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Annual Recommended Rate Filing

Citizens has completed revising the annual rate filing that was previously approved at the December 2018 Board of Governors meeting, and subsequently filed with the Office of Insurance Regulation (OIR). This is to comply with House Bill (HB) 7065, which was passed in the 2019 Florida Legislative Session, and prevents Citizens from raising insurance rates for the HO3 or DP3 lines of business without considering any anticipated future savings from changes made to assignment of benefits (AOB) by the bill. The revised analysis developed rate indications that:

- Comply with HB 7065 by carefully considering the savings created by changes to AOB. Also included is more recent data that was not available when the original filing was prepared. **This results in an estimated additional 43,993 policyholders receiving rate decreases compared to the original filing.**
- Comply with the requirement in Florida law that Citizens recommend actuarially sound rates. The indications developed are designed to generate the premium needed to cover Citizens' projected losses and expenses during the effective period of the rates.
- Are not excessive, inadequate or unfairly discriminatory, and meet the requirements of U.S. Actuarial Standards of Practice except where Florida law supersedes such standards.
- Comply with the statutory "glide path" that limits Citizens annual rate increases to no more than 10% for any single policy issued. This is an exception to the requirement for actuarially sound rates. It applies to non-sinkhole perils, and excludes coverage changes and surcharges.
- Considers the Florida Public Hurricane Model (FPM) results in wind rate recommendations, as required by law. Law changes in 2016 removed the requirement that the FPM results be the "minimum benchmark" for those rates.
- Include an appropriate charge to pass through the Florida Hurricane Catastrophe Fund (FHCF) Rapid Cash Build-Up Factor, as required by law.

<u>Differences between Original and Revised Filing</u>

HB 7065 explicitly requires that any savings it created be included in Citizens' HO3 and DP3 rate filings. To comply with this new statutory requirement, Citizens has withdrawn and revised all of its rate filings which were approved in the December 2018 Board of Governors Meeting. Changes include:

- Considering savings created by changes to AOB made by HB 7065 for all perils in all lines, including HO3 and DP3. Staff found significant savings in HO3, HO6, DP3 and MHO3 rates due to reduced costs for the peril of water.

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- Considering more recent data on Citizens' losses that were not yet available when the original filings were prepared. This created changes even in some personal lines that were not impacted by HB 7065.
- Reinsurance costs are unchanged from the unrevised filing. Citizens' 2019 private reinsurance purchase was not finalized early enough to be included, and the 2019 FHCF rates are still not finalized.

Some of the largest revisions were to the homeowner's multi-peril line. The overall uncapped indication changed form +25.2% in the original filing to just +7.2% in the revised filing, and the proposed rate impact changed from +8.5% to +2.3%. Overall, the revised rate filing gives an additional estimated 43,993 policyholders rate decreases compared to the original filing. This is primarily in the homeowners, condo, dwelling and mobile homes lines.

Multi-peril Policies in the PLA and Coastal Account						
		# of Decreases		% of Decreases		# of additional
	Inforce Policies	Original	Updated	Original	Updated	Policyholders decreases
HO3	164,621	4,494	45,392	2.7%	27.6%	40,898
HO6	34,902	533	1,254	1.5%	3.6%	721
DP3	85,663	2,821	4,169	3.3%	4.9%	1,348
MHO3	26,488	15,442	16,468	58.3%	62.2%	1,026
	311,674	23,290	67,283	7.5%	21.6%	43,993

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	Personal Lines Mult-Peril			
	Uncapped Indication		Capped Proposed Change	
Product Line - Personal	Initial Filing	Updated Filing	Initial Filing	Updated Filing
Homeowners	25.2%	7.2%	8.5%	2.3%
Renters	-11.6%	-14.8%	-8.0%	-9.4%
Condo Units	27.4%	26.4%	8.3%	8.1%
Dwelling -DP3	36.9%	24.0%	8.9%	8.6%
Dwelling - DP1	15.0%	16.6%	6.3%	6.8%
Mobile Homeowners	3.3%	2.0%	1.5%	0.6%
Dwelling Mobile Home	15.9%	16.1%	7.9%	8.0%
Total Personal Lines	26.0%	11.6%	8.2%	4.0%

	Personal Lines Wind-Only			
	Uncapped Indication		Capped Proposed Change	
Product Line - Personal	Initial Filing	Updated Filing	Initial Filing	Updated Filing
Homeowners	23.8%	23.6%	8.4%	8.2%
Renters	5.8%	5.8%	5.6%	5.5%
Condo Units	38.3%	38.5%	8.0%	8.0%
Dwelling -DP3	28.0%	28.0%	7.7%	7.4%
Dwelling - DP1	n/a	n/a	n/a	n/a
Mobile Homeowners	29.9%	29.9%	9.7%	9.7%
Dwelling Mobile Home	43.6%	43.8%	9.5%	9.5%
Total Personal Lines	25.9%	25.9%	8.3%	8.1%

