

# Executive Summary

Actuarial & Underwriting Committee Meeting, March 28, 2023

Board of Governors Meeting, March 29, 2023

## Recommended A-Rate Change

### 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 12% cap on annual rate increases, nor are the rates for these risks subject to approval by OIR.

### Individually Rated Statistics

- As of 12/31/2022, there were 142 Multiperil and 207 Wind Only Commercial Residential individually rated buildings with combined annual premium of \$55.5 million.
- Just over 60% of the individually rated buildings are in the Coastal Account.

### 2023 Rate Analysis

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

- Four models accepted by the Florida Commission on Hurricane Loss Projection Methodology: AIR (v1.0.0, Touchstone 2021), RMS (Risklink v21.0 (Build 2050)), CoreLogic RQE (Florida Hurricane Model v2021a), and the FPM (v8.1).
- 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.

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From 2014 through 2020, the a-rated risks were steadily decreasing. Starting in 2021, Citizens started experiencing an increase in these risks.

<b>COMMERCIAL RESIDENTIAL A-RATED Historical Building Count</b>			
<b>Year</b>			
<b><u>Ending</u></b>	<b><u>CR-M</u></b>	<b><u>CR-W</u></b>	<b><u>Total</u></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
2022	142	207	349

## 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><u>CR-M</u></b>	<b><u>CR-W</u></b>	<b><u>Total</u></b>
(1)	Proposed Rate Change:	24.0%	28.9%	27.8%
(2)	In-force Premium (\$ 000):	\$12,140	\$43,340	\$55,480

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					
	<u>Building Count</u>	<u>Premium \$ 000</u>	<u>CR-M</u>	<u>CR-W</u>	<u>Total</u>
Broward	41	\$9,683	24.4%	29.5%	28.2%
Collier	29	\$5,319	24.0%	21.2%	21.6%
Dade	98	\$21,009	21.0%	33.8%	31.1%
Palm Beach	49	\$7,405	24.1%	29.2%	28.5%
Pinellas	77	\$5,622	28.3%	20.9%	25.7%
<u>Rest of State</u>	<u>55</u>	<u>\$6,442</u>	<u>21.8%</u>	<u>20.3%</u>	<u>20.1%</u>
<b>Total</b>	<b>349</b>	<b>\$55,480</b>	<b>24.0%</b>	<b>28.9%</b>	<b>27.8%</b>

These changes are expected to impact policies effective 10/1/2023 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.

## Recommended Advisory Rate Change

**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 10/1/2023
<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 12% 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 28.9% statewide change. For A-rated CRM risks, we are proposing a 24.0% statewide change. The combined CRW/CRM proposed rate change is 27.8%.</p>
<b>Contract ID</b>	<p>Title</p> <p>Contract number, if applicable</p> <p>Recommended vendor, if applicable</p>

## Recommended Advisory Rate Change

<b>Budgeted Item</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Procurement Method</b>	N/A
<b>Contract Amount</b>	N/A
<b>Contract Terms</b>	N/A
<b>Committee Recommendation</b>	Staff proposes that the A&U Committee review, and if approved, recommend to the Board of Governors:  a) Approve the above proposals to Citizens' A-rates, effective 10/1/2023; and  b) Authorize staff to take any appropriate or necessary action consistent with system change implementations, and other relevant activities.
<b>Board Recommendation from Committee</b>	If approved at its March 28, 2023, meeting, the A&U Committee recommends that the Board of Governors:  a) Approve the above proposals to Citizens' A-rates, effective 10/1/2023; and  b) Authorize staff to take any appropriate or necessary action consistent with system change implementations, and other relevant activities.
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