER TO COMMISSION

TO: Mayor David Dermer and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager

DATE: September 19, 2006

SUBJECT: **Property and Casualty Insurance Reform Committee Meeting**

The purpose of this LTC is to inform the Mayor and City Commission of the next scheduled meeting of the Property and Casualty Insurance Reform Committee. The Committee was created by Governor Jeb Bush, and provides a forum to discuss the problems plaguing the insurance market and the residents of the state as well as to offer recommendations to stabilize the industry.

The committee is chaired by Lieutenant Governor Toni Jennings, and is charged with making recommendations on improving competition and creating incentives for insurance policy writing in all markets; encouraging commercial as well as residential hazard mitigation; improving insurance agent underwriting practices; reducing the reliance on Citizens Property Insurance Corporation; and evaluating the effectiveness of the programs enacted in Senate Bill 1980.

Below, please find the time, place, and agenda for the meeting:

September 21, 2006
9:00 a.m. – 4:00 p.m.
Florida International University
Main Campus
Graham Center

9:00 – 10:00	Public Testimony (speakers will be taken on a first come, first served basis; representatives will arrive at 8:30 a.m. to assist with sign-in.
10:15 – 12:30	Citizens Property Insurance Corporation – Discussion of Proposals
12:30 – 1:00	Working Lunch
1:00 – 2:00	Citizens Property Insurance Corp. Discussion of Proposals (continued)
2:00 – 2:30	Panel I – Modeling Entities
2:30 – 3:55	Discussion of modeling and residential / commercial insurance issues

Attached, please find "Property Insurance Issues and Options," which will be discussed during the agenda item on Citizens Property Insurance Corporation. Additionally, the minutes from the Committee's first three meetings are attached.

On September 6, 2006, the Mayor and City Commission approved two resolutions related to Florida's Insurance Crisis. Resolution No. 2006-26279 urges the Florida Legislature to immediately convene a special session to address the crisis in Florida's insurance market, and Resolution No. 2006-26302 urges the State of Florida to make a number of changes to the hurricane mitigation assistance programs provided by the state.

The Administration will continue to monitor this committee and will update the Mayor and City Commission as the Committee continues its work. In the meantime, if you have any questions or need additional information, please do not hesitate to contact me.

JMG/HF/kc

c: Hilda Fernandez, Assistant City Manager
Kathie Brooks, Director, Office of Budget and Performance Improvement
Kevin Crowder, Economic Development Division Director

Attachments:
Property Insurance issues and Options
August 8, 2006 Meeting Minutes
August 24, 2006 Meeting Minutes
September 7, 2006 Meeting Minutes

F:\DDHP\$ALL\KEVIN\Legislative Priorities\State Legislative\Insurance\PCIRC Miami LTC.doc

Property Insurance Issues and Options

III. Citizens Property Insurance Corporation (Citizens)

Issue #1: Eligible Property for Coverage in Citizens

Current Law:
Citizens offers three types of property and casualty insurance in three separate accounts: 1) Personal Lines Account (PLA) which covers homeowners, mobile homeowners, dwelling fire, tenants, condominium unit owners and similar policies; 2) Commercial Lines Account (CLA) covering condominium associations, apartment buildings and homeowners associations; and 3) High-Risk Account (HRA) which covers personal lines windstorm-only policies, commercial residential wind-only polices and commercial non-residential wind-only policies.

In the HRA, Citizens provides coverage in specially designated areas which have been determined to be particularly vulnerable to severe hurricane damage. In these "wind-only" zones, private insurers may offer other peril coverage, but are not required to provide windstorm coverage. The windpool designated areas were created as part of the process for determining eligibility for the Florida Windstorm Underwriting Association. Eligibility was limited to structures in eligible areas found by the Department of Insurance, after public hearings, to meet three criteria; the lack of windstorm coverage in the area was deterring development, causing mortgages to be in default, and causing financial institutions to deny loans; the area was subject to the requirements of the Southern Standard Building Code or its equivalent; and that extending windstorm coverage to the area was consistent with the policies and objectives of environmental and growth management.

As of June 30, 2006, Citizens provided coverage to 904,193 policyholders (excluding over 300,000 Poe policyholders), making Citizens the largest insurer in Florida. The numbers of policyholders in the three accounts are: PLA – 531,882; CLA – 4,537, and HRA – 367,774. Currently, Citizens is averaging 50,000 - 55,000 new applications for coverage per month.

Property is eligible for coverage with Citizens only if there is no other offer from an authorized insurer. The insurance agency and agent must use reasonable efforts to place personal or commercial insurance applicants with an authorized insurer prior to placing the risk with Citizens. Failure to do so is grounds for termination or suspension of the agent appointment.

Beginning March 1, 2007, non-homestead property is eligible in Citizens only if the property owner annually obtains three declinations of coverage from surplus lines insurers and one from an authorized insurer. The definition of homestead property for Citizens' purposes is more expanded than the definition used for property tax purposes.

III. Citizens Property Insurance Corporation (Citizens)

"Homestead property" is defined as: 1) a property granted a homestead tax exemption under ch.196, F.S.,; b) property for which the owner has a written lease with a renter for a term of at least 7 months and which is insured by Citizens for $200, 000 or less; c) an owner occupied mobile home permanently affixed to real property, owned by a Florida resident, and either granted a homestead tax exemption or, if the owner does not own the land, for which the owner certifies that the mobile home is his principal place of residence; d) tenants coverage; e) commercial lines residential property; f) any county, district, or municipal hospital; not-for-profit hospital; or continuing care retirement community that is certified under ch. 651, F.S., and receives an ad valorem tax exemption under ch. 196, F.S. All other property is "non-homestead property."

Beginning July 1, 2008, homes insured for $1 million or more are ineligible for coverage in Citizens. Homes insured for $1 million or more by Citizens before July 1, 2008 can remain in Citizens for another 3 years if the homeowner annually gets three declinations of coverage from surplus lines insurers and one from an authorized insurer. However, such property can only be covered in the high-risk account and will be considered "non-homestead property." By June 30, 2011, Citizens will not insure any home insured for $1 million or more.

In February, Citizens reported that it had 6,431 residential policies in force that were insured for values greater than $1 million, with a total insured value of $16.7 billion with a total premium of $64.3 million.

In February, Citizens estimated restricting eligibility for coverage to homes with insured values of $1 million or more would reduce their probable maximum loss (PML) in the HRA by $809 million which equates to 12.5%. Additionally, this restriction would reduce Citizens' residential exposure by $16.7 billion or 14%.

SLOSH (Sea, Lake and Overland Surges from Hurricanes) is a computerized model run by the National Hurricane Center to estimate storm surge heights resulting from historical, hypothetical, or predicted hurricanes by taking into account:

- Pressure
- Size
- Forward speed
- Track
- Winds

The calculations are applied to a specific locale's shoreline, incorporating the unique bay and river configurations, water depths, bridges, roads and other physical features. The SLOSH model is generally accurate within plus or minus 20 percent. The SLOSH model is best used for defining the potential maximum surge for a location.

