

Actuarial & Underwriting Committee Meeting


Annual Market Research Update

December 3, 2019



Several topics are becoming emerging trends in the Florida property insurance market:

- Water Control Devices (Telematics)
- Home Sharing
- Marijuana
- Actual Cash Value (ACV) Roof
- Container Homes and Businesses



Water Control Devices (Telematics)

Background

- Several water control devices (smart devices/ telematics) have emerged in the last few years.
- Some insurance companies have begun offering discounts for active and passive devices.
- Some municipalities, homeowners' associations and builders are partially or fully funding passive devices.
- Typical discounts are ~3% passive systems; ~5% for active systems.

Emerging Issues in the Market: Water Control Devices

Background – Passive Systems

- Alerts a homeowner (HO) to a possible leak, like a smoke detector.
- Tend to be battery-operated stand-alone units, which are inexpensive and easy to install.
- Sensors need to be installed near every plumbing device to be completely effective.
- Example: Roost (~\$50 per sensor)



Emerging Issues in the Market: Water Control Devices

Background – Active Systems

- Alerts a homeowner to a leak, but also performs additional functions to stop the water flow.
- Significantly more expensive than passive devices, but further reduce losses by turning off the water flow.
- Examples: Leak Defense System (~\$2k-\$3k+); Uponor Phyn Plus (~\$1k)



Risk

- Insureds may install devices incorrectly or not maintain them after receiving the insurance credit... risk is greater on passive devices.
- Data privacy concerns (personal information/data may be at risk).
- Intentionally disable device/system for fraudulent claims.

Insurance Concerns / Expectations for Coverage

- Devices are becoming more popular and advertised in the market.
- Consumers may install devices and expect a discount on their homeowners' insurance or other financial support.
- Many devices are advertising on their websites that they have partnered with insurance companies or customers may be eligible for discounts.
- Limited to no value in reducing fraudulent water claims.

Citizens' Research

- Citizens currently does not offer a discount program.
- At least ten Florida-domiciled companies have started offering discounts for these devices, however most are marketed to more preferred risks with higher valued homes.
- Risk of fraud.
- Monitoring usage to ensure that devices are being used after installation, as well as data privacy, pose challenges.

Things to Consider

- How are these devices different than other protective devices like security alarms?
- Are water control device credits an appropriate fit for Citizens' book of business?
- How can Citizens monitor the usage of such devices to ensure compliance?
- How can Citizens minimize its cyber security risk?

Home Sharing

Emerging Issues in the Market: Home Sharing

Background

- Home sharing (i.e. Airbnb, Flipkey, HomeAway, VRBO) has become increasingly popular.
- Usage is very prevalent in vacation/tourism areas (i.e. Miami, Orlando) and those with very tight/expensive housing markets (i.e. NYC, San Francisco).
- “Easy” way for homeowners to make extra money and an inexpensive and convenient travel option for tourists.

Background (continued)

- May take the form of home sharing or complete rentals.
 - *Home sharing* - renting a part of the home while the owner also occupies the home; ranges from a separate structure on the same property to renting a sofa for a few hours.
 - *Complete rentals* – renting the entire dwelling, particularly for short-term rentals or special occasions.
- Sites may offer some protections for the homeowner and renters.

Emerging Issues in the Market: Home Sharing

Risk

- Both homeowners and renters/travelers are subject to risks while participating in home sharing.
 - Homeowners' risks
 - Severe damage to property (theft or vandalism)
 - Liability (a traveler is injured on the property)
 - Bodily injury caused by the renter/traveler
 - Renter/travelers' risks
 - Damage or theft of personal property
 - Bodily injury caused by the homeowner (includes invasion of privacy)
- Homeowners may be offering homes in violation of laws, ordinances, and/or by-laws.

Insurance Concerns / Expectations for Coverage

- Homeowners may expect insurance to cover damages caused by renters from occasional home sharing.
- Homeowners may not even be aware that their insurance companies should be notified if they participate in home sharing.
- Risk of severe damage to property is low; liability concerns pose a greater risk.

