



Property Insurance Clearinghouse Commercial Lines Report



Property Insurance Clearinghouse – Commercial Residential Report

I. Executive Summary

In compliance with requirements set forth in 627.3518, F.S., Citizens Property Insurance Corporation (Citizens) will launch the Property Insurance Clearinghouse on January 27, 2014. This automated system will confirm eligibility and direct ineligible personal residential applicants to the voluntary insurance market. The program will be extended to include existing residential policyholders in mid 2014.

The clearinghouse statute also requires that Citizens, *“Develop appropriate procedures for facilitating the diversion of ineligible applicants and existing policyholders for commercial residential coverage into the private insurance market.”* This report sets forth procedures for expanding the Property Insurance Clearinghouse to include commercial residential business.

Citizens met with three admitted insurers currently writing commercial residential properties in Florida. All expressed an interest in participating in a commercial residential clearinghouse and are willing to provide suggestions for its development and implementation. The insurers we interviewed agreed that a fully-automated tool, similar to the personal residential clearinghouse, is insufficient for underwriting and quoting most commercial residential risks due to the complex nature of these risks. They did, however, see potential for the development of a semi-automated system that would help them identify and remove policies from Citizens.

Citizens also has been contacted by prospective insurers targeting commercial residential lines. There is clearly significant current and emerging interest in this product line that would welcome legislative and regulatory actions aimed at making this market more inviting to private market investment.

The primary obstacle to including commercial residential risks in the clearinghouse is that Citizens does not have explicit statutory authority to include these risks in the clearinghouse. Additional legislative approval is necessary to move forward with this project.

Once authority is granted by the legislature, Citizens expects that we would need approximately up to 18 months to analyze, plan and implement a commercial residential clearinghouse. The final implementation date would be dependent on the results of a detailed analysis and assessment of the Citizens Insurance Suite PolicyCenter[®] system, which will need configuration and enhancement requirements to support the clearinghouse.



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Introduction

The primary focus of this report is to detail the procedures by which Citizens could extend the clearinghouse program to include commercial residential risks.

With the passage of Senate Bill 1770 in 2013, the Florida Legislature enacted 627.3518, F.S., which mandated the creation of the Citizens Property Insurance Corporation Policyholder Eligibility Clearinghouse Program:

“In order to confirm eligibility with the corporation and to enhance access of new applicants for coverage and existing policyholders of the corporation to offers of coverage from authorized insurers, the corporation shall establish a program for personal residential risks in order to facilitate the diversion of ineligible applicants and existing policyholders from the corporation into the voluntary insurance market.”

Although this initial legislation authorized the creation of the program for personal lines residential risks, the statute also required that Citizens Property Insurance Corporation (Citizens) develop a plan to extend the program to include commercial residential risks:

“The corporation shall also develop appropriate procedures for facilitating the diversion of ineligible applicants and existing policyholders for commercial residential coverage into the private insurance market and shall report such procedures to the President of the Senate and the Speaker of the House of Representatives by January 1, 2014.”

In compliance with these statutory requirements, Citizens is developing an automated system that will confirm eligibility and direct ineligible personal residential applicants and existing policyholders to the voluntary insurance market. This tool will be deployed in January 2014.

Due to the unique nature of commercial residential risks, the procedures will necessarily be different than those developed for the personal residential clearinghouse. Personal residential risks are more easily adaptable to an automated process than commercial residential risks for the following reasons:

- Commercial residential risks are individually rated, unlike personal risks, which use homogenous rates based on location and construction type.
- Commercial risks have higher insured values. While the typical Florida homeowner’s policy premium is \$1,933, Citizens’ average commercial residential premium is \$27,434.
- Commercial residential risks can include multiple buildings and property locations, unlike personal residential risks, which typically include one primary building.



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II. Personal Residential Clearinghouse

Citizens has established a software and services contract with BOLT, Inc. for a Single-Entry Multiple-Carrier Interface (SEMCI) software solution and supporting services (SEMCI Services) for implementation of the Property Insurance Clearinghouse for personal residential risks.

