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Citizens Property Insurance Corporation
Mission Review Task Force
October 10, 2008

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Welcome
Mission Review Task Force

October 10, 2008

Citizens' Vision and Mission

Vision

We aspire to be responsive stewards of the public trust, setting the standard for courteous, prompt and professional customer service, operational efficiency, and fiscal responsibility. We strive to be an important insurance safety net for Floridians and to earn respect as a valuable partner in protecting Florida's economic health.

Mission

Our mission is to serve the people of Florida by providing property and casualty insurance protection and superior customer service.



*Government-in-the-Sunshine
and other public laws*

Mission Review Task Force

October 10, 2008

Sunshine

1. Sunshine Law 101:

- **Public Meeting.** Meetings must be open to the public at all times
- **Reasonable Notice** must be provided for all public meetings
- **Minutes** (which may be summary in form) must be promptly recorded and open to public inspection
- **Accessible Location.** Meeting may not be at location that (i) discriminates on the basis of sex, age, race, etc. or (ii) unreasonably restricts public access

2. Sunshine requirements apply to:

- **Written or spoken communication**, whether formal or casual, of **two or more Task Force members** to discuss some matter on which foreseeable action will be taken by Task Force
 - i.e., Task Force members should not have private communications
- **Entire decision-making process** of Task Force members, including discussions & deliberations, and official acts

Sources: F.S. 286.011 and opinions

Sunshine

3. Limited exceptions for when public meeting not required include:

- **One-way written/oral communications** by one member to other members without response from other members
 - E.g., attendance by members at **non-Task Force functions, if only one** member discusses Task Force business
- **Task Force Staff** and **others** may communicate individually with members
 - But may not be “**conduit**” or “**go between**” to carry messages among members or circulate their thoughts

4. Sanctions include:

- Knowing violation may result in second degree misdemeanor
- Non-criminal infraction punishable by fine not exceeding \$500

5. Public Participation

- Normally, public has right to attend, but no right to participate in meeting
- Task Force law requires the Task Force to “receive testimony”

Sources: F.S. 286.011 and opinions; 2008 SB 2860, Sec. 20

Public Records

1. Public Records defined:

- Materials made or received in connection with official business; and used to perpetuate, communicate or formalize knowledge

2. Examples of Public Records include:

- Physical and electronic documents, such as emails, letters, maps, books, tapes, photographs, films, sound recordings, data processing software, faxes

3. Excluded. Records not considered to be public records include:

- **Personal notes.** Including notes of meetings attended, if designed for your personal use in remembering certain things; neither distributed to others nor filed as permanent record of Task Force
- **Drafts.** Which you prepare, and your assistant revises, but are not circulated to others for comment
- **Trade Secret.** Information that meets statutory definition of “Trade Secret,” such as computer programs, pricing formulas, customer lists. Disclosure of Trade Secrets may be a crime

Sources: F.S. Ch. 119 and opinions

Code of Ethics for Public Officers

1. Chapter 112, Part III, Florida Statutes, applies to “public officers” of state “agencies” broadly defined, which in some circumstances includes “advisory body”
2. If Chapter 112, Part III applies to Task Force, most likely rules for members are:
 - Before voting, *do* disclose conflicts of interest (measure that would inure to special private gain or loss of member or principal)
 - *Don't* solicit or accept gifts from Task Force vendors
 - *Don't* accept compensation to influence vote or official action
 - *Don't* do business with Task Force
 - *Don't* hold conflicting employment/contractual relationship with Task Force
3. Commission on Ethics provides opinions on Chapter 112, Part III

Other Laws

Voting

- Member may **not delegate** his or her attendance or voting
- **No abstention.** Member present at meeting may not abstain from voting
 - **Limited exception.** Member not required to vote when there is, or appears to be, possible conflict of interest under provisions of Chapter 112

Sources: 2006 SB2860, Sec. 20 ; F.S. 112.3143; F.S. 286.012

Antitrust

- **Mission Review Task Force** should fall within rule of law that states are immune from federal antitrust law



Overview

Mission Review Task Force

October 10, 2008

Citizens – Who We Are

- Citizens is a State-created, not-for-profit, tax-exempt government entity whose public purpose is to provide property insurance coverage to those unable to find affordable coverage in the voluntary admitted market
- Citizens is governed by an eight member board of Governors two of whom are appointed by each of the following State leaders:
 - Governor;
 - Chief Financial Officer;
 - Senate President; and
 - Speaker of the House.
- Citizens operates pursuant to a plan of operation which is reviewed and approved by the Financial Services Commission
- Citizens is also subject to regulation by the Florida Office of Insurance Regulation

Citizens Then...

- 1972 - Legislature creates Florida Windstorm Underwriting Association (FWUA) as insurer of last resort to provide wind-only coverage in Monroe County. The wind-only territories of the FWUA were expanded over time to include most coastal regions
- 1992 - Legislature creates Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) following Hurricane Andrew as insurer of last resort for to provide multi-peril coverage in territories not served by the FWUA
- 2002 - Legislature creates Citizens as an insurer of last resort, combining FWUA and FRPCJUA. The merger allowed Citizens to become exempt from all federal taxes, resulting in millions of dollars in annual savings. Citizens was designed to realize additional administrative and economic efficiencies over its predecessor organizations and to provide one source of coverage for consumers
- 2004 – Hurricanes Charley, Frances, Ivan and Jeanne strike Florida
- 2005 - Hurricanes Dennis, Katrina, Rita and Wilma strike Florida. Over this two year period, Citizens received 310,000 claims and paid out \$6.1 billion in hurricane losses
- 2006 – Legislature amends Citizens’ s Enabling Act to express its intent that Citizens’ service standards be no less than those applied to voluntary insurers - for responsiveness, timeliness, customer courtesy and dealings with policyholders, applicants and agents
- 2006 – Legislature directs Citizens to absorb the commercial non-residential business of the Property & Casualty Joint Underwriting Association
- 2006 - Citizens assumes more than 300,000 policies in a single day from the insolvent Poe Financial Group
- 2007 – Citizens amends its Plan of Operation at direction of Financial Services Commission to adopt a Policyholder Declaration of Rights to ensure that policyholders & applicants receive quality customer service and are treated with utmost respect, courtesy & professionalism
- 2007- Legislature amends the Enabling Statute to state that Citizens is a “government entity,” that it is an “integral part of the state,” and that it is “not a private insurance company”

