

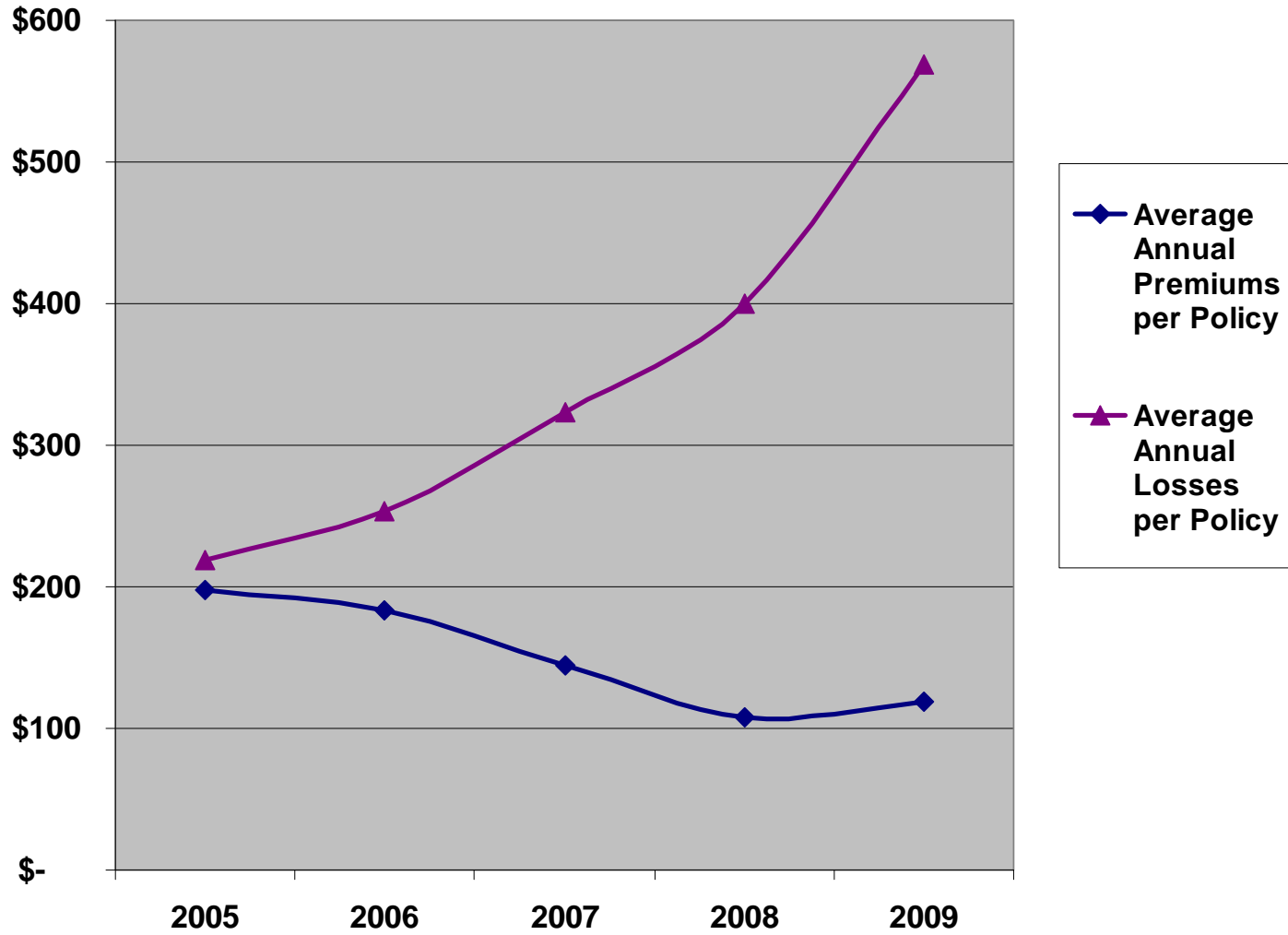
**Citizens Property Insurance Company
Rate Hearing
September 7, 2010**

