



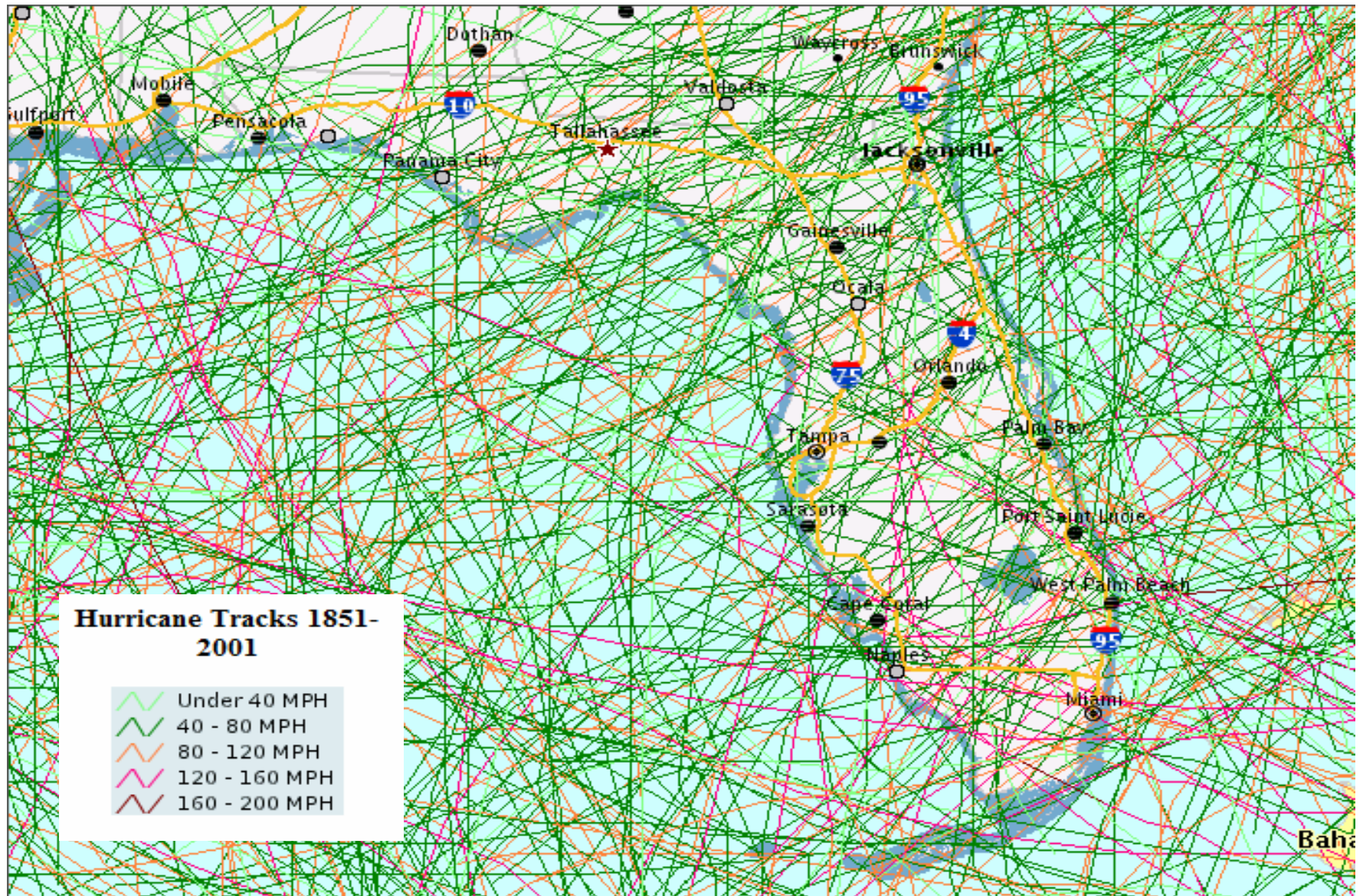
What were they thinking? What did they do?

Florida Capital – Tallahassee



Presentation to the Casualty Actuarial Society
Spring Meeting June 19, 2007
Orlando, Florida

Storm Track History



Florida Hurricane Catastrophe Fund Gross Loss Summary

<u>RT</u>	<u>Probability of Exceeding</u>		<u>Maximum Loss</u>	<u>Aggregate</u>
	<u>In 1 Year</u>	<u>Over 10 Years</u>	<u>Per Event</u>	<u>Yearly Loss</u>
500	0.20%	1.98%	99,777,682,236	103,761,618,742
250	0.40%	3.93%	74,699,981,357	78,452,653,668
100	1.00%	9.56%	47,370,702,055	50,338,815,684
70	1.43%	13.40%	38,253,854,921	41,141,820,148
50	2.00%	18.29%	30,616,831,160	32,240,791,288
20	5.00%	40.13%	15,469,700,165	17,164,501,615
7	14.29%	78.59%	5,247,737,259	5,850,686,262

