

SECOND REGULAR SESSION

# HOUSE BILL NO. 1918

## 94TH GENERAL ASSEMBLY

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INTRODUCED BY REPRESENTATIVES BRANDOM (Sponsor), SWINGER, HODGES, WRIGHT, TODD, KINGERY, TILLEY, MUSCHANY, VILLA, DAUS AND SCHAAF (Co-sponsors).

Read 1st time January 30, 2008 and copies ordered printed.

D. ADAM CRUMBLISS, Chief Clerk

4558L.01I

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### AN ACT

To amend chapter 379, RSMo, by adding thereto eight new sections relating to the establishment of the Missouri catastrophe fund.

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*Be it enacted by the General Assembly of the state of Missouri, as follows:*

Section A. Chapter 379, RSMo, is amended by adding thereto eight new sections, to be  
2 known as sections 379.955, 379.957, 379.959, 379.961, 379.963, 379.965, 379.967, and 379.969,  
3 to read as follows:

**379.955. As used in sections 379.955 to 379.969, unless otherwise indicated, the**  
2 **following terms mean:**

3 (1) "Actuarially indicated", with respect to premiums paid by insurers for  
4 reimbursement provided by the fund, an amount determined according to principles of  
5 actuarial science to be adequate, but not excessive, in the aggregate, to pay current and  
6 future obligations and expenses of the fund, including additional amounts if needed to pay  
7 debt service on revenue bonds issued under section 379.963 and to provide required debt  
8 service coverage in excess of the amounts required to pay actual debt service on revenue  
9 bonds issued under section 379.963, and determined according to principles of actuarial  
10 science to reflect each insurer's relative exposure to losses from covered events;

11 (2) "Covered event", all earthquakes, regardless of quantity, that occur in a  
12 calendar year, that are declared to be earthquakes by the United States Geological Survey,  
13 which cause insured losses in this state;

EXPLANATION — Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted from the law. Matter in **bold-face** type in the above bill is proposed language.

14           (3) "Covered policy", any insurance policy covering residential property in this  
15 state, including, but not limited to, any homeowner's, mobile homeowner's, farm owner's,  
16 condominium association, condominium unit owner's, tenant's, or apartment building  
17 policy, or any other policy covering a residential structure or its contents issued by any  
18 authorized insurer, including any basic property insurance policy issued under sections  
19 379.810 to 379.880. "Covered policy" does not include any policy that specifically excludes  
20 coverage for covered losses;

21           (4) "Director", the director of the department of insurance, financial institutions  
22 and professional registration, or his or her designee;

23           (5) "Fund", the Missouri catastrophe fund created under section 379.957;

24           (6) "Losses", direct incurred losses under covered policies in a calendar year,  
25 excluding losses attributable to additional living expense coverages not to exceed forty  
26 percent of the insured value of a residential structure or its contents, and excluding loss  
27 adjustment expenses and fair rental value losses and business interruption losses;

28           (7) "Retention", the amount of losses below which an insurer is not entitled to  
29 reimbursement from the fund. An insurer's retention shall be calculated as follows:

30           (a) The department of insurance, financial, and professional regulation shall  
31 calculate and report to each insurer the retention multiples for that year. For the contract  
32 year beginning January 1, 2009, the retention multiple shall be equal to two billion dollars  
33 divided by the total estimated reimbursement premium for the contract year; for  
34 subsequent years, the retention multiple shall be equal to two billion dollars, adjusted to  
35 reflect the percentage growth in premium for covered policies since 2009, divided by the  
36 total estimated reimbursement premium for the contract year;

37           (b) The retention multiple as determined under paragraph (a) of this subdivision  
38 shall be adjusted to reflect the coverage level elected by the insurer. For insurers electing  
39 the ninety percent coverage level, the adjusted retention multiple is one hundred percent  
40 of the amount determined under paragraph (a) of this subdivision. For insurers electing  
41 the seventy-five percent coverage level, the retention multiple is one hundred twenty  
42 percent of the amount determined under paragraph (a) of this subdivision. For insurers  
43 electing the forty-five percent coverage level, the adjusted retention multiple is two  
44 hundred percent of the amount determined under paragraph (a) of this subdivision;

45           (c) An insurer shall determine its provisional retention by multiplying its  
46 provisional reimbursement premium by the applicable adjusted retention multiple and  
47 shall determine its actual retention by multiplying its actual reimbursement premium by  
48 the applicable adjusted retention multiple;

49           (d) To the extent the Missouri catastrophe fund collects federal backdrop or  
50 reinsurance moneys designed to provide protection above the financial capacity of the fund  
51 as provided in sections 379.955 to 379.969, the insurer elected coverage levels shall  
52 automatically become one hundred percent.

