

Executive Summary

Actuarial & Underwriting Committee Meeting, September 27, 2016

Board of Governors Meeting, September 28, 2016

2017 Rates for Individually Rated Risks

A-Rates

History

Background

Citizens and private insurers in Florida may designate buildings that will be individually rated, subject to the approval of rules by the Office of Insurance Regulation (OIR). Individually rated buildings (also known as Advisory or A-rated risks) are not subject to the insurer's filed rates, rating schedules, rating manuals or underwriting rules. Citizens has designated buildings with a Building Coverage Limit of \$10 million or greater as A-rated. These A-rated buildings are not subject to the 10% glide path cap on annual rate increases, nor are the rates for these risks subject to approval by OIR.

Individually Rated Statistics

- As of 12/31/15, after adjusting for depopulation, there were roughly 80 Multi-peril and 38 Wind Only Commercial Residential individually rated buildings with combined annual premium of \$13.8 million.
- Just under 70% of the individually rated buildings are in the Coastal Account.

2016 Analysis

Separate rate indications were calculated for the Commercial Multi-Peril (CRM) and Commercial Wind-Only (CRW) A-rated buildings. The actuarial team took the following factors into consideration:

- Modeled hurricane losses using AIR's Atlantic Tropical Cyclone Hurricane Model 15.0.1, Touchstone® V3.1.0. This model is licensed by Citizens and is accepted by the Florida Commission on Hurricane Loss Projection Methodology.
- Modeled hurricane losses using RMS's North Atlantic Hurricane Model, RiskLink® 15.0 (Build 1625). This model is accepted by the Florida Commission on Hurricane Loss Projection Methodology.
- Modeled hurricane losses using EQECAT's Florida Hurricane Model 2015a as Implemented in RQE® v.16.0. This model is accepted by the Florida Commission on Hurricane Loss Projection Methodology.
- Modeled hurricane losses using Florida Public Hurricane Loss Model V6.1. This model is accepted by the Florida Commission on Hurricane Loss Projection Methodology.
- A provision for non-hurricane loss costs based on the last five years of historical results.
- A provision for the net cost of private reinsurance.
- A provision for the net cost of pre-event liquidity.
- A provision for expenses based on Citizens' administrative and acquisition costs.

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Summary of Results

Commercial Residential Multi-Peril (CRM)

- Indicated Rate Change: 6.5%
- Proposed Rate Change: 5.0%
- In-force Premium: \$10,445,455

Commercial Residential Wind-Only (CRW)

- Indicated Statewide Rate Change: 11.6%
- Proposed Statewide Rate Change: 7.0%
- In-force Premium: \$3,332,319

Even though the A-rates are not subject to the glide-path, staff's recommendation is following the spirit of this law. All rate increases are capped above at 10% and all rate decreases are capped below at -5%. As a result, the proposed rate change is less than the indicated rate change.

These changes are expected to impact policies effective 2/1/2017 for both new and renewal business.

Recommendation

Citizens' Staff recommends the Actuarial & Underwriting Committee:

- a) Approve the recommended proposal to change A-rates as shown in the Summary of Results.
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
- c) Upon Board approval, appropriate changes will be applied to CRM rates for A-rated buildings and to CRW rates for A-rated buildings.