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**Florida Hurricane Catastrophe Fund
Premium Savings Provided to Florida Consumers**

Office of the Consumer Advocate
State of Florida

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SCOPE

This report has been prepared at the request of the Florida Hurricane Catastrophe Fund (FHCF). The purpose of this report is to provide estimates of the average annual premiums savings to Florida homeowners insurance policyholders from the FHCF's provision of reinsurance for: 1) Temporary Increase in Coverage Limits (TICL) coverage, and 2) mandatory FHCF coverage.

LIMITATIONS

No attempt has been made in this report to estimate expected FHCF assessments, and consequently the estimated savings in this report have not been reduced by expected FHCF assessments.

The conclusions of this report are developed in the accompanying text and exhibits, which together comprise the report. The conclusions in this report are related to its stated purpose only and may not be applicable for other purposes. This report should only be distributed in its entirety and should not replace the due diligence on behalf of any third party.

The author reserves the right to make or approve any changes to this report. Judgments as to the conclusions, indications, methods, and data contained in this report should be made only after studying the report in its entirety. The author is available to explain any matter presented herein and assumes that the user of the report will seek such explanation as to any matter in question.

CONCLUSION

The average Florida policyholder's premium savings is estimated to be 6.6% of current premiums for the optional TICL coverage, 17.6% for the mandatory coverage and 25.4% for the combined optional TICL and mandatory coverages of FHCF reinsurance. The estimated savings in the TICL coverage assumes 91% of the available TICL coverage is purchased by eligible insurers for the 2009/2010 contract year. This assumption is consistent with the actual purchase percentage for the 2008/2009 contract year.

However, in the likely event insurers lose confidence in the FHCF's ability to fund the TICL coverage for the 2009/2010 contract year, the TICL coverage participation percentage will probably decline, and the savings to Florida policyholders due to the availability of optional TICL coverage will be less.

No attempt has been made in this report to estimate expected FHCF assessments, and the estimated savings in this report have not been reduced by expected FHCF assessments. Furthermore, the estimated savings are statewide averages based on several assumptions listed in the next section of this report, and these estimated savings are sensitive to private market reinsurance rates.

As private market reinsurance rates increase, the savings due to the FHCF increases. For example, if private market reinsurance rates in 2009 return to 2006 peak levels, the average Florida policyholder's premium savings is estimated to be 8.0% of current premiums for the TICL coverage, 22.7% for the mandatory coverage, and 32.6% for the combined optional TICL and mandatory FHCF coverages.

Because the FHCF provides low cost reinsurance for hurricane losses, the actual percentage premium savings for individual policyholders varies based primarily upon each individual policyholder's degree of exposure to hurricanes. Policyholders with more hurricane exposure are typically saving more, while policyholders with less hurricane exposure are typically saving less.

However, numerous other factors also affect the premiums savings of individual policyholders such as: reinsurance rates, amount of private reinsurance purchased by individual insurance companies, wind mitigation discounts, insurance company rate adequacy, type of home construction, etc.

ASSUMPTIONS

- Reinsurance rates will increase in 2009, because of lack of financing availability, increased borrowing costs, and increased retrocession costs due to the current financial crisis and because of reinsurers' losses sustained from hurricanes Gustav and Ike (see Exhibit 4, Sheets 1, 2 and 3).
- The FHCF 2008 Ratemaking Formula Report accurately reflects the residential expected average annual long term hurricane losses in the State of Florida including the full savings from wind mitigation features.
- The estimated savings in the TICL coverage assumes 91% of the available TICL coverage is purchased by eligible insurers for the 2009/2010 contract year. This assumption is consistent with the actual purchase percentage for the 2008/2009 contract year.
- In the likely event insurers lose confidence in the FHCF's ability to fund the TICL coverage for the 2009/2010 contract year, the TICL coverage participation percentage will probably decline, and the savings to Florida policyholders due to the availability of optional TICL coverage will be less.
- AM Best rated A or B insurers will write 50.0% of the private market in Florida in 2009, and AM Best non-rated insurers will write the remaining 50.0% of the private market (private market excludes Citizens Property Insurance Corporation (Citizens)).
- Insurers purchase: 1) FHCF "back up" coverage in the event the FHCF is not able to provide full reimbursement in its layers, and 2) second event coverage behind the FHCF layers. The cost of these coverages is included in the estimated 2009 reinsurance costs.
- Due to Florida insurers' difficulties in obtaining adequate rates, industry average agent commission rates and other underwriting expenses are expected to be reduced and profit provisions are expected to be depressed from prior years' Florida and countrywide levels (see Exhibit 5).
- Citizens Property Insurance Corporation's share of estimated average annual hurricane losses will be 40.7% (see Exhibit 3).
- The average AM Best A or B rated private insurer in Florida purchases reinsurance from the 4th year to the 250th year probable maximum loss (PML) based on long term hurricane models, and the average AM Best non-rated private insurer in Florida purchases reinsurance from the 4th year to the 100th year probable maximum loss (PML) based on long term hurricane models.

