Expanded Windstorm Coverage Feasibility Study

Final Report

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Executive Summary

Florida's residential property-insurance market faces unique challenges due to frequent and severe hurricanes, resulting in unpredictable annual losses that average $8 billion but can exceed $150 billion from a single extreme event. This volatility has led to high premiums, heavy reliance on reinsurance, and repeated failures among private insurers. One alternative that has been proposed is restructuring Florida's residential property insurance market so that all risk of named windstorms is transferred to Citizens Property Insurance Corporation (Citizens), the State of Florida's quasi-governmental insurer of last resort. This proposal represents a structural shift for Florida's homeowners insurance market, from a diversified, private-company-based framework to a centralized, government-backed catastrophe financing model. The central research question focuses on how to allocate hurricane risk among private capital, public financing, and Florida households.

This report evaluates the feasibility and implications of the proposal that Citizens changes its operation to providing homeowners and residential condominium owners with policies that cover damage from windstorms (wind-only policies) while allowing private insurers to offer policies that exclude wind coverage (ex-wind) but continue to cover the other perils normally covered by typical homeowners or residential condominium owners policies.

In all scenarios evaluated in this report, catastrophic risk is not eliminated; it is redistributed across time (pre-event vs. post-event) and across the population. The proposal creates significant geographic redistribution of costs and effectively creates a broader "hurricane tax" that redistributes catastrophe costs statewide, creating additional subsidies (geographical, intertemporal and across wealth levels). The proposal may improve insurer participation and reduce insolvency risk but does not guarantee lower total system costs. The overall effect of the proposal on premiums and assessments depends on initial funding and premium-structure decisions. Funding Citizens with significant upfront capital and structuring premiums to cover most windstorm scenarios (i.e., higher premiums) would allow for a lower likelihood of post-loss assessments and provide greater financial stability. Lower upfront capital and lower premiums would increase reliance on post-loss assessments and necessary debt issuance by Citizens. This would create higher systemic financial risk and may affect the borrowing costs and fiscal flexibility of the State of Florida.

Findings show that the restructuring could expose Citizens to substantial post-event funding needs, emergency assessments, and debt requirements that exceed most historical issuances. Although Citizens' obligations are legally distinct from State of Florida general-obligation debt, this increased risk concentration could affect the State of Florida's borrowing costs and fiscal flexibility, as markets could perceive Citizens' large-scale debt as indirectly tied to the State of Florida, increasing the financial vulnerability of both Citizens and Florida taxpayers. In addition, because the proposal would transform Citizens into a large-scale statewide insurer, it could increase Citizens' operational costs, particularly for handling claims after major disasters.

In summary, the proposal presents potential advantages and risks for policymakers. It can improve private-market stability and insurer solvency, reduce likelihood of insurer insolvencies following storms, provide greater uniformity in coverage and pricing structures, and potentially lower the

cost of capital through public financing. However, it concentrates catastrophic risk in a single entity and increases the likelihood and magnitude of statewide assessments, and it may negatively impact State of Florida credit perception, reduce competition and innovation in insurance markets, and expose the insurance market to more special interest pressures in rate-setting and funding decisions.

To better understand approaches to managing catastrophic risk exposure, Florida policymakers should continue to monitor other states, countries, and insurance systems confronting similar challenges associated with increasing catastrophe exposure, market instability, insurance affordability, and post-event financing needs.

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Introduction

Citizens Property Insurance Corporation (Citizens) currently provides property insurance coverage to approximately 300,000 residences in Florida.[1] Despite recent legislative reforms aimed at addressing issues related to property insurance litigation and property insurance market stabilization, premiums[2] for property insurance in Florida remain high.[3] One significant factor contributing to this persistent high cost is the catastrophic risk associated with hurricanes and named tropical storms. This risk has been identified as a primary reason why many insurers choose not to participate in the Florida property insurance market.

A proposed approach to mitigating this problem involves permitting private insurers to offer personal residential and residential condominium policies[4] that cover standard perils but exclude coverage for named windstorms. Under this proposal, Citizens would assume responsibility for providing windstorm (wind-only) coverage to all personal residential and residential condominium property owners in Florida. The underlying rationale is that by transferring the catastrophic windstorm risk—defined as the frequency, intensity, and resultant property damage caused by hurricanes and named tropical storms, which constitute the largest driver of property insurance costs—away from private insurers, the private market for personal residential and residential condominium insurance would be strengthened.[5] However, this approach would substantially increase Citizens' exposure to catastrophic losses arising from named windstorms, thereby amplifying the State of Florida's financial risk.

It is critical to recognize that all costs associated with insured losses are ultimately borne by participants within the insurance system, including policyholders, primary insurers, or reinsurers. This study analyzes the current allocation of these costs and investigates potential mechanisms for redistributing them within the insurance framework.

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[1] https://www.citizensfla.com/policies-in-force, accessed 6/1/26.

[2] Throughout this report the terms rates and premiums are used. Rates are the price charged per $1,000 of total insured value (TIV). The premium is the total amount paid for insurance coverage. For example, a household that is paying a rate of $3.65 per $1,000 of total insured value, for $500,000 in total insured value would pay $1,825 in premiums (3.65 * 500).

[3] Florida ranks in the top 5 nationally in average property insurance rates per $1,000 of total insured values. The rankings vary by source (e.g. National Association of Realtors, Kiplinger, United States Census, National Association of Insurance Commissioners). The states with the highest average rates per $1,000 of total insured values have high tropical windstorm exposure (e.g. Florida, Louisiana), high hail/tornado exposure (e.g. Oklahoma), or both (e.g. Texas).

[4] Individual residential condominium owners purchase property insurance on their own condominium units. Those are the insurance policies discussed in this report. Condominium owners also pay for insurance coverage on common areas of buildings; these policies are generally commercial insurance products purchased by the condo association and are not analyzed in this report. Therefore, condominium owners will pay additional costs for insurance above the premiums they pay for their own individual condominium unit (condo owners policy).

[5] For the purposes of this report, the private market comprises the collective commercial ecosystem of non-governmental, capital-backed insurance that issue property insurance policies. Private carriers (or private insurers) refers to all non-governmental, voluntary risk-bearing insurance entities operating in the private insurance market.

In preparation for this analysis, and pursuant to the contract, the research team conducted a Preliminary Survey of the Florida insurance market. The Preliminary Survey establishes the foundational data and historical context required to analyze the implications of a fundamental shift in Florida's insurance architecture. It provides a comprehensive baseline of background knowledge, including (1) an analysis of current market conditions of Florida's personal residential and residential condominium property insurance market and the existing concentration of risk; (2) a comparative analysis of the approaches used by other states exposed to named windstorms to insure their windstorm risk; and (3) a description of the insurance market challenges (e.g., history of assessments and insolvencies due to windstorm events) in states with named windstorm exposure. The Preliminary Survey is provided in Appendix A of this report.

As it relates to the project, the windstorm risk that would be considered covered by Citizens is named storm tropical cyclone activity (both named tropical storms and hurricanes). When we refer to policies that cover windstorm only (with other common perils such as fire covered by a different insurance policy), we will refer to them as "Wind-Only" policies or coverage, nomenclature that is widely used in the insurance industry. This study evaluates the effect of the proposal on three groups of identified stakeholders—Citizens and the Florida Hurricane Catastrophe Fund (FHCF), Private Insurers that focus on personal residential and residential condominium insurance, and policyholders.

Data, Methods, Assumptions, and Limitations

In this section, we describe how we obtained the data for our research and the assumptions applied in using the data for addressing the project Tasks 1-9. Table 1 lists the nine tasks covered in this report and the appendix where a detailed analysis of that task is provided.

Table 1. Description of Tasks

Task	Description	Appendix (Detailed Analysis)
Task 1	Examine potential rate (premium) changes for windstorm coverage as it relates to Citizens and the FHCF	Appendix E
Task 2	Examine the likelihood and magnitude of potential assessments by Citizens and the FHCF	Appendix F
Task 3	Examine the likelihood and magnitude of debt issuance by Citizens and the FHCF	Appendix G
Task 4	Examine the implications for Citizens and FHCF finances and operations	Appendix H
Task 5	Examine potential rate changes for personal residential and residential condominium coverage that excludes the windstorm peril	Appendix I
Task 6	Examine the implications for profitability and solvency for personal residential and residential condominium insurers	Appendix J

Task 7	Examine the implications for rating agency ratings of personal residential and residential condominium insurers	Appendix K
Task 8	Examine the implications for premium costs for windstorm and traditional personal residential and residential condominium coverage as it relates to policyholders	Appendix L
Task 9	Examine the implications for total insurance costs (upfront and assessments) for windstorm and traditional personal residential and residential condominium coverage as it relates to policyholders	Appendix M

Data Sources and Assumptions

For this analysis, we obtained information from various sources. In this section, we describe how the data was compiled to complete the 9 tasks described in our initial proposal.

Florida Insurance Market Data

Data pertaining to insurer exposure and premium volume by county in Florida was obtained from the Florida Office of Insurance Regulation's Quarterly and Supplemental Reporting System (QUASR). Our analysis uses the reports for all insurers, including Citizens, writing two policy types in QUASR listed as:

- Personal Residential – Homeowners (Excluding Tenant and Condo) – Owner Occupied
- Personal Residential – Condominium Unit Owners

We use the values reported by insurers for policies in force, total premiums written including wind (in-wind), total premiums written excluding wind (ex-wind), structure exposure in-wind, and structure exposure ex-wind for these two policy types, by county. We calculate county-level rates for coverage that includes wind losses by dividing county-level total premiums (in-wind) by the county-level total structure exposure for in-wind policies. Similarly, we calculate county-level rates for coverage ex-wind losses by dividing county-level total premiums (ex-wind) by the county-level total structure exposure for ex-wind policies. This data provides baseline values of the market for property insurance from which to compare the estimated premiums under the proposal. At the time work on this proposal began, the 2024 data was the last complete year of data available and is used in the analysis presented.

Substantial insurance reforms have been undertaken (most notably tort reform in 2022 and 2023) that addressed problems that existed in the property insurance markets in Florida (see the preliminary survey in Appendix A). Those reforms have had substantial success in stabilizing the private property insurance market. The insurance market problems and the reforms are still impacting rates today. The 2024 rates may be higher than rates in subsequent years.[6]

[6] The Florida Office of Insurance Regulation has released a variety of press releases promoting rate decreases in 2026 in both auto and property insurance. For example, see: https://floir.gov/newsroom/archives/item-

QUASR represents the most complete source of insurance market information at the county level in Florida. All companies selling residential property insurance report their data to the Florida Office of Insurance Regulation (OIR); however, many companies report this county-level data as "trade secret" when insurers believe that the data is confidential and proprietary and may reveal their corporate strategy to their competitors. The OIR provides a list of companies reporting their data as trade secret (https://floir.gov/tools-and-data/residential-market-share-reports, accessed 6/1/2026). This report uses the trade secret data given the market share of the companies that are reporting as trade secret to ensure that the analysis is based on the most complete market data available. To protect the trade secret data, no results (e.g., tables, charts, graphs) or discussion of results will reveal any specific company data. Furthermore, we have been diligent in ensuring that trade-secret data cannot be derived from the results or discussion. The result is that in some tables, charts, or graphs there may be county-level data not reported to ensure that trade-secret data is protected.

Estimated Losses

A catastrophe model is the best approach to obtain estimates of potential windstorm losses under the proposal because it combines meteorological data, building vulnerability, and exposure information to simulate thousands of realistic storm scenarios. This allows for a probabilistic assessment of potential damages, capturing the complexity and variability of windstorm impacts better than historical-loss data alone. As a result, a catastrophe model can provide more accurate, comprehensive, and forward-looking loss estimates that help insurers and risk managers prepare for a wide range of possible outcomes. The research team included Verisk a catastrophe modeler, that used its Industry Exposure Database, indexed to December 31, 2024, to estimate county-level hurricane losses by line of business in Florida. This database is developed using census information, government reports, demographic data, engineering data, and private-sector information sources and contains detailed information on property counts, replacement values, occupancy types, construction characteristics, and insurance policy conditions.

The modeling approach relies on advanced mathematical and statistical simulations that estimate possible hurricane losses rather than predict actual future events. As with any catastrophe modeling program, simulated catastrophe events are hypothetical scenarios that could occur, not re-creations of actual storms. Furthermore, loss estimates are subject to uncertainty because they depend on assumptions about meteorological conditions, exposure data, and property characteristics. Actual hurricane losses may differ substantially from modeled estimates, so the results should be viewed as one analytical tool among many for risk assessment.

For this project, the focus on residential exposure includes single-family homes, while mobile homes were excluded. Commercial residential exposure in this study is limited to residential

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condominium insured values in Florida. Replacement values are estimated using rebuild cost methodologies, construction cost indices, and information about building characteristics such as age, height, and construction type. Wind and storm surge calculations account for factors such as storm size, intensity, speed, terrain, land use, coastal elevation, tides, and offshore bathymetry. The model also considers how building characteristics—such as occupancy type, construction type, height, and building codes—affect damage vulnerability.

Verisk provided estimates of losses for both residential and condominium exposures. For this project, the peril selection was limited to named tropical cyclone wind (wind-only).[7] The analysis also included demand surge, which is an allowance for temporary increases in repair and construction costs following a major disaster when labor and materials are scarce. Verisk's deliverables include a spreadsheet with county-level exposure and loss outputs for the residential and condominium segments. Outputs include:

- **Exposure by county**: Total insured value by county (the value at risk represented in the exposure database).
- **Stochastic event losses by county**: Loss estimates for individual simulated hurricane events, by county and line of business.
- **Historical event losses by county**: Loss estimates produced by reprocessing selected historical storms through the model framework.
- **Average Annual Loss (AAL)**: An estimate of the long-run average loss per year, based on the full set of simulated events. Results may be shown as aggregate (all events in a year combined) and per-occurrence (loss per event), along with the standard deviation, which indicates how much annual losses may vary around the average.

Appendices B and C provide Verisk's full report for this study and details about the methodology and limitations of their analysis. Appendix D provides the report from Hansen Actuarial used for the ensuing analysis, including exposure and estimated loss amounts. Table 2 contains a description of the aggregate loss amounts in Florida from named windstorms based on the modeled losses provided by Verisk. The average annual loss (AAL) is close to $8 billion with wide variation in that estimate (standard deviation of $ 25.86 billion). The table also contains data on the "tail" of the loss distribution.[8] Losses are not uniformly distributed from year to year. In many years, losses will be zero, but the severe storm years can have substantial losses. The return times estimate how often losses that size will occur. The percentile represents how often annual losses will be at

[7] The Florida Hurricane Loss Projection Methodology Commission has approved the Verisk model for the hurricane peril. For this report, Verisk was instructed to provide estimates for named windstorms. The commission was founded in 1995 to evaluate the catastrophe models being developed for use in insurance pricing. For more information on the commission see: https://fchlpm.sbafla.com/about-the-fchlpm/.

[8] Annual losses from windstorms in Florida do not follow a normal distribution (the bell-shaped curve) where losses are evenly distributed about the average (or mean). In many years, the losses are zero and in very few years the losses can be extremely high (over $150 billion). This means the loss distribution is not normally distributed and is skewed to the right with a long "tail" of potential losses well above the average year. This "tail" contains some extremely large potential losses, that while not very frequent, need to be included in pricing and planning.

or below the estimated aggregate loss. For example, the 1-in-25-year loss estimate is $47.18 billion. The equivalent percentage is 96%. This is interpreted as we can expect losses at or above $47.18 billion about once every 25 years. Equivalently, annual losses will be at or below $47.18 billion approximately 96% of the time. This is not to say that if we have $47 billion in losses in 2026 that it won't happen again for another 25 years, just that in any given year there is approximately a 4% chance that we can have losses that size.

Table 2. Aggregate Loss Estimates: Named Windstorm Losses

Return Times (1 in N Years)	Percentile	Aggregate Loss ($ billions)
4	75	$3.81
5	80	$6.28
6.7	85	$10.46
10	90	$18.74
25	96	$47.18
100	99	$128.28
130	99.25	$147.00
200	99.5	$181.74
250	99.6	$199.99
Average Annual Loss (AAL)		$7.77
Standard Deviation		$25.86
Coefficient of Variation		$3.33

Figure 1. Share of Statewide Average Annual Loss Attributed to Each County, provides a snapshot of the AALs estimated by Verisk for personal residential and commercial residential coverage. The figure shows how the statewide AAL is allocated across counties. The darkest areas indicate the counties with the largest estimated losses.

Figure 1. Share of Statewide Average Annual Loss Attributed to Each County, Personal Residential Coverage

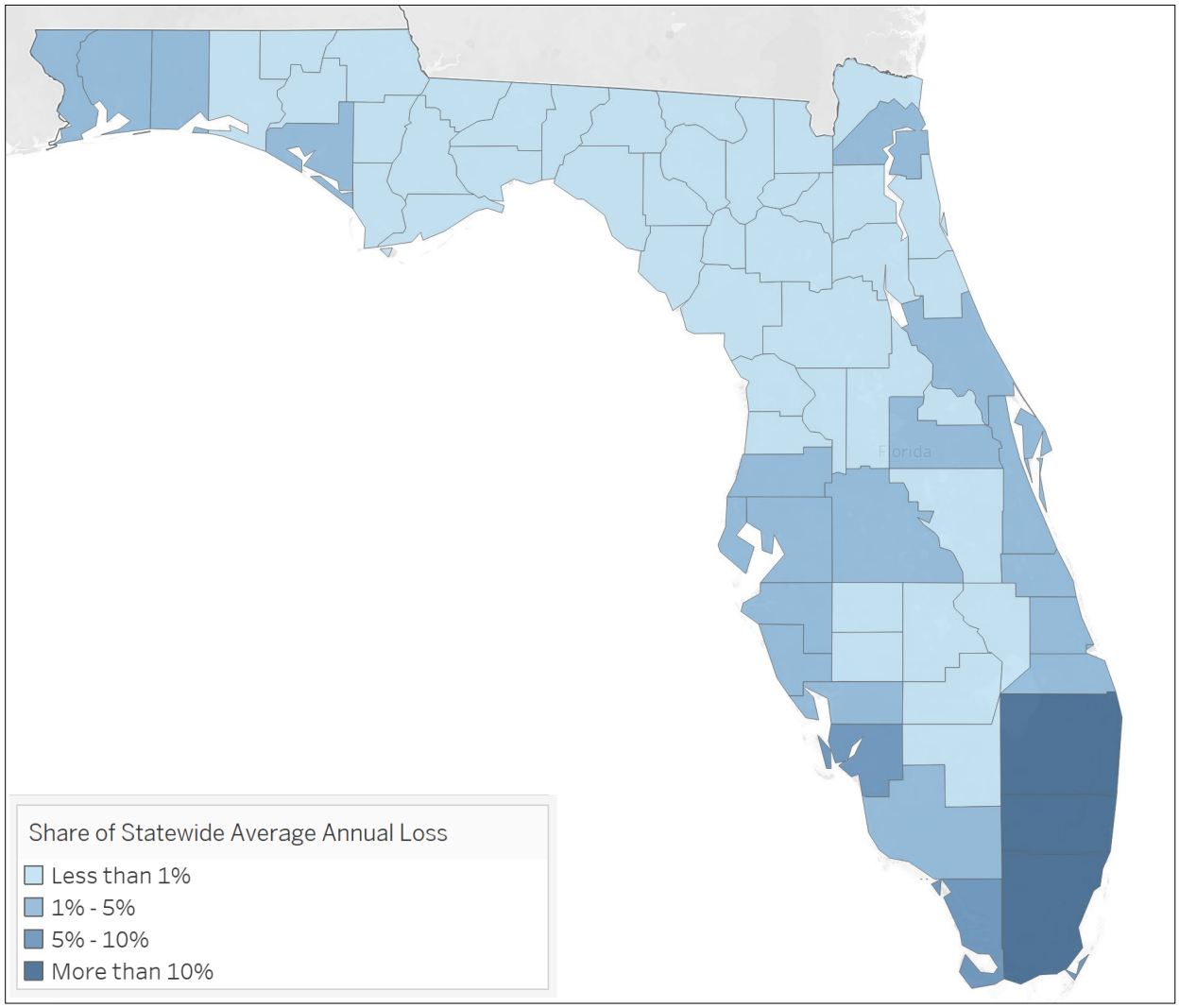
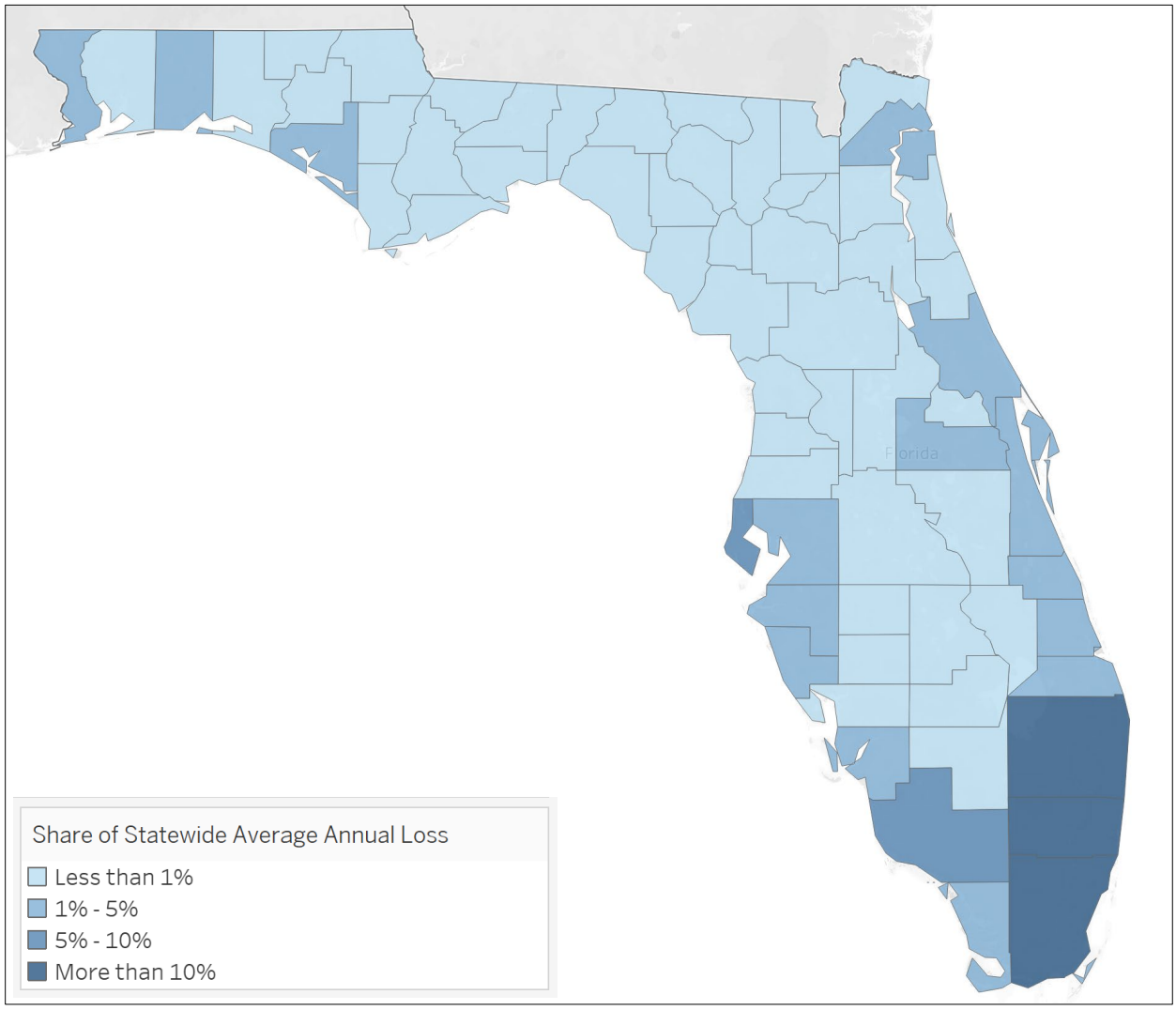


