

Executive Summary

Actuarial & Underwriting Committee Meeting, June 19, 2017

Board of Governors Meeting, June 20, 2017

Product Changes – Address Water Losses

History

During the last two years, Citizens staff has presented multiple changes to Actuarial and Underwriting Committee and the Board of Governors to address the rapidly rising claims costs due to water losses and associated litigation.

At its December 2015 meeting, Citizens Board of Governors approved a recommendation from staff to modify policy language. Changes included:

- Limit coverage for cost of Reasonable Emergency Measures that are required by contract to the greater of \$3,000 or 1 percent of the Coverage A limit, unless the policyholder first receives approval from Citizens.
- Require prompt Loss Reporting by excluding coverage for permanent repairs that begin before the earlier of:
 - 72 hours after Citizens is notified of the loss
 - The time of loss inspection by Citizens
 - The time of other approval by Citizens
- Clarify that coverage does not apply for:
 - collapse of plumbing caused by deterioration or age,
 - access is provided only for the part or portion of the plumbing system that caused the covered loss
 - insured must comply with duties after loss, there is no coverage if failure to comply prejudices Citizens.

Following those changes, at its September 2016 meeting, the Board also approved policy changes to support two new programs offered by Citizens. These programs provide Emergency Water Removal Services and Managed Repair Contractor Network Program and are completely optional for the policyholder.

During 2017 Legislative Session, Citizens and the private insurers worked closely with The Office of Insurance Regulation to propose significant legislative changes to address the continuing problems specifically associated with assignment of benefits (AOB) abuse. Unfortunately, no legislative changes were made and the policy language changes made in 2016 have not addressed the claim costs associated with AOB and water losses. Citizens has experienced a significant underwriting loss for 2016 and it appears that the abuse and litigation in water and AOB will continue. While legislative action is ultimately necessary to curb AOB abuse, it is clear that further policy changes are also needed.

Executive Summary

Actuarial & Underwriting Committee Meeting, June 19, 2017

Board of Governors Meeting, June 20, 2017

Additionally, multiple efforts are underway to continue to improve claims processes and evaluate data to identify emerging trends and opportunities to address abuse. Detailed information is provided to the Board, via the Claims committee.

After extensive evaluation of various options, with the goal of addressing the issues while limiting impact on policyholders, Staff proposes the following changes to Citizens coverage:

Proposal

Water Sub-Limit

- Introduce \$10,000 sublimit for non-weather water losses for HO-3 and DP-3 policy types.
- Provide policyholders the option of utilizing Citizens Managed Repair Program which will provide full Coverage A limits for covered damage.

Assignment of Benefits Duties After Loss

- Extend relevant Duties required by the policy to apply to Assignee who will be receiving policy benefits.

Eligibility for policies with water losses.

Currently Citizens eligibility rules allow policies with fewer than 3 “non-Act of God” losses within 3 years.

Staff proposes updating the Rule to allow no more than one (1) water loss within three years or two (2) water losses within 5 years. Rules will not change for other causes of loss. Exceptions will be considered if underlying cause of loss is remediated.

Additionally, Citizens will evaluate multiple communication approaches to ensure that policyholders understand the coverage changes and the options available to them.

- Acknowledgement of coverage limitations at time of application.
- Notice of Policy Coverage Changes provided for all renewal policies.
- Agent training and communication program.
- Policyholder letter/brochures in targeted areas.
- Explanation of options at time of loss.

Executive Summary

Actuarial & Underwriting Committee Meeting, June 19, 2017
Board of Governors Meeting, June 20, 2017

Recommendation

Citizens' Staff recommends the Actuarial & Underwriting Committee approve and recommend that the Board:

- a) Approve the above proposals for product changes to address water losses and implement appropriate communication; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Product Changes – Address Water Losses Action Item to include system change implementations, document changes and supporting activities.

ACTION ITEM

Actuarial & Underwriting Committee Meeting, June 19, 2017
Board of Governors Meeting, June 20, 2017

CONTRACT ID:	Product Changes – Address Water Losses - Personal Lines
BUDGETED ITEM	N/A
CONTRACT AMOUNT	N/A
PURPOSE / SCOPE	<p>After extensive evaluation of various option, with the goal of addressing the issues while limiting impact on policyholders, Staff proposes the following changes to Citizens coverage for HO-3 and DP-3 Personal Lines products:</p> <p>Water Sub-Limit</p> <ul style="list-style-type: none">• Introduce \$10,000 sublimit for non-weather water losses.• Provide policyholders access the option of utilizing Citizens Managed Repair Program which will provide full Coverage A limits for covered damage. <p>Assignment of Benefits Duties After Loss</p> <ul style="list-style-type: none">• Extend relevant Duties required by the policy to apply to Assignee who will be receiving policy benefits. <p>Eligibility for Policies With Water Losses</p> <ul style="list-style-type: none">• Currently Citizens eligibility rules allow policies with fewer than three (3) “non Act of God” losses within three (3) years. Rule will be changed to allow no more than one (1) water loss within three years or two (2) water losses within five (5) years. Rules will not change for other causes of loss. <p>Additionally, Staff will implement multiple communication approaches to ensure the policyholders understand the coverage changes and the options available to them.</p>
CONTRACT TERM(S)	N/A
PROCUREMENT METHOD	N/A
RECOMMENDATION	<p>Citizens' Staff recommends the Actuarial & Underwriting Committee approve and recommend that the Board:</p> <ol style="list-style-type: none">a) Approve the above proposals to update underwriting requirements to refine underwriting eligibility, promote consistency, and align with private market carriers; andb) Authorize staff to take any appropriate or necessary action consistent with this Action Item to include filing with the Office of Insurance Regulation (OIR), system change implementations, document changes and supporting activities. Final changes may vary slightly, depending on guidance from the OIR.

ACTION ITEM

Actuarial & Underwriting Committee Meeting, June 19, 2017
Board of Governors Meeting, June 20, 2017

CONTACTS

Steve Bitar, Chief of Underwriting and Agency Services
Karen Holt, Senior Director Product Development