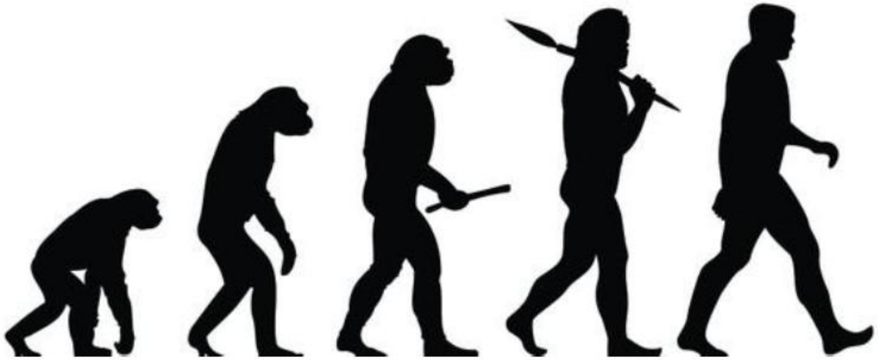
# Man Made & Unintended ……
# …………………………………..Consequences

A conversation about the drivers, the multiple constituents and the unintended consequences of Legislators and Regulators involvement in the details of risk management, using Florida as an example, examining the lessons learned while anticipating what's next. We have big CATS to tame!

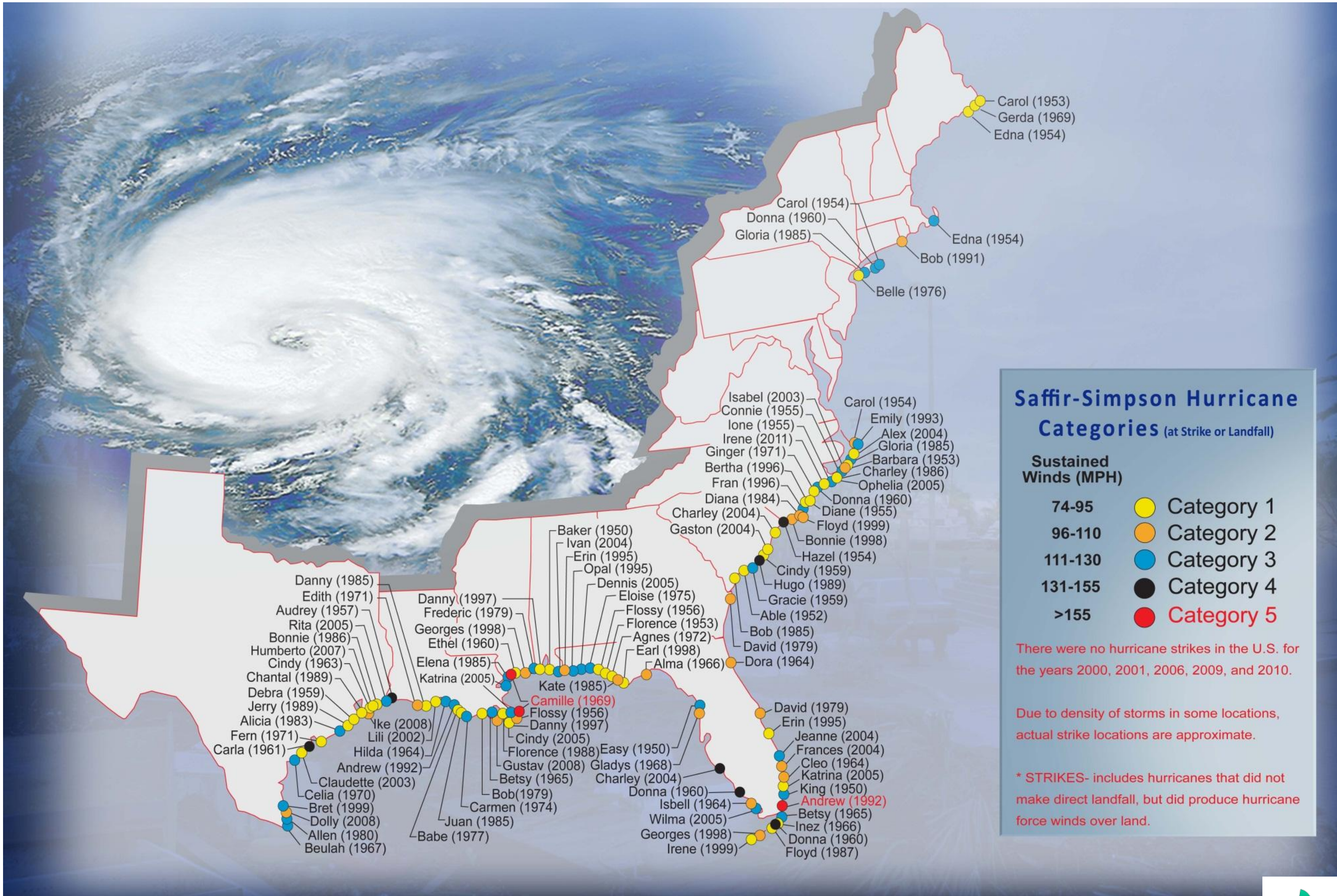
By MATT RIDLEY



# Today's Discussion

- Your primary questions/thoughts about Florida
  - What do you see/how do you define the problems
    - » Considering all the constituents
- Those elements you wish to explore
  - Your suggestions for mastering the Florida problems
- Your vision of Florida's future
  - What should we anticipate
  - How do carriers deal with it
  - How do we Tame the CATS!

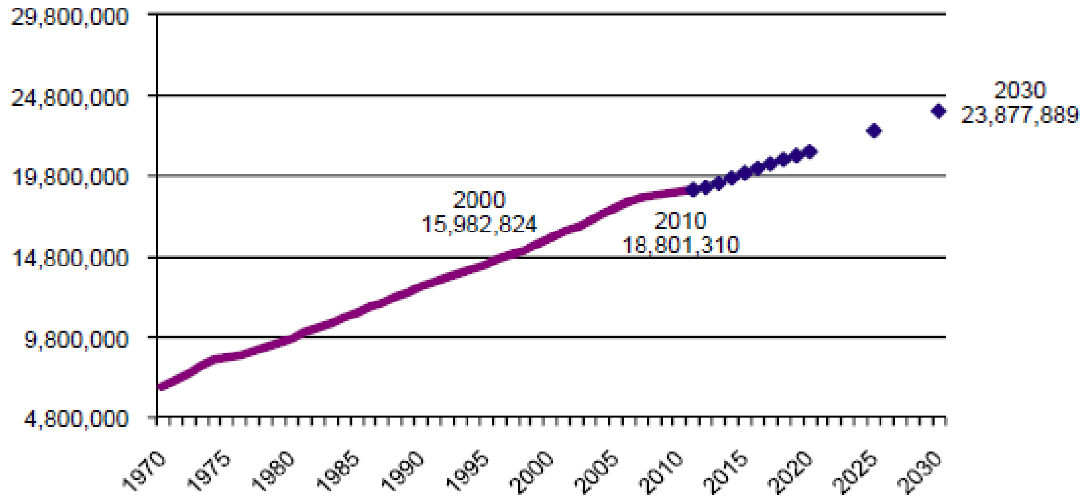
# Continental US Hurricane strikes – 1951 to 2011*



# Florida today – 2011 by the numbers

- More than 18.8 Million people call Florida home
  - 4th most populous State
  - 7.4 million households need insurance coverage totaling $2.3 trillion TIV
  - 120 Representatives and 40 Senators; term limits apply
- Key Statistics
  - More hurricanes have made landfall in Florida than any other region since 1851
  - Total Residential Homeowners premium: $9.2B
  - Total Florida Reinsurance premium ceded: $3.8B or 41% of total premium
  - RMS v11 100 year Residential PML is currently estimated at $89B – greater than all other coastal states combined making it by far the largest “peak wind zone” in the world
  - RMS v11 Residential AAL estimated at $7.5B (4.5 times greater than Texas – the 2nd highest state) and represents 59% of the entire east coast’s AAL of $13.4B
  - Total Florida AAL (Residential and Commercial) of $12.5b
- **The Big One!** $215B\\:250Event
  - Who is going to pay when this happens?

# Florida's April 1 Population




Florida's population:

- was 15,982,824 in 2000
- was 18,801,310 in 2010
- is forecast to grow to 23,877,889 by 2030

## Environment Before Andrew

Violently growing state waffling between Democrats and Republicans

Lawton Chiles was the sitting Democratic Governor

Tom Gallagher was an elected Insurance Commissioner and a Republican

House and Senate Members had been in office for many years

Many new members as a function of growth in population

No history of disaster since 1972 (Agnes) emphasis on growth

***And then came term limits***

## Environment After Andrew

State officials, Insurance Department, House and Senate went to work

The Industry cooperated with government efforts to deal with the immediate impact and the long term implications to growth

The Florida Hurricane Catastrophe Fund was established

The FRPCJUA was established as a tax exempt reinsurance mechanism

The Florida Windstorm Underwriting Association expanded

A moratorium on non renewals was put in place

A strategy toward post event debt financing emerges

Term Limits Apply

# Florida's Residual Market changes due to Hurricane Andrew – FRPCJUA & FWUA

- The FRPCJUA experienced very rapid growth
  - By the end of 1993, it had 244,052 policies in force, and twelve months later it had 675,497 policies in force
  - From 1995 to 1997 they created a plan to move policies from the FRPCJUA back into the private market. The FRPCJUA was authorized to pay a "Take-Out Bonus"
  - While the "Take-Out" Program took effect in early 1996, the FRPCJUA continued to grow until September 30, 1996 when it reached a peak inforce policy count of 936,837 policies
  - In 1996, coastal portions of Palm Beach and Pasco Counties also became **FWUA** eligible and the Florida Legislature established the Accelerated Exposure Reduction Program
  - Several large insurance companies took advantage of this program to transfer wind exposure in coastal areas to the FWUA

# Florida's Residual Market changes due to Hurricane Andrew – FRPCJUA & FWUA


- By the end of 1998, the FWUA eligible areas included portions of 29 of Florida's 35 coastal counties – 500k PIF
- The FWUA's policies inforce then stabilized and even declined due to the creation of the "Take-Out" programs
- This new "Take-Out" program ultimately prompted the creation of over 30 newly capitalized insurance carriers in FL
  - Minimum policy holder surplus of at least $5,000,000 and in order to fully earn the "Take-Out bonus", companies were required to offer the policyholder a renewal for at least 3 years
- Huge success, however by 2001 policies began to flow back into the FRPCJUA
  - New wave of unprecedented growth in Florida
  - Elimination of the Take-Out bonus program
  - "Sinkholes"

# Florida's Residual Market changes due to Hurricane Andrew – FHCF and Citizens

- Hurricane Andrew also prompted the creation of the **Florida Hurricane Catastrophe Fund ("FHCF")** in November 1993 to provide a more cost effective and readily available reinsurance mechanism for insurance carriers writing in the State

- In 2002, the FRPCJUA was merged with the FWUA creating **Citizens Property Insurance Corporation ("Citizens")** extending the tax exempt status to both entities

- The Florida Legislature created the FHCF as a state trust fund to provide reinsurance to insurance carriers

