



STANDARD PERSONAL LINES ADVISORY COMMITTEE

REPORT TO THE FLORIDA LEGISLATURE

JANUARY 15, 2006

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Executive Summary

This report is submitted in accordance with the provisions of Senate Bill 1486 and Section 627.40951, Florida Statutes, which required the Chief Financial Officer of the State of Florida to appoint a Standard Personal Lines Advisory Committee (hereinafter referred to as the "Committee").

The Committee was charged by statute to develop standard personal lines residential policies and a checklist to be used for homeowners, mobile homeowners, condominium unit-owners and dwellings. The stated statutory intent is for all property and casualty insurers authorized to write personal lines residential property insurance to offer the standard policies and checklists in Florida.

Presentations and testimony were provided to the Committee by representatives of the insurance industry; the Florida Insurance Council; the Hurricane Mediation Program, administered by the Collins Center for Public Policy; the Department of Financial Services, Division of Consumer Services, regarding consumer requests for assistance during the 2004 hurricane season; the Insurance Services Office, Inc. (ISO); the American Association of Insurance Services, Inc. (AAIS); the Florida Association of Insurance Agents; and the Office of Insurance Regulation. The Committee directed staff to research and to provide a comparison of policy forms and coverage options currently being offered in at least 60 percent of the personal lines residential property insurance market in Florida.

The Committee concluded that simplified policy language would be beneficial for consumers; however, current residential policies are legally binding contracts between two parties and contain technical legal language that has developed in response to case law. Therefore, adopting untested policy language has the potential of resulting in legal interpretations that are not intended. To avoid such unintended consequences, considerable legal and technical resources are needed in order to develop a comprehensive residential product. In addition, the Committee concluded that more study would be needed to determine the impact that standard policies with more comprehensive coverage options would have on consumer's premiums. Therefore, the Committee recommends the Legislature: appoint a task force with extensive insurance knowledge regarding the legalities of the insurance contract along with actuarial support, commit resources to review the impact of the consumer protection legislation that was passed during the 2004 Legislative Session, and conduct a study of the impact that offering a standard policy would have on the insurance industry and consumer's premiums.

As a result of this Committee's limited resources and time constraints, the Committee developed simplified language Consumer's Quick Check✓ Guides for Homeowners, Mobile Homeowners, Condominium Unit-Owners and Dwellings which are modeled, in part, after the Insurance Services Office, Inc., latest policy forms. The Consumer's Quick Check✓ Guides outline specific coverage and limits and will provide consumers with a valuable tool when shopping for personal lines residential insurance. The Consumer's Quick Check✓ Guides will be available to consumers on the Department of Financial Services (DFS) website www.fldfs.com and through other DFS consumer outreach programs. The Committee anticipates that DFS will update these guides on an annual basis in order to reflect market changes.

The Committee also drafted a Checklist of Coverage, and the Department of Financial Services (DFS) submitted a preliminary copy to the Florida Office of Insurance Regulation (OIR) for consideration during its rule making process regarding the development of Form OIR-B1-1670 Checklist of Coverage. When the final Checklist of Coverage, drafted by OIR, is approved by the Financial Services Commission, the insurance industry will be required to include a Checklist of Coverage whenever a personal lines policy is issued or delivered in the State of Florida. The Committee recommends that the Checklist of Coverage be used by insurance agents and/or company representatives when a personal lines policy is purchased (at the point-of-sale). This recommendation would require a change in the provisions of Section 627.4143, Florida Statutes; however, this change would prompt dialogue between the consumer and the insurance agent/company representative. It is the Committee's belief that this legislative change would provide consumers a greater opportunity to learn and understand the coverage benefits and limitations of their insurance policy and to adequately protect their most valuable financial investment.

Background

In 2004, the State of Florida was struck by four major hurricanes, resulting in excess of 1.5 million claims. As a result, the residential property insurance market suffered a great deal of stress. Concerns were raised by many property owners in the state who did not know the details of their property insurance policy or which perils were covered. This confusion led many property owners to realize they were inadequately insured. In 2005, Florida was struck again by four hurricanes. Hurricane Katrina's impact on the Gulf Coast Region has been noted as the most costly disaster in history for the insurance industry even though thousands of consumers in Katrina's path were uninsured or underinsured.

