

Presentation to Florida Senate  
Banking and  
Insurance Committee

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Office of Insurance Regulation  
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# Withdrawal Statute

## **624.430 Withdrawal of insurer or discontinuance of writing certain kinds or lines of insurance.--**

- (1) **Any insurer desiring to surrender its certificate of authority, withdraw from this state, or discontinue the writing of any one or multiple kinds or lines of insurance in this state shall give 90 days' notice in writing to the office setting forth its reasons for such action.** Any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its certificate of authority; however, such line of insurance shall be restored to the insurer's certificate upon the insurer demonstrating that it has available the expertise necessary and meets the other requirements of this code to write that line of insurance.
- (2) If the office determines, based upon its review of the notice and other required information, that the plan of an insurer withdrawing from this state makes adequate provision for the satisfaction of the insurer's obligations and is not hazardous to policyholders or the public, **the office shall approve the surrender of the insurer's certificate of authority. The office shall, within 45 days from receipt of a complete notice and all required or requested additional information, approve, disapprove, or approve with conditions the plan submitted by the insurer.** Failure to timely take action with respect to the notice shall be deemed an approval of the surrender of the certificate of authority.

(emphasis added)

# Office Order Approving with Conditions

- Policies may not be moved to Citizens
- No interference with direct placement of policies by agents into other private companies
- No short rate penalties for early cancellations that may be initiated by policyholders
- Turn in COA in 30 days (COA is not required for run-off)
- Consider all offers; inform OIR
- Pay costs of implementation of plan

# State Farm Argued Its Projected Surplus Decline During the Rate Litigation

## 1. Mitigation Discounts

The surplus of State Farm Florida is projected to decline rapidly for several reasons.

There was no offset by higher base rates for the premium loss resulting from the doubling of the discounts in the Windstorm Mitigation Discount Program (hereinafter “WMDP”). There was also no offset in the base rates for the unanticipated increase in the number of policies qualifying for that discount. The reduction in loss exposure did not correspond to the increase in the size of these discounts and the increase in number of policies qualifying for these discounts.

## 2. Increased Business Costs Including Reinsurance

While revenue has dropped dramatically because of the discounts and legislatively mandated rate reductions, the cost of doing business has either stayed high or increased.

## 3. Rate Reductions Resulting from HB 1A

An additional reason for the projected decline of State Farm Florida’s surplus includes the 9 per cent mandatory rate reduction imposed on State Farm Florida under HB-1. This rate reduction was greater than that indicated by actual experience. A reduction of only 4.8 percent was indicated for HB-1.

# Mitigation Discounts

## Administrative Law Judge Ruling:

“The fact-finder is unable to determine from a preponderance of the evidence whether the rate filing is based on a calculation of wind-mitigation for premiums that is different than the calculation of wind-mitigation discounts for losses. **Wind-mitigation discounts must be equal for premiums and losses to avoid being unfairly discriminatory.** State Farm Florida gives a discount of 65.0 percent for the hurricane portion of the premium but realizes only a 28.0 percent savings. State Farm Florida may be recovering what it claims to be losing on the wind-mitigation discounts by charging all policyholders equally even though a significantly larger portion of those policyholders do not qualify for the wind-mitigation discounts.

**To raise rates for all policyholders may negate the savings the discounts were intended to create. “**

\*Source: Division of Administrative Hearings Case No. 08-4916 Recommended Order December 12, 2008

# Mitigation Discounts

- The Rule implementing the mitigation discounts allows an insurer to complete their own study and submit it for approval if they believe the discounts are not actuarially sound.

*“These discounts must be used without any modification **unless they are supported by detail alternate studies** where all assumptions are available to the Office for review.”*

\* Source: Rule No. [690-170.017](#) Windstorm Mitigation Discounts.