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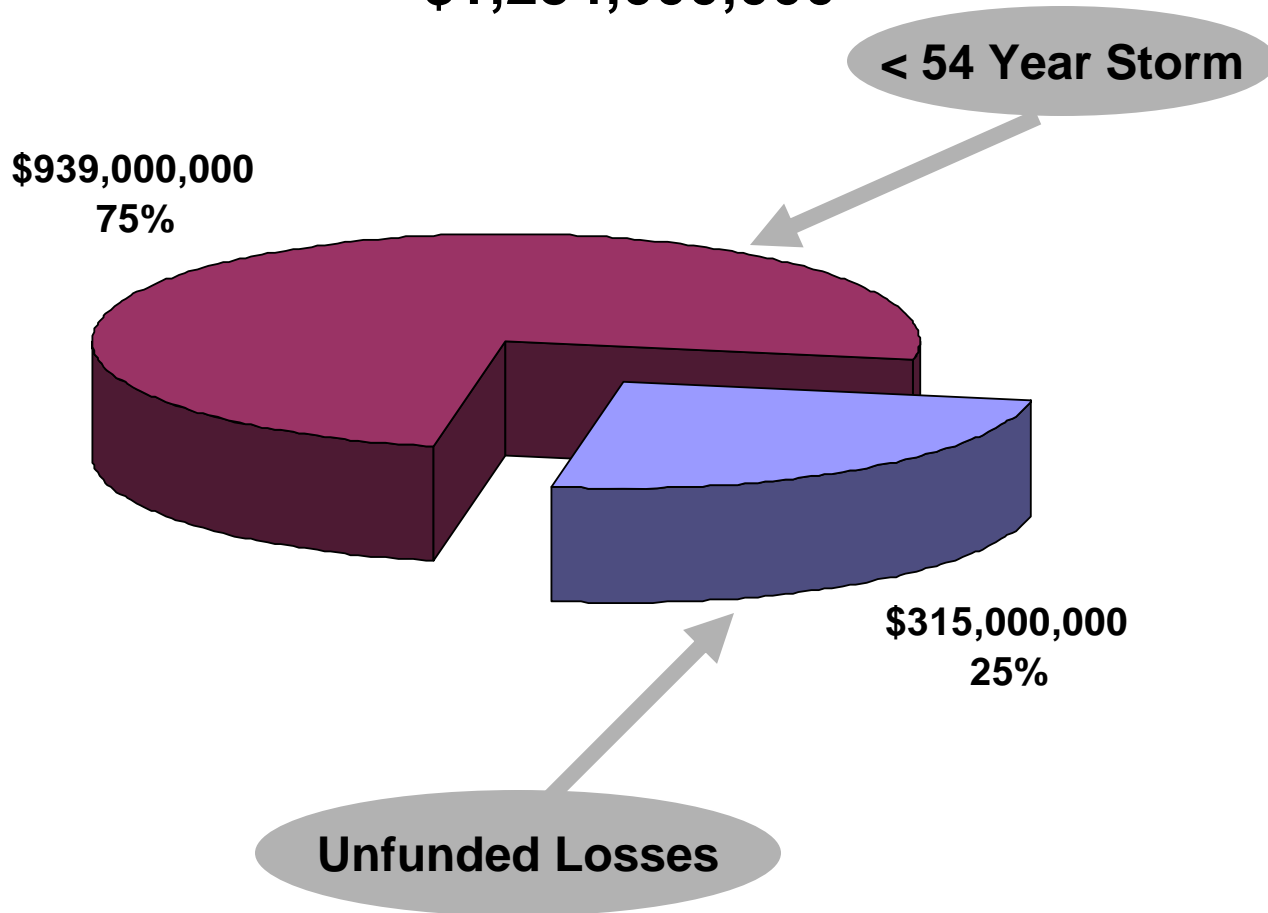
Issues

- **Sinkhole claims experience.**
- **Unfunded hurricane losses.**
 - **Actuarial soundness.**