Figure 2. Share of Statewide Average Annual Loss Attributed to Each County, Commercial Residential Coverage



Actuarial Analysis

Estimated losses provided by Verisk were used by Hansen Actuarial, the contracted actuary, to develop estimates of rates per $1,000 of total insured value and premiums by county under the proposal to shift all wind risk to Citizens. There are an unlimited number of ways that this proposed shift could occur in terms of premium structure and capital allocation. The actuary's estimates were produced under various assumptions resulting in the four scenarios that we will refer to as Citizens structure scenarios. An overview of the approach, pricing parameters (e.g., underwriting expense ratios), and the rates calculated for each scenario are provided in Appendix D. For this report, the research team followed four Citizen structure scenarios outlined in Table 3.

These four scenarios differ with respect to two assumptions:

1. Likelihood of an Assessment. If Citizens does not have enough capital to cover losses during a storm season, they can do a post-loss assessment. In the scenarios presented in this analysis, rates and premiums are estimated at different assumed likelihoods of assessment. For example, a 1-in-25-year likelihood means there is a 4% chance in any given year that losses will equal or exceed Citizens' capital level, and an assessment would be necessary.
2. Initial Capital Infusion. This is the amount of additional capital Citizens has been provided when the proposal is implemented.

Considering the four distinct Citizen structure scenarios is a valuable exercise for evaluating a full wind-risk assumption by Citizens because it provides a mapping of the direct trade-offs between initial capitalization, catastrophic return-period severity, and consumer premium affordability. By comparing a scenario centered strictly on the modeled AAL to 1-in-25- and 1-in-130-year assessment thresholds, the scenario analysis isolates the costs of the wind peril and highlights the rate and premium changes that occur when a public entity absorbs catastrophic tail risk. Furthermore, contrasting minimal capital scenarios against those using substantial initial capital infusions—such as $20 billion or more—provides perspective on the financial leverage of state pre-funding, demonstrating how public capital and State of Florida financial guarantees will be important factors in determining base rates for homeowners and condominium owners. Ultimately, this multi-scenario exercise serves as an essential decision-making framework that helps to provide perspective on the fiscal feasibility of alternative capitalization thresholds. It is not a comprehensive review of every possible financial structure; there are an infinite number of combinations of initial funding and willingness to accept post-loss assessments.

All four scenarios, detailed below, assume a loss adjust expense (LAE) ratio of 15%. The loss-adjustment expense reflects the proportion of losses that an insurer spends investigating, defending, and settling insurance claims.

Table 3. Proposed Citizens Structure Scenarios

Scenario	Likelihood of Assessment	Initial Capital Infusion	Loss Adjust Expense Ratio
Base Scenario	1-in-25-years	$20 billion	15%
Scenario 2	1-in-25-years	$45 billion	15%
Scenario 3	1-in-130-years	$0 billion	15%
Scenario 4	Annual Average Loss	$0 billion	15%

Under all four Citizens structure scenarios, we assume that Citizens will maintain a minimum level of capital to ensure continuity of operations. This capital will be supplied by Citizens accumulated surplus estimated at $5 billion. We assume that level of capital will ensure that Citizens has sufficient resources for day-to-day operations, infrastructure improvements, payroll obligations, etc. We assume that $5 billion is not used for claim payments in the event of a windstorm. The textbox below explains how the four Citizens structure scenarios were chosen.

The four Citizens structure scenarios were chosen by a consensus decision of the FSU faculty involved in this project. We believe that the four scenarios provide a good sample of the range of potential upfront premium levels and post loss assessments that are possible under this proposal. The first two scenarios (base scenario and scenario 2) are the most realistic scenarios that provide relevant comparisons to the current market premiums and likelihoods of assessments. They were chosen to mimic the current capital levels contributed by the private insurance, reinsurance and alternative risk capital markets (scenario 2) and current likelihoods of assessment with a smaller capital infusion (base scenario). We chose the base scenario with the smaller capital infusion as a more realistic starting capital infusion given the infusion levels relative to the levels of the State budget ($115 billion) and outstanding State debt ($15 billion). The larger capital infusion (scenario 2) is a much more significant infusion relative to the budget and debt levels but more closely approximates the capital level currently supplied by private insurers, reinsurers and catastrophe bond markets.

Scenarios 3 and 4, while they seem less realistic in terms of initial capital infusion, were chosen for two main reasons. First, we believe that one motivation for undertaking this proposal could be a significant storm event (or series of storms) that severely disrupts the private property insurance market AND results in the FHCF issuing assessments. For example, a hurricane Andrew type event in the 2026 or 2027 storm season or a series of storms like the 2004/2005 storm seasons could cause insolvencies in the private insurance market and would remove the $11 billion in capital currently in the FHCF and cause the FHCF to issue assessments. The result would be the loss of the $11 billion in current FHCF funds, considered part of the initial capital infusion, and make it more difficult for the State to infuse additional capital, resulting in significantly lower levels of initial capital.

The second reason is to show the range of potential premiums under more extreme structures. Scenario 3 was chosen to highlight how high premiums would need to be to greatly reduce the likelihood of assessment with minimum starting capital. This scenario represents what we would consider to be maximum premium levels. As more initial capital is infused or the likelihood of assessment was increased, premium levels would drop. Similarly, scenario 4 represents the lowest level we could set premiums with no additional capital infusion. This scenario represents the minimum upfront premiums and greatly increases the likelihood of assessments. This scenario could result in assessments that we would consider unsustainable. When taken individually, scenarios 3 and 4 are likely not ideal starting positions to take with this proposal but should be considered as minimum or maximum premium levels bracketing the more realistic base scenario and scenario 2.

These 4 scenarios, taken as a group, provide an overall picture of how the likelihood of assessment, and the amount of initial capital infusion significantly alter what Floridians would pay for upfront premiums and potential post-loss assessments.

Under the ***Base Scenario***, rate and premium estimates are constructed around a 1-in-25-year likelihood of assessment, establishing a foundational threshold for catastrophic risk management. This scenario assumes that the state mechanism begins its expanded wind-only operations with an initial capital infusion of $20 billion, combined with a conservative 15% Loss Adjustment Expense (LAE) ratio to account for the substantial operational and adjuster costs associated with post-storm claims processing. The $20 billion capitalization structure is carefully aggregated from existing public risk-bearing mechanisms and strategic state support: In addition to the $5 billion from Citizens' own accumulated surplus to support operations, it is comprised of $11 billion from the FHCF, and an additional $9 billion capital infusion—or pre-event bonding—backed by the State of Florida. By establishing these precise parameters, the Base Scenario models the financial architecture required to absorb significant layers of storm losses before triggering broad-based assessments on Florida policyholders.

The primary motivation for using these specific parameters in the Base Scenario is to construct a baseline that closely mirrors the operational realities and risk-retention capacity of the current Florida property insurance market while balancing an initial capital infusion that is in line with the State's budget and current outstanding debt levels. In today's private market, domestic insurers rely on a combination of their own surplus and a large volume of capital purchased from the global private reinsurance market to maintain solvency during severe hurricane seasons. The Base Scenario evaluates the feasibility of replacing that private surplus and reinsurance capacity with a structured public alternative. By aligning the scenario with a 1-in-25-year assessment frequency and a $20 billion pre-capitalization target, this scenario provides policymakers with a realistic benchmark that does require additional capital infusion, but not significantly more capital than is already located in Citizens and FHCF. It demonstrates the baseline rate and premium costs and capital obligations required just to replicate the current market's stability, serving as the essential control group against which more conservative, aggressive or minimally capitalized risk-assumption scenarios can be measured.

Under ***Scenario 2***, the core operational parameters of a 1-in-25-year likelihood of assessment and a 15% Loss Adjustment Expense (LAE) ratio are maintained, but the financial architecture is altered through a major expansion of upfront funding. Specifically, this scenario scales up the capitalization framework by introducing $45 billion in additional capital. By preserving the baseline return period and the 15% LAE allocation, the scenario isolates the impact of a larger capital cushion on base rates and premiums. This layer of pre-funding is designed to absorb catastrophic named-storm losses before they can breach the program's core layers, significantly elevating the financial threshold at which Citizens would be forced to levy regular or emergency assessments on Florida property owners.

The primary motivation for introducing this highly capitalized scenario stems from the structural limitations of the Base Scenario. While the $9 billion State of Florida capital infusion modeled in the Base Scenario provides an initial buffer, it falls significantly short of replicating the true, multi-

layered capital ecosystem currently supplied by the private property insurance market. In reality, the private market sustains its risk-bearing capacity through a combination of primary-insurer capital, global reinsurance capacity, and alternative risk-transfer instruments such as catastrophe bonds. Scenario 2 is explicitly intended to simulate what an expanded public option would look like if Citizens possessed a pre-loss capacity that more closely matched the depth of these private market resources. By substituting the full spectrum of private capital with a comprehensive $45 billion State of Florida-backed capital structure, this scenario provides an essential benchmark to evaluate the rate adequacy and economic feasibility of a fully self-sustained state entity capable of matching the private market's total risk-retention footprint. We assume that in addition to the $5 billion from Citizens current surplus to support operations, approximately $11 billion of the initial $45 billion in capital is rolled over from the current assets of the FHCF. We assume the State provides a capital infusion of $4 billion and the remaining $30 billion is funded through a pre-event bond issue by Citizens. We assume a 30-year interest-only bond at 5.5%, which would add $1.65 billion in debt service each year to Citizens' costs.[9]

Under ***Scenario 3***, the analytical framework shifts toward a more conservative risk-management posture by evaluating premium requirements under strict tail-risk conditions. In this scenario, the likelihood of triggering a regular assessment is restricted to a 1-in-130-year return period, meaning the program is structurally designed to absorb all but the most severe, multi-generational catastrophic weather events before levying assessments on policyholders. This scenario assumes zero additional starting capital (above the $5 billion operating capital), completely stripping away the multi-billion-dollar public cushions, accumulated surpluses, and State of Florida-backed capital infusions that stabilized the first two scenarios. Because the program cannot rely on an upfront financial buffer to absorb intermediate or baseline losses, the premiums themselves must bear the entire financial burden of building and sustaining a massive protective reserve. Consequently, the actuarial values reflect a large upward adjustment, yielding estimated premiums that are substantially higher than those calculated under the more heavily capitalized baseline scenarios.

The primary motivation for introducing this scenario is to establish a private-market equivalence benchmark that allows for an evaluation of what rates would look like if Citizens operated without a public safety net and was more aligned with commercial solvency standards. Unlike public residual markets, private insurance and reinsurance companies cannot rely on post-event assessment authority to cover deficits after a major hurricane; instead, they must maintain capital and pricing structures rigorous enough to guarantee solvency more than 99.25% of the time.[10] By

[9] In an interest only bond, Citizens pays the interest payment only each year and would owe the full face amount of the bond at the end of the term. If we assume an amortized 30-year bond at 5.5% the debt service would be $2.06 billion per year, which pays the interest plus a portion of the principal back through time. A .5% rate change would alter debt service by approximately $150 million per year.

[10] Regulators and rating agencies such as AM Best and Moody's evaluate the solvency of insurer operations. Regulators require insurers to maintain capital levels sufficient to ensure solvency in most cases (e.g. 99%, 99.5% of

aligning the assessment threshold with a 1-in-130-year event—which mirrors this 99.25% survivability metric—Scenario 3 isolates the true, un-subsidized commercial cost of carrying Florida's concentrated wind risk. Ultimately, this scenario provides vital perspective that quantifies the immense economic premium load required to achieve total structural self-sufficiency, illustrating exactly how much financial exposure is being offset by initial public capitalization and assessment flexibilities in alternative model scenarios.

Under ***Scenario 4***, an aggressive approach (characterized as the "risky" strategy within the evaluation framework) is delineated, with estimated premiums set to cover only the modeled AALs and safety margins designed to absorb catastrophic tail-risk events completely omitted. Like the third scenario, this scenario assumes no additional starting capital (above the $5 billion operating capital), leaving Citizens without any upfront financial cushion, accumulated surplus, or State of Florida-backed capital infusions to insulate the program against severe storm activity. Because the rates are calibrated strictly to the mathematical average of long-term annualized losses rather than extreme, single-event return periods, the result is a minimization of upfront consumer premiums. However, this pricing structure creates a volatile trade-off: While the baseline rates are substantially lower than those calculated in the first three scenarios, the probability of exhausting annual premium revenue and triggering rapid, widespread assessments is dramatically elevated.

The primary motivation for analyzing this AAL-only scenario is to establish the mathematical floor for pre-loss insurance rates and premiums, determining the bare minimum cash flow required to sustain ordinary, non-catastrophic wind operations. By isolating the pure cost of annual expected wind peril, this scenario illustrates a "pay-as-you-go" philosophy that maximizes short-term consumer affordability. The critical danger of this strategy, however, is that it exposes Citizens—and by extension, Florida's broader base of policyholders—to potentially large post-loss funding requirements immediately following a severe weather event. Lacking any pre-funded capital reserves or catastrophic rate layers, a single major hurricane landfall would instantly deplete the program's resources, forcing the State of Florida to rely heavily on massive debt issuance and emergency assessments to cover claims. Ultimately, Scenario 4 carries the most significant financial risk of all the options considered, serving as a vital benchmark that demonstrates the severe fiscal exposure and long-term economic instability that occurs when catastrophic tail-risk protection is sacrificed for immediate premium relief.

The rates calculated under these scenarios were used to complete Tasks 1, 2, 3, 5, 8, and 9.

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the time). The capital level is determined by risk presented by the insurers operations. High rated insurers maintain solvency percentages well above 99%.

Citizens' Operating Expenses

Task 4 provides analysis of the implications of the proposal on Citizens' operating expenses. The research team used publicly available data from Citizens to perform this assessment. The data can be obtained at https://www.citizensfla.com/es/financials.

U.S. Insurance Market Data

To address the implications of the proposal for insurer profitability, solvency, and ratings (Tasks 6 and 7), we compared Florida insurers to single-state insurers operating in other states. For this comparison, we used financial measures from annual statutory filings to the National Association of Insurance Commissions available through the S&P Global platform. We supplemented this information with information from AM Best on insolvencies. Specific measures and assumptions in this analysis are discussed in Task 6 and Task 7.

Assumptions and Limitations of the Analysis

Our analysis considers the impact of the proposal to shift all wind risk to Citizens from a variety of stakeholders' perspectives. Namely, we consider effects on Citizens, the FHCF, private insurers, and home and condo owners, and through assessments, all Floridians. In doing so, we must make many assumptions due to the complexity of the proposal. Major assumptions are noted above. These and any other assumptions are discussed further in the following sections and appendices.

We limit our empirical analysis to the more direct consequences of the proposal that we can confidently estimate with the data collected. We cannot estimate and therefore do not speculate on the broader effects of the proposal regarding implementation and operation of Citizens, the private market, or individual policyholders. The following issues or actions are not addressed in this report:

- The current statutory cap, which limits how much Citizens can raise premiums on primary residences per year, i.e., the "glide path." Rate increases are currently limited to 15% in 2026 and all subsequent years. The glide path is active for any policyholder until Citizens' rates reach full actuarial soundness. The calculated rates do not consider any glidepath limitations.
- Citizens' current assessment structure, which remains in place. The current assessment structure, Citizens Policyholder Surcharge (up to 15% of Citizens policy premium) then Emergency Assessment (up to 10% on almost all property and casualty insurance premiums statewide), was designed when most Floridians were NOT Citizens policyholders. Under this proposal, virtually all residential property owners will now be Citizens' policyholders subject to the first wave of assessments.
- Citizens' current reinsurance requirements (purchases). The goals of this project are to conduct research to determine the potential costs and benefits of allowing private market

insurers to sell multi-peril property insurance policies excluding wind coverage (i.e., ex-wind policies that exclude coverage for named windstorms) and have Citizens underwrite all named windstorm policies for personal residential and residential condominium structures. By statute, Citizens is not required to purchase private reinsurance, but they do make an effort to purchase private reinsurance when available at reasonable rates. The result has been Citizens being a significant purchaser of private reinsurance. We do not include private reinsurance purchases by Citizens in the analysis.[11]

- Citizens' current flood insurance requirements, which requires that flood insurance be purchased for policies covered by Citizens. We do not include an evaluation of whether this requirement would extend to Citizens wind-only policies, essentially requiring flood coverage for most residential property owners in Florida and the additional costs of that coverage.
- The continuation of the FHCF. Our analysis does not account for any specific role for the FHCF. The FHCF was designed to provide a needed layer of reinsurance to the private insurance market. While Citizens does use the FHCF layer, if Citizens is the sole supplier of wind coverage, there is little value (e.g. there would be little effect on the capital requirements, likelihood of assessments or premium calculations) in one government entity providing a layer of coverage to only one insurer, another government entity. The assumption is that Citizens will cover that layer.[12]
- Strategic responses from private insurers. We do not include responses by insurers in the traditional insurance market regarding their participation in the state and their operational efficiency, nor do we speculate on whether the proposal would cause an increase or decrease in the number of insurers providing non-wind personal residential coverage.

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[11] As discussed later in this report, there can be some benefits of Citizens purchasing private reinsurance. Private reinsurance, like pre-loss bonds, post-loss bonds, or alternative risk financing tools, would provide Citizens with access to capital to support the risk it is assuming. There are an unlimited number of private reinsurance structures that could be modeled, from Citizens reinsuring 100% of all risk in the private reinsurance market to not using any private reinsurance. Given the volatility of the availability and pricing of private market reinsurance, which is globally determined, the permutations are endless. The result is we assume Citizens does not use private reinsurance but will access the necessary capital to support its operations through pre-loss or post-loss bonding in addition to the premiums collected.

[12] To keep the exposition of the proposal as clean as possible, we assume that the current FHCF layer that is provided to the private insurers is retained by Citizens. As mentioned with the Citizen structure scenarios, and the use of private reinsurance, there are a limitless number of layers of risk that Citizens could share with the FHCF. If Citizens provides all named wind only policies for personal residential and residential condominium structures and purchased coverage through the FHCF, the entire FHCF layer (currently $17 billion) would be purchased by Citizens. The result is one government entity (FHCF) providing a single insurance policy to another government agency (Citizens). There are no gains in efficiency, risk pooling or service provisions in such a structure. There would be little to no cost improvements that would lower the likelihood of assessments, lower premium levels, or lower capital costs and needs. Splitting the risk over two entities would likely result in lost efficiencies via duplicate efforts and higher overall costs. While many of the tasks of this proposal specifically mention the impact on both Citizens and the FHCF, we focus on the effects to a single government entity, Citizens. Consideration should be given to the fact that the FHCF is under the SBA and therefore can access debt at a slightly cheaper cost than Citizens as mentioned later in this report.