Noteworthy Events - 2007

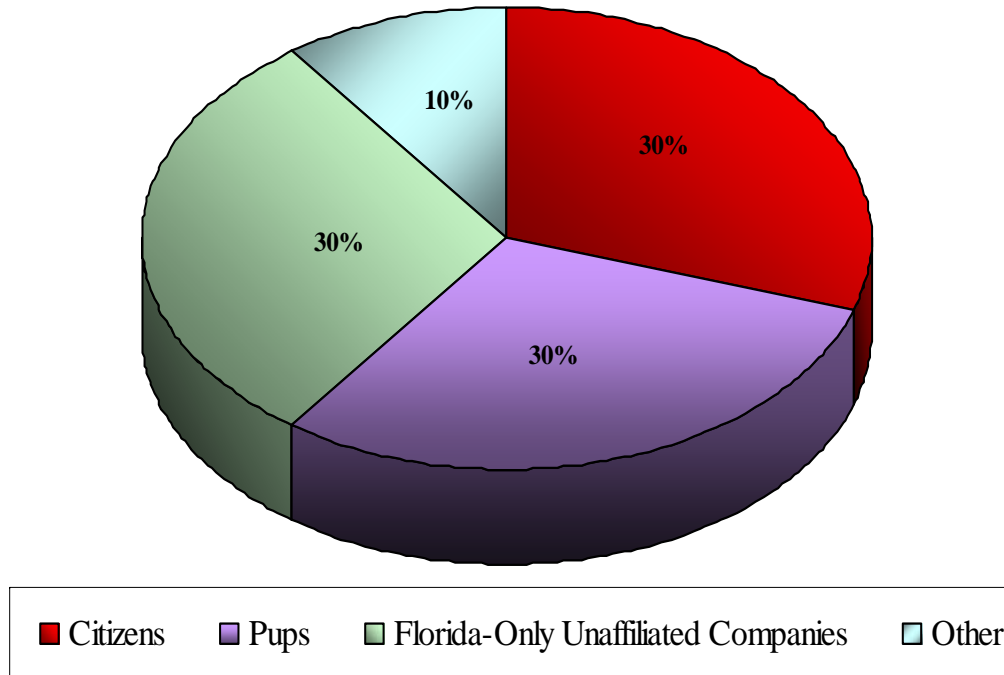
- Expansion of Assessment Base
- Expansion of Florida Hurricane Catastrophe Fund
- Moving from a Market of Last Resort to an Alternative Market
- Rate Rollback and Refunds
- Assumption of PCJUA Commercial Non-Residential Business
- Began Issuing a Single Multi-Peril Policy in HRA Territories
- Offering Payment Plans to Policyholders
- Issuance of Approximately \$1 Billion, Post-Event Financing for HRA
- Issuance of Approximately \$1 Billion, Pre-Event Financing for PLA/CLA
- Implemented Customer Outreach through Statewide Policyholder Forums
- Implementation of Sinkhole Pilot Program
- Expanded Website to Enhance Customer Service

Citizens Now...

- Citizens is currently the largest property insurer in Florida with approximately 1.2 million policies and coverage for over \$440 billion of insured property, and represents approximately 30% of the residential premium in the State
- Citizens' role has recently been reinforced by the Florida Legislature
 - Authority to write multi-peril as well as wind-only policies in coastal areas.
 - Direction to assume commercial responsibilities from PCJUA
 - Relaxation of "highest-rate" standard
- Citizens has not grown materially in 2008 despite these changes.
 - Private company incentives have resulted in "keep-outs" and "take-outs"

(As of 6/30/08)

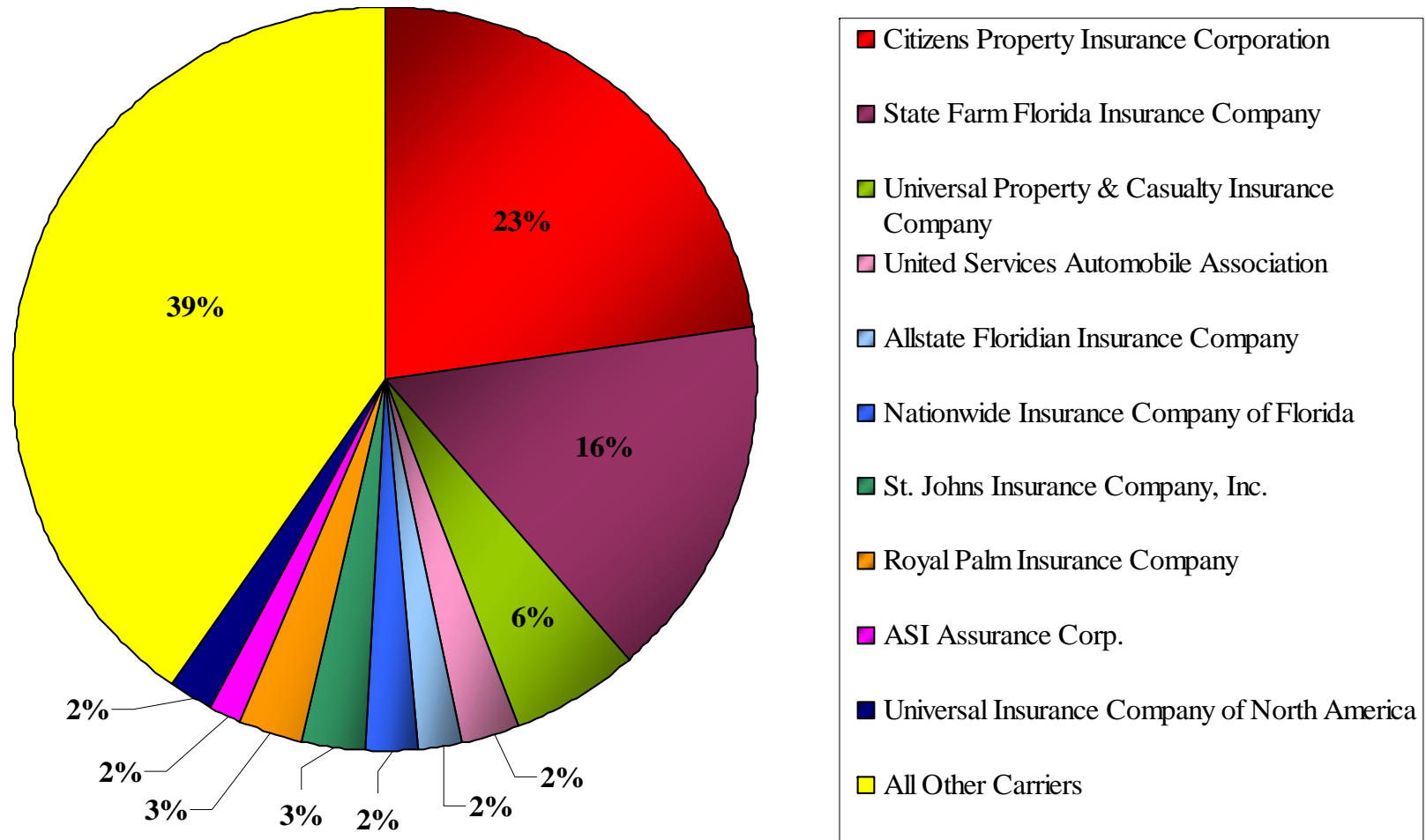
Florida Insurance Residential Admitted Market Breakdown



- The Florida Residential Property Insurance Admitted Market is divided into 4 major parts – approximately 30% each to (1) Citizens; (2) the “pups” of the major national writers; and (3) the Florida-only domestic companies, with 10% to others including USAA, etc.