When the personal residential clearinghouse launches on January 27, 2014, it will be available for new applications only for Citizens Homeowners 3 – Special Form (CIT HO-3), the most common comprehensive homeowners' policy, and will integrate with Citizens' current policy system (ePAS).

For new applicants, the SEMCI system will interact with participating private-market insurance insurers to map specific rating and underwriting criteria obtained through the clearinghouse into the individual insurer policy systems and generate comparable offers of coverage based on automated underwriting and rating rules. Rules will reflect each insurer's products as approved by the Florida regulators and interpretations agreed upon by the participating carrier and Citizens.

A Citizens quote also will be generated but will display as *ineligible* on the agent *Results* screen if one or more participating insurers returns a comparable offer of coverage priced within 15 percent of Citizens' premium (627.351, F.S.). If the risk is deemed ineligible for Citizens, the agent will be unable to submit the application to Citizens but will be able to access the participating insurer's policy system to bind coverage.

For renewal policies, implementation of the clearinghouse for existing business is scheduled for second quarter 2014. Additional personal residential products will be added to the clearinghouse throughout 2014.

III. Commercial Residential Book of Business Overview

Commercial residential risks account for \$92 billion of exposure and over 20 percent (\$4.2 billion) of Citizens' total probable maximum loss (PML). While a typical Florida homeowners premium is \$1,933, the average Citizens commercial residential premium is \$27,434.

Citizens is the dominant commercial residential insurer in Florida, with over a 40 percent share of the market based on insured valued. This is trending downward as some private market insurers are writing significant new business. In addition, Citizens has been contacted by several potential new insurers interested in entering Florida's commercial residential market.

Citizens' largest commercial residential market share and exposure are concentrated in the southern-most counties (*Attachments 1 and 2*). The majority of the commercial residential policies for Citizens are for condominium associations (*Attachment 3*).



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The implementation of the commercial residential clearinghouse increases the opportunity to divert additional new and renewal policies, specifically commercial residential multiperil risks, into the private market. Citizens’ multiperil policy uses the *Covered Causes of Loss – Basic Form*, a standard industry form that includes coverage for specific named perils, including fire, lightning, explosion, windstorm or hail (unless excluded) and smoke.

Citizens’ commercial residential book of business ranges from low-value residential buildings to large multiple-story residential towers. Private insurers consider building characteristics, such as construction type and age, and total insured value when writing and pricing new business. *Attachment 4* provides a breakdown of some of these characteristics. These characteristics are used by underwriters to individually rate a risk using credits and rate modification factors to determine the premium. This means that each account has a premium that is uniquely determined for that individual risk.

Citizens conducted discussions with three active commercial residential private insurers, which have 20, 11 and 10 percent of the commercial residential exposure in Florida. Each targets the commercial condominium market with insured values over \$5 million, as shown by their average insured values on the Office of Insurance Regulations (OIR) market share reports (*Attachment 5*).

All three insurers stated that they believe there is a private market available for newer buildings valued at \$5 million and above. It is important to note, however, that not every building above this value, particularly older buildings, will meet private market underwriting guidelines.

The chart below shows the distribution of all commercial residential policies for Citizens as of June 30, 2013.

COMMERCIAL RESIDENTIAL POLICIES				
	Number of Policies	Number of Buildings	Total Exposure	Probable Maximum Loss
Multiperil	7,039	38,776	\$48.2 Billion	\$1.8 Billion
Wind Only	10,111	29,294	\$44.2 Billion	\$2.4 Billion
TOTAL	17,150	81,389	\$92.4 Billion	\$4.2 Billion

The segment of the commercial residential multiperil book of business that generally seems to be of most interest to private insurers is buildings that meet the following criteria:

- Condominium-association properties
- Valued at \$5 million and above
- Newly built (constructed in the past 15-20 years)
- Construction classification of *Noncombustible* or better



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Based on Citizens' current book of business, approximately 5-15 percent of our commercial residential policies might be attractive to the insurers initially likely to be interested in participating in a commercial residential clearinghouse. Legislative or regulatory actions aimed at making this market more inviting to private market investment may stimulate additional interest from private market investors.