          379.957. 1. There is hereby created the "Missouri Catastrophe Fund" within the  
2 state treasury to be administered by the director. Moneys in the fund may not be  
3 expended, loaned, or appropriated except to pay obligations of the fund arising out of  
4 reimbursement contracts entered into under section 379.959, payment of debts including  
5 obligations arising out of revenue bonds issued under section 379.963, costs of the  
6 mitigation program under section 379.965, costs of procuring reinsurance, and costs of  
7 administration of the fund. The director shall invest the moneys in the fund under section  
8 30.260, RSMo. Except as otherwise provided in sections 379.955 to 379.969, earnings from  
9 all investments shall be retained in the fund. Notwithstanding the provisions of section  
10 33.080, RSMo, to the contrary, moneys in the trust fund shall not revert to the credit of the  
11 general revenue fund at the end of the biennium. The director may employ or contract  
12 with such staff and professionals as it deems necessary for the administration of the fund.

13           2. The director shall promulgate such rules as are reasonable and necessary to  
14 implement sections 379.955 to 379.969. The director is authorized to adopt those rules that  
15 are reasonable and necessary to accomplish the limited duties specifically delegated within  
16 sections 379.955 to 379.969. Any rule or portion of a rule, as that term is defined in section  
17 536.010, RSMo, that is promulgated under the authority delegated in sections 379.955 to  
18 379.969 shall become effective only if it has been promulgated under the provisions of  
19 chapter 536, RSMo. This section and chapter 536, RSMo, are nonseverable and if any of  
20 the powers vested with the general assembly under chapter 536, RSMo, to review, to delay  
21 the effective date or to disapprove and annul a rule are subsequently held unconstitutional,  
22 then the grant of rulemaking authority and any rule proposed or adopted after the  
23 effective date of this section shall be invalid and void.

          379.959. 1. The director shall enter into a contract with each insurer writing  
2 covered policies in this state to provide to the insurer the reimbursement described in  
3 subsection 2 of this section, in exchange for the reimbursement premium paid into the fund  
4 under section 379.961. As a condition of doing business in this state, each such insurer  
5 shall enter into such a contract.

6           2. The contract shall require the director to reimburse the insurer for forty-five  
7 percent, seventy-five percent, or ninety percent of its losses from each covered event in  
8 excess of the insurer's retention, plus ten percent of the reimbursed losses to cover loss  
9 adjustment expenses.

10           **3. The insurer shall elect one of the payment percentage coverage levels specified**  
11 **in this section and may, upon renewal of a reimbursement contract:**

12           **(1) Elect a lower percentage coverage level; or**

13           **(2) Elect a higher percentage if it pays to the fund an actuarially appropriate**  
14 **equalization charge as determined by the director.**

15           **4. All members of an insurer group must elect the same percentage coverage level.**  
16 **The Missouri basic property insurance inspection and placement program under section**  
17 **379.810 shall elect the ninety percent coverage level.**

18           **5. The contract shall provide that reimbursement amounts shall not be reduced by**  
19 **reinsurance paid or payable to the insurer from other sources; however, recoveries from**  
20 **such other sources, taken together with reimbursements under the contract, may not**  
21 **exceed one hundred percent of the insurer's losses from covered events. If such recoveries**  
22 **and reimbursements exceed one hundred percent of the insurer's losses from covered**  
23 **events, and if there is no agreement between the insurer and the reinsurer to the contrary,**  
24 **any amount in excess of one hundred percent of the insurer's losses shall be returned to the**  
25 **fund.**

26           **6. The contract shall also provide that the obligation of the director with respect**  
27 **to all contracts covering a particular year shall not exceed the balance of the fund, together**  
28 **with the maximum amount that the director is able to raise through the issuance of revenue**  
29 **bonds under section 379.963. The contract shall require the director to annually notify**  
30 **insurers of the fund's anticipated borrowing capacity for the next year, the current balance**  
31 **of the fund, and the insurer's estimated share of total reimbursement premium to be paid**  
32 **to the fund. For all regulatory and reinsurance purposes, an insurer may calculate its**  
33 **projected payout from the fund as its share of the total fund multiplied by the sum of the**  
34 **current fund balance and the bonding capacity as reported under this subsection. In May**  
35 **and October of each year, the director shall publish in the Missouri register a statement**  
36 **of the fund's anticipated borrowing capacity and the current balance of the fund.**

37           **7. (1) The contract shall require the insurer to report the insurer's losses from**  
38 **covered events for the year to the director on December thirty-first of each year, and**  
39 **quarterly thereafter. The contract shall require the director to determine and pay, as soon**  
40 **as practicable after receiving these reports, the initial amount of reimbursement due and**  
41 **adjustments to this amount based on later loss information. The adjustments to**  
42 **reimbursement amounts shall require the director to pay, or the insurer to return, amounts**  
43 **reflecting the most recent calculation of losses.**

44           **(2) If the director determines that the projected year-end balance of the fund,**  
45 **together with the amount that the director determines that it is possible to raise through**

46 revenue bonds issued under section 379.963, are insufficient to pay reimbursement to all  
47 insurers at the level promised in the contract, the director shall:

48 (a) Pay to each insurer the amount of reimbursement it is owed, up to an amount  
49 equal to the projected payout determined under subsection 2 of this section; and

50 (b) Thereafter, establish the prorated reimbursement level at the highest level for  
51 which any remaining fund balance or bond proceeds are sufficient.

