

1 A bill to be entitled
 2 An act relating to the Florida Hurricane Catastrophe
 3 Fund; amending s. 215.555, F.S.; reducing the coverage
 4 limits for the fund's mandatory coverage; creating a
 5 coverage limit increase option ("CLIO"); requiring the
 6 offer of specified optional coverage limits; providing
 7 definitions; specifying the terms of the CLIO options
 8 addendum to the reimbursement contract; providing for
 9 determination of a CLIO premium formula and CLIO
 10 premiums; specifying impact on the claims paying
 11 capacity of the fund; deleting expired provisions
 12 relating to the temporary increase in coverage limits
 13 ("TICL") option; providing an effective date.

14
 15 Be It Enacted by the Legislature of the State of Florida:

16
 17 Section 1. Effective June 1, 2015, paragraph (c) of
 18 subsection (4) and subsection (16) of section 215.555, Florida
 19 Statutes, are amended to read:

20 215.555 Florida Hurricane Catastrophe Fund.—

21 (4) REIMBURSEMENT CONTRACTS.—

22 (c)1. The contract shall also provide that the obligation
 23 of the board with respect to all contracts covering a particular
 24 contract year shall not exceed the actual claims-paying capacity
 25 of the fund up to a limit of \$14 ~~\$17~~ billion for that contract
 26 year, unless the board determines that there is sufficient

27 | estimated claims-paying capacity to provide \$14 ~~\$17~~ billion of
 28 | capacity for the current contract year and an additional \$14 ~~\$17~~
 29 | billion of capacity for subsequent contract years. If the board
 30 | makes such a determination, the estimated claims-paying capacity
 31 | for the particular contract year shall be determined by adding
 32 | to the \$14 ~~\$17~~ billion limit one-half of the fund's estimated
 33 | claims-paying capacity in excess of \$28 ~~\$34~~ billion. However,
 34 | the dollar growth in the limit may not increase in any year by
 35 | an amount greater than the dollar growth of the balance of the
 36 | fund as of December 31, less any premiums or interest
 37 | attributable to optional coverage, as defined by rule which
 38 | occurred over the prior calendar year.

39 | 2. In May and October of the contract year, the board
 40 | shall publish in the Florida Administrative Register a statement
 41 | of the fund's estimated borrowing capacity, the fund's estimated
 42 | claims-paying capacity, and the projected balance of the fund as
 43 | of December 31. After the end of each calendar year, the board
 44 | shall notify insurers of the estimated borrowing capacity,
 45 | estimated claims-paying capacity, and the balance of the fund as
 46 | of December 31 to provide insurers with data necessary to assist
 47 | them in determining their retention and projected payout from
 48 | the fund for loss reimbursement purposes. In conjunction with
 49 | the development of the premium formula, as provided ~~for~~ in
 50 | subsection (5), the board shall publish factors or multiples
 51 | that assist insurers in determining their retention and
 52 | projected payout for the next contract year. For all regulatory

53 and reinsurance purposes, an insurer may calculate its projected
 54 payout from the fund as its share of the total fund premium for
 55 the current contract year multiplied by the sum of the projected
 56 balance of the fund as of December 31 and the estimated
 57 borrowing capacity for that contract year as reported under this
 58 subparagraph.

59 (16) COVERAGE LIMIT INCREASE OPTION ("CLIO") ~~TEMPORARY~~
 60 ~~INCREASE IN COVERAGE LIMIT OPTIONS.~~—

61 (a) Findings and intent.—

62 1. The Legislature finds that: growth in the capital
 63 available for private catastrophe reinsurance and reinsurance
 64 alternatives such as catastrophe bonds has created an
 65 opportunity to transfer additional hurricane risk to the private
 66 sector and to reduce the share of Florida hurricane risk borne
 67 by the public without destabilizing the residential property
 68 insurance market. However, the Legislature also recognizes the
 69 benefit of continuing to make current levels of Florida
 70 Hurricane Catastrophe Fund coverage available as a transitional
 71 option that can minimize market disruptions while additional
 72 hurricane risk is transferred from the public sector to the
 73 private sector.

