To: **United Property and Casualty Insurance Company Appointees/Agents**

From: **Florida Department of Financial Services,**
Division of Insurance Agent and Agency Services

Date: **August 3, 2022**

Generally, property insurance policies insuring properties financed by a mortgage backed by Fannie Mae or Freddie Mac must be written by an insurer who meets certain financial strength rating requirements. In the case of the ratings agency Demotech, companies must have at least a rating of "A". However, Fannie Mae and Freddie Mac each offer an exception to the financial rating requirements for insurers that are covered by a reinsurer who assumes 100 percent of the insurer's liability for any covered loss payable in the wake of an insolvency.

On Monday, August 1, the insurance rating agency, Demotech, announced it is downgrading United Property and Casualty Insurance Company from an "A" to an "M".

Be advised, a downgrade does not necessarily mean a company will become insolvent.

However, in an abundance of caution, the State of Florida has crafted a solution to guarantee that in the event of insolvency, eligible insurers will have 100% of liabilities that accrue above FIGA limits paid by Citizens Property Insurance Corporation (Citizens).

This Citizens Temporary Market Stabilization Program satisfies Fannie Mae and Freddie Mac's reinsurance exception to the generally applicable minimum financial strength ratings' requirements. This state-backed guarantee program also satisfies coverage requirements provided in many agents' Errors and Omissions policies, reducing downgrade-related liabilities for hundreds of thousands of agents across Florida.

In accordance with the Order released by OIR, United Property and Casualty Insurance Company, Inc. will be eligible to participate in the Citizens Temporary Market Stabilization Program in the event of insolvency.

The Citizens Temporary Market Stabilization Program is designed to reduce or eliminate the need for insurance agents to relocate policies in order to maintain Errors and Omissions coverage compliance. The

Department of Financial Services recommends all agents who write business for a company subject to a ratings downgrade review the insolvency exclusions in their Errors and Omissions policy.

Chief Financial Officer Jimmy Patronis has worked closely with OIR, Citizens, FIGA and the Governor's Office to minimize market disruptions associated with this downgrade. While the Citizens Temporary Market Stabilization Program is not a permanent solution, the Department of Financial Services believes this stop-gap measure will allow more insurers to continue providing coverage to Floridians in a manner that minimizes liabilities for insurance agents.

For additional information about the Citizens Temporary Market Stabilization Program, please visit the link: here, or refer to the FAQs below prepared by the Office of Insurance Regulation.

FAQs for Agents

<u>Has the arrangement been approved by Freddie Mac and Fannie Mae?</u>

• There is no requirement for an acceptable reinsurance arrangement to be approved by Fannie Mae or Freddie Mac. Rather, they both require either that an insurer have an acceptable financial strength rating or an acceptable reinsurance arrangement. This program meets all of the requirements for an acceptable reinsurance arrangement.

<u>When a carrier gets downgraded, are there notice requirements to be sent by the agent?</u>

• No. The company is required to provide the endorsement to the policyholder.

<u>Are there financial implications for the carrier and agent by entering into this arrangement?</u>

• There is no cost for participation, either for the insurer or the agent.

<u>When a carrier gets downgraded, will the policies automatically be transferred to Citizens?</u>

• No. No policies are being transferred to Citizens. The policies continue to be those of the insurer that issued the policy. The coverage does not change; the premium does not change; the agent does not change; and the insurer does not change. The only role that Citizens plays is to guarantee the payment of claims of a participating insurer if that insurer is determined to be insolvent and the claim exceeds the statutory limit of the Florida Insurance Guaranty Association.

<u>If a carrier becomes insolvent, will those policies be transferred to Citizens for coverage?</u>

• No. The only obligation assumed by Citizens is described above. As in any insolvency, policies are cancelled by the liquidation order and policyholders and agents will need to find alternate coverage.

<u>On a claim where the FIGA limits have been exhausted, how will that claim be settled, by FIGA, or Citizens?</u>

• FIGA and Citizens will enter into an agreement which describes their duties and obligations under this arrangement. Generally speaking, FIGA will handle claims adjustment and claim payment and will coordinate with Citizens on those claims that exceed the statutory cap.

