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## Citizens Insurance Rate Hearing of June 8, 2023

Citizens Property Insurance Corporation went before the Florida Office of Insurance Regulation (OIR) at a [televised](#) public rate hearing on June 8, 2023, seeking an overall average rate increase of 13.3% over [14 different rate filings](#). The legislatively-created and state-backed “insurer of last resort” was represented by its President & CEO Tim Cerio, Brian Donovan, Vice President & Chief Actuary, and Paul Kutter, Director of Actuarial Data Science.

In his opening remarks, Cerio acknowledged those who may be listening or watching the hearing via the Internet, saying that “we take asking for a rate increase very seriously.” He acknowledged that homeowners insurance consumers are facing difficult times right now.

“Excess litigation has done incredible harm to the capacity of Florida’s private insurance market. This has in very large part caused Citizens’ policy count to double in a two-year period, from about 610,000 to over 1.2 million as of April 30, 2023,” Cerio said. He said the increased policy count increased Citizens’ exposure resulting in larger losses from Hurricanes Ian and Nicole, “which resulted in a 33% decrease to its surplus and a likely required assessment should a moderately sized storm hit this hurricane season.”

Cerio said that passage of [Senate Bill 2-A](#) by the Florida Legislature in its December 2022 special session “created a new chapter for Citizens” to become actuarially sound and not competitive with the private market, “so that the corporation functions only as a residual market mechanism to provide insurance only when insurance cannot otherwise be procured in the voluntary market,” Cerio said, reading from the bill.

“And why should we focus on returning to our role as the insurer of last resort? It is because the larger we grow, the greater our exposure, and the greater our exposure, the greater the potential financial burden on the taxpayers of Florida people who aren’t even citizens customers,” Cerio said. He walked through the three tiers of assessments available to Citizens when it lacks surplus to pay claims, including the third tier that applies to non-Citizens customers.

“This is something a lot of Floridians are not aware of,” he said. “Moreover, this third tier known as the emergency assessment, is not limited to homeowners policies. It would hit every property and casualty policy, home, automobile, boat, etc. The only policies exempt are medical malpractice, workers’ comp, and federal flood and crop insurance. This is why Citizens must work harder to depopulate in order to reduce exposure and help minimize the risk of assessments and particularly the emergency assessment on the people of Florida.”

He called the elimination of one-way attorney fees and elimination of Assignment of Benefits (AOB) contracts “game changers” that will, over time, help the insurance market. “But I do think it’s important to mention to you all and to the public that we fully recognize these changes come with responsibilities and expectations. And I firmly believe that Citizens as well as the entire insurance industry should and will be held accountable by the OIR as well as the legislature regarding how we implement Senate Bill 2-A and

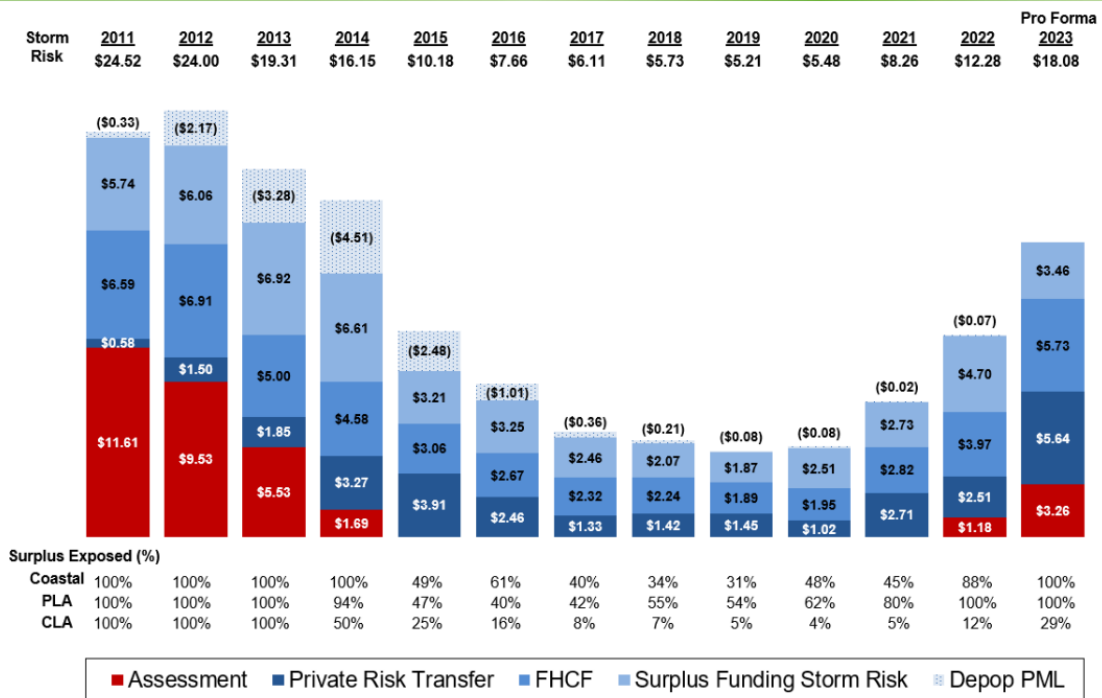
the other legislative reforms and how we do business going forward, vis-à-vis our policyholders. That is not lost on us,” Cerio said.

He summed-up Citizens philosophy as follows: “We’re going to do what we can and work very, very hard to depopulate and truly return to being that insurer of last resort. However, if you are in Citizens, we are going to take very good care of you and you are going to receive very, very good customer service until you move on to what a better, more comprehensive policy in the private market is hopefully,” said Cerio. The reforms in SB 2-A, coupled with the reforms in the 2023 legislative session will take time to be felt, he said, but “are going to strengthen the property insurance market and help draw insurers backs to Florida.”