74 2. The coverage limit increase option created under this
 75 subsection is intended to balance the opportunity for greater
 76 risk transfer with the continuing need to maintain a stable and
 77 ongoing source of reimbursement as described in subsection (1).

78 (b) Applicability of other provisions of this section.—All

79 provisions of this section and the rules adopted under this
 80 section apply to the coverage created by this subsection unless
 81 specifically superseded by provisions in this subsection.

82 (c) Optional coverage.—The board must offer the optional
 83 coverage limits as provided in this subsection each year, and
 84 the insurer must make its selections of optional coverage, if
 85 any, by executing the CLIO addendum at the same time as it
 86 executes the reimbursement contract as required by paragraph
 87 (17) (c).

88 (d) Additional definitions.—As used in this subsection,
 89 the term:

90 1. "FHCF" means Florida Hurricane Catastrophe Fund.

91 2. "FHCF reimbursement premium" means the premium paid by
 92 an insurer for its coverage as a mandatory participant in the
 93 FHCF, but does not include additional premiums for optional
 94 coverages.

95 3. "Payout multiple" means the number or multiple created
 96 by dividing the statutorily defined claims-paying capacity as
 97 determined in subparagraph (4) (c)1. by the aggregate
 98 reimbursement premiums paid by all insurers estimated or
 99 projected as of calendar year-end.

100 4. "CLIO options" means the options for increased coverage
 101 limits created under this subsection.

102 5. "CLIO insurer" means an insurer that has opted to
 103 obtain coverage under the CLIO options addendum in addition to
 104 the coverage provided to the insurer under its FHCF

105 reimbursement contract.

106 6. "CLIO reimbursement premium" means the premium charged
 107 by the fund for coverage provided under the CLIO option.

108 7. "CLIO coverage multiple" means the coverage multiple
 109 when multiplied by an insurer's reimbursement premium that
 110 defines the increase in coverage limit.

111 8. "CLIO coverage" means the coverage for an insurer's
 112 losses above the insurer's statutorily determined claims-paying
 113 capacity based on the claims-paying limit in subparagraph
 114 (4)(c)1., which an insurer selects as its increase in coverage
 115 from the fund under the CLIO options selected. A CLIO insurer's
 116 increased coverage limit options shall be calculated as follows:

117 a. The board shall calculate and report to each CLIO
 118 insurer the CLIO coverage multiples based on three options for
 119 increasing the insurer's FHCF coverage limit. The CLIO coverage
 120 multiple shall be calculated by dividing \$1 billion, \$2 billion,
 121 or \$3 billion by the total estimated aggregate FHCF
 122 reimbursement premiums for the relevant contract year.

123 b. The amount by which the CLIO insurer's limit is
 124 increased over the limit calculated under paragraph (4)(d)
 125 equals the FHCF reimbursement premium multiplied by the CLIO
 126 coverage multiple.

127 c. In order to determine the CLIO insurer's limit of
 128 coverage, the CLIO insurer shall add its CLIO coverage multiple
 129 to its payout multiple. The sum of the multiples is the number
 130 that, when multiplied by the insurer's FHCF reimbursement

131 premium as calculated under subsection (5), defines the CLIO
 132 insurer's limit of FHCF reimbursement coverage for that
 133 reimbursement contract year.

134 9. "CLIO options addendum" means an addendum to the
 135 reimbursement contract reflecting the obligations of the fund
 136 and insurers selecting an option to increase an insurer's FHCF
 137 coverage limit.

138 (e) CLIO options addendum.—

139 1. The CLIO options addendum shall provide for
 140 reimbursement of CLIO insurers for covered events occurring
 141 during the relevant contract year in exchange for the CLIO
 142 reimbursement premium paid into the fund under paragraph (f).

143 2. The CLIO addendum shall contain a promise by the board
 144 to reimburse the CLIO insurer for 45 percent, 75 percent, or 90
 145 percent of its losses from each covered event in excess of the
 146 insurer's retention, plus 5 percent of the reimbursed losses to
 147 cover loss adjustment expenses. The percentage shall be the same
 148 as the coverage level selected by the insurer under paragraph
 149 (4) (b).

150 3. The CLIO addendum shall provide that reimbursement
 151 amounts shall not be reduced by reinsurance paid or payable to
 152 the insurer from other sources.

