

# Executive Summary

Actuarial & Underwriting Committee Meeting, March 22, 2022

Board of Governors Meeting, March 23, 2022

## Advisory Rate Adjustment Executive Summary

### Purpose

Citizens and private insurers in Florida may designate buildings that will be individually rated, subject to the approval of rules by the Office of Insurance Regulation (OIR). Individually rated buildings (also known as Advisory or A-rated risks) are not subject to the insurer's filed rates, rating schedules, rating manuals or underwriting rules. Citizens has designated buildings with a Building Coverage Limit of \$10 million or greater as A-rated. These A-rated buildings are not subject to the 11% cap on annual rate increases, nor are the rates for these risks subject to approval by OIR.

### Individually Rated Statistics

- As of 12/31/2021, there were 26 Multiperil and 16 Wind Only Commercial Residential individually rated buildings with combined annual premium of \$4.9 million.
- Just under 50% of the individually rated buildings are in the Coastal Account.

### 2021-2022 Analysis

Separate rate indications were calculated for the CRM and CRW A-rated buildings. The actuarial team took the following factors into consideration:

- Modeled hurricane losses using AIR Worldwide Corporation Hurricane Model for the U.S. v17.0.1, Touchstone 7.3.0 (AIR). This model is licensed by Citizens and was accepted by the Florida Commission on Hurricane Loss Projection Methodology at the time of this analysis.
- A provision for non-hurricane loss costs based on the last five years of historical results.
- A provision for the net cost of private reinsurance including an additional cost provision such that Citizens' rates reflect reinsurance coverage of a 1-in-100 year event.
- A provision for the net cost of pre-event liquidity.
- A provision for expenses based on Citizens' administrative and acquisition costs.
- Changing CR-M and CR-W Hurricane and Other Wind a-rates so that they match in the Coastal Account.
- Changing CR-M All Other and Sinkhole Basic Group II for policies excluding wind coverage to match the same base rates used for policies including wind coverage.

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Since 2015 Citizens has experienced decreases in it's A-rated product until just recently.

<b>COMMERCIAL RESIDENTIAL A-RATED Historical Building Count</b>			
<b>Year Ending</b>	<b>CR-M</b>	<b>CR-W</b>	<b>Total</b>
2014	345	146	491
2015	106	44	150
2016	35	11	46
2017	15	6	21
2018	14	6	20
2019	10	3	13
2020	10	3	13
2021	26	16	42

## Proposed Rate Changes by Line of Business

The Proposed Rate Changes include the impact of changes to the base rates, territory relativities, and FHCf Build-Up factor.

Recommended Rate Changes:

<b>COMMERCIAL RESIDENTIAL A-RATED Statewide Indicated and Rate Changes</b>			
	<b>CR-M</b>	<b>CR-W</b>	<b>Total</b>
(1) Proposed Rate Change:	29.5%	19.2%	22.7%
(2) In-force Premium (\$ 000):	1,642	3,237	4,879

Since A-rates are not subject to the glide-path, our recommendation is to take the proposed rate changes. This will be accomplished by

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- Base rate and territory changes to achieve the indicated rate need based on CR-M and CR-W separately.
- Increase Excluding Wind base rates to match that of the corresponding With Wind base rates.

COMMERCIAL RESIDENTIAL A-RATED Territory Rate Changes					
	Building Count	Premium (\$ 000)	CR-M	CR-W	Total
Broward	6	758	33.0%	14.9%	23.7%
Collier	2	418	-	20.6%	20.6%
Dade	15	2,510	28.5%	21.0%	23.3%
Escambia	1	94	-	14.5%	14.5%
Lee	1	25	-	32.7%	32.7%
Okaloosa	1	72	-	14.3%	14.3%
Palm Beach	2	343	-	14.7%	14.7%
Pinellas	14	659	28.4%	19.2%	26.1%
<b>Total</b>	<b>42</b>	<b>4,879</b>	<b>29.5%</b>	<b>19.2%</b>	<b>22.7%</b>

These changes are expected to impact policies effective 8/1/2022 for both new and renewal business.

## Recommendation

Staff requests that the Actuarial & Underwriting Committee approve and recommend to the Board of Governors approval of the proposal to change A-rates as shown in the Summary of Results.

Upon Board approval, appropriate changes will be applied to CRM rates for A-rated buildings and to CRW rates for A-rated buildings.

## Advisory Rate Adjustment

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other** \_\_\_\_\_

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

**Previous Board Approval** \_\_\_\_\_

**Other** \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

<b>Item Description</b>	Proposed rate change for Advisory Rated Risks (A-Rated) – effective 8/1/2022
<b>Purpose/Scope</b>	<p>Purpose: Adjust a-rated risks rates to maintain actuarial soundness.</p> <p>Scope: Citizens and private insurers in Florida may designate buildings that will be individually rated, subject to the approval of rules by the Office of Insurance Regulation (OIR). Individually rated buildings (also known as Advisory or A-rated risks) are not subject to the insurer’s filed rates, rating schedules, rating manuals or underwriting rules. Citizens has designated buildings with a Building Coverage Limit of \$10 million or greater as A-rated. These A-rated buildings are not subject to the 11% cap on annual rate increases, nor are the rates for these risks subject to approval by OIR.</p> <p>The scope of this action item is a proposal to adjust the territorial base rates used to rate Advisory rated risks for the CRW and CRM.</p> <p>For A-rated CRW risks, we are proposing a 19.2% statewide change. For A-rated CRM risks, we are proposing a 29.5% statewide change.</p>
<b>Contract ID</b>	N/A

## Advisory Rate Adjustment

<p><b>Budgeted Item</b></p>	<p><input type="checkbox"/> Yes  <input type="checkbox"/> No                  N/A</p>
<p><b>Procurement Method</b></p>	<p>N/A</p>
<p><b>Contract Amount</b></p>	<p>N/A</p>
<p><b>Contract Terms</b></p>	<p>N/A</p>
<p><b>Committee Recommendation</b></p>	<p>Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend to the Board of Governors:</p> <ul style="list-style-type: none"> <li>a) Approve the above proposals to Citizens' A-rates, effective 8/1/2022; and</li> <li>b) Authorize staff to take any appropriate or necessary action consistent with system change implementations, and other relevant activities.</li> </ul>
<p><b>Board Recommendation from Committee</b></p>	<p>If approved at its March 22, 2022, meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> <li>a) Approve the above proposals to Citizens' A-rates, effective 8/1/2022; and</li> <li>b) Authorize staff to take any appropriate or necessary action consistent with system change implementations, and other relevant activities.</li> </ul>
<p><b>CONTACTS</b></p>	<p>Brian Donovan, FCAS, MAAA – Chief Actuary</p>