  - *We need to talk about the real purpose of the Cat Fund and the Citizens structure*
  - *Does the purpose change? What drives the change?*
  - *How to change it-your ideas*

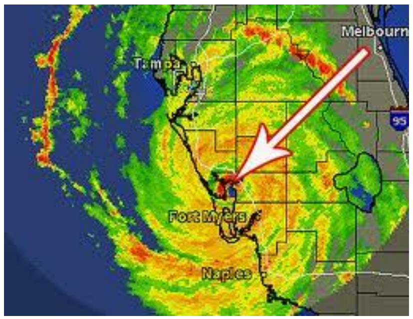
# Florida's Residual Market changes due to Hurricane Andrew – FHCF & Citizens

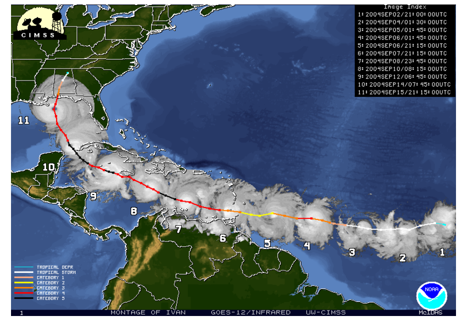
- The FHCF is only liable for claims up to the sum of its assets and its borrowing capacity
  - Based on its FHCF reimbursement premiums, each participating insurance company is entitled to its pro rata share of the FHCF's annual capacity with one exception:
    - Citizens Property Insurance Corporation is entitled to any "excess" or unused capacity at the end of the contract year

- Citizens Property Insurance Corporation – 3 accounts
  - Personal Lines Account "PLA", Commercial Lines Account "CLA", High-Risk Account "HRA"
  - The PLA and the CLA are the multi-peril business activities formerly in the FRPCJUA, while the HRA is the wind-only business activity formerly in the FWUA
- Discussion of how things evolve in the entwined residual market entities in Florida with unintended consequences
- Your suggestions?

# Recent hurricane activity

2004 – Charley, Frances, Ivan, Jeanne



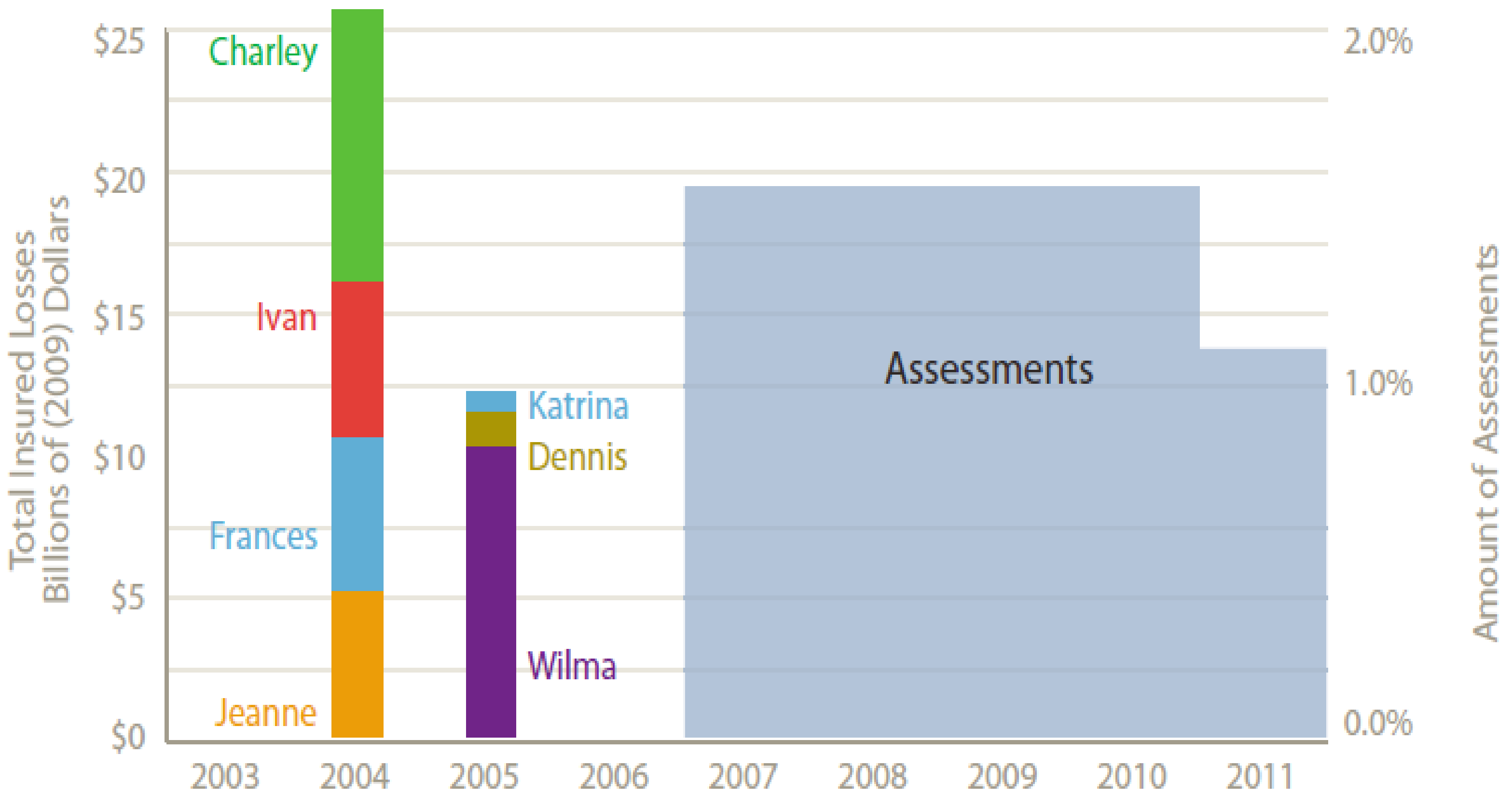



2005 – Katrina, Rita, Wilma

Result: More CATS to tame! Several specialists going insolvent and national players again begin significant exposure reduction efforts. Citizens is the only Company to write in certain areas.

# Assessments – Florida Hurricane Catastrophe Fund

Figure 4: Florida Insured Hurricane Losses and Emergency Assessment Amount Levied by Citizens Ins. Co. (CPIC)




Note: 2011 annual assessment of 1% is applicable until further notice Note: Insured damage amount for Rita not available.
Source: Florida CFO P&C General Current Assessments

# 2006-2009 Legislative Changes-FHCF

HB-1A

| 2006 Regular Session | 2007 Special Session | 2007 Regular Session | 2008 Regular Session | 2009 Regular Session |
|---|---|---|---|---|
| Drop down for Limited Apportionment Company $10M max; (LAC)<br><br>25% Rapid cash Build Up | Surplus Notes Companies also got LAC layer;<br><br>25% RCB removed | Added more to LAC access effective date change | No Change | LAC continued; payment sequence addressed<br><br>Increased RCB 5% /yr<br><br>Contract year Jan-Dec |
| | TICL established adding $12B on top of the $16B mandatory layer; TEACO lowered retention to cover losses below the $6B retention<br>Established presumed rate factor | Clarification language | | Take TICL down by $2B per year thru 2013; increased cost of TICL; |
| No extension for Med Mal excl from assessment;<br><br>CPIC access for assumed policies | Companies cannot duplicate $coverage available thru FHCF | Extended exemption to 5/31/10 | | Contract year date change May-Oct bonding reports ; reduce multiples uniformly |

# 2006-2009 Legislative Changes-Citizens

HB-1A

| 2006 Regular Session | 2007 Special Session | 2007 Regular Session | 2008 Regular Session | 2009 Regular Session |
|---|---|---|---|---|
| $715M allocated to offset assessments;<br>Administrative controls added | | Legislative purpose redefined; affordable rates in public interest | | |
| Rates established as top 20 companies and not competitive with market/ include reinsurance cost<br><br>LAC pay full assessments in 12 months<br><br>HRA boundary reduction required by Feb 2010 | Rate Freeze / OIR to establish rates; 2008 to be actuarially sound; Deletes non competitive clause<br><br>Authorized non residential commercial coverage | | | Glide path @ 10% 1/10 Increase rates for RCB;<br><br>Boundary date 12/2010 |
| Allowed more restrictive cover<br>$100 bonus for takeouts<br>$1M homes inelig 7/08<br>Non homestd prop inelig<br>All inelig if offer made by authorized carrier at approved rates | Deleted<br>Ineligible unless Premium is 25% higher but added opt out provision; | Extended to 1/09<br><br>Premium difference 15% | Changed to $2M | |

# 2006-2009 Legislative Changes-Mitigation/OIR

HB-1A

| 2006 Regular Session | 2007 Special Session | 2007 Regular Session | 2008 Regular Session | 2009 Regular Session |
|---|---|---|---|---|
| OIR required to re-evaluate wind mitigation discounts | Cabinet to adopt uniform home grading system/and wind mitigation inspection form for discounts<br><br>Forced Auto/HO writers w/ auto in Fl to write HO; $50M surplus if Company writes HO in another state | OIR to conduct study to validate discounts /only residential funded<br><br>Applied to domestic residential Insurer if a sub of company domiciled elsewhere – Pups | OIR to set credits per home grading/rules needed forcing companies to use old credits for 2 yrs | |
| | Must pay all claims within 90 days | | | |
| | | | Transparency of assumptions by OIR and company/requires no changes in course of rate filing communications forcing withdrawals to respond to questions | |

# 2006-2009 Legislative Changes-Mitigation/Rates

HB-1A

| 2006 Regular Session | 2007 Special Session | 2007 Regular Session | 2008 Regular Session | 2009 Regular Session |
|---|---|---|---|---|
| $250M for Mitigation Inspections Program<br>My Safe Fl Home;<br>low income home owners; | Windstorm Mitigation Study | Grants and inspections pushed; $40 M Volunteer Fund set up for funding; $10M MSFH no interest loan program | Required qualified vendors;$10M for loans set aside; Vol Fund lost funding<br>Disclosure on sale of property | Stop loan program; allows maximum grant levels set<br><br>Disclosure not required |
| | File and use to 12/08<br><br>Reduced insurer options to challenge OIR rate disapprovals<br><br>Allowed multi-policy discount | Use and file for Casualty | Extended to Jan 2010<br><br>Expedited rate hearings-DOAH review<br><br>Allows discount for Citizens policies if same agent | Extended to 12/10<br><br>Expedited filing for reins costs including replace of TICL/TEACO, RBC, capped at 10% per policyholder; Annually only |
| Rate Flex +/-5% rate chg where competition eff 7/07<br><br>Profit factor approved by OIR | Repealed before taking effect<br><br>Requires rate certification by CEO/CFO | Profits of parent co need to be provided in filings | Notices on non-renwals from 100 to 180 days<br><br>Repealed-reasonable margin for profit allowed | |