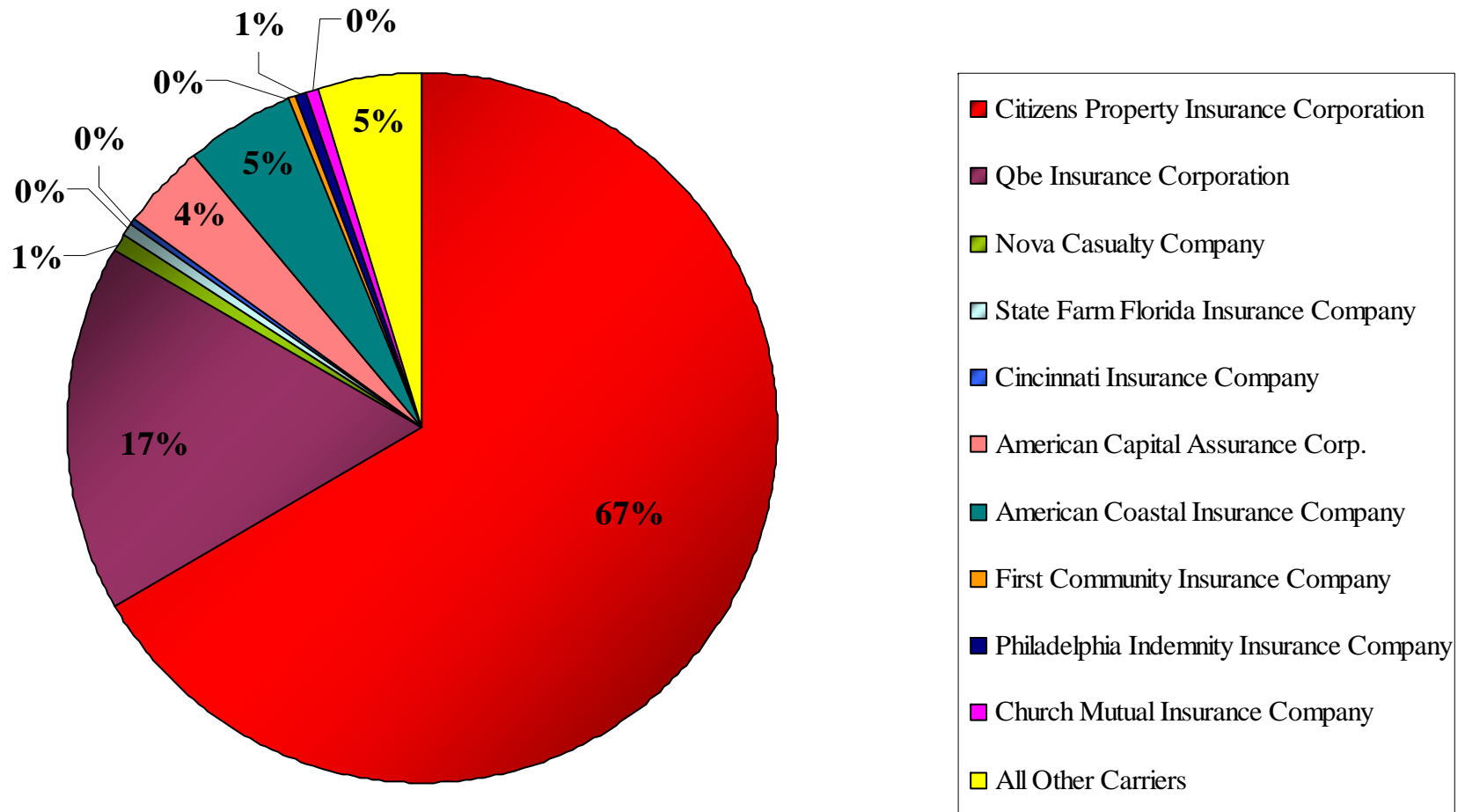
(Data Source: Florida Office of Insurance Regulation, Quarterly Supplemental Report-As of 3/31/08)

Personal Residential Premiums Written Market Share As of 03/31/2008



Source: Florida Office of Insurance Regulation, Quarterly Supplemental Report (QUASR). Includes licensed carriers only. Surplus lines companies are not included in the market share calculation.

Commercial Residential Premiums Written Market Share As of 03/31/2008



Source: Florida Office of Insurance Regulation, Quarterly Supplemental Report (QUASR). Includes licensed carriers only. Surplus lines companies are not included in the market share calculation.

Overview of Citizens' Accounts

Each of the following three accounts are separate statutory accounts and have separate calculations of surplus, plan year deficit and assessment bases. *Assets in one account may not be commingled or used to fund losses in another account.* The three accounts are listed below with the types of policies written in each.

Personal Lines Account (PLA)

- Personal residential multiperil policies including homeowners, dwelling fire, mobile home, tenants and condominium unit owners.

Commercial Lines Account (CLA)

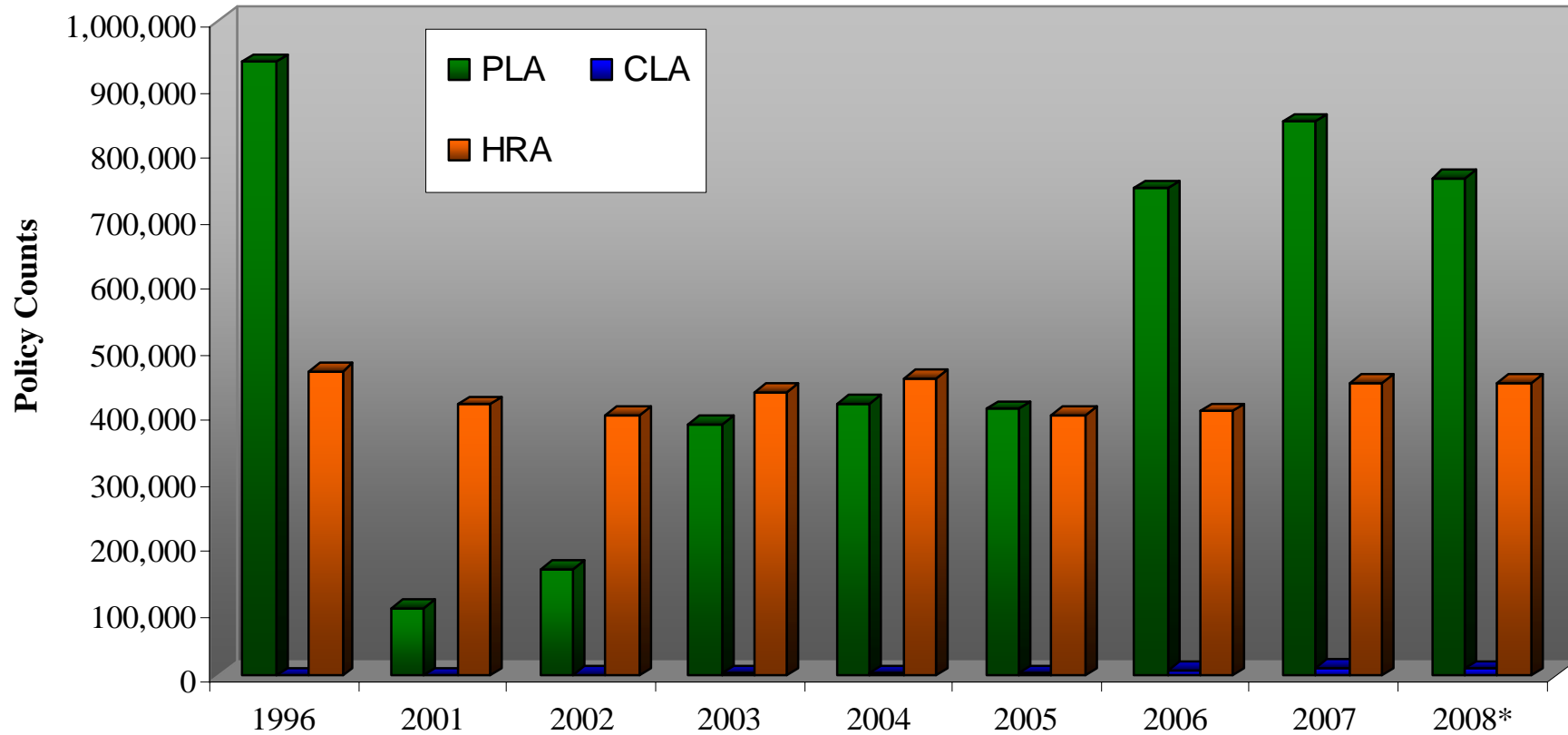
- Commercial residential multiperil policies including condominium associations, apartment buildings and homeowners association policies.
- Commercial nonresidential wind policies (e.g., office buildings, retail, etc.) both assumed from the former PCJUA and new policies written by Citizens. These policies are located outside of the coastal HRA eligible areas.
- Currently developing statutorily mandated commercial non-residential multiperil program.

