



Creation of Citizens Property Insurance Corporation

FWUA (Florida Windstorm Underwriting Association)

created in 1972 to provide wind-only coverage in coastal regions.

and the

FRPCJUA (Florida Residential Property and Casualty Joint Underwriting Association)

created in December, 1992 following Hurricane Andrew for hundreds of thousands of Floridians unable to find homeowners insurance.

merged in 2002, creating

Citizens Property Insurance Corporation

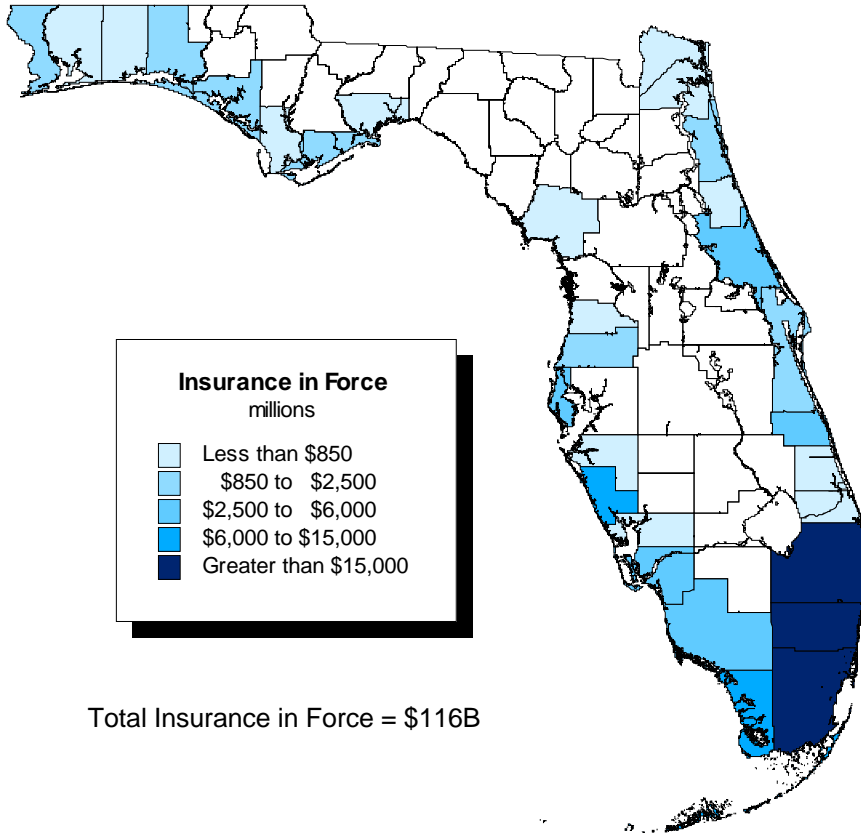
Offers wind-only and all-perils property insurance coverage to Floridians without private insurance options

Citizens is an Important Safety Net for Floridians

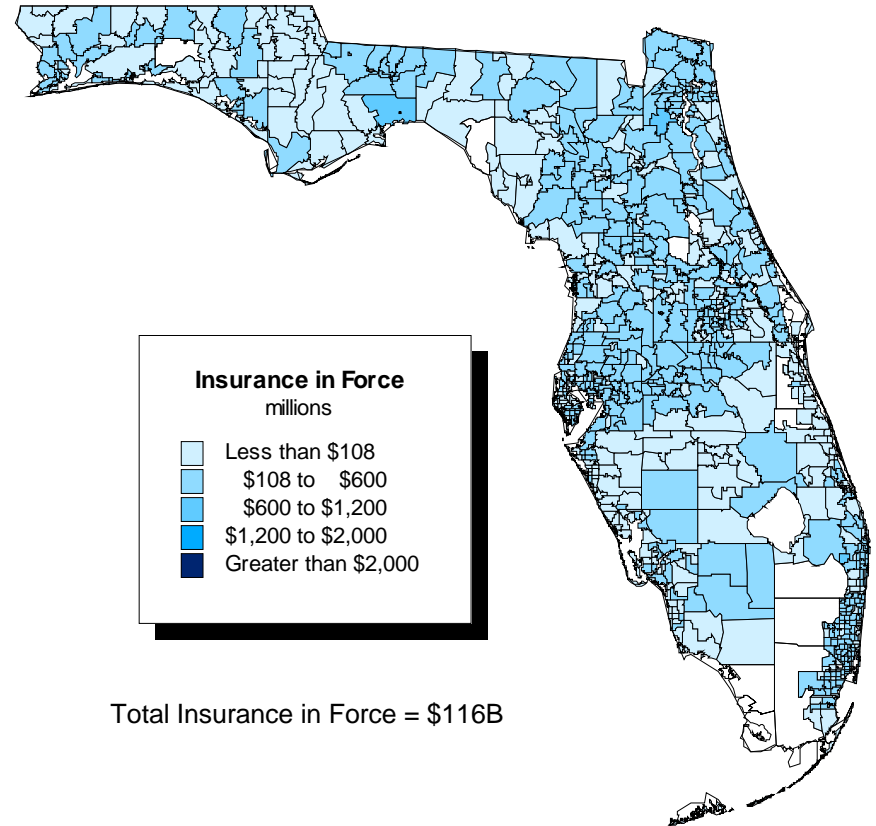
- Citizens is *required by law* to accept all applicants who are otherwise insurable but cannot find coverage in the voluntary market.
- Citizens, like most state residual market facilities is required to accept business (on an individual and aggregate basis) that voluntary insurers will not write.
- Citizens requires applicants and agents to sign an affidavit on the application that they do not have a voluntary insurer that will insure them.

