

CitizensAdvisor



Programs Help Provide Choices, Reduce Citizens Exposure

TALLAHASSEE, FL — Citizens' efforts to return to its mission as the state's insurer of last resort has benefited from a pair of programs that help steer policyholders back to financially sound private-market companies.

Since January 1, 2014, the legislatively created Depopulation program has transferred 185,000 policies from Citizens to private-sector companies that have been vetted by the Office of Insurance Regulation and are backed by the Florida Insurance Guaranty Association.

Meanwhile, the Citizens Property Insurance Clearinghouse has successfully linked thousands of new customers to private companies that want their business and also has begun offering private-market alternatives to existing homeowners' insurance customers as their policies come up for renewal.

These programs, combined with an energized private market, have helped Citizens reduce its policy count from 1.02 million in January 2014 to 873,000 as of November 8, 2014, a 14.5 percent drop that has removed \$61 billion in exposure from the backs of all Florida policyholders.

DEPOPULATION

Since the mid 1990s, Florida law has allowed companies to remove policies from Citizens and its predecessors to help return policies to financially secure companies in the private market.

Under the program, companies apply to the Office of Insurance Regulation (OIR) for permission to remove policies from Citizens. OIR reviews the requests, including the company's business plan, financial stability and capital reserves, and, if satisfied, issues an order requiring Citizens to make policies available to the approved companies.

The company sends notification letters to selected policyholders to alert them that the company is willing to offer them private-market coverage their policy. The insurer must notify policyholders at least 30 days prior to the policy assumption date.

To help homeowners better understand the offers being made by the takeout companies, the notifications now will include an estimate of what the private policy will cost at renewal and a comparison to Citizens' estimated renewal rate. The notification letters also include an opt-out form, which policyholders must return if they wish to stay with Citizens.

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November 18, 2014

Events

December 2 @ 1:30 p.m. – 3 p.m.

[Information Systems Advisory Committee Meeting](#)

December 3 @ 1 p.m. – 2:30 p.m.

[Consumer Services Committee Meeting](#)

December 4 @ 10 a.m. – 11 a.m.

[Claims Committee Meeting](#)

December 10 @ 9 a.m. – 12 p.m.

[Board of Governors Meeting](#)

Spotlight



Barry Gilway
President/CEO and
Executive Director

[Bio](#)

In addition, Citizens sends out an encouragement letter explaining the potential benefits of private market coverage, which include reduced assessment risk and more comprehensive coverage options. The encouragement letter also tells policyholders they may stay with Citizens and instructs them how to do so. If the policyholder no longer has the original opt-out form, policyholders can download one from the Citizens website and return it to the private company that made the offer.

If policyholders do nothing, their policy is transferred to the private company on the indicated assumption date. Once the policy has been transferred, the policyholder has 30 days during which they can elect to return to Citizens.

In sum, policyholders have 60 days to decide whether to stay with Citizens or accept the private-market offer.

As an added protection, policyholders have the ability to return to Citizens at renewal if no private company offers a comparable policy within 15 percent of the Citizens renewal rate.

CLEARINGHOUSE

The Property Insurance Clearinghouse is Citizens' latest venture to provide homeowners insurance customers with access to expanded private-market options. Launched this year, the clearinghouse attempts to match homeowners with private companies willing to offer comparable coverage at competitive rates.

Under the clearinghouse, agents submit property information to the system to determine if comparable private alternatives are available for their customers. Homeowners who are not currently insured with Citizens are ineligible for Citizens if a private offer is made that is within 15 percent of a comparable Citizens policy premium.

Beginning in September 2014, existing Citizens HO-3 policyholders began having their policies shopped through the Clearinghouse at renewal. Citizens policyholders are ineligible to renew their Citizens policy if a private offer for comparable coverage comes is available with a premium less than or equal to the Citizens renewal premium.

Citizens policyholders who leave Citizens through the clearinghouse can return to Citizens under the eligibility criteria for current Citizens policyholders if their rates increase by more than 10 percent a year for the next three years.

Taken together, the depopulation and clearinghouse programs have helped Citizens policyholders find coverage in an increasingly vibrant private market that has grown stronger thanks to a lack of storms in recent years and heightened financial requirements set by state insurance regulators.

Policies in Force

872,808

as of November 14, 2014.

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[Outreach Form](#)

[Online Sunshine](#)

[The Florida Channel](#)

[Board of Governors Materials](#)



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What Does it Mean to be Actuarially Sound

TALLAHASSEE, FL – Citizens rates are approaching actuarially sound levels in many parts of the state. This means the rates collected are adequate to pay expected claims and operating expenses. Establishing actuarially sound rates reduces the risk of assessments for all Floridians and brings rate stability to our policyholders.

That is certainly good news, but there is a catch. Policyholder assessments make up part of Citizens' claims-paying capital calculation. The amount of capital needed following a 1-in-100 year hurricane – Citizens' probable maximum loss – can be dauntingly large, several times what is collected in annual premiums.

Even with the considerable savings Citizens has accumulated from nine hurricane-free seasons, if Citizens could no longer assess its policyholders, it would need several billion dollars in extra capital to keep its promises in the event of a major storm. The only way to meet its obligations would be to buy additional reinsurance, a cost that would have to be passed on to property owners in the form of rate increases for most Citizens policyholders.