- Analysis of details on pre-event funding. That includes whether and how such funding (e.g., through a debt issue, credit lines, cat bonds) should be undertaken to ensure Citizens is adequately capitalized or how post-event funding would be undertaken outside of the current Citizens assessment structure. While we show how rates and assessments are sensitive to the amount of funding, we do not propose how to fund or speculate on the magnitude of optimal funding. Currently, Section 215.555(6), *Florida Statutes*, gives bonding authority to the State Board of Administration (SBA) for the FHCF. The SBA is authorized to issue revenue bonds to secure the necessary payout capital post-event.

While we cannot empirically address these issues, they remain important considerations when evaluating the proposed shift of all wind risk to Citizens. In the next section, we provide some additional thoughts on these issues.

Pros and Cons of the Proposal

This section outlines the major factors and possible outcomes to consider with Citizens' expansion including the potential positive and negative outcomes of consolidating catastrophic wind coverage under Citizens. While the proposal discusses the potential positive and negative outcomes sequentially, the reader should understand that the issues are often closely related and may be offset in some cases. The potential financial impact of these potential outcomes differs significantly.

Potential Positive Outcomes

Most of the potential positive outcomes relate to lower property-insurance premiums. Drivers include improved economies of scale, broader risk pooling, more efficient catastrophe financing (e.g., reinsurance and/or catastrophe bonds), a lower cost of capital, greater retention of capital within the insurance system, more standardized policy terms and claims handling, reduced market disruption, stronger mitigation incentives, simplified regulatory oversight, and redistribution of private-market ex-wind policies. These are *possible* outcomes, not guarantees; some or all may not materialize, and the potential negative outcomes discussed below could partially or fully offset any gains.

Lower Premiums

Depending on the financial structuring chosen, the proposal could lower upfront premiums through lower operating costs, changes in risk pooling, more efficient catastrophe financing, lower cost of capital, stronger mitigation incentives, and simpler regulatory oversight (each discussed below). Premium savings would not require all of these effects to occur; a subset could be enough to reduce overall premiums.

For example, Citizens, as a quasi-state entity, does not need to generate an equity return in the way for-profit insurers do. In a market with volatile hurricane losses, investors typically demand higher returns to compensate for that uncertainty, and those required returns are reflected in premiums. If

Citizens were the sole provider of wind coverage in Florida, it would not need to build comparable equity margins into its pricing. Citizens would still need to price for uncertainty and standard actuarial contingencies, and it would still need capital to support the wind risk—but one potential source of savings is the absence of shareholder profit requirements.

Citizens' ability to use post-loss assessments may also allow lower up-front premiums by shifting some costs to post-loss financing. Assuming that Citizens' current assessment structure persists under this proposal, these assessments can be spread across Citizens and non-Citizens policyholders and across multiple property-casualty lines. The cost to any individual will therefore vary based on the policyholder's Citizens premium, their assessable premium base, and whether their property is affected by the storm. The overall effect on premiums are discussed in Tasks 8 and 9.

Cost Savings from Economies of Scale

Centralizing wind coverage in Citizens could create economies of scale—meaning the average cost per policy falls as the policy count increases. These issues are also discussed in more detail in Task 4 (Appendix H) of the proposal. Today, insurers each maintain (and pass through) similar operating costs such as catastrophe modeling, underwriting, policy administration, software, and staffing. The proposal would shift all or part of these costs to Citizens as they relate to catastrophic wind risk. For some items, there will be reductions in costs. However, not every function scales equally, and it is not clear there is an "optimal insurer size" to maximize savings from economies of scale. The extent of scale savings depends on the lines written, distribution model, correlation of the risks, and the risk-financing strategy.

If Citizens can lower operating costs through economies of scale, per-policy expenses could fall and premiums could follow. However, scale should not be evaluated in isolation. For example, while spreading IT costs across more policies can reduce average expense, Citizens would still face up-front investment and implementation costs, and private insurers would likely need their own systems to interface with Citizens' system.

Improved Risk Pooling

Insurers are not primarily "risk takers" but rather risk aggregators. A core principle of insurance is pooling a large number of similar exposures and sharing losses across the group. In general, the larger (and less correlated) the pool, the more predictable total losses become. Even though any single policyholder's losses remain uncertain, larger pools make overall results more stable, allowing insurers to price premiums more accurately before losses occur. When only a subset of policyholders experience losses, those costs are offset by the many policyholders who do not, effectively replacing a large, uncertain potential *ex-post* loss with a smaller, certain *ex-ante* premium.

Pooling works best when losses are not perfectly correlated—when one policyholder's loss does not materially increase the likelihood of another's. For Florida wind, that assumption is weaker

because nearby properties share similar hurricane exposure. Correlation does not eliminate the benefits of pooling, but it reduces them. As long as exposures are not perfectly correlated, spreading risk across a broader base can still improve predictability and financing capacity.

In simple terms, risk is easier to manage when it is spread across a broad base. In Florida's private market, many domestic insurers have concentrated exposure in specific coastal regions or counties (e.g., parts of South Florida). While this can support specialized local underwriting, it can also leave these private carriers—and their policyholders—more vulnerable to low-probability, high-severity events, where a single hurricane produces outsized losses relative to the insurer's capital.

Some insurers also diversify Florida wind exposure by writing business in other states. If a material share of statewide premium is currently written by multi-state private carriers, consolidating catastrophic wind exposure within Citizens could reduce that diversification and increase geographic concentration within a single entity.

Centralizing named-storm wind exposure within Citizens could create a broader, statewide pool. Losses from a hurricane affecting one region could be supported by premium contributions from policyholders statewide. However, the diversification benefit is limited because exposure is not evenly distributed: Property values and population are concentrated in areas such as South and Central Florida. Nearly half of all homeowners' exposure and more than half of all residential condominium exposure reside in 11 Florida counties.[13]

More Efficient Catastrophe Financing

As noted in the Florida Office of Insurance Regulation Property Insurance Stability Report (January 1, 2026), "Florida is the most catastrophe-prone state in the United States with 8,436 miles of shoreline. To spread that catastrophic risk outside of Florida's borders, insurers turn to the global reinsurance market. Florida's domestic property insurance industry is especially reliant on reinsurance to finance the payment of catastrophe losses and is sensitive to hardening reinsurance market conditions. When the supply of reinsurance is readily available and affordable, the capacity of domestic property insurers to write and retain business is enhanced, and the premium impact to consumers is modest."[14] In 2024 and 2025, Florida residential property insurers saw modest declines in average risk-adjusted reinsurance costs (-0.46% in 2025 and -1.70% in 2024).[15] However, this followed a substantially hardening market: Premiums ceded to unaffiliated reinsurers by Florida-specific property insurers more than doubled from about $3.1

[13] These counties include: Brevard, Broward, Collier, Duval, Hillsborough, Lee, Miami-Dade, Orange, Palm Beach, Pinellas, and Sarasota.
[14] january-2026-isu-report-final.pdf
[15] january-2026-isu-report-final.pdf

billion in 2019 to $6.4 billion in 2023.[16] As a result, more than half of the premium collected by those insurers was spent on reinsurance (56.3% in 2023).[17]

Because reinsurance availability and pricing are central to Florida's residential property market, any efficiencies in purchasing reinsurance—or transferring risk through catastrophe bonds—could translate into premium savings. Today's market includes many smaller, less diversified insurers that rely heavily on annual renewals. That fragmentation can reduce negotiating leverage and increase transaction costs. In a hard market, reinsurers can also push for higher prices or more restrictive terms.

A centralized Citizens structure that uses private market reinsurance would allow the State of Florida to approach global markets as a single, large buyer. In principle, Citizens could coordinate FHCF coverage with private reinsurance and risk-transfer tools such as catastrophe bonds. A single program may be able to negotiate more favorable pricing and terms, reduce duplicative transaction costs across private carriers, and create more stability in supply and demand from year to year. Combined with a larger statewide pool, this could lower catastrophe-financing costs that are ultimately reflected in premiums. One potential offset is that some private insurers may currently present better-diversified portfolios (including out-of-state business) to reinsurers; in those cases, their risk-transfer costs could be lower than Citizens' would be with a Florida-only portfolio.

Citizens would still need access to capital to support the consolidation of catastrophic risk that it assumes, and that capital still needs to come from diverse sources. That capital can come from the State of Florida, it can be financed through debt on the municipal bond market, it could be financed through catastrophe bonds issued by Citizens, or it could still be accessed through the traditional reinsurance markets. The capital structure that Citizens would need to use is likely a combination of all these sources. The number of combinations is limitless and beyond the scope of this study.

Lower Cost of Capital

Even with pooling, losses remain volatile, especially in catastrophe-exposed markets like Florida. In most years, losses will be below premiums, but there is still a meaningful chance that losses exceed premiums, sometimes by a wide margin. Regulators, therefore, require insurers to hold enough capital to meet a targeted probability of solvency (e.g., enough to pay losses 98%, 99%, or 99.5% of the time). Holding that capital comes with a cost. For private insurers, it is ultimately funded by policyholders (mutual insurers) or equity investors (stock insurers). Because investors require higher returns in riskier markets, a volatile market like Florida generally implies a higher cost of capital. Profits in good years can be retained to build surplus or distributed to investors.

A potential financial advantage of the proposal is that Citizens may be able to access capital at a lower cost than many private insurers. This reflects differences in how a public, State of

[16] Best's Special Report: Florida Property Market Improves; Reinsurance Dependency Remains High (May 20, 2024).
[17] Best's Special Report: Florida Property Market Improves; Reinsurance Dependency Remains High (May 20, 2024).

Florida-created entity and a private company fund large losses before and after a major event. Citizens is tax-exempt and does not rely on shareholder equity, so it does not need to attract equity investors in the same way a stock insurer does. Citizens can issue debt in the municipal bond market before a major loss (pre-event bonding), and those investors are debt holders rather than equity owners. Citizens can also build claims-paying capacity over time by retaining operating surpluses. Because Citizens can often borrow on more favorable terms—supported by its quasi-government status and assessment authority—its financing cost may be lower than the private market, and that difference could translate into lower premiums.

If a major storm exhausts Citizens' available cash and reinsurance recoveries, Citizens has statutory authority to issue post-event bonds to pay claims. Because these bonds are typically tax-exempt and supported by assessment revenue, investors may accept lower interest rates than they would require for taxable corporate debt. Private insurers generally do not have access to comparable tax-exempt, assessment-backed financing and therefore face higher funding costs—costs that are ultimately reflected in premiums.

Citizens also has statutory authority to levy assessments on many property-insurance policies statewide if needed to address a funding shortfall. This legally enforceable revenue backstop strengthens Citizens' credit profile and supports access to capital after a loss. Because Citizens can rely on this post-loss funding mechanism, it may not need to hold as much pre-event capital as a comparable private insurer. In turn, that can improve financing terms with bond investors and other capital providers and help ensure that, when large amounts of funding are required after a major hurricane, funds can be raised at the lowest feasible cost to Florida's economy.

Retention of Capital in Insurance System

Capital is needed to absorb volatility in insurance losses, especially in catastrophe-exposed markets. This is true for both private insurers and Citizens: As volatility increases, more capital is needed to support the risk. In the private market, that capital ultimately comes from investors and reinsurers (whose capital is also provided by investors). For Citizens, capital comes primarily from retained operating surpluses in low-loss years, supplemented by risk-transfer and financing tools such as reinsurance and catastrophe bonds.

In the private market, much of the capital supporting Florida residential property insurance comes from outside the state, including global investors. That external capital can be beneficial: In severe loss years, it helps fund claims that exceed premiums and supports rebuilding and economic recovery. The capital in the private market lost in severe-loss years is often replaced by new investors quickly. In lower-loss years, however, profits may be distributed to investors, representing a capital outflow from Florida's insurance system.

In lower-loss years, if private insurers distribute a large share of profits instead of retaining earnings to build surplus, the market may enter subsequent seasons with less capital than would

otherwise be available.[18] That can increase reliance on reinsurance or other external financing and may contribute to higher future costs.

Because Citizens is a state-created entity, it does not distribute profits to shareholders or investors, many of whom would otherwise be located outside Florida. Premiums collected in excess of claims and operating costs remain within Citizens as surplus and can be carried forward to support future storm losses. Over time, this retained surplus increases claims-paying capacity dedicated to Florida policyholders. Citizens may still access out-of-state capital through reinsurance and catastrophe bonds; if Citizens' surplus is low, it may rely more heavily on those sources, while sustained low-loss years could reduce that reliance.

Keeping more capital in the system could reduce the need for post-event financing after severe hurricane seasons and reduce reliance on reinsurance in future years. A larger accumulated surplus lowers the likelihood that Citizens would need emergency borrowing or statewide assessments to cover losses. To the extent retained capital reduces the probability or magnitude of assessments and reduces reliance on reinsurance, it may help limit future costs borne by policyholders across the broader insurance market.

Standardization of Policy and Claims Handling

Moving all named-storm wind coverage to Citizens could standardize wind only policy terms across the state, reducing variation across private carriers (particularly surplus lines insurers, which have greater flexibility in policy forms). Centralized claims procedures may also improve consistency in claims handling and payment. However, Citizens would need enough surge staffing—temporary adjusters and vendor capacity added after major events—to handle catastrophic claim volume while remaining cost-effective during low-claim periods. Maintaining speed and accuracy at this scale would create significant administrative and cost challenges. In addition, coverage gaps or disputes could arise if the cause of loss is contested (e.g., where wind and non-wind perils overlap after a hurricane-related event).

Reduced Market Disruption

Moving catastrophic wind coverage out of the private market and into Citizens could reduce private insurers' exposure to low-probability, high-severity losses and, in turn, reduce private insurer insolvency risk. With catastrophic wind removed, private insurers' loss experience may become more predictable, and incentives for abrupt underwriting changes after major events or model updates could weaken. This could create a more stable environment for policyholders who might otherwise face non-renewals or cancellations following an event. As noted in the

[18] Under current insurance accounting rules, insurers cannot reserve for losses that will occur in future years during the current year. This makes holding funds from low loss years for future big loss years more difficult for private insurers.

preliminary survey, the Florida property insurance market has had significant market disruptions in the 30-plus years since Hurricane Andrew.

At the same time, concentrating wind risk in Citizens would increase Citizens' loss volatility. However, because Citizens has access to reinsurance, catastrophe bonds, and pre- and post-event financing mechanisms, it may be better positioned than many private insurers to manage year-to-year swings and reduce market disruption for policyholders.

Improved Mitigation Incentives

Consolidating catastrophic wind risk into a single market could create one set of mitigation credits and incentives that is easier for policyholders to understand and use. If designed well, this could help homeowners identify the most effective investments to harden their homes, improving safety and reducing future losses and premiums. A clearer statewide incentive structure could also strengthen the case for public investment in mitigation programs (e.g., My Safe Florida Home), because successful mitigation could benefit a broad base of policyholders by reducing losses, premiums, and potential future assessments. However, consolidation could also reduce competition and innovation in mitigation approaches. If incentives are poorly calibrated, or encourage the wrong investments, losses could rise over time rather than fall.

Simplified Regulatory Oversight

This approach could simplify certain aspects of regulation. The Florida Office of Insurance Regulation (OIR) would still review the financial condition of private insurers, but it may not need to evaluate each insurer's wind modeling, wind-rate indications, and reinsurance structures to the same extent if catastrophic wind were removed from the private market. Reducing premium volume and loss volatility for private insurers could also lower the intensity and cost of solvency monitoring, since catastrophic wind risk has historically been a main driver of insurer distress in Florida.

OIR would still need to monitor Citizens closely given the increased wind exposure, particularly Citizens' probable maximum loss (PML) and related financing plan. However, estimating one consolidated wind PML may be more straightforward than evaluating many separate firm-level PMLs and reinsurance programs. Reduced catastrophe volatility for private insurers could also simplify oversight of new market entrants by lowering the risk that rapidly growing firms become distressed after a major event.

Redistribution of Private-Market Non-Wind (Ex-Wind) Policies

Strategic decisions by private market insurers to sell property insurance in Florida may change with the named windstorm coverage being provided by Citizens. Catastrophic wind risk is often cited as a major impediment to private-market property insurance competition in Florida. Removing that impediment may lead more private-market insurers to offer ex-wind policies in Florida. The introduction of new competitors, or increased offerings from current competitors

could greatly reshape the competitive landscape of the private market. This could lead to more efficient, lower-cost ex-wind policies that aid in overall premium reductions.

Potential Negative Outcomes

Most of the potential negative outcomes relate to an extreme concentration of catastrophic risk. Drivers include increased exposure of the State of Florida credit rating, increased exposure to mandatory assessments, creation of systemic financial risk, increased social pressures on Citizens, incentives for risky development and poor location decisions, loss of competition, increased claims handling volatility, and increased need for initial capital infusion. These are *possible* outcomes, not guarantees; some or all may not materialize. While each issue is discussed separately for clarity, several are interconnected and could offset the potential positive outcomes described above.

Extremely Concentrated Catastrophic Risk

As noted above, concentrating risk can offer advantages—such as greater scale in reinsurance and capital-markets transactions and, in some contexts, improved predictability of aggregate losses. However, the proposal would also shift a large share of Florida's catastrophic wind exposure from many entities' balance sheets to a single entity. Because Florida hurricane losses are highly correlated, one severe storm (or a series of storms) could deplete Citizens' capital and threaten the strong financial position of the State of Florida. Concentration of wind risk exclusively in Citizens therefore increases the potential for extreme volatility in Citizens' financial performance and concentrates operational responsibility for adjusting and paying claims after a catastrophe.

A core tenet of both finance and insurance is diversification. Diversification reduces volatility in financial performance, improves the predictability of losses, and generally lowers the cost of capital. Concentrating all of the state's catastrophic wind risk in a single entity removes diversification and its associated benefits. In addition, Florida's catastrophic exposure is not evenly distributed across the state, which limits the diversification benefit a single statewide pool can provide; much of the exposure remains concentrated in a relatively small number of counties. Ideally, catastrophic wind exposure would be diversified across many insurance companies, global reinsurance companies and capital markets, and allocating wind risk to Citizens limits the ability and effectiveness of diversification.

Negative Impact on State of Florida Credit Rating

Florida currently holds the highest possible general-obligation (GO) credit rating—AAA / Aaa—from each of the three major rating agencies, with a stable outlook.[19] This rating places Florida among a small group of fiscally strongest states and reflects long-standing strengths including conservative budgeting, strong reserves, and a large, diversified economy. Florida's AAA credit rating is also supported by a deliberately designed catastrophe-finance system intended to balance liquidity, scalability, and insulation from insurance-market volatility. Proposals to consolidate catastrophic wind risk within a single entity—particularly Citizens—may increase efficiency or reduce premiums for some policyholders, but also change how risk accumulates, how assessments are borne, and how rating agencies perceive the State of Florida's overall risk exposure.

Florida's GO credit rating reflects, among other factors, the State of Florida's capacity to absorb and finance catastrophe-related shocks. Consolidating catastrophic wind exposure within Citizens increases financing needs (more capital is needed to support the increased risk in Citizens) and depending on the pre-event financing levels chosen, the likelihood and magnitude of post-event assessments. Even when Citizens' obligations are legally separate from Florida's GO debt, rating agencies and investors may view either increased Citizens' debt levels or widespread, multi-year assessments as an economic burden on households and businesses—potentially affecting the State's broader fiscal profile and borrowing costs.

Rating agencies have also been explicit that Florida's exposure to hurricanes and the associated stresses on its property insurance system represent one of the most material long-term risks to Florida's credit profile. How the State of Florida finances catastrophe losses, and how those costs ultimately reach households and businesses, is closely monitored in credit reviews.

Florida currently manages catastrophe risk through three distinct but related entities: the FHCF, Citizens, and the Florida Insurance Guaranty Association (FIGA). As discussed in the preliminary report, as well as in Task 2, each has independent authority to levy assessments and issue debt, but they differ fundamentally in legal status, credit treatment, and relationship to the State of Florida.

The FHCF is a program of the State Board of Administration, which is a constitutional State of Florida entity. Because of this placement, rating agencies treat the FHCF as state-linked, rather than merely state-created.[20] Its assessments are mandatory, statewide, and effectively uncapped,

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[19] A general obligation credit rating is an assessment of a state or local government's ability to repay debt backed by its full faith and credit—meaning its general revenues and taxing authority—based on factors such as economic strength, financial management, and debt burden.

[20] The FHCF was created and operates under the Florida State Board of Administration (SBA). Because it operates under the direction and control of the SBA, rating agencies view this entity as "state-linked" and under certain criteria can issue bonds at the State of Florida credit rating. Both Citizens and FIGA were state created, but do not operate as or under a State of Florida agency. They are often referred to as quasi-state or State of Florida created entities. They

and they apply broadly across property and casualty insurance lines. For credit purposes, these assessments behave most like sovereign taxes, which is why FHCF bonds—depending on structure—can approach or even match Florida's AAA / Aaa GO rating.[21]

Citizens and FIGA, by contrast, are deliberately structured as entities separate from the State of Florida. Citizens is a state-created nonprofit corporation, and FIGA is a statutory association of insurers. Their debt is explicitly non-recourse to the State and, by statute, cannot be issued as State GO debt. This legal separation is intentional and serves to protect the State of Florida's GO credit rating by limiting the extent to which insurance-market losses are directly attributed to the State of Florida.