Citizens' Research

- Several cities have enacted legislation around home sharing.
 - Restricting or prohibiting home sharing.
 - Requiring hotel licenses and taxes be paid.
- Private market carriers have begun putting a mix of eligibility and coverage restrictions in their products.
 - Some make homes that participate in home sharing ineligible.
 - Some exclude coverage in their contracts but may allow buy back options.
- Citizens has coverage restrictions that generally exclude business pursuits, property of a renter/boarder, and short-term rentals; contract changes are being evaluated.

Things to Consider

- “Sharing economy”/ P2P (“peer-to-peer”) activity is becoming increasingly popular.
- How is having a home sharing occupant different than a traditional renter or boarder?
- How does this fit with Citizens’ statutory purpose?

Marijuana

Background

Several issues have emerged with the recent legalization of medical and/or recreational use of marijuana in most states, most notably:

- Conflicting laws between state and federal governments.
- Difficult insurance exposures and lack of market capacity.

Emerging Issues in the Market: Marijuana

Risk

Conflicting laws between state and federal governments.

- Though some states have legalized medical and/or recreational marijuana (~80% in some fashion), it is still prohibited by federal law.
- Many commercial banks will not do business with dispensaries or other marijuana related businesses as (very small) risk of federal criminal charges.
- Most admitted insurance carriers will not insure dispensaries or other marijuana-related businesses.

Risk (continued)

Difficult insurance exposures

- Difficult to price - Extreme disparity in exposure (value) between seeds/immature plants and mature plants.
- Fire risk - indoor growing requires high voltage lamps, drastically increasing fire risk.
- Many dispensaries are cash business and have increased risk of theft.

Insurance Concerns / Expectations for Coverage

Commercial Lines

- Most likely exposure in FL is medical dispensaries; expectation of coverage for inventory, just as any other inventory or merchandise for a pharmacy or drug store would be covered.
- Agricultural coverage is going to be needed for approved growers.

Insurance Concerns / Expectations for Coverage (continued)

Personal Lines

- Expectation of coverage as personal property (particularly for medical marijuana) for theft or damage from another loss (fire, etc.).
- Liability language addresses illegal drug use, complexity regarding legality of marijuana use.

Citizens' Research

- Citizens has very low risk, due to eligibility rules and coverage restrictions.
- Commercial Lines
 - Greenhouses are generally ineligible.
 - Farms are generally ineligible (plants/shrubs/trees outside the building are not covered).
 - Medical dispensaries may be eligible, but theft and liability are excluded.
 - Contraband is excluded.

Citizens' Research (continued)

Personal Lines

- Expectation of coverage as personal property (medical marijuana).
- Criminal acts are excluded.

Things to Consider

- What makes marijuana any different than any other prescription medication?
- More states continue to legalize recreational marijuana; How is that different than beer/wine/liquor?
- Is there really an insurance issue for personal lines?
- For commercial lines, are the issues any different than for similar risks (orchid greenhouses, pharmacies, etc.)?



Actual Cash Value Roof

Emerging Issues in the Market: ACV Roof

Background

Actual cash value (ACV) for roof – for wind and hail losses – pays a depreciated amount for the roof in the event of a covered loss.

Calculation

Replacement Cost Value (RCV) – Depreciation = ACV

Example

\$10,000 - \$4,000 = \$6,000

Background (continued)

- Nationally, the insurance industry uses it as either a mandatory endorsement for older roofs or an optional one, at the insured's discretion.
- ACV roof endorsement has been adopted by most HO carriers in FL as an option; it may be required for Dwelling Program (DP).
- FL statute currently requires insurer to offer full replacement cost coverage on HO policies (this does not apply to DP lines).
- Typical discounts are ~5% of Hurricane, Other Wind & Hail premiums.