IV. Current Commercial Residential Procedures

Citizens has manual procedures in place to prevent ineligible new applicants and existing policies from being written or renewed. The development of a commercial residential clearinghouse would allow the corporation to divert additional policies to the private market by working closely with authorized participating insurers.

Current Procedures – New Applicants

To determine eligibility for commercial residential new business submissions, Citizens currently requires one of the following documents:

- A copy of *at least one* declination or cancellation/non-renewal letter from an authorized insurer for the named insured at the same property location
or
- A document substantiating that an offer of new or renewal coverage from an authorized insurer has a premium that is more than 15 percent higher than the Citizens premium for comparable coverage. Examples of acceptable documentation include a quote, renewal offer or a declarations page.

For risks for which there is no documentation from an admitted carrier, a signed statement from both the agent and the insured certifying that coverage cannot be obtained elsewhere under current submission rules is required.

As part of its current new-business eligibility procedures, Citizens works with an authorized insurer to assist determine eligibility for some commercial residential risks. The insurer sends Citizens a monthly list of commercial residential risks it has quoted for buildings that have specific construction characteristics and insured values over \$10 million. These are considered individually rated (A-Rated) policies at Citizens.



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The manual-comparison process includes the following steps:

1. Rate the risk based on the application.
2. Review the list of current quotes from our participating carrier.
3. Complete a comparison review based on comparable coverage
 - a. If the review determines that the risk is ineligible for Citizens based on the 15 percent eligibility rule, a declination letter is sent to advise the quoting agent that a valid quote has been made by an authorized carrier, making the risk ineligible for coverage with Citizens.

Current Procedures – Existing Policies

Changes to Florida law, section 627.351(6)(c)5.b f.s., provide that, effective July 1, 2013, Citizens policyholders for all lines of business are ineligible to renew their policy with Citizens if they receive a comparable private offer from an insurer with a premium that is equal to or less than their Citizens renewal premium.

Citizens uses a manual process to nonrenew commercial residential policies based on this requirement. One authorized insurer, which writes commercial residential wind-only policies, currently sends Citizens a copy of the *Offer of Coverage at Renewal* notices they send to policyholders' agents. This notice allows Citizens to nonrenew a policy in compliance with Florida law.

Although the above procedures help Citizens confirm eligibility and direct ineligible risks to the private market, the implementation of a clearinghouse for commercial residential risks would improve the efficiency and effectiveness of the processes and create access to a larger pool of participating insurers.

V. Recommendations for Developing a Commercial Residential Clearinghouse

Carrier Interest

Citizens met with three admitted insurers currently writing commercial residential properties in the state to determine:

- Their level of interest in participating in a future commercial residential clearinghouse program
- Their thoughts on how we can establish procedures that would facilitate the movement of policies from Citizens to the private market.

All expressed an interest in participating in a commercial residential clearinghouse and are willing to provide suggestions for its development and implementation.



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Rating Complications

High insured-values, multiple buildings and/or multiple locations make the rating of commercial residential risks a complex process that normally requires manual intervention as part of the underwriting process. These factors complicate the implementation of an automated clearinghouse for these risks.

While rates for personal residential lines are filed by each carrier for homogeneous risks, commercial residential underwriters individually rate a risk by applying credits and rate-modification factors based on building characteristics (Attachment 4). As a result, the rate and premium is individually determined for each unique risk. This makes the mechanism needed to implement a commercial residential clearinghouse significantly different in scope from that of a personal residential clearinghouse.

Because commercial residential risks normally require manual intervention as part of underwriting review, Citizens recommends developing a commercial residential clearinghouse program that uses a combination of manual and automated procedures.