# Reinsurance Costs

## Administrative Law Judge Ruling

“**Transactions between State Farm Mutual and State Farm Florida for reinsurance and credit risk provisions** totaling approximately **\$561.8 million**, when viewed in the light of economic reality, Subsection 1.01(3), or Section 624.04, may be transactions which State Farm Mutual engages in with itself and which **lack any independent economic significance. Transactions with no independent economic significance would be sham transactions** which may distort the economic costs of the reinsurance and credit risk provisions purchased from State Farm Mutual. **Such economic distortions may enable the group to derive a rate advantage** from the legal form in which State Farm Mutual chooses to do business in Florida.”

“Even if State Farm Florida and State Farm Mutual were distinct persons, **State Farm Florida exists for the convenience of State Farm Mutual**. State Farm Mutual conducted business in Florida, either directly or through some other member of the group, before State Farm Florida emerged from State Farm Mutual in 1998 with an initial capitalization of \$607,500,000.00.”

\*Source: Division of Administrative Hearings Case No. 08-4916 Recommended Order December 12, 2008

# HB 1A Premium Reductions

## Administrative Law Judge Ruling

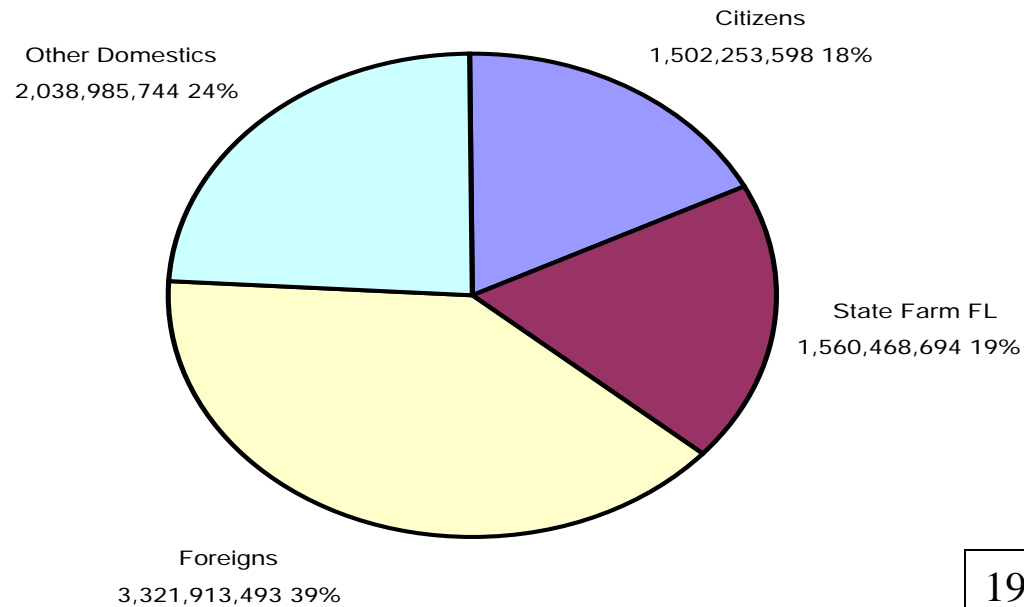
“The fact-finder is unable to determine from a preponderance of the evidence whether State Farm Florida passed along to policyholders premium savings attributable to an expansion of the Cat fund from \$16 billion to \$28 billion.”