Property Insurance Issues and Options

III. Citizens Property Insurance Corporation (Citizens)

LIDAR (Light Detection and Ranging) is a remote sensing system used to collect topographic data used by the National Oceanic and Atmospheric Administration and NASA to document topographic changes along shorelines. LIDAR can:

- Measure distance
- Measure speed
- Measure rotation
- Measure chemical composition and concentration

of a remote target where the target can be a clearly defined object or a diffuse object. LIDAR has been tested to assess post-storm damage to beaches.

Issue #1: Eligible Property for Coverage in Citizens
Options:

(1) Eliminate the current distinction of non-homestead and homestead property within Citizens (eligibility standards).

(2) Amend the definition of homestead and non-homestead property for Citizens' purposes.
  - Can revert back to definition used for property tax purposes.

(3) Prohibit non-homestead properties insured by Citizens that have been paid a total loss on the policy by Citizens from being eligible for continued coverage/renewal in Citizens.

(4) Require Citizens to create a separate, self-supporting account for non-homestead property.
  - Although current law differentiates homestead and non-homestead property in Citizens, it does so within the current three account structure.

(5) Prohibit Citizens' from writing wind-only policies.
  - Note: Effect is that Citizens will write the whole policy in all areas of the state. (i.e., the wind-only zones for Citizens are repealed)
  - Note: Effect is that private insurers would no longer be allowed to write policies excluding wind coverage.
  - If this option is chosen, consideration should also be given to whether Citizens would continue to cover commercial non-residential property.

III. Citizens Property Insurance Corporation (Citizens)

(6) Redraw or reduce Citizens' wind-only zones/windpool areas.
- Reduction can be within a specified distance (1,000 feet) from shore.
- Consider the storm surge area identified by SLOSH or vulnerable areas identified by LIDAR in creating revised windpool areas.

(7) Create a task force, committee, panel, etc. to evaluate or redraw the wind only territories.

(8) Exempt from Citizens' eligibility manufactured homes built before 1994 that do not meet the new HUD code.
- Variation: Allow Citizens to surcharge such manufactured homes until they are brought up to Code.

(9) Allow authorized insurers to exclude wind in all areas of the state.

(10) Require Citizens' policyholders to upgrade their homes to meet the statewide building code or **risk cancellation or non-renewal** of the policy.
- Variation: Require Citizens' policyholders to take specified mitigation measures or risk cancellation or non-renewal of the policy.
- Note: An exception can be made for low income policyholders.
- Note: This can be made to only apply to properties with insured values higher than a specified dollar amount.

(11) Require Citizens' policyholders to upgrade their homes to meet the statewide building code or **risk higher hurricane deductibles** applicable to the policy.
- Variation: Require Citizens' policyholders to take specified mitigation measures or risk higher hurricane deductibles.
- Note: An exception can be made for low income policyholders.
- Note: This can be made to only apply to properties with insured values higher than a specified dollar amount.

(12) Require Citizens' policies to have a minimum hurricane deductible (5 or 10%) if the insured value is greater than a specified amount (e.g., $250,000).

(13) Revise the ineligibility date for homes insured at $1 million or more to be excluded from Citizens' coverage. Currently it is July 1, 2008.

(14) Require Citizens to utilize layering arrangements with voluntary carriers rather than assume the entire exposure of every eligible risk. (i.e. make Citizens an excess carrier with private market writing coverage below the Citizens' coverage level)

III. Citizens Property Insurance Corporation (Citizens)

(15) Require the State to provide windstorm coverage up to a specified amount for each homeowner. (i.e. make Citizens or authorized insurer an excess insurer with State writing coverage below the Citizens' or authorized insurer's coverage level)
- e.g., State provides windstorm coverage for first $50,000 of damage and authorized insurer or Citizens can provide coverage for all damage over $50,000

(16) Require the State to provide windstorm coverage for a specified amount after Citizens or an authorized insurer provides coverage for a lower amount. (i.e. make State an excess insurer with Citizens or an authorized insurer writing coverage below the State coverage level)
- e.g., authorized insurer to provide windstorm coverage for first $50,000 of damage and State provides windstorm coverage for all damage over $50,000.

(17) Permit Citizens to surcharge properties until they are retrofitted to meet building Code requirements.

(18) Require insurers to offer, rather than provide, coverage for wind for residential properties in non wind-pool areas. (i.e., allow homeowners to purchase a property policy that only provides other perils coverage but not wind coverage.)

Issue #2: Citizens' Rates

Current Law:

In order to assure that Citizens rates are not competitive with the voluntary market, the current law requires that Citizens rates for its PLA be actuarially sound and that its average rates for each county must be no lower than the average rates charged by the insurer that had the highest average rate in that county among the 20 insurers (5 insurers for mobile home coverage) with the greatest direct written premium in the state for that line of business.

For its HRA (wind-only policies in coastal areas), the law more generally requires that Citizens rates be actuarially sound and not be competitive with approved rates charged by authorized insurers. However, the law further requires Citizens and the OIR to jointly develop a wind-only ratemaking methodology to meet this purpose, for rates effective on or after July 1, 2004. A wind-only rate methodology was developed that uses a variation of the "Top 20" approach mandated for personal residential multi-peril policies.

Property Insurance Issues and Options

III. Citizens Property Insurance Corporation (Citizens)

Under current law, there is no rate distinction between homestead and non-homestead property insured by Citizens. However, starting March 1, 2007, there is a rate distinction between property in the personal lines and commercial lines accounts and property in the high risk account.

For Citizens' policies in the personal lines account and the commercial lines account issued or renewed on or after March 1, 2007, a rate is deemed inadequate if the rate, including investment income, is not sufficient to provide for the purchase of reinsurance coverage from the Florida Hurricane Catastrophe Fund and private reinsurance (whether or not purchased) and to pay all claims and expenses reasonably expected to result from a 100-year probable maximum loss event (i.e., a 1-in-100 year hurricane), without resort to assessments or other outside funding sources.

For Citizens' policies in the high-risk account (wind-only coverage in coastal areas) issued or renewed on or after March 1, 2007, a rate is deemed inadequate if the rate, including investment income, is not sufficient to provide for the purchase of reinsurance coverage from the Florida Hurricane Catastrophe Fund and private reinsurance (whether or not purchased) and to pay all claims and expenses reasonably expected to result from a 70-year probable maximum loss event, without resort to assessments or other outside funding sources. For policies in the high-risk account issued or renewed in 2008 and 2009, the rate must be based upon an 85-year and 100-year probable maximum loss event, respectively.

As of June 30, 2006, Citizens' 100 year PML for its personal lines account is $5.891 billion and $12.187 billion for its high risk account.