52 8. The contract shall provide that if an insurer demonstrates to the director that  
53 it is likely to qualify for reimbursement under the contract, and demonstrates to the  
54 director that the immediate receipt of moneys is likely to prevent the insurer from  
55 becoming insolvent, the director shall advance the insurer, at market interest rates, the  
56 amounts necessary to maintain the solvency of the insurer, up to fifty percent of the  
57 director's estimate of the reimbursement due the insurer. The insurer's reimbursement  
58 shall be reduced by an amount equal to the amount of the loan and interest thereon.

59 9. The contract shall provide that in the event of the insolvency of an insurer, the  
60 fund shall pay directly to the Missouri Property and Casualty Insurance Guaranty  
61 Association, established under sections 375.771 to 375.779, RSMo, the amount of  
62 reimbursement moneys that would otherwise be owed to the insurer related to the claims  
63 paid by the guaranty association.

64 10. The director shall adopt the initial contract form no later than September 1,  
65 2008, and shall adopt the initial premium formula no later than October 1, 2008. Initial  
66 reimbursement contracts must be entered into no earlier than November 1, 2008, and no  
67 later than December 15, 2008.

379.961. 1. Each reimbursement contract shall require the insurer to annually pay  
2 to the fund an actuarially indicated premium for the reimbursement promised.

3 2. The director shall select an independent consultant to develop a formula for  
4 determining the actuarially indicated premium to be paid to the fund. The formula shall  
5 specify, for each zip code or other limited geographical area, the amount of premium to be  
6 paid by an insurer for each one thousand dollars of insured value under covered policies  
7 in that zip code or other area. In establishing premiums, the director shall consider the  
8 coverage elected under subsection 2 of section 379.959 and any factors that tend to enhance  
9 the actuarial sophistication of ratemaking for the fund, including deductibles, type of  
10 construction, type of coverage provided, relative concentration of risks, and other such  
11 factors deemed by the director to be appropriate. The director may, at any time, revise the  
12 formula under the procedure provided in this subsection.

13 3. No later than September first of each year, each insurer shall notify the director  
14 of its insured values under covered policies by zip code, as of June thirtieth of that year.

15 On the basis of these reports, the director shall calculate the premium due from the  
16 insurer, based on the formula adopted under subsection 2 of this section. The insurer shall  
17 pay the required annual premium under a periodic payment plan specified in the contract.  
18 The director shall provide for payment of reimbursement premium in periodic installments  
19 and for the adjustment of provisional premium installments collected prior to submission  
20 of the exposure report to reflect data in the exposure report.

21 4. All premiums paid to the fund under reimbursement contracts shall be treated  
22 as premium for approved reinsurance for all accounting and regulatory purposes.

23 5. In order to provide startup moneys for the administration of the fund, each  
24 insurer subject to sections 379.955 to 379.969 shall pay to the fund an advance premium  
25 of one thousand dollars no later than January 1, 2009. The insurer shall receive a credit  
26 against future premiums for the advance payment.

379.963. 1. Upon the occurrence of a covered event and a determination that the  
2 moneys in the fund are or will be insufficient to pay reimbursement at the levels promised  
3 in the reimbursement contracts, the director may take the necessary steps for the issuance  
4 of revenue bonds for the benefit of the fund. The bonds shall not be general obligation  
5 bonds and shall not constitute debts of this state or any agency, political corporation, or  
6 political subdivision and are not a pledge of the full faith and credit or the taxing authority  
7 of the state. The terms of the bond may not exceed thirty years. The proceeds of such  
8 revenue bonds may be used to make reimbursement payments under reimbursement  
9 contracts; to pay interest on bonds; to fund reserves for the bonds; to pay expenses  
10 incident to the issuance or sale of such bonds; or for other purposes related to the financial  
11 obligations of the fund as the director may determine.