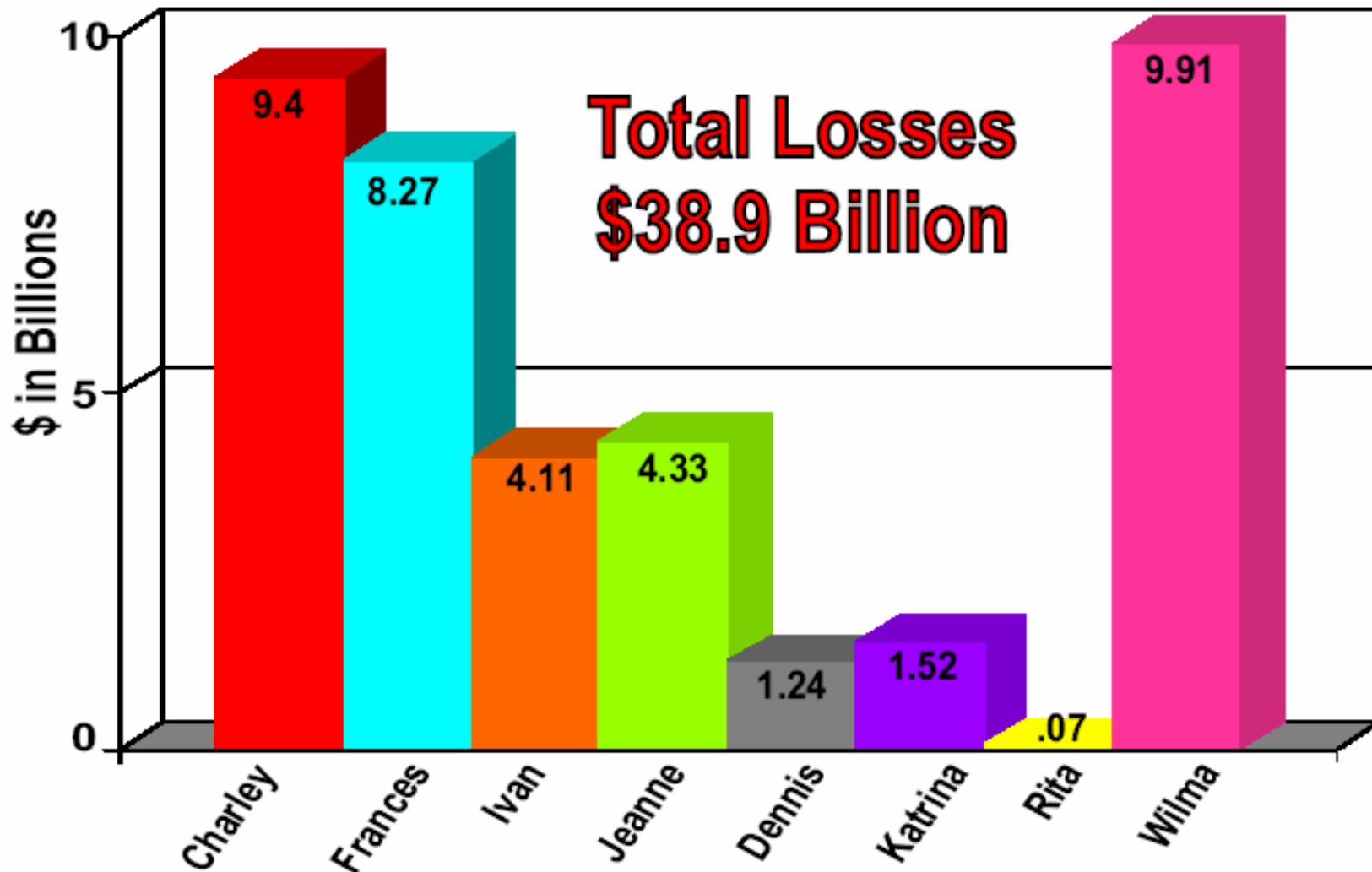
These results are based on modeling from AIR, ARA, EQECat and RMS, all of which are currently “accepted” by the Florida Hurricane Loss Projection Methodology Commission.

ARA 2006 losses trended by 16.24% since 2007 industry modeling is not yet available.

These modeling results do not include demand surge, loss amplification, or storm surge.

These results use stochastic event sets based on the long-term perspective of risk.

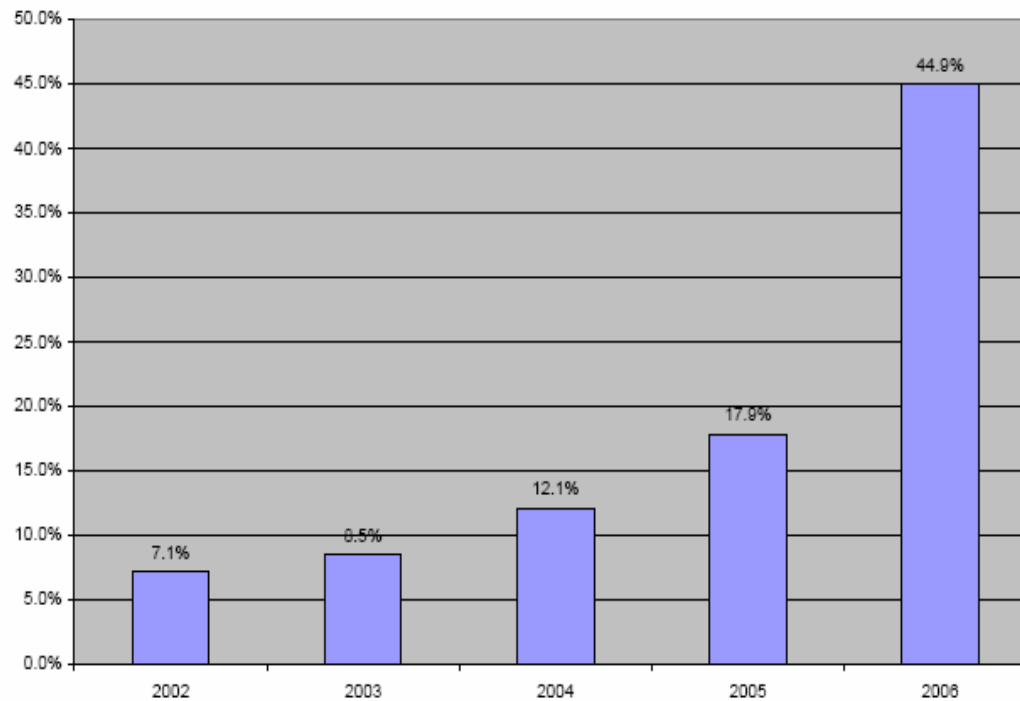
Insurers' Reported Hurricane Losses in Florida for 2004-05