In ratemaking, Citizens is also required to use the public hurricane loss model developed by Florida International University as the minimum benchmark for determining its windstorm rates after the public model has been found to be accurate and reliable by the Florida Commission on Hurricane Loss Projection Methodology (Commission). Because the public model has not been submitted to the Commission yet, Citizens is not yet required to use it in ratemaking.

Issue #2: Citizens' Rates
Options:

(1) Shorten or lengthen the time period by which Citizens' rates for its High Risk Account must reach the 1 in 100 year PML.

(2) Require Citizens' rates to cover a higher or lower PML.

III. Citizens Property Insurance Corporation (Citizens)

(3) Require a more gradual increase in Citizens' rates to fully fund its 100-year PML.
- e.g., require Citizens' rates to cover its average annual expected loss plus a "capital accumulation" or "assessment reduction" factor, as determined by Citizens and approved by OIR. Alternatively, require a specific capital accumulation factor of 10% or 20% of the average annual expected loss until Citizen has sufficient surplus and reinsurance to cover its 100-yeear PML.

(4) Require Citizens to purchase reinsurance for a specified PML event for each account or for specified account(s).

(5) Require the public hurricane model to be submitted to the Commission by a date certain.
- Note: This may require additional funding to FIU to cover submission expenses

(6) Require the PLA rates to be higher than the highest approved voluntary market rate rather than the "top 20 insurer" standard.

(7) Require the Office of Insurance Regulation to set rates automatically without an initial filing by Citizens.

Issue #3: Assessments and Surcharges for Funding Deficits in Citizens

Current Law:
If a deficit is incurred in any Citizens' account, the board must levy an immediate assessment on each non-homestead property (as defined in statute) of up to 10 percent of the premium. If this is insufficient to eliminate the deficit, the board must levy an additional assessment against all Citizens' policyholders (including non-homestead policyholders), collected upon renewal, of up to 10 percent of premium. Any remaining deficit is funded by regular and emergency assessments, either recouped from, or directly paid by, non-Citizens' policyholders of property insurance. The regular assessment against insurers could still be imposed as soon as a deficit is determined, but must be reduced by the amounts estimated to be collected from the two 10 percent surcharges.

Lines of business that are subject to Citizens' deficit assessment include insurance for: fire, industrial fire, allied lines, farmowners multiperil, homeowners multiperil, commercial multiperil, and mobile homes, and includes liability coverage on all such insurance except for inland marine and certain vehicle insurance other than the insurance on mobile homes used as permanent dwellings.

Property Insurance Issues and Options

III. Citizens Property Insurance Corporation (Citizens)

Issue #3: Assessments and Surcharges for Funding Deficits in Citizens
Options:

(1) Expand Citizens' assessment base to include other lines of insurance.
- Note: Can expand it to correspond to the FHCF assessment base (all property & casualty **(including auto)** except workers' comp and med mal until 2007) or expand it to include only specified lines.

(2) Require any Citizens' deficit to be defrayed by Citizens' policyholders only. (i.e. no pass through of deficit assessments to other Florida homeowners)

(3) Increase or decrease the deficit assessment percentage levied on Citizens' policyholders (homestead and non-homestead) before deficit assessment is levied on all other Florida homeowners.

(4) Require the Legislature to use excess revenue to defray Citizens' deficits by appropriating funds directly to Citizens.

(5) Require the State to send a check to every Florida homeowner for use by the homeowner in paying a Citizens' deficit assessment.

(6) Prohibit insurers from recouping Citizens' assessments if companies discontinue, limit, or withdraw from the Florida market.

Issue #4: Citizens Oversight, Internal Controls and Standards of Conduct

Current Law:

Citizens operates under an eight member board of governors with the Governor, the CFO, the President of the Senate, and the Speaker of the House or Representatives appointing two members each. The Financial Services Commission (Governor and Cabinet), rather than the Office of Insurance Regulation (OIR), approves Citizens' plan of operation. Beginning July 1, 2006 Citizens' Executive Director is confirmed by the Senate.

Significant changes to Citizens' internal controls were made in 2006 by SB 1980. SB 1980 required Citizens to have an internal auditor and requires OIR to do a market conduct examination of Citizens every two years. In addition, the Auditor General is required to conduct an operational audit of Citizens every three years.

SB 1980 also made significant changes regarding Citizens' standards of conduct. Specifically, Citizens is required to have competitive bidding on contracts of $25,000 or more, with exceptions, and board approval of contracts of $100,000 or more. OIR background checks of applicants for senior management positions are required. The

III. Citizens Property Insurance Corporation (Citizens)

Citizens' board members and senior managers are subject to the code of ethics and financial disclosure requirements applicable to public officials. Also, all Citizens employees must annually submit a statement attesting that no conflict of interest exists. Board members and employees are prohibited from accepting any gift from any person or entity under contract with Citizens or under consideration for a contract. Citizens is prohibited from retaining lobbyists, but allows employees to register as lobbyists. Citizens' senior managers are prohibited, for two years following termination of employment, from representing any person or entity before Citizens, or from being employed or under contract with an insurer that received a take-out bonus from Citizens. Citizens is required to conduct a cost-benefit analysis of using legal services provided by in-house (employee) attorneys, or to contract with outside attorneys.

Citizens is also required to establish a fraud unit or division to investigate possible fraudulent claims or repairs and to meet the same anti-fraud requirements imposed on authorized insurers. Citizens' employees are required to notify the Division of Insurance Fraud within 48 hours of having information that would lead a reasonable person to suspect that fraud may have been committed by an employee of Citizens.

Issue #4: Citizens Oversight, Internal Controls and Standards of Conduct
Options:

(1) Recommend Legislature continue its oversight responsibility over Citizens and determine if other external review is necessary.

(2) Establish a meaningful set of uniform performance metrics to be reported by Citizens to OIR.

(3) Require OIR to establish an ongoing reporting structure highlighting claims-handling performance using metrics similar to those used in OIR's disaster reporting framework.

Issue #5: Depopulation of Citizens

Current Law:

Since 1995, Florida law has expressed the Legislature's intent to provide a variety of financial incentives to encourage the replacement of the highest possible number of policies written in the state's residual market with policies written by admitted insurers at approved rates. There is specific authority for Citizens to pay a "take-out bonus" to insurers of up to $100 for each policy removed from Citizens, under certain conditions. However, Citizens has implemented greater bonuses under conditions approved by its board and the OIR. In its 2006 operational audit of Citizens, the Auditor General found the bonus amount paid or escrowed for each policy taken out of Citizens averaged $148, although Citizens had several takeout programs paying take-out bonuses of $300 per policy.