Sinkholes



Average Annual Hurricane Modeled Losses \$1,254,000,000



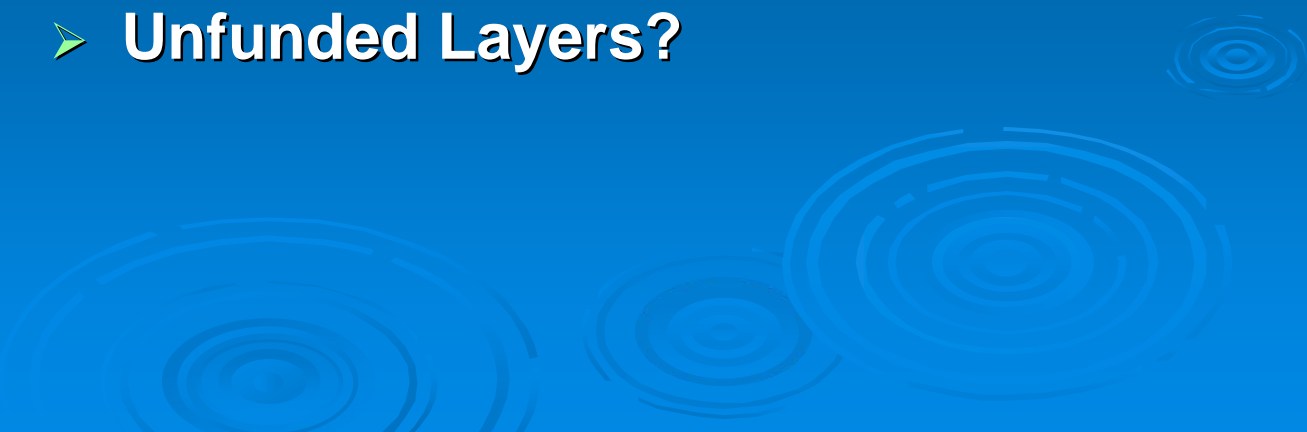
Use of Hurricane Model Results

- With respect to a rate filing under s. 627.062, an insurer shall employ and may not modify or adjust actuarial methods, principles, standards, models, or output ranges found by the commission to be accurate or reliable in determining hurricane loss factors for use in a rate filing under s. 627.062.
- s. 627.0628(3)(d), F.S.

Rate Filings Must be Reasonable

- Upon receiving a rate filing, the office shall review the rate filing to determine if a rate is excessive, inadequate, or unfairly discriminatory.
- In making that determination, the office shall, in accordance with generally accepted and reasonable actuarial techniques, consider the following factors:
 - ...
 - The reasonableness of the judgment reflected in the filing.
 - s. 627.062(2)3.(b)5.

Acceptable Judgmental Adjustments to Computer Model Output

- Reinsurance
 - Deductibles
 - Mitigation Discounts
 - Unfunded Layers?
- 

Actuarially Sound

- “Rates for coverage provided by the corporation shall be actuarially sound and subject to the requirements of s. 627.062, except as otherwise provided in this paragraph.”
- s. 627.351(6)(n)1., F.S.

Statement of Principles Regarding Property and Casualty Insurance Ratemaking

- Rates are actuarially sound if they provide for the expected value of all future costs associated with the transfer of risk.
- Costs include claims, claim settlement expenses, operational and administrative expenses, and the cost of capital.

Contingent Capital

- The catastrophic risk exposure transferred to Citizens requires that it have access to large amounts of “contingent” capital.
- This contingent capital is being provided by Florida taxpayers via assessments to support Citizen’s borrowing.
- Therefore, Florida taxpayers should be compensated for providing contingent capital in order for Citizens rates to be considered actuarially sound.

Contingent Capital Private Sector

- A party pays a capital commitment fee to a second party which undertakes (in advance) to extend a loan or purchase debt or equity security of a certain amount in case a stated situation occurs.

Contingent Capital Citizens

- **No capital commitment fee paid to taxpayers.**
- **No promise to pay back taxpayers.**
- **Taxpayers do not get equity securities (stock) that could be resold.**
- **Therefore, the recommended mechanism for compensating taxpayers is for Citizen's rates to include a contingent capital charge that will relieve taxpayers over time of their risk of assessments.**