- The 2009 non-hurricane average direct incurred loss ratio for private insurers is expected to increase over the 2007 ratio (see Exhibit 6).
- Where data was lacking, insufficient, or unreliable it was not used, and actuarial judgment was used to supplement this analysis.
- In addition to the assumptions listed above and stated in this report, numerous other assumptions underlie the calculations and results presented herein.

DATA RELIANCES

The following data and information was relied upon in order to complete this analysis:

- Florida annual statement state page data for 1999 through 2007 for homeowners insurance from the NAIC I-Site database.
- 2008 Bests Aggregates and Averages.
- Homeowners 2007 insurance rate filings for the state of Florida from the Office of Insurance Regulation's Electronic Data Management System (EDMS).
- The FHCF 2008 Ratemaking Formula Report.
- FHCF Excel spreadsheet titled: "2008 FHCF Coverage Projections based on 2008 Mandatory Premiums" as of 9/30/2008.
- Citizens modeled loss report, RMS RiskLink Version 7.0 as of 8/30/08.
- The 6/30/XXXX Quarterly Summary Reports (QUASR) of the Office of Insurance Regulation.

The accuracy of the data and information provided was relied upon without independent investigation or verification. The data was checked for reasonableness, and data considered inaccurate or incomplete was not used. However, if the data is subsequently found to be inaccurate or incomplete, the conclusions in this report may need to be revised.

ANALYSIS

Estimated Impact of FHCF Reinsurance on Homeowners Insurance Rates

Exhibit 1 is a summary of the analysis based on Exhibits 2 through 7. Estimated 2009 Direct Earned Premium, Row (9) is expected to closely parallel Direct Written Premium as of 6/30/2008, unless there are significant rate increases approved in 2009 for the major writers of homeowners insurance in Florida.

The estimated percentage savings in Row (10) are based on comparisons to statewide private insurer premiums assuming the FHCF provides \$28 billion of low cost reinsurance. The estimated percentage saving in Row (11) is based on a comparison to statewide private insurer premiums assuming the FHCF provides only \$16 billion of low cost reinsurance.

Rate Inadequacy

It is estimated that the A.M. Best A and B rated insurers of homeowners insurance in Florida will not be able to obtain adequate rate levels in 2009 to fund all of their expenses and reasonable underwriting profits. It is expected that these insurers will react by continuing to cancel and non-renew business, cease writing new business, reduce agent commission rates, and cut other underwriting expenses.

Furthermore, it is expected that these actions by the A.M. Best A and B rated insurers will enable other insurers, mostly Florida domestic A.M. Best non-rated insurers to continue to gain market share. The estimated industry average expense and profit provisions embedded in 2009 rates are derived on Exhibit 5. The increase in market share of the A.M. Best unrated insurers is shown on Exhibit 7.

Private Market Net Cost of Reinsurance

The private market net cost of reinsurance is derived in Exhibit 2, Sheets 1, 2 and 3. Sheet 1 shows the estimated private market net cost of reinsurance assuming the FHCF provides \$28 billion of reinsurance, Sheet 2 assumes the FHCF provides \$16 billion of reinsurance and Sheet 3 assumes the FHCF provides no reinsurance.

The net cost of reinsurance is the difference between the gross cost and the expected losses transferred to reinsurers. It is assumed that the average AM Best A or B rated private insurer in Florida purchases reinsurance from the 4th year to the 250th year probable maximum loss (PML) based on long term hurricane models, and the average AM Best non-rated private insurer in Florida purchases reinsurance from the 4th year to the 100th year probable maximum loss (PML) based on long term hurricane models.

Citizen's Share of Average Annual Hurricane Losses

Citizen's estimated share of average annual hurricane losses is shown on Exhibit 3. Sources for the data on Exhibit 3 are the FHCF 2008 Ratemaking Formula Report and Citizens modeled loss report, RMS RiskLink Version 7.0 as of 9/30/07.

Reinsurance Rates

It is expected that reinsurance rates will increase in 2009, because of lack of financing availability, increased borrowing costs, and increased retrocession costs due to the current financial crisis and because of reinsurers' losses sustained from hurricanes Gustav and Ike (see Exhibit 4, Sheets 1, 2 and 3).

Reinsurance rates are expected to differ between AM Best rated A or B insurers and AM Best non-rated insurers based upon reports issued by reinsurance broker Guy Carpenter and actual reinsurance costs included in Florida insurers' rate filings filed with the Florida Office of Insurance Regulation.

Non-Hurricane Losses

The estimated homeowners insurance non-hurricane losses and loss adjustment expenses for private insurers (excluding Citizens) are derived on Exhibit 6. The 2009 non-hurricane average direct incurred loss ratio for private insurers is expected to increase over the 2007 and 2008 ratios.