Citizens adopted a new depopulation program in December 2005. This program has non-bonus and bonus components in it. Only policies taken out with wind coverage are eligible for a bonus. Take-out companies must assume a minimum number of policies or a minimum total insured value of the take-out policies under either the bonus or non-bonus component. Policies must be taken out for three or five years in order to be eligible for a bonus. Base bonus amounts range from 5% to 12.5% for dwelling policies; however, some policies are not eligible for bonuses. Base bonuses for condo unit/tenant contents and mobile home policies have different ranges. Take-out companies can receive an additional bonus amount for assuming a greater number of policies or for taking a policy out for 5 years. The additional bonus amounts range from 0% to 10%, depending on the number of bonus eligible policies or the total insured value of policies taken out.

In 2005, 480,319 policies were removed from Citizens reducing Citizens' exposure by almost $92.5 billion.

It has been questioned whether the take-out bonuses provide a cost-effective method for reducing Citizens' potential liability. On the one hand, payment of cash bonuses to insurers reduces Citizens' surplus to pay claims and may be a windfall to an insurer willing to take out a policy at its approved rate without the bonus. On the other hand, a take-out bonus may be viewed as a form of "reinsurance" that transfers 100% of liability for a policy for the period that a take-out insurer must continue to renew the policy, and reduces potential assessments on the entire market.

Beginning on January 1, 2008, SB 1980 limits the bonus amount to $100 per policy and requires any take-out bonus paid to an insurer be conditioned on the insurer keeping the policy for five years. Citizens must evaluate the cost-benefit of approved take-out plans for which a take-out bonus is paid, by tracking whether properties removed from Citizens are later insured by Citizens.

Issue #5: Depopulation of Citizens
Options:

(1) Develop a "keep-out" program for Citizens designed to encourage properties to be written by the private market before being bound by Citizens.
    - Can involve relaxed rate regulation by OIR for insurers who keep policies out of Citizens.

(2) Allow authorized insurers to write non-homestead Citizens' policies on an individual risk rate basis.

(3) Require the OIR to deem approval of a private insurer's rate for a property in the HRA if the private insurer's rate is lower than Citizens' filed rate.

(4) Eliminate take-out bonuses.

(5) Increase or decrease take-out bonuses.

(6) Allow consumers to choose whether or not to stay in Citizens if the take-out company's rate exceeds those of Citizens by 25% or some other specified percentage.

(7) Permit take-out companies taking 50,000 or more policies out of Citizens to charge Citizens' rates for a period of three years after take-out.

Issue #6 Agent Issues

Current Law:

One of the challenges to depopulating Citizens is the "Consumer Choice" law, enacted in 2002, the same year that Citizens was created. The prior law for the Residential Property and Casualty Joint Underwriting Association (RPCJUA) had provided that a policyholder was not eligible for coverage in the RPCJUA if an offer of coverage was made by an authorized insurer. But, the Consumer Choice law provides that a Citizens policyholder who receives an offer of coverage from an insurer in the voluntary market is not required to accept that offer and may remain in Citizens if the current agent of that insured is "unable or unwilling to become appointed for the takeout insurer." Therefore, the standard for eligibility for coverage from Citizens is no longer dependent on whether other coverage is available in the voluntary market, but on the status of the agent.

Citizens has adopted procedures in conjunction with OIR to comply with the Consumer Choice law while continuing to encourage the removal of policies from Citizens. Agent representatives associations assert, and Citizens representatives acknowledge, that the Consumer Choice law is much less disruptive to a Citizens policyholder and his or her agent and allows for a smoother transition to a take-out company, if the current agent is appointed by the take-out insurers. But, Citizens also reports that the law operates to reduce the number of policies taken out. Citizens estimates that for 2004, when about 158,000 policies were taken out of Citizens, an additional 39,000 policies were not taken out due to the provisions of the Consumer Choice law.

The Consumer Choice law is amended beginning July 1, 2007. As of July 1, 2007, Citizens has a 10-day waiting period for new applications. If an authorized insurer offers coverage during this period, the applicant is not eligible for coverage in Citizens regardless of whether the insurer appoints the agent who submitted the application.

Property Insurance Issues and Options

III. Citizens Property Insurance Corporation (Citizens)

Issue #6 Agent Issues
Options:

(1) Provide insurance policy transparency
- provide the agent's commission on the bill by specific % and dollar amount.
- provide the specific assessment information (CAT Fund, Citizens, FIGA, or PCJUA (if applicable)) by specific % and dollar amount. Contain no abbreviations for the entities.
- provide specific mitigation discounts by specific % and dollar amount for home mitigation by type of mitigation.
- provide insurance premium tax information by specific % and dollar amount.

(2) Repeal "Consumer Choice" or amend "Consumer Choice."
- for new business only

(3) Require the insurance agent to disclose the specific premium differential between the offer of coverage from the take out company and continuing coverage in Citizens with the same insurance agent.

(4) Reduce agent commissions paid by Citizens.

(5) Reduce agent commissions paid by Citizens for renewals only.

(6) Do not apply the amount of a rate increase for calculating the agent's commission on renewal policies.

(7) Change Citizens' agent commissions to a flat fee (fixed dollar amount).

(8) Create statutory grounds for agent discipline (suspension, revocation or administrative penalties or fines) if an agent places a risk in Citizens without making reasonable efforts to keep it out of Citizens.

Issue #7: Citizens' Policy Issuance, Service, and Administration

Current Law:

Under current law, private market insurers can voluntarily adjust Citizens' wind-only policies if the insurer writes the other perils policy for the Citizens policyholder. SB 1980 required Citizens to report to the Legislature by February 1, 2007 on the feasibility of requiring insurers providing the non-wind coverage to issue and service Citizens' wind policies. In addition, beginning June 1, 2007, insurers writing the non-wind coverage are

Property Insurance Issues and Options

III. Citizens Property Insurance Corporation (Citizens)

required to contract with Citizens to provide claims adjusting services for the wind coverage provided by Citizens in the high risk account.

Agents collect a commission for the sale of insurance and continued support associated with the insurance. Agent commissions are generally paid as a percentage of premium. The current commission levels filed by Citizens are: 10% for PLA (multi-peril residential), 10% for HRA residential (wind-only residential), 12% for CLA (multi-peril commercial residential), and 12% for HRA commercial residential and HRA commercial (wind-only commercial residential and commercial).

Builder's risk insurance covers buildings and structures under construction, remodeling, or repair. It typically covers the same types of things as regular property insurance, such as damage from theft, fire, vandalism, wind, hail, and other accidental loss or damage to the property. Coverage usually extends until the building or structure is completed and/or accepted by the owner. It does not cover losses that occur before the project is started or after it is completed. This coverage is typically purchased by the building owner, rather than the contractor.

