

# PRODUCT CHANGES – WATER PRODUCT CHANGES UPDATE AND PROPOSAL (PERSONAL LINES)

ACTUARIAL & UNDERWRITING COMMITTEE, MARCH 15, 2016  
BOARD OF GOVERNORS MEETING, MARCH 16, 2016

## EXECUTIVE SUMMARY

### BACKGROUND

At the December 2015 Actuarial and Underwriting Committee and Board of Governors meetings, Citizens staff presented an update on the dramatic increase in both frequency and average cost of water damage claims since late 2013, along with a summary of actions planned to address the issue. Recent actuarial analysis indicates that trends are continuing to worsen.

The following provides a brief update on the multi-pronged response plan.

Promised	Action Taken
<ul style="list-style-type: none"><li>Comprehensive participation in industrywide data calls for regulatory and legislative analysis.</li></ul>	<ul style="list-style-type: none"><li>Citizens responded to a data call issued by the Office of Insurance Regulation. Citizens conducted detailed analysis of a sample of claim files to augment our response, and issued a White Paper based on the results.</li></ul>
<ul style="list-style-type: none"><li>Development of a voluntary managed repair program for water claims. Led by Claims Committee.</li></ul>	<ul style="list-style-type: none"><li>Vendors to provide managed repair services have been solicited, and the action item will be presented for the Board's approval at this meeting</li></ul>
<ul style="list-style-type: none"><li>Implementation of a Claims water loss triage team with litigation and non-litigation staff expertise applied immediately upon first notice of loss. Led by Claims Committee.</li></ul>	<ul style="list-style-type: none"><li>Claims restructuring has been implemented.</li></ul>
<ul style="list-style-type: none"><li>Consumer education to "Call Citizens First" and communications showing the impact on rates of claims with representation at first notice. Led by Consumer Services Committee.</li></ul>	<ul style="list-style-type: none"><li>Program has been implemented; brochures are being included with policy documents, ID Cards have been rolled out, and magnets have been distributed in targeted regions. Several press releases and issue briefs have been circulated to mass media showing the impact of represented claims.</li></ul>
<ul style="list-style-type: none"><li>Product and policy language changes to optimize the balance between responding to legitimate water damage claims and limiting abusive or fraudulent claims that drive up rates for many Citizens customers, even those who have not filed claims.</li></ul>	<ul style="list-style-type: none"><li>In Process, please see Phase I below.</li></ul>

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## Product Changes:

### Phase I

Implement contract changes to address policy language that is currently being abused.

Policy language changes were proposed by Staff and approved by the Board at its December meeting.

Prior to filing, Staff discussed proposed changes with the Office of Insurance Regulation. Based on feedback provided by the Office, the following proposed changes were not included in the filings:

- Limitations on coverage for matching undamaged items and the corresponding removal of the policy sublimit for flooring.
- Requirement that mold inspection must be approved by Citizens.
- The change to “our option” language to clarify that Citizens may complete repairs in lieu of payment. This will be incorporated into managed repair endorsements at a later date.

The following items were filed, with amendments based on feedback from the Office:

Requirement to report loss within 72 hours. Amended to include an exception for extenuating circumstances and requirement that if claim is reported to any third party claims expert, the loss must be reported to Citizens immediately.

Temporary Repairs and Emergency Measures additional coverage was filed with a proposed limit of \$3,000, with additional coverage available with prior approval by Citizens.

All other changes were filed as approved by the Board

Staff is currently working closely with the Office to address concerns that policyholders remain adequately protected. Some language may be further amended to ensure appropriate policyholder safeguards.

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## Phase II

Evaluate and implement options to encourage consumer utilization of the voluntary managed repair program at the time of loss.

Implementation planning is underway. Initial encouragement will be via policyholder mailers, agent communication and claims adjuster communication at time of loss.

## Phase III

Evaluate potential product changes to encourage selection of the managed repair program at the time of policy purchase or renewal.

Premium credits and deductible forgiveness are examples of potential incentives. Policyholders have the option to obtain benefits by agreeing at policy inception to use the managed repair network for losses occurring during the policy term.

Proposal:

Staff recommendation for product options is dependent on the outcome of the current filings.

- Assuming Staff and the Office are able to reach agreement on the current round of policy changes, Staff recommends that Citizens offer a premium credit to policyholders who select the Managed Repair Policy Endorsement.
- If agreement is not reached, Staff recommends a stronger incentive to encourage selection of the Managed Repair Policy Endorsement. This recommendation includes a coverage change to introduce a \$10,000 policy sublimit for water losses. The insured will be given the option to maintain existing coverage levels with no sublimit by selecting the Managed Repair Policy Endorsement.