	Total Personal Lines			
	Uncapped Indication		Capped Proposed Change	
Product Line - Personal	Initial Filing	Updated Filing	Initial Filing	Updated Filing
Homeowners	24.9%	10.3%	8.5%	3.4%
Renters	-9.9%	-12.8%	-6.7%	-8.0%
Condo Units	30.4%	29.7%	8.2%	8.1%
Dwelling -DP3	34.8%	24.7%	8.7%	8.4%
Dwelling - DP1	14.9%	16.6%	6.3%	6.8%
Mobile Homeowners	6.3%	5.1%	2.4%	1.6%
Dwelling Mobile Home	16.6%	16.7%	8.0%	8.0%
Total Personal Lines	25.9%	14.2%	8.2%	4.7%

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Summary of Revised Indicated Rate Change

Major cost factors in the rate analysis include:

i) Non-catastrophic losses and loss adjustment expenses (LAE)
ii) Modeled catastrophic hurricane losses and estimated LAE
iii) Administrative expenses
iv) Risk transfer costs
v) Pre-event liquidity costs

For this updated indication, the average statewide indicated rate change over all personal lines of business is +14.2%, decreased from +25.9% in the unrevised filing. The premium impact after the application of the glide path cap is 4.7%, down from +8.2% in the original filing. Note that each Citizens policyholder pays a premium for an individual policy line that is based on their risk classification; nobody pays exactly the average. The indications vary greatly by account and by product line. See Exhibit 1 for more detail.

The average statewide indicated rate change over all commercial lines of business is +54.2%. The premium impact after the application of the glide path cap is +8.9%. These results also vary widely by product line. See Exhibit 1 for more detail.

When underlying costs are rising rapidly, the difference between indicated revenue need and actual premium impact may be significant. Due to the glide path, cost trends may outstrip the ability of Citizens to obtain sound premiums, even if base rates are sound.

Determination of Overall Rate Indications by Line of Business

As described above, the indications initially filed after the December 2019 board meeting were withdrawn due to the passing of HB 7065. The withdrawn indications were then updated to reflect the anticipated savings of HB 7065 as well as two additional quarters of loss trend and development. All other provisions remain the same. The historical periods used in the indications, the hurricane model results, overhead expense provisions and reinsurance costs remain unchanged with this updated indication.

Updated Indications

HB 7065 specifically directed Citizens to evaluate the rate indications for the HO3 and DP3 policy forms for potential savings due to this bill. In addition to evaluating these two mandated lines, we did look at all policy forms to determine if there could be savings elsewhere. After examining all forms, both commercial and personal lines, we identified four that HB 7065 could impact: Homeowners-HO3, Dwelling-DP3, Condo-HO6, and Mobile Homeowners-MHO. Also we examined potential impact to all perils, not just the peril of non-weather water. Our conclusion was that non-weather water is the only peril that would see potential material savings. So with this updated indication, we adjusted the non-weather water losses for HO3, DP3, HO6, and MHO.

In addition to evaluating the impact of HB 7065, we examined updated loss trends. In particular, the litigation rate was adjusted. In the prior filing, the projected HO3 statewide litigation rate for non-weather water claims, after adjusting for the impact of the Managed Repair Program (MRP) was 41%. After incorporating the most recent loss trend information and adjusting for MRP, the updated litigation rate is 29%. The combined impact of incorporating HB 7065 savings, a projected lower litigation rate, and the projected savings due to MRP lowered the HO3 water-only indication from 43.6% to .3%. This in turned lowered the HO3 indication to 7.2%. The impact of those adjusted lines is summarized below.

	Personal Lines Mult-Peril			
	Uncapped Indication		Capped Proposed Change	
Product Line - Personal	Initial Filing	Updated Filing	Initial Filing	Updated Filing
Homeowners	25.2%	7.2%	8.5%	2.3%
Dwelling -DP3	36.9%	24.0%	8.9%	8.6%
Condo Units	27.4%	26.4%	8.3%	8.1%
Mobile Homeowners	3.3%	2.0%	1.5%	0.6%

Hurricane Peril

Hurricane peril rates drive the overall Citizens premium for many policyholders, particularly in coastal territories. As Florida law requires, projected hurricane losses from accepted scientific simulation models were considered. Citizens used four models accepted by the Florida Commission on Hurricane Loss Projection Methodology: AIR (v16.0.0, Touchstone 5.0.0), RMS (Risklink v17.0), CoreLogic RQE (Florida Hurricane Model v2017a), and the FPM (v6.2). No model results were modified or adjusted. The four distinct models underpinned a range of rate indications for each line of business. These ranges varied by line of business, as models may disagree widely in some territories and products.