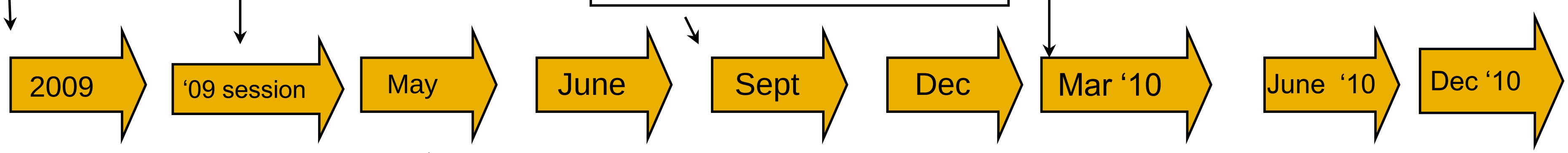
# Florida's Domestics-A legislated and regulated road to insolvency

PML to Premium ratios increase without exposure changes
Industry and credit related increase in reins costs 10% +
your prem drops–mitigation credits; SF policies start to move cos. absorb them also changing exposure-impact

TICL reduced in part @2.33 ROL
Your cost incr 15% ROL for private purchase

OIR approves rate increase

**Renewal processing**
**With rate adjusted**




Cos file for rate increases w/ FOTs estimated cost 12-25%
Rates filed at 10%+;
1st installment paid to reinsurers

Demotech evaluates company
Surplus position @ 1:100

Market can absorb $3B for TICL
No rate impact; cos buy privately
Increasing costs at FOTs;
Cannot fulfill 1 in 100

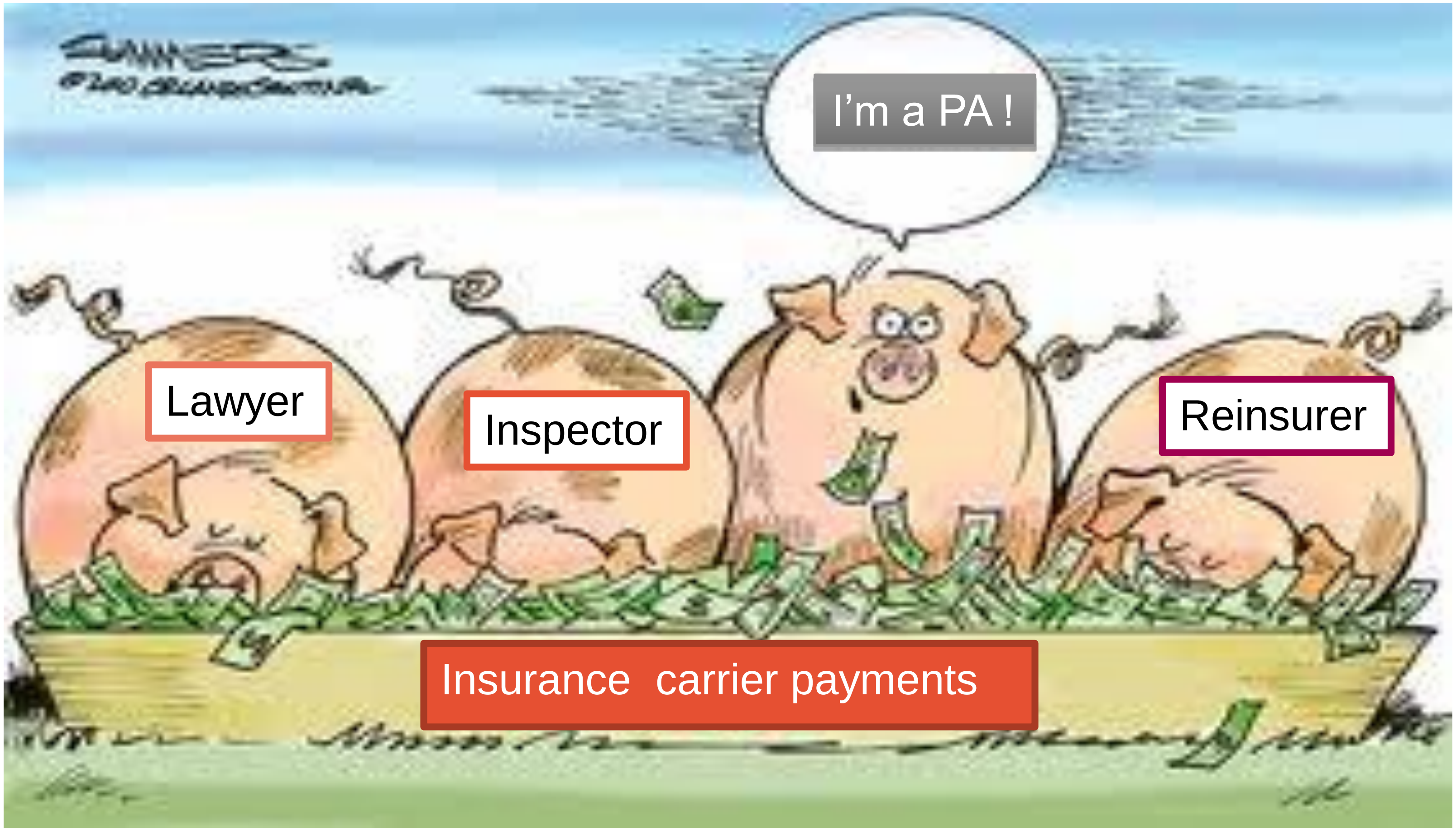
Without a storm each carrier bleeds surplus from 1st reinsurance installment to recovery of costs 18 months later

A different kind of CAT!

# The Sinkhole Story

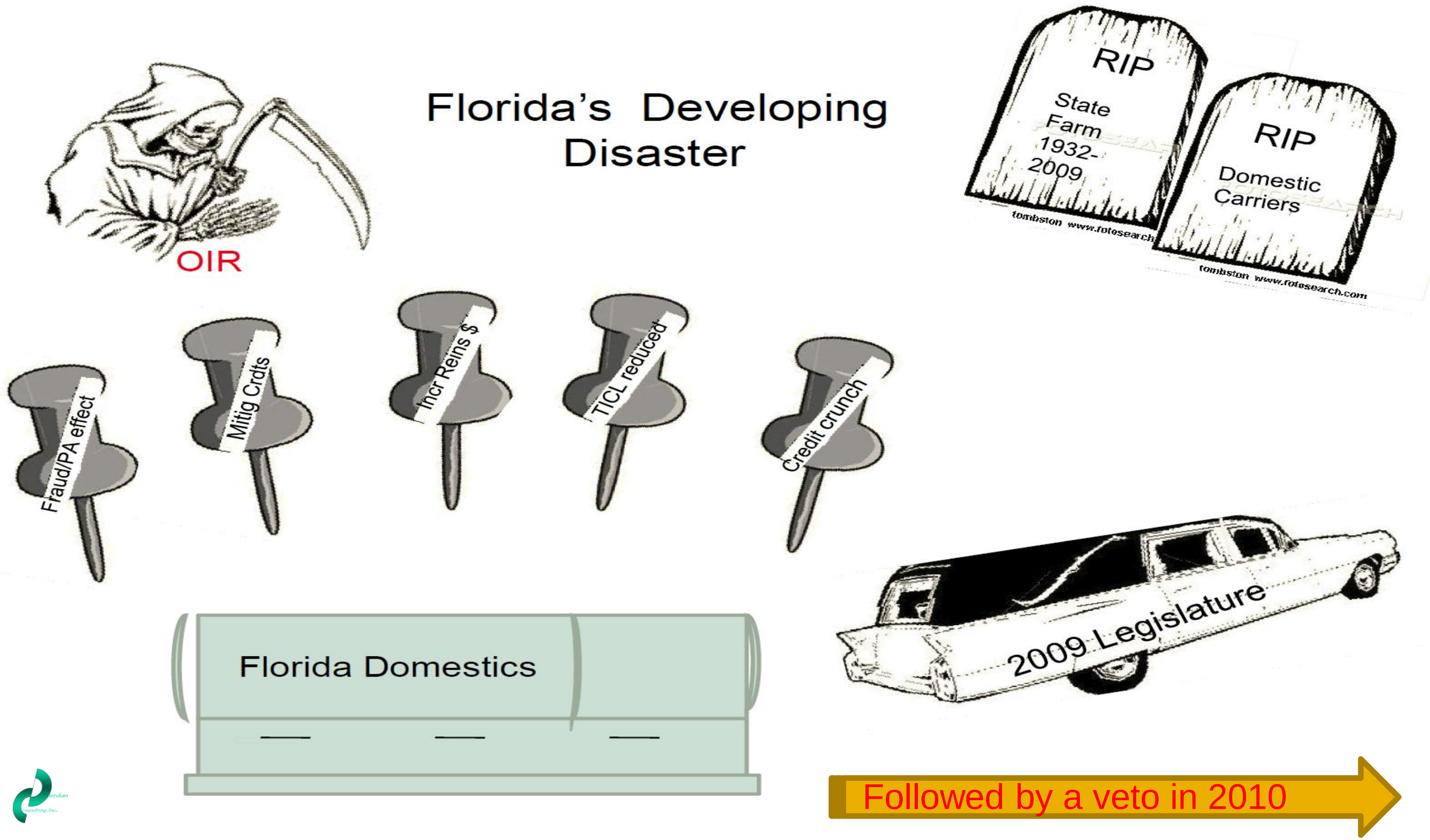
- Sinkhole claims rose from 35 in 1987 to 426 in 1991
- Problem appears to be Tampa Bay area; Insurability questioned
- 1993 bad faith provision 50% of $2500 to carrier
- 2002-851 claims; average claim at now $12,000+ for foundations and
- average claim now at $62,628
- 2004 another study/2005-definitions of sinkhole/uniform testing
- 2005-Defined sinkhole & professionals were presumed correct; established a database; policyholder could demand testing; policy limits didn't include repair already done;
- 2006-Calculate presumed factor for 2005 law; deductible options;
- 2007-Catastrophic Ground Collapse; exclude settling/cracking
- sinkhole coverage available at a cost;
- 2009 insurers could exclude sinkhole in some counties/must offer endorsement
  –
  – And still another CAT--The Tail Lives on…..What is happening today…….

With calm winds–look at what happened! NO CATS TO TAME?




Florida insurers face devastating losses in 2009 with no storms!