EXHIBITS

- Exhibit 1: Estimated Impact of FHCF Reinsurance on Homeowners Insurance Rates
- Exhibit 2: Private Market Net Cost of Reinsurance
 - Sheet 1: FHCF Provides \$28 Billion of Reinsurance
 - Sheet 2: FHCF Provides \$16 Billion of Reinsurance
 - Sheet 3: FHCF Provides No Reinsurance
- Exhibit 3: Modeled Average Annual Hurricane Losses
- Exhibit 4: Rate on Line versus Loss on Line
 - Sheet 1: Selected 2009 Average Rate on Line
 - Sheet 2: AM Best A or B rated insurers
 - Sheet 3: AM Best non-rated insurers
- Exhibit 5: Estimated 2009 Expense Ratios
- Exhibit 6: Estimated Non-Hurricane Year Loss & LAE Ratios
- Exhibit 7: Written Premium Distribution

State of Florida
Office of the Consumer Advocate
Estimated Impact of FHCF Reinsurance on Homeowners Insurance Rates
Private Insurance Market (Excludes Citizens)

	FHCF Provides \$28 Billion of Reinsurance	FHCF Provides \$16 Billion of Reinsurance	FHCF Provides No Reinsurance
(1a) Gross Cost of Private Reinsurance	3,113,064,404	3,748,343,879	5,849,762,290
(1b) Annual Average Loss & LAE Privately Reinsured	882,288,620	1,005,144,407	1,655,135,369
(1c) Net Cost of Private Reinsurance	2,230,775,784	2,743,199,471	4,194,626,921
(2) Expected Hurricane Losses & Loss Adjustment Expense	2,440,149,809	2,440,149,809	2,440,149,809
(3) Expected Non-Hurricane Losses & Loss Adjustment Expense	2,672,346,498	2,672,346,498	2,672,346,498
(4) Fixed Underwriting Expense	375,000,000	375,000,000	375,000,000
(5) Total Fixed Expenses	7,718,272,091	8,230,695,778	9,682,123,228
(6) Estimated Expense and Profit Percentage of Premiums	2.0%	2.0%	2.0%
(7) Estimated Fixed Expense Percentage of Premiums	5.0%	5.0%	5.0%
(8) Estimated Variable Expense and Profit Percentage of Premiums	-3.0%	-3.0%	-3.0%
(9) Estimated 2009 Direct Earned Premium	7,492,152,578	7,989,563,969	9,398,469,457
(10) Estimated % Savings		6.6%	25.4%
(11) Estimated % Savings			17.6%

Notes:

- (1c) (1a) - (1b)
- (1) & (2) Exhibit 2, Sheets 1, 2 and 3, Row (13) times \$1,000,000,000, assumes 91% participation in TICL layer
- (3) Exhibit 6
- (4) (7) x 7,500,000,000
- (5) (1c) + (2) + (3) + (4)
- (6) & (7) Exhibit 5
- (8) (6) - (7)
- (9) (5) / (1 - (8)). Actual annual written premiums excluding Citizens are \$7,124,498,789 based on 6/30/08 QUASR report.
- (10) Premium savings relative to FHCF providing \$28 billion of reinsurance
- (11) Premium savings relative to FHCF providing \$16 billion of reinsurance