Reinsurance Cost to Homeowners

Office of Insurance Regulation

Homeowners 2002-2006 Reinsurance Cost
(Percent of Premium Dollar)



State Farm, Allstate, Universal Property Casualty, American Strategic



Homeowners Insurance Prices – December 2006

Top 20 Voluntary companies county averages

County	Vol companies excl Citizens \$150,000 Masonry rate* Average
Broward	\$3,587
Miami-Dade	\$4,293
Avg SE	\$3,940
Hillsborough	\$1,571
Pinellas	\$2,059
Avg SW	\$1,815
Bay	\$1,825
Escambia	\$1,928
Santa Rosa	\$1,949
Avg Panhandle	\$1,901
Orange	\$962
Osceola	\$995
Seminole	\$979
Avg Central	\$979

*\$150,000 Masonry risk with hurricane deductible 2% and non-hurricane deductible \$500, 5 year old risk

Estimate of Single Family Housing Starts (000
Omitted)
Fiscal Year Begins July 1st

Fiscal Year	04-05	05-06	06-07	07-08	08-09
Oct. 06 Estimate	182.0	179.8	111.0	109.6	122.0
Feb. 07 Estimate	181.8	179.9	94.3	88.5	108.7

Individual insured in Jupiter, Florida

“My husband has lung cancer and had to go on permanent disability from the US Postal Service almost 2 years now. I am on a permanent disability as well and had to retire early. Our incomes are fixed, and we are approaching our senior years too quickly. We can't and don't want to sell our home. It is all we have. My husband Jay's credit rating is above average and we struggle to make ends meet and we pay all of our bills early or on time. We are scared right now. Like many millions of Floridians, our future depends on your company's quote.”

1996 Masonry Home

\$240,000 Schedule A

Expiring premium \$2,301

Renewal Premium \$2,932.01 (after 20% reduction due to HB 1A)

Commercial insured in Ormond Beach, Florida

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Property</u>			
Limit	\$3,011,700	\$3,177,300	\$3,368,461
Premium	\$6,748	\$6,560	\$35,255
Deductible	2%	2%	10%
 <u>Liability</u>			
Limit	\$5,000,000	\$5,000,000	\$5,000,000
Premium	\$1,623	\$1,608	\$5,834

CUT RATES.....

How??

- Premium Tax
- Agents Commission
- Coverage
- Self Insurance



Empower Consumers by Allowing Reductions in Coverage

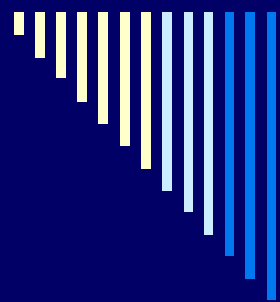
- ✓ Eliminate maximum deductible of 10%
- ✓ Eliminate contents coverage
- ✓ Eliminate wind coverage

Requirements for Reductions in Coverage

- Handwritten and signed statements from the insured
- Signatures from all named insureds
- Written statement from any lien holder approving the reduction in coverage

Sample of Handwritten Statement

“I do not want the insurance on my (home/mobile home/condominium unit) to pay for damage from windstorms or hurricanes. I will pay those costs. My insurance will not.”



What's left?