153 4. The priorities, schedule, and method of reimbursements
 154 under the CLIO addendum shall be the same as provided under
 155 subsection (4).

156 (f) CLIO reimbursement premiums.—Subject to all

157 requirements, standards, and procedures of paragraph (5) (b), the
 158 board shall adopt a separate CLIO premium formula for the
 159 optional coverage limits provided under this subsection. Each
 160 CLIO insurer shall pay to the fund, in the manner and at the
 161 time provided in the reimbursement contract for payment of
 162 reimbursement premiums, a CLIO reimbursement premium as
 163 determined under this paragraph.

164 (g) Effect on claims-paying capacity of the fund.—The CLIO
 165 optional coverage program created by this subsection shall
 166 increase the claims-paying capacity of the fund as provided in
 167 subparagraph (4) (c)1. by an amount not to exceed \$3 billion and
 168 shall depend on the CLIO coverage options available and selected
 169 for the specified contract year and the number of insurers that
 170 select the CLIO optional coverage. The additional capacity shall
 171 apply only to the additional coverage provided under the CLIO
 172 options and shall not otherwise affect any insurer's
 173 reimbursement from the fund if the insurer chooses not to select
 174 the option to increase its limit of coverage under the FHC.

175 ~~a. Because of temporary disruptions in the market for~~
 176 ~~eatastrophic reinsurance, many property insurers were unable to~~
 177 ~~procure sufficient amounts of reinsurance for the 2006 hurricane~~
 178 ~~season or were able to procure such reinsurance only by~~
 179 ~~incurring substantially higher costs than in prior years.~~

180 ~~b. The reinsurance market problems were responsible, at~~
 181 ~~least in part, for substantial premium increases to many~~
 182 ~~consumers and increases in the number of policies issued by~~

183 ~~Citizens Property Insurance Corporation.~~

184 ~~e. It is likely that the reinsurance market disruptions~~
 185 ~~will not significantly abate prior to the 2007 hurricane season.~~

186 ~~2. It is the intent of the Legislature to create options~~
 187 ~~for insurers to purchase a temporary increased coverage limit~~
 188 ~~above the statutorily determined limit in subparagraph (4)(c)1.,~~
 189 ~~applicable for the 2007, 2008, 2009, 2010, 2011, 2012, and 2013~~
 190 ~~hurricane seasons, to address market disruptions and enable~~
 191 ~~insurers, at their option, to procure additional coverage from~~
 192 ~~the Florida Hurricane Catastrophe Fund.~~

193 ~~(b) Applicability of other provisions of this section. All~~
 194 ~~provisions of this section and the rules adopted under this~~
 195 ~~section apply to the coverage created by this subsection unless~~
 196 ~~specifically superseded by provisions in this subsection.~~

197 ~~(c) Optional coverage. For the 2009-2010, 2010-2011, 2011-~~
 198 ~~2012, 2012-2013, and 2013-2014 contract years, the board shall~~
 199 ~~offer, for each of such years, the optional coverage as provided~~
 200 ~~in this subsection.~~

201 ~~(d) Additional definitions. As used in this subsection,~~
 202 ~~the term:~~

203 ~~1. "FHCF" means Florida Hurricane Catastrophe Fund.~~

204 ~~2. "FHCF reimbursement premium" means the premium paid by~~
 205 ~~an insurer for its coverage as a mandatory participant in the~~
 206 ~~FHCF, but does not include additional premiums for optional~~
 207 ~~coverages.~~

208 ~~3. "Payout multiple" means the number or multiple created~~

209 ~~by dividing the statutorily defined claims-paying capacity as~~
 210 ~~determined in subparagraph (4) (c)1. by the aggregate~~
 211 ~~reimbursement premiums paid by all insurers estimated or~~
 212 ~~projected as of calendar year-end.~~

213 ~~4. "TICL" means the temporary increase in coverage limit.~~

214 ~~5. "TICL options" means the temporary increase in coverage~~
 215 ~~options created under this subsection.~~

216 ~~6. "TICL insurer" means an insurer that has opted to~~
 217 ~~obtain coverage under the TICL options addendum in addition to~~
 218 ~~the coverage provided to the insurer under its FHCF~~
 219 ~~reimbursement contract.~~