High-Risk Account (HRA)

- Personal residential wind-only policies, commercial residential wind-only policies and commercial non-residential wind-only policies issued in eligible coastal HRA areas.
- Any multiperil policy written in the statutorily defined HRA eligible area.

Citizens Policy Counts by Year and Account

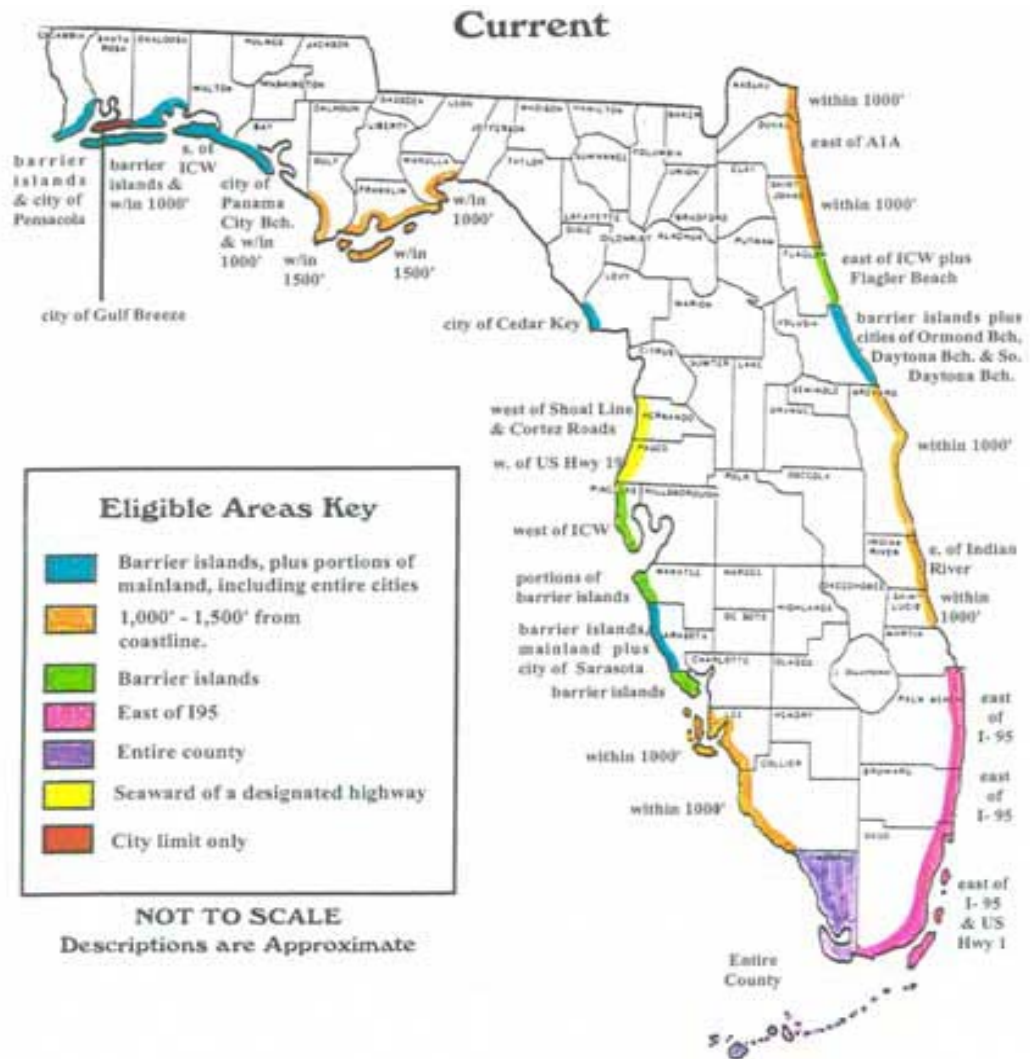
*As of August 31, 2008



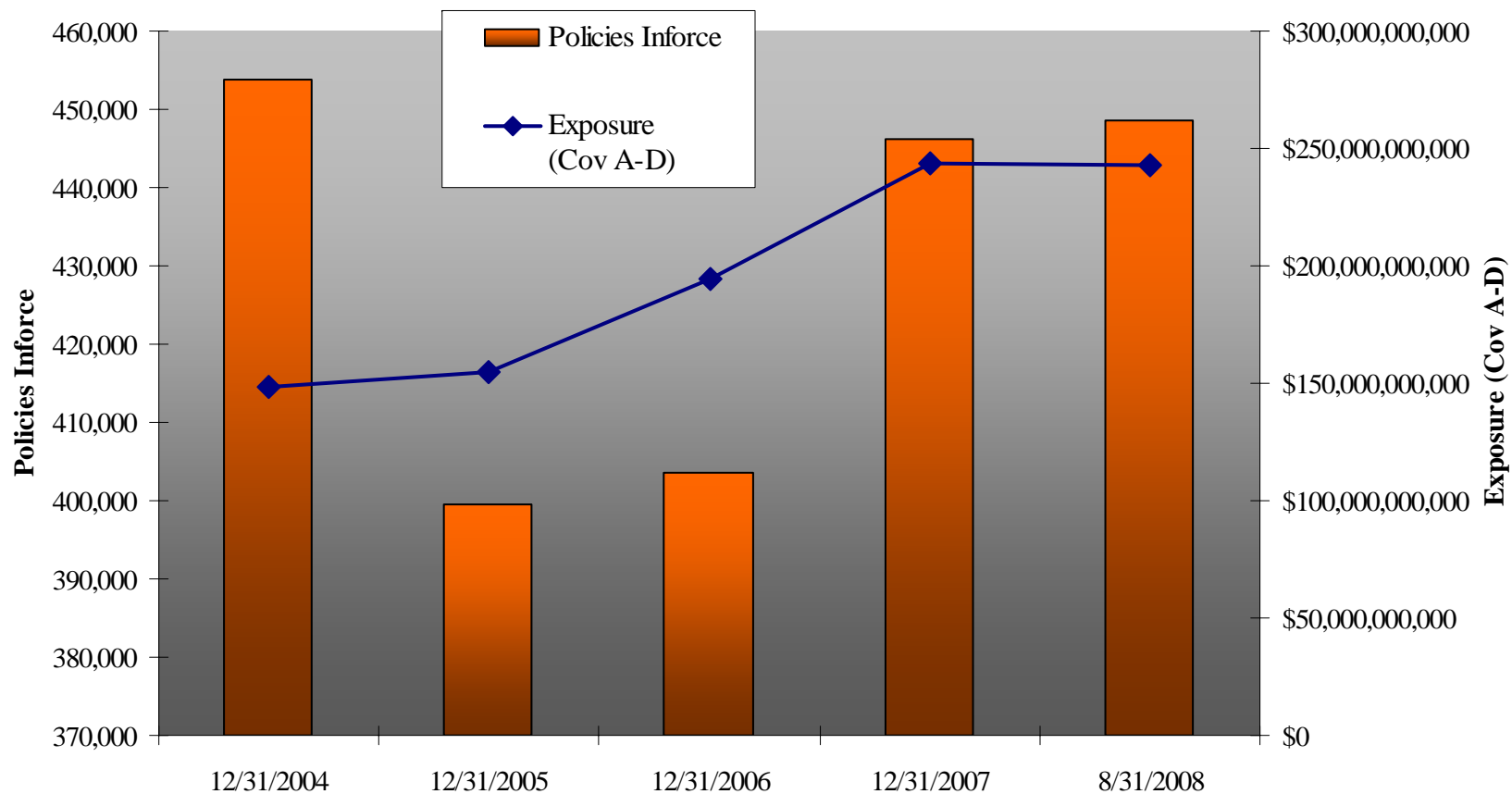
High Risk Account (HRA)