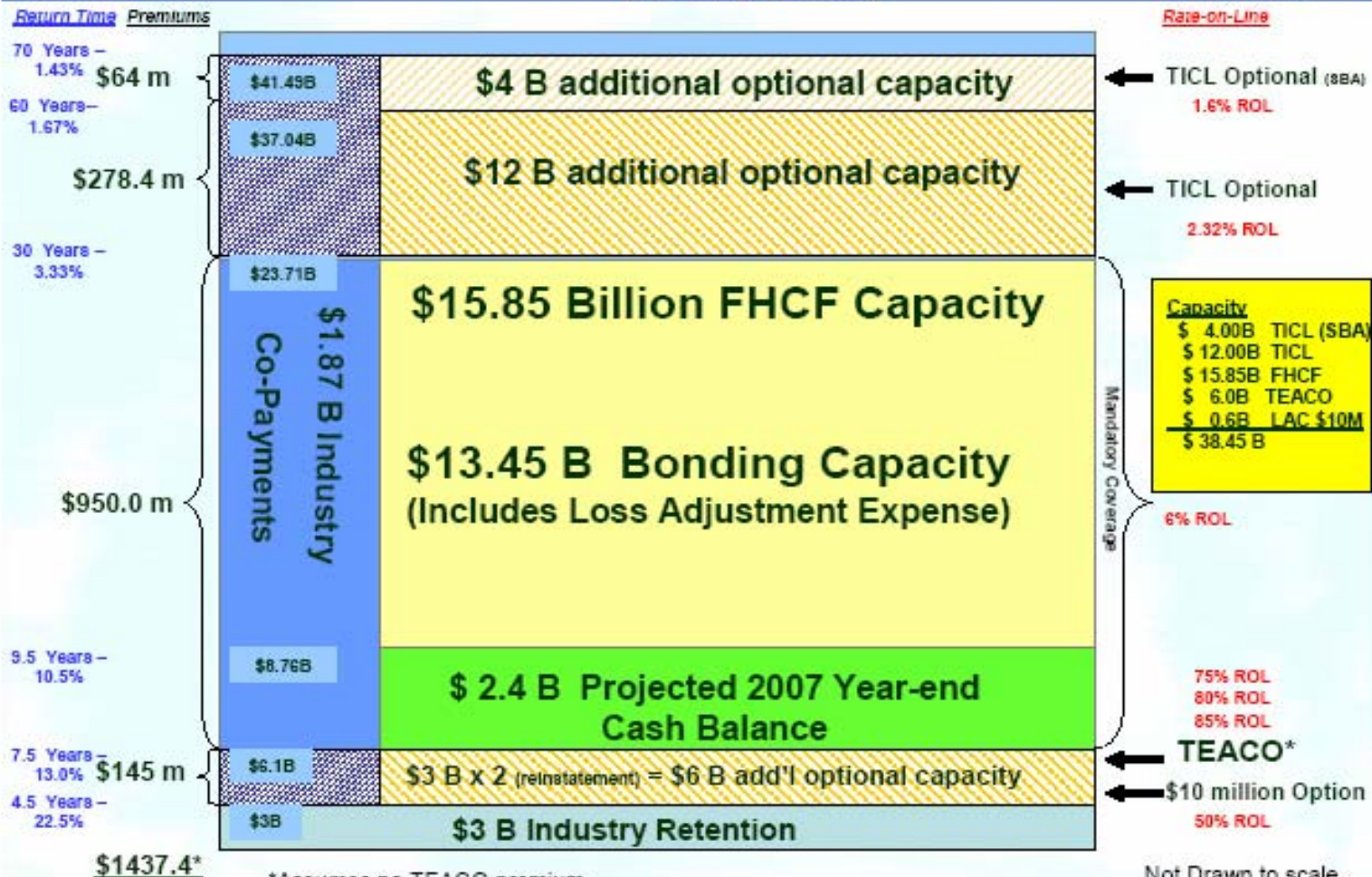
REINSURERS

Initial Season Capacity for the 2007 Hurricane Season

D-R-A-F-T

(Unofficial Estimate)

D-R-A-F-T



*Assumes no TEACO premium.

Not Drawn to scale.

Comparisons of CS/CS/HB 3A and S4-A
All \$ in Billions

LAE 1.05
 Wtd Ave Coverage 90%

Assumptions:

Modeling used the four models found acceptable by the Modeling Commission. Losses are gross losses to residential exposures in the FHCF exposure database, trended to 6/30/2007. Losses do not include demand surge, loss amplification, storm surge. Losses are based on the long-term perspective of loss; the new near-term perspectives were not used.

No New Legislation		Compromise - E		Compromise - F	
Occurrence Loss (\$bn)	Return Time (yrs)	Occurrence Loss (\$bn)	Return Time (yrs)	Occurrence Loss (\$bn)	Return Time (yrs)
\$47.40	100	\$47.40	100	\$47.40	100
<div style="border: 1px solid black; padding: 5px;"> <p>Reinsurance \$10.50 Capacity \$11.67 Width of layer 10% ROL (Benfield est.) \$1.05 Premium 1 @ 100%</p> </div>		<div style="border: 1px solid black; padding: 5px;"> <p>Reinsurance \$4.79 Capacity \$5.32 Width of layer 6.0% ROL \$0.29 Premium 1 @ 100%</p> </div>		<div style="border: 1px solid black; padding: 5px;"> <p>Reinsurance \$4.79 Capacity \$5.32 Width of layer 6.0% ROL \$0.29 Premium 1 @ 100%</p> </div>	
\$35.73	62	\$42.08		\$42.08	
<div style="border: 1px solid black; padding: 5px;"> <p>Reinsurance \$12.00 Capacity \$12.70 Width of layer 20% ROL (Benfield est.) \$2.40 Premium 1 @ 100%</p> </div>		<div style="border: 1px solid black; padding: 5px;"> <p>TICL \$18.00 Capacity \$19.05 Width of layer 2.33% ROL \$0.42 Premium</p> </div>		<div style="border: 1px solid black; padding: 5px;"> <p>TICL \$18.00 Capacity \$19.05 Width of layer 0.00% ROL \$0.00 Premium</p> </div>	
\$23.03	33	\$23.03	33	\$23.03	33
<div style="border: 1px solid black; padding: 5px;"> <p>FHCF \$16.00 Capacity \$16.93 Width of layer \$0.90 Premium (est.)</p> </div>		<div style="border: 1px solid black; padding: 5px;"> <p>FHCF \$16.00 Capacity \$16.93 Width of layer \$0.90 Premium (est.)</p> </div>		<div style="border: 1px solid black; padding: 5px;"> <p>FHCF \$16.00 Capacity \$16.93 Width of layer \$0.90 Premium (est.)</p> </div>	
\$6.10	7.8	\$6.10	7.8	\$6.10	7.8
\$0.00		\$0.00		\$0.00	