Citizens is Required to Insure More Loss Exposure Than Any Private Insurer Would Ever Consider:

Citizens High Risk Account Risk



Voluntary Insurers Portfolio



Citizens Ends Up Insuring the “Toughest” Risks

- This is especially true in the HRA for hurricane exposure
- Coastal Concentration
- Older Homes
- Manufactured Housing and Mobile Homes
- Sinkholes

Operating Statistics – Sample Month, June 2005

- Excluding processing from outsource vendor McNeil group, Citizens processed the following number of applications and policy changes *in one month* (June, 2005):

Personal Lines Account (PLA) :

- Applications – 10,278
- Endorsements – 2,617
- Cancellations – 7,610
- Reinstatements – 6,781

Commercial Lines Account (CLA, residential):

- Applications – 277
- Endorsements – 130

High Risk Account (HRA):

- Applications – 9,295
- Endorsements – 18,446

- For the month of June, 2005 the call volume in Citizens' Agent Assistance Call Center (TRC) was approximately 79,400 incoming calls from agents and policy holders.

Citizens' 2004 Deficit and Assessment - Perspective



Citizens' 2004 Deficit and Assessment - Perspective

- The previous slide looked catastrophic, didn't it?
- It represents a two-block region of Walton County.
- It represents \$50 million in potential insured losses.
- Walton County is not even in Citizens' Top 10 exposed counties.

History of Assessments

- The two predecessor organizations (FRPCJUA and FWUA) have collectively levied 11 regular assessments.
- Below is a listing of the assessment percentage by year:

NOTE: The HRA did not cover Dade, Broward, or Palm Beach Counties until after Hurricane Andrew struck.

<u>Year</u>	<u>Account</u>	<u>Principal Storm(s)</u>	<u>Assessment Amount</u>
1998	HRA	Hurricane George and Tropical Storm Mitch	\$100.0 million
1995	PLA	Hurricane Opal	22.8 million
1995	HRA	Hurricane Opal	84.0 million
1995	HRA	Hurricane Erin	33.0 million
1994	PLA	Non-hurricane	17.7 million
1993	HRA	Winter Storm	3.2 million
**1992	HRA	Hurricane Andrew	16.2 million
1985	HRA	Hurricane Elena	3.2 million
1975	HRA	Hurricane Eloise	5.0 million

Recent Headlines

AFTER KATRINA, THREE STATES' HIGH-RISK POOLS ARE LIKELY TO ASSESS (BESTWIRE)

MISSISSIPPI LAST RESORT INSURER ISSUES \$10 MILLION ASSESSMENT (BESTWIRE)

UPDATED RITA DAMAGE FORECAST: UP TO \$6 BILLION
Insured damage total would make hurricane one of 10 costliest in U.S. (MSNBC)

Assessment – Questions Answered

- **What is an assessment and why is it needed?** As a result of last year's unprecedented storms, Citizens Property Insurance Corporation incurred more than \$1.8 billion in losses to its High Risk Account. Because of these losses, Citizens now has a shortfall of approximately \$516 million. Under Florida law this amount must be recouped by a one-time assessment on property insurance companies statewide, to ensure Citizens is able to pay claims in the event of future storms.
- **May insurance companies pass this cost on to their customers?** Yes. Insurance companies must file with OIR to be able to add a one-time surcharge to their policyholders' annual premium. Companies may *only* recoup what was paid to Citizens.
- **How much will the average consumer pay?**
On average, the surcharge will be 6.8 percent of the annual premium. A consumer with an annual premium of \$1,000 will pay a surcharge of approximately \$70. A consumer with an annual \$1,500 premium would receive a surcharge of around \$100.
- **Are Citizens' policyholders subject to a surcharge?**
Yes. In order to ensure Citizens' policyholders are treated the same as other Floridians, Citizens will add a surcharge of approximately 6.8 percent to all new and renewal policies. Citizens plans to request this surcharge before the end of 2005.