High Risk Account (HRA) Coverage Areas

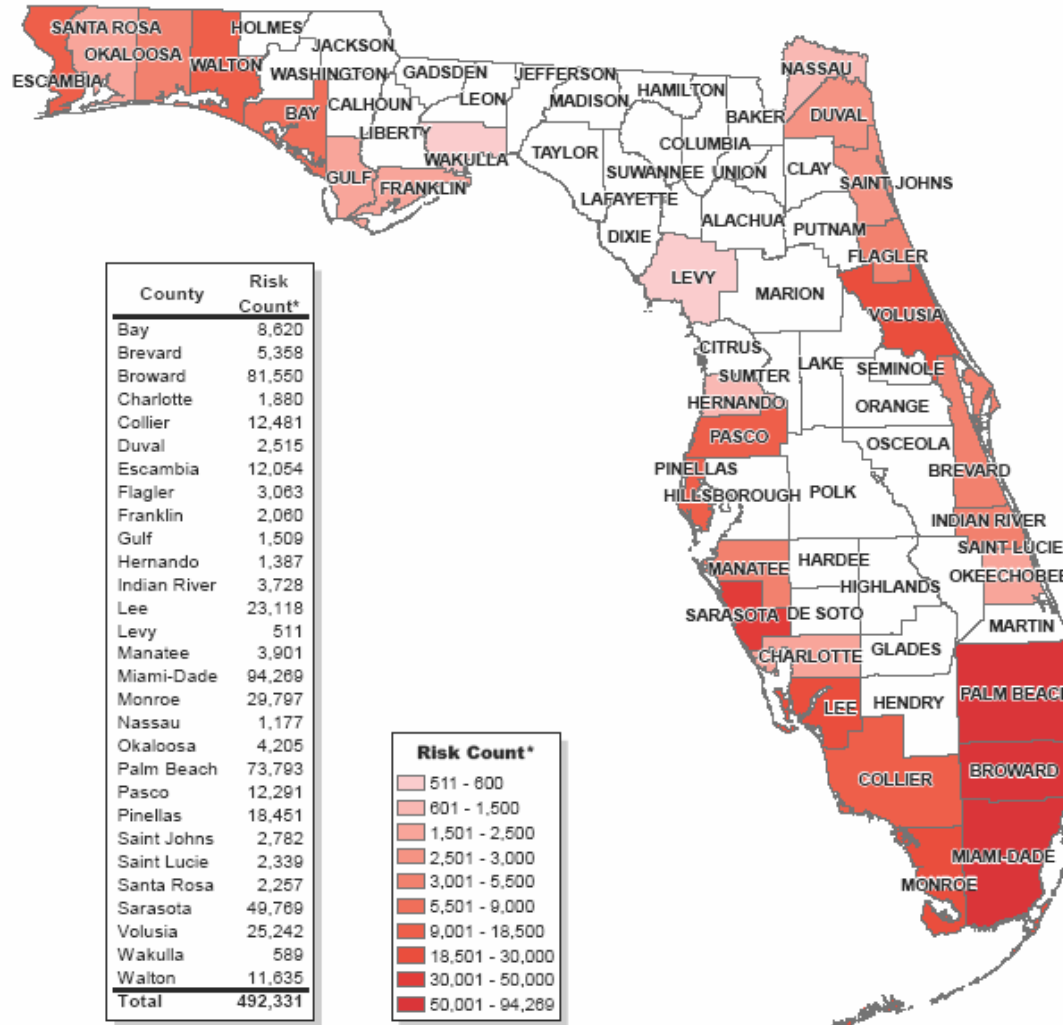
The shaded areas indicate statutorily defined HRA (wind-only) eligible coastal areas of Florida.



HRA Policy and Coverage Trend

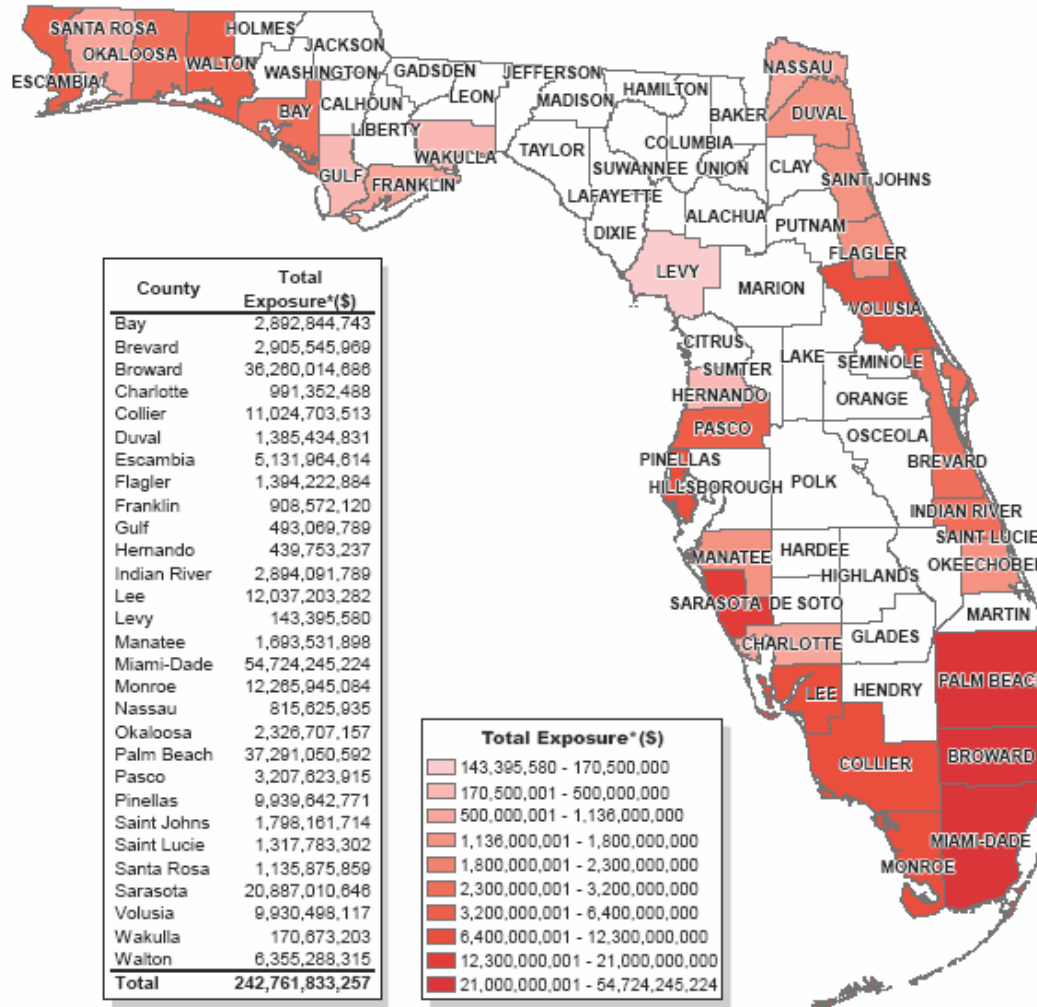


HRA Risk Counts by County – As of 08/31/08



* Excludes takeout policies.