12 2. If the director determines that the amount of revenue produced under section  
13 379.961 is insufficient to fund revenue bonds to pay reimbursement at the levels promised  
14 in the reimbursement contracts, the director shall levy an emergency assessment on each  
15 insurer writing property and casualty business in this state. The assessment shall be  
16 specified as a percentage of future premium collections and is subject to annual  
17 adjustments by the director to reflect changes in premiums subject to assessments collected  
18 under this subsection in order to meet debt obligations. The same percentage shall apply  
19 to all policies in lines of business subject to the assessment issued or renewed during the  
20 twelve-month period beginning on the effective date of the assessment. A premium is not  
21 subject to an annual assessment under this subsection in excess of six percent of premium  
22 with respect to obligations arising out of losses attributable to any one contract year, and  
23 a premium is not subject to an aggregate annual assessment under this subsection in excess  
24 of ten percent of premium. An annual assessment under this subsection shall continue until

25 the bonds issued with respect to which the assessment was imposed are outstanding,  
26 including any bonds the proceeds of which were used to refund the bonds, unless adequate  
27 provision has been made for the payment of the bonds under the documents authorizing  
28 issuance of the bonds. With respect to each insurer collecting premiums that are subject  
29 to the assessment, the insurer shall collect the assessment at the same time as it collects the  
30 premium payment for each policy and shall remit the assessment collected to the fund or  
31 authority as provided in the order issued by the director. The director shall verify the  
32 accurate and timely collection and remittance of emergency assessments and shall maintain  
33 reports and report his findings to the director. Each insurer collecting assessments shall  
34 provide the information with respect to premiums and collections as may be required by  
35 the director of the department of insurance, financial and professional regulation to enable  
36 the director to monitor and verify compliance with this subsection.

379.965. 1. The director may procure reinsurance from reinsurers for the purpose  
2 of maximizing the capacity of the fund.

3 2. In each fiscal year in which there are no outstanding obligations of the fund, the  
4 general assembly may appropriate from the investment income of the Missouri catastrophe  
5 fund an amount no less than ten percent and not more than thirty-five percent of the  
6 investment income from the prior fiscal year for the purpose of providing funding for local  
7 governments, state agencies, public and private educational institutions, and nonprofit  
8 organizations to support programs intended to improve catastrophe preparedness, reduce  
9 potential losses in the event of a covered event, provide research into means to reduce such  
10 losses, educate or inform the public as to means to reduce covered losses, assist the public  
11 in determining the appropriateness of particular upgrades to structures or in the financing  
12 of such upgrades, or protect local infrastructure from potential damage from a covered  
13 loss. Moneys shall first be available for appropriation under this subsection in fiscal year  
14 2010. Moneys in excess of the ten percent specified in this subsection shall not be available  
15 for appropriation under this subsection if the director finds that an appropriation of  
16 investment income from the fund would jeopardize the actuarial soundness of the fund.

17 3. The director may allow insurers to comply with reporting requirements and  
18 reporting format requirements by using alternative methods of reporting if the proper  
19 administration of the fund is not thereby impaired and if the alternative methods produce  
20 data which are consistent with the purposes of sections 379.955 to 379.969.

21 4. In order to assure the equitable operation of the fund, the director may impose  
22 a reasonable fee on an insurer to recover costs involved in reprocessing inaccurate,  
23 incomplete, or untimely exposure data submitted by the insurer.

**379.967. 1. There is established in the department of insurance, financial institutions and professional registration, the "Missouri Catastrophe Fund Advisory Council". The advisory council shall consist of thirteen members, appointed by the governor with the advice and consent of the senate.**

**2. Each of these members shall be appointed for a term of three years, except that, of the members first appointed, four shall serve for terms of one year, four shall serve for terms of two years and five shall serve for terms of three years. Of these members, one shall be an actuary, one shall be a meteorologist, one shall be an engineer, one shall be a representative of insurers, one shall be a representative of insurance producers, one shall be a representative of reinsurers, one shall be a consumer representative, one shall be a representative of organized labor, one shall be a representative of law enforcement, one shall be a representative of firefighters, one shall be a seismologist, one shall be a representative of the state emergency management agency, and one shall be a member of the public at large. A majority of the membership of the council shall constitute a quorum for the transaction of council business. Action may be taken and motions and resolutions adopted by the council at any meeting thereof by the affirmative vote of a majority of the full membership of the council. The council shall meet regularly as it may determine, and shall also meet at the call of the director. The council shall appoint a chairperson from among its members and such other officers as may be necessary. In addition to providing the director with information and advice in connection with his duties with respect to the fund generally, the council shall be specifically charged with developing prevention and mitigation standards that prevent or significantly reduce the potential damage from the natural or manmade covered loss. Members of the advisory council shall serve without compensation for their services, but shall be paid any necessary expenses incurred in attending meetings of the council or committee thereof or in the performance of other duties authorized by the council.**

**379.969. Upon the creation of a federal or multistate catastrophic insurance or reinsurance program intended to serve purposes similar to the purposes of the fund created by section 379.957, the director shall promptly make recommendations to the general assembly for coordination with the federal or multistate program, for termination of the fund, or for such other actions as the director finds appropriate in the circumstances.**

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