2004 Losses at-a-glance

PLA/CLA	Total Incurred <i>As of 12/31/04</i>	Total Paid & Remaining Case Reserves <i>As of 07/31/05</i>
Charley	134,208,738	144,732,959
Frances	268,205,489	270,604,305
Ivan	44,656,468	51,835,133
Jeanne	154,485,526	129,609,963
Total	\$601,556,221	\$596,782,360

HRA	Total Incurred <i>As of 12/31/04</i>	Total Paid & Remaining Case Reserves <i>As of 07/31/05</i>
Charley	295,849,717	340,877,017
Frances	683,322,929	758,976,621
Ivan	563,733,383	669,563,033
Jeanne	263,099,347	279,111,531
Total	\$1,806,005,376	\$2,048,528,202

The effect of high-value home losses on Citizens' 2004 deficit

- Of the \$1.8 billion in HRA account losses, approximately \$24.4 million can be attributed to claims on residential properties insured for more than \$1 million.
- This represents a little more than 1 percent of Citizens' total HRA losses in 2004.
 - Going forward,
- Citizens insures around 5,500 homes valued at \$1 million or more, which represents a sizeable portion of our overall exposure. In total, there are currently 421,000 policies now in Citizens' HRA.
- In 2004, only 768 high-value homes experienced losses, primarily due to the geographic impact of last year's storms.

2005 Catastrophe Claims Results

Dennis Claims Status

	Reported	Closed	% Closed
PLA	1,039	909	87.5%
HRA Residential	4,366	3,797	87.0%
HRA Commercial	397	293	73.8%
CLA (8/31/05)	22	7	31.8%

Katrina Claims Status

	Reported	Closed	% Closed
PLA	9,907	3,259	32.9%
HRA Residential	10,505	4,114	39.2%
HRA Commercial	900	437	48.6%
CLA (8/31/05)	221	3	1.4%

Note: PLA and HRA results are as of September 26, 2005

2005 Catastrophe Claims Improvements

Following last year's devastating hurricanes...

- Citizens made a number of changes to its infrastructure, including significantly expanding Catastrophe Claims Department.
- Citizens changed its adjuster management philosophy. Prior to last year's storm season, Citizens relied solely on outside, contractual adjusters to handle all aspects of hurricane claims, including customer service. Beginning with the 2005 storm season, Citizens directly manages both company employees and adjusting firms in the processing and payment of claims. Under this new system, Citizens' Catastrophe Team will provide more efficient claims handling and better overall customer service.
- Citizens will establish a regional claims service office in Miami-Dade County this year, with additional offices expected to come online in 2006. Nearly 25 percent of all Citizens policyholders are located in Miami-Dade County.
- Citizens has added enhanced technology and increased customer service staff levels for its consumer hotline. Citizens' hurricane claims reporting hotline is 1-866-411-2742.

2005 Cat Plan Overview

- **Transition to a Traditional IA Model**

- Increased Adjusting Capacity
- Elimination of Subcontractor Relationships
- Mitigation of Operation Issues
- Utilization of Non-Traditional Resources
- Improved File Quality
- Reduced Complaint Ratio
- Improved Management of Indemnity and LAE Dollars

- **Development of Administrative Plan**

•Dispatch	•File Review
•Accounting	•Fast Track
•Claims Administration	•SIU
•Underwriting	•Litigation
•Adjuster Licensing	•Mediation
•Orientation	•Utilization
•Temporary Staff Utilization	•Complaints
•Training Guides	•Resolutions
•Facilities	

- **Acquisition of Key Catastrophe Resources**

- New Model
- Planning and Preparedness
- Direct Supervision of Field Adjusters
- Development of Administration Plan
- Modifications to Operations Plan
- Catastrophe Office Staffing

- **Vendor Solicitation, Selection and Contracting**

- New Model
- Performance Based Contracts
- Training
- Non Catastrophe Claim Handling

- **Operational Plan Modifications**

- Utilization of Regional Offices
- Utilization of Non-Catastrophe Claims Staff
- Agent Involvement
- Claims Administration Plan
- Claims Guide Changes

- **Claim Tracking System**

Citizens Policy Counts by Year and Account

ACCOUNT/ YEAR	PLA	CLA	HRA	Total
1996*	936,837	0	465,739	1,402,576
2001	102,792	198	414,123	517,113
2002	205,256	2,356	397,676	605,288
2003	383,280	3,919	433,056	820,255
2004	416,529	3,702	453,765	873,996
2005**	350,796	3,315	421,119	775,230

* Highest ever policy count for PLA.