# The table is set for a man made disaster!



# Florida Update – Where have all the Companies Gone?

Magnolia Insurance Company

First Commercial Transportation Insurance Company

Northern Capital Insurance Company

Edison (sold)

Coral Insurance Company

Homewise

Commercial Insurance Alliance

American Keystone Insurance Company

First Commercial Insurance Company

# 2010 Legislative Session- left untouched by Crist's veto pen

- FHCF (SB 1460) 215.555
  - Aggregate coverage and aggregate retention levels will be published in January of each year (Florida Administrative Weekly)
  - The FHCF reimbursement contract must be adopted by February 1 each year
  - Insurers must execute their FHCF contract by March 1 with an effective date of June 1
  - The retention multiple has been modified to use exposure from "two years" prior in calculating the retention factor
  - The FHCF mandatory layer is capped at $17B unless the SBA determines $17B is also available in a subsequent year
  - Continues med mal exemption from assessments for 3 years

- Issues
  - Corrects date issue with execution of contract March 1 intended to postpone legislative impacts
  - Two year exposure base is intended to slow retention increases
  - Mandatory cap is slightly below 2009 of $17.175B
  - FHCF will commute losses for Wilma starting in June 2011

# 2010 Legislative Session - Changed by the veto pen

- Public Adjuster Legislation Issues
  - Applies some control to the PAs regarding advertising
  - Reduces the compensation to control payout and applies 1 year control for losses in governor declared emergency
  - 48 hour notice is a problem and delays response and mitigation of further loss
  - PA contract signed by all parties is an advantage
  - The 3 year deadline may push activity up but may reduce on going activity
  - Will be tested by the trial bar with major activity in the third year to preserve rights

This also is a major loss to carriers as most of the elements prohibit PA activity

# 2011 Legislation-Addressing the "Cost Drivers"

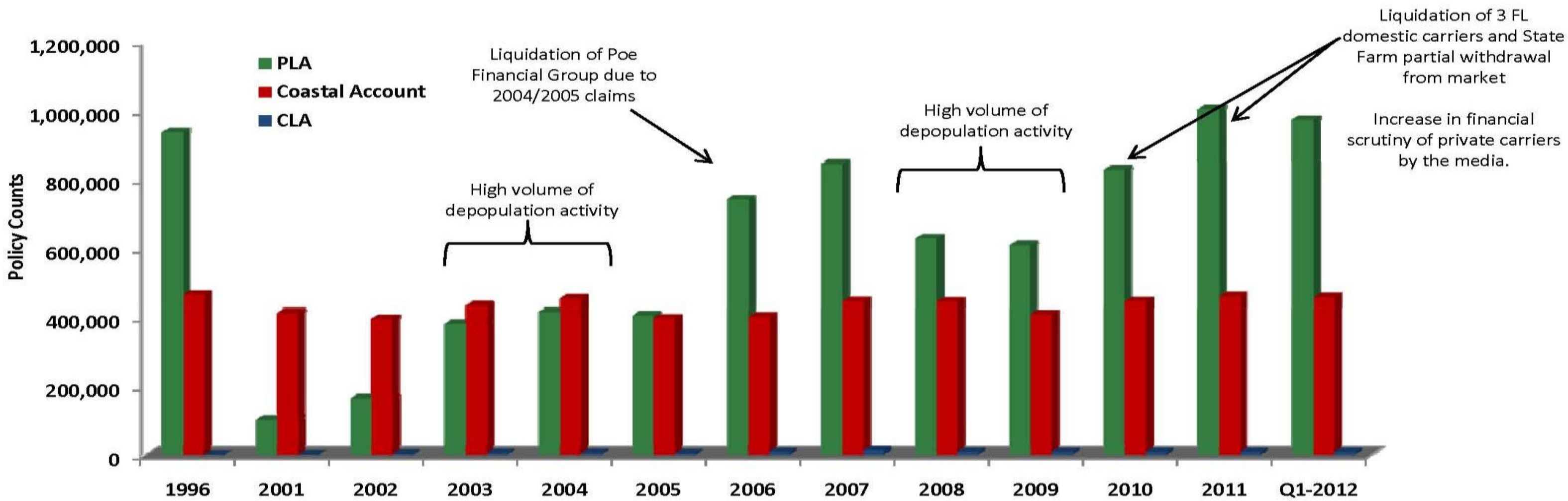
Recent headlines — "SB 408-will reduce Citizens sinkhole /ALAE losses by 54.7% in 2013" based upon structural damage definitions; changes to adjuster compensation; requirement to repair; coverage exclusions

- SB 408
  - Limitations on PA comp for re-opened and supplemental claims to 20% of the claim payment (10%-CPIC)
  - 2 Replacement cost coverage options-full without reservation & depreciation value/until receipts;
  - Requires windstorm/hurricane claims filed within 3 years
  - File and use until May 2012
  - Allowance for up to 15% rate adjustments for reinsurance
  - Increased surplus requirements to $15M
  - Prohibits deceptive solicitations of PAs
  - Reduce notice on non-renewal for takeout companies (100 days to 45)
  - New contract terms only require notice of change
  - Specifics as to what constitutes an FHCF loss
- Expansion of commercial lines free rate and form lines of business
- FHCF Coverage Clarifications and Exclusions

# Citizens Property Insurance Company

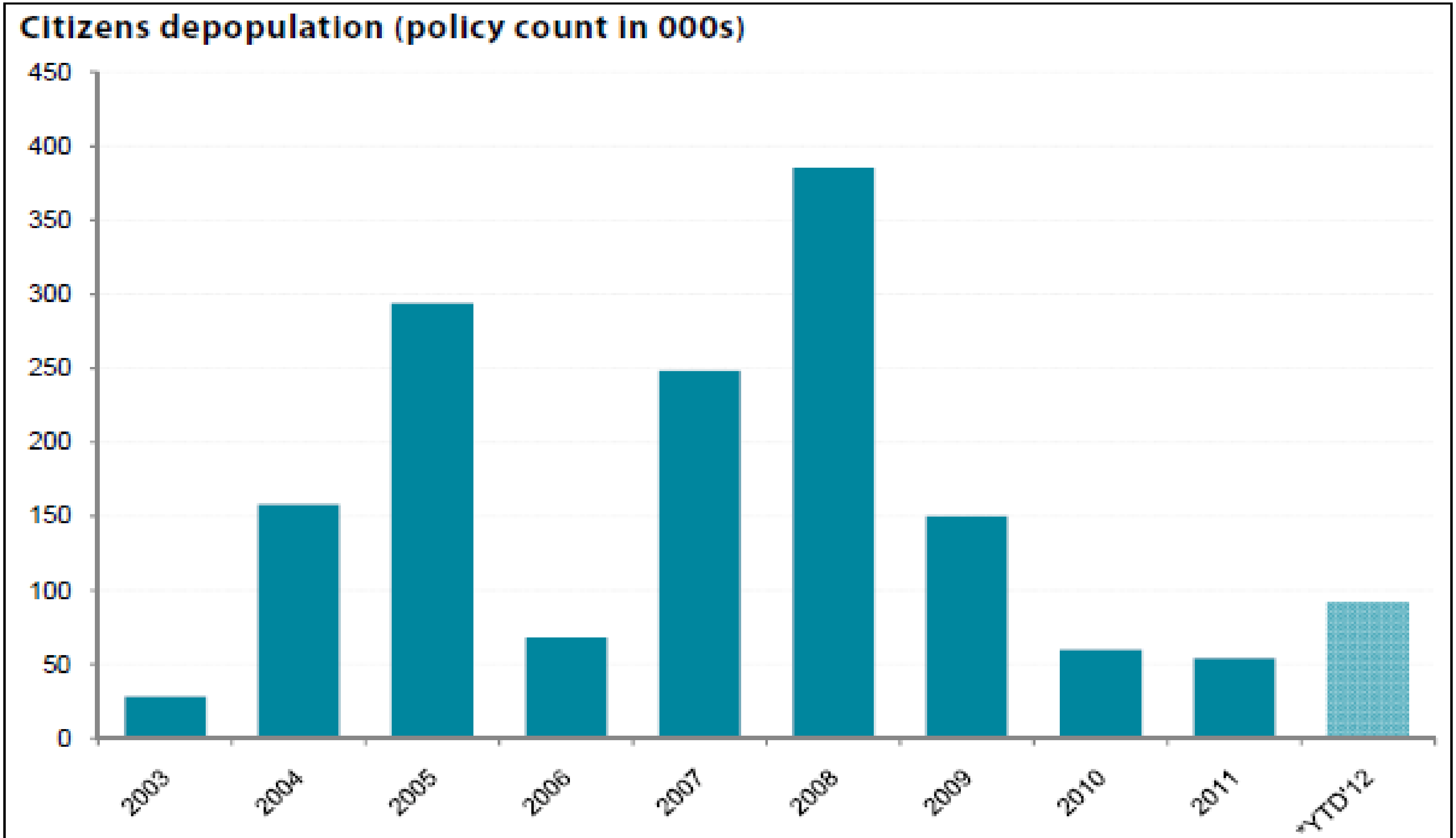
## An Historical Look at Citizens Growth by Account

### Policy Counts by Year and Account




| Account | 1996 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Q1-2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PLA | 936,837 | 102,792 | 164,274 | 383,283 | 416,529 | 407,387 | 743,592 | 845,857 | 629,467 | 609,652 | 829,406 | 1,003,856 | 973,581 |
| **Coastal Account** | 465,739 | 414,123 | 397,676 | 433,077 | 453,755 | 399,418 | 403,509 | 446,181 | 445,200 | 410,436 | 445,679 | 460,161 | 457,970 |
| CLA | 0 | 198 | 2,157 | 3,863 | 3,702 | 3,212 | 8,841 | 12,911 | 9,570 | 9,126 | 8,453 | 8,374 | 8,347 |
| Transition Policies | n/a | n/a | n/a | n/a | n/a | n/a | 142,980 | n/a | n/a | n/a | n/a | n/a | n/a |
| Total | **1,402,576** | **517,113** | **564,107** | **820,223** | **873,986** | **810,017** | **1,298,922** | **1,304,949** | **1,084,237** | **1,029,214** | **1,283,538** | **1,472,391** | **1,439,898** |

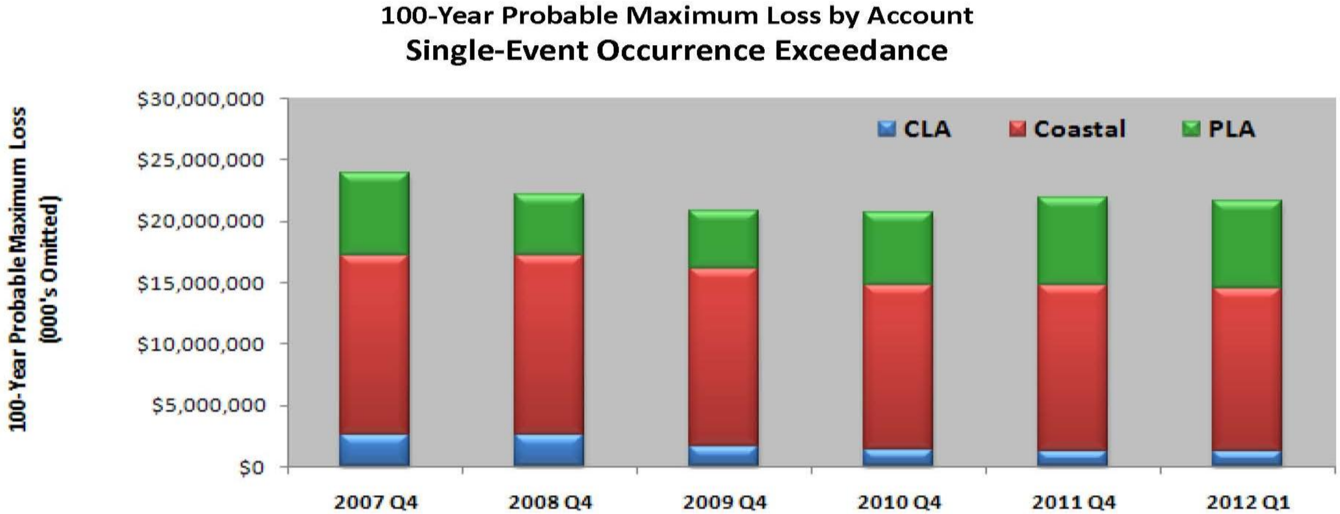
# Citizens Depopulation Efforts through May 8, 2012




* Data current of April 23, 2012, and incorporates preliminary estimates of May 8, 2012, assumptions.
Source: Citizens Property Insurance Corp.