Citizens' debt, while also assessment-backed, is capped below the State of Florida's GO rating because Citizens is legally and financially separate from the State of Florida. FIGA debt is typically rated below both FHCF and Citizens because it is structurally subordinate, triggered by insurer insolvencies rather than weather events, and more exposed to assessment limits or relief.

Only the FHCF has a realistic path to issuing debt at or extremely close to Florida's AAA / Aaa level. This is not accidental—it reflects the State of Florida's long-standing strategy of placing the largest catastrophe-finance capacity inside a state-linked entity while walling off Citizens and FIGA to limit credit contagion.

Moving all catastrophic residential wind coverage from the private market into Citizens would materially change this structure by concentrating a much larger share of storm risk into an entity that is explicitly not State of Florida debt, but that rating agencies may nevertheless view as economically integral to the State of Florida.

If Citizens were to become the dominant insurer of catastrophic wind risk, it would have to accumulate significant pre-event capital (possibly through a debt issue) or it would likely assume a much larger role in post-event financing. This could include issuing significant volumes of post-hurricane debt and levying multi-year assessments across a broad range of insurance lines. While Citizens' debt is legally non-state, rating agencies evaluate more than legal form; they consider whether the scale of exposure and the economic consequences of failure create implicit support expectations.

In practice, large debt issuance or prolonged Citizens' assessments function as a statewide hurricane tax. These assessments affect households, businesses, and insurers, including those with limited direct exposure to coastal wind risk. When combined with storm-related damage to

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do not have the legal standing to issue debt at the State of Florida credit rating, but rating agencies still view these entities as likely to get state support in times of dire financial circumstances. Therefore, their debt levels are often linked by rating agencies to the State of Florida credit rating.

[21] While the analysis presented in this study assumes that the FHCF is no longer used, this is the primary reason why it may be useful to continue to have the FHCF function.

infrastructure, uninsured losses, and temporary reductions in tourism and tax revenues, large assessments can amplify the economic impact of hurricanes. Rating agencies may view these combined effects—losses, assessments, and economic disruption—as increasing the State of Florida's overall risk profile, even if no legal obligation exists for the State to back Citizens' debt.

Florida law establishes policy guidelines for tax-supported debt, including a 6% target and 7% limit for the benchmark debt ratio, measured as annual debt service relative to available revenues. As of mid-2025, the State of Florida's benchmark debt ratio was approximately 2.2%, well below these thresholds, reflecting substantial fiscal capacity. Importantly, debt issued by FHCF, Citizens, and FIGA is classified as indirect debt and is not included in these ratios because it is not secured by State of Florida revenues. As of fiscal year 2025, indirect debt totaled approximately $12.6 billion, of which FHCF and FIGA represented the most significant insurance-related components.

However, rating agencies do not ignore indirect debt. They explicitly consider the cumulative burden of assessments on Floridians and the economy when evaluating the State of Florida's creditworthiness. This distinction is critical: While statutory debt ratios may remain low, economic exposure can still rise materially if assessments become large, prolonged, or stacked across entities. The State of Florida's current multi-entity structure limits this risk by spreading exposure across the FHCF, Citizens, and FIGA, each with different roles, triggers, and credit strengths.

Concentrating catastrophic wind risk within Citizens does not automatically result in a downgrade of the State of Florida's credit rating. However, it would represent a meaningful departure from the structure rating agencies have historically viewed as protective of the State of Florida's AAA status.

If Citizens becomes the primary vehicle for absorbing catastrophic wind losses, rating agencies may reassess:

- The degree to which Citizens' risk is economically inseparable from the State of Florida
- The likelihood and durability of large, multi-year assessments
- The interaction between insurance assessments, economic recovery, and state revenues following major storms
- Whether Florida's catastrophe-finance framework continues to align with best practices that emphasize risk dispersion and balance-sheet insulation

A negative change in the State of Florida's credit outlook—even absent a downgrade—would raise borrowing costs statewide, affecting infrastructure, education, transportation, and other public investments. Those credit considerations do not necessarily prevent the proposal from being adopted, but they are central to understanding the full fiscal trade-offs of restructuring Florida's property insurance market.

Increased Taxpayer Exposure and Mandatory Assessments

As outlined earlier, Florida law gives Citizens authority to levy assessments across multiple lines of insurance following a major loss. Those assessments can apply not only to Citizens' policyholders, but also to policyholders of private insurers across the state, including some households and businesses with limited direct exposure to catastrophic wind risk. Expanding Citizens to cover all catastrophic wind events would increase both the size of Citizens' exposure and the likelihood that assessments are triggered, potentially creating a broader and more persistent "hurricane tax." In some scenarios, the magnitude and duration of these assessments could outweigh premium reductions that certain wind only policyholders might otherwise see under the proposal, and the burden would extend beyond those who purchase wind coverage.[22] More detailed discussion related to assessments can be found in Tasks 2, 3, 8, and 9.

Creation of Financial Systemic Risk

Concentrating catastrophic wind exposure within a single entity could therefore create a single point of operational and financial failure during periods of severe stress and curtail future economic development. Building on the credit-profile issues discussed above, broader systemic effects are also possible if claims payments are delayed or financing constraints slow post-event rebuilding. Potential secondary impacts include pressure on property values, increased demand for mortgage credit to fund repairs, higher refinancing activity, elevated default risk, and higher borrowing costs. If damaged properties are not rebuilt at scale, the property-tax base could also be affected.

Increased Susceptibility to Social Pressures

A single, public provider could be more exposed to social pressures than a competitive private market. For example, public sentiment or organized interest groups could push for rate setting that is not actuarially adequate, leading to underfunded reserves and a higher likelihood of future assessments. Conversely, if Citizens accumulates large reserves after several low-loss years, there may be pressure to use those funds for non-insurance purposes or to reduce rates in ways that undermine long-term solvency. With only one provider, these pressures could be more consequential because there would be fewer market alternatives and fewer independent balance sheets to absorb shocks.

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[22] A closely related concern is assessment fatigue—the point at which assessments are legally available, but social, economic, or behavioral constraints limit the practical ability to levy and collect them at the needed scale or duration. In a severe hurricane scenario, assessments from FHCF, Citizens, and FIGA can stack in the same years. While statutes may allow combined assessments well into the double digits (as a percentage of premium), policymakers often intervene before that point due to affordability and economic recovery concerns. Rating agencies are aware of this gap between legal authority and usable capacity and may discount theoretical assessment capacity when assessing credit risk.

Public insurance programs at the state and federal level have often struggled to balance affordability with financial sustainability. Examples frequently cited include the National Flood Insurance Program, Social Security, Medicare, and federal crop insurance. Citizens' ratemaking also has long operated in a legislative environment and, as discussed in the preliminary survey, rates are currently constrained by a glide path intended to move premiums gradually toward actuarially indicated levels. Similar pressures could arise for catastrophic-wind coverage under the proposal. If premiums are held below indicated levels, post-loss funding needs may increase, potentially amplifying the broader economic strain described above.

Creation of Moral Hazard, Risky Development, or Poor Location Decisions

In general, an actuarially fair insurance premium equals expected loss plus expenses and a risk loading that reflects volatility and tail risk. In catastrophe-exposed areas—such as coastal floodplains, barrier islands, and wildfire-prone wildland–urban interface areas—these premiums tend to be high and can change meaningfully as risk conditions evolve. Losses may be infrequent but severe, risks are highly correlated across policyholders, and demographic and climatic trends may increase both expected losses and tail risk over time. In that environment, insurance prices serve an important economic function: They signal the expected cost of locating people and capital in high-hazard zones. In other words, actuarially fair pricing of insurance is a good signal to consumers about the risks of living in a certain location. This is referred to as a price signal.

When insurance prices are held below actuarially indicated levels, whether through constraints on public insurers or regulatory constraints on private insurers (such as glide paths or rate caps)—the price signal weakens. This means that premiums may no longer rise proportionally with exposure. The reduced-price change also reduces the signal that would have been created for the insured on the increased exposure. Thus, insured parties face fewer financial incentives to avoid loss-increasing behavior. Over time, this can encourage development in higher-hazard areas and reduce investment in mitigation (e.g., elevation, fire hardening, or wind-resistant construction). It also can reinforce expectations that extreme losses will be financed after disasters through assessments, post-event debt, or federal aid, which further weakens incentives for risk-based location and construction decisions.

Below actuarially indicated premiums distort decisions before losses occur. Subsidized premiums can be capitalized into asset prices. When insurance is artificially cheap, buyers may bid more for homes in high-hazard zones, pushing up land values and embedding the subsidy into local wealth. As values rise, pressure can intensify to preserve subsidized pricing in order to protect existing homeowners' equity. Over time, this "lock-in" can make reform more socially and economically difficult, even after repeated disasters, helping explain why some high-risk areas repeatedly rebuild rather than retreat. Over time, this can create a long-term increase in statewide exposure that may not be economically warranted.

This creates a gap between private and social costs: the household or developer does not bear the full expected cost of catastrophe exposure created by their location and building decisions. Instead,

part of the cost is shifted to others—taxpayers, cross-subsidizing policyholders, future residents through post-event assessments or public debt, and disaster aid programs. Over time, the result is a misallocation of resources: More capital and population are directed into disaster-prone areas, and less investment flows to safer locations.

Once development expands into high-risk zones, an infrastructure lock-in effect can follow. Local and state governments face pressure to harden infrastructure, extend utilities and transportation networks, provide emergency services, and finance post-disaster reconstruction. These public investments involve high fixed costs, and long asset lives, which may make retreat legislatively and fiscally difficult. Over time, the combination of private development and public infrastructure spending can embed exposure in place and make future risk-based reforms harder to implement.

In practice, premiums can be slow to reflect changing risk conditions. Although catastrophe models have improved insurers' ability to update pricing, regulatory processes and the lag between events, claims development, and filed rates can delay adjustments. When rates are constrained by caps, glide paths, or other social pressures, premiums may respond even more slowly to underlying risk—especially when risk conditions are evolving. Over time, this can increase reliance on post-event financing mechanisms (assessments, post-event debt, or aid), which can further weaken incentives for risk-based decisions.

Taken together, when premiums are held below actuarial risk, the price signal weakens, and development and investment can shift toward higher-hazard locations. As exposure grows, special interest resistance to risk-based pricing often increases. Losses are then more likely to be financed through assessments, debt, or aid, reinforcing expectations of post-event support and perpetuating risk-taking over time. This dynamic is not only an insurance-pricing issue, but it can also become a land-use and capital-allocation problem mediated through insurance markets.

Loss of Market Competition and Innovation

A shift to a single, dominant provider could reduce market competition and innovation in underwriting, claims practices, product design, mitigation incentives, and risk-transfer strategies. In catastrophe-exposed markets, competition matters because insurers can differentiate in how they model risk, structure deductibles, manage claims, and encourage mitigation. If premiums, underwriting guidelines, and policy terms are set centrally, some of these competitive pressures, and the experimentation they can drive, may diminish over time.

This potential negative outcome is related to, but distinct from, the moral-hazard concerns discussed above. Even when rates are intended to be actuarially sound, a competitive market can still deliver benefits through operational discipline and innovation. Multiple private carriers create incentives to improve modeling, underwriting, claims operations, customer service, and capital-markets execution. Over time, those improvements can lower expense ratios, improve loss control, and increase policyholder value.

Competition allows insurers to differentiate on service, not just price. In a well-functioning market, consumers who value faster claims resolution, clearer communication, or more consistent adjuster performance can choose private carriers that compete on those dimensions. When coverage is consolidated under a single provider, policyholders lose that option, and service levels can drift toward what is administratively feasible rather than what consumers would select.

In a single-provider structure, there is also a risk of institutional stagnation. Without competitive pressure, the dominant insurer may have fewer incentives to modernize systems, streamline claims handling, renegotiate vendor arrangements, or adopt new risk-transfer structures. Innovation can still occur, but it becomes dependent on internal priorities, governance, and social constraints rather than market selection.

Increased Negative Consumer Experiences

Insurance is complicated, and many consumers already struggle to understand what coverages they need and/or are required by mortgage lenders. Splitting today's standard homeowners policy into separate policies (for example, an in-wind policy and an ex-wind homeowners policy) would add another layer of complexity. It could increase consumer confusion, create coordination issues at the time of loss, and complicate mortgage compliance—particularly if coverage limits or replacement-cost terms do not line up across policies. It may also interact with Citizens' flood-insurance requirements, further increasing the number of policies a household must manage. Similar challenges exist today: Flood insurance requirements are often difficult to enforce, and consumer purchases of insurance for optional catastrophe coverages (such as earthquake insurance in earthquake-prone states) are typically low.

Introduction of Operational Inefficiencies and Service Quality Risks

Beyond reduced incentives to innovate, consolidation can weaken day-to-day incentives to control costs and maintain service quality. In a competitive market, insurers that deliver poor service or run inefficient operations tend to lose customers over time. In a single-provider structure, that pressure is weaker, which can increase the risk of higher administrative costs and uneven customer experience.

Competition also drives operational modernization. Insurers invest in automation, digital claims intake, better vendor management, and tools such as aerial imagery because post-event performance affects reputation and long-run viability. Without the possibility of consumer exit, a single provider may have less incentive to reduce administrative overhead or invest aggressively in service improvements, especially in years with low storm activity when the benefits of preparedness are less visible.

Managerial incentives can also shift away from cost control, service quality, and modernization toward compliance, procedural stability, and social risk management. A single provider faces fewer financial and reputational consequences for slow or inconsistent claims performance. With

fewer meaningful alternatives, consumers have limited ability to respond to poor service other than through complaints, legislative processes, or litigation.

Overall, consolidating catastrophe coverage under a single state provider could reduce service quality, slow claims resolution, and limit operational learning. Where competition allows insurers to differentiate on service and gives consumers meaningful choice, monopoly provision replaces those forces with administrative processes and potential social constraints, conditions that can be difficult to manage during high-severity, low-frequency catastrophe events.

Increased Claims Handling Volatility

Catastrophic wind claims arrive in bursts, concentrated in a short period after landfall, which creates large swings in staffing and vendor needs from year to year. Some seasons have little or no catastrophic wind activity, while other seasons generate very high claim volumes. For example, Florida recorded more than 2.8 million residential property claims across the 2004 and 2005 storm seasons (roughly 400,000 claims per landfalling storm in those years). Florida law generally requires property insurers to pay or deny a claim within 60 days after receiving notice. The statute also includes shorter requirements early in the process (for example, acknowledging receipt within 7 days and promptly beginning an investigation). While the law allows relief for factors beyond an insurer's control, deadline extensions typically require an emergency order from the OIR. Extensions—often around 30 days—can delay recovery for policyholders waiting on funds to begin repairs.

Moving all catastrophic wind coverage to Citizens would concentrate responsibility for the state's most severe and highly correlated losses within a single entity, increasing operational volatility in claims handling. Using the 2004–2005 average of roughly 400,000 claims per landfalling storm as an illustrative benchmark, Citizens would need to complete approximately 6,700 claim decisions per day to meet a 60-day deadline (400,000 ÷ 60). If an emergency order extended the deadline by 30 days, Citizens would still need to complete roughly 4,400 claim decisions per day (400,000 ÷ 90). This surge requirement would coexist with long periods in which windstorm claim volume may be near zero.

In the current private market, this surge demand is spread across many insurers with different staffing models, vendor networks, claims systems, and management practices. That operational diversification reduces the likelihood that any single bottleneck becomes a statewide problem. Consolidation under one provider reduces that redundancy and makes system-wide performance more dependent on one organization's capacity and processes.

Claims capacity is constrained by real-world limits. Adjusters, engineers, contractors, and other vendors must be mobilized rapidly after a storm, and housing and labor shortages can further slow inspections and repairs. If all catastrophic wind claims flow through one organization, even modest deviations from expected storm intensity or footprint can overwhelm administrative systems. The

likely results include backlogs, inconsistent claim decisions, delayed payments, and higher reliance on emergency staffing or outsourcing, which can increase costs and operational risk.

A competitive market also provides operational back-up. Insurers use different claims strategies and surge protocols; when one private carrier underperforms after an event, others may perform better, limiting system-wide disruption. Under consolidation, statewide outcomes would be tied more tightly to the operational effectiveness of a single organization, increasing vulnerability to staffing shortages, technology failures, or procedural bottlenecks during peak demand.

Claims handling after major catastrophes often occurs under intense public scrutiny. Policymakers and stakeholders may pressure a state insurer to accelerate payments, relax documentation, or apply uniform approaches across losses that are not uniform. Even when well-intentioned, these interventions can increase unexpected claim costs, reduce consistency, and complicate later audits, reconciliations, and disputes. In a single-provider structure, these pressures would affect the entire wind claim population at once rather than only a subset of the market.

Finally, consolidation removes a practical feedback mechanism: Policyholders cannot shift to private carriers with stronger claims performance after observing service failures. Over time, the absence of that market signal can weaken incentives to invest in claims infrastructure, training, vendor oversight, and surge preparedness—investments that matter most in the years when claim volume spikes.

These dynamics are most severe in catastrophes because wind events generate highly correlated claims across wide areas and often coincide with infrastructure damage, displacement, and labor shortages. Systems that perform adequately in average years can struggle when an extreme event produces a sudden, statewide workload.

Repeated post-event backlogs and disputes can have lasting effects. Delays can increase litigation and loss-adjustment costs, reduce public confidence, and create pressure for emergency rule changes after each storm. Over time, repeated temporary fixes can become the default operating model rather than prompting durable investment in claims capacity and resilience.

Overall, concentrating catastrophic wind claims within a single state insurer would increase exposure to claims-handling volatility by eliminating operational redundancy, increasing the size of post-event surges, and increasing the consequences of any process or technology failures. The core issue is structural: Catastrophe claims arrive in concentrated waves, so systems without redundant capacity and flexible surge resources are more likely to experience statewide delays and inconsistencies after major storms.

Increased Litigation Exposure

Consolidating catastrophic wind coverage under Citizens could increase litigation exposure by centralizing policy interpretation, claims decisions, and dispute resolution within a single, high-visibility entity. While Citizens is exempt from bad-faith claims, catastrophe losses are

inherently complex and high-stakes, and disputes commonly arise over causation (wind versus water), scope of damage, valuation, and policy language. When these decisions are made by a public, state-created insurer, disputes may be framed not only as private contract disagreements but also as questions of public policy, fairness across policyholders, and compliance with statutory or regulatory requirements. That framing can expand litigation beyond individual claims and increase the likelihood of requests for injunctions, court-supervised settlements, or mandated changes to claims processes that could affect future operations.

In a diversified private market, disputes are spread across many insurers, claim practices, and legal strategies, which limits system-wide legal risk. Consolidation concentrates those disputes within one legal and operational framework, making litigation risk more correlated. If stakeholders perceive inconsistent claims handling, adjuster discretion, or policy interpretation, many similar lawsuits can arise at once, including coordinated actions, class actions, or other mass-claim litigation. The financial impact of adverse rulings, settlements, or mandated process changes could therefore be larger and more broadly shared across policyholders (and, indirectly, the statewide economy) than in a multi-insurer market.

Limited consumer alternatives can further increase litigation. In a competitive market, some policyholders respond to poor claims experiences by switching private carriers at renewal, which can reduce incentives to litigate marginal disputes. Under consolidation, policyholders have fewer practical options, so litigation may become the primary avenue to challenge outcomes—especially after widespread events where many households experience similar disputes at the same time.

Consolidation may also affect settlement dynamics. Because Citizens can rely on post-event financing tools and statewide assessments, some plaintiffs may view the ultimate funding source for judgments or settlements as broader than a single private insurer's balance sheet. That perception—whether accurate or not—can increase settlement demands and prolong disputes, raising legal and administrative costs even when the underlying coverage issue is relatively narrow.

Over time, higher litigation volume and expense feed back into operational and financial stress as was seen in the Florida property insurance market prior to recent legislative changes. Legal costs divert resources from claims handling and mitigation, prolong settlement timelines, and can increase pressure for post-event policy intervention. If repeated after major storms, this dynamic can shift dispute resolution away from routine claims processes and toward litigation and episodic legislative fixes.

Perceived Coverage Gaps

Separating wind coverage (Citizens) from other perils (a private homeowners policy) increases the risk of perceived coverage gaps and consumer confusion. Today, most homeowners rely on a single homeowners policy for most causes of loss, with flood typically insured separately. Under the proposal, many households would need to manage three coordinated policies: (1) a private homeowners policy for non-wind perils (e.g., fire, theft, liability), (2) a Citizens wind only policy,

and (3) a flood policy through the National Flood Insurance Program (NFIP) or a private flood insurer. Because these policies may use different forms, deductibles, limits, and claims processes, coordination becomes more difficult, especially after a major storm.

Currently, the challenge is most visible when wind and water damage occur together (often referred to as concurrent causation). In those cases, each insurer has an incentive to attribute damage to a peril covered by another policy. This can lead to disputed causation, slower claim resolution, and partial payments while responsibility is sorted out. It can also create lender-compliance issues. Mortgage lenders typically require continuous coverage at specified limits. If the Citizens wind-only policy and the private ex-wind policy do not align, for example, different replacement-cost assumptions, deductible structures, or dwelling limits, a homeowner may unintentionally fall short of lender requirements. That can trigger force-placed insurance (coverage purchased by the lender and billed to the borrower), which is typically more expensive and provides narrower protection.