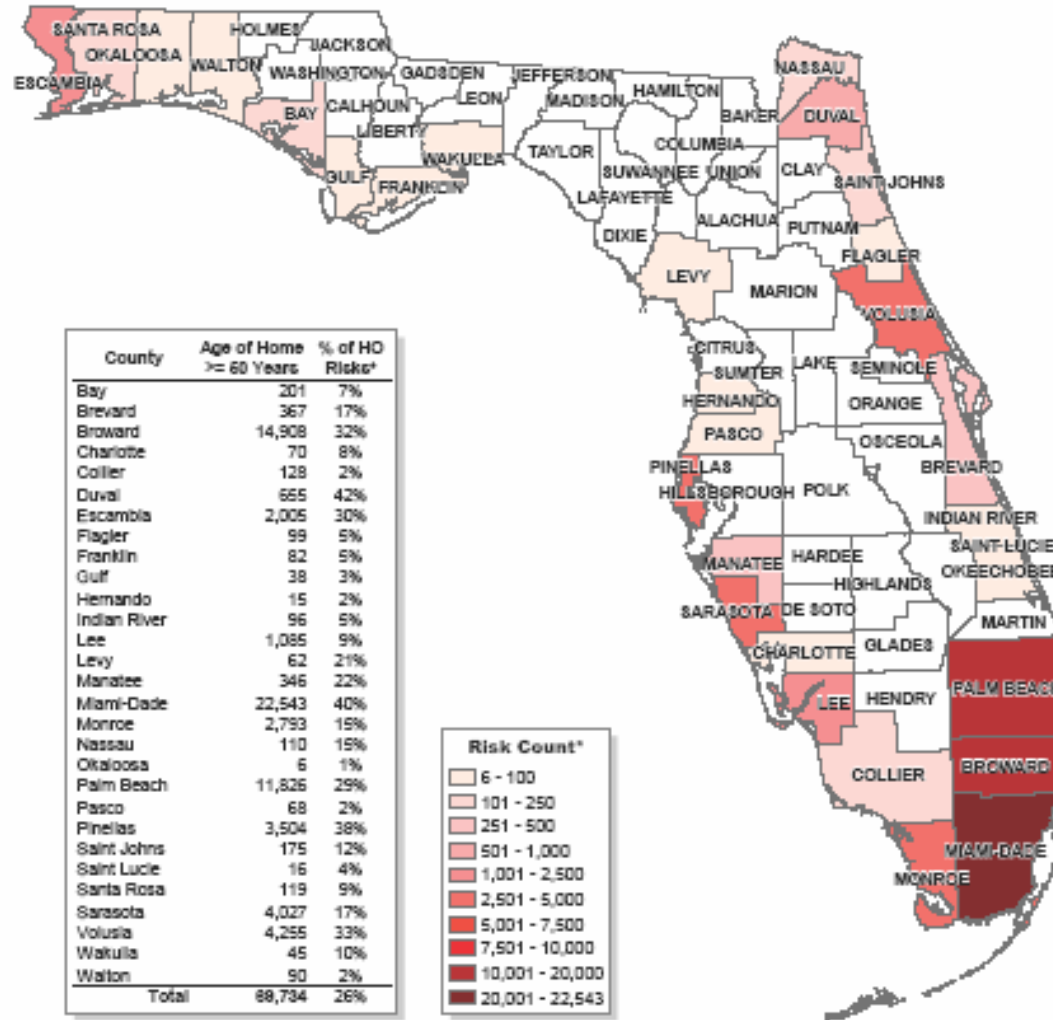
HRA Exposure by County – As of 08/31/08



* Excludes takeout policies.
 PR-M policies include coverages A, B, C, and D
 except DP-1 policies which include coverages A and C only.

HRA Wind-Only Homes (Age ≥ 20 Years) by County

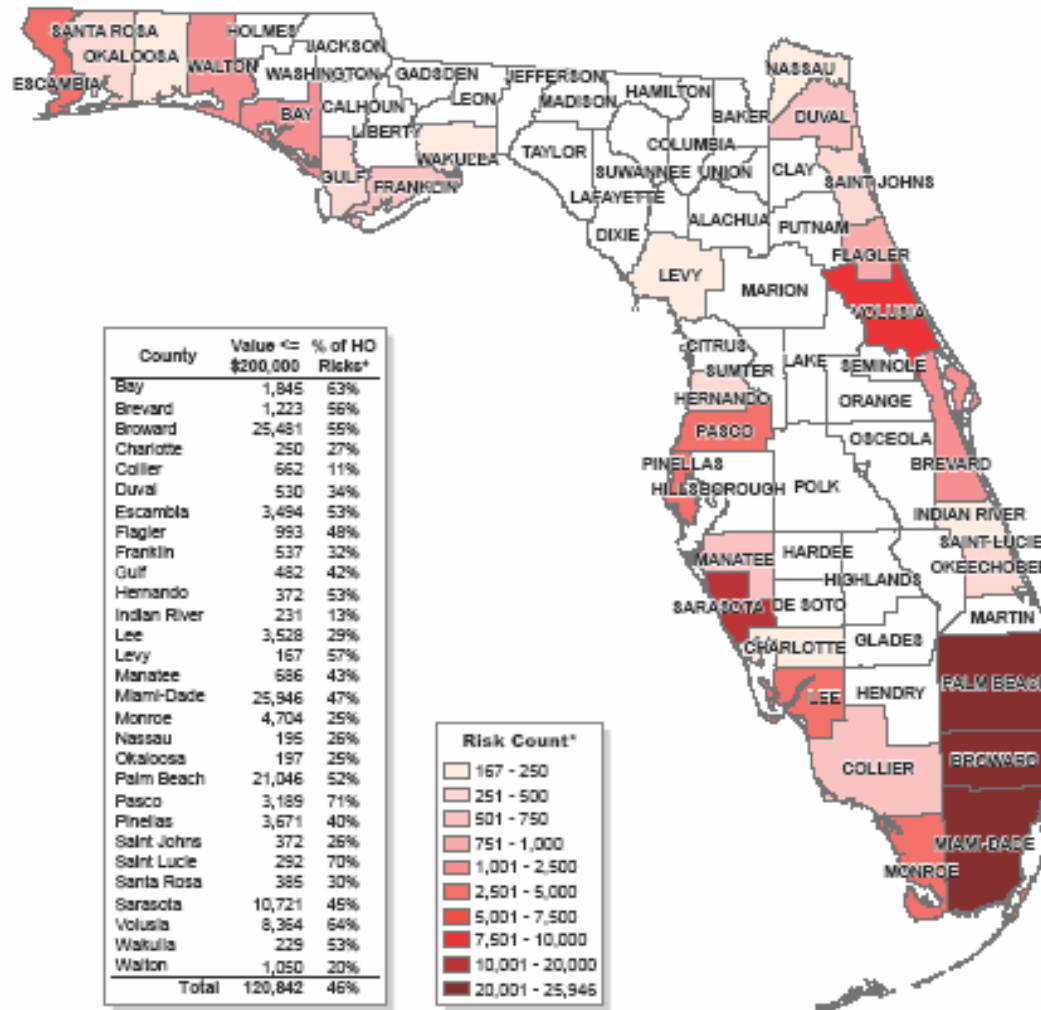
As of 08/31/08



* Includes homeowner wind-only policies only.
Excludes policies tagged for takeout.