During the 2005 Legislative Session, the Legislature passed Senate Bill 1486, which revised Florida law regarding property insurance and created Section 627.40951, Florida Statutes, **Standard personal lines residential insurance policy** (See Appendix A). This section required the creation of the Standard Personal Lines Advisory Committee (hereinafter referred to as "Committee"), which was charged with holding meetings and receiving testimony in order to (See Appendix B):

- Develop policy language for coverage that represents general industry standards in the market for comprehensive coverage under personal lines residential insurance policies;
- Develop a checklist to be used with each type of personal lines residential property insurance policy, in accordance with the provisions of Section 627.4143, Florida Statutes, **Outline of Coverage** (See Appendix C);
- Review policies and forms written by Insurance Services Office, Inc; and
- File a report containing its recommendations to the President of the Senate and the Speaker of the House of Representatives.

It is the Legislature's stated intent to:

- Have property and casualty insurers offer these standard policies and checklists of policies' contents;
- Ensure that these forms are written in a simple format with easy to read language; and
- Enable most consumers to understand the principal benefits and coverage, as well as, the principal exclusions and limitations or reductions contained in the policy, along with the deductibles.

Insurers will not be required to offer these standard policies unless further action is taken by the Legislature.

Members

In accordance with the Legislature's instructions and the provisions of Section 627.40951, Florida Statutes, Chief Financial Officer Tom Gallagher appointed the Committee. As required, the Committee was made up of a designee of the Chief Financial Officer, who would chair the committee, two representatives of insurers currently selling personal lines coverage, two representatives of property and casualty agents, two consumer representatives, two representatives of the Commissioner of Insurance Regulation and the Insurance Consumer Advocate.

Chief Financial Officer's Designee:

Rick Mahler - **Chair**, Deputy Chief of Staff, Department of Financial Services, Tallahassee

Company Representatives:

Jim Graganella - **Vice-Chair**, Capital Preferred & Southern Fidelity Insurance Companies, President/CEO, Tallahassee

Joel P. Curran - Tower Hill Insurance Group, Chief Underwriting Officer and Senior Manager, Gainesville

Agent Representatives:

Hector Fortun - Fortun Insurance, Coral Gables

Bruce A. Baker - USI Insurance Services of Florida, Inc., Coral Gables

Consumer Representatives:

Rick Suarez - Proprietor of Ready Window, Miami

Arnold Whisenant - Retired, Jacksonville

Commissioner of Insurance Regulation Representatives:

Dr. Elizabeth Goldsmith - Florida State University, Professor and National Association of Insurance Commissioner's Consumer Representative, Tallahassee

Richard C. Koon - Senior Management Analyst – Supervisor, Florida Office of Insurance Regulation, Bureau of Property and Casualty Product Review, Tallahassee

Insurance Consumer Advocate:

Steve Burgess – Florida Insurance Consumer Advocate, Tallahassee

Review

The Committee heard testimony and presentations in order to gain a clear understanding of consumer concerns and the technical process for the development of a new standard policy with simplified language from:

- Insurance industry representatives (See Appendix D);
- Florida Insurance Council (See Appendix E);
- Hurricane Mediation Program, which was administered by the Collins Center for Public Policy;
- Department of Financial Services, Division of Consumer Services, regarding consumer's request for assistance during the 2004 hurricane season and general request for policy clarification;
- Insurance Services Office, Inc. (ISO) regarding their policy forms;
- American Association of Insurance Services, Inc. (AAIS) regarding their policy forms;
- Florida Association of Insurance Agents which provided a thorough review of existing policy forms; and
- Office of Insurance Regulation which provided information regarding policy forms and the approval process.

The meeting documentation and presentations may be viewed on the Department of Financial Services website at:

<http://www.fldfs.com/standardpersonallinesadvisorycommittee>.

In addition, the Committee requested staff to compile a comprehensive comparison of policy coverage and forms which is offered by five (5) insurers which write 60 percent of the homeowners market in the State of Florida (See Appendix F). The insurers are: Citizens Property Insurance Company, State Farm Florida Insurance Company, Allstate Floridian Insurance Company, Atlantic Preferred Insurance Company and Nationwide Insurance Company of Florida. Based on documentation provided, 46% of the Florida homeowners' insurance market purchases ISO's Florida-specific forms, and that ISO files forms on behalf of approximately 29% of its members. For this reason, the Committee determined that ISO's Homeowners 3 – Special Form - HO 00 03 10 00, 2000 Edition would also be included in the coverage and forms comparison (See Appendices G, H and I).