Recommended Procedures – New Business

For new business applications, the insurers we interviewed agreed that a fully-automated tool, similar to the personal residential clearinghouse, is insufficient for underwriting and quoting most commercial residential risks. They did, however, see potential for the development of a semi-automated system that would help them identify and remove policies from Citizens using the process outlined below:

1. Agents would submit a risk through the Citizens Insurance Suite PolicyCenter[®] (PolicyCenter) a specified number of days prior to the requested effective date.
2. A Citizens underwriter would review the submission and apply Citizens' underwriting rules and guidelines to determine the premium.
3. The submission would be placed into a *hold* status, during which time participating insurers could review it prior to a Citizens underwriter initiating approval or declination.
 - a. After a specified period of time, any submission not designated as selected by a participating carrier automatically would be flagged to notify the Citizens underwriter to proceed with the normal underwriting process of accepting or declining the risk based on merit.
 - b. If no participating carrier selects a submission for takeout, Citizens would have automated proof of eligibility the risk and the underwriter would continue with the normal underwriting process.
4. If an insurer selects the risk, the Citizens underwriter would be notified that a participating carrier has selected the risk.



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5. The submitting agent would be notified by the underwriter that the submission is eligible for coverage through a participating company, and a declination of coverage by Citizens would be sent.
 - a. A crucial component of this process would be the development of agent/carrier relationships, whereby participating carriers would extend full or partial appointments to agents that would allow them to write business through the clearinghouse.
6. The Citizens underwriter would email the assuming company all electronic documents connected to the risk in a single zip file prior to closing the file with Citizens.
 - a. From this point on, any additional communication regarding the risk would be between the assuming carrier, the writing agent and the policyholder.

While manual intervention by Underwriting or other departments initially would be necessary during the submission review process, future enhancements to Citizens PolicyCenter center could potentially result in additional automation of the process.

Recommended Procedures – Renewal Business

The commercial residential clearinghouse would use technology and workflows configured for the Citizens Depopulation Program, which will be available as part of the new PolicyCenter Release 2.0 in late fourth quarter 2014. Specifically, the use of Initial Data Files (IDF) as part of the depopulation process could be used for all policies eligible for renewal.

1. PolicyCenter would create an IDF on a monthly basis that includes all commercial residential policies set to renew in 90 days.
 - a. Companies interested in assuming this business could access it through their user access and extend an offer of coverage.
 - b. If no offer is obtained with a premium equal to or less than the policy's renewal premium with Citizens, a Citizens renewal notice would be issued to the policyholder.
2. If a comparable private-market offer of coverage is available with a premium equal to or less than the policy's renewal premium with Citizens, the policy automatically would be nonrenewed through PolicyCenter.



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3. Citizens would send a nonrenewal notice to the policyholder and their agent informing them that one or more offers of coverage from private-market insurers have been made through the Property Insurance Clearinghouse, rendering them ineligible to renew coverage with Citizens.
 - a. If the agent of record at renewal is not accepted for appointment by the assuming insurer, the offer would not be extended to the applicant and would not be used to determine the risk's eligibility for Citizens.
4. The applicant would have their agent bind coverage with their choice of the private-market insurers that made them an offer of coverage.

VI. Recommendations

Due to the complexity associated with commercial residential risks, a commercial residential clearinghouse would require a combination of manual and automated procedures.

Although SB 1770 authorized the creation of the clearinghouse for personal residential risks and required that Citizens develop appropriate procedures for including commercial residential risks in the clearinghouse, Citizens has not been given explicit statutory authority to expand the clearinghouse to include commercial residential risks. We believe that additional legislative approval is necessary to include these risks in the clearinghouse.