Finally, splitting coverage across multiple insurers can increase disputes and litigation. When responsibility is divided, disagreements over causation, scope, and allocation are more likely, and policyholders may need legal help to resolve which policy should respond—and in what amount. Even when the underlying damage is clear, the added friction can increase legal and administrative costs that ultimately reduce the share of dollars going to repairs. These effects would be most pronounced after major storms, when large volumes of claims involve overlapping wind, water, and other perils.

Reduction in Private Capital Investment in Florida Insurance Markets

If the State of Florida assumes 100% of residential catastrophic-wind risk, private insurers may not leave the state entirely, but the private capital supporting the market would likely change. The market would shift away from firms that primarily earn returns by taking catastrophe risk and toward firms that earn returns by providing services (policy administration, customer support, and claims operations). That is, Florida would look less like a catastrophe-insurance market and more like a utility-style system in which the State of Florida bears the volatility and private firms compete on expense control and service quality.

Today, Florida attracts capital willing to accept significant storm volatility in exchange for higher expected returns. This includes some Bermuda-based reinsurer platforms and certain investor-backed insurers. These investors often target higher return on equity (ROE)—for example, in the 12%–20% range—to compensate for the possibility of large, storm-driven losses and capital shocks. If the State of Florida assumes essentially all catastrophic wind risk, that higher-volatility return opportunity would shrink, and some of this capital would likely redeploy to markets where catastrophe risk remains in the private market.

In their place, Florida may attract investors who prefer lower volatility and more predictable, regulated-style returns—such as mutual insurers, utility-style insurance groups, or

infrastructure-oriented investors. These investors generally prioritize steadier earnings (illustratively, mid-single-digit to low-double-digit ROE) and may be comfortable operating with lower catastrophe-risk capital requirements because the state is bearing the most volatile portion of the risk. The tradeoff is that upside potential is lower, and returns depend more on expense control and operational execution than on underwriting catastrophe risk. While this sounds like a positive outcome for Floridians, investors requiring lower rates of return are coming to the market; it will likely reduce the amount of private capital in the market. This could ultimately reduce the number of insurers competing in the market.

Introduction of Major Systemic Risk

Consolidating catastrophic wind risk into a single State of Florida entity would concentrate operational and financial risk and could create a statewide single point of vulnerability. In today's market, hurricane risk is spread across many balance sheets—primary insurers, global reinsurers, and capital-market investors through insurance-linked securities (ILS). If Citizens assumes most or all of this role, a severe storm (or a series of storms) could exceed available reserves and risk-transfer protections, forcing large amounts of post-event borrowing or emergency assessments. That financial shock would arrive at the same time households and businesses are already dealing with property damage and lost income, potentially slowing recovery and increasing credit-profile risk for the State of Florida. A 2008 example illustrates the concern about post-event financing access during periods of broader market stress. During the financial crisis, there was concern that the FHCF might not be able to issue bonds in the amount needed to cover a potential shortfall. The State of Florida therefore paid Berkshire Hathaway a contingent capital fee of $224 million for the right to borrow up to $4 billion at market rates if hurricane losses exceeded a specified threshold.[23]

Adverse Selection in Wind Insurance Purchases

A state-managed wind pool can face adverse selection if participation is voluntary in practice (e.g., through opt-outs, reduced limits, or avoidance) or if pricing is not closely aligned to risk. Adverse selection occurs when higher-risk properties are more likely to buy and keep coverage, while lower-risk properties are more likely to reduce coverage or seek alternatives. If premiums are averaged or constrained to support statewide affordability, lower-risk inland policyholders may have stronger incentives to limit participation, while higher-risk coastal properties may find the coverage comparatively inexpensive and concentrate in the pool. Over time, that shift can weaken the premium base supporting the program and increase the likelihood of deficits, assessments, or ongoing subsidies.

Increased Need for Initial Capital Infusion

Transitioning to a single catastrophic wind insurer would likely require substantial up-front capital to establish credible claims-paying capacity. Because a Florida-only wind entity would begin with

[23] "Florida, Berkshire Hathaway strike $224 Million Deal on Insurance Fund" Insurance Journal, July 31, 2008, Bill Kaczor.

a concentrated portfolio, it would need enough initial resources to withstand a severe loss early in the program's life (e.g., a "1-in-100-year" loss scenario). That funding could come from retained public reserves, new borrowing, or other state-directed financing, each with opportunity costs. Relative to a diversified multi-state insurer, more capital may be required per dollar of exposure because there are fewer offsetting risks outside Florida.

Summary of Tasks

There is no single model or metric with which to weigh all the pros and cons described in this section. Some of the points raised serve as inputs into the analysis (e.g., assumptions about initial capital infusion) while others are outputs of the analysis (e.g., predicted insurance rates and premiums). However, the data collected and analyzed in this report can shed some light on the importance of considering these issues, even though some are not quantifiable in the analysis. The next three sections summarize information related to the nine research tasks: (1) Section 4: Citizens and the FHCF (Tasks 1-4); (2) Section 5: Private Insurers that focus on personal residential and residential condominium insurance (Tasks 5-7); and (3) Section 6: Policyholders (Tasks 8-9). A full report for each task is provided in the appendices.

Analysis of Proposal: Implications for Citizens

Tasks 1-4 involve various considerations for Citizens and FHCF under the proposal to shift all wind risk to Citizens. Under this proposal, we assume the previous role of the FHCF in supporting private insurers through a layer of reinsurance-like coverage is no longer necessary. While there may be a role for FHCF given it is a part of the SBA (versus Citizens being a quasi-government agency) and can access debt markets directly at the State of Florida's credit rating, we assume that all the wind risk will remain in Citizens and do not expressly model the role of the FHCF.

Effect on Administrative and Financing Operations of Citizens

The proposal to concentrate all named storm (catastrophic wind) coverage in Citizens would produce fundamental changes to both administrative operations and financing functions. The largest fundamental change would be in the strategic operations of Citizens. Citizens has historically followed a model with large variable costs (and lower fixed costs) to be able to efficiently adjust to changing market conditions and policy counts. The structure of Citizens under the proposal would likely rely more on larger fixed costs because of a less volatile policy-count fluctuation. The effects of this can be grouped into (i) underwriting/operations, (ii) claims and loss adjustment, (iii) staffing and support infrastructure, and (iv) administrative cost structure and financing implications.

Changes to underwriting and operations are significant. Citizens' policy count would rise to more than 7 million policies from a current policy count of under 500,000, more than 5 times larger than Citizens' policy count has ever been. Its policy count would become far less cyclical, but much larger and more standardized with the assumption that policy counts would remain more stable.

Some economies of scale are possible but at this point are uncertain and may be offset by substantial cost of ramping up operations and infrastructure investments. Thus, per-policy savings are not guaranteed.

Administrative changes to claims and loss adjustment pose a significant challenge to this proposal. We qualify this challenge as a primary operational risk. Claims activity under the proposal presents an extreme volatility problem with many non-storm months per year with near zero claims activity offset by a surge capacity problem of managing potentially millions of claims during active storm seasons. Since 2000, there have been a number of years with zero storms making landfall in Florida, the most recent being 2025. The 2004 and 2005 storm seasons represent the other end of the volatility scale, with more than 2.8 million claims filed. Citizens would likely require a heavy reliance on third-party contract adjusters and vendor networks. The costs of such a structure are unknown at this scale, and questions about the efficiency of managing the claims volatility remain.

Staffing and organizational structure changes will also be significant. Citizens would need a much larger permanent workforce with increased managerial and technical specialization for most operations, while still maintaining the ability to manage claims surges. If third-party providers are ultimately used for claims, Citizens would need substantial investment in managing the volume of third-party providers that may be necessary to support claims volatility.

Administrative cost structure and financing implications of this proposal are substantial. While Citizens' following the variable-cost model have been able to keep administrative costs in line with policy counts, it is not clear that making those costs more fixed over a more stable policy-count base will result a reduction in total expense ratios (expenses/premiums). While economies of scale will be present, quality control, vendor pricing and training and oversight costs will be offsetting factors. One financing implication is the transition and implementation costs of this proposal. Those costs would likely be faced prior to any revenue increases from increased premium volume. While operational expenses would likely become more stable for Citizens, the volatility of losses would remain the largest component of its overall financing structure. Even with stable policy counts, losses would remain event-driven and highly volatile. This would greatly increase Citizens' liquidity needs following storms.

Our conclusion is that this proposal transforms Citizens into a large-scale catastrophe risk administrator with:

- structurally higher administrative complexity
- significant upfront and ongoing costs
- and persistent volatility in claims and financing needs

Any potential economies of scale are uncertain and likely offset by operational, technological, and claims-management challenges at statewide scale. As a result, the actuarial assumptions built into the rate and premium estimates of the proposal retain expense loadings that are equivalent to current market conditions. Hansen Actuarial used a 24% underwriting expense rate and a 15%

loss adjustment expense rate (on incurred losses) in its rate and premium calculations. Given the large concern regarding the structure and management of the volatility of claims, additional analysis was done, increasing the loss adjustment expense rate to 22%. These baseline expense ratios were required to evaluate the proposal's effects on Citizens' rates and premiums.

A full report on these effects is included in Appendix H – Task 4.

Effect on Citizens' Statewide Average Rates

Citizens' role in the current property insurance market has diminished with recent legislative changes and private market stabilization. As a result, Citizens' policy count is below 300,000 (as of 4/30/2026). This has important implications for measuring the impact on Citizens' average rate changes since most Floridians are not paying current Citizens rates. We examine the rate changes in Task 1 but examine the effect on most policyholders of these rate changes in Task 8. Task 1 focuses more on how the rate indications developed in our analysis affect Citizens, rather than most policyholders.

Using the loss estimates from Verisk, Hansen Actuarial developed rate and premium indications for Citizens under a variety of scenarios. The analysis presented in Task 1 focuses on the four Citizens structure scenarios discussed in Section 2.1.3.

Using the QUASR data from the end of 2024, Citizens' statewide rate (in-wind coverage) was estimated at 7.87 per $1,000 of insured value for homeowners and 25.18 per $1,000 of insured value for residential condominium owners, as shown in Table 4.

Table 4. Statewide Citizens Average Homeowners and Residential Condo Owners Insurance Rates[24] [25]

	2024 Homeowners Rate	2024 Condo Owners Rate
Policies in-wind coverage (Citizens)	7.87	25.18

Under the four Citizens structure scenarios analyzed, the effect of the proposal on statewide average rates are shown in Table 5.

[24] Throughout this report the terms rates and premiums are used. Rates are the price charged per $1,000 of total insured value (TIV). The premium is the total amount paid for insurance coverage. For example, a household that is paying a rate of $3.65 per $1,000 of total insured value, for $500,000 in total insured value would pay $1,825 in premiums (3.65 * 500).

[25] The rates (per $1,000 of insured value) are for Citizens policies including wind coverage. An argument can be made that the analysis should focus on Citizens' wind-only policies for a baseline comparison in this proposal. Citizens' wind-only policies are only available in 29 counties, where under this proposal, they will be available in all 67. We feel that combining the wind-only policies and the "all risks" policies that include wind ensures that we have data for all 67 counties as a baseline comparison.

Table 5. Summary of Statewide Rate Changes

	Homeowners Total Rate	% Change vs. 2024	Condo Owners Total Rate	% Change vs. 2024
Base Scenario	$12.60	+60.17%	$15.19	-39.68%
Scenario 2	$6.40	-18.64%	$9.53	-62.15%
Scenario 3	$51.69	+557.08%	$50.84	+101.89%
Scenario 4	$4.83	-38.60%	$8.22	-67.36%

The analysis indicates that rates and rate changes are extremely sensitive to the financing structure chosen, specifically, the initial capital funded into Citizens and the tolerance level chosen for the use of post-event assessments. Each of the scenarios presented results in wide variation in projected rates. The structural drivers of these rate changes includes the centralization of the wind risk into a single statewide pool, the replacement of private capital with initial capital infused into Citizens, premium structure aimed at controlling the frequency and/or severity of post-event assessments, and the timing of when risk is borne in the system pre-event (higher upfront premiums) or post-event (assessments and debt issues).

The analysis in Task 1 includes both rate analysis and total premium analysis. Table 6 shows how the above statewide rate changes are translated into changes in Citizens' premiums (assuming the same average of home or condo that were insured by Citizens at the end of 2024) at the average insured values of homes or condos insured by Citizens.

Table 6. Summary of Statewide Citizens Premium Changes for Citizens Structure Scenarios

Scenario	Homeowners Premium	% Change vs. 2024	Condo Owners Premium	% Change vs. 2024
Current Premium (2024)	$3,380		$1,632	
Base Scenario	$5,414	+60.17%	$985	-39.68%
Scenario 2	$2,750	-18.64%	$618	-62.15%
Scenario 3	$22,212	+557.08%	$3,295	+101.89%
Scenario 4	$2,075	-38.60%	$533	-67.36%

It is important to note that these rate and premium changes at the individual Citizens policyholder level, while informative, are not representative of what most property owners are going to see under this proposal regarding rate/premium changes, given that few Floridians are current Citizens policyholders. The most notable difference will be in terms of total premium revenue collected (and losses paid) by Citizens under these proposals, shown in Table 7. Citizens' total premium

earned in 2024 was just over $3 billion, substantially lower than under any of the proposed scenarios.[26]

Table 7. Summary of Aggregate Premiums for Citizens Structure Scenarios

Scenario	Premiums ($ billions)
2024 Premiums Earned	$3.18
Base Scenario	$55.26
Scenario 2	$24.41
Scenario 3	$241.65
Scenario 4	$12.69

A full report on statewide rates and premiums is included in Appendix E – Task 1.

Effect on Citizens' Rates at the County Level

Task 1 also evaluates the effect on rates at the county level. Not surprisingly, the proposal has large, uneven, and scenario-dependent effects on county-level Citizens' rates and premiums. It expands geographic dispersion, producing both substantial increases and decreases across counties rather than the uniform changes observed at the state level. This is an expected result as the Verisk model produced county level loss estimates that do not reflect any partial risk pooling that may be incorporated in the current rate structures. Tables 8 and 9 show the variation in county level rate indications from the four Citizens structure scenarios.

Table 8. County Variation in Citizens Homeowners Wind-Only Rate Indications – Citizens Structure Scenarios

Scenario	Statewide Average Wind-Only Rate	County Minimum	County Maximum	Range
Base Scenario	$10.42	$1.64	$91.03	$89.39
Scenario 2	$4.22	$0.84	$33.86	$33.02
Scenario 3	$49.51	$5.9	$345.9	$340
Scenario 4	$2.65	$0.43	$16.95	$16.52

[26] Citizens 2024 Annual Statement, page 4, Statement of Income.

Table 9. County Variation in Citizens Condo Owners Wind-Only Rate Indications – Citizens Structure Scenarios

Scenario	Statewide Average Wind Only Rate	County Minimum	County Maximum	Range
Base Scenario	$9.51	$1.17	$82.30	$81.13
Scenario 2	$3.85	$0.61	$32.19	$31.58
Scenario 3	$45.16	$3.9	$300.4	$296.5
Scenario 4	$2.54	$0.33	$16.94	$16.61

That variation continues when evaluating the total rate indications which are made up of the wind-only rates estimated by Hansen Actuarial for each scenario added to the average ex-wind rate used in the individual counties as shown in Tables 10 and 11.

Table 10. County Variation in Citizens Homeowners Total Rate Indications – Citizens Structure Scenarios

Scenario	Statewide Average Total Rate	County Minimum	County Maximum	Range
Base Scenario	$12.60	$3.27	$92.66	$89.39
Scenario 2	$6.40	$2.47	$35.49	$33.02
Scenario 3	$51.69	$7.58	$347.55	$340.00
Scenario 4	$4.83	$2.05	$18.58	$16.52

Table 11. County Variation in Citizens Condo Owners Total Rate Indications – Citizens Structure Scenarios

Scenario	Statewide Average Total Rate	County Minimum	County Maximum	Range
Base Scenario	$15.19	$6.06	$87.98	$81.92
Scenario 2	$9.53	$4.63	$37.88	$33.25
Scenario 3	$50.84	$9.72	$306.07	$296.35
Scenario 4	$8.22	$3.53	$22.63	$19.09

It is interesting to note that even within the same Citizens' structure scenario, we see county rates moving in opposite directions relative to the 2024 rate structure as shown in Tables 12 and 13. Again, this comparison is not relevant to most Floridians because it compared to rates being charged to relatively few property owners that are not considered insurable in the private market but is informative about geographic dispersion in risk and rates within the State of Florida.

Table 12. County Variation in Citizens Homeowners Total Rate Changes – Citizens Structure Scenarios

Scenario	Statewide Average Rate Change	County Minimum	County Maximum	Range
Base Scenario	60.17%	-50.81%	569.76%	620.57%
Scenario 2	-18.64%	-63.44%	156.52%	219.96%
Scenario 3	557.08%	14.72%	2412.03%	2397.31%
Scenario 4	-38.60%	-70.08%	34.26%	104.34%

Table 13. County Variation in Citizens Condo Owners Total Rate Changes – Citizens Structure Scenarios

Scenario	Statewide Average Total Rate	County Minimum	County Maximum	Range
Base Scenario	-39.68%	-63.69%	205.32%	269.01%
Scenario 2	-62.15%	-72.97%	31.44%	104.42%
Scenario 3	101.89%	-18.79%	962.16%	980.94%
Scenario 4	-67.36%	-76.46%	-21.48%	54.97%

The county-level rate changes are more consistent in the most heavily populated counties as shown in Tables 14 and 15. The 11 counties shown in the table are in the Top 10 for either homeowners insured values or residential condo owners insured values.

Table 14. Citizens Rate Changes in Counties with Highest Homeowners Insured Values

County		Current	Base Scenario	Scenario 2	Scenario 3	Scenario 4
Brevard	Rate	$5.82	$13.82	$7.34	$61.48	$4.86
	% Change		137.23%	25.96%	955.73%	-16.46%
Broward	Rate	$13.02	$15.65	$8.93	$62.40	$6.19
	% Change		20.19%	-31.40%	379.22%	-52.49%
Collier	Rate	$8.89	$19.96	$ 8.91	$82.71	$5.20
	% Change		124.39%	0.14%	829.82%	-41.59%
Duval	Rate	$5.01	$5.10	$3.25	$15.94	$2.48
	% Change		1.84%	-35.16%	218.14%	-50.45%
Hillsborough	Rate	$6.14	$8.68	$5.15	$26.78	$3.69
	% Change		41.34%	-16.12%	336.15%	-39.86%
Lee	Rate	$7.24	$15.62	$7.48	$61.85	$4.62
	% Change		115.85%	3.34%	754.37%	-36.22%
Miami-Dade	Rate	$13.57	$19.89	$10.78	$83.12	$7.21
	% Change		46.53%	-20.56%	512.40%	-46.88%
Orange	Rate	$5.73	$5.75	$3.43	$21.13	$2.48
	% Change		0.39%	-40.19%	268.91%	-56.72%
Palm Beach	Rate	$11.60	$20.68	$10.72	$91.14	$6.94
	% Change		78.24%	-7.56%	685.55%	-40.20%
Pinellas	Rate	$6.13	$13.95	$7.51	$50.64	$4.73
	% Change		127.63%	22.57%	726.48%	-22.77%
Sarasota	Rate	$6.25	$13.06	$7.01	$52.96	$4.43
	% Change		108.86%	12.14%	746.77%	-29.17%

Table 15. Citizens Rate Changes in Counties with Highest Residential Condo Owners Insured Values

County		Current	Base Scenario	Scenario 2	Scenario 3	Scenario 4
Brevard	Rate	$19.81	$15.27	$9.21	$51.04	$7.17
	% Change		-22.89%	-53.48%	157.73%	-63.82%
Broward	Rate	$28.81	$20.01	$14.22	$62.55	$11.91
	% Change		-30.55%	-50.63%	117.11%	-58.65%
Collier	Rate	$19.80	$27.17	$12.56	$104.57	$8.03
	% Change		37.19%	-36.56%	428.03%	-59.47%
Duval	Rate	$14.99	$6.33	$4.89	$13.18	$4.34
	% Change		-57.75%	-67.38%	-12.06%	-71.03%
Hillsborough	Rate	$18.11	$11.53	$7.67	$33.25	$6.13
	% Change		-36.35%	-57.65%	83.61%	-66.15%
Lee	Rate	$14.48	$21.37	$11.11	$77.72	$7.84
	% Change		47.62%	-23.27%	436.80%	-45.88%
Miami-Dade	Rate	$32.37	$19.16	$12.29	$69.56	$9.76
	% Change		-40.80%	-62.03%	114.87%	-69.85%
Orange	Rate	$16.41	$8.79	$7.14	$19.69	$6.48
	% Change		-46.42%	-56.50%	19.97%	-60.51%
Palm Beach	Rate	$23.15	$22.54	$13.15	$86.30	$9.87
	% Change		-2.66%	-43.21%	272.74%	-57.39%
Pinellas	Rate	$18.67	$14.45	$9.17	$45.87	$6.99
	% Change		-22.61%	-50.91%	145.60%	-62.58%
Sarasota	Rate	$19.69	$14.20	$8.67	$50.09	$6.43
	% Change		-27.87%	-55.98%	154.38%	-67.32%

The county-level analysis of Citizens' rate and premium changes under the proposal show a dramatic increase in dispersion of Citizens' rates and premiums across counties, with outcomes highly sensitive to our Citizens structure scenario assumptions. For example:

- Some counties see large decreases (–70% or more)
- Others see large increases (up to several hundred percent)
- Coastal counties generally bear higher costs, inland counties lower costs
- Even when statewide averages decline, localized rate increases remain common

A full report on the county-level variation is included in Appendix E – Task 1.