Risk

- Insureds with ACV roof could be financially unable to replace their roofs after a major loss, particularly following a hurricane (in combination with the hurricane deductible).
- Citizens has become the primary option for risks with older roofs as the private market continues to restrict roof underwriting... especially age of roof limitations.

Risk (continued)

- The inability to modify loss settlement to ACV shall result in increased loss severity from major wind events.
- Continuing to offer RCV on older roofs will exacerbate adverse selection and possibly promote more widespread morale and moral hazard.

Insurance Concerns / Expectations for Coverage

- Insureds expect to be completely indemnified in the event of a roof loss.
- Insureds may not fully understand the financial impact of the endorsement.
- Potential for additional litigation:
 - Insureds alleging terms of coverage were not clear or not adequately explained/disclosed.
 - Plaintiff attorneys alleging incorrect/improper depreciation schedule and roof lifespan assumptions.

Citizens' Research

- Citizens does not have the ability to customize coverage with an ACV - Roof Loss Settlement endorsement.
- Some carriers offer ACV Roof endorsement as an **option** for a small premium credit (less than 5%).

Citizens' Research (continued)

Florida Statute 627.7011 requires RC option on HO policies.

- Interpreted that a company cannot require ACV roof for eligibility for a HO policy (does not apply to DP).
- At least one company filed to allow eligibility for a HO policy that otherwise did not meet roof age or condition requirements but withdrew the filing.

Things to Consider

- Citizens' place in the market as a residual insurer: does an ACV roof endorsement comport with corporate and statutory directives?
- Potential for unintended consequences (i.e. increased litigation).
- Does adoption of such a loss settlement option place too great a financial burden on policyholders?

Things to Consider

- If large numbers of insureds are unable to afford roof replacement following a wind event, what would the larger scale impacts look like?
 - Increased risk for additional damage such as water intrusion and subsequent wind damage.
 - Impact on underwriting: Should adverse action be taken for failure to repair?
 - Could this result in large numbers of uninsurable risks?
- Failure to adopt this: Continued adverse selection and an increasing drain on surplus?



Container Homes and Businesses

Emerging Issues in the Market: Container Homes and Businesses

Background

- Homes and businesses can be built with new or used shipping containers.
- Cost is generally equivalent to or more expensive than conventional construction but is becoming more popular for environmental and artistic purposes.
- Use is becoming more common.

Emerging Issues in the Market: Container Homes and Businesses

Sparkman Wharf
(Channelside in
Tampa)



Emerging Issues in the Market: Container Homes and Businesses



Home under construction in Tampa

Emerging Issues in the Market: Container Homes and Businesses

Apartments planned to be constructed in downtown Jacksonville.



Emerging Issues in the Market: Container Homes and Businesses

Risk

- Difficult and expensive to repair partial losses
- Unable to accurately value the home
- Unknown performance in hurricanes and other storms, although preliminary research suggests better performance

Emerging Issues in the Market: Container Homes and Businesses

Insurance Concerns / Expectations for Coverage

- Insureds may expect homes to be covered, potentially at a discount (a superior construction type).
- Most likely risk is being unable to value properly (collect proper premium) and be able to repair (lack of contractor expertise, materials, etc.).

Emerging Issues in the Market: Container Homes and Businesses

Citizens' Research

- Unable to identify any admitted insurers writing container homes and businesses.
- Citizens is currently unable to value and rate container homes (no personal lines construction type exists), unless we use a general contractor's estimate.
- Businesses can be valued and rated (non-combustible construction).

Emerging Issues in the Market: Container Homes and Businesses

Things to Consider

- Is a container home significantly different than a mobile/ manufactured home or a modular home?
- How would a container home or business fare in a hurricane? In another type of loss?
- What about alternate valuations or loss settlements (functional replacement cost, cosmetic/aesthetic damage, etc.)?
- How does this fit with Citizens' statutory purpose?

Questions