** As of August 31, 2005

HRA Exposure and Policy Count by County (6/05)

Top 10 Counties				
County	Exposure (\$000)	% of Total Exposure	Policies in force	% of Total Policies
Dade	28,612,534	22%	93,790	23%
Pinellas	21,042,355	16%	63,154	15%
Broward	19,495,914	15%	72,051	17%
Pasco	9,216,336	7%	27,910	7%
Palm Beach	8,366,481	6%	27,742	7%
Hernando	6,095,481	5%	17,415	4%
Hillsborough	6,019,328	5%	10,714	3%
Sarasota	4,901,374	4%	15,442	4%
Brevard	3,965,803	3%	14,924	4%
Lee	3,613,193	3%	8,201	2%
Total	111,328,799	85%	351,343	85%

PLA/CLA Exposure and Policy Count by County(6/05)

Top 10 Counties				
County	Exposure (\$000)	% of Total Exposure	Policies in force	% of Total Policies
Dade	15,733,539	29%	77,740	25%
Pinellas	9,180,354	17%	51,403	16%
Broward	6,273,386	11%	34,770	11%
Pasco	5,556,973 ▲	10%	38,923	12%
Palm Beach	4,176,391 ▲	8%	22,951	7%
Hillsborough	2,359,873 ▲	4%	15,806	5%
Hernando	1,665,325 ▲	3%	11,778	4%
Sarasota	1,001,234 ▲	2%	4,862	2%
Brevard	968,925 ▲	2%	5,565	2%
Lee	794,525 ▲	1%	5,468	2%
Total	47,710,525	87%	269,266	86%

The Success of Takeout Programs Since 1996

Number of takeout companies that removed bonus eligible policies:	30
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Net number of policies funded in escrow:	1,389,869
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Net bonus amount funded in escrow:	\$205,763,726
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Depopulation

- Citizens is required by Florida law to design incentive programs and make every best effort to encourage licensed insurance companies to assume policies, thereby returning its policyholders to the private market. The following incentive programs have been approved to assist in depopulation.
- Under all incentive programs, takeout companies must remove a percentage of selected policies from Miami-Dade, Broward or Palm Beach Counties. The assumption company must also retain policies for a minimum of three years to qualify for a bonus.

Program	Minimum Polices	Miami, Broward, and Palm Beach*	Maximum Bonus as % of Premium
Takeout Incentive Program A	10,000	40%	12.50%
Takeout Incentive Program B	30,000	60%	15.00%
Takeout Incentive Program C	50,000	80%	17.00%
Takeout Incentive Program D	20,000	50%	25.00%

* Must cover residential properties with HO2 and HO3, and Dwelling Fire Policies located in Miami-Dade, Broward or Palm Beach Counties.

 *PLA*

 *HRA*

2005 Depopulation

Company Name	Type	PLA/HRA 01/18/05	PLA/HRA 02/02/05	PLA/HRA 03/01/05	PLA/HRA 04/05/05	PLA 05/03/05	HRA 05/18/05	PLA 05/25/05	HRA 06/29/05	PLA 06/29/05	PLA/HRA 08/02/05	PLA/HRA 09/06/05	2005 Total To Date
Argus Fire & Casualty Ins Co	PLA							7,912		3,710			11,622
Atlantic Preferred Ins Co	PLA	4,584		5,258		4,164							14,006
First Home Ins Co	PLA							24,480		4,598	881		29,959
Florida Peninsula Ins Co	HRA						29,252		9,474				38,726
Gulfstream Property & Casualty Ins Co	PLA	58,893		18,212									77,105
Security First Ins Co	PLA							4,225		2,717			6,942
Service Ins Co	PLA									200	257		457
Southern Fidelity Ins Co	PLA							21,469		1,610			23,079
Southern Oak Ins Co	PLA		8,833	2,364		4,388				1,395		1,824	16,980
United Property & Casualty Ins Co	PLA		9,228		5,346					9,261			23,835
Total Actual Assumptions To Date		63,477	18,061	25,834	5,346	8,552	29,252	58,086	9,474	23,491	1,138	1,824	242,711

Takeout Programs Since 2003

Name of Companies –PLA	Number of Policies Assumed	Escrowed Bonus Amount
Argus Fire and Casualty Ins. Co.	11,622	2,169,205
Atlantic Preferred Ins. Co.	101,126	30,455,969
Federated National Ins. Co.	13,814	2,989,921
First Home Ins. Co.	29,959	5,976,217
Gulfstream Property & Casualty Ins. Co.	77,105	11,398,381
Security First Ins. Co.	6,942	0
Service Ins. Co.	457	0
Southern Fidelity Ins. Co.	23,000	0
Southern Oak Ins Co.	16,980	1,968,166
United Property & Casualty	63,374	20,507,050
Universal Ins Co.	<u>32,951</u>	<u>2,790,968</u>
Total	377,330	78,255,877
Name of Companies -HRA	Number of Policies Assumed	Escrowed Bonus Amount
Atlantic Preferred Ins. Co.	12,457	0
Florida Peninsula Ins. Co.	<u>38,726</u>	<u>2,223,159</u>
Total	51,183	2,223,159

Rate Subsidization

Unless more premium is charged for policies that cost more in claim dollars, those policies will be subsidized by all the other policyholders. Some areas of subsidization that currently may exist include:

