

The Honorable Toni Jennings
Lt. Governor
State of Florida
PL 05, The Capitol
Tallahassee, FL 32399-0001

Dear Lt. Governor Jennings:

As you know the Florida Hurricane Crisis Coalition (FHCC) has been meeting frequently and monitoring the discussions of the Property & Casualty Insurance Reform Committee (PCIRC). Accordingly, the Coalition has adopted some positions on issues that we feel are especially relevant to the work that your Committee is doing, and we would like to submit the following recommendations:

1. DEDICATED FUNDING FOR MITIGATION

- A. With 3.5 million homes in Florida that need to be hardened, we feel it is imperative that a dedicated funding source be identified to ensure that annually there are enough monies to have a credible and significant mitigation program. Therefore, we believe that those dollars in excess of what it costs the state to regulate the insurance industry from the receipts of the *Insurance Premium Tax* should be dedicated for statewide mitigation, hardening of homes and recovery efforts. This should amount to about \$400+ million annually per your discussion with us at the meeting on September 13 in your office. In addition, we believe that any increase in sales tax dollars as a result of hurricane-related rebuilding efforts should be added to the Insurance Premium Tax dollars along with any gubernatorial-vetoed dollars in future budget years. Our goal is to have at least \$500 million annually for enhanced mitigation efforts. We believe that this would send a very strong signal to the reinsurance industry that Florida is indeed serious about mitigating potential future damages to residences and businesses in Florida.
- B. We believe that a strong emphasis should be placed on encouraging Florida's Congressional Delegation and our new Governor to lobby the federal government for additional dollars and matching grant programs for mitigation, hardening, and recovery efforts.

2. HOME HARDENING GRADING SYSTEM

- A. The Department of Financial Services (DFS) should seek the input of design and construction professionals in the development of a *voluntary* Home Grading System (for **residential, commercial residential, and commercial** structures to ensure that the criteria being used meets the Florida Building Code, any additional more stringent local requirements and the best industry standards) that would be a uniform system that would grade structures on a number scale of 1 – 2 – 3, with either one or three being the highest number. For example, with three being the highest grade, a ONE would designate a home that did not meet the new Florida Building Code, a TWO would be a home that meets the Code, and a THREE would be a home that exceeds the Code. This non-mandatory grading system would encourage homeowners to secure a grade for their home, which in turn would educate future home buyers of the relative safety of the home in case a hurricane strikes. The goal of the Home Grading System is to teach homeowners the necessity of a highly graded home for (1) protection of loved ones and their belongings inside the home, (2) insuring that the homeowners would have a safe and sound place to return to in case they have to evacuate, and (3) the potential of lowering their wind policy portion of their homeowners policy through applicable discounts for increased mitigation activities.
- B. In conjunction with the Home Grading System, there is a dire need to create a regulatory environment for home inspectors. Currently, there are no minimum requirements for licensing, education, continuing education, insuring and/or bonding, or certification of home inspectors. In fact, in the status quo, anyone can secure a county occupational license today and call themselves a home inspector tomorrow. The industry has worked for two years to secure a regulatory scheme to no avail and so the Coalition and AIF now support the creation of necessary regulations of home inspectors to ensure that mitigation efforts are not fraudulent and that, in fact, the mitigation efforts (e.g., hurricane clips for the roof, special high impact resistant windows and window frames, special garage doors, etc.) were accomplished *correctly*. In order for insurance companies to provide discounts to policyholders, they are going to have to have full faith in the home inspection industry's ability to ensure that appropriate mitigation efforts have been undertaken. So structures are going to need to be inspected both before and after any mitigation efforts are initiated to ensure compliance with the building code. To alleviate any cost concerns, we might suggest two levels of home inspectors: (1) the first level would be an individual that could undertake current home inspections (e.g., termite inspection, HVAC, etc.) and the cost would be less, and (2) a certified home inspector would be someone with the necessary skills to certify a structure on the above-cited Home Grading System, and the costs would be more. Over time, hopefully buyers would drive the need for a Home Grading System by inquiring of potential sellers, "What is the Home Hardening Grade for this structure?" Buyers might very well be willing to buy a structure that is only a ONE knowing that it will be cheaper, but that it will need to be hardened in the future. In addition, the Home Grading System could very well become a consideration as to the re-sale value of a home or structure which would then become an incentive for a policyholder to invest in hardening their home or structure.

3. DISCOUNT CREDITS

A. Consumers need to be educated about the wisdom of undertaking mitigation efforts to harden their home or other structures. Every effort should be made to encourage citizens to mitigate and harden their homes/structures because it:

- protects and saves lives;
- prevents needless injury to others;
- preserves family keepsakes and belongings that cannot be replaced under any circumstances;
- preserves and protects important original documents; and
- protects furnishings that will cost more to replace than to safe keep.

B. We believe it is imperative that the state NOT mandate uniform credit criteria, uniform application forms or fixed discount credits because this practice would discourage competition and lead to increased costs among the insurance companies, which in turn would be passed on to consumers. Furthermore, we believe that insurance companies should be encouraged to continue offering discount credits to policyholders who harden their structures through the various mitigation programs that will be available.

C. The Florida Hurricane Catastrophe Fund (CAT Fund) premiums for insurers should reflect and factor in the same mitigation discounts insurers give to policyholders. We believe that insurance companies might be more willing to offer mitigation discount credits if by doing so their CAT Fund premiums are changed from “gross premiums” to “net premiums” so that insurers are not paying CAT Fund premiums on an amount higher than what they collect from customers.

4. CITIZENS PROPERTY INSURANCE CORPORATION

A. The Coalition does not support prohibiting Citizens from writing “wind only” policies. Any prohibition on writing “wind only” policies by Citizens will result in increased state exposure because Citizens will be forced to write not only the wind portion of the policy, but also all other perils such as fire, theft, liability, etc. This will increase Citizen’s exposure and could increase the potential likelihood of future assessment on all Florida policyholders. Additionally, by law Citizens must charge a rate higher than the private insurance market so that it does not compete with the private market. If we were to force policyholders to buy a wind only policy from Citizens to also buy coverage from Citizens for “all other perils,” they will likely pay a higher price for that coverage on the private market. The Coalition believes that Citizens, a government-run insurer, should not play a greater role than is absolutely necessary. Florida policyholders are able to find ex-wind coverage in the private sector and a government-run insurer should not assume the risk that the private sector has accepted, unless the private market is unwilling to provide the ex-wind coverage, in which case the policyholder has no choice but to seek all perils coverage from Citizens. But this should be the exception, not the rule. In summary, the Coalition supports the continuation of current law which requires Citizens to offer a wind only policy in the high risk boundaries.

Thank you for the opportunity to present these recommendations to the PCIRC. FHCC Co-Chair Cecil Pearce, Gerald Wester and Nick Iarossi will be at the meeting today if there are any questions or concerns regarding any of these recommendations. We are,

Sincerely yours,

Cecil Pearce
Co-Chair

William J. Phelan
Co-Chair

John Sebree
Co-Chair