State of Florida
Office of the Consumer Advocate
Private Market Net Cost of Reinsurance
FHCF Provides \$28 Billion of Reinsurance
(\$ Billions)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Single Event Return Time	Probability of Exceedance	Probability of Losses in Layer	Private + Citizens Gross Loss	Private Gross Loss	Private Gross Loss & LAE	Private Gross Layer of Loss & LAE	Private Gross Average Expected Loss & LAE in Layer	Private 10% Corridor Reinsurance Premium	Private Additional Reinsurance Premium	Total Private Reinsurance Premium	Total Private Net Cost of Reinsurance	Average Rate on Line
1000	0.001	0.0001	139.96	82.96	87.10	2.61	0.000					
900	0.001	0.0001	135.76	80.47	84.49	1.79	0.000					
800	0.001	0.0002	132.89	78.77	82.70	4.42	0.002					
700	0.001	0.0002	125.79	74.56	78.28	3.16	0.002					
600	0.002	0.0003	120.71	71.54	75.12	5.71	0.006					
500	0.002	0.0005	111.54	66.11	69.41	6.29	0.009					
400	0.003	0.0008	101.42	60.12	63.12	7.78	0.018					
300	0.003	0.0007	88.93	52.71	55.35	3.67	0.011					
250	0.004	0.0010	83.04	49.22	51.68	5.92	0.024		0.098	0.098	0.086	3.3%
200	0.005	0.0017	73.53	43.58	45.76	6.01	0.034		0.114	0.114	0.097	3.8%
150	0.007	0.0033	63.87	37.86	39.75	8.37	0.075		0.201	0.201	0.163	4.8%
100	0.010	0.0011	50.43	29.89	31.38	1.57	0.016		0.137	0.137	0.121	8.8%
90	0.011	0.0014	47.91	28.40	29.82	2.21	0.025		0.200	0.200	0.175	9.1%
80	0.013	0.0018	44.36	26.29	27.61	2.30	0.031		0.218	0.218	0.187	9.5%
70	0.014	0.0011	40.67	24.10	25.31	1.14	0.016		0.111	0.111	0.094	9.7%
65	0.015	0.0013	38.83	23.01	24.16	1.25	0.020		0.124	0.124	0.105	10.0%
60	0.017	0.0015	36.83	21.83	22.92	1.19	0.020	0.012	0.010	0.022	0.018	10.3%
55	0.018	0.0018	34.92	20.70	21.73	1.34	0.025	0.014	0.011	0.026	0.021	10.7%
50	0.020	0.0022	32.77	19.42	20.39	1.39	0.030	0.016	0.012	0.028	0.023	11.2%
45	0.022	0.0028	30.53	18.09	19.00	1.44	0.034	0.017	0.014	0.030	0.024	11.8%
40	0.025	0.0036	28.22	16.73	17.56	1.45	0.040	0.018	0.015	0.033	0.026	12.6%
35	0.029	0.0048	25.89	15.35	16.11	1.59	0.051	0.021		0.021	0.015	12.9%
30	0.033	0.0067	23.34	13.83	14.53	1.76	0.068	0.026		0.026	0.020	15.1%
25	0.040	0.0100	20.52	12.16	12.77	1.91	0.093	0.033		0.033	0.024	17.3%
20	0.050	0.0026	17.45	10.35	10.86	0.40	0.021	0.007		0.007	0.005	17.8%
19	0.053	0.0029	16.81	9.96	10.46	0.46	0.025	0.009		0.009	0.006	18.5%
18	0.056	0.0033	16.06	9.52	9.99	0.49	0.029	0.009		0.009	0.007	19.2%
17	0.059	0.0037	15.27	9.05	9.50	0.49	0.030	0.010		0.010	0.007	20.0%
16	0.063	0.0042	14.48	8.58	9.01	0.49	0.032	0.010		0.010	0.007	20.8%
15	0.067	0.0048	13.70	8.12	8.52	0.46	0.032	0.010		0.010	0.007	22.0%
14	0.071	0.0055	12.96	7.68	8.07	0.55	0.042	0.013		0.013	0.009	23.2%
13	0.077	0.0064	12.08	7.16	7.52	0.55	0.045	0.013		0.013	0.009	24.6%
12	0.083	0.0076	11.20	6.64	6.97	0.59	0.053	0.015		0.015	0.010	26.2%
11	0.091	0.0091	10.25	6.08	6.38	0.54	0.053	0.015		0.015	0.010	28.2%
10	0.100	0.0111	9.38	5.56	5.84	0.64	0.070	0.020		0.020	0.013	30.6%
9	0.111	0.0139	8.36	4.95	5.20	0.62	0.076	0.021		0.021	0.013	33.7%
8	0.125	0.0179	7.37	4.37	4.59	0.69	0.098		0.260	0.260	0.162	37.6%
7	0.143	0.0238	6.26	3.71	3.89	0.74	0.123		0.318	0.318	0.195	42.8%
6	0.167	0.0333	5.06	3.00	3.15	0.83	0.165		0.414	0.414	0.250	50.1%
5	0.200	0.0500	3.73	2.21	2.32	0.89	0.223		0.546	0.546	0.323	61.0%
4	0.250	0.0833	2.30	1.36	1.43	0.84	0.280					
3	0.333	0.3333	0.94	0.56	0.58	0.58	0.389					
(13)	Total/Average					87.10	2.440	0.310	2.803	3.113	2.231	

Notes:

- highlighted yellow and green areas are the FHCF traditional and TICL coverage layers respectively
- (1) Page 56, FHCF 2008 Ratemaking Formula Report
- (2) 1/(1)
- (3) (2) prior - (2)
- (4) Page 56, FHCF 2008 Ratemaking Formula Report
- (5) (4) x (1 - Exhibit 3, Column (3))
- (6) (5) times 1.05 based on actuarial judgment and FHCF 2008 Ratemaking Formula Report, page 53
- (7) [(6) - (6) prior]
- (8) (7) times upward sum of (3)
- (9) 10.0% x (Exhibit 4, Sheet 1, Col (4) Intercept x (7) + Exhibit 4, Sheet 1, Col (4) Slope x (8))
- (10) 150 Year PML and above: 50.0% x (Exhibit 4, Sheet 1, Col (3) Intercept x (7) + Exhibit 4, Sheet 1, Col (3) Slope x (8))
100 Year PML and below: (100% (or 8% in TICL layer)) x (Exhibit 4, Sheet 1, Col (4) Intercept x (7) + Exhibit 4, Sheet 1, Col (4) Slope x (8))
- (11) (9) + (10)
- (12) 150 Year PML and above: (11) - 50.0% x (8)
100 Year PML and below: (11) - (8) above FHCF, (11) - 18.0% x (8) in TICL layer, (11) - 10.0% x (8) in mandatory layer, and (11) - (8) below the FHCF
- (13) (11) / (7) or (11) / (7) / .18 for TICL coverage or (11) / (7) / .10 for mandatory coverage