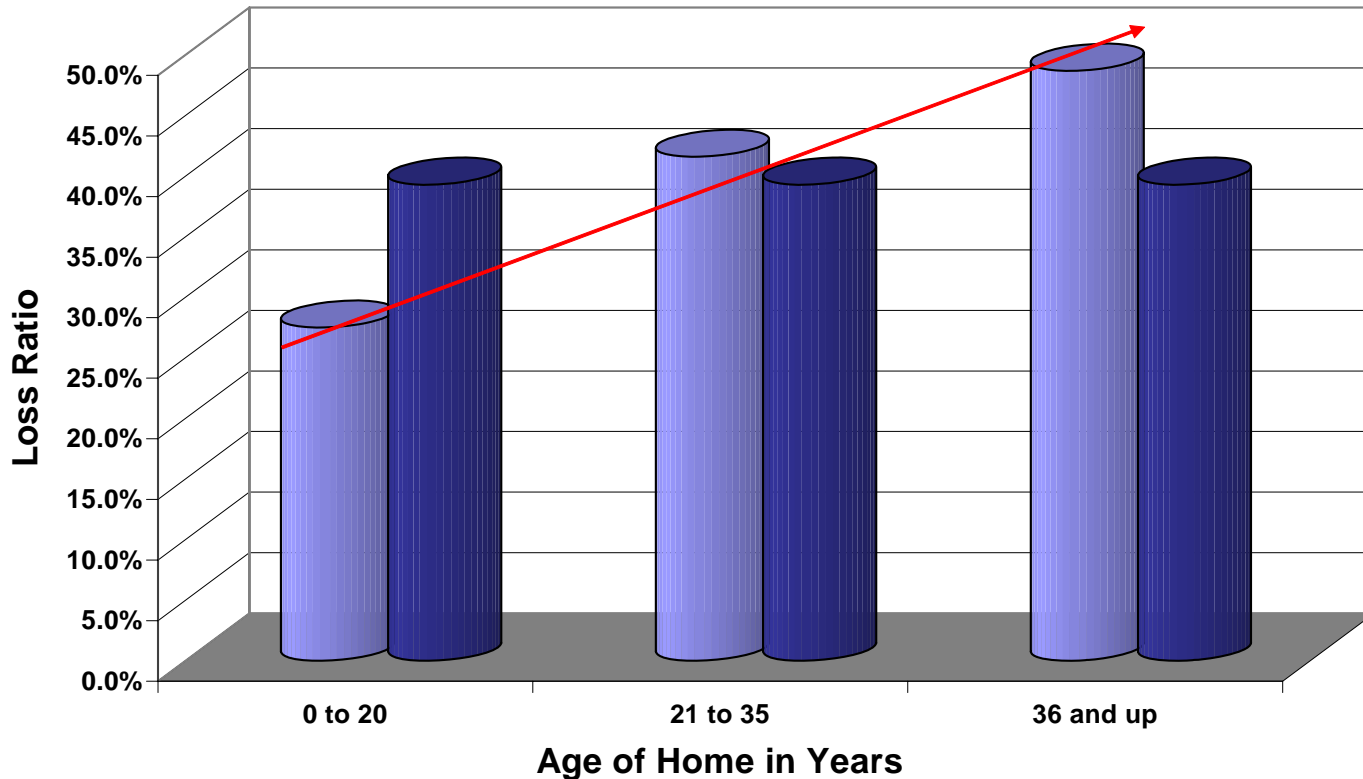
- Age of Home
- Sinkhole
- Coastal/Inland

Age of Home

- Our age of home distribution shows that most of our policies are homes over 20 years old. (*PLA data*)
- Newer homes have better loss experience than older homes. Newer homes are subsidizing older homes.

Age of Home

Loss Ratios by Age of Home



These loss ratios do not include catastrophe and sinkhole loss ratios.

Loss Ratio by Age Loss Ratio All Ages

Sinkholes

- Some geographic areas have had substantially worse sinkhole experience than the rest of the state. Besides claim costs, there are significant inspection expenses. Loss adjustment expenses are 12% for non-catastrophe, non-sinkhole claims but 20% for sinkhole claims.
- Pasco County accounts for over 65% of sinkhole claim dollars. (Wind exclusion policies)
- If Pasco County premiums do not cover these losses, policyholders in other parts of the state are subsidizing sinkhole losses and expenses. Current indications are that Pasco County premiums require additional increases.

Policy Growth in Sinkhole Areas

- Sinkholes have contributed significantly to policy growth especially in the Tampa Bay area, which includes Hernando, Hillsborough, Pasco and Pinellas counties.
- In addition, sinkhole claims have increased loss costs on multi-peril policies.
- Chart below reflects the growth patterns associated with sinkhole properties throughout Florida.

Policies in Forces, as of

Area	12/31/2001	12/31/2002	12/31/2003	12/31/2004	Change
Tampa Bay	1,012	18,550	95,051	140,171	13751%
Dade, Broward, PB	100,723	140,193	239,441	205,644	104%
All Other	1,057	5,530	48,769	70,678	6587%

Effects of Sinkholes

- The PLA is receiving an average of 72 sinkhole claims per month.
- If this trend continues, Citizens expects 864 new sinkhole claims in **2005** with an **estimated \$40 million in incurred losses**. Sinkhole losses make up approximately 7% of our non-cat loss ratio.

