

# Executive Summary

**Actuarial & Underwriting Committee Meeting, December 6, 2022**

Board of Governors Meeting, December 7, 2022

## Product Updates –December 2022

### **Senate Bill 2-D Product Changes – Personal Lines (products with roof eligibility standards)**

At the July 2022 meeting, the A&U Committee discussed the following recommendations regarding roof eligibility and asked Staff to further evaluate the renewal process. An update to the original recommendation is included below to address that request.

Senate Bill 2-D, passed during Special Session 2022D, introduced statutory language prohibiting an insurer from nonrenewing homeowner's policies insuring residential structures with newer roofs solely for age, and for residential structures with older roofs, the insurer must allow the policyholder the opportunity to provide an inspection indicating at least 5 years remaining useful life. The insurer may not refuse to issue or renew a policy or require a roof replacement based solely on roof age if this inspection indicates that the roof has 5 years or more of useful life remaining.

For roofs that are over Citizens' maximum age, current rules require inspections demonstrating three years remaining useful life and deeming a policy ineligible when the expected remaining life falls below 3 years. Additional policy renewals may be allowed when a new roof inspection showing at least 3 years remaining useful life is provided.

In order to ensure alignment with the new legislation, staff proposes changing eligibility rules for older roofs to require an inspection demonstrating 5 years remaining life and no issues with roof condition. When a satisfactory inspection is provided, Citizens will provide a one-time extension, allowing annual policy renewals for up to 5 years for soft roof types. Hard roof types may be allowed additional extensions when roof condition warrants. All extensions are subject to acceptable roof condition and other eligibility rules. If there is a roof condition (such as existing damage, excessive granular loss, missing or damaged shingles, etc.) that would render the risk otherwise uninsurable under the applicable underwriting and eligibility rules, Citizens may cancel or nonrenew the policy. To identify any deteriorating roof conditions, Citizens will conduct an inspection during the 5-year period.

### **Updates to Roof Age Eligibility**

In addition to proposed changes to handling of remaining useful life, staff also proposes the following:

Citizens' current roof eligibility rules specify 25 and 50 years for soft and hard roof coverings, respectively. These thresholds, introduced in 2012, allow roofs that are older than the typical ages allowed in the private market. While this may be appropriate for a residual market, the current acceptable ages, combined with the required five-year extension for remaining useful life, could result in increasing the number of old roofs in Citizens' book of business.

In order to continue to support Citizens' role as the residual insurer while mitigating concerns about older roofs in its book of business, staff proposes reducing the roof age thresholds for new business policies to 20 years for soft type coverings and 40 years for hard.

Staff anticipates bringing a recommendation for renewal business at a point in the future beyond the new business effective date to allow time to evaluate impacts to Citizens' book of business and the market.

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## **Optional Windstorm or Hail Deductible**

Given the recent trends with increasing roof losses, Citizens' staff evaluated the use of higher deductibles as one option to help mitigate financial challenges. In addition to transferring a larger portion of losses to the policyholder in exchange for a premium credit, higher deductibles eliminate smaller losses and reduce questionable claims where a policyholder may report hurricane damage under the lower "Other Wind or Hail" deductible.

Two approaches were evaluated: the new statutory Senate Bill 2-D roof deductible and a traditional windstorm or hail (wind/hail) deductible. Under Florida statute, either approach must be optional for the insured.

The new statutory roof deductible applies specifically to the roof and is limited to the lesser of 2% of Coverage A or 50% of the roof replacement cost. The deductible does not apply to covered losses when less than 50% of the roof is required to be repaired, that result in a total loss to the primary structure, that result from a tree fall or other hazard that damages the roof and punctures the roof deck or caused by hurricane

The wind/hail deductible is typically a fixed dollar amount or percentage of Coverage A and applies to all losses suffered during a non-hurricane wind or hail event. This approach does not offer exceptions for more severe losses and has been used for years in Florida and other states.