State of Florida
Office of the Consumer Advocate
Private Market Net Cost of Reinsurance
FHCF Provides \$16 Billion of Reinsurance
(\$ Billions)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Single Event Return Time	Probability of Exceedance	Probability of Losses in Layer	Private + Citizens Gross Loss	Private Gross Loss	Private Gross Loss & LAE	Private Gross Layer of Loss & LAE	Private Gross Average Expected Loss & LAE in Layer	Private 10% Corridor Reinsurance Premium	Private Additional Reinsurance Premium	Total Private Reinsurance Premium	Total Private Net Cost of Reinsurance	Average Rate on Line
1000	0.001	0.0001	139.96	82.96	87.10	2.61	0.000					
900	0.001	0.0001	135.76	80.47	84.49	1.79	0.000					
800	0.001	0.0002	132.89	78.77	82.70	4.42	0.002					
700	0.001	0.0002	125.79	74.56	78.28	3.16	0.002					
600	0.002	0.0003	120.71	71.54	75.12	5.71	0.006					
500	0.002	0.0005	111.54	66.11	69.41	6.29	0.009					
400	0.003	0.0008	101.42	60.12	63.12	7.78	0.018					
300	0.003	0.0007	88.93	52.71	55.35	3.67	0.011					
250	0.004	0.0010	83.04	49.22	51.68	5.92	0.024		0.098	0.098	0.086	3.3%
200	0.005	0.0017	73.53	43.58	45.76	6.01	0.034		0.114	0.114	0.097	3.8%
150	0.007	0.0033	63.87	37.86	39.75	8.37	0.075		0.201	0.201	0.163	4.8%
100	0.010	0.0011	50.43	29.89	31.38	1.57	0.016		0.137	0.137	0.121	8.8%
90	0.011	0.0014	47.91	28.40	29.82	2.21	0.025		0.200	0.200	0.175	9.1%
80	0.013	0.0018	44.36	26.29	27.61	2.30	0.031		0.218	0.218	0.187	9.5%
70	0.014	0.0011	40.67	24.10	25.31	1.14	0.016		0.111	0.111	0.094	9.7%
65	0.015	0.0013	38.83	23.01	24.16	1.25	0.020		0.124	0.124	0.105	10.0%
60	0.017	0.0015	36.83	21.83	22.92	1.19	0.020		-	0.122	0.102	10.3%
55	0.018	0.0018	34.92	20.70	21.73	1.34	0.025		-	0.143	0.118	10.7%
50	0.020	0.0022	32.77	19.42	20.39	1.39	0.030		-	0.156	0.126	11.2%
45	0.022	0.0028	30.53	18.09	19.00	1.44	0.034		-	0.169	0.135	11.8%
40	0.025	0.0036	28.22	16.73	17.56	1.45	0.040		-	0.182	0.142	12.6%
35	0.029	0.0048	25.89	15.35	16.11	1.59	0.051	0.022		0.022	0.016	13.6%
30	0.033	0.0067	23.34	13.83	14.53	1.76	0.068	0.026		0.026	0.020	15.1%
25	0.040	0.0100	20.52	12.16	12.77	1.91	0.093	0.033		0.033	0.024	17.3%
20	0.050	0.0026	17.45	10.35	10.86	0.40	0.021	0.007		0.007	0.005	17.8%
19	0.053	0.0029	16.81	9.96	10.46	0.46	0.025	0.009		0.009	0.006	18.5%
18	0.056	0.0033	16.06	9.52	9.99	0.49	0.029	0.009		0.009	0.007	19.2%
17	0.059	0.0037	15.27	9.05	9.50	0.49	0.030	0.010		0.010	0.007	20.0%
16	0.063	0.0042	14.48	8.58	9.01	0.49	0.032	0.010		0.010	0.007	20.9%
15	0.067	0.0048	13.70	8.12	8.52	0.46	0.032	0.010		0.010	0.007	22.0%
14	0.071	0.0055	12.96	7.68	8.07	0.55	0.042	0.013		0.013	0.009	23.2%
13	0.077	0.0064	12.08	7.16	7.52	0.55	0.045	0.013		0.013	0.009	24.6%
12	0.083	0.0076	11.20	6.64	6.97	0.59	0.053	0.015		0.015	0.010	26.2%
11	0.091	0.0091	10.25	6.08	6.38	0.54	0.053	0.015		0.015	0.010	28.2%
10	0.100	0.0111	9.38	5.56	5.84	0.64	0.070	0.020		0.020	0.013	30.6%
9	0.111	0.0139	8.36	4.95	5.20	0.62	0.076	0.021		0.021	0.013	33.7%
8	0.125	0.0179	7.37	4.37	4.59	0.69	0.098		0.260	0.260	0.162	37.6%
7	0.143	0.0238	6.26	3.71	3.89	0.74	0.123		0.318	0.318	0.195	42.8%
6	0.167	0.0333	5.06	3.00	3.15	0.83	0.165		0.414	0.414	0.250	50.1%
5	0.200	0.0500	3.73	2.21	2.32	0.89	0.223		0.546	0.546	0.323	61.0%
4	0.250	0.0833	2.30	1.36	1.43	0.84	0.280					
3	0.333	0.3333	0.94	0.56	0.58	0.58	0.389					
(13)	Total/Average					87.10	2.440	0.233	3.515	3.748	2.743	