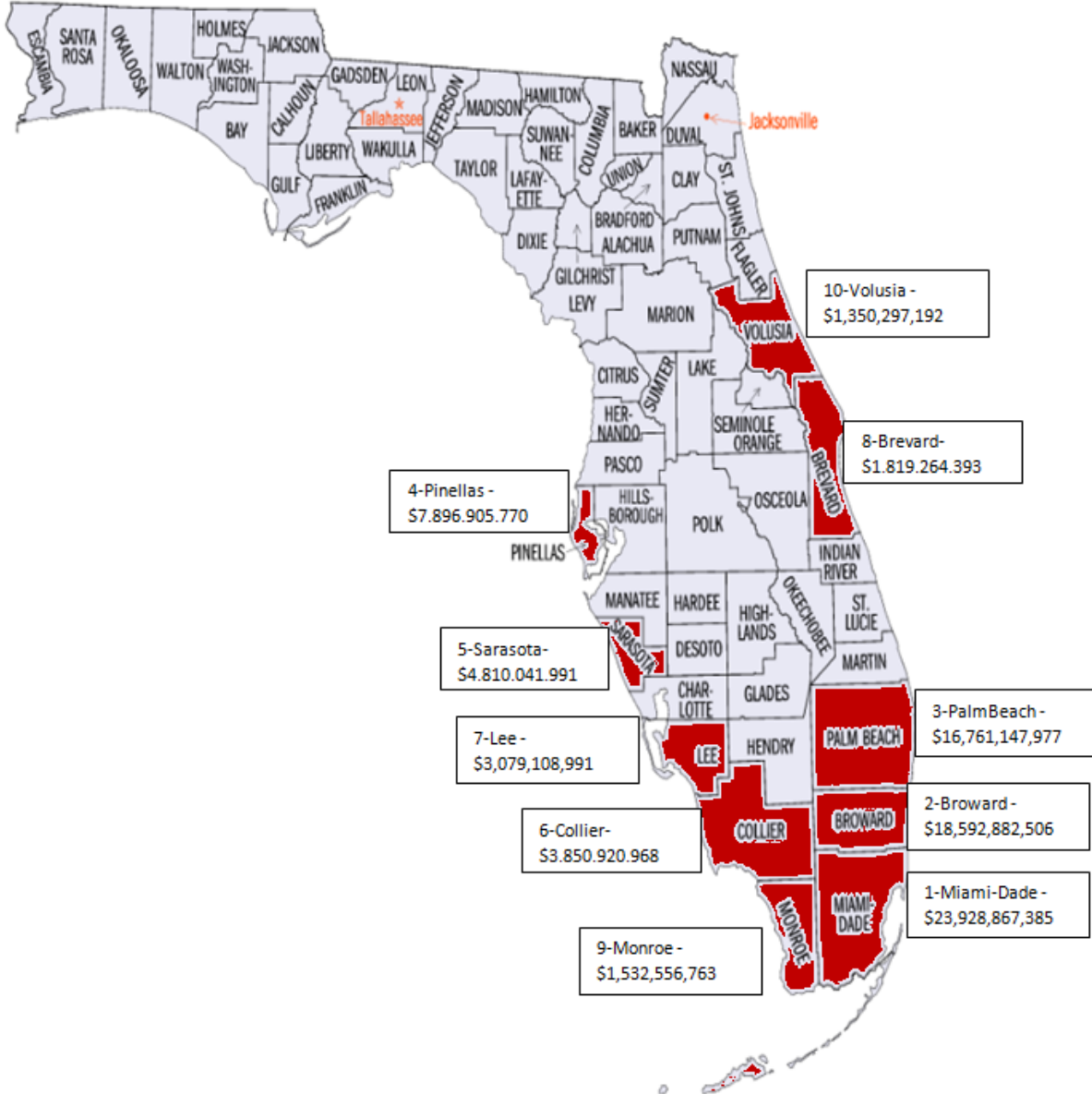
Once authority is granted by the legislature, Citizens expects that we would need approximately up to 18 months to fully analyze, plan and implement a commercial residential clearinghouse. The final implementation date would be dependent on the results of a detailed analysis and assessment of the Citizens Insurance Suite PolicyCenter[®] system, which will need configuration and enhancement requirements to support the clearinghouse.

The following additional actions are critical to determining the ultimate cost/benefit and success of a commercial residential clearinghouse:

- Perform a detailed impact analysis to determine the efficacy of including commercial residential risks using a combination manual and automated procedures and systems.
- Further determine carrier interest in participating in a commercial residential clearinghouse. This is particularly important given the limited number of carriers writing commercial residential business in Florida.
- Complete the conversion of commercial residential policies from legacy systems to PolicyCenter. This process should be completed in the fourth quarter of 2014.