Over 75 percent of Citizens' accumulated surplus would be wiped out if Florida were hit by a storm of the century. Following such an event, Citizens would be particularly vulnerable to a subsequent storm or active hurricane season as it would have far less capital available to pay claims. To meet its obligations, Citizens would have to levy assessments. This is not purely hypothetical - Florida policyholders still are paying assessments for the 2004-2005 series of storms.

By contrast, private insurance companies typically do not expose more than 30 percent of their reserves – they protect their claims-paying ability by buying additional reinsurance. For them, actuarially sound rates must be sufficient to keep their promises in a bad storm year and renew the vast majority of their policies the following year. They must do this without having the ability to charge assessments.

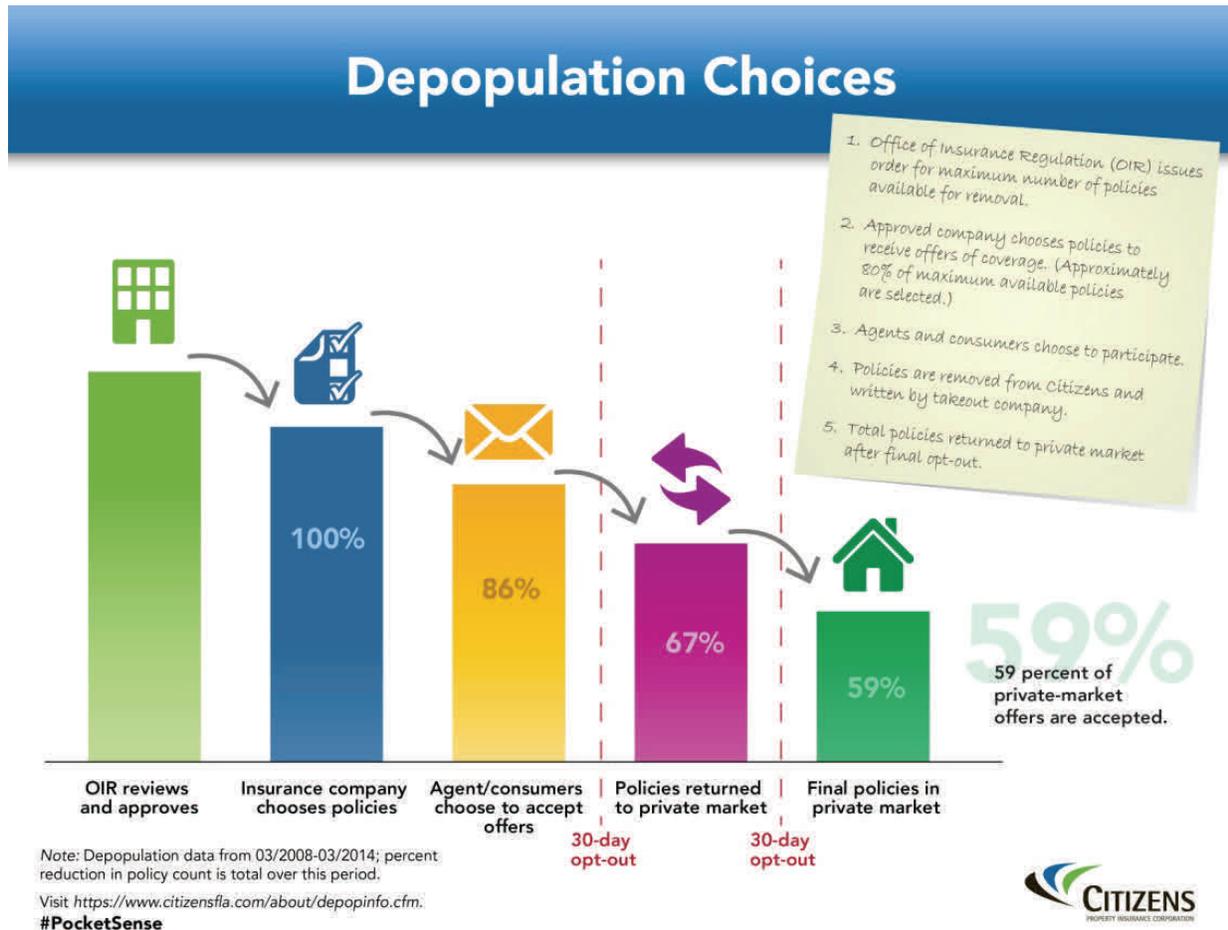
With \$7.6 billion in surplus, Citizens is the best financial shape since its creation, but so are Florida's domestic insurers.

"The Florida homeowners insurance market is the strongest it has been in 10 years," Florida Insurance Commissioner Kevin McCarty wrote in an article published in June by the Tampa Bay Times.

"Florida companies, which make up a majority of this market, have built \$4.5 billion in surplus, \$16 billion in reinsurance capacity and renewed profitability that has created new competition in the market," McCarty continued. "As a result, Florida consumers now have more options and choices for homeowners coverage."

Did You Know...

Depopulation Choices make Pocket Sense for Floridians?



(Click image to enlarge)

News Links

[Column: Citizens will communicate better with policyholders](#)
Tampa Bay Times

[Upcoming Citizens takeouts highlight perceived attractiveness of Fla. Market](#)
SNL Financial

[A practical guide to insurance crapshoot](#)
SunSentinel

[Catastrophe bond issues shooting for record \\$9bn this year](#)
Money Marketing

[Desktop Hurricane Tool Shows Storm Risk in Neighborhoods](#)
Insurance Journal

[Anniversary Of A Record-Smashing Hurricane Drought](#)
CBS Local