

# Florida's Temporary Market Stabilization Arrangement

## General

### What is a temporary market stabilization arrangement?

- The temporary market stabilization arrangement is a substitute for an acceptable financial stability rating for policies with mortgages backed by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The arrangement provides that if an insurer is covered by a reinsurer who assumes, by endorsement, 100 percent of the insurer's liability or any covered loss payable, but unpaid by the insurer, for reason of insolvency, it meets the exemption requirements for Fannie Mae and Freddie Mac.

### Why is the arrangement necessary and how does it help?

- This solution [was developed in response to](#) the proposed disruptive financial rating downgrades from Demotech, Inc. which could impact millions of Florida insurance policies. This innovative arrangement satisfies requirements set by the secondary mortgage market so that consumers would not need to seek coverage elsewhere, (especially important during hurricane season), agents would not need to move policies, and lenders can have confidence that these insurers continue to meet the mortgage qualifications.

### How does the arrangement work?

- If a company loses an acceptable financial stability rating, and meets all requirements of the Florida Insurance Code, the company can qualify for participation in the arrangement as a substitute for the rating. The Florida Office of Insurance Regulation (OIR) will issue an Order, authorizing the endorsement, and identify participating companies. Participating companies will execute the endorsement with Citizens and provide these endorsements to policyholders. **There is no action needed on behalf of the consumer or the agent to make the arrangement effective.**

### When will the arrangement become effective? When does it end?

- The arrangement becomes effective after the issuance of the Order by OIR and the signed agreement with the participating company and Citizens. It ends no later than June 1, 2023.

### How will I know which companies are participating in the arrangement?

- OIR will publicly post the Order on its website. The Order will include a list of all participating companies. Working collaboratively, OIR, Citizens, the Florida Department of Financial Services (DFS), the Florida Association of Insurance Agents, and other partners will work to put out communication to all interested parties.

## Consumers

### What is a financial stability rating and does it impact my policy?

- Fannie Mae and Freddie Mac require that property insurance policies for properties with a mortgage backed by Fannie Mae or Freddie Mac must be written by an insurer meeting financial rating requirements. Through this arrangement, a loss of an acceptable rating has no impact on a policy.

### Should I be worried my insurer is at risk of becoming insolvent if they've received a downgrade?

- OIR monitors the financial condition and operating results of insurers and all participating insurers must meet requirements of the Florida Insurance Code. 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.

### What happens if my company is downgraded?

- If a company loses an acceptable financial stability rating, and meets all requirements of the Florida Insurance Code, the company can qualify for participation within this arrangement as a substitute for the rating. OIR will issue an Order, authorizing the endorsement, and identifying participating companies. Participating companies will execute the endorsement with Citizens and provide these endorsements to policyholders.

### Will consumers need to seek alternate coverage if a company loses its financial stability rating?

- No. The purpose of the arrangement is to ensure that consumers' coverage can continue uninterrupted in the voluntary market.

### How much does this arrangement cost? Will it make my policy more expensive?

- There is no cost associated with the arrangement and no additional cost to the consumer or the policy.

### What will be the impact to the consumer?

- The consumer will not need to take action to maintain coverage. The consumer will receive an endorsement to the policy by the company. The consumers' policy is unchanged.

### How do I know if my company is participating in the arrangement?

- Consumers can visit the OIR, DFS, Consumer Advocate websites.

## Agents

Has the arrangement been approved by Freddie Mac and Fannie Mae?

- 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.

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

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

Are there financial implications for the carrier and agent by entering into this arrangement?

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

When a carrier gets downgraded, will the policies automatically be transferred to Citizens?

- 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.

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

- 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.

On a claim where the FIGA limits have been exhausted, how will that claim be settled? By FIGA, or Citizens?

- 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.

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

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

Will Citizens have to purchase additional reinsurance cover?

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

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

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

What happens if a carrier gets downgraded below an S? Will this arrangement respond?

- 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.

What are the costs to carriers to participate in the backstop program?

- 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.

Are other rating agencies approved in Florida? Kroll?

- Rating agencies approved by Fannie Mae can be found [here](#). Rating agencies approved by Freddie Mac can be found [here](#).

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.