Affordability

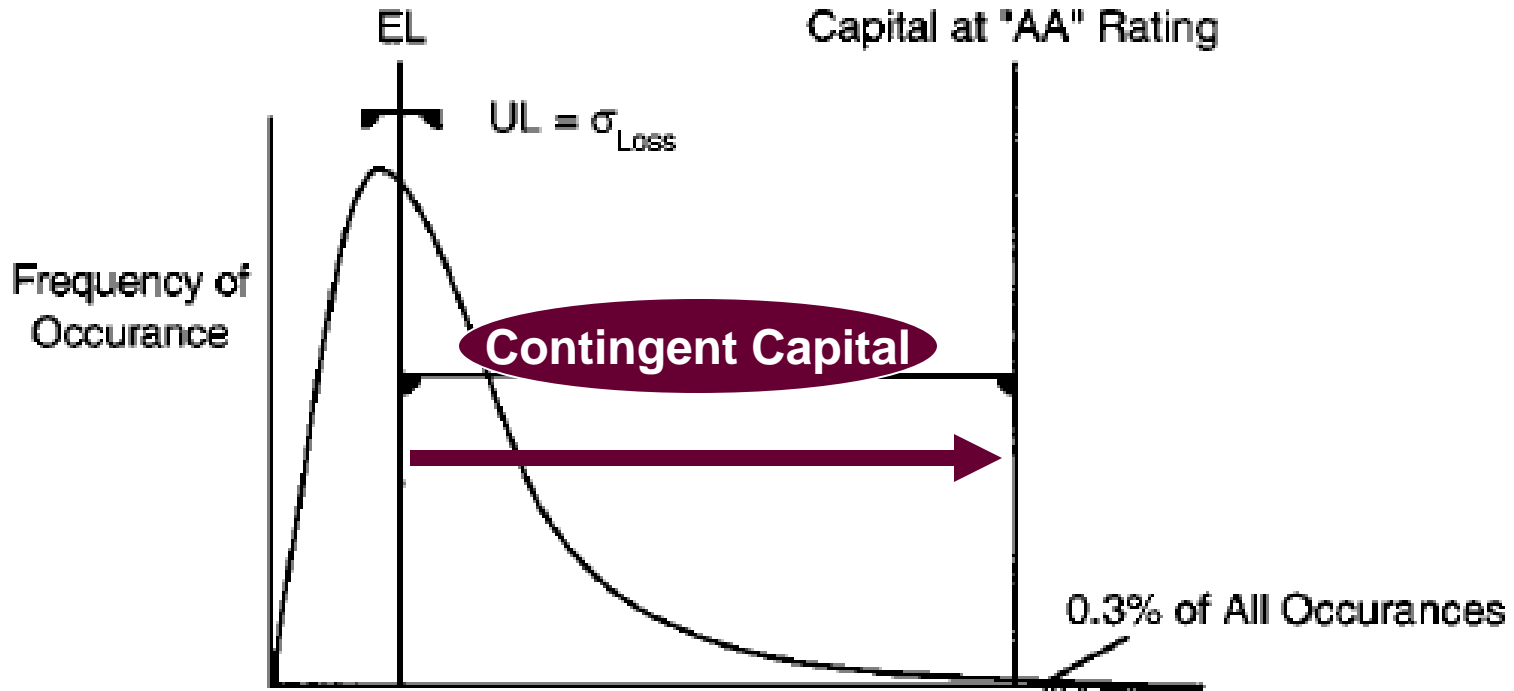
- “The Legislature intends by this subsection that affordable property insurance be provided and that it continue to be provided, as long as necessary, through Citizens Property Insurance Corporation, a government entity that is an integral part of the state, and that is not a private insurance company.”
- s. 627.351(6) (a)1., F.S.

Actuarially Sound and Affordable

Rates are actuarially sound and affordable if they are sufficient to fund:

- **1) All expected costs associated with the transfer of risk to the corporation including reinsurance, future claims, claims settlement expenses, operational expenses and administrative expenses within the corporation's funding capacity without recourse to assessments, and**
- **2) Surplus uniformly over a 30 year period sufficient to fund a 1 in 100 year storm without recourse to assessments other than assessments levied upon the Corporation's policyholders.**