220 ~~7. "TICL reimbursement premium" means the premium charged~~
 221 ~~by the fund for coverage provided under the TICL option.~~

222 ~~8. "TICL coverage multiple" means the coverage multiple~~
 223 ~~when multiplied by an insurer's reimbursement premium that~~
 224 ~~defines the temporary increase in coverage limit.~~

225 ~~9. "TICL coverage" means the coverage for an insurer's~~
 226 ~~losses above the insurer's statutorily determined claims-paying~~
 227 ~~capacity based on the claims-paying limit in subparagraph~~
 228 ~~(4) (c)1., which an insurer selects as its temporary increase in~~
 229 ~~coverage from the fund under the TICL options selected. A TICL~~
 230 ~~insurer's increased coverage limit options shall be calculated~~
 231 ~~as follows:~~

232 ~~a. The board shall calculate and report to each TICL~~
 233 ~~insurer the TICL coverage multiples based on 12 options for~~
 234 ~~increasing the insurer's FHCF coverage limit. Each TICL coverage~~

235 ~~multiple shall be calculated by dividing \$1 billion, \$2 billion,~~
 236 ~~\$3 billion, \$4 billion, \$5 billion, \$6 billion, \$7 billion, \$8~~
 237 ~~billion, \$9 billion, \$10 billion, \$11 billion, or \$12 billion by~~
 238 ~~the total estimated aggregate FHCF reimbursement premiums for~~
 239 ~~the 2007-2008 contract year, and the 2008-2009 contract year.~~

240 ~~b. For the 2009-2010 contract year, the board shall~~
 241 ~~calculate and report to each TICL insurer the TICL coverage~~
 242 ~~multiples based on 10 options for increasing the insurer's FHCF~~
 243 ~~coverage limit. Each TICL coverage multiple shall be calculated~~
 244 ~~by dividing \$1 billion, \$2 billion, \$3 billion, \$4 billion, \$5~~
 245 ~~billion, \$6 billion, \$7 billion, \$8 billion, \$9 billion, and \$10~~
 246 ~~billion by the total estimated aggregate FHCF reimbursement~~
 247 ~~premiums for the 2009-2010 contract year.~~

248 ~~c. For the 2010-2011 contract year, the board shall~~
 249 ~~calculate and report to each TICL insurer the TICL coverage~~
 250 ~~multiples based on eight options for increasing the insurer's~~
 251 ~~FHCF coverage limit. Each TICL coverage multiple shall be~~
 252 ~~calculated by dividing \$1 billion, \$2 billion, \$3 billion, \$4~~
 253 ~~billion, \$5 billion, \$6 billion, \$7 billion, and \$8 billion by~~
 254 ~~the total estimated aggregate FHCF reimbursement premiums for~~
 255 ~~the contract year.~~

256 ~~d. For the 2011-2012 contract year, the board shall~~
 257 ~~calculate and report to each TICL insurer the TICL coverage~~
 258 ~~multiples based on six options for increasing the insurer's FHCF~~
 259 ~~coverage limit. Each TICL coverage multiple shall be calculated~~
 260 ~~by dividing \$1 billion, \$2 billion, \$3 billion, \$4 billion, \$5~~

261 billion, and \$6 billion by the total estimated aggregate FHCF
 262 reimbursement premiums for the 2011-2012 contract year.

263 e. For the 2012-2013 contract year, the board shall
 264 calculate and report to each TICL insurer the TICL coverage
 265 multiples based on four options for increasing the insurer's
 266 FHCF coverage limit. Each TICL coverage multiple shall be
 267 calculated by dividing \$1 billion, \$2 billion, \$3 billion, and
 268 \$4 billion by the total estimated aggregate FHCF reimbursement
 269 premiums for the 2012-2013 contract year.

270 f. For the 2013-2014 contract year, the board shall
 271 calculate and report to each TICL insurer the TICL coverage
 272 multiples based on two options for increasing the insurer's FHCF
 273 coverage limit. Each TICL coverage multiple shall be calculated
 274 by dividing \$1 billion and \$2 billion by the total estimated
 275 aggregate FHCF reimbursement premiums for the 2013-2014 contract
 276 year.