# Citizens Property Insurance Company

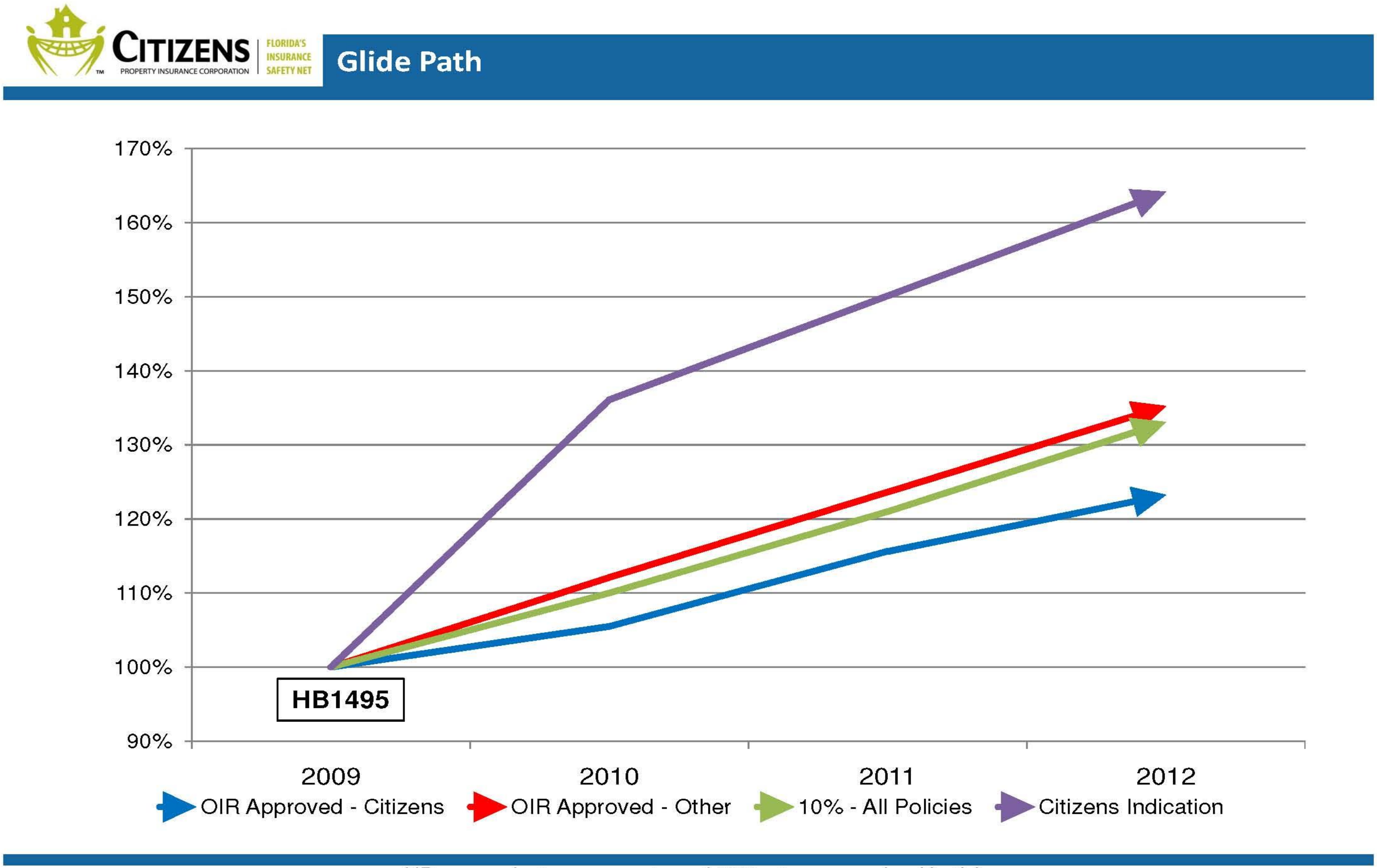
## A Multi-Year Look at Probable Maximum Loss (PML)




| | 100-Year Probable Maximum Loss (in 000's) | | | | | |
|---|---|---|---|---|---|---|
| **Program** | **2007 Q4** | **2008 Q4** | **2009 Q4** | **2010 Q4** | **2011 Q4** | **2012 Q1** |
| CLA | $2,596,306 | $2,560,715 | $1,606,136 | $1,331,706 | $1,260,000 | $1,240,000 |
| Coastal | $14,615,550 | $14,645,909 | $14,509,894 | $13,439,372 | $13,460,000 | $13,270,000 |
| PLA | $6,716,451 | $4,893,468 | $4,738,211 | $5,859,034 | $7,180,000 | $7,090,000 |
| **TOTAL** | **$23,767,207** | **$21,976,401** | **$20,940,571** | **$20,670,710** | **$21,840,000** | **$21,570,000** |

**Notes:**
1) Excludes Takeout Policies and Commercial Inland Wind Policies.
2) Total PML includes PCJUA and CIW data in 2007 and 2008.
3) PML amounts are not additive.
4) 2007-2008 modeled in RMS RiskLink; 2009-2011Q2 modeled in AIR CLASIC/2 v.12.0.4
5) Prior to 12/31/10, adjustments to the dataset were made to improve wind mitigation data. The Office of Insurance Regulation requested such revisions be removed. The impact of the adjusted results was a decrease across PML/AAL values of approximately 5% CLA, 7% PLA and 7.5% Coastal accounts.
6) 2011 Q4 PMLs include impact of approved 2012 policy changes (i.e., eliminated coverage of pool enclosures, special class risks, builder's risk and personal residential $1M homes). The impact of the adjusted results was a decrease across total PML values of approximately 5% (.4% CLA, .5% PLA and 7% Coastal accounts separately).

# Citizens “Glide Path” rate issues




OIR approved rates as percentage of 2009 rates, personal residential
Source: Office of Insurance Regulation,

Insurer of first choice or last resort?

# The Goal – Returning Citizens to the Insurer of Last Resort

What properties would Citizens likely need to cover as the Insurer of Last Resort?

- Coastal Properties
- Older Homes
- Older Mobile Homes
- A Portion of Policies in Sinkhole Prone Areas
- Older Condominium Associations

| | Policy Count | Total Exposure |
|---|---|---|
| Total In-Force Policy Count and Exposure as of September 30, 2011 | 1,459,982 | $507,193,602,899 |
| Total Number of Policies that would return to the private market | 665,674 | $193,477,616,422 |
| Total In-force Policy Count and Exposure of Citizens as a Residual Market | **794,308** | **$313,715,986,477** |

1) Personal Residential exposure includes Coverages A-D, except DP1/MDP1, which exclude Coverages B and D.
2) Commercial exposure includes Building, Other Structures, and Business Personal Property. Commercial non-residential multi-peril policy exposure also includes Business Income.

CITIZENS PROPERTY INSURANCE CORPORATION

# Items under Citizen's Board consideration to reduce size

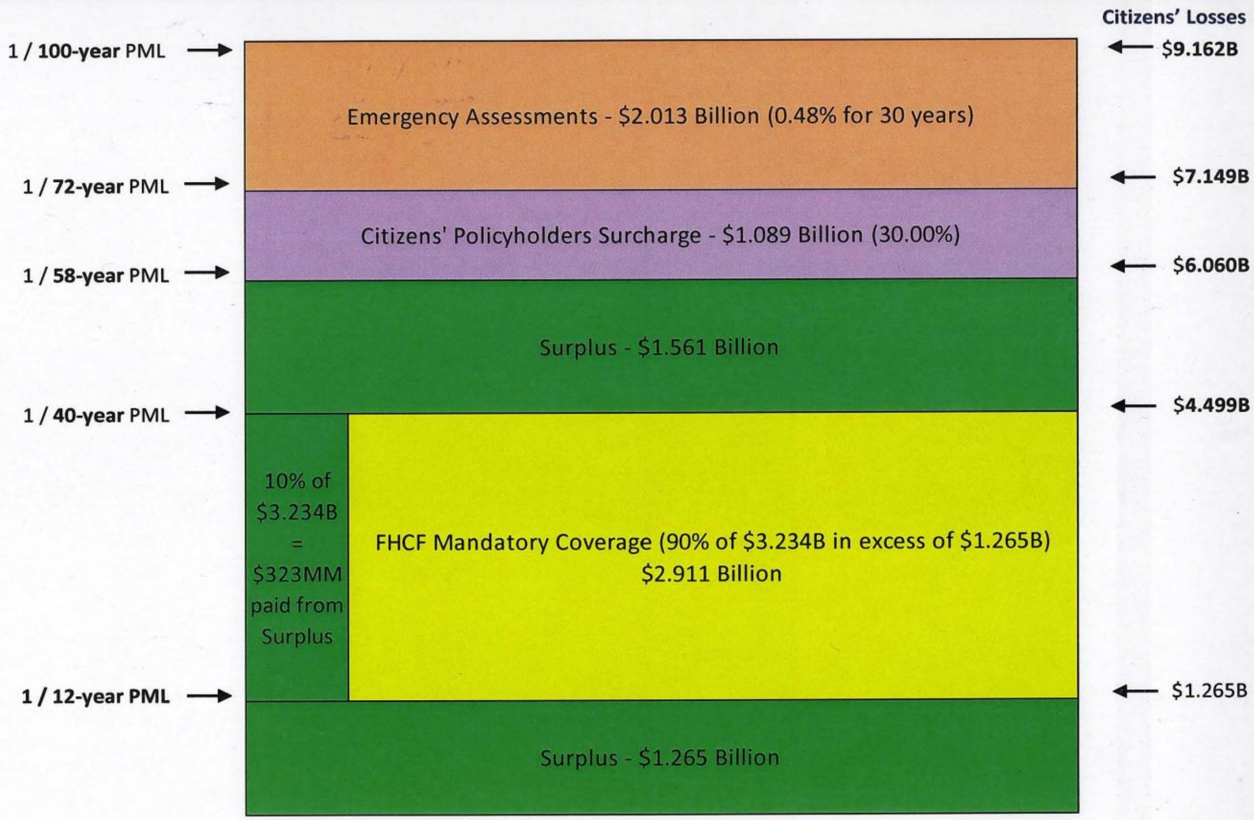
- **Aggressively pursue additional risk transfer:**
  - Everglades Re - $750M Cat Bond
  - Open Market Reinsurance - $750M Placed in Bermuda, London, US, Europe
  - Pre-Event Bonding for PLA account – up to $1.5B
- **Enhance depopulation efforts:**
  - Re-established the Depopulation Committee of the Board
  - Survey carriers to better understand barriers to depopulation
  - Eliminate ceding commissions (16% of unearned premium)
  - Evaluate quota share agreements with the voluntary market
  - Eliminate prohibition of Take-Outs in consecutive months
  - Publish the algorithm for allocating policies tagged by multiple insurers
  - Consider all privatization options
- **Evaluate additional new business inspection criteria**
- **Agent related issues:**
  - Review agent commissions
  - Implement a new agent appointment agreement
  - Enhanced agency performance management
- **Your suggestions**