The following table provides a summary of the advantages and disadvantages of the three approaches that were considered. The Deductible Waiver option was eliminated due to concerns about limited effectiveness.

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## MANAGED REPAIR - OPTIONS

	Deductible Waiver (partial)	Premium Discount	Sub-Limit with Opt Out by Selecting Managed Repair
<b>Pros</b>	<ul style="list-style-type: none"> <li>• Cost to Citizens only for those policies with claims</li> <li>• Easy Implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Potentially higher take-up rate</li> </ul>	<ul style="list-style-type: none"> <li>• Required choice eliminates issues with take-up rate</li> <li>• Non-Compliance concerns are eliminated because coverage reverts to sublimit</li> </ul>
<b>Concerns</b>	<ul style="list-style-type: none"> <li>• Insufficient incentive to achieve needed take-up rate</li> <li>• Limited adoption</li> <li>• Ineffective penalty for non-compliance</li> <li>• OIR has approved only limited amounts                             <ul style="list-style-type: none"> <li>➢ 10-20% of deductible</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Premium savings will provide more effective incentive</li> <li>• Ineffective penalty for non-compliance</li> <li>• OIR has approved for only one insurer (5% of non-wind premium)</li> <li>• Premium credit not yet determined, may not be large enough to drive adoption.</li> <li>• Credit would apply to all policies but losses and LAE would only be reduced on some</li> <li>• Moderately difficult implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Premium would likely be lower for sublimit than for managed repair without sublimit, creating disincentive or confusion for premium-conscious consumers</li> <li>• OIR has approved sublimit only for homes older than 40 years                             <ul style="list-style-type: none"> <li>➢ May not approve sublimit for newer homes</li> </ul> </li> <li>• Difficult Implementation</li> </ul>
<b>Release (per current IT schedule)</b>	Summer 2016	Early 2017 (may be included with annual rate change)	

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## **RECOMMENDATION**

During the March 15, 2016 A&U Committee Meeting Citizens' staff will recommend that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board:

(a) Approve one of the following product options:

If agreement on current filings is reached with the Office of Insurance Regulation, Citizens will introduce a premium credit to policyholders as an incentive to select the Managed Repair Policy Endorsement; or

If agreement is not reached, Citizens will introduce a \$10,000 sublimit for water losses, with the option for the policyholder to opt out and maintain current coverage limits by selecting the Managed Repair Policy Endorsement.

(b) Authorize staff to take to take any appropriate or necessary action consistent with this Action Item, including filing with the Office of Insurance Regulation, system change implementations and other supporting activities.

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**ACTION ITEM**

<b>CONTRACT ID:</b>	<b>Water Product Changes Update and Proposal (Personal Lines)</b>
<b>BUDGETED ITEM:</b>	N/A
<b>CONTRACT AMOUNT:</b>	N/A
<b>PURPOSE / SCOPE:</b>	<p><b>Purpose:</b> This Action Items seeks Board approval for Citizens staff to implement Product Changes to encourage selection of the Claims managed repair program at the time of policy purchase or renewal.</p> <p><b>Background:</b> At the December 2015 Actuarial and Underwriting Committee and Board of Governors meetings, Citizens staff presented an update on the dramatic increase in both frequency and average cost of water damage claims since late 2013, along with a summary of actions planned to address the issue. Recent actuarial analysis indicates that trends are continuing to worsen.</p> <p><b>Proposal:</b> Staff recommendation for product options is dependent on the outcome of the current filings.</p> <ul style="list-style-type: none"><li>• Assuming Staff and the Office are able to reach agreement on the current round of policy changes, Staff recommends that Citizens offer a premium credit to policyholders who select the Managed Repair Policy Endorsement.</li><li>• If agreement is not reached, Staff recommends a stronger incentive to encourage selection of the Managed Repair Policy Endorsement. This recommendation includes a coverage change to introduce a \$10,000 policy sublimit for water losses. The insured will be given the option to maintain existing coverage levels with no sublimit by selecting the Managed Repair Policy Endorsement.</li></ul>
<b>CONTRACT TERM(S):</b>	N/A
<b>PROCUREMENT METHOD:</b>	N/A

**ACTION ITEM****RECOMMENDATION:**

During the March 15, 2016 A&U Committee Meeting Citizens' staff will recommend that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board:

- (a) Approve one of the following product options:

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- (b) Authorize staff to take to take any appropriate or necessary action consistent with this Action Item, including filing with the Office of Insurance Regulation, system change implementations and other supporting activities

**CONTACTS:**

John Rollins, Chief Risk Officer