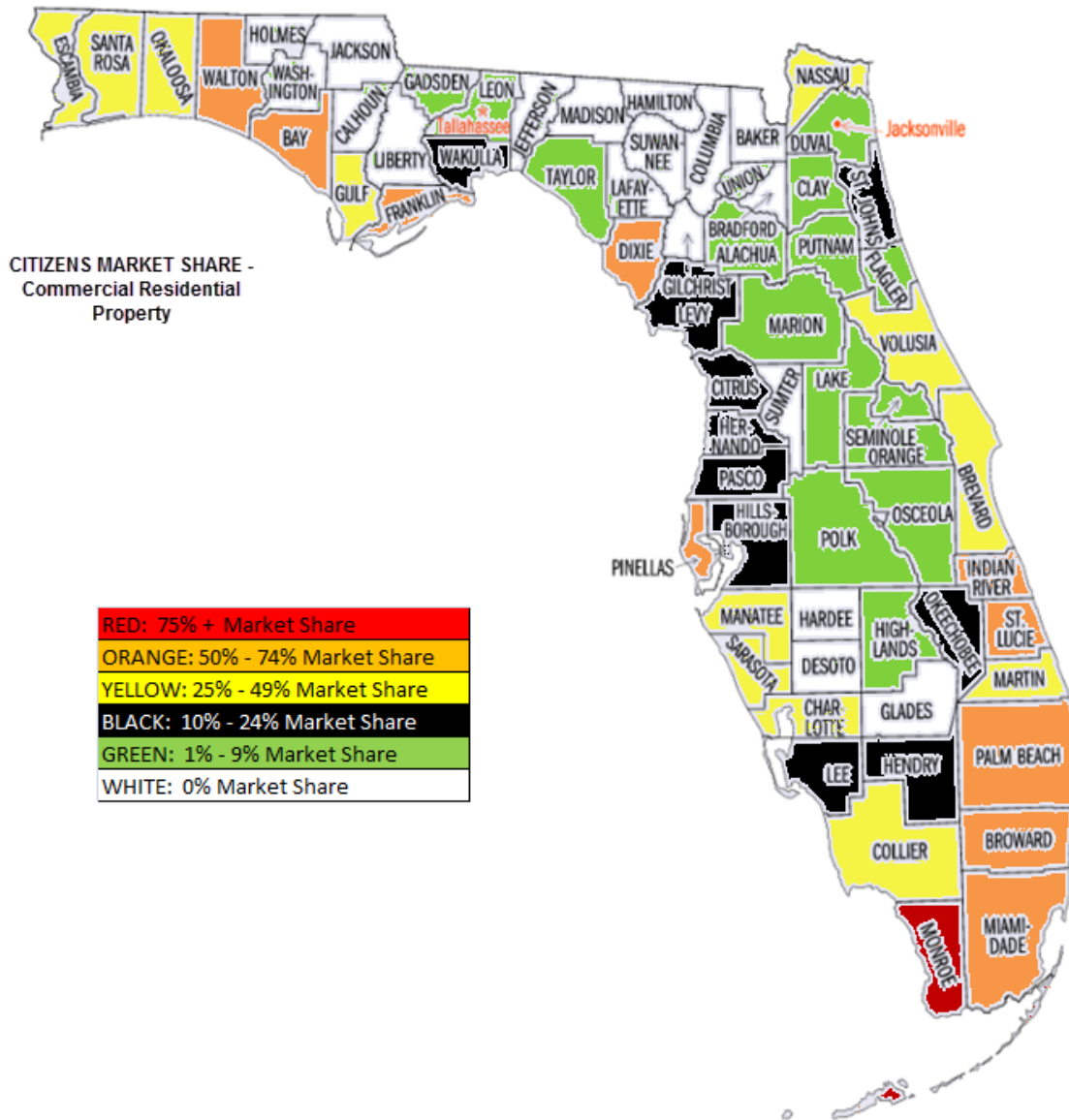
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Attachment 1