# Citizens PLA / CLA liquidity & claims paying resources - 2012

## PLA/CLA Estimated Liquidity & Claims-Paying Resources[1]

### 1 in 100 Year Event (*No Regular Assessment - 2012 Season*)

- Emergency Assessment not required until at least 1-72 year event
- Citizens Policyholders Surcharge triggered at about 1-58 year event
- 1 in 100 year PML - $9.162 Billion at 09/30/11 including 10% LAE




(Not to scale)

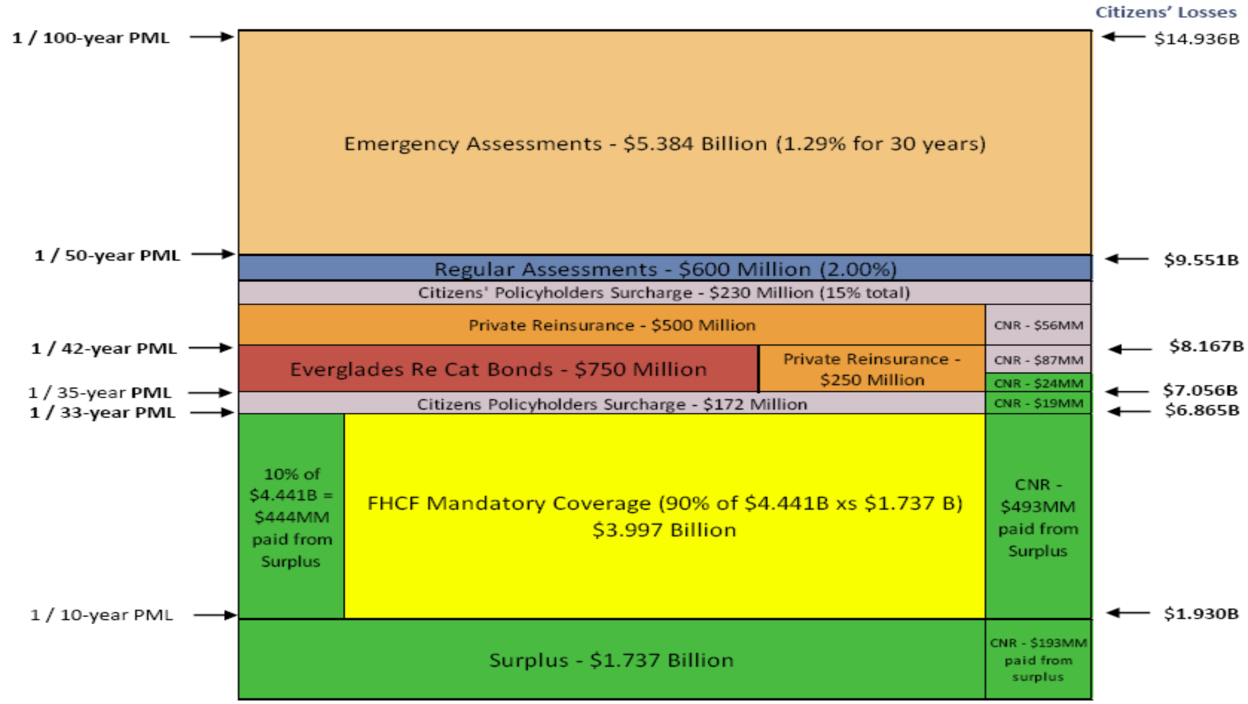
[1] Please see Notes & Assumptions attached hereto.

# Citizens Coastal Account liquidity & claims paying resources - 2012

## Coastal Account Estimated Liquidity & Claims-Paying Resources[1]

**1 in 100 Year Event (*2012 Season – Projected*)**

- Emergency Assessment not required until at least 1-50 year event
- Citizens Policyholders Surcharge triggered at about 1-33 year event
- Regular Assessments triggered at about 1-46 year event
- 1 in 100 year PML - $14.936 Billion at 09/30/11 including 10% of LAE



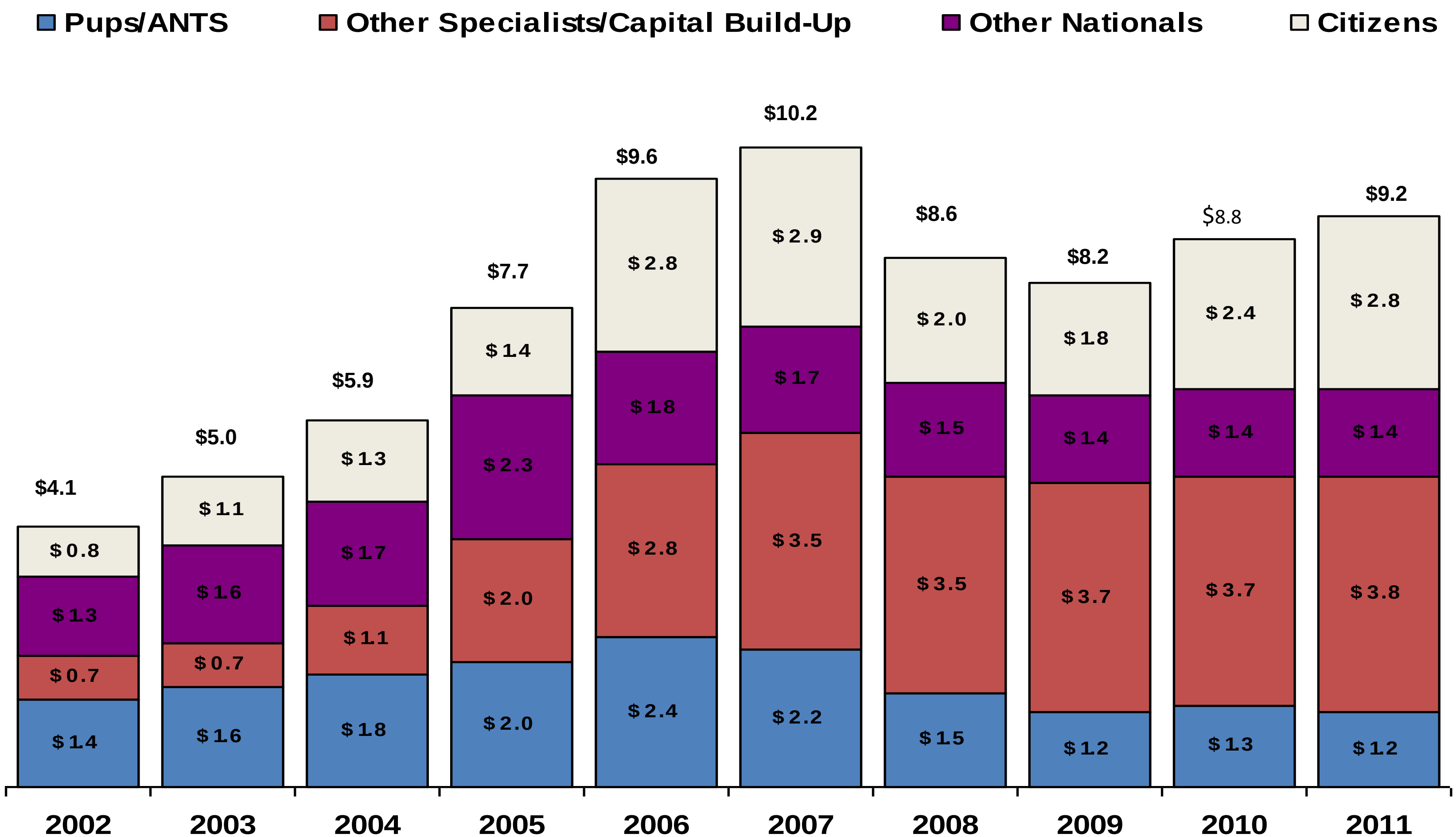

(Not to scale)

[1] Please see Notes & Assumptions attached hereto.



CITIZENS PROPERTY INSURANCE CORPORATION

# Florida Homeowners historical premium (DPW; $B)




Source: Statutory Statements; Citizens FL; D&P Analysis. Note, Pups/"ANTS" are the FL-only subs of Allstate, Nationwide, Travelers and State Farm; Stand Alones-H/O "Specialists" (Those that participated in the 2006/2007 capital build up program + other specialists) + Pups/ANTS

# Second Quarter 2012 Florida Domestic Financial Results

**Florida 47 Domestic Operating Companies Tracking Summary**
**P&C Financial Highlights as of: 2012Q2**

TOWERS WATSON

| Period Ended: All Dollars in Thousands ($,000) | 12/31/2008 2008Y | 12/31/2009 2009Y | 12/31/2010 2010Y | 12/31/2011 2011Y | 6/30/2012 2012T2 | 6/30/2011 2011T2 |
|---|---|---|---|---|---|---|
| **Balance Sheet** | | | | | | |
| Total Cash & Invested Assets | 2,551,878 | 3,342,591 | 3,354,255 | 3,588,287 | 4,307,212 | 3,912,563 |
| Total Assets | 3,118,779 | 4,006,088 | 3,998,936 | 4,291,686 | 5,264,411 | 4,764,044 |
| Affiliated Investments | 15,539 | 30,166 | 102,717 | 95,791 | 108,039 | 116,299 |
| Loss Reserves | 380,586 | 475,656 | 610,655 | 686,223 | 711,759 | 702,150 |
| Loss Adjustment Expense Reserves | 60,981 | 78,985 | 108,150 | 127,378 | 124,696 | 125,396 |
| Total Loss and LAE Reserves | 441,567 | 554,640 | 718,805 | 813,601 | 836,455 | 827,546 |
| Unearned Premium Reserve | 940,565 | 981,039 | 1,071,699 | 1,166,971 | 845,348 | 627,072 |
| Total Liabilities | 1,883,322 | 2,755,043 | 2,632,413 | 2,799,411 | 3,656,636 | 3,296,293 |
| Surplus Notes | 304,018 | 302,059 | 282,810 | 267,232 | 272,322 | 270,012 |
| Surplus as Regards Policyholders | 1,235,457 | 1,251,045 | 1,366,523 | 1,492,275 | 1,607,775 | 1,467,750 |
| **Income Statement** | | | | | | |
| Direct Premiums Written | 3,336,884 | 3,767,668 | 4,335,719 | 4,859,619 | 2,994,540 | 2,728,699 |
| Net Reinsurance Premiums | (1,884,062) | (2,309,525) | (2,622,591) | (3,027,746) | (2,232,462) | (2,346,332) |
| Net Premiums Written | 1,452,822 | 1,458,143 | 1,713,128 | 1,831,872 | 762,078 | 382,367 |
| Net Premiums Earned | 1,344,766 | 1,417,702 | 1,628,771 | 1,754,772 | 1,022,217 | 891,380 |
| Net Loss & LAE Incurred | 725,680 | 896,279 | 1,099,588 | 1,100,195 | 602,800 | 586,246 |
| Other Underwriting Exp Incurred | 562,847 | 709,563 | 673,934 | 730,722 | 462,333 | 375,797 |
| Dividends To Policyholders | 0 | 0 | 0 | 0 | 0 | 577 |
| Net Underwriting Gains (Losses) | 56,259 | (189,547) | (146,326) | (77,668) | (44,498) | (72,298) |
| Net Investment Income Earned | 66,537 | 58,435 | 53,306 | 54,280 | 28,831 | 26,879 |
| Net Realized Capital Gains Less Taxes | (6,226) | 25,937 | 30,139 | 13,324 | 2,702 | 7,355 |
| Federal & Foreign Income Taxes | 68,082 | (7,391) | (8,498) | 20,389 | 113 | (5,148) |
| Net Income (Loss) | 76,306 | (70,953) | (36,454) | (7,318) | (7,661) | (18,197) |
| Pre-Tax Operating Income (Loss) | 150,614 | (104,281) | (75,092) | (252) | (10,249) | (30,700) |
| **Operating Ratios (%)** | | | | | | |
| Growth Rate - Direct Premiums Written | - | 11.43% | 13.10% | 10.78% | -62.28% | -64.99% |
| Growth Rate - Net Reinsurance Premiums | - | -18.42% | -11.94% | -13.38% | 35.62% | 16.93% |
| Growth Rate - Net Premiums Written | - | 0.36% | 14.88% | 6.48% | -140.38% | -359.92% |
| Growth Rate - Net Premiums Earned | - | 5.14% | 12.96% | 7.18% | -71.66% | -89.17% |
| Loss and LAE Ratio | 53.96% | 63.22% | 67.51% | 62.70% | 58.97% | 65.77% |
| Expense Ratio | 38.74% | 48.66% | 39.34% | 39.89% | 60.67% | 98.28% |
| Combined Ratio | 92.70% | 111.88% | 106.85% | 102.59% | 119.64% | 164.05% |
| Operating Ratio | 87.76% | 107.76% | 103.58% | 99.49% | 116.82% | 161.03% |

