

# Executive Summary

Actuarial and Underwriting Committee, December 15, 2020

**Board of Governors Meeting, December 16, 2020**

## Rate Structure Discussion

Citizens policy count has grown by more than 100,000 in the last year with between 2000-3000 new policies being written each week, in recent months. If nothing changes, growth of at least an additional 100,000 policies is expected by year-end 2021. This current trend is not sustainable and could put Citizens' solid financial position at risk.

Under the statutory glidepath, 91% of Citizens' homeowners policyholders are currently charged less than the average competitor's rate. Irrespective of the glidepath, Citizens' actuarially sound premium is less than the private market due to lower expenses, mostly due to the difference in reinsurance expenses. For each dollar collected, on average, the private market needs 17.7 cents more to cover its expenses than Citizens. Citizens current uncapped HO3/HW2 indication is 12.7%, if the average industry expense number were used to calculate Citizens' rates, the uncapped indication is 2.5 times higher at 32%.

Citizens' current rating and expense factors should be reviewed with the Office of Insurance Regulation to explore what regulatory opportunities might exist that would allow Citizens to charge rates, under the glidepath, that reduce the overall gap between the private market and Citizens' expense structure.

The board should consider all potential solutions that could slow Citizens current growth rate to ensure Citizens does not return policy and exposure levels to those of 2012, when Citizens' policy count reached 1.5 million, and Floridians were on the hook for \$10 billion in assessments following a major storm or series of events..

## Recommendation

If approved at its December 15, 2020 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:

- a) Direct staff to work with the Office of Insurance Regulation to determine what regulatory opportunities might be available to ensure that Citizens rates are less competitive with the private market; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

# ACTION ITEM

Actuarial and Underwriting Committee Meeting, December 15, 2020  
**Board of Governors Meeting, December 16, 2020**

- |   |  |
|---|--|
| <input type="checkbox"/> Contract – New                         | <input type="checkbox"/> Committee or Board Minutes                  |
| <input type="checkbox"/> Contract – Amendment of Contract Terms | <input type="checkbox"/> Product Changes                             |
| <input type="checkbox"/> Contract – Additional Spend            | <input checked="" type="checkbox"/> <u>Rate Structure Discussion</u> |

<b>Contract ID</b>	N/A
<b>Budgeted Item</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No N/A
<b>Procurement Method</b>	N/A
<b>Contract Amount</b>	N/A
<b>Contract Term(s)</b>	N/A
<b>Purpose/Scope</b>	<p>Citizens policy count has grown by more than 100,000 in the last year with between 2000-3000 new policies being written each week, in recent months. If nothing changes, growth of at least an additional 100,000 policies is expected by year-end 2021. This current trend is not sustainable and could put Citizens' solid financial position at risk.</p> <p>Under the statutory glidepath, 91% of Citizens' homeowners policyholders are currently charged less than the average competitor's rate. Irrespective of the glidepath, Citizens' actuarially sound premium is less than the private market due to lower expenses, mostly due to the difference in reinsurance expenses. For each dollar collected, on average, the private market needs 17.7 cents more to cover its expenses than Citizens. Citizens current uncapped HO3/HW2 indication is 12.7%, if the average industry expense number were used to calculate Citizens' rates, the uncapped indication is 2.5 times higher at 32%.</p> <p>Citizens' current rating and expense factors should be reviewed with the Office of Insurance Regulation to explore what regulatory opportunities might exist that would allow Citizens to charge rates, under the glidepath, that reduce the overall gap between the private market and Citizens' expense structure.</p> <p>The board should consider all potential solutions that could slow Citizens current growth rate to ensure Citizens does not return policy and exposure levels to those of 2012, when Citizens' policy count reached 1.5 million,</p>

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	and Floridians were on the hook for \$10 billion in assessments following a major storm or series of events.
<b>Board Recommendation</b>	<p>If approved at its December 15, 2020 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"><li>a) Direct staff to work with the Office of Insurance Regulation to determine what regulatory opportunities might be available to ensure that Citizens rates are less competitive with the private market; and</li><li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li></ul>