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Attachment 2

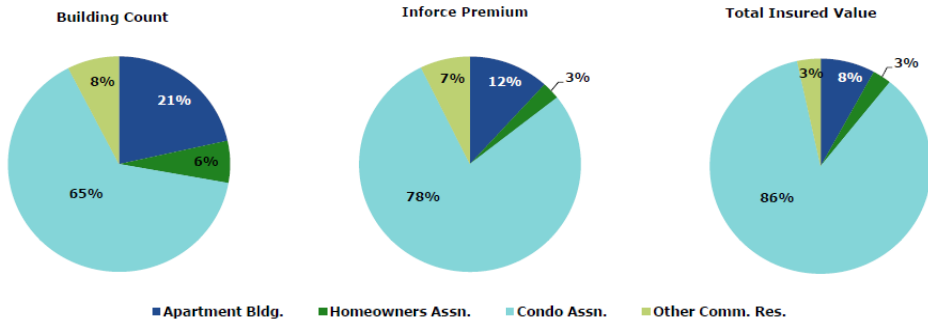




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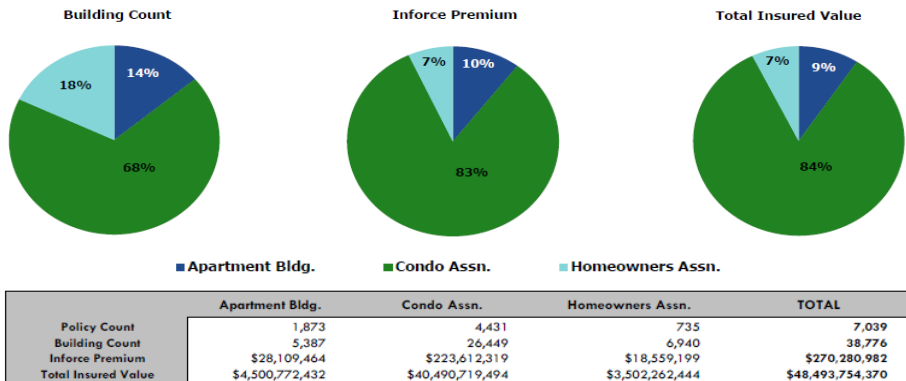
Attachment 3

Commercial Residential Wind-Only Counts, Premium and Insured Value



	Apartment Bldg.	Homeowners Assn.	Condo Assn.	Other Comm. Res.	Total
Policy Count	3,750	300	5,320	741	10,111
Building Count	6,301	1,847	18,932	2,214	29,294
Inforce Premium	\$23,469,666	\$5,309,149	\$156,859,097	\$14,572,063	\$200,209,975
Total Insured Value	\$3,531,037,871	\$1,229,858,896	\$37,969,999,599	\$1,513,491,738	\$44,244,388,104

Data as of 6/30/13



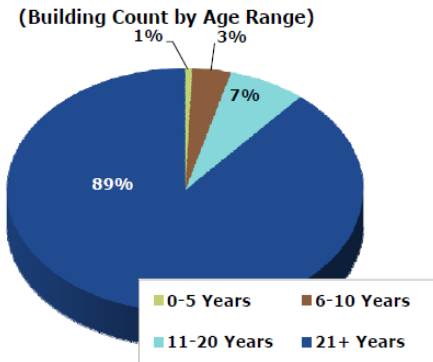
	Apartment Bldg.	Condo Assn.	Homeowners Assn.	TOTAL
Policy Count	1,873	4,431	735	7,039
Building Count	5,387	26,449	6,940	38,776
Inforce Premium	\$28,109,464	\$223,612,319	\$18,559,199	\$270,280,982
Total Insured Value	\$4,500,772,432	\$40,490,719,494	\$3,502,262,444	\$48,493,754,370