Currently, Citizens writes builder's risk policies in the high risk account only. The policy count is about 6,000 and the estimated insured value of the policies is $4.5 billion. In response to an inquiry from the OIR regarding why Citizens was writing builder's risk policies, Citizens reviewed the law and rules on the subject and determined it did not have statutory authority to write these policies. Therefore, Citizens' Board decided to discontinue writing such policies on July 15, 2006 and to non-renew existing policies as of November 1, 2006. After Citizens announced its decision to discontinue writing builder's risk policies, it learned this type of coverage was unavailable in the private market. Thus, in July Citizens made a filing which OIR approved, to renew existing builder's risk policies until December 31, 2006, but only with actuarially sound rates; to write new policies up to December 31, 2006 with actuarially sound rates; not to cancel any existing policies other than for standard cancellation reasons; and to review Citizens' underwriting policy on builder's risk insurance in November.

<u>Issue #7: Citizens' Policy Issuance, Service, and Administration</u>
<u>Options:</u>

(1) Require insurers providing the non-wind coverage to issue and service Citizens' wind policies.
   - Note: Current law only requires insurers to <u>adjust</u> Citizens' wind policies beginning June 1, 2007.

(2) Provide statutory authority for Citizens to write builder's risk policies in the high risk account.

Property Insurance Issues and Options

III. Citizens Property Insurance Corporation (Citizens)

(3) Provide statutory authority for Citizens to write builder's risk policies in all Citizens' accounts rather than the high risk account only.

(4) Prohibit Citizens from writing new builder's risk policies.

(5) Remove commercial non-residential policies from Citizens.

NOTE: Other issues related to Citizens, the PCJUA and commercial insurance will be deferred to another meeting.

August 8, 2006 Meeting Minutes

PROPERTY & CASUALTY INSURANCE REFORM COMMITTEE MEETING
AUGUST 8, 2006
KNOTT BUILDING, ROOM 412
TALLAHASSEE, FL

Call to Order - The meeting of the Property & Casualty Insurance Reform Committee was called to order by its Chairman at 10:05 a.m. on August 8, 2006 in Room 412, Knott Building, Tallahassee, Florida. The following committee members were in attendance: Lt Governor Toni Jennings (Chairman), Senator J.D. Alexander, Lee Arnold, Representative Donald Brown, Leslie Chapman-Henderson, J.D. Collins, Manuel de Zarraga, Sandy McKinnon, Bill Montford, Representative Dennis Ross, Larry Schultz, and Linda Shelley. Members absent include – Robert Helms, Frank Kowalski and Barbara Weese. In addition, the Insurance Technical Advisory Council members were introduced. The Chairman declared a quorum.

Opening Remarks - The Chairman opened the meeting with remarks about the current state of the residential and commercial insurance markets. Committee members then provided self introductions and gave their general insurance concerns. The Governor's Executive Order and Committee listing were provided to the members. Nate Adams, Deputy General Counsel, Governor's Legal Office, gave an overview to the Committee members on Government in the Sunshine.

Weather Patterns/History - Mr. Ben Nelson, the State of Florida's Meteorologist, gave the Committee a presentation on hurricane patterns that have affected the State of Florida for the past century. He discussed weather conditions that give rise to hurricane formation and current predictions for hurricanes during the 2006 tropical season.

Market Conditions Since 1992 - Professor Pat Maroney, Associate Dean, Graduate Programs, FSU College of Business provided the Committee with information regarding the insurance market over the past 15 years. He gave reasons and examples of the cycles in the market. He also explained to Committee members how premium, surplus, investment earnings and other insurance company conditions are interrelated. Various members asked questions including but not limited to, how profits from other states effect Florida writings of insurers, inflation factors, building code interrelation with insurer losses, securitization and capital market issues, mortgage defaults on homes that are under-insured, general economic impacts that result from catastrophic losses and the commercial residual market - the Property Casualty Joint Underwriting Association (PCJUA) formation.

Florida Hurricane Catastrophe (CAT) Fund - Jack Nicholson, Senior Florida Hurricane Catastrophe Fund Director, presented to the Committee an overview of the CAT Fund's creation in 1993 and the various changes to the Fund made over the past thirteen years. The trigger point, retention levels and CAT Fund assessment process were among the issues discussed. Various Committee members asked follow-up questions on topics including pre-event bonding, the assessment base, pricing for CAT Fund coverage, whether commercial properties should be added to the CAT Fund, bond rating levels, CAT Fund rates vs. private reinsurance market rates, and whether the CAT Fund's intended design to stabilize the market really has been accomplished. Mr. Nicholson was also asked if price differentials could be used on different levels of CAT coverage and if the CAT Fund could buy reinsurance (retrocession) and use CAT bonds itself. Mr. Nicholson answered yes to all three questions but said to date these concepts have not been applied to the CAT Fund's operations. Mr. Nicholson said the CAT Fund continues to evaluate options for insurers and specifically is looking into temporary changes that could help in the short run but not effect long term market conditions for the private market (the "ugly baby" scenario).

Florida Residual Market Overview - Jay Newman, former Executive Director of the Residential Property Casualty Joint Underwriting Association (RPCJUA) and subsequently Executive Director of Citizens Property Insurance Corporation (Citizens), gave the Committee a better understanding of the history of residual markets in Florida, including the RPCJUA and the Florida Windstorm Underwriting Association (FWUA). As Citizen's first Executive Director, he explained the issues related to the merger of the RPCJUA and FWUA and the reasons for the merger. The committee members raised many questions related to Citizens regarding its lack of capital, low historic rates, size in comparison to other residual mechanisms in other states, policy exposure, coverage issues, and deficit funding.

CS/CS/SB 1980 Presentation - Committee members Senator J.D. Alexander, Representative Dennis Ross and Representative Donald Brown gave the committee an overview of the statutory changes that were enacted in CS/CS/SB 1980 during the 2006 Legislative Session.

Citizens Property Insurance Corporation - Bob Ricker, Executive Director of Citizens briefed the Committee on issues regarding Citizens since the merger in 2003. He also discussed some of the challenges that Citizens faces as a rapidly growing insurer, who is forced to write policies with many diverse risks. He expressed his desire to work with the committee to develop innovative methods to depopulate and reduce Citizens policy count. The committee was provided graphs that showed the tremendous growth in policy count, aggregate premium increases and exposure levels that Citizens faces.

Insurance Capital Build-up Incentive Program Presentation - Anne Bert, Director of Operations, Florida Hurricane Catastrophe Fund, gave the committee an overview of the implementation of the Insurance Capital Build-up Incentive Program which was created in CS/CS/SB 1980. She stated that the 250 million dollar appropriation has begun to be distributed. Approximately ten applicants have each applied for 25 million dollars of capital buildup funds. The committee was interested in the writing ratios that were required and whether the ratios could be altered if an applicant had reinsurance in place.

Florida Hurricane Mitigation Program Presentation - Lisa Miller, Director of the Department of Financial Services Mitigation Program, provided the committee with a brief explanation of the program including the inspection process, estimated repair costs, insurance premium discounts, and matching grants. Ms. Miller informed the committee that the website for the new Mitigation Program is www.mysafefloridahome.com.