\$3.45 bn Reinsurance Premium above the FHCF

\$0.71 bn Reinsurance Premium above the FHCF

\$0.29 bn Reinsurance Premium above the FHCF

Actual Industry Savings Company	Market Share	Estimated % Savings to be Realized	Estimated Actual Expenditures			Savings			
			No Bill	Compr. "E"	Compr. "F"	Compr. "E" Amount	Compr. "E" % DWP	Compr. "F" Amount	Compr. "F" % DWP
Citizens	32%	0% [1]	\$0.00	\$0.00	\$0.00	\$0.00	0.0%	\$0.00	0.0%
State Farm	17%	TBD (SF) [2]	State Farm will provide			State Farm will provide			
National co.s w/o FL subs	21%	50% [3]	\$0.36	\$0.07	\$0.03	\$0.29	13.7%	\$0.33	15.8%
FL domestics + FL subs	30%	100% [4]	\$1.04	\$0.21	\$0.09	\$0.82	27.4%	\$0.95	31.6%
	100%		\$1.40	\$0.29	\$0.12	\$1.11		\$1.28	

Notes

[1] No savings due to no purchase

[2] Most of purchase is subsidized approx. 50% by parent (State Farm will provide their own estimate)

[3] Due to diversification benefit of national covers they purchase, they will not see full savings

[4] Anticipate full savings for these companies.

[5] Estimated full residential premium including non-wind

[6] Wind premium assumed to be 50% of total premium

Savings ignoring Citizens and State Farm

% of wind premium [6]	43.6%	50.2%
Removal of rapid cash	5.0%	5.0%
Total Savings	48.6%	55.2%

\$10,000 million; \$5,100 without Citizens and SF



ESTIMATED REINSURANCE EXPENDITURES (ASSUMING NO CHANGE IN STATUTE)

<u>INDUSTRY LAYER</u>	<u>ESTIMATED R.O.L</u>	<u>ESTIMATED COST (90%)</u>
0 - \$6 BILLION (RETENTION)	NOT APPLCABLE	0
\$6 BILLION - \$23 BILLION (FHCF)	5.29%	\$.90 BILLION
\$23 BILLION TO \$36 BILLION (PRIVATE)	20.0%	\$2.4 BILLION
\$26 BILLION TO \$47 BILLION (PRIVATE)	10.0%	<u>\$1.05 BILLION</u>
TOTAL		\$3.45 BILLION



ESTIMATED REINSURANCE PURCHASERS

<u>COMPANY</u>	<u>SHARE OF MKT EXPOSURE</u>	<u>ESTIMATED PURCHASE</u>
CITIZENS	32%	0
STATE FARM	17%	TBA
NATIONAL COMPANIES W/O FLA SUBS	21%	50%
FLA DOMESTICS AND FLA SUBS	30%	100%



ESTIMATED REINSURANCE EXPENDITURES UNDER NEW STATUTE

<u>INDUSTRY LAYER</u>	ESTIMATED <u>R.O.L</u>	ESTIMATED <u>COST</u>
0 - \$6 BILLION (RETENTION)	NOT APPLICABLE	0
\$6 BILLION - \$23 BILLION (FHCF)	5.29%	\$.90 BILLION
\$23 BILLION - \$36 BILLION (TICL)	2.33%	\$.27 BILLION
\$36 BILLION - \$47 BILLION (PRIVATE)	6.00%	<u>\$.59 BILLION</u>
TOTAL		\$1.76 BILLION



PROJECTED SAVINGS UNDER NEW STATUTE

EXPENDITURES UNDER OLD LAW	\$3.45 BILLION
EXPENDITURES UNDER NEW LAW	<u>\$1.76 BILLION</u>
ESTIMATED SAVINGS	\$1.69 BILLION
ESTIMATED PREMIUM	\$10.0 BILLION
% SAVINGS	16.9%

Promised Rate Savings - Legislators

Florida Homeowners with policies from companies *other than Citizens and State Farm Insurance Companies*: **Total Premium** **Wind Premium**

Suspension of Florida Hurricane Catastrophe Fund (FHCF) 25%		
Rapid Cash Buildup	2.7%	5.0%
FHCF Reinsurance from the \$12 billion layer	9.1%	38.1%
TOTALS	21.8%	43.1%

State Farm Insurance Policyholders:

FHCF Reinsurance from the \$12 billion layer	5.0%	14.0%
Suspension of FHCF 25% Rapid Cash Buildup		2.0%
19.0%		
TOTALS	7.0%	19.0%