The Likelihood and Magnitude of Potential Assessments by Citizens

The likelihood and magnitude of potential assessments are highly dependent on not only the initial capital infusion and premium structure used by Citizens, but also on the highly unpredictable frequency and severity of storm activity. The frequency, severity, and timing of storms can be combined into a limitless set of possibilities. To simplify the presentation and analysis, we present

four storm scenarios under each of the four Citizens structure scenarios. Each of the storm scenarios is assumed to occur in Year 1 of the proposal's operation to emphasize that the early years of the proposal are the riskiest time frame (before the proposed Citizens has time to build the capital through retained surplus in low-loss years). Table 16 shows the four storm scenarios.

Table 16. Storm Scenarios

Storm Scenario	Description	Loss Amount	Timing	Likelihood of Event
1	Hurricane Andrew (1992)	$70 billion	Year 1 of Operation	3%
2	Hurricane Donna (1960)	$47 billion	Year 1 of Operation	4%
3	Multiple Storms (single season e.g. 2004)	$30 billion	Year 1 of Operation	5-10%
4	Hurricane Michael (2018)	$10 billion	Year 1 of Operation	15%

Note in Table 16 that the likelihood of these events should not be considered rare events. Each of these sized losses have occurred in the last 65 years. The likelihood of the event column is derived from the aggregate exceedance probability curve developed by Hansen Actuarial from the Verisk modeled losses.

Evaluating each of these storm scenarios in Year 1 of operation under the Citizens structure scenarios reveals how important initial capital and premium structure are in limiting potential assessments. Citizens Structure Scenario 3 does not need an assessment in any of these storm scenarios given that premium levels were set to avoid assessments except in the most extreme storm scenarios. Citizens Structure Scenario 4 would need an assessment in every storm scenario ranging from $1.8 billion (Hurricane Michael-size losses) to over $70 billion (Hurricane Andrew-size losses). The Base Scenario and Scenario 2 would need post-loss assessments of nearly $18 billion following a Hurricane Andrew-sized event. Nearly all the needed assessments are larger than any previous assessment enacted.

Our conclusion is that the proposal materially raises systemic risk: It either requires much higher upfront premiums/capital to suppress assessments, or it leads to more frequent and dramatically larger post-event assessments borne broadly by Florida consumers. As noted in the preliminary survey, both Citizens and the FHCF have each had only one post-loss assessment, following the 2004 and 2005 storm seasons. This leads to a realized frequency of an assessment less than once every 25 years, or less than 4% of the time. We used this realized assessment frequency in structuring our first two Citizens structure scenarios. Based on those two scenarios and the additional scenarios evaluated, moving all wind risk to Citizens materially increases both the

probability and the potential size of post-event assessments, but the magnitude of that change depends on how Citizens is capitalized and how rates are determined.

The structural change in the proposal of consolidating all wind risk in Citizens (centralized and uncapped) rather than relying on capital provided by private insurers, private reinsurers and the State of Florida providing a capped layer of reinsurance protection (currently capped at $17 billion) will result in larger potential funding gaps and larger assessments than have been seen historically.

A full report on the assessment analysis is included in Appendix F – Task 2.

Citizens' Debt Issuance and Cost

The Preliminary Survey and Task 2 describe how Citizens' assessment framework changed in 2024 when its accounts were consolidated into a single account. Under the current structure, Citizens can first apply a one-time surcharge of up to 15% on Citizens' policyholders. After that layer is exhausted, Citizens can then assess a much broader base of property casualty insurance products, similar to the FHCF, that includes virtually all property casualty insurance products sold in Florida. This emergency assessment can be levied at the greater of 10% of the assessment base or 10% of the remaining deficit.[27] The current assessment base for Citizens is approximately $93 billion, which would imply Citizens has the ability to raise approximately $9.3 billion per year through emergency assessments. For a Citizens' policyholder, the combined post-loss surcharge and emergency assessment can reach up to 25% of premium immediately following large storm losses, and the statewide assessment can continue for as long as needed to retire any debt. For Task 3, these features matter because they affect both (1) how large a deficit might be before borrowing becomes necessary and (2) the revenue stream that supports borrowing, which in turn influences interest rates and total financing cost.

From Task 2, we have estimates of how much debt Citizens would need to issue. In most storm years, there would be no need to issue debt. However, depending on the initial capital infusion and premium structure, moderate storm events led to a relatively small debt need ($2 billion - $6 billion) and large storms led to substantial debt demand (up to $70 billion) that has not been seen in municipal bond markets for this type of risk. In Task 3, we estimated the cost of debt using municipal bond market data and Florida's exceptional credit rating. The baseline conditions generated cost of debt in the 5%-6% range given current market conditions. If Citizens' financials are highly stressed and the debt need is substantially larger than typical market transactions, we estimate costs approaching 9%. The costs escalate with the size of the debt issue, the existence of Citizens' previously outstanding debt (Citizens Structure Scenario 2), market conditions following a disaster, and the reliability of the assessment base to cover annual debt service.

[27] Citizens 2026 Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments, page 4.

The results show that annual debt service can range from relatively small ($200+ million) to so large it is unlikely to be supported by Citizens' assessment structure (>$9.6 billion). The annual debt service varies with the amount of debt that needs to be issued and the cost of that debt. In all examples, we are assuming that the debt issue from Citizens would be a 10-year instrument that closely matches the structure of assessments.

4.6 Debt Issue Analysis

Table 17 shows the debt issue analysis in our Citizens structure base scenario with a large Hurricane Andrew-size loss in Year 1. We make two assumptions about the size of the debt issue: Citizens issues only enough debt to cover incurred losses from the event and does not issue any debt to account for any additional expenses, or Citizens issues enough debt to cover incurred losses with a cushion for additional expenses such as increased LAE or a cushion for other potential storms in a still-active season. We also make two interest rate assumptions. We assume that Citizens can do an issue at 6% interest for 10 years, or the interest rate is slightly higher at 6.5% for 10 years. The difference in annual debt service is approximately $60 million per .5% increase in interest rates. With no other outstanding debt from Citizens and insurance premiums set at a level that future assessments are going to be rare, these rates may be reasonable under current market conditions with a debt issue of this size. In this scenario, the size of the debt issue substantially outsizes any previous debt issues from Citizens or the FHCF and approach the size of all debt issued by entities in the State of Florida in 2025. With a debt issue approaching $20 billion, the debt service would likely be between $2.5 and $3 billion per year.

Table 17. Citizens Structure Base Scenario Debt Issue Analysis ($ billions)

Citizens Structure Scenario	Storm Scenario	Funding Deficit/Surplus	Debt Issue	Interest Rate	Annual Debt Service	# of Years
Base Scenario $20 billion in Initial Capital Premiums cover 1-in-25-year event			18.50	0.06	$2.51	10
			18.50	0.065	$2.57	10
			23.50	0.06	$3.19	10
	Andrew	(18.50)	23.50	0.065	$3.27	10

Task 3 contains the full analysis of each possible debt issue depending on the Citizens structure scenario and the storm scenarios that generated shortfalls within the proposal.

Our conclusion is that debt issue needs would likely range from $20 to $30 billion in a typical severe storm scenario up to a worst case greater than $70 billion. In general, debt issues of this size are outliers in the municipal bond market and could result in the inability to issue enough debt to cover incurred losses. The cost of that debt in the normal range is likely 5%-6% but could be substantially higher (9%) in larger-loss, financially stressed situations. The annual debt service would likely be in the billions of dollars. The annual debt service in the riskiest financing scenario

(Citizens structure scenario 4) could exceed the ability of the assessment base to support the annual debt service.

A full report on the debt analysis is included in Appendix G – Task 3.

Analysis of Proposal: Implications for the Private Insurance Market

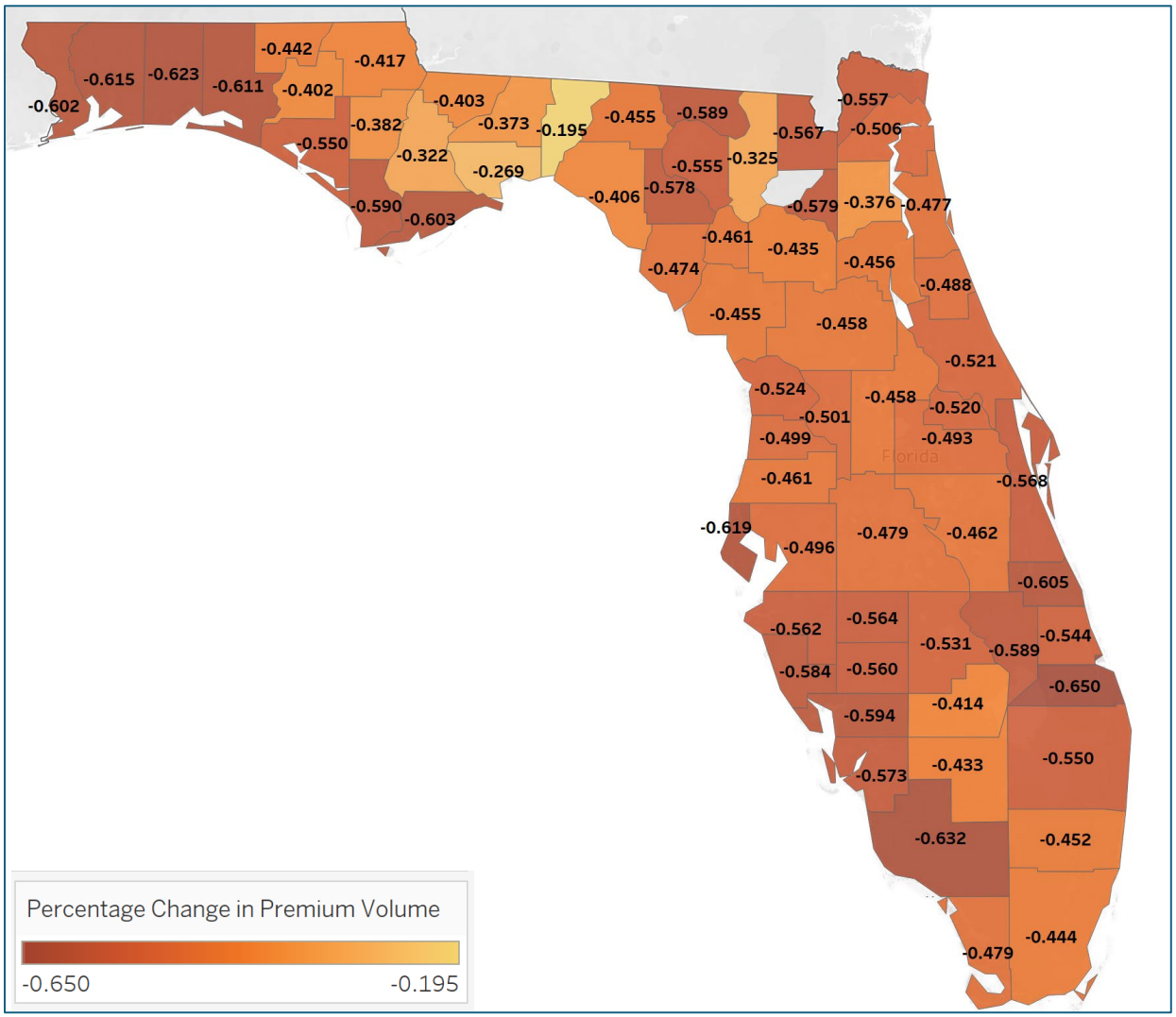
Tasks 5, 6 and 7 involve various considerations for how the proposal to shift all named storm wind risk to Citizens would affect the private insurance market in Florida.

Potential Ex-Wind Rate Changes

Our analysis suggests that ex-wind insurance rates are likely to remain flat in the long term, though private market policyholders may experience slight upward pricing pressure in the short term as market dynamics adjust. Implementing the proposal to shift all wind risk to Citizens would remove an estimated $9 billion in premium revenue from the private market, specifically $8.25 billion from the homeowners line and $654 million from the condo owners line. While transferring this risk drastically lowers a private carrier's direct catastrophe exposure and reinsurance liabilities, it may not trigger a proportional reduction in overall policyholder costs. Instead, fixed operating expenses—such as information technology, staffing, regulatory compliance, and billing systems—do not disappear when a peril is removed and must be reallocated across a significantly contracted premium pool.

To estimate the reduction in premium revenue to the private market, we use the county-level premiums and exposure data and calculate the change in private insurers' premiums if they retained all of their current in-wind policies and charged them the ex-wind rates to cover all other perils except wind. Figure 3 shows the percentage change in total premiums collected by homeowners insurers in each county under this scenario.

Figure 3. Percentage Change in Total Premiums Collected by Private Insurance Market



Note: Counties in gray either have no current coverage options or have too few options to ensure protection of trade-secret data.

Based on our research, the best estimate of the cost of issuing ex-wind policies in Florida under the proposal is the current market for ex-wind policies in Florida. The factors that could increase or decrease these estimates include:

- Investor redistribution of funds away from small undiversified Florida property insurers, reducing the number of competitors in the market (increase costs)
- Diversified national insurers increasing market share in Florida ex-wind property insurance (reduce costs)

- Loss exposure reduction removing catastrophe model expenses and reinsurance costs (reduce costs)
- Private insurer fixed expenses being reallocated across a smaller premium pool, including underwriting, administrative expenses, commissions, technology, and compliance (increase costs)
- Private insurer reallocating expenses that were pooled between wind and ex-wind exposures to ex-wind policies (increase or decrease costs depending on which way subsidies were allocated)

Our conclusion is that rates are likely to remain flat for ex-wind although there may be some slight upward pressure on pricing in the short term until it is clearer which competitive market dynamics dominate. Therefore, we use the county-level average ex-wind rates in the total rate and premium estimates developed in the other tasks.

Appendix I – Task 5 contains the full report on the estimated impact of the proposal ex-wind rates for homeowners and residential condominiums.

Profitability and Financial Stability

Overall, we conclude that the proposal could add financial stability to the private insurers operating in the Florida marketplace. In Task 6, we evaluated what removing wind risk would do for the financial stability of insurers by identifying a series of single-state, homeowners-specialized insurers in other states, similar to the majority of insurers operating in Florida, and examine their performance trends over a 10-year window (2015–2024). This helps to identify how removing the highly volatile wind exposure may alter the performance of the Florida-specific private carriers. By evaluating the performance of this "peer group" of insurers operating in states with less or no wind exposure, we predict the future performance of the Florida insurers under the proposal.

We evaluate the financial performance of these insurers for the period 2015–2024, the most recent 10-year window available in the National Association of Insurance Commissioners (NAIC) statutory data. Specifically, we evaluate four measures: (1) Return on equity (ROE), which measures profit relative to owners' equity (higher is better); (2) Loss ratio, defined as claims incurred divided by premiums written (lower values indicate better underwriting performance; (3) Premium-to-surplus ratio, which compares how much premium a company writes to its capital cushion (higher values generally indicate less capitalization for the risk taken); and (4) Combined ratio, which adds losses, loss adjustment expenses, and underwriting expenses and compares the total to earned premium (values below 1.0 indicates an underwriting profit).

To be included in our sample, a firm is classified as a "Single-State Homeowners (HO) Insurer" using a two-step screen:

1. Geographic and Line Concentration (Condition 1): In any given year, the firm's homeowners business in a single state must represent at least 75% of its total direct written premiums across all lines of insurance and all jurisdictions.

Rationale: This filter excludes diversified national private carriers that can offset state specific losses with premiums from non-catastrophe-prone regions or disparate lines of business (e.g., life or auto).

2. Longitudinal Consistency (Condition 2): A firm is only included in the final 10-year sample if it met the concentration requirements of Condition 1 for at least six of the 10 years within the 2015–2024 study period.

Rationale: This ensures the sample captures established market participants and filters out "flash-in-the-pan" entities or firms in the midst of rapid strategic pivot or dissolution, providing a more stable view of long-term solvency.

We then divide the sample into three distinct groups based on their primary state of operation. This classification allows for a comparative analysis of financial operations of insurers across varying risk environments.

- Group 1: Florida Domestics: This category includes insurers that meet the single-state criteria in Florida. Florida combines high hurricane exposure with a highly specialized regulatory environment. Isolating these firms provides the status quo for insurers currently bearing substantial wind risk. Using the screening criteria described above, we identified 23 Florida-specific firms.
- Group 2: Regional Peer States: ("Some Wind Exposure"): This group includes single-state insurers operating in Alabama, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Texas. These states have meaningful coastal wind exposure, but (on average) less exposure than Florida. Based on our screening criteria described above, we identified 14 regional peers.
- Group 3: Baseline States: ("No Wind Exposure"): This group includes single-state insurers operating in all other states. It serves as a "low-wind-risk" benchmark: These firms generally face less frequent and less severe catastrophic wind events than coastal states. Comparing Florida insurers to this group helps illustrate how profitability and capitalization might change if the most volatile wind component were removed from Florida insurers' balance sheets. Based on our screening criteria described above, we identified 28 baseline insurers.

Over the 2015–2024 analysis period, Florida's domestic property insurance market experienced volatile capital cycles characterized by intense underwriting and operational volatility relative to the highly stable performance of non-wind baseline states. Chronologically, Florida's mean Return on Equity (ROE) suffered a prolonged negative stretch from following severe hurricane landfalls

before shifting to an upward trajectory due to rate changes and tort reforms; its homeowners-loss ratio repeatedly breached the 1.0 parity line during active storm years while baseline states consistently remained below the 0.60 threshold; its premium-to-surplus ratio steadily climbed through 2021 as recurring storm losses eroded capital cushions and strained solvency; and its mean combined ratio surged between 2015 and 2020 before finally falling at the end of the sample period. In every one of these measures, the baseline states showed more stability and more positive results. If catastrophic windstorm risk is removed from the private market, the operational performance and solvency profiles of Florida insurers would potentially converge toward the stable, predictable benchmarks currently observed in the "No Wind" baseline states.

These trends are relevant to private insurers because it outlines a structural transformation: completely removing wind risk could potentially allow operational performance and solvency profiles to converge toward the stable, predictable benchmarks of "No Wind" baseline states. Eliminating these geographic penalties could mitigate the industry's capital squeeze, potentially reduce premium-to-surplus ratios, and potentially stabilize investor returns to foster a healthier, more profitable private market. However, while individual private insurers could achieve enhanced financial stability, this is achieved by reallocating the main financial performance impediment, the cost of the wind exposure. The proposal could remove the private market support of wind risk, including the international capital pools that currently distribute these shocks, thereby potentially internalizing a significant financial and administrative burden within a single state entity.

More detail on the data and analysis is found in Appendix J – Task 6.

Rating Agency Impacts

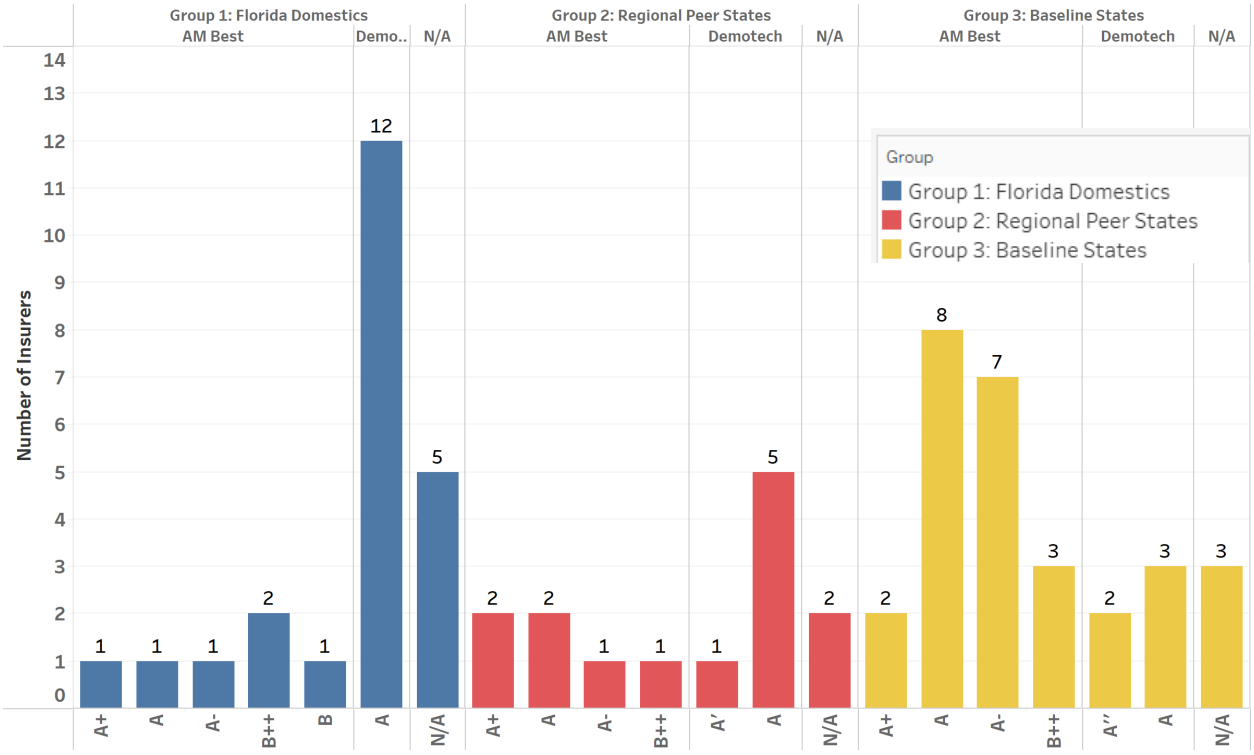
Transferring catastrophic wind risk to Citizens would likely increase the incentives for private Florida insurers to seek traditional financial ratings (such as AM Best), yet the overall impact is highly nuanced and a significant portion of private carriers may still choose not to pursue them. While removing wind risk fundamentally alters core rating agency inputs by lowering direct catastrophe exposure and reducing reliance on costly private reinsurance -- factors that generally support stronger rating outcomes -- the shift will not affect all companies equally. Because obtaining public financial strength ratings is entirely voluntary, costly, and heavily driven by an individual insurer's scale, target audience, and strategic objectives, the ultimate rating outcomes will vary widely across the market.

