

Executive Summary

Actuarial & Underwriting Committee, September 26, 2023

Board of Governors Meeting, September 27, 2023

Competitive Rate Comparison Services (Data to Support Non-Competitive Rate Analysis)

Topic

Citizens is requesting approval to enter into a contract with I4 Integrated Services for Rate Comparison Services. This service provides the premiums Citizens' policies would have been charged by private insurers. This service allows Citizens to comply with the statutory requirement created by SB 2A that its rates are not competitive with the private market. Staff estimates if this service had been available in early 2023, it would have generated an additional \$23M in premium in 2024, based on 12/31/2022 data.

History

Citizens is requesting approval to enter into a contract with I4 Integrated Services for Rate Comparison Services. This service provides the premiums Citizens' policies would have been charged by private insurers. This service allows Citizens to comply with the statutory requirement created by SB 2A that its rates be non-competitive with the private market. Staff estimates if this service had been available in early 2023, it would have generated an additional \$23M in premium in 2024, based on 12/31/2022 data.

The annual service provides the premium each of Citizens' policies would have been charged by different private insurers. It accounts for the detailed, individual characteristics of each insured risk including deductible, construction type, wind-resistant features, etc. Critically, this includes the risk's exact location which is important because a policy's premium often depends on the distance between the insured risk and the coastline.

The different private insurers should account for at least 50% of Florida's property and casualty personal residential insurers market, as measured using total insured value. The rates charged by each insurer would include the latest rates approved by the Office of Insurance Regulation (OIR.) If necessary, the service also includes bespoke premium calculations that can be used only for rerating Citizens' policies. This is important because statute allows Citizens to obtain information from OIR about private insurers' premium calculations that is trade secret. This information must be kept confidential by Citizens and cannot be used by the service for any other purposes.

Detailed data showing what each of Citizens' policies would have been charged by different insurers, like what is provided by this service, is critical for evaluating the competitiveness of Citizens' rates. This is because rates cannot be effectively compared using only rating manuals, since rating manuals cannot show average rates. Instead, rating manuals show how a company's rates vary with the characteristics of the insured risk. This may be hundreds or

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thousands of numbers, and the influence of each number on the average rate depends on the composition of the policies being insured. Additionally, different rating manuals will consider different rating characteristics in different ways.

Average rates must be inferred from rating manuals by applying those manuals to real or hypothetical policies, as this service does for Citizens' policies. This comparison will be included in Citizens' future rate filings as statutorily required. OIR can then use this comparison to ensure it sets Citizens' rates to be non-competitive with the private market. This would be a significant improvement over Citizens' current capabilities. In the OIR Order setting the 2024 rates (filing 314719-23), OIR found that limitations in the data currently available to Citizens prevented it from granting the full rate increase requested by Citizens to keep its rates non-competitive. This is the additional rate increase mentioned previously and would be \$23M in additional revenue based on 12/31/2022 data.

Recommendation

Staff recommends that the Actuarial and Underwriting Committee approve and recommend that the Board of Governors:

- a. Authorize staff to contract with I4 Integrated Services for a term of 36 months for an amount not to exceed \$828,000; and
- b. Authorize staff to take any appropriate or necessary action consistent with this Action Item.

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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.

Purpose/Scope

This Action Item seeks Board approval for Citizens to enter into a contract with I4 Integrated Services for Rate Comparison Services. This would let Citizens determine whether its rates are non-competitive with private insurers writing a majority (at least 50%) of Florida’s property and casualty personal residential insurers market, as measured using total insured value. Staff estimates this additional data would have allowed Citizens to charge an additional \$23M in rates annually, based on 12/31/2022 data.

SB 2A modified Florida Statute 627.351 such that Citizens must now charge rates that are not competitive with the private market. This service would allow Citizens to comply with this new requirement by providing the premiums Citizens’ policies would have been charged by other private insurers writing in Florida. Citizens’ rate filing would include a comparison of the proposed rates to these private market rates. The Office of Insurance Regulation (OIR) could then use this comparison to ensure it sets Citizens’ rates to be non-competitive with the private market. This would be a significant improvement over Citizens’ current capabilities. In the OIR Order setting the 2024 rates (filing 314719-23), OIR found that limitations in the data currently available to Citizens prevented it from granting the full rate increase requested by Citizens to keep its rates non-competitive. This is the additional rate increase mentioned in the previous paragraph and would be \$23M in additional revenue based on 12/31/2022 data.

At a minimum, the service would rerate Citizens’ Homeowners (HO-3), Dwelling Fire (DP-3), and Condo Unit Owners (HO-6) policies. Critically, the service accounts for the exact location of each of Citizens’ policies. This is important because a policy’s premium often depends strongly on the distance between the insured risk and the coastline. If necessary, the service will also create bespoke premium calculations that can be used only for rerating Citizens’ policies. This is

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	<p>important because statute allows Citizens to obtain information from OIR about private insurers' premium calculation that is trade secret. This information must be kept confidential by Citizens and cannot be used by the service for any other purposes.</p> <p>The service should annually rerate all of Citizens' policies after updating premium calculations for each private insurer to use the latest rates approved by OIR for that insurer. All of the premiums should be determined in a single batch computation.</p>
Contract ID	TBD
Budgeted Item	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Procurement Method	<p>Citizens issued Request Proposal No. 20-0004 for Rate Comparison Services on March 19, 2020. Milliman, Inc. was the only vendor to submit a proposal under the RFP. Citizens staff determined that negotiating on the best terms and conditions with Milliman was in the best interest of Citizens and the state, pursuant to S. 287.057(5), F.S.</p> <p>This service provided by Milliman was identical to the service described here, except that it included some additional web-based, interactive summaries of the results. Milliman relied on a third party, Rating Dynamics, to calculate the premiums that would have been charged by private insurers for each of Citizens' individual policies as described here. The relationship between Milliman and that third party ended in April 2023. I4 Integrated services shares ownership, staff and software with Rating Dynamics.</p> <p>Milliman is no longer able to offer Citizens the same services it did before. Citizens staff requests to contract directly with I4 Integrated Services instead.</p> <p>Currently, Citizens has posted a single source for I4 Integrated Services. No other company has responded as of yet. Assuming no other vendors respond, single source would be awarded to I4 Integrated Services, and Citizens would begin negotiations to contract with I4 Services.</p>
Contract Amount	Not to exceed \$828,000 over the term of the contract
Contract Terms	36 months

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Committee Recommendation	Staff recommends that the Actuarial and Underwriting Committee approve and recommend that the Board of Governors: <ul style="list-style-type: none">a. Authorize staff to contract with I4 Integrated Services for a term of 36 months for an amount not to exceed \$828,000; andb. Authorize staff to take any appropriate or necessary action consistent with this Action Item.
Board Recommendation from Committee	If approved at its September 26, 2023 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors: <ul style="list-style-type: none">a. Authorize staff to contract with I4 Integrated Services for a term of 36 months for an amount not to exceed \$828,000; andb. Authorize staff to take any appropriate or necessary action consistent with this Action Item.
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