Promised Rate Savings - Legislators

(continued)

<u>Citizens Property Insurance Company Policyholders:</u>	High Risk Total Premium	Personal Lines Total Premium
Multi-peril policies sold to High Risk Account (if approved)	10.0%	----
FHCF Reinsurance from the \$12 billion layer	2% - 3%	2% - 3%
Eliminate requirement that Citizens purchase excess FHCF		
Coverage at 10% rate on line	1.7%	1.0%
Suspension of FHCF 25% Rapid Cash Buildup	3.0%	2.0%
Expand Citizens Assessment Base to match FHCF		
Assessment Base	1.0%	-----
TOTALS	17.7% - 18.7%	5% - 6%
 <u>Citizens Premium Increase Avoidance:</u>		
Repeal of Citizens rate filing previously approved for 1/01/07	23.1% site-built	
	4.8% mobile homes	12.4%
Repeal of March 1, 2007 rate increases	56.5%	2.2%

OIR Predictions

STATEWIDE AVERAGE RATE OF SAVINGS ON OVERALL PREMIUM

Overall Savings — 24.3 %

Homeowners — 23.9 %

Condominium Unit — 25.0 %

Manufactured Home — 26.9 %

Condo and Apartment Buildings — 28.7 %

Renters Insurance — 20.3 %



Homeowners Multiple Peril Top 10 Writers* Line of Business

	<u>Requested Rate Decrease</u>	<u>2005 Market Share</u>
State Farm	7.0	19.94
Citizens Property Ins.	6.60	8.67
Allstate	14.20	6.73
Nationwide	4.50	4.56
USAA	3.10	2.67
Liberty Mutual	8.7	2.35
First Floridian	8.22	2.04
Federal Insurance Co.	12.30	1.88
United P&C	9.00	1.78
Tower Hill Preferred	15.50	<u>1.63</u>
		52.25

*Excludes companies owned by Poe Financial

Requested Rate Decreases

	<u>Estimated Statewide Average</u>		<u>Estimated Statewide Average</u>
Allstate Floridian	14.2	Homewise	20.4
American Strategic	11.4	Liberty Mutual	8.7
American Traditions	17.8	Metropolitan P&C	18.1
Argus Fire & Casualty	29.8	Nationwide	4.5
Auto-Owners	5.8	Northern Capital	34.5
Capital Preferred	22.5	Royal Palm	20.7
Citizens Property	6.6	Security First	25.8
Clarendon National	28.2	Southern Fidelity	22.9
Coral Insurance	20.3	Southern Oak	31.3
Cypress P&C	5.4	St. Johns	16.6
Edison	31.3	State Farm	7.0
Federal Insurance	12.3	Sunshine State	25.8
Federated National	15.2	Tower Hill Preferred	15.5
First Floridian	8.2	Tower Hill Prime	15.2
First Protective	15.0	United P&C	9.0
Florida Family	11.9	Universal P&C	12.1
Florida Peninsula	10.4	Universal of N.America	20.3
Gulfstream P&C	16.4	USAA	3.1
Hartford	16.7		



Ineligible Risks – Citizens Property Insurance

Old law – Any risk offered coverage by the admitted market at any price; non-homesteaded property without three declinations

New law – Non-Citizens customers are only ineligible for coverage if the offer from the admitted market is no more than 15% higher than the Citizens' price for comparable coverage. Citizens customers are free to remain in Citizens even if the price in the admitted market is less than the Citizens price.

[Rate Standards – Citizens Property Insurance]

Old law and new law

“Rates for coverage provided by the corporation shall be actuarially sound.”

Rate Standards for Citizens Deleted by HB 1A

- “not competitive with approved rates charged in the admitted voluntary market”
- “shall include an appropriate catastrophe loading factor” (defined as sufficient to cover the 1 in 100 year event)
- “no lower than the average rate” charged by any one of the top 20 writers in any county”



STAFF ANALYSIS

Although the term “actuarially sound” does not have a precise definition, particularly when applied to a residual market insurer that depends on assessments for financing, the term generally means a rate that will cover expected losses. When applied to windstorm losses, this means a rate sufficient to cover average annual expected losses, based on hurricane loss projection models.



STAFF COMMENT

It is unclear whether any additional amount beyond average annual loss should be included in Citizens' rate to collect an imputed "cost of capital" that would reduce Citizens' reliance on assessments. It is also not clear if the term "actuarially sound" encompasses charging an amount in excess of annual average loss to build towards financing a probable maximum loss for a specified period, such as a 50 or 100 year storm. (Even though Citizens would be subject to a rate standard substantially the same as for voluntary market property insurers, Citizens is not subject to the same solvency requirements such as maximum surplus, restrictions on premium writings, or having surplus and reinsurance to cover a 100-year probable maximum loss).

Other Issues

- Governor's Priorities
 - Cherry Picking
 - Pup Companies
 - Excess Profits

Cherry Picking by Auto Insurers

“Effective January 1, 2008, no insurer writing private passenger automobile insurance in this state may continue to write such insurance if the insurer writes homeowners’ insurance in another state unless the insurer writing private passenger insurance in this state is affiliated with an insurer writing homeowners’ insurance in this state.”