Staff proposes adding new higher wind/hail deductible options for homeowners and dwelling products. This wind/hail deductible is a better option for Citizens because it is simpler to adjust, more straightforward for insureds and will apply to a larger number of losses. The deductible applies for all non-hurricane windstorm losses, regardless of the extent of damage and the amount of the deductible does not vary based on the cost of the roof replacement.

Citizens currently offers All Other Perils (AOP), Hurricane, and Sinkhole deductibles for personal lines policies. Any windstorm-related losses other than hurricane are currently subject to the AOP deductible. With this proposed change, the insured will be given the option to select a higher wind/hail deductible for a premium credit. The deductible will be per occurrence and if a higher deductible is selected, it must match the selected Hurricane deductible. Insureds who do not select the higher optional deductible will have the current AOP deductible applied to any non-hurricane windstorm losses. In order to match the requirement that the wind/hail deductible match the hurricane deductible, it will be necessary to introduce a new 10% wind/hail deductible in the wind-only programs.

## **Senate Bill 2-D Forms Changes**

Senate Bill 2-D also requires that insurance contracts provide email and mailing addresses for delivery of the statutorily required notice of intent to initiate litigation from assignees of post-loss policy benefits. Citizens' contracts are being updated to meet this requirement as well as update the definition of assignee to better align with statute.

Due to the effective date of the legislation, supporting changes to forms were filed with the Office of Insurance Regulation (OIR) in October. Staff requests Board approval of this change.

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## Recommendation

Staff proposes that the Actuarial & Underwriting Committee review, and if approved, recommend that the Board of Governors:

- a) Approve the above proposals to update Citizens' Product guidelines, forms and supporting documents; and
- b) Authorize staff to take any appropriate or necessary action consistent with the Product Updates – December 2022 Action Item to include filing with the Office of Insurance Regulation (OIR), system change implementations, updates to supporting documents, applications or forms and other relevant activities. Final changes and implementation timeline may vary, based on project complexity, operational considerations and feedback from the OIR.

## PRODUCT UPDATES – December 2022

**ACTION ITEM**

New Contract

Contract Amendment

Other: Product Updates

**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>	Product updates described in the accompanying Executive Summary: Product Updates – December 2022. These changes include: <ul style="list-style-type: none"> <li>• Senate Bill 2D Product Changes – Personal Lines (products with roof eligibility standards)</li> <li>• Updates to Roof Age Eligibility</li> <li>• Optional Windstorm or Hail Deductible</li> <li>• Senate Bill 2D Form Changes</li> </ul>
<b>Purpose/Scope</b>	Actuarial and Underwriting Committee approval and Committee recommendation to Board of Governors for approval of proposed changes.
<b>Contract ID</b>	Title: N/A Contract number, if applicable Recommended vendor, if applicable
<b>Budgeted Item</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No N/A
<b>Procurement Method</b>	N/A
<b>Contract Amount</b>	N/A

## PRODUCT UPDATES – December 2022

<b>Contract Terms</b>	N/A
<b>Committee Recommendation</b>	<p>Staff proposes that the Actuarial &amp; Underwriting Committee review, and if approved, recommend the Board of Governors:</p> <ul style="list-style-type: none"><li>a) Approve the above proposals to update Citizens' Product guidelines, forms and supporting documents; and</li><li>b) Authorize staff to take any appropriate or necessary action consistent with the Product Updates – December 2022 Action Item to include filing with the Office of Insurance Regulation (OIR), system change implementations, updates to supporting documents, applications or forms and other relevant activities. Final changes and implementation timeline may vary, based on project complexity, operational considerations, and feedback from the OIR.</li></ul>
<b>Board Recommendation from Committee</b>	<p>If approved at its December 6, 2022 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"><li>a) Approve the described proposals to update Citizens' Product guidelines, forms, and supporting documents; and</li><li>b) Authorize staff to take any appropriate or necessary action consistent with the Product Updates – December 2022 Action Item to include filing with the Office of Insurance Regulation (OIR), system change implementations, updates to supporting documents, applications or forms and other relevant activities. Final changes and implementation timeline may vary, based on project complexity, operational considerations, and feedback from the OIR.</li></ul>
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