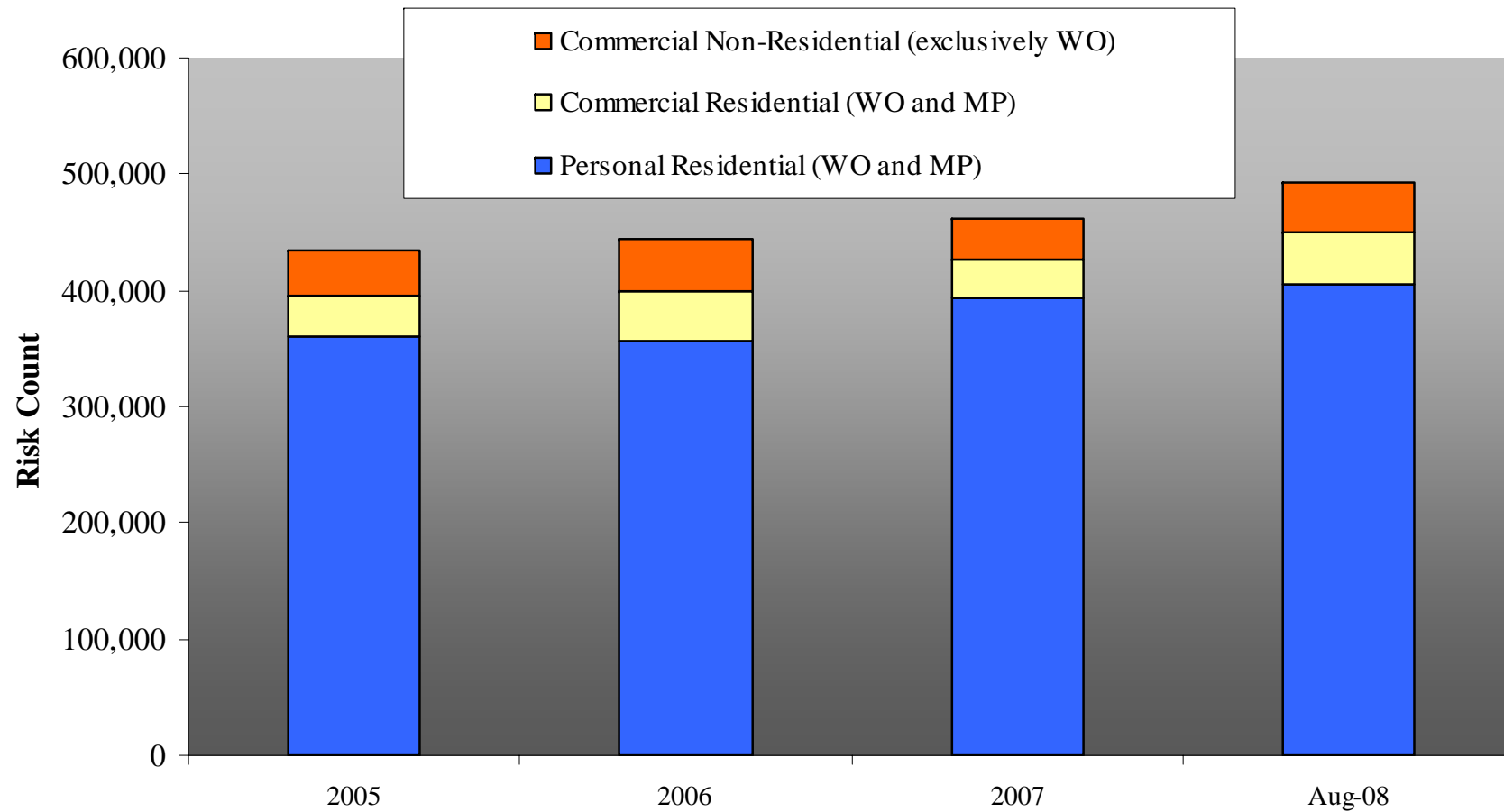
HRA Wind-Only Homes (Coverage A ≤ \$200,000) by County

As of 08/31/08



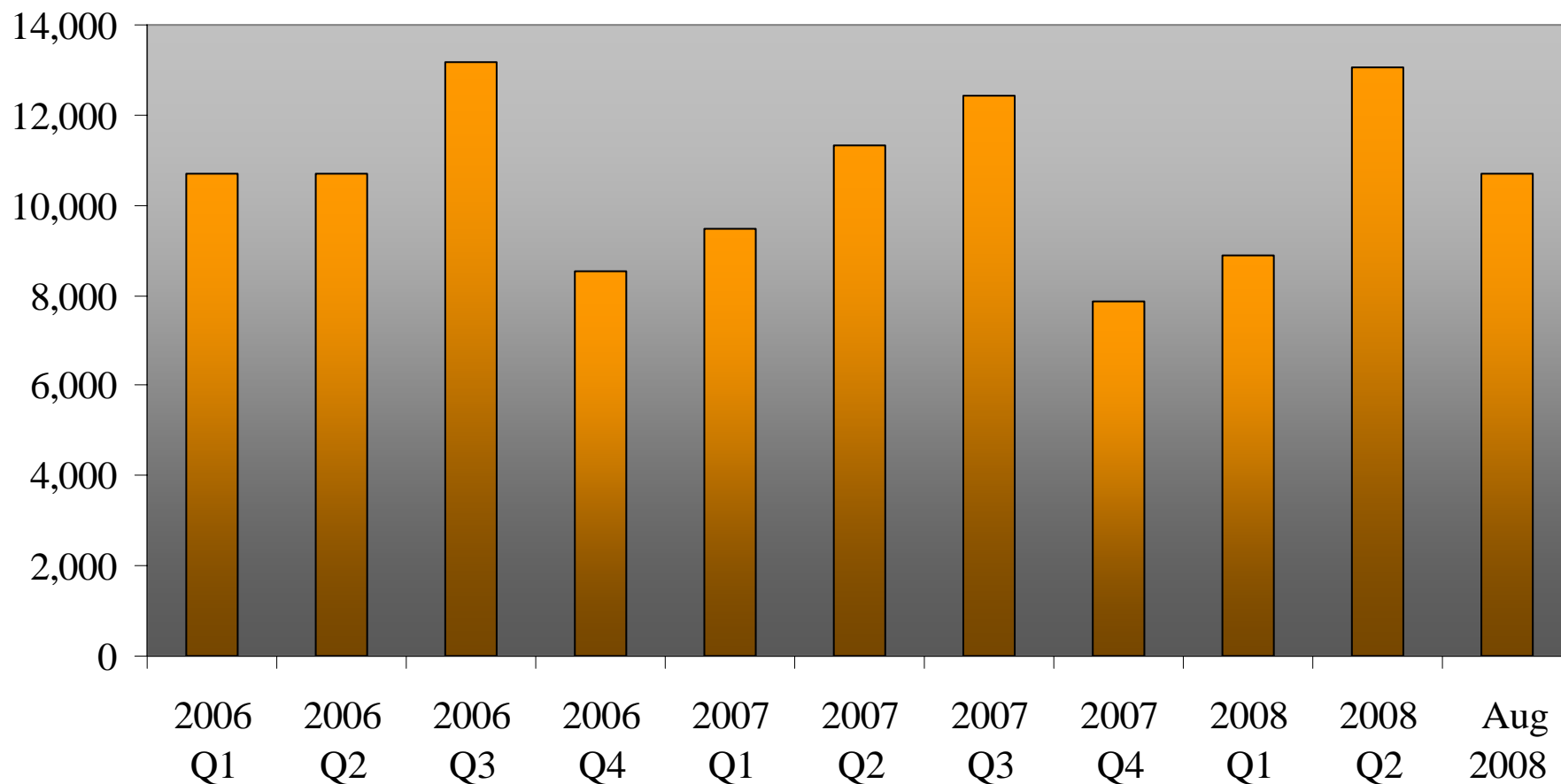
* Includes homeowner wind-only policies only. Excludes policies tagged for takeout.