Property & Casualty Joint Underwriting Association (PCJUA) - Kevin McCarty, Insurance Commissioner, informed the committee of the reasons why the Florida Cabinet has decided to begin the process of reopening the PCJUA. Mr. McCarty stressed the fact that industry best practices will be used in reactivating the PCJUA and he hopes the reactivation will cause minimal disruption to the market place. He told the committee that adequate pricing will be the key to its success and expects a blend of direct and indirect writing.

Other matters - The committee briefly discussed the Florida Building Code and the panhandle exception.

Closing Remarks - The Chairman announced the next meeting was scheduled for August 24, 2006 in Orlando, Florida at the Orlando Convention Center from 9:00 a.m. - 3:00 p.m and the meeting was adjourned at 2:55 p.m.

Lt Governor Toni Jennings
Committee Chairman

August 24, 2006 Meeting Minutes

PROPERTY & CASUALTY INSURANCE REFORM COMMITTEE MEETING
AUGUST 24, 2006
ORANGE COUNTY CONVENTION CENTER, ROOM S320
ORLANDO, FL

Call to Order - The meeting of the Property & Casualty Insurance Reform Committee was called to order by its Chairman at 10:12 a.m. on August 24, 2006 in Room S320, Orange County Convention Center, Orlando, Florida. The following committee members were in attendance: Lt Governor Toni Jennings (Chairman), Senator J.D. Alexander, Lee Arnold, Representative Donald Brown (non-voting), Leslie Chapman-Henderson, J.D. Collins, Manuel de Zarraga, Frank Kowalski, Sandy McKinnon, Bill Montford, Representative Dennis Ross (non-voting), and Linda Shelley. Absent members included – Robert Helms, Larry Schultz and Barbara Weese. In addition, the Property Insurance Technical Advisory Committee members were present. The Chairman declared a quorum. Note: The full Committee and Advisory Committee members were divided into three subgroups to hear public testimony from 9:00 – 10:00. Approximately 35 citizens expressed their opinions to the subgroups.

Opening Remarks – The Chairman opened the meeting with a discussion of guiding principles the Committee might want to consider. A member added that guiding principles would help the Committee in its deliberations. Those principles were three-fold – recommending regulatory changes, statutory changes and federal law changes to stabilize Florida's insurance market. A member stressed that all issues needed to be considered. The Chairman also told the committee members that Governor Bush has circulated a four-state CAT Fund proposal that could apply to Florida, Texas, New York and California.

PANEL I – REINSURANCE/CAT FUND/CAPITAL MARKET/RATE IMPACTS –

Susan Patschak, Chief Operating Officer, Endurance Holdings Ltd gave a presentation from a Bermuda reinsurer's perspective. She stated her company paid out approximately one billion dollars in CAT losses as a result of Hurricanes Wilma, Rita and Katrina. She reported her company increased participation by 75% in 2006. She stated that Florida's data from its eight storms was pristine due to the fact that so little of its losses were flood losses as compared to Louisiana (Hurricane Katrina). Her company had four specific identifiers for writing – adequate prices for primary writers, solvency of the primary writer, strong building codes and promotion of mitigation techniques. She did not think availability of reinsurance was a problem. She recommended the start date for Florida's CAT Fund coverage be moved from June 1 to earlier in the year in order for companies to structure their contracts and comply with changes mandated by the Legislature. January 1 and February 1 were mentioned as possible dates and then during a discussion with Commissioner Kevin McCarty, March 1 was also recommended as a possibility. She also stated that a 25 million dollar company that was well capitalized was acceptable and she added that reinsurers seek "accurate estimations of loss" on their business. Ms. Patschak also mentioned that Endurance Holdings has deemphasized commercial risk exposure primarily due to concerns over data quality.

Andrew Castaldi, Sr. Vice President Catastrophe Perils, Swiss Re, discussed Swiss Re's operation in the Atlantic Basin rather than Florida specific activity. He said his company's writings had increased 20% and that more capacity was available. He discussed how his company seeks diversification in its practices. Swiss Re likes to partner on high exposure risks. He stated that mitigation, building codes and code enforcement are very important and that pricing is the key to bad risks and more perilous risks. He added the more an insurer can spread its risks, even worldwide, the better.

Britt Newhouse, President, Guy Carpenter, gave the Committee an overview of the total reinsurance premium in the marketplace – $14 billion in reinsurance premium and $3 billion in CAT premium. He stated that the law of "large numbers" works. He added that if reinsurers are convinced that their clients (insurers) are not viable, then reinsurers would move away from a potential loss. He stated the marketplace was peaking now and he believed that reinsurance and government plans could fill the gap.

Steve Goldberg, Chief Actuary, US Benfield Group, gave his views on the market and said the funding must ultimately come from policyholders or taxpayers if a catastrophic loss occurred. He said reinsurance demand was tied to population growth, housing value appreciation, coastal development, large insurers seeking to mitigate earning volatility, increased recognition of exposure under new catastrophe models and greater capital constraints under new rating agency requirements. He also showed how prices have increased dramatically and some programs were being only partially placed. He explained a CAT Bond was a high yield insurance-backed bond containing a provision causing interest and/or principal payments to be delayed or lost in the event of loss due to a specified catastrophe, such as a hurricane. He explained that side cars were an investment tool to bolt on capacity to an existing carrier to expand its writings. A discussion ensued on the taxing of carrier reserves and if an instrument or method could be created to defer the taxation. The Committee further discussed the reserves, tax consequences and profit/dividend issues. The Committee also briefly discussed the typical transaction costs of CAT bonds and if such structural costs could be reduced. The Committee also discussed California's lack of a requirement by banks for property owners to buy earthquake insurance. It was stated that only 15 % of California properties have earthquake insurance.

Brain Murphy, Senior Managing Director, Ritchie Capital, informed the Committee that his capital company recently infused 4 million dollars into Security First Insurance Company and $65 million into Royal Palm Insurance Company. He stated that the biggest issues he sees are the reduction in global reinsurance capacity, rating agency impacts, and regulatory/accounting challenges. He also said getting the risk of insurance companies into the capital market efficiently can be a challenge. He thought the redefinition of reinsurance into other acceptable financing tools would aid the market. In other words, by allowing debt to be considered reinsurance, that would supplement the capacity of traditional reinsurers. He also added that increasing capacity in the Florida Hurricane CAT Fund and additional funding to the recently created Florida Capital Build-Up Program would be beneficial to the market.

