

Office of the
Internal Auditor

Advisory Memorandum 2024

**Primary Non-Primary
Residence Requirements**





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Background

Florida insurance landscape faced substantial challenges during 2021 and 2022, prompting the convening of a special session by the Florida Legislature to address the state's property insurance crisis. In response to this, Senate Bill 2A, passed by Florida legislators during the December 2022 special session, introduced a noteworthy alteration to the treatment of primary and non-primary residences in Citizens Property Insurance rate calculations.

Before the enactment of SB2A, no Citizens individual policyholder was subject to a rate increase exceeding 12% in 2023 and 13% in 2024, excluding sinkhole-related adjustments. Notably, the legislation empowered Citizens to determine rates based on the residence status, distinguishing between 'primary' and 'non-primary.' A primary residence, as defined by the bill, is a property occupied by the policyholder or tenant for more than nine months in a year, while those occupied for nine months or less are classified as non-primary residences.

SB2A introduced a specific provision for calculating premiums on non-primary residences. For new or renewed policies on such residences written on or after December 16, 2023, Citizens must charge rates not lower than the previous year's rate (no decreases) and not exceeding 50% above the previous year's rate. Importantly, the rate for non-primary residences is exempt from the rate increase limitations mentioned earlier.

To ensure eligibility for the lower rate cap associated with primary residences, policyholders with residences not previously verified as primary must furnish proof of residency documentation. Failure to provide such proof will lead to reclassification as a non-primary residence, resulting in a higher premium.

Objectives and Scope

Internal Audit reviewed the revised underwriting processes and related controls to confirm that these will ensure that the appropriate premium rate is applied when distinguishing between primary and non-primary residences.

Results

Our review indicated that the workgroup which consisted of personnel from Underwriting, Agency Administration, and Product Development, considered all relevant aspects of the legislative change when developing new system enhancements and controls, underwriting policies and procedures, communication and education for agents, letters to policyholders, training webinars and materials, cost analysis for additional resources to process added workload, and metrics via PowerBI to ensure the implementation of the SB2A requirements were accurate. Internal Audit observed the following activities in support of the control structure for the new Primary/Non-Primary process:

- 1.2M Citizens' policies were affected by SB2A.
- Renewal and new business requirements for eligibility were developed and implemented.
- Types of acceptable required documents were established to support primary or non-primary requirements.
- Manual verification was reduced to approximately 500K by using automated Homestead exemption data from CoreLogic.
- Sensitive personal information is redacted and/or restricted to protect policyholder privacy.



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- PolicyCenter system controls were applied to comply with primary and non-primary residence requirement selection.
- Policy change reasons were added and defined as acceptable or non-acceptable based on proof of primary residence.
- Rating indicators, occupancy, usage, and months unoccupied in property information and discounts/surcharges were added to systems to ensure the proper premium is applied.
- The OIR allowed the 50% cap to be applied for primary/non-primary but not for insureds coming to Citizens from carriers deemed unsound/insolvent.
- PowerBI reporting was developed to capture primary and non-primary data to ensure visibility and accurate reporting.
- Agent questions, answers, and feedback were gathered during Agent Roundtable meetings to ensure training, communications, and letters sent to policyholders were understood.

The results from this review confirmed that adequate policies, practices and procedures were designed and implemented, aligned with requirements from SB2A, to meet new business and renewal requirements for December 16, 2023.

We thank management and staff for their cooperation and professional courtesy throughout this advisory engagement.



Distribution

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