**\*Source: Division of Administrative Hearings Case No. 08-4916  
Recommended Order December 12, 2008**



# Residential Property Insurance Market

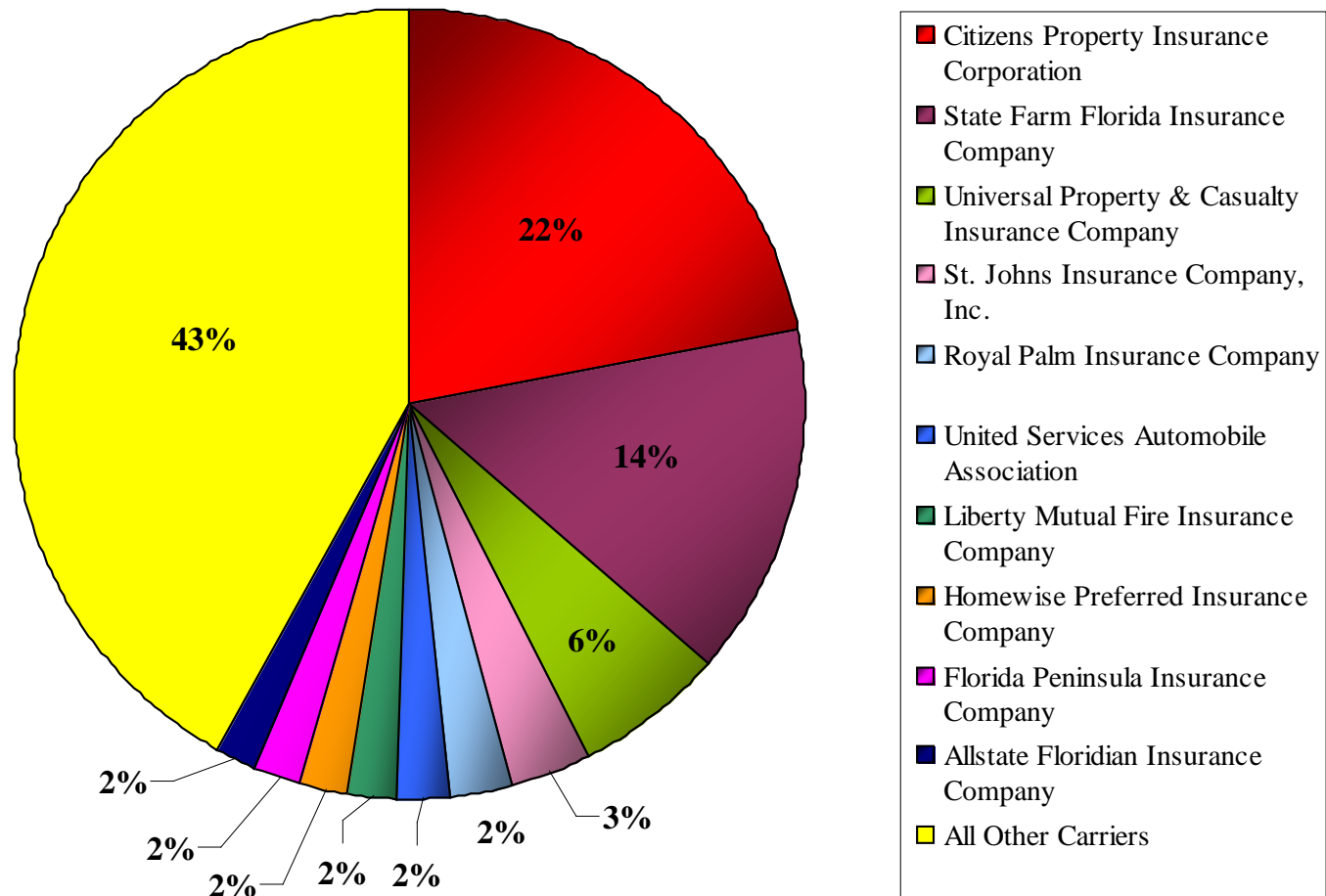
2007 Domestic Market Share



1992 – Domestic 6%  
Foreign 94%

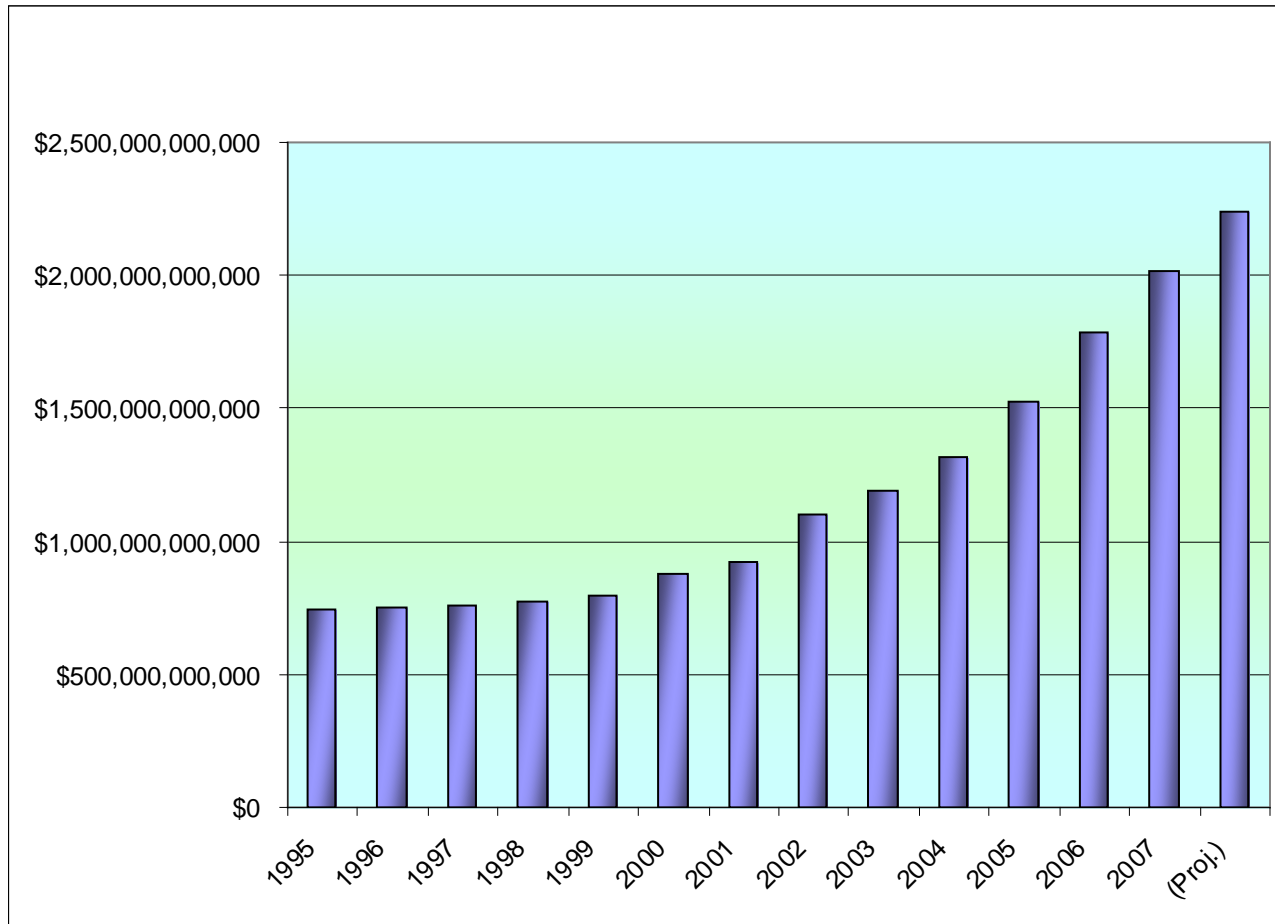
# Personal Residential Premiums Written Market Share

## As of September 30, 2008



Source: Florida Office of Insurance Regulation, Quarterly Supplemental Report (QUASR). Includes licensed carriers only. Surplus lines companies are not included in the market share calculation. Slide by Citizens shared with permission.