Paschal Brooks, Associate, Goldman Sachs & Co., provided the Committee with his insights on the investor community's actions in the catastrophe risk market. He said there is an increasing convergence of CAT bond, traditional reinsurance, sidecars and bank markets. He said pricing and terms have evolved since Katrina and continue to evolve, generally overall price levels are higher and several price gradients in the market have steepened. Also, there is an increasing diversity of views amongst the modeling agencies and investors on the risk associated with attachment, particularly hurricane perils. He said that some elements of the market that are effecting conditions are the recent growth of the housing market, refinement by the modeling firms, rating agency pressures on carriers, and some investors raising concerns about taking more risks. He defined a CAT bond as an "excess of loss" structure and a sidecar as a "quota share" structure. He said he believes Florida could perhaps create a sidecar even to Citizens Property Insurance Corporation and described how CAT bonds and sidecars operated.

Other discussion - The Committee had a lengthy discussion on AM Best's effect on carrier writing decisions due to the rating impacts. The value of AM Best was described to the Committee as increasing carrier solvency. The balancing of capacity, pricing, taxation, capitalization and capital market interplay are vital. A brief discussion ensued on the need for uniform regulatory standards for reinsurers to operate easily in the 50 state regulatory environments. The Committee also heard that from a reinsurance perspective the residential market was easier to reinsure than the commercial market because risks are more easily valued. The Committee was told that modeling firms have an easier time modeling residential losses because houses are more accurately modeled. The Committee discussed school district properties and the fact that very little school property was insured due to lack of availability. Data collection by building type (commercial property) and losses remain an issue to consider.

PANEL II – MITIGATION/PREMIUM DISCOUNTS

Leslie Chapman Henderson, President/CEO, Federal Alliance for Safe Homes, provided the Committee with opening remarks and shared a video from 2005 that showed the story of how a home built to recent building code standards and one that was not, faired during the 2005 hurricane season. The home built to the recent building code standards weathered the storm. The other did not.

Lisa Miller, Deputy CFO, Department of Financial Services, briefed the Committee regarding the status of the Department of Financial Services oversight of the state mitigation program. She said the agency had received 36,000 calls the first two days (August 16 &17) after the program was announced. She also said that 22,000 applications have been received by the Department from Florida citizens and the Department hopes to perform 12,000 inspections over the next 12 weeks. The Chairman informed the Committee that another $82 million in community development block grant funds has been approved by the Federal government.

Kevin McCarty, Insurance Commissioner, Office of Insurance Regulation (OIR), discussed the OIR rules that were be developed on discounts/credits and education to homeowners regarding the credits. The credits are currently expected to be tied to the seven factors of retrofitting a home. A discussion ensued regarding why the mitigation program is so attractive to homeowners, the Tallahassee Community College manufactured housing program and how condos are not benefiting from the mitigation program. The Committee also discussed the prioritization of mitigation dollars and addressed the cost of retrofitting, manufactured housing issues and the broad discount ranges that exist. The Committee was educated on current market agent and carrier practices regarding applying credits. Suggestions were raised that dealt with standardization of the home inspection form, standardization of credits, mitigation inspection standards, disclosure (consumer education), agent education, expansion to commercial and condo risks, and length of time an inspection report would be valid and enforceable.

Thaddeus Cohen, Secretary of the Department of Community Affairs, discussed the Florida building code history and evolution since 1974 but primarily since 1993. He informed the Committee of the 2000 Florida Building Code (1st edition), the 2003 Building Code Commission and the 2004 Florida Building Code (2nd edition). He provided the Committee with examples of how homes withstood the recent hurricanes that were built to the new codes. He also informed the Committee of the CAT Fund's 10 million dollar annual mitigation program. The Committee discussed building code enforcement at the local level and the importance of that aspect of the process on the system as a whole. Secretary Cohen stated that local building code officials need more education and our priorities need to be refocused on "life safety" issues. A lengthy discussion ensued regarding manufactured housing and the regulatory and code standards that apply to them. The Committee discussed the need for manufactured housing to have the same wind load standards as site built houses. A discussion also ensued regarding whether or not reinsurers and modeling agencies take into account mitigation in the modeling of potential losses.

Closing Remarks - The Chairman announced the next meeting is scheduled for September 7, 2006 in Tallahassee, Florida from 9:00 a.m. - 4:00 p.m. She also stated that mitigation/discounts and the CAT Fund discussion of proposals would be the focus of the Tallahassee meeting, along with the beginning of a new topic – Market Incentives. The meeting was adjourned at 3:15 p.m.

Lt Governor Toni Jennings
Committee Chairman

September 7, 2006 Meeting Minutes

PROPERTY & CASUALTY INSURANCE REFORM COMMITTEE MEETING
SEPTEMBER 7, 2006
ROOM 212 KNOTT BUILDING
TALLAHASSEE, FL

Call to Order - The meeting of the Property & Casualty Insurance Reform Committee was called to order by its Chairman at 9:05 a.m. on September 7, 2006 in Room 212, Knott Building, Tallahassee, Florida. The following committee members were in attendance: Lt Governor Toni Jennings (Chairman), Senator J.D. Alexander, Lee Arnold, Representative Donald Brown (non-voting), Leslie Chapman-Henderson, J.D. Collins, Manuel de Zarraga, Robert Helms, Frank Kowalski, Bill Montford, Representative Dennis Ross (non-voting), Linda Shelley, Larry Schultz and Barbara Weese. Members absent include – Sandy McKinnon. In addition, the Property Insurance Technical Advisory Committee members were present. The Chairman declared a quorum.

Opening Remarks – The Chairman welcomed the members back to Tallahassee for a full day of deliberations.

MITIGATION/ PREMIUM DISCOUNTS

Various company representatives of the Technical Advisory Committee gave reports on how their companies were applying current insurance premium discounts. One company reported that 36% of its policyholders received some credit for retrofitting their homes. Discounts ranged from 5 to 42%. The average was 15 – 25%. Another company representative stated that discounts are not reflective of an adequate base rate and for standard discounts to work the base rate needs to be actuarially adequate. A third company representative stated that their discounts ranged from 5 to 45% with the average being 15 – 20%. The primary consideration appeared to be type of construction and age of the dwelling. There was much discussion about the need for mitigation results to be factored into the Hurricane Modeling Commission's requirements for models.

The Committee discussed the need for standardization in forms, time certainty on the recognition of an inspection report by carriers (spoilage date), insurance agent education and the need for more acceptance of credits for high impact glass, then numerous policy alternatives were discussed by the Committee. Additionally, the Committee talked about mitigation for commercial structures and what the Committee could do to educate the business sector of the need for research on specific business structure losses due to hurricanes and the effectiveness of varied building types. A current University of Florida data collection /research effort for commercial buildings was briefly discussed.

The Committee and Department of Community Affairs Secretary Thaddeus Cohen discussed many issues related to Florida's building code. The panhandle exemption, local building code enforcement effectiveness and Florida's continued growth and building expansion were discussed. A grading system for a home's ability to withstand a hurricane was also discussed.