Pup Companies

“A domestic insurer that transacts residential property insurance and is a wholly owned subsidiary of an insurer authorized to do business in any other state shall possess surplus as to policy holders of at least \$50 million.”



Excess Profits

“A residential property insurer shall return all excess profits to policyholders.... A residential property insurer shall be deemed to have earned an excess profit if its surplus exceeds its direct probable maximum loss for a 1-in-250-year return period and it has earned a net underwriting gain in Florida in excess of 10 percent of earned premiums above its anticipated profit over the most recent 10-year period.”

Other

- Arbitration
- Use & File
- Cancellation Notice
- Sinkholes

Sinkhole Coverage

Effective June 1, 2007

INSURERS MUST PROVIDE

MANDATORY COVERAGE for “*catastrophic ground cover collapse*”

- Abrupt
- Clearly visible depression
- Damage to foundation and structure
- Condemned and vacated by governmental order

OPTIONAL COVERAGE for “*an appropriate additional premium*” for sinkhole damage (including contents)

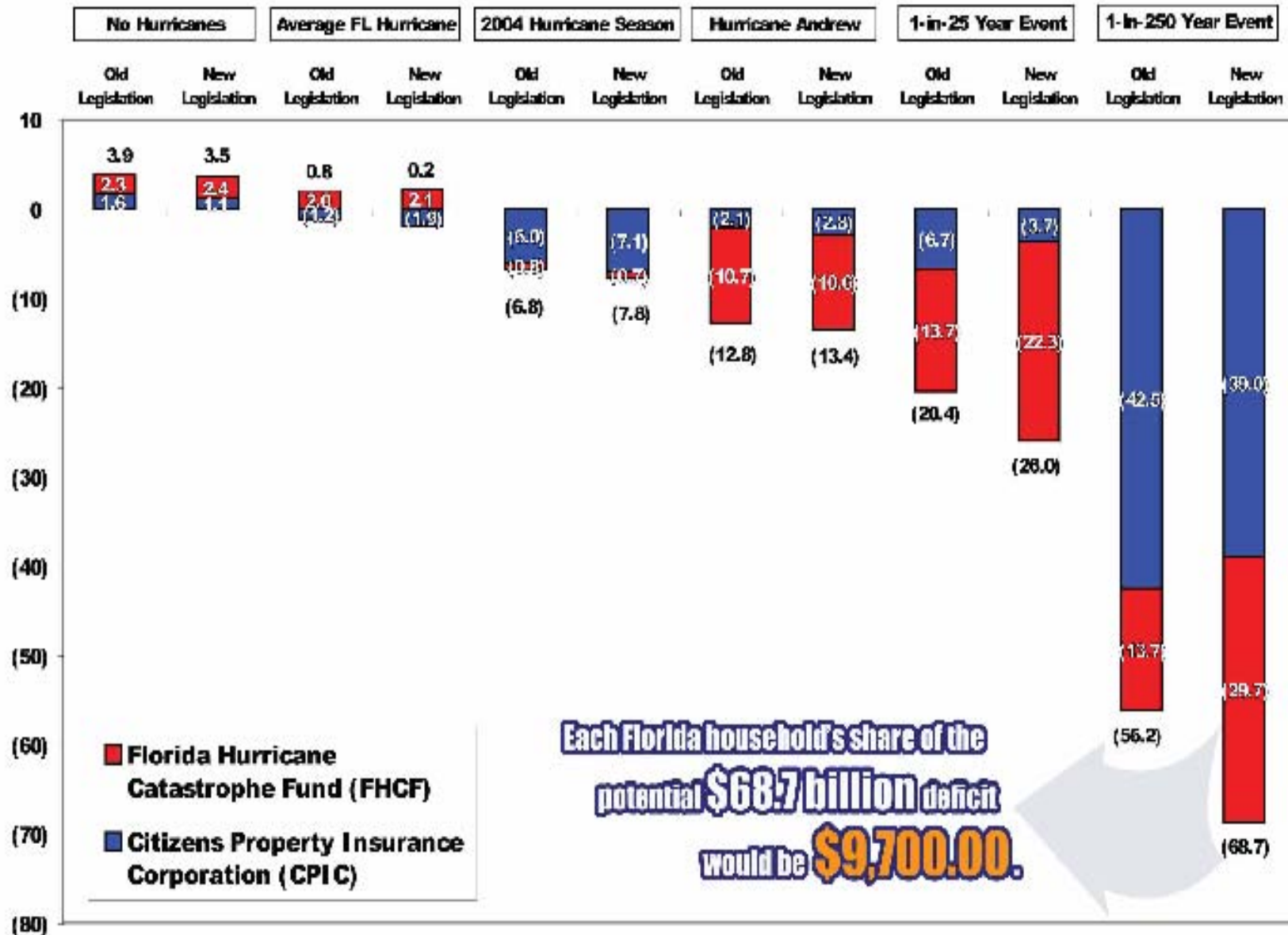
Auto-Owners Reaction

- “We cannot rely on purchasing hurricane reinsurance form any organization that is financially unreliable.”
- *In the event of an assessment:*
- “Auto-Owners potential exposure to the mandatory purchase of bonds could be in excess of \$300 million for a one in 70 year hurricane and \$600 million for a one in 100 year event.”
- “In the event of a catastrophic hurricane such as a one in 100 year storm, the additional average policy premium for our lines increases from \$1,528 to an estimated \$2,169... 42% or \$641 per policy.”
- Effective immediately, Auto-Owners Insurance Company and Owners Insurance Company will accept no new business.”