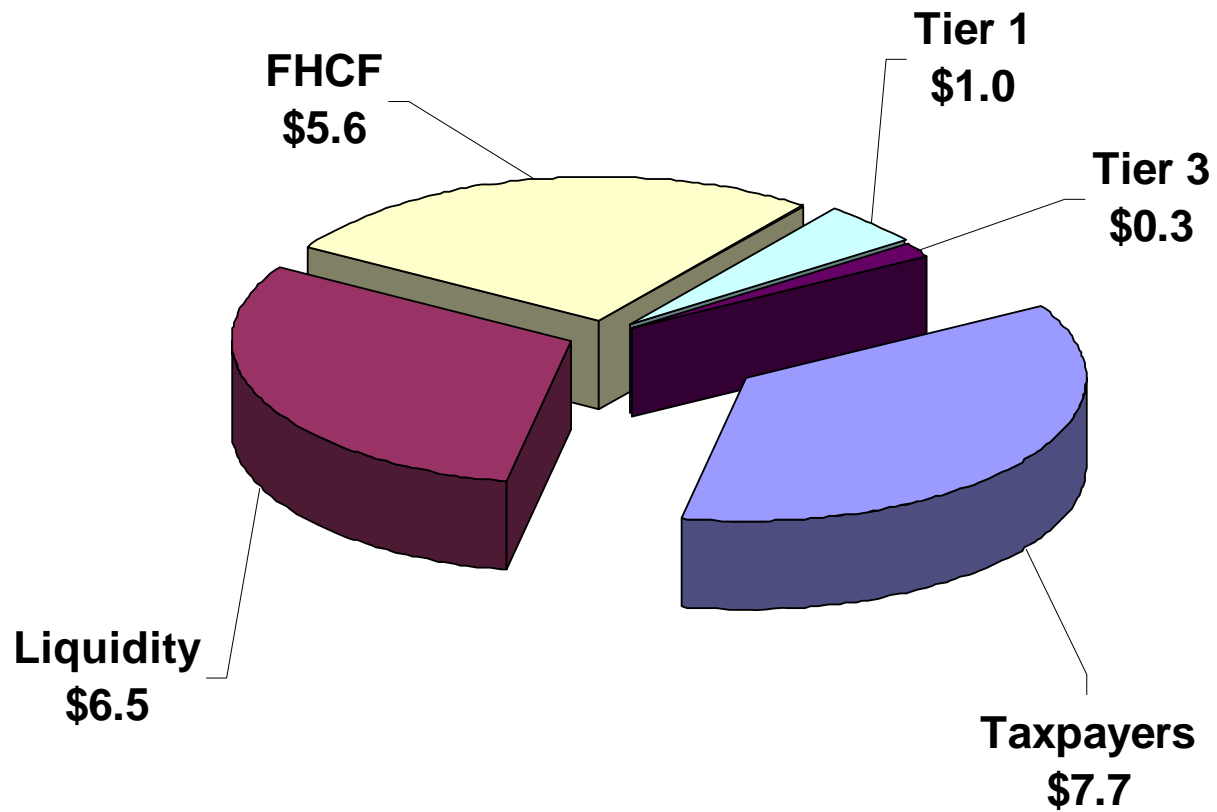
Contingent Capital



Expected Loss

Unexpected Loss

100 Year Storm \$21.1 Billion

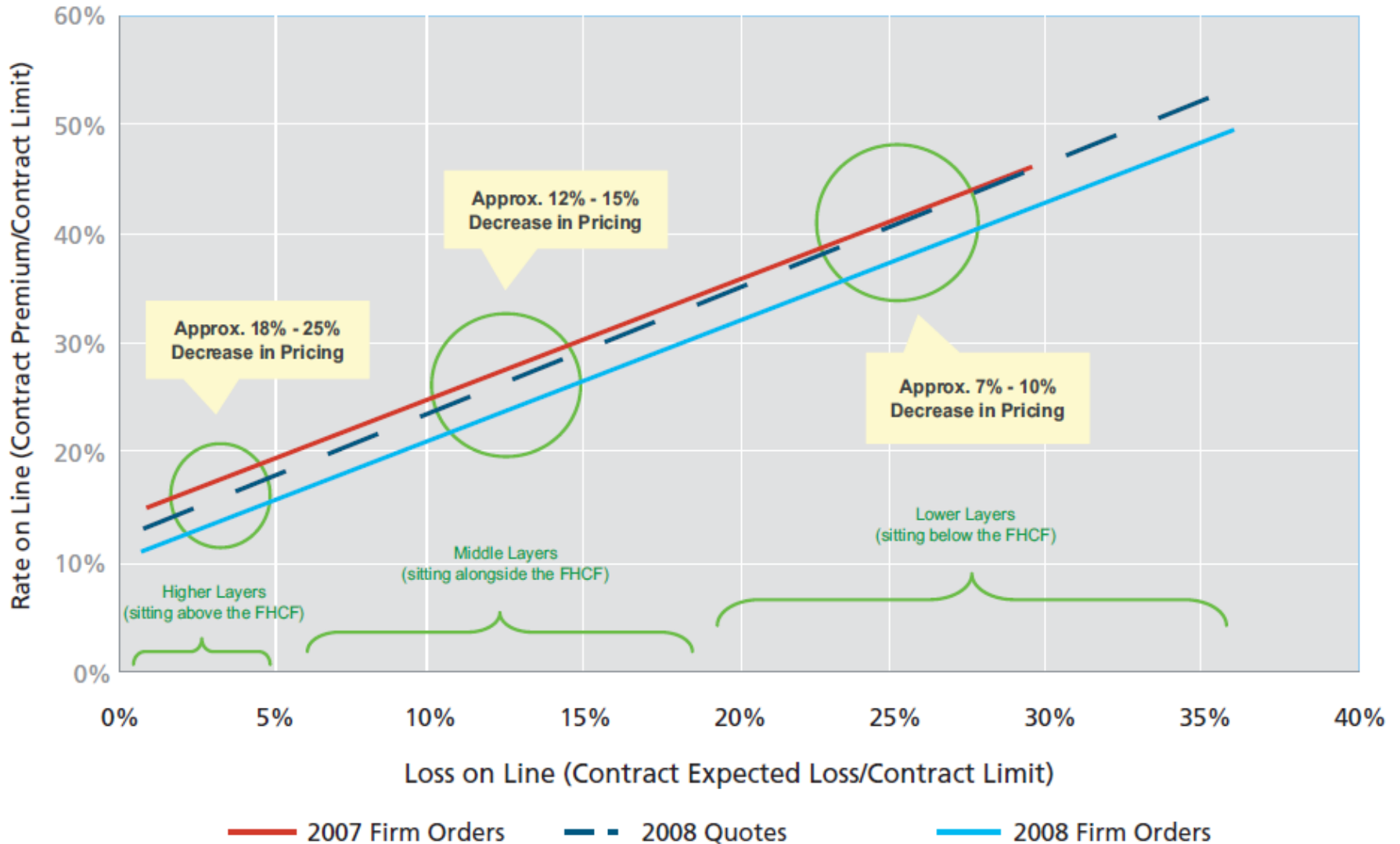


Citizens 100 Year Storm Contingent Capital Requirement

Net Loss & LAE	21,133,801
Liquidity @ 12/31/10	(6,464,584)
FHCF Reinsurance	(5,601,659)
Citizens Tier 1 Policyholder Assessment	(1,030,950)
Citizens Tier 3 Policyholder Assessment	(345,012)
Net Taxpayer Funding Requirement	7,691,596
Contingent Capital Annual Funding	418,202
Budgeted Premium 2010	2,290,533
Contingent Capital Provision	18.3%

Florida – Risk Adjusted Pricing

2008 Orders (to date) as Compared to 2007 Orders



Imputed Reinsurance Provision

Net Loss & LAE	21,133,801
Liquidity @ 12/31/10	(6,464,584)
FHCF Mandatory Reinsurance	(5,601,659)
Citizens Tier 1 Policyholder Assessment	(1,030,950)
Citizens Tier 3 Policyholder Assessment	(345,012)
Net Taxpayer Funding Requirement	7,691,596
Average Loss on Line	1.43%
Rate on Line	11.00%
Private Reinsurance Margin	9.57%
Imputed Annual Net Cost of Private Reinsurance	736,221
Budgeted Premium 2010	2,290,533
Imputed Reinsurance Provision	32.1%

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Advantages of Contingent Capital Approach

- **Easy to understand and explain to Citizens policyholders, insurance agents, Florida taxpayers and other stakeholders.**
- **Consistent with the definition of actuarial soundness of the Casualty Actuarial Society.**
- **Responds to changes in estimated 100 year losses, liquidity, FHCF reinsurance, etc.**
- **Establishes a specific goal for Citizens surplus over a specific period of time.**
- **Addresses affordability by uniformly phasing in relief for Florida taxpayers of the risk of assessments over some reasonable period of time.**