To arrive at this conclusion, we consider the same sample of single-state, homeowners-specialized insurers used in Task 6. We then obtained each insurer’s most current reported rating (as of May 2026) and examine the data. Insurers and stakeholders commonly reference several rating agencies, including AM Best, S&P Global Ratings, Moody’s Ratings, Fitch Ratings, and Demotech. Currently, Florida’s domestic market relies on a mix of rating organizations, with the most common being AM Best and Demotech, to evaluate whether an insurer can withstand a severe

storm season and pay claims on time. An examination of single-state homeowners insurers reveals that over half of Florida-only private carriers are currently Demotech-rated. This distribution of ratings is different than peer insurers in other states.

Using the same sample definition and methodology from Task 6, insurers are classified into three sub-samples: Florida-only (Group 1), Some-wind (Group 2), and No-wind (Group 3). Figure 4 reports the distribution of the most recent financial strength ratings by group. The figure shows that not all peer insurers are obtaining AM Best ratings in other states. It is still common to see Demotech-only ratings outside of the Florida market.

Figure 4. Most Recent Ratings for Single-State Insurers



Note: N/A indicates insurers that either choose not to be rated or for whom ratings are not currently available.

This baseline distribution might reflect the steep administrative and financial fees associated with traditional rating agencies, which can be prohibitive for smaller, domestic companies. Because secondary mortgage entities like Fannie Mae and Freddie Mac accept compliance ratings from all of these agencies, an insurer's "not rated" or Demotech-rated status should not be interpreted as a sign of financial weakness, but rather as a strategic choice tailored to their specific business requirements. Further, ratings are not available for 15% of the single state insurers (listed as N/A), either because they have chosen not to be rated or the insurer stopped operating before 2024. Accordingly, “N/A” status should not be interpreted as an indicator of weak financial condition,

and observed differences in rating agency coverage (e.g., Demotech versus AM Best or other agencies) may reflect differences in intended audiences and rating use cases rather than differences in underlying risk alone. The ratings distribution is therefore best interpreted alongside insurer-specific context, including size, years in operation, reinsurance program design, and growth strategy. Therefore, although the proposal may increase the incentive to obtain a rating from the more traditional rating agencies, many insurers may choose not to do so.

If the proposal is implemented, private insurers will navigate a complex balance of operational benefits and financial counterweights. On the positive side, eliminating direct wind coverage makes potential storm losses smaller and less volatile, protecting private carrier surplus from sudden depletion and allowing companies to restructure or reduce their costly reinsurance programs. Conversely, stripping wind coverage will severely shrink an insurer's premium volume. Without organizational resizing, fixed overhead costs (such as compliance and policy administration) will absorb a larger share of revenue, investment income will drop, and a narrower risk portfolio could be viewed by traditional rating agencies as a weaker business profile. Additionally, if private insurers remain indirectly exposed to storm losses through statewide assessments or post-event non-wind damage claims, rating agencies may continue to view Florida hurricane risk as a material factor in their evaluations.

More detail on the data and analysis is found in Appendix K – Task 7.

Analysis of Proposal: Implications for Florida Consumers

Tasks 8 and 9 involve various considerations for how the proposal to shift all named windstorm to Citizens would affect policyholders in the state of Florida.

Implications for Premium Costs

This analysis concludes that transferring all catastrophic windstorm risk to Citizens will trigger significant premium changes for Florida property owners, depending on the financial capitalization structure selected for the Citizens. Information about the variation in costs by scenario is provided in **Table 18**. The Base Scenario and Scenario 2 resemble traditional private insurance solvency structures by establishing initial capital infusion ($20 billion and $45 billion, respectively) to limit the likelihood of emergency public assessments to a 1-in-25-year frequency. Because Citizens must accumulate or replace the private capital and reinsurance backing currently supporting the market, the Base Scenario drives the statewide average wind-only rate to $10.42 for homeowners, pushing the total premium (in-wind + ex-wind) up by 139.42%. Scenario 2 leverages a $30 billion pre-event bond to offset this initial shock, lowering the total average homeowners rate increase to

21.63% and yielding a 12.41% average premium reduction for condo owners, though this requires multi-decade debt service and pre-event bonding at a scale never attempted.

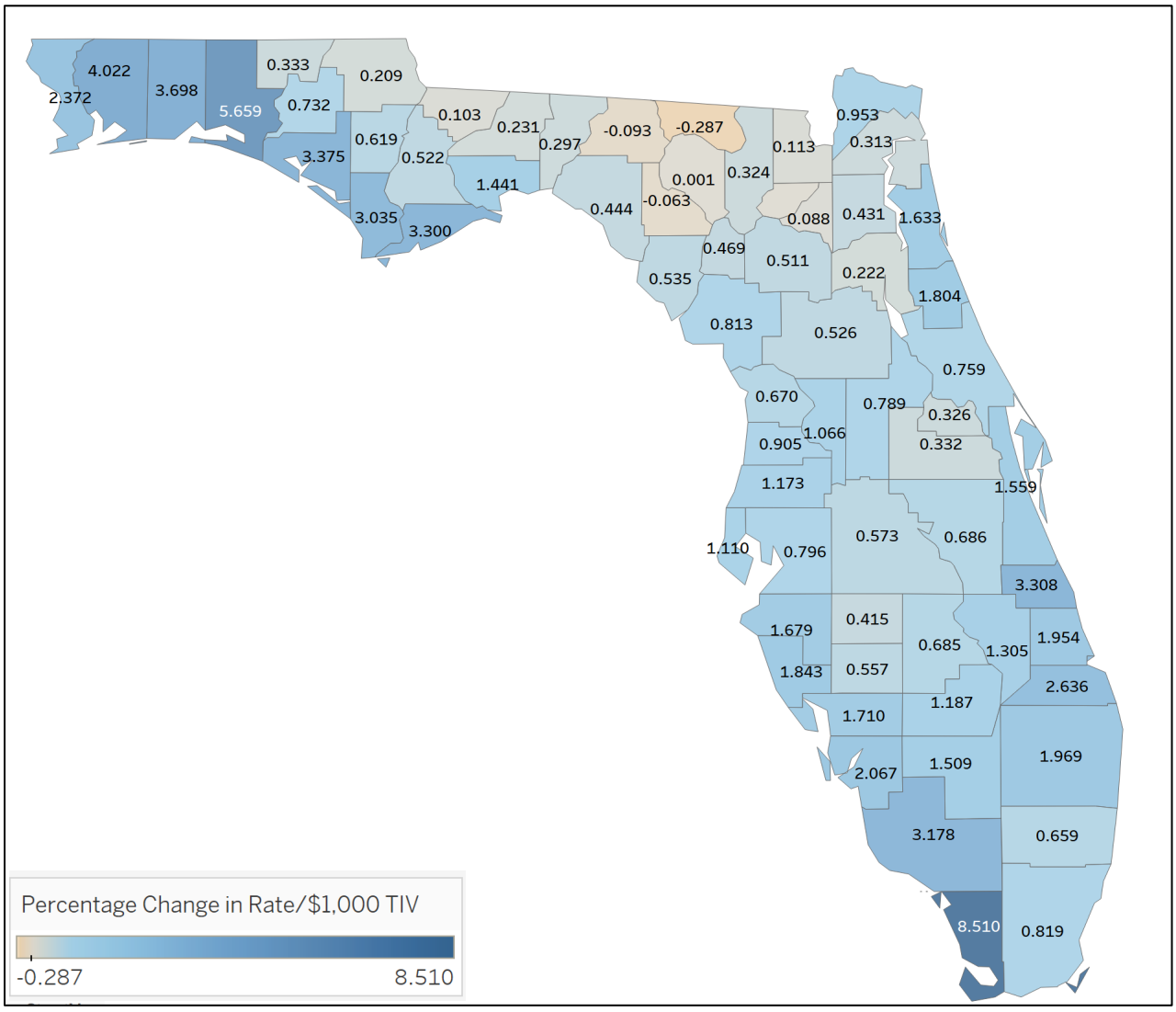
The remaining two options illustrate the variability implied by differences in premium adequacy. Scenario 3 adopts a hyper-conservative approach, attempting to eliminate first-year assessment risks (a 1-in-130-year solvency standard) with minimal initial capitalization, forcing upfront wind-only rates to a high of $49.51 for homeowners and causing an 882.07% total premium spike. On the opposite end, Scenario 4 adopts a highly risky framework that charges only for expected annual average losses without any capital backup. While Scenario 4 initially appears to save homeowners an average of 8.19% and condo owners 24.46% upfront, it leaves the state highly vulnerable. As previously discussed, Citizens could be facing shortfalls from $2 billion to $71 billion depending on storm severity.

Table 18. County Variation in Homeowners Total Rate Changes for the Four Citizens Structure Scenarios

	Statewide Average Rate Change	County Minimum	County Maximum	Range
Base Scenario	139.42%	-28.66%	851.03%	879.69%
Scenario 2	21.63%	-46.24%	264.25%	310.48%
Scenario 3	882.07%	65.18%	3466.97%	3401.79%
Scenario 4	-8.19%	-55.22%	145.87%	145.87%

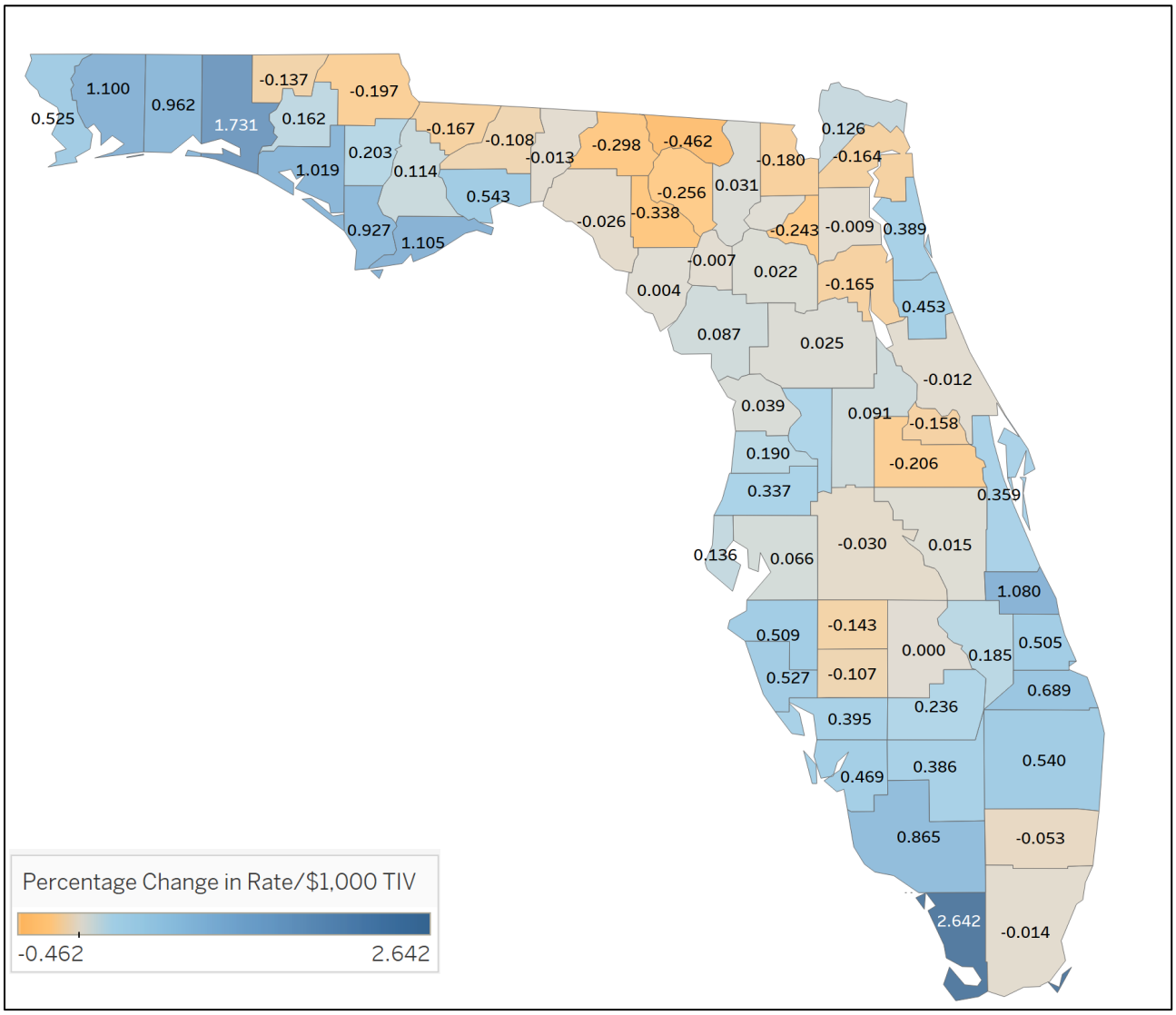
Another important finding is that actuarially modeled wind losses vary far more widely by county than what is currently charged in the private insurance market. When wind risk is isolated and priced directly by county under a standardized model, the gap between inland and coastal rates widens drastically. This suggests that the current private market does partial pooling across county lines which flattens rates or cross-subsidizes risk across regions. Fully implementing modeled pricing will trigger significant localized pricing shocks in many areas in Florida, especially in coastal areas. Figures 5-8 show how total costs change by county for homeowners' insurance.

Figure 5. Estimated Percentage Change in Total Rate for Homeowners – Citizens Structure Base Scenario



Note: Counties in gray or not showing a value either have no current coverage options or have too few options to ensure protection of trade-secret data.

Figure 6. Estimated Percentage Change in Total Rate for Homeowners – Citizens Structure Scenario 2



Note: Counties in gray or not showing a value either have no current coverage options or have too few options to ensure protection of trade-secret data.

Figure 7. Estimated Percentage Change in Total Rate for Homeowners – Citizens Structure Scenario 3

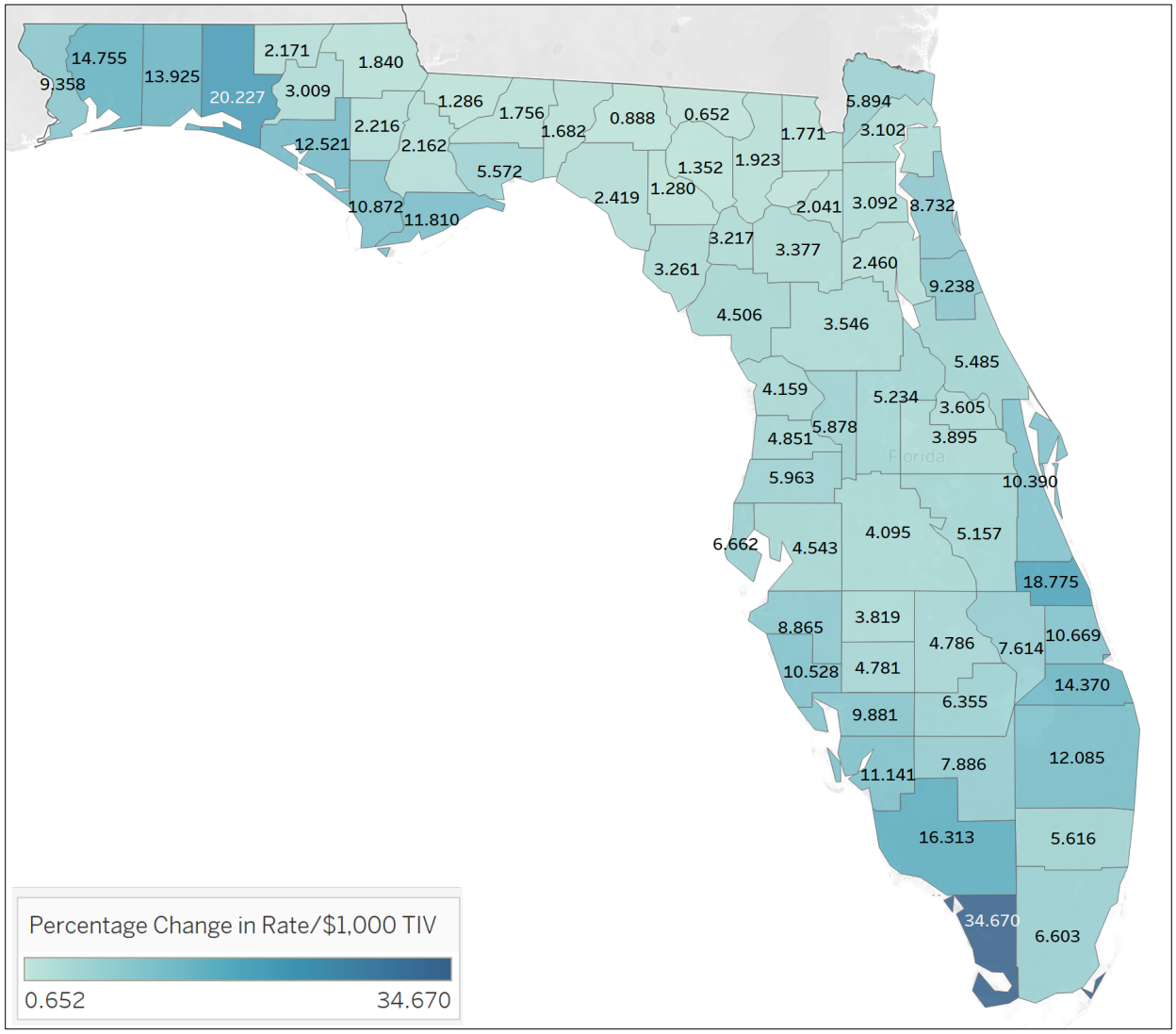
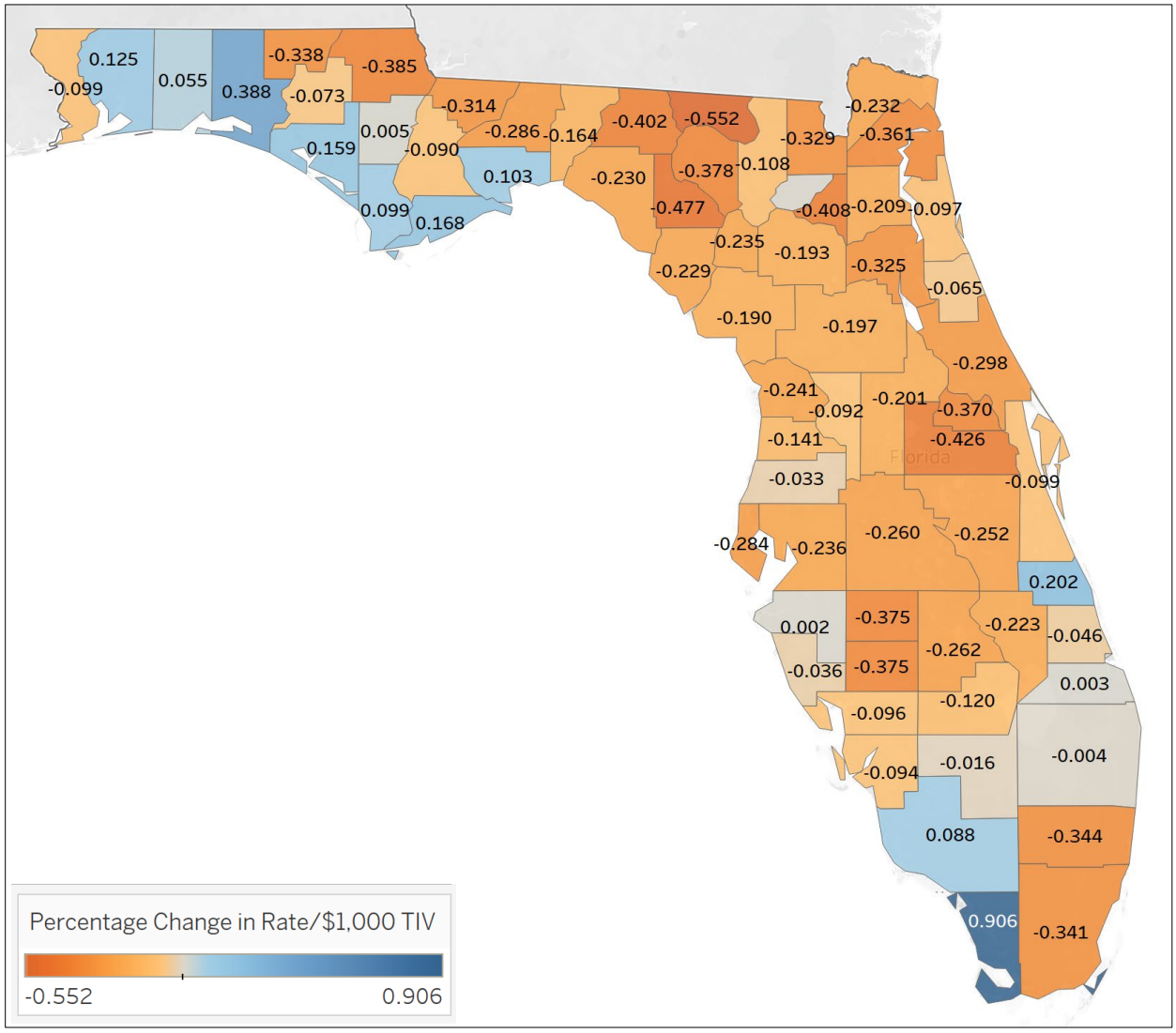


Figure 8. Estimated Percentage Change in Total Rate for Homeowners – Citizens Structure Scenario 4



To understand how these changes impact the most heavily populated areas, we isolate 11 high-exposure counties that account for nearly half (48%) of Florida's homeowners Total Insured Value (TIV) and over half (54%) of its condo owners TIV. In these vital economic engines, including Miami-Dade, Broward, Palm Beach, Collier, and Lee counties, the effects are substantial.