When determining the statewide and individual territory wind rate indications, we selected the median of the four models. This is in alignment with the approach that was introduced with last year's rate filing. We view this approach as appropriate because it provides a statistically sound method for recognizing the range of model results in every territory while also minimizing the effect of outliers.

There was no adjustment made to the hurricane portion of the indication due to HB 7065. By law, Florida insurers are required use the unadjusted model results. Additionally, given that the AOB abuse is relatively recent (as compared to the data the hurricane models are based upon), in all likelihood, the costs that HB 7065 is aimed at curtailing are already not reflected in the modeled results.

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Exhibit 1- Summary of Statewide Rate Indications displays results for each product line. The **Uncapped Indication** is the selected statewide indication adjusted for the FHCF pass-through. The **Proposed Change** columns represent the actual premium impact to consumers after the application of the glide path cap to each single policy. At the policy level, all premium changes are limited to +/- 10% (except for HO-4 which is limited to +10%/-15%, in accordance with previous OIR guidance). After the application of the cap, the impact of the FHCF pass-through is added.

Impact of Private Reinsurance Costs

The reinsurance costs reflected in the indication are identical to the costs in the withdrawn filing. Updated reinsurance costs for the 2019 hurricane season have not been completely finalized. The FHCF Board of Trustees will meet on July 21st to finalize the potential impact of HB 301 on their 2019 rates. Additionally, the private reinsurance that Citizens purchased was not finalized in time for incorporation into this updated indication. The comments that follow are identical to the comments from the rate filings that were recently withdrawn. They describe the reinsurance purchased for the 2018 hurricane season. The 2018 hurricane season reinsurance cost are included in this updated indication.

Due to significant depopulation and continued low “rates-on-line” (unit costs) for private reinsurance, Citizens was, for 2018, once again, able to transfer the majority of its hurricane risk away from Florida policyholders (including non-Citizens policyholders, who would pay emergency assessments if storms caused significant deficits). For the fourth year in a row, Citizens can sustain a so-called “1-in-100 year” storm, in the Coastal Account without triggering assessments. Because Citizens is only exposing 34% (down from 50% from 2017) of its Coastal surplus to such a storm, it can also sustain a 1-in-41 year storm following a 1-in-100 year event.

In 2017, Citizens transferred $1.33 billion of Coastal Account risk to private reinsurers at a net cost of $56 million. For 2018, Citizens transferred $1.42 billion of Coastal Account risk to the private sector at an estimated net cost of $55 million. “Net cost” refers to the gross expenditure on risk transfer less the expected hurricane losses that would be subject to the agreements. Last year’s Homeowners indication included a provision of 5.5% for the cost of private reinsurance. This year the provision is 5.7%, meaning that 5.7 cents of the premium dollar is devoted to private reinsurance.

Private reinsurance covers policies in the Coastal account only, but it does lower the probability that policyholders in the Personal Lines Account (PLA) and Commercial Lines Account (CLA) will face a surcharge due to deficits in the Coastal Account. Consequently, a small portion of private reinsurance costs are allocated to the policies in the PLA and CLA. The rate indications allocate 90% of the private reinsurance costs to the Coastal Account and 10% to the PLA/CLA.

Note that public reinsurance from the mandatory participation in the FHCF is divided into a

PLA+CLA contract and a separate Coastal contract, the net costs of which are allocated to policies in the respective accounts.

Impact of Pre-Event Liquidity

Pre-event liquidity (debt financing) provides a funding bridge to the point in time and loss levels at which the FHCF begins to pay hurricane reimbursements. It also ensures quick claims-paying capacity for subsequent storms in a season and augments other Citizens claims-paying resources that are not readily available in cash after a storm. This allows for timely payment of claims as well as flexibility in the timing and cost of issuance of post-event debt.

Pre-event debt does impact the cost structure of Citizens, and therefore the rate indications. The impact in Homeowners to the statewide uncapped rate indication is +1.9%.

