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December 15, 2023

The Honorable Sheldon Whitehouse, Chairman
530 Hart Senate Office Building
Washington, DC 20510

Senator Whitehouse,

This letter responds to your correspondence of November 30, 2023, (the "correspondence") regarding Florida's property insurance market. Prior to the release of the correspondence to the public by the Budget Committee, we received two versions from a media outlet seeking comment; the first version was an unsigned, undated draft demanding a response from Citizens by October 31, 2023, and the other was the final, signed correspondence dated November 30 and requiring a response by December 21, 2023. The circumstances surrounding the timing and delivery of the correspondence and its earlier draft are troubling and merit attention to eliminate concerns that documents are being leaked or that the timing of the inquiry is being manipulated for improper purposes.

First, I cannot overemphasize that the assumptions in the correspondence suggest a fundamental misunderstanding of how Citizens Property Insurance Corporation operates, and they underestimate Citizens' claims-paying ability. As Florida's insurer of last resort, Citizens is structured so that it will always be able to protect its policyholders and pay claims. Citizens purchases adequate levels of reinsurance to cover its losses, has ample reserves, has various financing tools at its disposal, and the State of Florida has a strong fiscal position given the state's continued economic growth and record net in-migration. Importantly, if Citizens were to pay out all reserves and reinsurance following a major storm or series of disasters and there is a deficit, then depending on the extent of the deficit, Citizens would be required by Florida law to levy surcharges on its policyholders and assessments on other Florida insurance consumers until the deficit is eliminated. So, again, Citizens will always have a mechanism to pay claims, and because of recent legislative reforms, discussed in greater detail below, the risk of these assessments and surcharges continues to decrease.

At no time in Citizens' history has it, or the State of Florida, sought a federal bailout to pay its hurricane loss claims – including after the catastrophic 2004 and 2005 hurricane seasons. Conversely, the debt of the National Flood Insurance Program, a program squarely under the jurisdiction of the Budget Committee, has surpassed $20 billion. This is not the case for Citizens. In fact, the basic premise of the correspondence vastly underestimates the resilience of Florida's property insurance market and, unfortunately, can foreseeably cause needless and completely misplaced panic in a market that is already well on the way to recovery because of actions taken by Governor DeSantis and our state's legislative leadership.

As a coastal peninsula positioned near the tropics, Florida has always been at a greater risk to the impacts of hurricanes and other severe weather events. However, our economic condition is robust, and the idea that Florida may soon be looking to the federal government for a bailout simply ignores the facts. To the contrary, Florida's credit rating and outlook now surpasses the federal government by all three major credit rating agencies – even with increased exposure resulting from hurricanes. In fact, just two weeks prior to the correspondence, Moody's noted that even as Florida receives federal disaster relief from time-to-time as a result of tropical cyclones, the state has "significant financial resources bolstered by continued strong in-migration and conservative fiscal management practices that position it well to withstand these risks."[i]

Regarding your questions related to the financial solvency of Citizens, as discussed above, Florida law provides a framework to ensure that Citizens remains solvent. In fact, the strength of this statutory framework was recognized last year by the Federal Housing Finance Agency (FHFA) and the government-sponsored enterprises Fannie Mae and Freddie Mac last year with the approval of the Temporary Market Stabilization Arrangement.[ii] Notably, since that time, the state has taken steps to bolster the financial condition of Citizens as part of the historic reforms passed in recent legislation. For example, Citizens now has the statutory authority to merge its three operating accounts (Coastal, Personal Lines, and Commercial) into one account. After combining the accounts in January, Citizens will have ample capital and projected reinsurance capacity for the upcoming year, further protecting all Floridians from surcharges and assessments. This includes the financial support all insurers receive through the Florida Hurricane Catastrophe Fund. Because the accounts will be combined, projections for this year indicate policyholders will not face a surcharge unless there is a 1-in-95-year CAT event, and Floridians face no risk of an assessment within a 1-in-100-year scenario. For frame of reference, Hurricane Andrew is considered a 1-in-43-year event.

To address questions related to modeling, all insurers operating in Florida utilize sophisticated catastrophe models to determine the risk exposure of their books of business for purposes of rate filing and reinsurance needs. As one of the most hurricane-prone states in the U.S., the state has taken extraordinary measures to ensure accurate modeling of catastrophic risks. In addition to an independent commission tasked with approving models used in rate filings, Florida is the only state with its own public catastrophe model, created and maintained by Florida International University, a testament to the state's commitment to robust risk analysis.

As a governmental entity integral to the state, Citizens is subject to immense regulation above and beyond any private insurer, including oversight by an appointed Board of Governors, statutorily mandated market conduct examinations on a biennial basis, and additional oversight by the Florida Auditor General and the state's insurance regulator, the Florida Office of Insurance Regulation (OIR). OIR also requires property insurers, including Citizens, to model their losses through a catastrophe stress test (CST), assuming a historical event or series of events occur. The results of the CST are used by OIR to estimate the insurer's surplus amounts after the simulated event and assist in determining if each insurer would continue to meet its minimum surplus requirement after each storm scenario. OIR also approves Citizens' rate filings.

The continued positive outlook related to the financial position of Citizens was further strengthened by additional legislative reforms to improve Citizens' operations, including the ability for the Florida Division of Administrative Hearings to adjudicate contested claims. All insurers, including Citizens, will also benefit from recent tort reform passed during the 2023 legislative session. These historic reforms restore rationality to the litigation space, and Citizens projects savings of $700 million in coming years.

More importantly, the recent reforms Florida has implemented are organically working to first stabilize the property insurance market and, in turn, reduce the size of Citizens. In October, Citizens' policy count saw a net-decrease for the first time in several years by 73,000 policies, and Citizens' policy count is expected to decrease again next month. These reductions are in part a result of increased interest in the Citizens Depopulation Program, which has increased in activity over 800% from last year. By working with private carriers to provide coverage to policyholders, Florida has removed more policies this year (223,307) than in 2016-2022 combined (176,682). This has further led to Citizens revising our 2023 year-end policy count and exposure projections from 1.7 million policies and $675 billion in total exposure to 1.215 million policies and $551 billion, respectively.

Florida, unlike the federal government, is constitutionally required to pass balanced budgets. Additionally, Florida maintains a AAA bond rating and a record-level budget surplus. Maintaining the fiscal health of Florida is paramount for the state's executive and legislative leadership, and together they have successfully implemented strategic initiatives to bolster the state's property insurance market and reduce the exposure of Citizens. A healthier Florida market is clearly evidenced by policyholders returning to the private market through Citizens' Depopulation Program. Moreover, Florida continues to invest in mitigation programs to assist homeowners in improving their properties to decrease premiums. Again, this is all due to the insurance reforms passed by a bipartisan majority of the Florida Legislature and signed into law by Governor DeSantis.

The November 30 correspondence posits unrealistic scenarios that fail to take into account the major reforms passed in Florida that have already begun to improve the property insurance market. We would respectfully suggest the Budget Committee should instead consider Florida as a model of sound financial stewardship and meaningful property insurance reform.

I hope this response has answered the Budget Committee's questions. Going forward, I request the Committee to send future correspondence directly to my office at the address above or to my email: tim.cerio@citizensfla.com.

Respectfully,

Timothy M. Cerio
President/CEO and Executive Director

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[i] https://www.moodys.com/credit-ratings/Florida-State-of-credit-rating-600024224/summary
[ii] https://singlefamily.fanniemae.com/news-events/lender-letter-ll-2022-08-floridas-temporary-market-stabilization-arrangement