Cerio said that Citizens ability to charge actuarially-sound rates “is critical to market recovery and promoting depopulation.” He said its rates are artificially low because of the legislatively-mandated glide path. “A residual insurer should never compete with a private market. That is fundamentally unfair to policyholders in the private market. No one wants to pay more for insurance. But even assuming OIR approves Citizens requested rate increase which is, on average, around 13.3%, our policyholders will still be paying on average of about 44% below the rest of the Florida market,” Cerio revealed. Its average HO-3 (homeowners) policy costs \$3,277 versus \$5,788 in the private market, he shared.

Citizens’ policy count was 1.2 million policies on April 30, 2023. By the end of the year, it’s projected to grow to 1.7 million, with \$645 billion in total insured value. Higher rates in the private market come with the added risk and associated cost of paying Citizens assessments, noting the red in the chart below. “Anything greater than a one in four year storm event in 2023 will trigger an assessment in our personal lines account. That’s our projection,” Cerio said.

## Risk and Assessment Trend (in Billions)



See the Appendix for the underlying notes and assumptions



Citizens Chief Actuary Brian Donovan drove that point home in his part of the carrier's presentation to OIR, saying the overall uncapped indication across all lines of business is 58.6%. "That means for Citizens rates to be actuarially sound in the upcoming policy period, rates would have to be increased by 58.6%." He said the competitiveness requirement of SB 2-A didn't have a big impact on the rate level and this year's requested increase. "It went from 11.2% to 12% for HO-3," he said. He discussed other factors of SB 2-A impacting Citizens' rates, including the cap for primary residences of 12% and 50% for non-primary residences, such as second homes. Otherwise, he said, the uncapped indication would have been 89.3%. "Yet even with the reduction to 58.3%, which translates to a \$900 million reduction in rate need, we are still expecting a \$1.3 billion premium shortfall in this policy period," Donovan said.

Insurance Commissioner Michael Yaworsky asked Donovan if Citizens had purchased reinsurance this year. "We've purchased a fair amount. I think that's still ongoing," Donovan replied. "We will not purchase the full amount that other insurers are required to purchase, but it's substantial. I believe we're up to about \$5.3 billion of coverage that's been secured and I don't know that that's the final number. It's probably close to the final number." He added that Citizens also acquired a catastrophe bond for liquidity purposes "basically as a line of credit that you have to pay back."

Commissioner Yaworsky also asked if Citizens has considered purchasing more reinsurance to help avoid the scenario where one major event could trigger an assessment on its policyholders.

"We've considered it, but it would be too costly," Donovan replied. "To purchase reinsurance below the level of the Cat Fund (Florida Hurricane Catastrophe Fund) was deemed too expensive and potentially taking up too much capacity away from the private insurance market," he said.

OIR actuaries quizzed Donovan on various parts of Citizens [14 different rate filings](#). Discussions included how Citizens goes about notifying policyholders of the cap differences between primary and non-primary residents and verifying information policyholders present in support of their property being a primary residence. Insurance Consumer Advocate Tasha Carter also quizzed Donovan on hurricane rate methodology as well as the hurricane cash buildup and how it impacts the rate filing.

Two representative from FIRM – Fair Insurance Rates in Monroe County – spoke during the public comment part of the rate hearing. Board president Mel Montagne, a licensed insurance agent of 30 years, said the group opposes Citizens' double-digit rate increase request for the Florida Keys. He said Monroe County has paid a cumulative premium of just over \$1 billion to Citizens from 2003 through 2021, with total losses paid and reserve of \$494.7 million. "The Gross Profit result there is \$859 million to Citizens," Montagne said. He said he faults the hurricane models on which rates are based and suggested that Citizens return to being a wind-only coverage provider. He urged OIR to deny the rate increase for Monroe County.

Commissioner Yaworsky in his final remarks complimented Cerio on his input. "You and I are in 100% agreement that the best way and the most long term successful way for Citizens to wind up depopulating is through what I would call the organic or natural growth of recovery of the private market and you are also correct that that will take time," Yaworsky said. Rate increases, he noted "are not fun. It is painful. It's not fun to approve those rates. But we've all had to make the best decisions we can as we go forward," he said.

Yaworsky and his team will take additional comments from the public in the coming weeks as they consider Citizens rate increase request, with a decision expected this summer. He noted the quagmire that Citizens and OIR regulators find themselves in while trying to make Citizens actuarially sound and competitive, as required by SB-2A within the existing legislatively-mandated rate glide path. "While the statute seems to be calling for a two prong test as it relates to ratemaking for Citizens requiring both actuarial soundness and competitiveness, we are going to continue I think to have a discussion about the determination of the competitiveness and the way that methodology was derived for that competitiveness. Everywhere else I can think of off the top of my head in statute where the legislature is calling for Citizens

to move away from an actuarial sound based basis, such as glide path or measures that would typically be considered unfairly discriminatory, they have prescribed a very specific manner in which that determination is to be made. And in this case that does not exist. And so we're going to have to have very, very reliable data as to the determinations of competitiveness before we're in a place where we can move away from an actuarially sound basis of this determination in this case," the Commissioner said.

You can view the Citizens slide deck for the public hearing [here](#).

Any comments or concerns not addressed at the public hearing may be emailed to [ratehearings@floir.com](mailto:ratehearings@floir.com) with the subject line "Citizens Property Insurance Corporation." The record will be open for public comment until June 22, 2023, at 5:00 p.m. Eastern Time

*LMA Extra of 6-8-23*