<u>Is this arrangement for the existing book of business, or does it include new business?</u>

• All new and renewal policies will be covered by this arrangement, no later than June 1, 2023.

<u>Will Citizens have to purchase additional reinsurance cover?</u>

• No. There is no impact to Citizens' reinsurance program.

<u>If a carrier has exposure outside of Florida, will this arrangement extend to those policyholders as well?</u>

• No. This arrangement only covers Florida policyholders for Florida risks.

<u>What happens if a carrier gets downgraded below an S? Will this arrangement respond?</u>

• Insurers who no longer have an acceptable financial stability rating for Fannie Mae and Freddie Mac but who are in compliance with the Florida Insurance Code, are eligible to participate in the arrangement.

<u>What are the costs to carriers to participate in the backstop program?</u>

• There is no cost for an insurer to participate in the arrangement.

Does this arrangement provide capacity for carriers in Florida to write new business?

• Yes. Since the acceptable arrangement meets the standards set by Fannie Mae and Freddie Mac, insurers may continue to write new and renewal business.

Since this arrangement will be communicated to policyholders by endorsement, will there be a charge to the consumer?

• No. There is no charge to the consumer.

How will Citizens be funded for these claim payments?

• Should a participating insurer be declared insolvent, covered claims, beyond the statutory limit of FIGA, would be covered by Citizens through their surplus.

If the carrier is rendered insolvent, what statute applies for replacement coverage for all policies?

• There is no statute which provides replacement coverage for all policies.

What exposure, financial or otherwise, is Citizens undertaking by entering into this arrangement?

• Should a participating insurer be declared insolvent, covered claims, beyond the statutory limit of FIGA, would be covered by Citizens.

What impact does this arrangement have on the Reinsurance to Assist Policyholders (RAP) Program approved during the 2022 Special Session?

• There is no impact to the RAP program.

What protections are in place for the agent and consumer if a carrier participates in this arrangement?

• The purpose of the arrangement is to protect the consumer and maintain the policy in the voluntary market, avoiding a disruption in coverage during hurricane season.

Will Citizens provide any financial support for carriers participating in this arrangement?

• No.

Will all carriers operate under the same agreements?

• Yes. OIR will approve the agreements, via Order. The agreements will be executed by participating companies and Citizens.

Does the arrangement change the coverage on the policy?

• No. The terms of the policy are unchanged.

Does this impact the reinsurance coverage companies have purchased?

• No.

Are reinsurers of the downgraded, insolvent insurers subject to duplicate liability by having to make payments both to the liquidation estate and (somehow) to Citizens as part of this arrangement?

• No. There is no additional liability for reinsurers.

Does this arrangement reduce or eliminate the exposure potential of assessments after a major event?

• If a major event occurred which resulted in insolvencies, FIGA would still be responsible for the payment of claims and unearned premiums, which could result in the need for an assessment. Citizens would still be responsible for the payment of its losses and any losses paid in excess of FIGA limits.

Does this arrangement increase the E&O exposure for agents?

• This agreement should not increase an agent's E&O exposure, but agents can contact their E&O carrier with specific questions.

Does a rating downgrade of an insurer make the insurer's customers eligible for Citizens?

• A rating downgrade by itself does not make the insurer's customers eligible for Citizens. If the insurer contracts with Citizens under the arrangement after a rating downgrade, consumers should be encouraged to remain with their existing insurer. If a consumer still wants to move away from the downgraded carrier, agents are encouraged to look for alternatives other than Citizens. If Citizens is the only option, then standard New Business rules apply. Any new applications submitted to Citizens must meet Citizens' eligibility rules and all new applications must be submitted with all required inspections. Citizens will require a copy of the current or renewal declarations page showing the current 12-month premium. This premium must be more than 20 percent higher than the Citizens premium for the customer to be eligible for Citizens. Applications submitted from a downgraded carrier without this proof of eligibility will be canceled with 21 days' notice.

What lines of coverage are applicable under this arrangement?

• Personal and commercial residential property insurance and commercial nonresidential property insurance are applicable under this arrangement.