277 g. The TICL insurer's increased coverage shall be the FHCF
 278 reimbursement premium multiplied by the TICL coverage multiple.
 279 In order to determine an insurer's total limit of coverage, an
 280 insurer shall add its TICL coverage multiple to its payout
 281 multiple. The total shall represent a number that, when
 282 multiplied by an insurer's FHCF reimbursement premium for a
 283 given reimbursement contract year, defines an insurer's total
 284 limit of FHCF reimbursement coverage for that reimbursement
 285 contract year.

286 10. "TICL options addendum" means an addendum to the

287 ~~reimbursement contract reflecting the obligations of the fund~~
 288 ~~and insurers selecting an option to increase an insurer's FHCF~~
 289 ~~coverage limit.~~

290 ~~(c) TICL options addendum.~~

291 ~~1. The TICL options addendum shall provide for~~
 292 ~~reimbursement of TICL insurers for covered events occurring~~
 293 ~~during the 2009-2010, 2010-2011, 2011-2012, 2012-2013, and 2013-~~
 294 ~~2014 contract years in exchange for the TICL reimbursement~~
 295 ~~premium paid into the fund under paragraph (f) based on the TICL~~
 296 ~~coverage available and selected for each respective contract~~
 297 ~~year. Any insurer writing covered policies has the option of~~
 298 ~~selecting an increased limit of coverage under the TICL options~~
 299 ~~addendum and shall select such coverage at the time that it~~
 300 ~~executes the FHCF reimbursement contract.~~

301 ~~2. The TICL addendum shall contain a promise by the board~~
 302 ~~to reimburse the TICL insurer for 45 percent, 75 percent, or 90~~
 303 ~~percent of its losses from each covered event in excess of the~~
 304 ~~insurer's retention, plus 5 percent of the reimbursed losses to~~
 305 ~~cover loss adjustment expenses. The percentage shall be the same~~
 306 ~~as the coverage level selected by the insurer under paragraph~~
 307 ~~(4)(b).~~

308 ~~3. The TICL addendum shall provide that reimbursement~~
 309 ~~amounts shall not be reduced by reinsurance paid or payable to~~
 310 ~~the insurer from other sources.~~

311 ~~4. The priorities, schedule, and method of reimbursements~~
 312 ~~under the TICL addendum shall be the same as provided under~~

313 ~~subsection (4).~~

314 ~~(f) TICL reimbursement premiums. Each TICL insurer shall~~
 315 ~~pay to the fund, in the manner and at the time provided in the~~
 316 ~~reimbursement contract for payment of reimbursement premiums, a~~
 317 ~~TICL reimbursement premium determined as specified in subsection~~
 318 ~~(5), except that a cash build-up factor does not apply to the~~
 319 ~~TICL reimbursement premiums. However, the TICL reimbursement~~
 320 ~~premium shall be increased in the 2009-2010 contract year by a~~
 321 ~~factor of two, in the 2010-2011 contract year by a factor of~~
 322 ~~three, in the 2011-2012 contract year by a factor of four, in~~
 323 ~~the 2012-2013 contract year by a factor of five, and in the~~
 324 ~~2013-2014 contract year by a factor of six.~~

325 ~~(g) Effect on claims-paying capacity of the fund. For the~~
 326 ~~2009-2010, 2010-2011, 2011-2012, 2012-2013, and 2013-2014~~
 327 ~~contract years, the program created by this subsection shall~~
 328 ~~increase the claims-paying capacity of the fund as provided in~~
 329 ~~subparagraph (4)(c)1. by an amount not to exceed \$12 billion and~~
 330 ~~shall depend on the TICL coverage options available and selected~~
 331 ~~for the specified contract year and the number of insurers that~~
 332 ~~select the TICL optional coverage. The additional capacity shall~~
 333 ~~apply only to the additional coverage provided under the TICL~~
 334 ~~options and shall not otherwise affect any insurer's~~
 335 ~~reimbursement from the fund if the insurer chooses not to select~~
 336 ~~the temporary option to increase its limit of coverage under the~~
 337 ~~FHCF.~~

338 Section 2. This act shall take effect upon becoming a law.