# Second Quarter 2012 Florida "PUPS/ANTS" Financial Results

**9 National Florida "PUP" Companies Tracking Summary**
**P&C Financial Highlights as of: 2012Q2**

TOWERS WATSON

| Period Ended: All Dollars in Thousands ($,000) | 12/31/2008 2008Y | 12/31/2009 2009Y | 12/31/2010 2010Y | 12/31/2011 2011Y | 6/30/2012 2012T2 | 6/30/2011 2011T2 |
|---|---|---|---|---|---|---|
| **Balance Sheet** | | | | | | |
| Total Cash & Invested Assets | 3,087,518 | 2,921,673 | 2,862,634 | 2,851,290 | 2,870,978 | 2,954,811 |
| Total Assets | 3,780,820 | 3,420,815 | 3,288,405 | 3,237,341 | 3,230,449 | 3,325,188 |
| Affiliated Investments | 30,168 | 34,240 | 35,238 | 36,175 | 36,589 | 35,765 |
| Loss Reserves | 639,744 | 661,792 | 653,207 | 627,066 | 606,891 | 670,495 |
| Loss Adjustment Expense Reserves | 186,022 | 196,523 | 215,038 | 207,193 | 201,544 | 214,228 |
| Total Loss and LAE Reserves | 825,765 | 858,315 | 868,245 | 834,259 | 808,435 | 884,723 |
| Unearned Premium Reserve | 627,217 | 595,389 | 638,007 | 681,526 | 717,444 | 760,307 |
| Total Liabilities | 2,298,108 | 2,158,180 | 2,125,171 | 2,037,555 | 1,965,571 | 2,175,140 |
| Surplus Notes | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 |
| Surplus as Regards Policyholders | 1,482,712 | 1,262,636 | 1,163,234 | 1,199,785 | 1,264,878 | 1,150,048 |
| **Income Statement** | | | | | | |
| Direct Premiums Written | 2,141,754 | 1,787,900 | 1,853,183 | 1,683,623 | 761,730 | 816,385 |
| Net Reinsurance Premiums | (1,116,435) | (796,856) | (718,097) | (509,555) | (135,831) | (146,009) |
| Net Premiums Written | 1,025,319 | 991,044 | 1,135,086 | 1,174,068 | 625,899 | 670,376 |
| Net Premiums Earned | 1,287,950 | 1,022,872 | 1,092,468 | 1,130,549 | 589,981 | 548,076 |
| Net Loss & LAE Incurred | 1,118,837 | 1,037,583 | 945,550 | 844,991 | 386,646 | 458,689 |
| Other Underwriting Exp Incurred | 452,992 | 432,984 | 390,008 | 350,973 | 168,657 | 176,608 |
| Dividends To Policyholders | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Underwriting Gains (Losses) | (283,877) | (447,694) | (243,090) | (65,425) | 34,678 | (87,220) |
| Net Investment Income Earned | 140,185 | 106,142 | 103,149 | 102,442 | 49,461 | 51,078 |
| Net Realized Capital Gains Less Taxes | 13,923 | 10,666 | 6,128 | 5,191 | 2,121 | 2,765 |
| Federal & Foreign Income Taxes | (144,000) | (65,183) | (38,473) | (16,918) | 18,498 | (14,068) |
| Net Income (Loss) | (132,865) | (125,042) | (60,776) | 64,577 | 69,481 | (17,178) |
| Pre-Tax Operating Income (Loss) | (290,787) | (200,891) | (105,377) | 42,468 | 85,859 | (34,011) |
| **Operating Ratios (%)** | | | | | | |
| Growth Rate - Direct Premiums Written | - | -19.79% | 3.52% | -10.07% | -121.03% | -127.00% |
| Growth Rate - Net Reinsurance Premiums | - | 40.11% | 10.97% | 40.93% | 275.14% | 391.82% |
| Growth Rate - Net Premiums Written | - | -3.46% | 12.69% | 3.32% | -87.58% | -69.32% |
| Growth Rate - Net Premiums Earned | - | -25.92% | 6.37% | 3.37% | -91.62% | -99.33% |
| Loss and LAE Ratio | 86.87% | 101.44% | 86.55% | 74.74% | 65.54% | 83.69% |
| Expense Ratio | 44.18% | 43.69% | 34.36% | 29.89% | 26.95% | 26.34% |
| Combined Ratio | 131.05% | 145.13% | 120.91% | 104.64% | 92.48% | 110.04% |
| Operating Ratio | 120.17% | 134.75% | 111.47% | 95.57% | 84.10% | 100.72% |

# FHCF changes for 2012-2013 contract year


Elimination of the $10M Limited Apportionment (LAC) Layer

TICL Limits decreased from $6B to $4B – only $317M taken up as of May 10th

Increase in Rapid Cash Build Up Factor from 15% to 20%

Retention for Mandatory FHCF Layer increased to $7.389B

Projected 2012 year end cash balance $8.560B – most cash ever on hand in the entire history of the FHCF – Estimated bonding capacity $7B at May 2012

Total capacity elected for 2012/13 $17.317B

Considering up to $5B in pre-event financing

How do you see the role developing? What would you change?
Discussion of Options being considered and their impact

# 2012 Rating Agency View of Florida Companies - Demotech

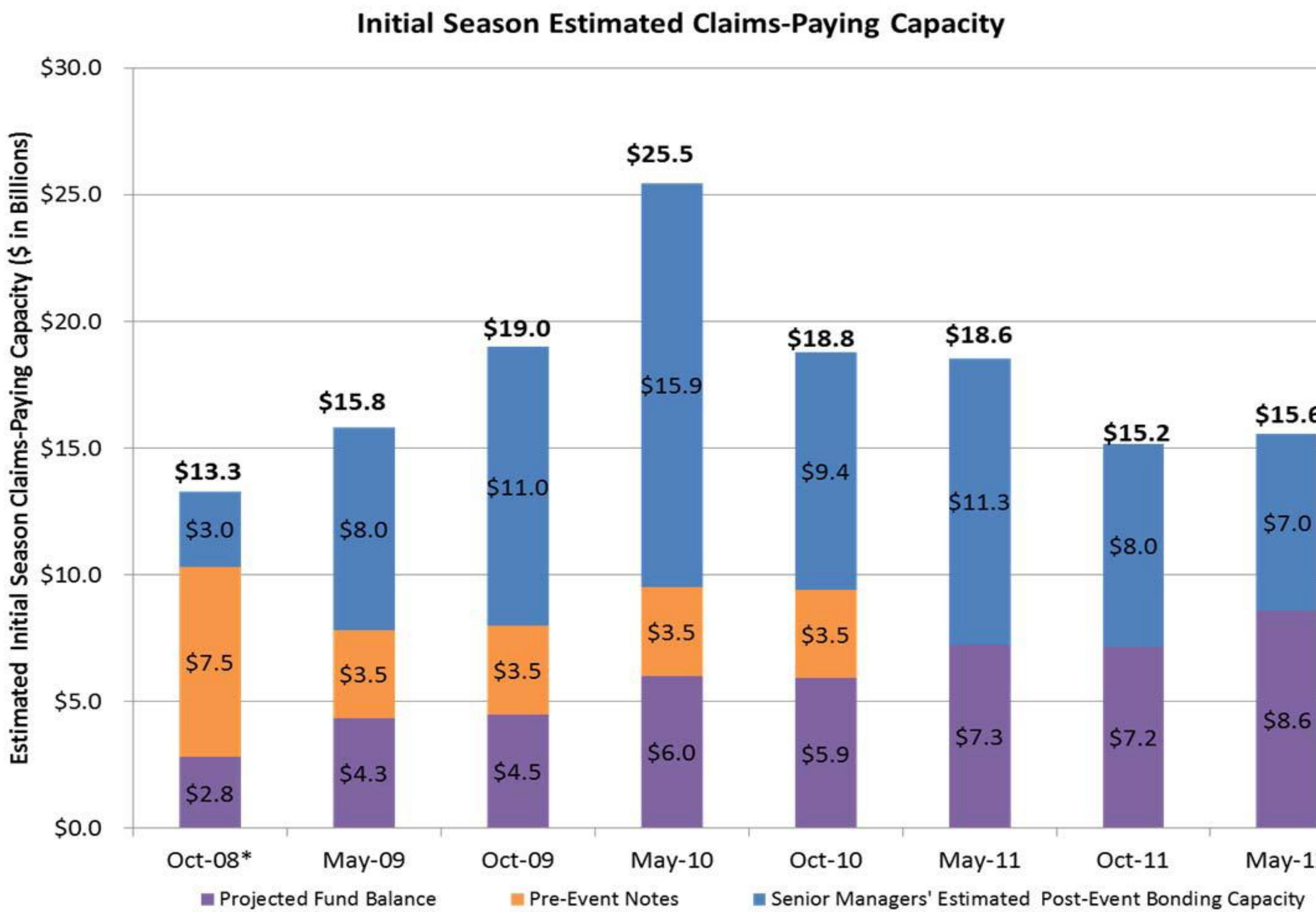
- In their latest data call to all Florida Companies on April 17th Demotech expressed their concern with the ability of the FHCF to meet its full obligations:
  - They will no longer provide any financial rating credit for the TICL layer
  - They also state they will no longer provide full credit for the Mandatory layer either based on the shortfall in estimated bonding capacity

- In order to demonstrate liquidity companies will need:
  - "a position of adequate liquidity under a variety of economic stress tests that we believe are reasonable"
  - "a conservative reinsurance program that reflects conservative limits and net retentions for single and multiple events relative to exposure and event return period considering at a minimum; Occurrence Exceedance Probability, Aggregate Exceedance probability, Tail Value at Risk and Average Annual Loss"
  - Show "that following an event, reinsurance recoverable from the FHCF will be recognized and qualified as an admitted asset regardless of the time lag associated with the FHCF's funding efforts"

- They reiterated that each company's financial analysis stands on its own and is judged based on management's ability to clearly articulate their corporate strategy and demonstrate that they successfully executed the business plan as articulated.