Data as of 6/30/13

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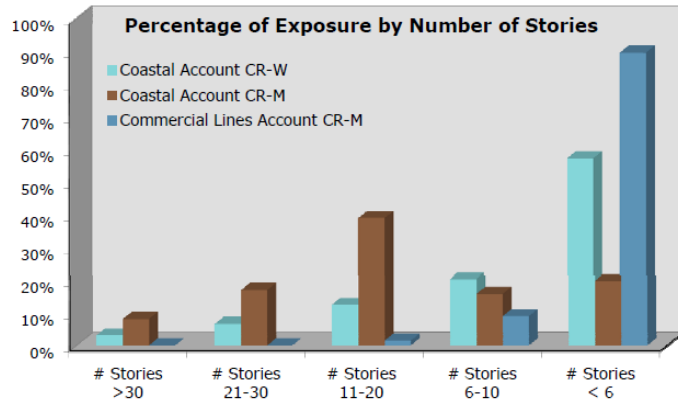
Attachment 4

Commercial Residential Building Characteristics - Age and Number of Stories Data as of June 30, 2013



89% of all commercial residential buildings were built before 1992.

Only 1% of all commercial residential buildings are taller than 10 stories but account for 20% of total exposure for all commercial residential buildings.



Number of Stories	Coastal Account CR-W	Coastal Account CR-M	Commercial Lines Account CR-M
> 30	3.1%	8.2%	0.0%
21 to 30	6.6%	17.1%	0.0%
11 to 20	12.5%	39.1%	1.4%
6 to 10	20.5%	15.9%	9.0%
< 6	57.3%	19.8%	89.5%
Total	100.0%	100.0%	100.0%

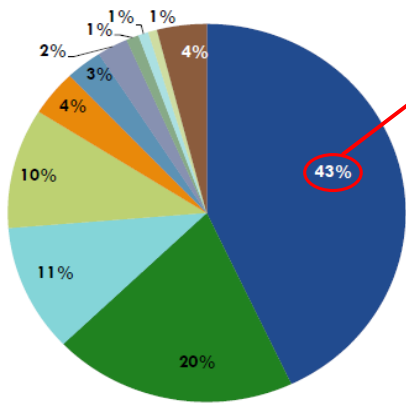
Note: Includes wind-only policies, multi-peril policies with wind coverage, and multi-peril policies excluding wind coverage (CLA only), regardless of policy form.



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Attachment 5

Commercial Residential Market Share



Carrier	Total Insured Value
Citizens Property Insurance Corporation	\$92,738,142,474
American Coastal Insurance Company	\$42,740,093,177
QBE Insurance Corporation	\$23,480,071,933
American Capital Assurance Corp.	\$22,157,936,645
Weston Insurance Company	\$8,464,492,746
State Farm Florida Insurance Company	\$6,372,605,563
Philadelphia Indemnity Insurance Company	\$5,427,746,215
Service Insurance Company	\$2,214,743,000
Nova Casualty Company	\$1,783,177,848
Sunshine State Insurance Company	\$1,555,923,161
All Other	\$8,681,736,157
Totals - All Carriers	\$215,616,668,919

OIR QUASR Data as of 3/31/13

- Citizens Property Insurance Corporation
- American Coastal Insurance Company
- QBE Insurance Corporation
- American Capital Assurance Corp.
- Weston Insurance Company
- State Farm Florida Insurance Company
- Philadelphia Indemnity Insurance Company
- Service Insurance Company
- Nova Casualty Company
- Sunshine State Insurance Company
- All Other

Carrier	Policies Inforce	Premium	Exposure	Average Premium Per \$1,000 Exposure	Average Premium Per Policy	Average Exposure Per Policy
Citizens Property Insurance Corporation	17,150	\$470,490,957	\$92,738,142,474	\$5.07	\$27,434	\$5,407,472
American Coastal Insurance Company	3,975	\$290,108,649	\$42,740,093,177	\$6.79	\$72,983	\$10,752,225
QBE Insurance Corporation	1,071	\$100,414,172	\$23,480,071,933	\$4.28	\$93,757	\$21,923,503
American Capital Assurance Corp.	1,981	\$62,173,579	\$22,157,936,645	\$2.81	\$31,385	\$11,185,228
All Other	41,934	\$139,931,444	\$34,500,424,690	\$4.06	\$3,337	\$822,732
Total Market	66,111	\$1,063,118,801	\$215,616,668,919	\$4.93	\$16,081	\$3,261,434