The Committee also reviewed the Checklist of Coverage drafted by the Office of Insurance Regulation in accordance with the provisions of Section 627.4131, Florida Statutes, (See Appendix J).

Findings

The Committee believes that simplified policy language would be beneficial for consumers; however, current residential policies contain several highly technical aspects of a legal nature. Therefore, to avoid unintended consequences, legal and technical resources are needed before a residential product can be developed. Additionally, the insurance industry is concerned that the increased cost for systems configuration of a new insurance product could lead to unintended higher premiums.

Based on the Committee's review, Citizens Property Insurance Company (Citizens) and the take-out companies write a large share of the personal lines residential business in the State of Florida, and these insurers utilize ISO's 1991 Edition of the Homeowners 03 – Special Form with modifications. While the Committee contemplated adopting Citizens' policy as the Standard Policy for the State of Florida, this idea was dismissed since: ISO's 1991 Edition pre-dates Hurricane Andrew; it is not up-to-date with current case law; and due to copyright laws it is not accessible to all insurance carriers. In addition, the Committee learned that Citizens has adopted ISO's 2000 Edition with modifications for its wind lines of business which is scheduled for implementation by July 2006. Citizens will then start moving its other residential lines of business to ISO's 2000 Edition in late 2006 or early 2007.

Conclusions and Recommendations

The Committee concluded that while it was unable to draft a Standard Personal Lines Residential Policy, it could develop an easy to read Consumer's Quick Check✓ Guide for each residential personal line of business. As stated, due to the number of insurers in the State of Florida that utilize ISO's forms with modifications, and since its 2000 Edition is used by the Florida Association of Insurance Agents in its training classes for new insurance agents and continuing education courses for licensed agents in the State of Florida, the Committee modeled the Consumer's Quick Check✓ Guides, in part, after ISO's products. The guides are not a mirror of the insurance policy, but instead, highlight certain limits and exclusions that have been the source of consumer concerns.

- Consumer's Quick Check✓ Guide for Homeowners
ISO's Homeowners – 3 Special Form HO 00 03 10 00, 2000 Edition
(See Appendix K)
- Consumer's Quick Check ✓ Guide for Mobile Homeowners
ISO's Homeowners - 3 Special Form HO 00 03 10 00, 2000 Edition
along with MH 04 01 10 00 (See Appendix L)
- Consumer's Quick Check ✓ Guide for Condominium Unit-Owners
ISO's Homeowners – 6 Unit-Owners Form HO 00 06 10 00, 2000
Edition (See Appendix M)
- Consumer's Quick Check✓ Guide for Dwellings
ISO's Dwelling Policy Form - DP 00 03 12 02, 2002 Edition
(See Appendix N)

The Committee anticipates that the Consumer's Quick Check✓ Guides will be available to consumers on the Department of Financial Services (DFS) website and published as pamphlets to be distributed by DFS during Educational Outreach Programs.

The Checklist of Coverage developed by OIR, if approved by the Florida Financial Services Commission, will be utilized by the insurance industry in accordance with the provisions of Section 627.4143, Florida Statutes. As part of the Committee's charge, it developed a comprehensive Checklist of Coverage (See Appendix O) to address consumer concerns that were identified by the Department of Financial Services, Division of Consumer Services, and the Hurricane Mediation Program. However, the Committee believes the Checklist of Coverage should be used by insurance agents to promote dialog with the consumer when the policy is sold (at the point-of-sale) rather than have the Checklist of Coverage accompany the policy when issued, as the law currently requires. The Committee believes that this legislative change would provide consumers greater understanding of the coverage being offered, the policy's

limitations and their option to purchase adequate coverage to protect their most valuable financial investment.

Senate Bill 1486 also made numerous other changes to the property insurance laws to address consumer issues identified during the 2004 hurricane season, such as hurricane deductibles for personal and commercial residential property, law and ordinance coverage, replacement cost coverage, timely payment of claims, mediation program, notice of premium discounts for hurricane loss mitigation, prohibited cancellation of coverage and many other consumer protections. Therefore, the Legislature may want to consider the impact of these changes before pursuing additional steps regarding the offer of a standard policy. If the Legislature wishes to pursue the standard policy option, the Committee recommends that the Task Force start with ISO's 2000 Edition Form. When Citizens makes its full transition to ISO's policy forms, 2000 Edition, there will be loss exposure information available which will allow insurers to rate the standard policies utilizing their own demographics.