Notes:

- highlighted yellow and green areas are the FHCF traditional and TILC coverage layers respectively
- (1) Page 56, FHCF 2008 Ratemaking Formula Report
- (2) 1/(1)
- (3) (2) prior - (2)
- (4) Page 56, FHCF 2008 Ratemaking Formula Report
- (5) (4) x (1 - Exhibit 3, Column (3))
- (6) (5) times 1.05 based on actuarial judgment and FHCF 2008 Ratemaking Formula Report, page 53
- (7) [(6) - (6) prior]
- (8) (7) times upward sum of (3)
- (9) 10.0% x (Exhibit 4, Sheet 1, Col (4) Intercept x (7) + Exhibit 4, Sheet 1, Col (4) Slope x (8))
- (10) 150 Year PML and above: 50.0% x (Exhibit 4, Sheet 1, Col (3) Intercept x (7) + Exhibit 4, Sheet 1, Col (3) Slope x (8))
100 Year PML and below: 100.0% x (Exhibit 4, Sheet 1, Col (4) Intercept x (7) + Exhibit 4, Sheet 1, Col (4) Slope x (8))
- (11) (9) + (10)
- (12) 150 Year PML and above: (11) - 50.0% x (8)
100 Year PML and below: (11) - (8) above FHCF, (11) - 10.0% x (8) in mandatory layer, and (11) - (8) below the FHCF
- (13) (11) / (7) or (11) / (7) / .10 for mandatory coverage

State of Florida
Office of the Consumer Advocate
Private Market Net Cost of Reinsurance
FHCF Provides No Reinsurance
(\$ Billions)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Single Event Return Time	Probability of Exceedance	Probability of Losses in Layer	Private + Citizens Gross Loss	Private Gross Loss	Private Gross Loss & LAE	Private Gross Layer of Loss & LAE	Private Gross Average Expected Loss & LAE in Layer	Private 10% Corridor Reinsurance Premium	Private Additional Reinsurance Premium	Total Private Reinsurance Premium	Total Private Net Cost of Reinsurance	Average Rate on Line
1000	0.001	0.0001	139.96	82.96	87.10	2.61	0.000					
900	0.001	0.0001	135.76	80.47	84.49	1.79	0.000					
800	0.001	0.0002	132.89	78.77	82.70	4.42	0.002					
700	0.001	0.0002	125.79	74.56	78.28	3.16	0.002					
600	0.002	0.0003	120.71	71.54	75.12	5.71	0.006					
500	0.002	0.0005	111.54	66.11	69.41	6.29	0.009					
400	0.003	0.0008	101.42	60.12	63.12	7.78	0.018					
300	0.003	0.0007	88.93	52.71	55.35	3.67	0.011					
250	0.004	0.0010	83.04	49.22	51.68	5.92	0.024		0.098	0.098	0.086	3.3%
200	0.005	0.0017	73.53	43.58	45.76	6.01	0.034		0.114	0.114	0.097	3.8%
150	0.007	0.0033	63.87	37.86	39.75	8.37	0.075		0.201	0.201	0.163	4.8%
100	0.010	0.0011	50.43	29.89	31.38	1.57	0.016		0.137	0.137	0.121	8.8%
90	0.011	0.0014	47.91	28.40	29.82	2.21	0.025		0.200	0.200	0.175	9.1%
80	0.013	0.0018	44.36	26.29	27.61	2.30	0.031		0.218	0.218	0.187	9.5%
70	0.014	0.0011	40.67	24.10	25.31	1.14	0.016		0.111	0.111	0.094	9.7%
65	0.015	0.0013	38.83	23.01	24.16	1.25	0.020		0.124	0.124	0.105	10.0%
60	0.017	0.0015	36.83	21.83	22.92	1.19	0.020	-	0.122	0.122	0.102	10.3%
55	0.018	0.0018	34.92	20.70	21.73	1.34	0.025	-	0.143	0.143	0.118	10.7%
50	0.020	0.0022	32.77	19.42	20.39	1.39	0.030	-	0.156	0.156	0.126	11.2%
45	0.022	0.0028	30.53	18.09	19.00	1.44	0.034	-	0.169	0.169	0.135	11.8%
40	0.025	0.0036	28.22	16.73	17.56	1.45	0.040	-	0.182	0.182	0.142	12.6%
35	0.029	0.0048	25.89	15.35	16.11	1.59	0.051	-	0.216	0.216	0.165	13.6%
30	0.033	0.0067	23.34	13.83	14.53	1.76	0.068	-	0.265	0.265	0.196	15.1%
25	0.040	0.0100	20.52	12.16	12.77	1.91	0.093	-	0.330	0.330	0.236	17.3%
20	0.050	0.0026	17.45	10.35	10.86	0.40	0.021	-	0.072	0.072	0.051	17.8%
19	0.053	0.0029	16.81	9.96	10.46	0.46	0.025	-	0.086	0.086	0.061	18.5%
18	0.056	0.0033	16.06	9.52	9.99	0.49	0.029	-	0.095	0.095	0.066	19.2%
17	0.059	0.0037	15.27	9.05	9.50	0.49	0.030	-	0.098	0.098	0.068	20.0%
16	0.063	0.0042	14.48	8.58	9.01	0.49	0.032	-	0.102	0.102	0.070	20.9%
15	0.067	0.0048	13.70	8.12	8.52	0.46	0.032	-	0.101	0.101	0.068	22.0%
14	0.071	0.0055	12.96	7.68	8.07	0.55	0.042	-	0.127	0.127	0.085	23.2%
13	0.077	0.0064	12.08	7.16	7.52	0.55	0.045	-	0.135	0.135	0.090	24.6%
12	0.083	0.0076	11.20	6.64	6.97	0.59	0.053	-	0.154	0.154	0.101	26.2%
11	0.091	0.0091	10.25	6.08	6.38	0.54	0.053	-	0.152	0.152	0.099	28.2%
10	0.100	0.0111	9.38	5.56	5.84	0.64	0.070	-	0.195	0.195	0.125	30.6%
9	0.111	0.0139	8.36	4.95	5.20	0.62	0.076	-	0.207	0.207	0.131	33.7%
8	0.125	0.0179	7.37	4.37	4.59	0.69	0.098	-	0.260	0.260	0.162	37.6%
7	0.143	0.0238	6.26	3.71	3.89	0.74	0.123	-	0.318	0.318	0.195	42.8%
6	0.167	0.0333	5.06	3.00	3.15	0.83	0.165	-	0.414	0.414	0.250	50.1%
5	0.200	0.0500	3.73	2.21	2.32	0.89	0.223	-	0.546	0.546	0.323	61.0%
4	0.250	0.0833	2.30	1.36	1.43	0.84	0.280	-				
3	0.333	0.3333	0.94	0.56	0.58	0.58	0.389	-				
(13)	Total/Average					87.10	2.440	-	5.850	5.850	4.195	