USAA Reaction

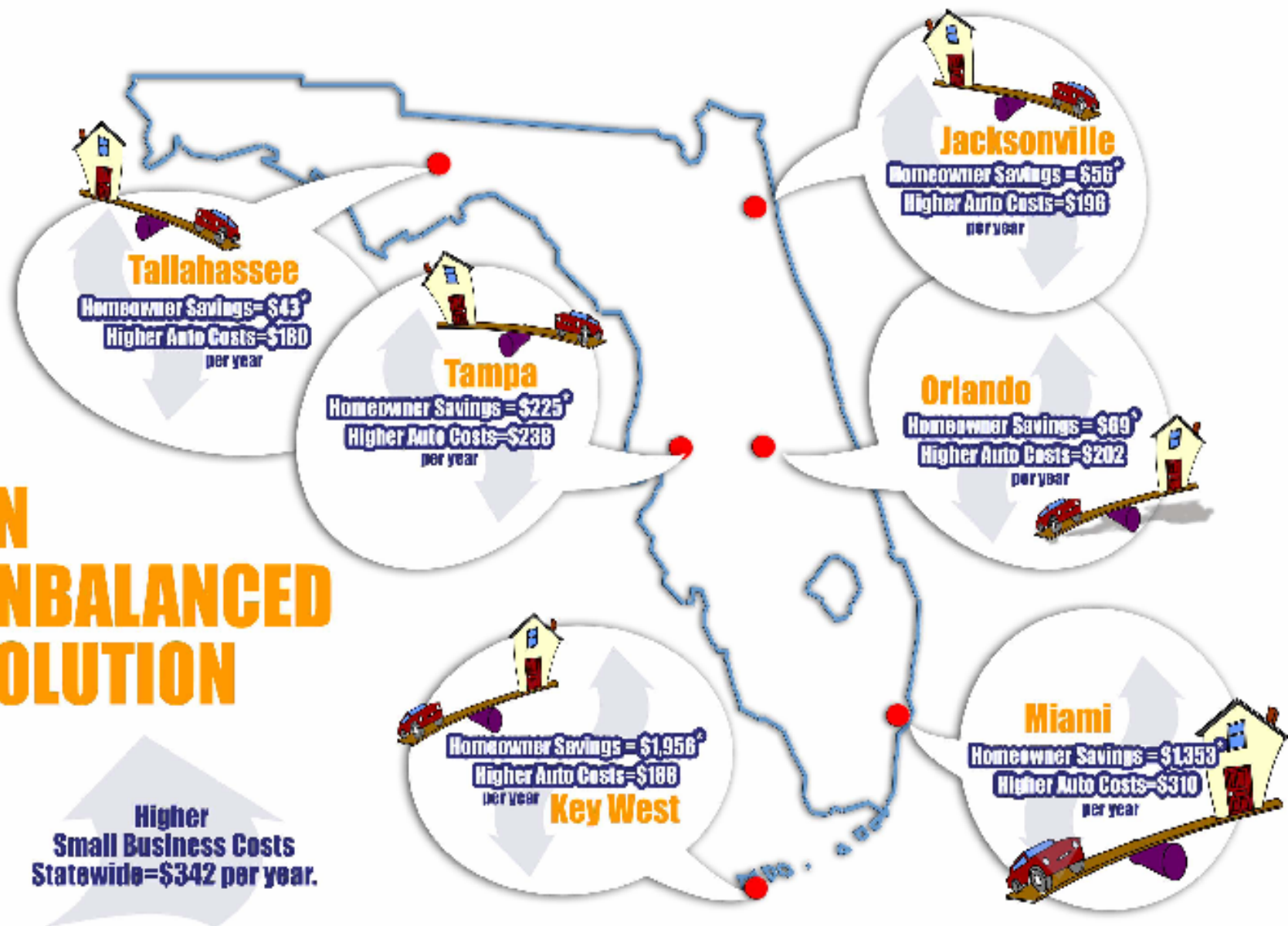
“Recent legislative and regulatory actions in Florida have created an untenable market in your state. Florida politics have severely restricted USAA’s ability to charge adequate property insurance rates for the risk the association bears on behalf of its Florida members. These actions jeopardize our ability to protect the long-term viability of the association, as well as the assets of our members.”

Estimated Surplus/(Deficit) at Year-End 2007 for FHCF & CPIC



AN UNBALANCED SOLUTION

Higher
Small Business Costs
Statewide=\$342 per year.



* Information compiled from Milliman Report, estimates based on calculations after a 1-in-25 year event including assessments; higher auto costs are for 2 car policies.

Other reactions to new legislation

- Continued non-renewals by national carriers
- Additional reinsurance purchases
- New reinsurance covers for FHCF credit risk
- New company formations

What about the customers?

- The retired couple in Jupiter paid their renewal premium of \$2,932 on May 14th (an increase of 27%).
- The owner of the commercial office building purchased coverage on June 8th (a 500% increase).



????



ANY QUESTIONS?

Presented by Locke Burt

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