The following recommendations were adopted:
1. Maintain and expand the commitment to the Mitigation Program being administered by the Department of Financial Services. Also, state funds need to be leveraged to their maximum amount.
2. A measurement methodology should be developed to judge the program's effectiveness and its effect on the market. Example: will additional mitigation of homes increase capacity in the market, what is the performance of homes after a hurricane for retrofitted homes?
3. The modeling firms (RMS, AIR, ARA, EQE and FIU) need to recalibrate their models to take into account the results of mitigation in Florida.
4. The mindset of mitigation needs to have a "human cost savings component and physical home cost savings". Also, the effect of the avoidance of deductible losses on insureds should be considered for those who performed mitigation on their residence.
5. There needs to be "actuarial soundness" in base rates and premium discounts granted for insureds that complete mitigation techniques.
6. Uniform inspection forms need to be developed for all insurance companies.
7. Where feasible, standardized or uniform credits with smaller ranges should be developed while allowing market competition in the credit process.
8. There is a need for more consumer information as to types of specific mitigation and the resulting potential credits on policy issuance and renewals.
9. Whether or not additional state funding for new mitigation grants occurs, the creation of a not-for-profit corporation should be considered to raise funds from the private sector for additional mitigation grants.
10. A statewide building code should be in place that requires American Society of Civil Engineers wind lines to be adopted and then any future changes to the statewide code could only be to strengthen the code.
11. There needs to be state funded research concerning mitigation of commercial structures and whether strengthening the state's building code for commercial structures should be considered.

FLORIDA HURRICANE CATASTROPHE FUND (FHCF)

The Committee had substantial discussion regarding the numerous policy alternatives available regarding the FHCF and related issues. The key items were the bottom attachment point, rate on line, trigger date, top level expansion, and assessment mechanism. There was considerable discussion of the tightening of the private reinsurance market due to the rating agency actions and the effect of modeling company decisions. However, new capital seems to be available in the marketplace though private reinsurance costs have risen significantly in 2006. Mr. Jack Nicholson, Senior FHCF Officer, gave the Committee his insight on the numerous policy alternatives. He said the current rate on line for FHCF coverage is 6.7%. He said the private reinsurance rate is approximately 50-70% at the level below the CAT Fund bottom retention level, 30% along side of the CAT Fund and 20% above the CAT Fund top level. Mr. Nicholson suggested five core principles should be considered when evaluating changes to the CAT Fund. They were 1) expand the CAT Fund where the private market alternative is not available;

2) create equity to all companies; 3) increase the CAT Fund rate to "near market" pricing (last year's rate in the private market); 4) provide options for insurers (allow insurers to have choices); and 5) make changes on a short-term basis, not long-term. Insurance Commissioner Kevin McCarty discussed two additional concepts with the Committee– creating Special Purpose Vehicles to bring capital into the Florida market and rewriting Florida's reinsurance/collateralization law. He also said he will be proposing changes in Florida's captive insurer law.

The Committee discussed the state's challenge to address a $5 to $25 billion event in Florida and the layer above being a Federal issue. Along with Florida's CAT Fund, the Committee believes that the Federal Government needs to create some type of Federal CAT Fund for catastrophic losses. It was discussed by the Committee how lowering the cost of reinsurance would expand a company's surplus and should result in lower costs to insureds. The Committee agreed that the primary goal should be to bring the private sector back to Florida. Additionally, the Committee discussed concerns of expanding the CAT Fund and then possibly facing greater potential assessments to policyholders if a catastrophic event occurred. The Committee agreed that any changes should be short-term.

The following recommendations were adopted:
1. The Committee should keep the current retention level but consider offering coverage below the retention level/attachment point (first layer of coverage) on a voluntary basis to all admitted companies participating in the CAT Fund.
2. Any change should only be temporary/short-term.
3. The rate for CAT Fund coverage should be increased to a "near market rate".
4. Encourage the Federal government to create a CAT Fund to deal with high level catastrophic events.

The committee discussed but made no recommendations on the following issues – whether the upper level of the CAT Fund (above 15 billion) should be raised, whether the CAT Fund assessment method should be expanded, whether additional avenues of revenue should be created to build up CAT Fund reserves, whether the 25% rapid cash build up provision is adequate, whether the CAT Fund should be expanded to commercial policies, and whether the annual June 30th trigger date needs to be altered. Also, the committee discussed the need for policymakers to be informed of all potential total assessments (CAT Fund, Citizens Property Insurance Corporation, Florida Insurance Guaranty Association (FIGA) and the Property and Casualty Joint Underwriting Association (PCJUA)) which could be applicable to insurance policyholders when legislative changes are considered.

Other matters – During the meeting, the Committee had a lengthy discussion of the tightening of the commercial market. Once again, the issue of data collection on commercial structures (loss exposure data) needs to be developed. Availability appears to be the number one problem. Staff was asked to research how many insurers were writing in the commercial market and how much capital was in that market. The Office of Insurance Regulation reported on the status of the newly triggered Property Casualty Joint Underwriting Association. The sale of something less than a HO3 insurance policy (Standard Homeowners Insurance policy) and Citizens Property Insurance Corporation growth issues and depopulation strategies were also discussed.

Closing Remarks - The Chairman announced the next meeting is scheduled for September 21, 2006 in Miami, Florida from 9:00 a.m. - 4:00 p.m. and the meeting was adjourned at 3:55 p.m.

Lt Governor Toni Jennings
Committee Chairman

Property & Casualty Insurance Reform Committee
September 21, 2006
Miami, FL
9:00 am - 4:00 pm

9:00 - 10:00am	**PUBLIC TESTIMONY** * Speakers will be taken on a first come, first served basis; representatives will arrive at 8:30am to assist with sign-in
10:15 - 12:30am	**CITIZENS PROPERTY INSURANCE CORPORATION - DISCUSSION OF PROPOSALS**
Tab 1	Property Insurance Issues and Options – Part III – Citizens Property Insurance Corporation (Citizens) • Bob Ricker, President • Kevin McCarty, Commissioner, Office of Insurance Regulation • Presentation
12:30 - 1:00pm	**WORKING LUNCH**
1:00 - 2:00pm	**CITIZENS PROPERTY INSURANCE CORPORATION - DISCUSSION OF PROPOSALS (Continued)**
2:00 - 2:30pm Tab 2	**PANEL I** • Mitch Sattler, Vice President, Public Policy Model Management, Risk Management Solutions, Inc. • Tom Larsen, Senior Vice President, EQECAT • Dr. Shahid Hamid, Professor of Finance and Director of International Hurricane Research Center, Florida International University **Modeling Entities**
2:30 - 3:55pm	**DISCUSSION OF MODELING AND RESIDENTIAL/COMMERCIAL INSURANCE ISSUES**
3:55 - 4:00pm	**Closing Remarks – Lt. Governor Toni Jennings**