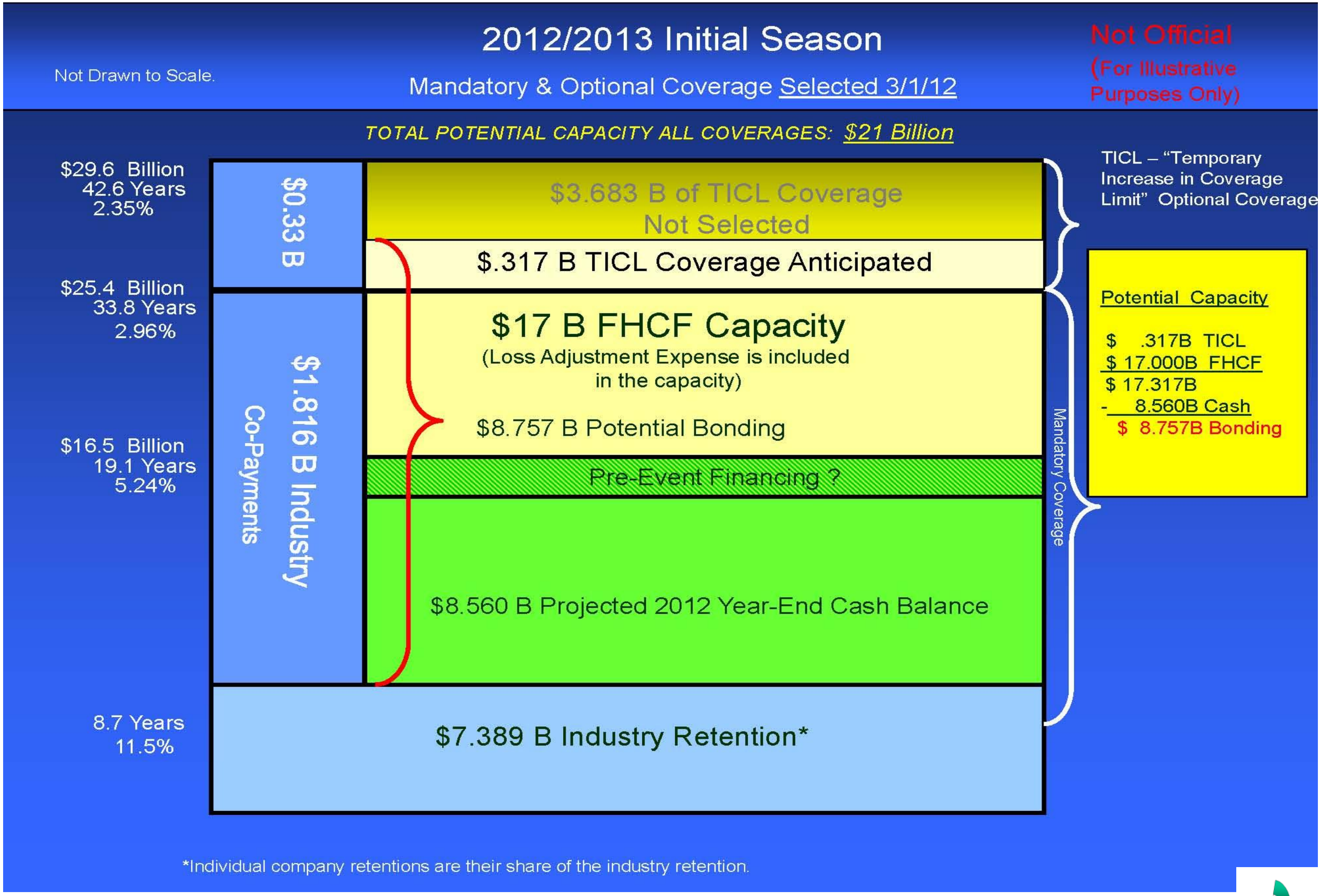
- They want to see companies including some element of demand surge and near term impact of the models within their reinsurance structure

# FHCF historical claims paying capacity




* Includes $4B put option, Numbers may not add due to rounding.

# Projected FHCF coverage for the 2012-2013 contract year



# 2012/2013 and beyond… getting on the right course

# Key Provisions of 2012 HB 1127 and HB 1101

## 2012 HB 1127 - Citizens Insurance Reform Bill

- Reduces the Citizens regular assessment from 6% per account to 2% for deficits in the Coastal Account and eliminates the regular assessment in the PLA and CLA.
- Citizens policy holders subject to 15% surcharge for each account deficit
- Remaining deficits are recovered through emergency assessments
- Carriers no longer have to "front" the assessments – they can pass the assessment on to the policy holder and remit to Citizens as it is collected
- Authorizes OIR to assist Citizens to collect assessments.

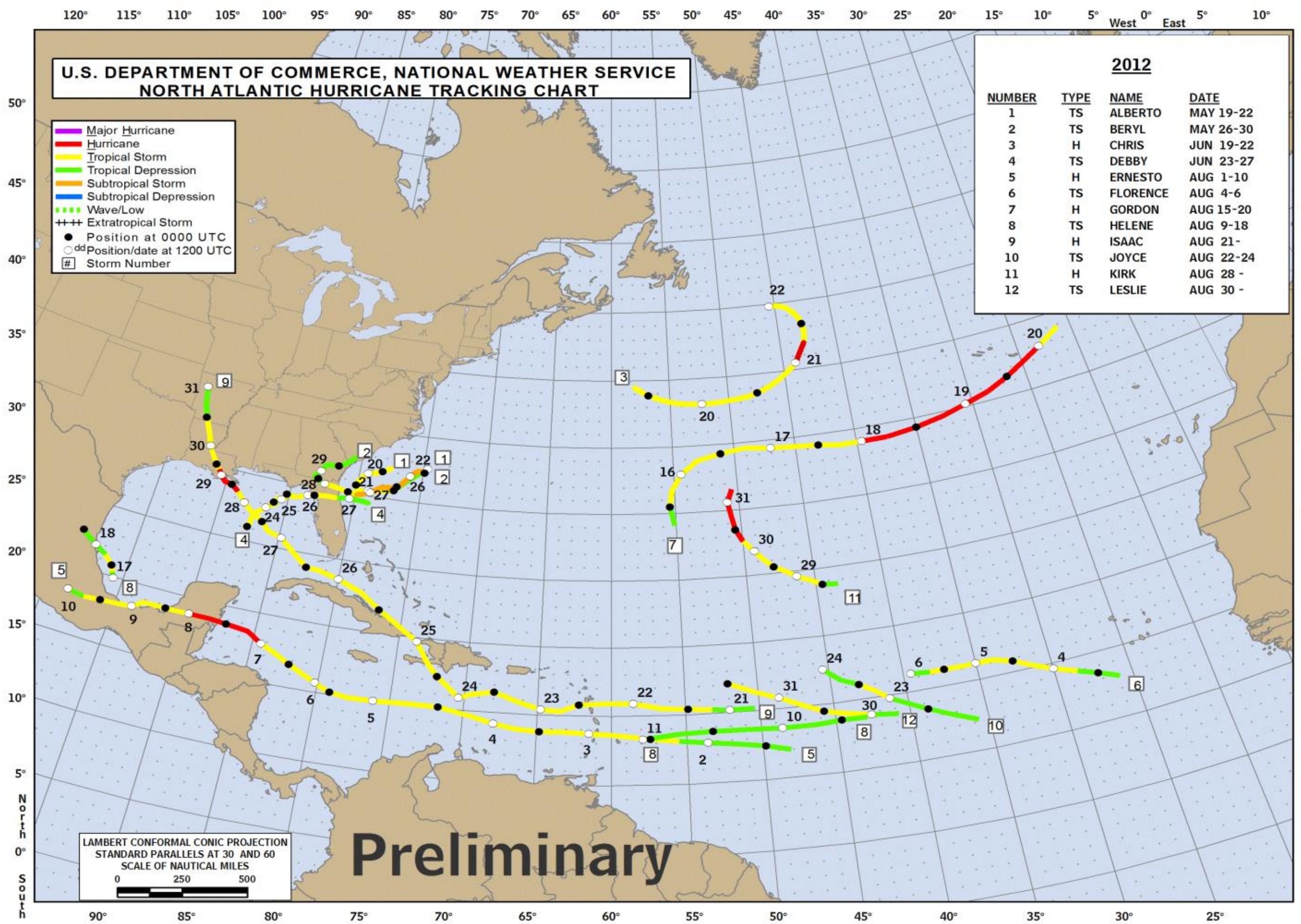
## 2012 HB 1101 - Insurance Omnibus Bill

- Requires Citizens to offer a basic personal lines policy similar to an HO-8 policy by January 1, 2013 with dwelling repair based on common construction materials and methods.
- Requires Citizens when establishing replacement costs for dwelling coverage to accept the lowest valuation from three specified sources. This codifies Citizens replacement cost alternative options adopted earlier this year.

# June 1, 2012 Florida Reinsurance Renewal Market

- No Florida hurricanes in six years
- Large International catastrophe losses
- Reduced coverage from the FHCF
  - Elimination of the $10M Limited Apportionment Layer - $400m
  - Reduction in the TICL Layer from $6B to $4B – (Only $964m of which was purchased in 2011)
  - Increased Cost of TICL Layer 500% Rating Factor for 2012/13
- Citizens Property Insurance Company
  - Purchasing $750M Catastrophe Bond – Everglades Re
  - Purchasing $750M Open Market Reinsurance
  - Purchasing up to $1.5B Pre-Event Bonding Note
- New Sidecar / Collateralized Market Capacity
  - Added $4.94 billion in additional capacity in 2011
  - Added $2.58 billion in additional capacity in 2012

# 2012 Atlantic Hurricane Season to date as of September 4, 2012



# The 2013 Legislative Session

•Rate reform

•Change OIR's ability to stall rate and form changes

•Citizens reforms altering pricing/form structure/depopulation

•Right-sizing FHCF / stabilizing the impact of capital markets

•Allow the cost of internal capital to be used in rate filings similar to reinsurance costs

•Revise mitigation credits structure and application

•No re-certification for supplementary info going to OIR in a filing

•Goal is more flex-band rating

Controlled change will be critical as companies start to show profits if there is no major storm this season. Your ideas????

# The Future of Florida ……..

- There is a Governor's race in 2015 w Crist campaigning for Obama
- The CFO is a potential candidate for Governor
- Without a storm in 2012/2013, carriers will make excellent returns in 2013
- Populists like Mike Fasano re-enter legislature in House due to term limits
- OIR – Commissioner McCarty ends his role as President of NAIC
- Increases in Citizens rates will create rate pressure along with carrier earnings
- The housing market and population will rebound
- Citizens depopulation may only be partially effective
- State Farm reductions continue/larger carriers will not return in personal lines
- Larger carriers will start back in Commercial Lines but it will be several years

New CATS to Tame
A Major Event Changes Everything