Table 19 shows that, under the Base Scenario, homeowners in Palm Beach County would see their average rate jump by 196.90%, while Collier County faces a 317.82% surge. Even under the well-funded Scenario 2, coastal homeowners face sharp increases, such as 53.98% in Palm Beach and 86.46% in Collier, proving that an initial capital infusion cannot fully shield high-risk coastal property from substantial rate escalation.

Table 19. Rate Changes in Counties with Highest Homeowners Insured Values

County		Current	Base Scenario	Scenario 2	Scenario 3	Scenario 4
Brevard	Rate	$5.40	$13.82	$7.34	$61.48	$4.86
	% Change		155.93%	35.89%	1038.96%	-9.88%
Broward	Rate	$9.43	$15.65	$8.93	$62.40	$6.19
	% Change		65.93%	-5.29%	561.58%	-34.40%
Collier	Rate	$4.78	$19.96	$8.91	$82.71	$5.20
	% Change		317.82%	86.46%	1631.35%	8.76%
Duval	Rate	$3.89	$5.10	$3.25	$15.94	$2.48
	% Change		31.32%	-16.39%	310.22%	-36.11%
Hillsborough	Rate	$4.83	$8.68	$5.15	$26.78	$3.69
	% Change		79.64%	6.60%	454.31%	-23.57%
Lee	Rate	$5.09	$15.62	$7.48	$61.85	$4.62
	% Change		206.72%	46.85%	1114.06%	-9.37%
Miami-Dade	Rate	$10.93	$19.89	$10.78	$83.12	$7.21
	% Change		81.91%	-1.38%	660.28%	-34.05%
Orange	Rate	$4.32	$5.75	$3.43	$21.13	$2.48
	% Change		33.22%	-20.63%	389.54%	-42.57%
Palm Beach	Rate	$6.97	$20.68	$10.72	$91.14	$6.94
	% Change		196.90%	53.98%	1208.48%	-0.39%
Pinellas	Rate	$6.61	$13.95	$7.51	$50.64	$4.73
	% Change		111.04%	13.63%	666.24%	-28.40%
Sarasota	Rate	$4.59	$13.06	$7.01	$52.96	$4.43
	% Change		184.35%	52.68%	1052.82%	-3.57%

When translating these rates into actual consumer premium bills, the financial burden becomes transparent. Because standard residential policies protect full structural replacement, additional structures, contents, and loss of use, the Total Insured Value (TIV) is substantially higher than basic policy limits, averaging $697,680 statewide for a single-family home. Table 20 shows that, under the Base Scenario, the average Florida homeowner's annual premium will more than double, climbing from $3,672.30 to $8,792.41. Even under the much riskier Scenario 4, the average upfront savings amount to a negligible $300 per year—a minor discount that likely fails to justify the risk of multi-billion-dollar shortfalls following a major hurricane.

Table 20. Changes in Statewide Premiums under the Four Citizens Structure Scenarios

Line	Average Total Insured Value	2024 Premium	Base Scenario	Scenario 2	Scenario 3	Scenario 4
Homeowners	$697,680	$3,672.30	$8,792.41	$4,465.15	$36,064.71	$3,371.43
Condo Owners	$158,577	$1,724.89	$2,408.32	$1,511.24	$8,061.59	$1,303.04

In conclusion, the transition of all Florida residential wind risk to Citizens introduces significant structural vulnerabilities, particularly during the initial years of operation. The entire framework hinges on the timing of catastrophic weather events; a single major hurricane or a rapid succession of smaller storms occurring before Citizens can accumulate sufficient surplus would place the state-backed insurer into immediate financial duress. Without a massive, permanent cushion of initial capital, the state risks trading a strained private insurance market for an overexposed public entity, passing the ultimate financial volatility directly onto Florida's taxpayers and property owners.

Implications for Costs and Assessments

This analysis evaluates the total financial impact on Florida households moving beyond the upfront premiums and explicitly considering contingent, post-event financial obligations, policyholder surcharges and emergency assessments. The goal is to determine the true, long-term cost of residential coverage. The findings reveal a stark trade-off: structural frameworks designed to lower short-term upfront premiums (specifically Scenario 4) create potential multi-year post-loss liabilities that threaten the state's broader economy and expose every Florida household to potential financial shocks. Conversely, better-capitalized scenarios shield consumers from sudden post-storm spikes by charging higher up-front premiums. Ultimately, this analysis demonstrates that unbundling wind risk does not eliminate volatility; instead, it shifts the volatility between predictable upfront pricing and potentially disruptive, event-driven assessments.

To arrive at this conclusion, we consider that the total cost of insurance to the policyholders under the proposal to shift all trop storm risk to Citizens is the premium plus any potential assessments. The starting points are the proposal premiums shown in Table 20. We then calculate the policyholder surcharges and post-loss assessments that would be necessary in the scenarios that generated Citizens' shortfalls outlined in Tasks 2 and 3.

These four storm scenarios were examined under each of the four Citizens' structure scenarios. The storm scenarios were:

- A moderate $10 billion Hurricane Michael-level loss (~15% probability)
- A $30 billion multi-storm season (5% to 10% probability)
- A $47 billion Hurricane Donna-level event (~4% probability)
- A $70 billion Hurricane Andrew-level catastrophe (~3% probability)

We find that, of the 16 possible outcomes (four storm scenarios for each of the four Citizen structure scenarios), a post-loss assessment was necessary six times. For perspective, we summarize the least significant assessment scenario – the hurricane Michael event – and the most significant assessment scenario – the hurricane Andrew event. Task 2 provides a detailed discussion of all scenarios and all stress tests.

Hurricane Michael Level-Loss Scenario ($10 billion)

If Florida had a storm season where losses reached $10 billion (equivalent to a Hurricane Michael), no assessments would be necessary in our current market structure, or under any of the first three scenarios. Only under Citizens Structure Scenario 4 would there be a need for an assessment. Losses of this size occur about 15% of the time. The first two rows of Table 21 show the amount of debt issue that could be done under this loss scenario, using the funding deficit of $1.85 billion calculated in Task 2.

Table 21. Debt from Citizens Structure Scenario 4, with Hurricane Michael-Level Loss Scenario ($ billions)

Citizens Structure Scenario	Storm Scenario	Funding Deficit/Surplus	Debt Issue	Interest Rate	Annual Debt Service	# of Years
Scenario 4 $0 billion in Initial Capital Infusion; Premiums cover Annual Average Loss	Michael	($1.85)	$1.85	0.055	$.25	10
			$1.85	0.06	$.25	10
			$5.85	0.055	$.78	10
			$5.85	0.06	$.78	10

The first level of assessment is the 15% Citizens policyholder surcharge. The Citizens policyholder surcharge (max 15%) would cover the $1.85 billion debt issue with a single-year Citizens policyholder assessment. The estimated total premium collected by Citizens (both homeowners and residential condo owners) would be $12.694 billion. The $1.85 billion would be a 14.6% policyholder assessment. That would raise the statewide premiums (total of pre-loss premiums and the Citizens policyholder surcharge) under Citizens' Structure Scenario 4 by 14.6% as shown in Table 22 below. This would not require any multi-year emergency assessments that larger losses would require. In fact, Citizens would have the ability to repay the debt early with the proceeds from the policyholder surcharge.

Table 22. Statewide Premiums (Year 2) with Hurricane Michael-Level Loss & Citizens Policyholder Assessment

	2024 Premium	Base Scenario	Scenario 2	Scenario 3	Scenario 4
Homeowners	$3,672.30	$8,792.41	$4,278.42	$36,064.71	$3,863.66
Condo Owners	$1,724.89	$2,408.32	$1,472.72	$8,061.59	$1,493.28

Hurricane Andrew-Level Loss Scenario ($70 billion)

If we had a storm season where losses reached $70 billion (equivalent to Hurricane Andrew), an assessment would be necessary in 3 of our 4 Citizens structure scenarios: the Base Scenario and Scenarios 2 and 4. Losses of this size occur approximately 3% of the time.

Table 23 shows the amount of debt issue that would be necessary under the three Citizens structure scenarios that would require post-loss assessments. For each scenario, the first two rows show the total amount of deficit being financed over 10 years, the second two rows show the amount of the deficit that would need to be paid by the emergency assessment after the 15% policyholder surcharge was applied.

Table 23. Debt from Citizens Structure Scenarios, with Hurricane Andrew-Level Loss Scenario ($ billions)

Citizens Structure Scenario	Storm Scenario	Funding Deficit/Surplus	Debt Issue	Interest Rate	Annual Debt Service	# of Years
Base Scenario $20 billion in Initial Capital Infusion; 1-in 25-year premium levels	Andrew	($18.50)	$18.50	0.06	$2.51	10
			$18.50	0.065	$2.57	10
			$10.21	0.06	$1.39	10
			$10.21	0.065	$1.42	10
Citizens Structure Scenario	Storm Scenario	Funding Deficit/Surplus	Debt Issue	Interest Rate	Annual Debt Service	# of Years
Scenario 2 $45 billion in Initial Capital Infusion; 1-in-25-year premium levels	Andrew	($18.60)	$18.60	0.06	$2.53	10
			$18.60	0.075	$2.71	10
			$14.94	0.065	$2.08	10
			$14.94	0.08	$2.23	10
Citizens Structure Scenario	Storm Scenario	Funding Deficit/Surplus	Debt Issue	Interest Rate	Annual Debt Service	# of Years
Scenario 4 $0 billion in Initial Capital Infusion; Premiums cover Annual Average Loss	Andrew	($70.85)	$70.85	0.06	$9.63	10
			$70.85	0.085	$10.80	10
			$68.95	0.065	$9.59	10
			$68.95	0.09	$10.74	10

For each scenario, the total amount of Citizens premiums collected differ, which means that the maximum amount that can be raised with the 15% Citizens policyholder surcharge varies. Table 24 contains the maximum policyholder surcharges in each scenario.

Table 24. Maximum Revenue from Citizens Policyholder Surcharges

Citizens Structure Scenario	Estimated Citizens Premiums	Maximum Revenue from Policyholder Surcharge
Base Scenario	$55,264,203,970	$8,289,630,596
Scenario 2	$24,405,818,262	$3,660,872,739
Scenario 4	$12,693,909,894	$1,904,086,484

Citizens' emergency assessment can be levied at the greater of 10% of the assessment base or 10% of the remaining deficit. In all cases, 10% of the assessment base is $9.3 billion, which is greater than 10% of the remaining deficit. This would imply that the assessment would be a 10% assessment on the assessment base each year until the full deficit was recovered. This is a significant problem in Scenario 4. The annual debt service on the amount of debt necessary to finance is greater than the income from the emergency assessment base. Therefore, in that situation, Citizens would not be able to cover their debt service with the emergency assessment. This would be known by the bond markets likely preventing Citizens from remaining solvent. Assuming the losses occurred in Year 1, the emergency assessments for the remaining two scenarios would look like Table 25Table 25. Recall that under Scenario 3, no assessments would be necessary. Citizens could then use those funds to cover the annual debt service outlined above.

Table 25. Citizens Emergency Assessments Timeline ($ billions)

Citizens Structure Scenario		Year 2	Year 3
Base Scenario	Remaining Deficit	$10.21	$.91
	Assessment	$9.30	$.91
Scenario 2	Remaining Deficit	$14.94	$5.64
	Assessment	$9.30	$5.64

That full emergency assessment would be applied in year 2 with it being reduced in year 3 before disappearing.

Table 26. Statewide Premiums (Year 2) with Hurricane Andrew-Level Loss, Citizens Policyholder Assessment (15%), and Emergency Assessments of $9.3 billion

	2024 Premium	Base Scenario	Scenario 2	Scenario 3	Scenario 4
Homeowners	$3,672.30	$10,111.27	$4,920.18	$36,064.71	$3,877.15
Condo Owners	$1,724.89	$2,769.57	$1,693.63	$8,061.59	$1,498.50
Emergency Assessment (Per Household)[28]	$0	$1,000	$1,000	$0	N/A[29]

Emergency assessments are not based on wind risk and therefore we represent that as an additional entry in Table 26. Instead of adding that cost onto the "Citizens premium" for either homeowners or condo owners, we show an additional average amount paid per household in Florida representing the fact that these costs are borne not only by property owners, but also renters (renters insurance policies, auto policies). There are roughly 9.3 million households in Florida, which means collecting $9.3 billion from 9.3 million households results in an average cost of $1,000 per household. That emergency assessment would be applied in Years 2 and 3, with it reduced by about 50% in Year 4 before disappearing. The present value of those cash flows to the representative household would be $2,225.50 at 6% interest.

From a broad perspective, it appears that storm risk cannot be budgeted away by consolidating Florida's catastrophic windstorm risk into a state-backed insurer. Rather, it can only be redistributed. The structural choice before policymakers represents a direct trade-off between predictable upfront affordability and volatile, long-term financial exposure. Underfunded models that produce lower upfront premiums shift the true cost of catastrophes into post-event assessments, creating a framework where a severe storm season can trigger massive debt liabilities. These emergency assessments trigger significant geographic and economic cross-subsidization, forcing inland motorists, renters, and future residents to bear the financial burden of high-risk coastal property exposures. Ultimately, relying on post-loss debt and assessments leaves the system vulnerable to structural insolvency and creating a scenario where, when the next major hurricane makes landfall, the entire Florida economy will bear the cost.

Findings, Conclusions, and Considerations for Public Policymakers

This report evaluates a proposed restructuring of Florida's residential property insurance system in which all named windstorm risk would be transferred to Citizens, while private insurers would offer policies ex-wind coverage. The proposal is intended to stabilize the private insurance market, reduce insurer insolvency risk, and potentially lower costs for consumers.

[28] The emergency assessment would be this amount in year 2 and year 3, and approximately $500 in year 4.
[29] As noted in the discussion, the emergency assessment would not offset the annual debt service on the amount that needs to be financed. Citizens would likely be insolvent without a bailout.

The analysis uses statewide insurance data, catastrophe modeling, and actuarial projections to assess the effects of the proposal on premiums, state financial exposure, insurer stability, and consumer outcomes. The findings highlight a central policy tradeoff: lower and more stable private-market conditions versus increased concentration of catastrophic risk and financial responsibility within a state-backed entity.

Policy Context

Florida's insurance market is uniquely exposed to catastrophic hurricane risk. Modeled annual windstorm losses average approximately $8 billion (AAL) but vary widely, with severe events exceeding $45 billion and extreme events over $150 billion.

This volatility drives high premiums, heavy reliance on reinsurance, and repeated insurer failures. The proposal seeks to remove this core source of instability from the private market and centralize it within Citizens.

Policy Findings

Outcomes Are Driven by Financing Choices

The fiscal structure selected for Citizens—specifically initial capital levels and reliance on post-event assessments—determines nearly all outcomes:

- Premiums, assessments, and debt levels vary dramatically depending on policy design
- Scenarios with higher upfront capital ($20–$45 billion) reduce the likelihood of emergency assessments but require higher initial funding or borrowing
- Lower-cost structures shift financial risk to post-event assessments and debt issuance

Implication: the overall effect of the proposal on premiums and assessments depends on initial funding and premiums structure decisions.

Premium Impacts Are Large and Uneven

Statewide premium effects vary widely across the four scenarios:

- Homeowners premiums range from substantial decreases to increases exceeding 500%
- Condo owners premiums show similarly wide variation
- Aggregate premium volume for Citizens would increase from ~$3 billion today to between $12 billion and $240 billion depending on the structure

At the local level:

- Coastal counties experience significant rate increases
- Inland counties may see reductions
- Rate changes range from approximately –70% to over +2000% in extreme cases

Implication: The proposal creates significant geographic redistribution of costs.

Increased Exposure to Assessments and Statewide Costs

Under most plausible scenarios, major storms require significant post-event funding:

- Potential assessments can exceed $70 billion following severe events
- Annual emergency assessments could approach ~$9 billion per year
- Debt issuance requirements range from ~$20 billion to $70+ billion, well above most historical debt issues

Because assessments apply broadly across insurance policyholders, costs would extend beyond coastal homeowners to:

- Inland residents
- Renters
- Businesses and auto policyholders

Implication: The proposal effectively creates a broader "hurricane tax" that redistributes catastrophe costs statewide, creating additional subsidies (geographical, intertemporal and wealth levels).

Material Implications for State of Florida Financial Risk

While Citizens' obligations are legally separate from State of Florida general obligation debt, the proposal could increase perceived State of Florida exposure:

- Large-scale debt issuance and multi-year assessments may be viewed by markets as economically tied to the State of Florida
- The concentration of risk in a single entity increases the potential magnitude of financial shocks
- Rating agencies may consider the cumulative burden on households and Florida's economy when evaluating credit quality

Implication: While not direct state debt, the proposal may indirectly affect borrowing costs and fiscal flexibility.

Private Insurance Market Stabilization

The proposal materially alters private insurer economics:

- Approximately $9 billion in wind-related premium is removed from private carriers
- Insurer exposure to catastrophic volatility is significantly reduced
- Financial performance is likely to stabilize, with improved solvency, lower loss volatility, and more predictable returns

Ex-wind premiums are expected to:

- Remain broadly stable in the long run
- Potentially increase modestly in the short term due to fixed cost reallocation

Implication: The proposal may improve insurer participation and reduce insolvency risk, but does not guarantee lower total system costs.

Operational and Administrative Considerations

The proposal would transform Citizens into a large-scale statewide insurer:

- Policy count could expand from under 500,000 to over 7 million
- Claims volume would remain highly volatile, with potential for multi-million claim surges in major storm years
- Administrative complexity and staffing requirements would increase substantially

Implication: Operational execution risk is significant, particularly for claims handling after major disasters.

Examples from Other Jurisdictions

Many jurisdictions and insurance systems worldwide are confronting similar challenges associated with increasing catastrophe exposure, insurance affordability, and post-event financing needs:

- Public insurance entities and residual market mechanisms increasingly rely on government support, assessments, reinsurance programs, or debt financing following major disaster events. See Appendix N for a review of several different catastrophe coverage facilities and public backstops.
- Rising catastrophe losses, population growth in high-risk areas, inflation in rebuilding costs, and reinsurance market volatility have created pressure on both private insurers and public risk-sharing systems

- Many policymakers and regulators are evaluating how to balance affordability, market availability, taxpayer exposure, and equitable distribution of catastrophe costs across policyholders

Implication: Florida policymakers should monitor approaches being applied in other places to identify mechanisms that may be effective in Florida.

Core Policy Tradeoff

The analysis identifies a fundamental tradeoff between higher upfront premiums and the likelihood of assessments and potential financial risk as shown in Table 27.

Table 27. Fundamental Tradeoff of Financial Risk

Policy Choice	Outcome
Higher upfront premiums and capital	Lower likelihood of assessments; greater financial stability
Lower upfront premiums	Increased reliance on debt and assessments; higher systemic risk

In all cases:

- Catastrophic risk is not eliminated
- Catastrophic risk is redistributed across time (pre-event vs. post-event) and across the population

Potential Advantages and Risks for Policymakers

Advantages

- Improved private market stability and insurer solvency
- Reduced likelihood of insurer insolvencies following storms
- Potential for lower cost of capital through public financing
- Greater uniformity in coverage and pricing structures

Risks

- Concentration of catastrophic risk in a single entity
- Increased likelihood and magnitude of statewide assessments
- Potential impact on state credit perception
- Reduced competition and innovation in insurance markets
- Exposure to special interest pressures in rate-setting and funding decisions

Bottom Line for Consideration

This proposal represents a structural shift from a diversified, market-based system to a centralized, state-backed catastrophe financing model.

- The proposal can stabilize the private insurance market and improve private insurer financial health
- However, the proposal transfers significant financial risk to Citizens and, indirectly, to Florida residents and the broader economy

The central policy question is not whether hurricane risk should be borne, but how it should be allocated—among private capital, public financing, and Florida households.

Effective implementation would require careful legislative decisions regarding:

- Initial capitalization levels
- Assessment authority and limits
- Debt financing structure
- Governance and rate-setting independence

These decisions ultimately determine whether the proposal reduces systemic risk—or concentrates it.