Sinkhole Activity	2003	2004
Reported Claims	354	803
Open Claims	73	452
Total Paid	\$12.2 million	\$12.8 million
Open Reserves	\$2.8 million	\$18.3 million
Average LAE Severity	\$4,600	\$8,500
Average Loss Severity	\$50,864	\$46,792
LAE Incurred	\$2.9 million	\$6.4 million
Losses Incurred	\$15.0 million	\$31.1 million

Citizens HRA Account – A Reality Check

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<i>(in thousands)</i>									
PML	2,856,247	4,756,839	5,567,641	5,343,868	4,699,000	4,995,000	5,148,000	6,574,983	7,563,805
Net Income	1,789	48,783	17,220	41,081	95,915	139,906	217,486	341,923	(1,430,489)
Accumulated Surplus	3,162	51,825	64,570	88,301	173,818	335,809	536,366	877,937	(551,980)

Balance Sheet – July 31, 2005 - Statutory Basis (unaudited)

(in thousands)⁵

	Consolidated	PLA	CLA	HRA
Assets				
Cash and invested assets	\$ 3,195,545	\$ 601,742	\$ 132,179	\$ 2,461,624
Premium receivable, net	9,438	7,916	(246)	1,768
Due from takeout companies	8,587	6,189	-	2,398
Accrued investment income	19,477	3,007	446	16,024
Other assets	52	52	-	-
Inter-account receivable (payable)	140	97,787	(11,309)	(86,338)
Total Assets	\$ 3,233,239	\$ 716,693	\$ 121,070	\$ 2,395,476
Liabilities				
Loss reserves	\$ 402,797	\$ 161,230	\$ 32,756	\$ 208,811
Loss expense reserves	78,157	27,533	4,052	46,572
Unearned premiums, net	461,797	170,049	22,638	269,110
Reinsurance premiums payable	212,305	55,624	4,634	152,047
Advance premiums & suspended cash	99,446	30,286	1,541	67,619
Notes payable	2,148,801	91,179	12,631	2,044,991
Interest payable	41,303	177	459	40,667
Taxes and fees payable	29,328	2,151	204	26,973
Federal income tax payable	54,899	-	-	54,899
Other liabilities	28,711	19,959	526	8,226
Total Liabilities	3,557,544	558,188	79,441	2,919,915
Surplus (Deficit)				
Beginning surplus (deficit)	(373,825)	153,710	24,148	(551,683)
Change in non-admitted assets	(12,708)	(12,380)	(205)	(123)
Net Income	62,228	17,175	17,686	27,367
Ending surplus (deficit)	(324,305)	158,505	41,629	(524,439)
Total Liabilities & Surplus(Deficit)	\$ 3,233,239	\$ 716,693	\$ 121,070	\$ 2,395,476

Statement of Operations – July 31, 2005 - Statutory Basis (unaudited)

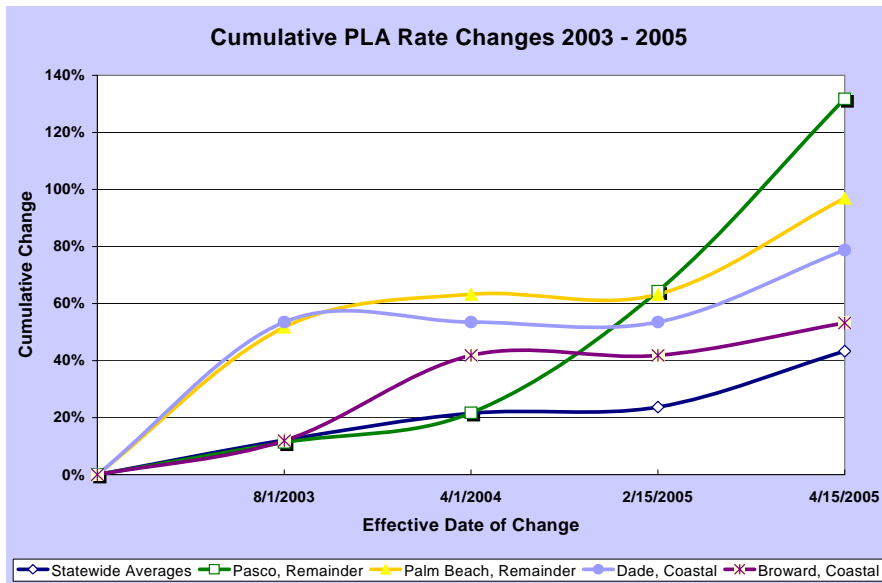
(in thousands)

