



OFFICE OF INSURANCE REGULATION

KEVIN M. McCARTY
COMMISSIONER

July 2, 2013

The Honorable Ray Rodrigues
Florida House of Representatives
17595 South Tamiami Trail, Suite 218
Fort Myers, FL 33908

Dear Representative Rodrigues:

Thank you for your June 24, 2013 letter and the opportunity to address your concerns. Each year, homeowners insurance companies must make at least one filing to comply with the annual rate filing requirements of Section 627.0645, Florida Statutes. That filing could contain changes to the base rates, a rate certification if the company does not request a rate change and the company actuary will certify that the current rate is actuarially sound and not inadequate, or a request for an exemption due to insufficient premium volume or number of policies. Rate filings for property insurance companies in Florida are governed primarily by the rating law found in Section 627.062, Florida Statutes. Under that law, rates must not be inadequate, excessive, or unfairly discriminatory.

Most property insurance companies make a filing each year to adjust rates. In most years, the proposed adjustment is an increase in rates. Rate filings are prospective in that companies cannot recoup past losses but are making a filing for expected rate need for the coming year. Any increases or decreases have to be supported by evidence such as loss costs in recent years, projected catastrophe losses based on models accepted by the Florida Commission on Hurricane Loss Projection Methodology, and actual expenses that the company is expected to incur and that are for the benefit of policyholders.

The Office of Insurance Regulation (Office) can reject a proposed rate increase if it is not supported in accordance with actuarial standards, or if the proposed rate would violate Florida Statutes or applicable administrative rules adopted as authorized by Florida Statutes. Insurance companies that experience a reduction in reinsurance costs could make a full rate filing and reduce rates for policyholders. Insurance companies should do this or certify rates within one calendar year from the last time an annual rate certification or rate filing was made. Some insurers have indicated their intent to reduce rates at least in some territories based on the 2013

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reinsurance costs. Others may purchase more reinsurance rather than reducing rates. The purchase of more reinsurance based on, up to, a 1 in 250 year event is allowed by the rating law.

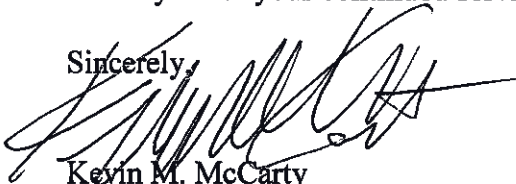
Several Florida property insurance companies are being required by their rating agency to buy more reinsurance than they initially planned to purchase. This is likely to keep rates up and move additional premium and exposure to reinsurers.

The Office has no firm rule on how much reinsurance a company must purchase and is constrained by statute to allow the cost of a purchase that complies with the rating law. The reinsurance needed is a function of how much insurance a company is writing, its exposure to hurricane loss, as well as the availability of other funds such as policyholder surplus, that can be used to pay for potential hurricane losses. In other words, a company with more capital can afford to retain more of its risk and cede less premium and less risk to reinsurers.

Therefore, companies are expected to make a rate filing within one year from their last filing. We would anticipate the filing to reduce rates if the only thing that changed from last year is that their reinsurance costs are lower. This is not likely to be the case across the board, but may be true for some insurance companies who are actively competing for market share in many parts of the state.

Thank you for your continued services to the people of Florida.

Sincerely,



Kevin M. McCarty
Commissioner