# Florida Residential Property Exposure is Increasing



Source: FHCF 2008 Ratemaking Report, March, 2008

# Citizens Policy Count

<b>Total Policies in Force as of November 30, 2007</b>	<b>1,344,240</b>
<b>Total Policies in Force as of November 30, 2008</b>	<b>1,093,138</b>
<b>Year end 2008</b>	<b>1,080,948</b>

Citizens policies with State Farm agents:

HRA-MP	HRA-W	PLA-W	PLA-X	TOTAL
15,143	45,136	77,654	5,982	143,915

Excludes policies marked for takeout but includes policies marked for cancellation or non-renewal other than takeout

PLA-W = PLA policy including wind

PLA-X = PLA policy excluding wind

# Residual Markets

**Across the country, companies are pulling away from catastrophe-exposed areas and residual markets are growing.**

- ❖ Nationally, total catastrophe exposure to residual markets at year end 2007 was over \$670 billion, covering nearly 2.9 million policyholders, nearly **triple** the number from 2000
- ❖ Alabama: As of November 2008, pool covered 10,700 policies with insured value of 1.8 billion, up from 7,800 properties in 2007 (37% increase)
- ❖ Massachusetts: FAIR plan covers 40% of market on the catastrophe exposed Cape.
- ❖ Mississippi: Wind pool up from 1,600 policies in 2006 to over 36,000 policies currently .
- ❖ North Carolina: Currently about \$72 billion in exposure, about \$2.4 billion in claims capacity.
- ❖ Texas: TWIA exposure is about \$65 billion, over 14 counties plus part of Harris county (Houston). Policy count has grown from 69,000 policies at end of 2001 to over 229,000 policies by October 2008 . Half of the exposure is in Galveston county. Currently, TWIA has cash and reinsurance of about \$2.1 billion.

# **Companies that Participated in the SBA Capital Build-Up Fund Program**

American Integrity

Cypress Property & Casualty

First Home

Florida Peninsula

Modern USA

Olympus

Privilege Underwriters Reciprocal

Royal Palm

Southern Fidelity

St. Johns

United Property & Casualty

Universal Property & Casualty

American Capital Assurance

Prem vol   mkt sh   # policies   AMBest   Demotech

1	Citizens Property Insurance Corporation	2,634,549,525	27%	1,157,568		
2	State Farm Florida Insurance Company	1,235,634,528	13%	933,140	B+	
3	Universal Property & Casualty Insurance Company	520,782,661	5%	450,162		A
4	St. Johns Insurance Company, Inc.	284,614,156	3%	196,159		A
5	Qbe Insurance Corporation	213,634,023	2%	3,290	A	
6	Royal Palm Insurance Company	212,696,314	2%	129,481		A
7	United Services Automobile Association	206,889,858	2%	167,958	A++	
8	Liberty Mutual Fire Insurance Company	167,524,690	2%	101,617	A	
9	Homewise Preferred Insurance Company	165,946,316	2%	106,648		A
10	Florida Peninsula Insurance Company	156,716,480	2%	94,962		A
11	Allstate Floridian Insurance Company	153,893,655	2%	162,111	B+	A'
12	Federal Insurance Company	153,604,025	2%	27,302	A++	
13	Universal Insurance Company Of North America	149,769,423	2%	112,161		A
14	Nationwide Insurance Company Of Florida	148,915,493	2%	136,390	B-	A
15	ASI Assurance Corp.	144,605,424	1%	136,479	A-	A
16	American Home Assurance Company	137,968,948	1%	13,625	A	
17	United Property & Casualty Insurance Company, Inc.	127,231,919	1%	71,312		A
18	American Strategic Insurance Corp.	127,029,826	1%	101,070	A-	A'
19	USAA Casualty Insurance Company	121,555,825	1%	80,704	A++	
20	Tower Hill Prime Insurance Company	114,701,714	1%	80,589	B	A
21	American Coastal Insurance Company	110,864,526	1%	1,337		A

Top 20 by premium volume in force as of 9/30/2008 from Quasr system