Impact of Policy Level Capping

Due to the interaction of all actuarial considerations, rate indications vary greatly from policy to policy within Citizens. Large increases as well as large decreases are indicated for various consumers. The glide path established in 2010 requires Citizens to ensure no single policyholder shall be subject to a (non-sinkhole) rate increase greater than 10%. In order to balance the statutory requirements of actuarial soundness and the glide path, it is recommended that all rate increases be capped at +10%, and all rate decreases at -10%, except for HO-4 forms as noted above.

Impact of FHCF Buildup Premium

The FHCF is required by law to include a “rapid cash buildup factor” of 25% in its premium. Citizens, in turn, is required by law to pass this cost to the policyholder, outside the 10% glide path cap. This results in higher rate indications and affects the statewide premium impacts as well, raising some lines slightly above 10%.

Sinkhole Indications

The number of reported sinkhole claims to Citizens has been steadily declining since the end of 2011. In 2011, over 4,500 claims were reported. By 2013 the number was reduced to around 1,200 and has declined further since then, attributable largely to the impact of Senate Bill 408, the major sinkhole claims reform enacted in 2011. While all signs at this point are that SB408 has successfully addressed sinkhole trends, there does remain uncertainty about the final outcome of many pending claims, some litigated. Staff recommends that for a fifth straight year, sinkhole rates remain unchanged. As the ultimate effect of law changes emerges in the claims experience, there is no guarantee that future sinkhole rate increases will not be necessary.

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Monroe County
In the rate order issued regarding the personal lines 2018 rates (Order # 211627-17), the OIR held Monroe rates' at the 2017 levels and directed Citizens to complete the following analyses:

1. **An evaluation and study of appropriate rating territories for Monroe County for wind-only and multi-peril policies**

   Results

   We have investigated the effects of segmenting Monroe into three separate geographical territories: the upper, middle and lower keys. The three of the four models suggest that rates on policies written in the lower keys are not as inadequate as in the middle and upper keys. Due to the 10% glide path, this would have very little effect this year. But eventually, policyholders in the upper and middle keys could pay more premium, which would allow policyholders in the lower keys to pay less.

   While staff will continue to monitor this option, we recommend continuing to use only one Monroe rating territory in 2019, for these reasons:

   A. Increased uncertainty with more granularity
   As required by statute, we calculate the indicated wind premium using modeled hurricane losses from approved models. There is uncertainty in any model results, which is why we consider the results of four models. Segmenting the Monroe territory means asking the models for more granular precision when there is a lack of actual historical hurricane data for this area. This will only increase the uncertainty of the model results.

   B. Little Impact to recommended rate changes in 2019
   Splitting Monroe into more granular rating territories would have little impact on the recommended rate changes for Monroe policyholders in 2019. This is because every split territory still has an indication that is much greater than 10%. It would be two to three years before Citizens' recommended rate changes would be different for the split territories as compared to the single territory.

   C. Not Actuarially Justified
   Whether to segment the Monroe into more granular territories is a decision that requires careful deliberation. It would lead to higher uncapped indications for some policyholders, and also creates internal costs to implement the new territories. Additionally, the four models are not in total agreement on which segments of the Keys should be higher or lower. Keeping a single territory for now has little impact on 2019 premiums paid by policyholders, and allows for a more careful decision. In particular, it may allow the models to incorporate the results

from Hurricane Irma. Since Irma did impact the Keys, this may be an important data point for calibrating models.

2. **Review the study of Applied Research Associates, Inc. which evaluated the effectiveness of Plywood (Class C) shutters, for consideration by Citizens to provide a credit for this wind mitigation feature**

   <u>Results</u>

   We have conducted a detailed review of the 2003 Applied Research Associate, Inc., (ARA) study referenced by the order. We do not recommend that Citizens provide credit for this wind mitigation feature, for reasons explained below.

A. <u>Plywood shutters cannot be verified</u>
   Because plywood shutters must be manually installed by policyholders as a storm approaches, their use cannot be verified when a policy is written. This makes them unsuitable for a premium credit under actuarial standards of practice.

B. <u>Practical concerns</u>
   Even if an insured purchases plywood shutters, ARA points out that their effectiveness depends upon several factors. For example, they must be new and not warped. As they age, stored plywood shutters can warp, especially if they are deployed at some point, get wet, and are stored again. Also, the nail holes used to install the shutters must be “virgin”. That is, each time shutters are deplored, new nail holes must be used. Finally, ARA found that even under ideal conditions, the plywood shutters were expected to fail at wind speeds over 130. Monroe is rated as a 180 wind zone.

C. <u>Would need to be offered statewide</u>
   To be actuarially fair, the new credit could not be offered only in Monroe County. It would need to be offered statewide. Implementing the new credits would create new costs. Finally, there might be unintended consequences. In particular, making the credit consistent with other mitigation credits offered by Citizens, and with current hurricane models (the ARA study was published in 2003), might require updating all the mitigation credits offered by Citizens.