	Consolidated	PLA	CLA	HRA
Net earned premiums:				
Direct earned premiums	\$ 867,727	\$ 379,075	\$ 28,658	\$ 459,994
Ceded earned premiums	(194,113)	(137,344)	(1,544)	(55,225)
Net earned premiums	673,614	241,731	27,114	404,769
Underwriting expense:				
Losses incurred	421,034	144,154	6,716	270,164
Loss adjustment expense incurred	42,317	16,751	690	24,876
Producer commissions	77,764	26,968	3,245	47,551
Ceded commissions	(20,022)	(17,836)	-	(2,186)
Taxes and assessments	17,204	7,826	651	8,727
Administrative	38,954	25,664	889	12,401
Total underwriting expenses	577,251	203,527	12,191	361,533
Net underwriting income	96,363	38,204	14,923	43,236
Other income (expense)				
Investments income	73,765	16,713	2,763	54,289
Interest expense	(70,801)	(3,260)	-	(67,541)
Financing costs	(429)	(35)	-	(394)
Takeout bonuses	(36,670)	(34,447)	-	(2,223)
Total other income (expense)	(34,135)	(21,029)	2,763	(15,869)
Net income (loss)	\$ 62,228	\$ 17,175	\$ 17,686	\$ 27,367

Forms and Rates

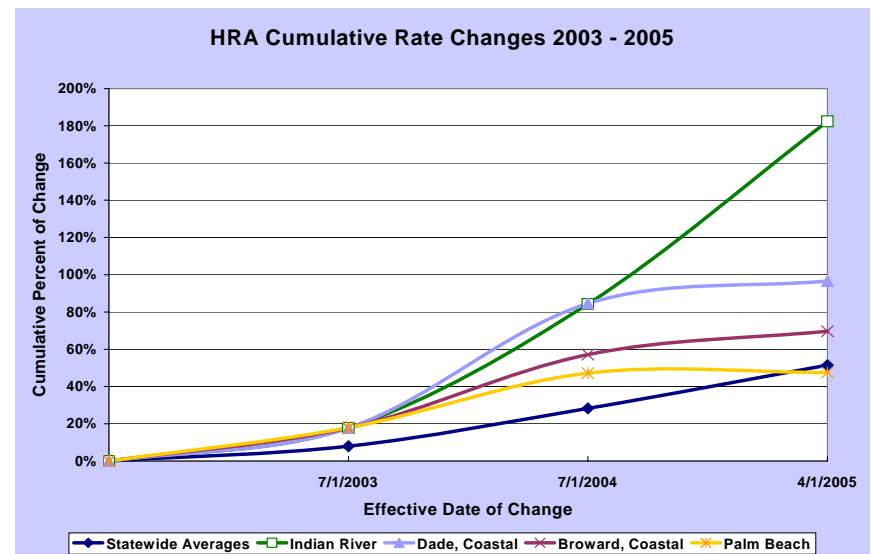
- Citizens utilizes a variety of resources to develop rates, forms, and underwriting rules. Our staff actuary is working with Citizens' Actuarial Committee members, outside actuarial firms, OIR actuaries, and modeling firms to ensure that Citizens' rates are actuarially sound and not competitive with the voluntary market. A team of underwriting analysts works to create and maintain forms and rules that comply with Florida Law and meet the needs of our agents and policyholders.
- Changes to Citizens' rates, forms or underwriting rules require Committee, Board and OIR approval. Each change involves developing appropriate communication to agents and internal Citizens staff.

Cumulative Rate Change Comparison



Pasco County leads all other counties in cumulative rate increases for the past three years for Personal Lines, 88.4% above the state average.

Indian River County lead Florida in HRA cumulative rate increases, 130.9% above the state average.



New Applications by Line of Business

	Dwelling	Homeowners	Mobile Home	Total
May				
Number	8,375	9,648	3,052	21,075
% of Total New Business	39.74%	45.78%	14.48%	100%
June				
Number	10,016	12,327	3,918	26,261
% of Total New Business	38.14%	46.94%	14.92%	100%
July				
Number	10,711	13,311	4,255	28,277
% of Total New Business	37.88%	47.07%	15.05%	100%
August				
Number	12,012	14,639	4,844	31,495
% of Total New Business	38.14%	46.48%	15.38%	100%

Consumer Choice?