Notes:

- highlighted yellow and green areas are the FHCF traditional and TICL coverage layers respectively
- (1) Page 56, FHCF 2008 Ratemaking Formula Report
- (2) 1/(1)
- (3) (2) prior - (2)
- (4) Page 56, FHCF 2008 Ratemaking Formula Report
- (5) (4) x (1 - Exhibit 3, Column (3))
- (6) (5) times 1.05 based on actuarial judgment and FHCF 2008 Ratemaking Formula Report, page 53
- (7) [(6) - (6) prior]
- (8) (7) times upward sum of (3)
- (9) n/a
- (10) 150 Year PML and above: 50.0% x (Exhibit 4, Sheet 1, Col (3) Intercept x (7) + Exhibit 4, Sheet 1, Col (3) Slope x (8))
100 Year PML and below: 100.0% x (Exhibit 4, Sheet 1, Col (4) Intercept x (7) + Exhibit 4, Sheet 1, Col (4) Slope x (8))
- (11) (9) + (10)
- (12) 150 Year PML and above: (11) - 50.0% x (8)
100 Year PML and below: (11) - (8)
- (13) (11) / (7)

Exhibit 3

State of Florida
 Office of the Consumer Advocate
 Modeled Average Annual Hurricane Losses
 (\$000s)

	(1)	(2)	(3)
	Statewide	Citizens	Citizens Share of Average Annual Hurricane Losses
CLA		179,865	
PLA		445,602	
HRA		1,051,291	
	4,116,907	1,676,757	40.7%

Notes:

- (1) The FHCF 2008 Ratemaking Formula Report and actuarial judgment
- (2) Citizens modeled long term and mid-term loss reports RMS RiskLink Version 7.0 as of 8/31/08 and actuarial judgment
- (3) (2) / (1)

State of Florida
Office of the Consumer Advocate
Rate on Line versus Loss on Line
Homeowners Rate Filings

	(1)	(2)	(3)	(4)
	Loss on Line	AM Best Non-Rated Carriers	AM Best A or B Rated Carriers	Weighted Average
Intercept	0.0%	11.0%	2.1%	6.6%
	8.0%	22.0%	26.1%	24.1%
Slope		1.375	3.000	2.188

Notes:

- (1) Loss-on-line put on long-term basis by dividing by factor of 1.25 based on actuarial judgment.
- (2) Exhibit 4, Sheet 2
- (3) Exhibit 4, Sheet 3
- (4) 50% x (2) + 50% x (3) based on Exhibit 7 and actuarial judgment

State of Florida
Office of the Consumer Advocate
Rate on Line versus Loss on Line
Homeowners Rate Filings
AM Best Non-Rated Carriers

	(1)	(2)	(3)	(4)
	Loss	2007	2008	2009
	on	Rate	Rate	Rate
	Line	on	on	on
	Line	Line	Line	Line
Intercept	0.0%	14.0%	10.0%	11.0%
	8.0%	25.0%	21.0%	22.0%
Slope				1.375

Notes:

- (1) - (3) Based on May 2008, Guy Carpenter Briefing, "Pricing Down Approximately 15%; Outlook for Florida Renewals on June 1, 2008. Loss-on-line put on long-term basis by dividing by factor of 1.25 based on actuarial judgment.
- (4) Assumes reinsurance rates will increase in 2009, because of lack of financing availability, increased borrowing costs, and increased retrocession costs due to the current financial crisis and because of losses sustained by reinsurers from hurricanes Gustav and Ike.

