Market Bulletin

LLOYD'S

FROM:	Director, Worldwide Markets	EXTN:	6677
DATE:	7 March 2005	REF:	Y3511
SUBJECT:	**Florida: potential deficit assessment for Citizens Property Insurance Corporation**		
SUBJECT AREA(S):	Florida property insurance		
ATTACHMENTS:	Appendix: Citizens Property Insurance Corporation ("CPIC")		

ACTION POINTS:	**Managing agents to note the possibility of a deficit assessment being levied on Florida property insurance premiums**
DEADLINE(S):	**None**

1. Purpose of bulletin

To inform the market that a deficit assessment may be levied on all Florida property insurance premiums by Florida's residual market for property insurance, Citizens Property Insurance Corporation ("CPIC"), as a result of windstorm losses suffered in 2004.

2. The potential deficit assessment

In summary, CPIC has a deficit of about $400m as a result of 2004 windstorm losses. It is probable that this deficit will be funded by means of levies on property insurance premiums. The levies will be payable by admitted (or licensed) insurers and by surplus lines insureds. Collection and payment of the surplus lines assessment will be the responsibility of surplus lines agents, not surplus lines insurers such as Lloyd's underwriters. A deficit assessment will not therefore have a direct impact on Lloyd's underwriters, but clearly an obligation on surplus lines insureds to pay an additional levy will affect the cost to them of surplus lines insurance policies.

Precise details of the deficit and the consequent assessment have not yet been determined and it is possible that the deficit may be met in other ways. Decisions on the assessment may well not be made until after conclusion of the Florida legislative session at the end of April. Lloyd's will keep the market informed of any developments.

Further details of CPIC, the possible assessment and the Florida Hurricane Catastrophe Fund (which is not proposing to make an assessment) are set out in the attached appendix.

3. Further information

If you have any queries about this bulletin please contact Lloyd's Worldwide Markets Services:

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This bulletin has been sent to active underwriters and the compliance officers of managing agents and Lloyd's brokers.

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Appendix

Citizens Property Insurance Corporation ("CPIC")

1. The CPIC deficit

CPIC is a non-profit, state-created corporation operating under an appointed Board of Governors that serves as Florida's residual market mechanism for property insurance. It was formed in 2002, by merger of the former Florida Windstorm Underwriting Association ("FWUA") and the former Florida Residential Property and Casualty Joint Underwriting Association ("FRPCJUA").

At the February meeting of CPIC's Board of Governors, staff informed the board that they expected to recognize a deficit of approximately $400 million in the High Risk Account (the former FWUA, which writes more than 450,000 windstorm-only policies in coastal areas) as a result of windstorm losses resulting from the storms that struck Florida in the summer of 2004.

The exact amount of the deficit, and the resulting assessment, are yet to be determined. The $400 million amount is based on current estimates of ultimate losses from the 2004 storm season and has not been audited or subjected to an actuarial analysis. By law, no assessment may be levied prior to the completion of the audit and the actuarial analysis.

The Florida legislature will convene in regular session on March 8, 2005. During the two month session, it is possible that the Legislature will take action that will affect the need or amount of the projected CPIC assessment. Due to extreme political sensitivity regarding increases in rates and assessments ultimately paid by consumers, as well as the existence of a surplus in CPIC's other accounts, it is possible that the Legislature will find alternative funding mechanisms to mitigate the deficit. In any case, it is likely that any assessment decision will be deferred until conclusion of the session in early May. More definitive information regarding the amount of the deficit and any resulting assessment will be available at that time.

2. The assessment process

The assessment process is:

(a) CPIC's Board of Governors finally determines the existence and amount of the deficit for 2004, and certifies its need for deficit assessments to the Florida Office of Insurance Regulation ("OIR").

(b) After the OIR verifies the aggregate amount of the assessment, CPIC determines the percentage of direct written premium for "subject lines of business" in the admitted and surplus lines market necessary to fund the deficit.

(c) CPIC levies assessments on admitted insurers and surplus lines insureds.

The dollar amount of the assessment:

- on an *admitted insurer* will be equal to the pre-determined percentage of the insurer's 2004 direct written premium for subject lines of business; and

- on a *surplus lines insured* will be equal to the pre-determined percentage of the new or renewal premium.

If the amount of the deficit to be funded through assessments is, as currently estimated, $400 million, the assessment percentage on premiums for subject lines of business would be approximately 5.3%.

Statutory definition of "subject lines of business": it is insurance covering real or personal property, including insurance for fire, industrial fire, allied lines, farmowners multiperil, homeowners multiperil, commercial multiperil, and mobile homes, and including liability coverage on all such insurance, but excluding inland marine and excluding vehicle insurance other than insurance on mobile homes used as permanent dwellings.

Collection and payment of surplus lines assessments: Assessments on surplus lines insureds are collected by the surplus lines agent at the same time as the agent collects the surplus lines tax. The agent then remits the collected assessments to the Florida Surplus Lines Service Office ("FSLSO"), which transfers them to CPIC. FSLSO has been preparing to administer the assessment mechanism for surplus lines insurers and insureds for some time, but will not move forward until the deficit and assessment need have been certified by the OIR.

Collection and payment of assessments on admitted insurers: Admitted insurers are required to pay the assessments when they are levied. They are then able to recoup their paid assessments through a premium surcharge. The surcharge must be filed with the OIR, but the OIR's authority with respect to surcharge filings is limited to verification of the arithmetic calculations in the filing.

Limits on the size of assessments: There is no limit on CPIC's liabilities, and there is no cap on CPIC's assessments. However, statutory provisions limit the amount that CPIC may assess in any one year to the greater of 1/10 of the prior year's aggregate direct written premium for subject lines of business or 1/10 of the deficit. These provisions operate as a means of determining whether CPIC will fund a particular deficit through a one-time assessment or through a series of annual assessments, rather than as an absolute cap.

3. The Florida Hurricane Catastrophe Fund ("Cat Fund")

While no Cat Fund assessment is anticipated based on 2004 losses, surplus lines insureds could be subject to a Cat Fund assessment if one becomes necessary to fund debt service on any bonds that the Cat Fund might issue in the future.

The Cat Fund provides a form of reinsurance to all admitted insurers writing residential property coverage in Florida. It is an agency of the State of Florida, operating under a board consisting of three elected officials (the Governor, the State Chief Financial Officer, and the State Attorney General). Unlike CPIC, which has unlimited liability for losses to its insured property, the Cat Fund's total exposure is limited to its cash reserves and bonding capacity, currently a total of $15 billion. Each insurer's reimbursement from the Cat Fund is limited to a percentage of the total capacity equal to its percentage premium contribution. There are statutory caps on Cat Fund assessment percentages (6% with respect to assessments attributable to a single year's borrowing, and an aggregate of 10% with respect to all assessments). There are absolute caps on the Cat Fund's ability to assess, as distinguished from the "floating" caps on CPIC assessments.

All Cat Fund assessments are levied directly on policyholders and collected by insurers or surplus lines agents.

The lines of business subject to Cat Fund assessments are considerably broader than the lines subject to CPIC assessments. All property and casualty premiums are subject to Cat Fund deficit assessments, with two exceptions: workers' compensation and, until May 31, 2007, medical malpractice.

To date, the Cat Fund has never levied an assessment and there is no expectation of a need to do so as a result of the 2004 hurricane season. The Cat Fund had a 2004 cash balance of approximately $6 billion. Final calculations are not available, but, in approximate terms, the Cat Fund's payouts for the 2004 hurricane season will be $2 billion to $3 billion.