Citizens Assumption W/O Consumer Choice

Company Approved

20,000 policies selected

20,000 policies assumed

Citizens Assumption With Consumer Choice

Company Approved

20,000 policies selected

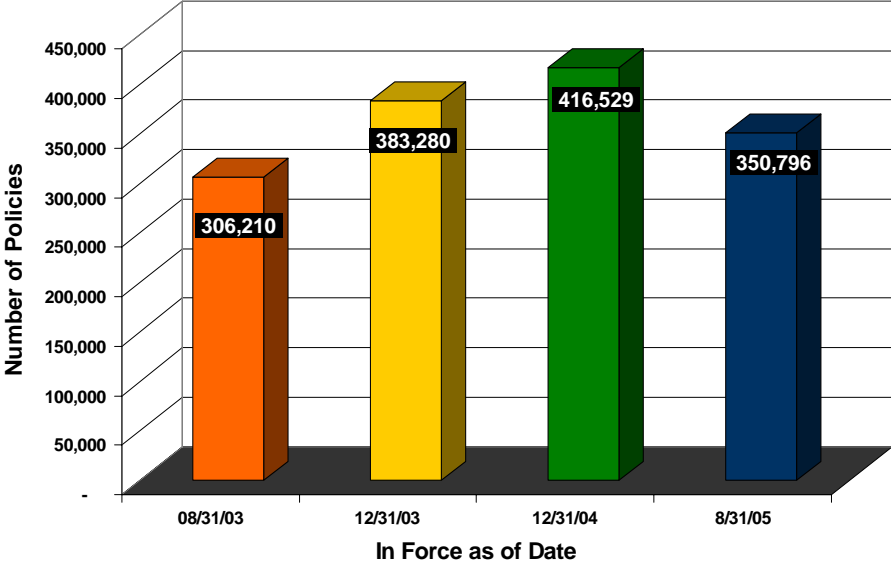
Company must contact 3000-4,000 agents

Company provides approved data file to Citizens

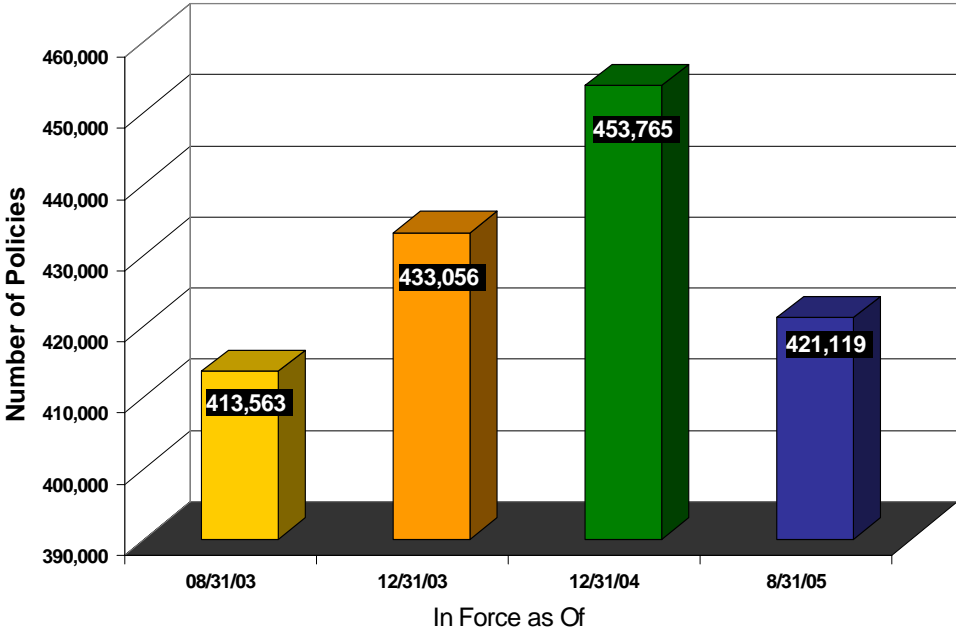
Company assumes approx. 17,000 policies

Growth of Policies in Force

PLA Growth of Policies



HRA Growth of Policies



Top 5 Counties with Policies in Force

Rank	County	PIF	% of TOTAL
1	Dade	82,802	23.6%
2	Pinellas	56,849	16.2%
3	Pasco	39,462	11.2%
4	Broward	39,313	11.2%
5	Palm Beach	25,517	7.3%
PLA Top Five PIF Total		243,943	69.54%
PLA Total PIF		350,796	100.00%

Rank	County	PIF	% of TOTAL
1	Dade	95,666	22.7%
2	Broward	72,869	17.3%
3	Palm Beach	64,429	15.3%
4	Sarasota	28,952	6.9%
5	Monroe	28,157	6.7%
HRA Top Five PIF Total		290,073	68.88%
HRA Total PIF		421,119	100.00%

PLA

Rank	County	PIF Increase
1	Pinellas	4,098
2	Pasco	3,799
3	Lee	1,916
4	Manatee	1,637
5	Hernando	1,563
		13,013

HRA

Rank	County	PIF Increase
1	Sarasota	1,255
2	Volusia	884
3	Walton	168
4	Flagler	164
5	Pasco	142
		2,613

Concluding Remarks

Citizens is a critically important safety net for the residents of the state of Florida.

Florida is the most catastrophe-exposed state in the world; Citizens is by law the most concentrated property insurer in the most catastrophe-exposed state in the world.

Citizens will continue to face financial and operational challenges without significant systemic changes to the Florida homeowners insurance market.

We look forward to working with this Task Force and the Florida Legislature to seek changes to the Florida homeowners insurance market – which will help shrink the size and exposure of Citizens Property Insurance Corporation.