State of Florida
Office of the Consumer Advocate
Rate on Line versus Loss on Line
Homeowners Rate Filings
AM Best A or B Rated Carriers

	(1)	(2)	(3)	(4)	(5) Estimated
	Loss on Line	2007 Rate on Line	Loss on Line	2008 Rate on Line	2009 Rate on Line
Intercept	0.0%	1.0%	0.0%	2.1%	2.1%
	1.6%	8.0%	0.8%	4.0%	4.5%
	4.8%	22.0%	6.4%	17.0%	21.3%
			8.0%	20.7%	26.1%
Slope		4.375		2.321	3.000

Notes:

- (1) - (4) Based on Guy Carpenter Report, 2008 Reinsurance Market Review, Near Misses Call for Caution. Loss-on-line put on long-term basis by dividing by factor of 1.25 based on actuarial judgment.
- (5) Assumes reinsurance rates will increase in 2009, because of lack of financing availability, increased borrowing costs, and increased retrocession costs due to the current financial crisis and because of losses sustained by reinsurers from hurricanes Gustav and Ike.

State of Florida
Office of the Consumer Advocate
Estimated 2009 Expense Ratios
Florida Homeowners Insurance
Private Insurers

	(1)	(2)	(3)	(4)
	Estimated Florida Ratios to Direct Premiums 2009	Estimated Florida Ratios to Net Premiums 2009	Florida Ratios to Direct Premiums 2007	Countrywide Ratios to Net Premiums 2007
Commission and Brokerage Expenses	11.0%	22.9%	13.4%	14.1%
Other Underwriting Expenses	5.0%	10.4%	n/a	16.4%
Taxes, Licenses and Fees	2.5%	5.2%	2.5%	n/a
Policyholder Dividends	0.0%	0.0%	0.2%	0.4%
Underwriting Profit and Contingency Provision	-16.5%	-34.3%	n/a	4.8%
Total	2.0%	4.1%	n/a	35.7%

Notes:

- * 16.4% includes taxes, licenses and fees
- (1) based on actuarial judgment
- (2) based on actuarial judgment
- (3) NAIC I-Site database
- (4) 2008 Bests Aggregates and Averages

State of Florida
Office of the Consumer Advocate
Estimated Non-Hurricane Year Loss & LAE Ratios
Florida Homeowners Insurance
Private Insurers

	Direct Premiums Earned	Direct Losses Incurred	Estimated LAE	Direct Losses & LAE Incurred	Non-Hurricane Loss Ratio
1997	2,018,492	683,850	125,674	809,524	40.1%
1998	2,285,064	757,870	139,277	897,147	39.3%
1999	2,540,458	845,980	155,470	1,001,450	39.4%
2000	2,843,450	903,323	166,008	1,069,331	37.6%
2001	2,996,093	1,258,000	231,189	1,489,189	49.7%
2002	3,225,961	1,249,429	229,614	1,479,043	45.8%
2003	3,653,583	1,238,392	227,585	1,465,977	40.1%
2004	4,127,444	12,507,031	791,017	13,298,048	n/a
2005	5,010,871	7,695,223	550,427	8,245,650	n/a
2006	5,812,743	1,889,916	347,319	2,237,235	38.5%
2007	7,148,396	1,742,834	320,289	2,063,123	28.9%
Est 2008	7,150,000	1,936,917	355,957	2,292,873	32.1%
Est 2009	7,500,000	2,257,479	414,868	2,672,346	35.6%

Notes:

Source is NAIC I-Site database.

LAE and 2008 and 2009 years estimated based on actuarial judgment.

State of Florida
Office of the Consumer Advocate
Written Premium Distribution
as of 6/30/XXXX
Florida Homeowners Insurance

AM Bests Rating	2003	2004	2005	2006	2007	2008	Estimated 2009
A	28.7%	32.7%	32.3%	28.2%	23.1%	21.5%	19.8%
B	27.9%	34.5%	32.7%	28.2%	24.1%	21.7%	19.4%
C	0.2%	0.0%	0.0%	0.2%	0.1%	0.3%	0.4%
E	1.1%	1.0%	1.0%	0.9%	0.0%	0.0%	0.0%
N	26.8%	12.8%	17.1%	21.7%	22.9%	29.6%	36.3%
Citizens	15.3%	19.0%	16.9%	20.8%	29.7%	26.9%	24.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes:

Sources are the Office of Insurance Regulation's QUASR reports and AM Best website. The direct written premium distribution is shown based on the current AM Best ratings of the 50 largest writers in 2003 and 2008. Ratings for all 50 of the largest writers in 2003 and 2008 were used. Smaller writers' direct written premiums averaging between 6% and 10% of total premiums per year were assigned to the A or N category based upon a random stratified sample of these smaller writers.