3. **Collaborate with Monroe County on the completion of its detailed study to evaluate the effect of building code standards in Monroe County and the impact of those standards on wind mitigation credits**

Results

Citizens did this. Staff collaborated with FIRM on their study by providing policy data, and by analyzing FIRM's survey results using the AIR hurricane model. That study is now complete

4. **An evaluation and study of the models accepted by the Florida Commission on Hurricane Loss Projection Methodology using the 2017 standards, which includes the requirement that county building codes be reflected in the model results**

   Results

   Citizens cannot yet complete this task. This is because the standards set in 2017 apply to models that are not approved and available for use until 2019. We cannot use current models instead because, prior to 2017, the standards did not require that county building codes be reflected in the model results.

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Rate Analysis Exhibits

Several Exhibits are included with this item. Note that scale differs on some maps, so review the legends carefully when comparing maps. Also, all premium totals are based on policies in-force as of 6/30/2018.

Exhibit 1: Summary of Statewide Indications

- Columns (1) through (3) display the statewide uncapped indication and the proposed capped rate impact for multi-peril lines of business in the Personal Lines Account.
- Columns (4) through (6) display the statewide uncapped indication and the proposed capped rate impact for multi-peril lines of business in the Coastal Account.
- Columns (7) through (9) display the statewide uncapped indication and the proposed capped rate impact for wind-only lines of business (written only in the Coastal Account).
- Columns (10) through (12) display the statewide uncapped indication and the proposed capped rate impact for combined multi-peril and wind-only lines of business.

Exhibit 2 – Multi-Peril HO-3 (Homeowners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 3 – Wind-Only HW-2 (Homeowners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 4 – Multi-Peril HO-6 (Condo Unit-Owners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 5 – Wind-Only HW-6 (Condo Unit-Owners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 6 – Multi-Peril DP-1 and DP-3 (Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 7 – Wind-Only DW-2 (Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 8 – Multi-Peril MHO-3 and MDP-1 (Mobile Homeowners and Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 9 – Wind-Only MW-2 and MD-1 (Mobile Homeowners and Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county
- Note that the numbers in this exhibit show the average premium impact for the county
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

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Exhibit 10 - Multi-Peril Commercial Residential County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each of the "Group 2" perils territories (some of which cross several counties)
- Note that the numbers in this exhibit show the average premium impact for the territory.
- The actual premium impact can vary between -10% and +10% for individual policyholders within each county

Exhibit 11 - Wind-Only Commercial Residential County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county

Exhibit 12 - Multi-Peril Commercial Non-Residential County Average Premium Impacts Map

- Displays the proposed premium impact after capping for each Group 2 territory
- The numbers display the expected premium impact for each policyholder within a territory.

Exhibit 13 - Wind-Only Commercial Non-Residential County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county

Exhibit 14 - Distribution of Recommended Rate Impacts by Policy in PLA

- Tabulates the proposed capped premium impacts for personal lines into a histogram showing number and proportion of policyholders in each impact range
- Includes all personal lines combined
- Range exceeds +/- 10% slightly, due to the impact of the FHCF pass through

Exhibit 15 - Distribution of Recommended Rate Impacts by Policy in Coastal Account

- Tabulates the proposed capped premium impact for personal lines into a histogram showing number and proportion of policyholders in each impact range
- Includes all personal lines combined
- Range exceeds +/- 10% slightly, due to the impact of the FHCF pass through

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Exhibit 15A - Distribution of HO3 Rate Impacts by Region

- Tabulates the proposed capped premium impact for HO3 Multi-peril into a histogram showing number and proportion of policyholders in each impact range by region of the state
- Includes all HO3 multi-peril policies in both the PLA and Coastal account
- Range exceeds +/- 10% slightly, due to the impact of the FHCF pass through

Exhibit 16 – Average Premium by County – HO-3

- Current and proposed average premium by county for multi-peril Homeowners policies
- Based on in-force policies as of 06-30-2018

Exhibit 17 – Average Premium by County – HW-2

- Current and proposed average premium by county for wind-only Homeowners policies
- Based on in-force policies as of 06-30-2018

Exhibit 18 – Average Premium by County – HO-6

- Current and proposed average premium by county for multi-peril Condo Unit policies
- Based on in-force policies as of 06-30-2018

Exhibit 19 – Average Premium by County – HW-6

- Current and proposed average premium by county for multi-peril Condo Unit policies
- Based on in-force policies as of 06-30-2018