MARKET BULLETIN

From	Director, Worldwide Markets (extn 6677)
Date	22 June 2006
Reference	Y3835
Subject	**Florida Property Insurance Issues**
Subject areas	2006 Florida property insurance legislation; Florida residual market and Catastrophe Fund deficits; expected assessments
Attachments	Appendix 1: Details of Florida property insurance legislation Appendix 2: Florida residual market and Catastrophe Fund deficits and expected assessments.
Action points	**Managing agents to note the new legislative provisions**
Deadlines	**None**

Purpose of bulletin

This bulletin describes:

– New Florida property insurance legislation, signed into law on 16 May, 2006; and

– the status of the Florida residual market ("Citizens Property Insurance Corp." or "CPIC" deficit and the Florida Hurricane Catastrophe Fund, and the potential levying and collection of assessments to address these deficits).

2006 Florida property insurance legislation (Chapter 2006-12, Laws of Florida)

The 2006 Florida legislature enacted property insurance legislation affecting a wide variety of areas, including the residual market and the duties of insurers after a state of emergency has been declared. Governor Jeb Bush signed the act (Chapter 2006-12, Laws of Florida) on 16 May, 2006. Some provisions of the act took effect on that date, and others, as noted, will take effect later.

The text of the act can be found at http://election.dos.state.fl.us/laws/06laws/ch_2006-012.pdf.

Appendix 1 summarises the portions of the act that could have an impact on the surplus lines and reinsurance markets.

CPIC and Florida Hurricane Catastrophe Fund deficits and assessments

CPIC and the Florida Hurricane Catastrophe Fund ("Cat Fund") sustained deficits as a result of the 2005 hurricane season. In the case of CPIC, the $1.7 billion deficit was offset by a direct appropriation of $715 million in state tax revenues. The Cat Fund's current estimate of its deficit is approximately $1.2 billion. The CPIC deficit will be levied through one-time-only "regular" and multi-year "emergency" assessments. The Cat Fund deficit will be levied through a one-time-only assessment.

After the Florida Office of Insurance Regulation verifies the aggregate amount of the CPIC assessment, CPIC will determine the percentage of direct written premium for subject lines of business in the admitted and surplus lines market necessary to fund the deficit. Under the CPIC statute, the assessments will apply to all property insurance premiums written by carriers in the admitted market or paid by insureds in the surplus lines market. Cat Fund assessments, which are technically levied on policyholders and collected by insurers, are levied as a percentage of written premiums.

It is expected that at some point later this year, deficit assessments will be levied. Further details of this issue are set out in Appendix 2.

This bulletin has been drafted in conjunction with Lloyd's America and Lloyd's local counsel in Florida.

Further information

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

Lloyd's Worldwide Market Services
Tel: 020 7327 6677
Email: market.services@lloyds.com
Box 190b, Gallery 1

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

Julian James
Director,
Worldwide Markets

Appendix 1

Details of 2006 Florida property insurance legislation

Residual market (CPIC)

Citizens Property Insurance Corp. (CPIC) is Florida's residual market entity for property insurance. As of April 30, 2006, it had 850,266 policies in force, with total exposure of $227 billion and premiums of $1.5 billion.

The legislation sets up new barriers to entry into CPIC for property that is not defined as "homestead" property and for dwellings with a replacement cost of $1 million or more (as to condominium units, the $1 million threshold applies to a combined dwelling and contents value of $1 million or more. "Homestead" property generally includes any property that is the primary residence of the owner, commercial residential property and certain other rental property, and tax-exempt hospital and continuing care retirement community properties.

Beginning March 1, 2007, non-homestead property will be eligible for new or renewal coverage in CPIC only after obtaining rejections from at least one admitted insurer and at least three surplus lines insurers. Beginning July 1, 2008, dwellings with a replacement cost of $1 million or more will be eligible for new or renewal coverage in CPIC only after obtaining rejections from at least one admitted insurer and at least three surplus lines insurers; in addition, a million-dollar dwelling that obtains CPIC coverage under these circumstances will become entirely ineligible for CPIC coverage after it has been covered by CPIC for three years.

The act creates new standards for determining rate adequacy for CPIC that will require substantial rate increases. A rate will be deemed inadequate if it is insufficient to provide the resources necessary to cover CPIC's 100-year probable maximum loss. For CPIC's High-Risk Account, which writes windstorm-only coverage in coastal areas, this requirement will be phased in over a 3-year period. Based on information provided by CPIC during legislative deliberations, it is expected that an increase of approximately 25% (in addition to the recently-approved 16% rate increase) will be required to meet this standard for multiperil policies, and a100% increase (or an increase of approximately 40% over the currently pending rate filing) will be required to meet this standard for windstorm-only policies.

Insurers' duties after a natural disaster ("Emergency Playbook")

During the 2004 hurricane season, Florida regulators issued a series of emergency rules, orders, and memoranda that imposed various duties on admitted and surplus lines insurers. Often, the expedited time frame of the drafting of these requirements did not allow for industry comments.

In 2006 Florida legislators sought to remedy this problem through a requirement that the regulator set out in advance—through a process that allows for input from affected parties—the requirements that will apply to insurers after a natural disaster (commonly referred to as an "emergency playbook").

The act requires the Florida Financial Services Commission (the body that oversees the Office of Insurance Regulation) to adopt rules governing claims reporting, grace periods for payment of premiums and performance of other duties by insureds, and postponement of cancellations and non-renewals that will apply to insurers after a hurricane or other natural disaster. These rules may be superseded only by unanimous vote of the Financial Services Commission.

Emergency powers of the Insurance Commissioner

The bill gives the Insurance Commissioner the power to issue "general orders" applicable to all insurers and other entities that are subject to the Insurance Code. The general orders may last for up to 120 days and may be renewed for an additional 120 days.

Earlier versions of this language specifically gave the commissioner the power to suspend operation of any provision of the Insurance Code.

Requirement that ex-wind insurers adjust wind losses for CPIC

Insurers providing ex-wind coverage to properties for which CPC provides the wind coverage will be required to adjust the wind losses for CPIC. The CPIC board may waive this requirement for an insurer it deems incapable of providing the service.

Appendix 2

Residual market (CPIC) and Florida Hurricane Catastrophe Fund deficits and assessments

As previously stated, both CPIC and the Florida Hurricane Catastrophe Fund (“Cat Fund”) sustained deficits as a result of the 2005 hurricane season. The CPIC deficit will be levied through one-time-only “regular” and multi-year “emergency” assessments. The portion of the deficit to be covered through regular assessments and the portion to be covered through emergency assessments (which will be spread over a 10-year period) has not yet been determined.

Under the CPIC statute, the assessments will apply to all property insurance premium written by carriers in the admitted market or paid by insureds in the surplus lines market. The subject lines of business include all 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.

The Cat Fund deficit will be levied through a one-time-only assessment on all property and casualty premiums except for workers’ compensation and medical malpractice premiums. The Trustees of the State Board of Administration have authorised an assessment of 1.0% to cover the deficit, effective 1 January, 2007.

After the Office of Insurance Regulation verifies the aggregate amount of the CPIC assessment, CPIC will determine the percentage of direct written premium for subject lines of business in the admitted and surplus lines market necessary to fund the deficit. Then CPIC will levy 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. The dollar amount of the assessment on a surplus lines insured will be equal to the same pre-determined percentage of the new or renewal premium. Cat Fund assessments, which are technically levied on policyholders and collected by insurers, are levied as a percentage of premium; the same percentage applies to admitted insurers’ policyholders and surplus lines policyholders

Assessments on surplus lines insureds are to be 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, which transfers them to CPIC or the Cat Fund.