HRA Risk Count History by Policy Form



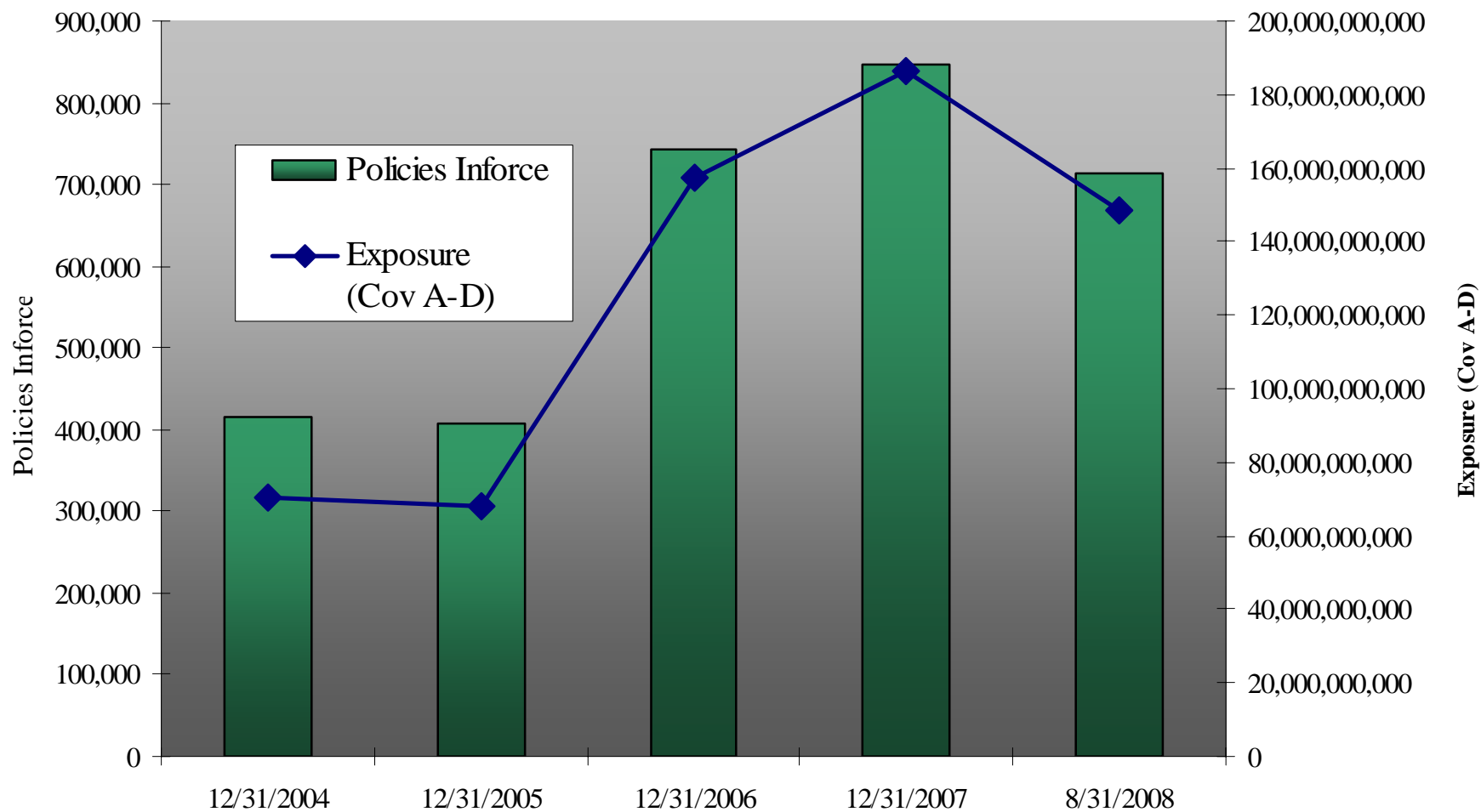
HRA New Business Written – As of 08/31/08

HRA New Business Written

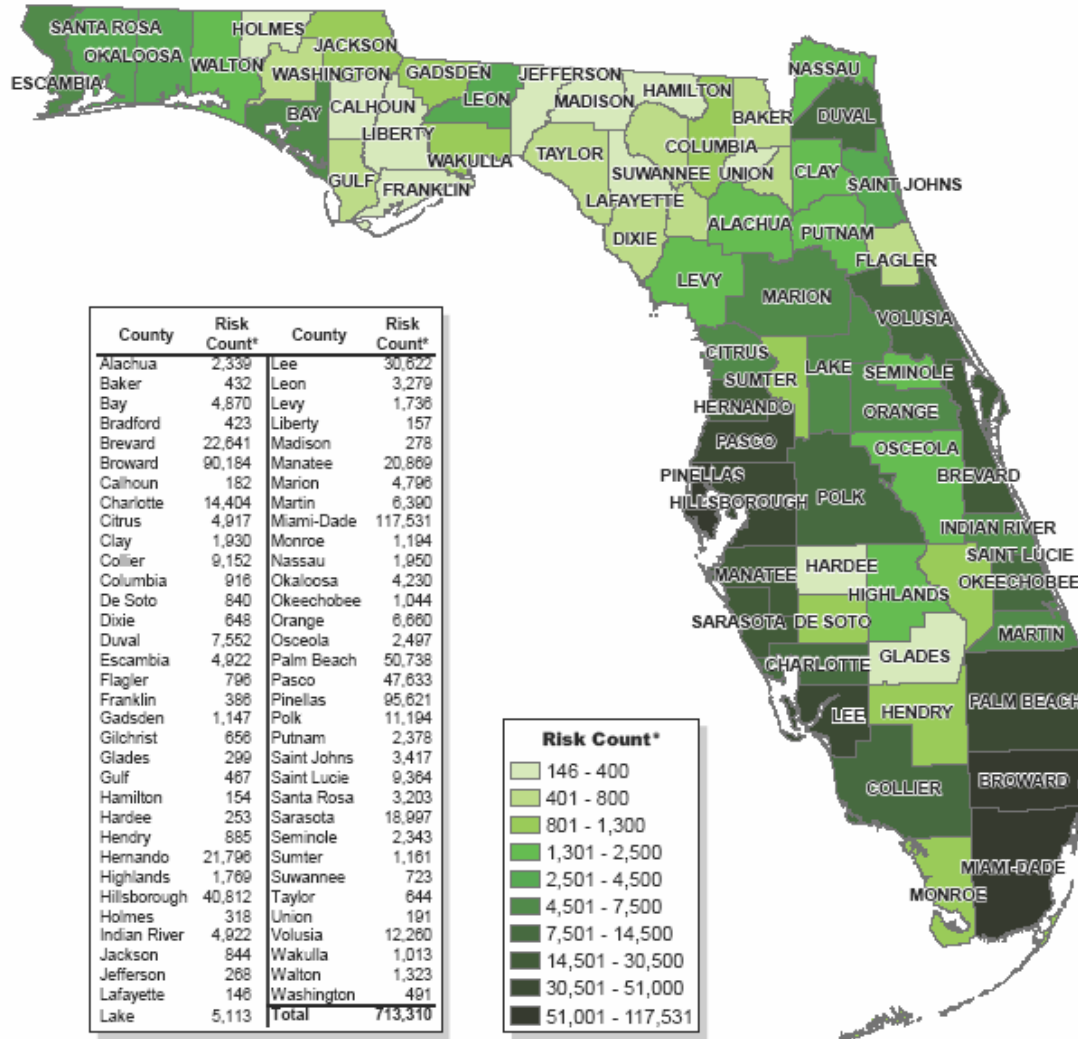


Personal Lines Account (PLA)

PLA Policy and Coverage Trend

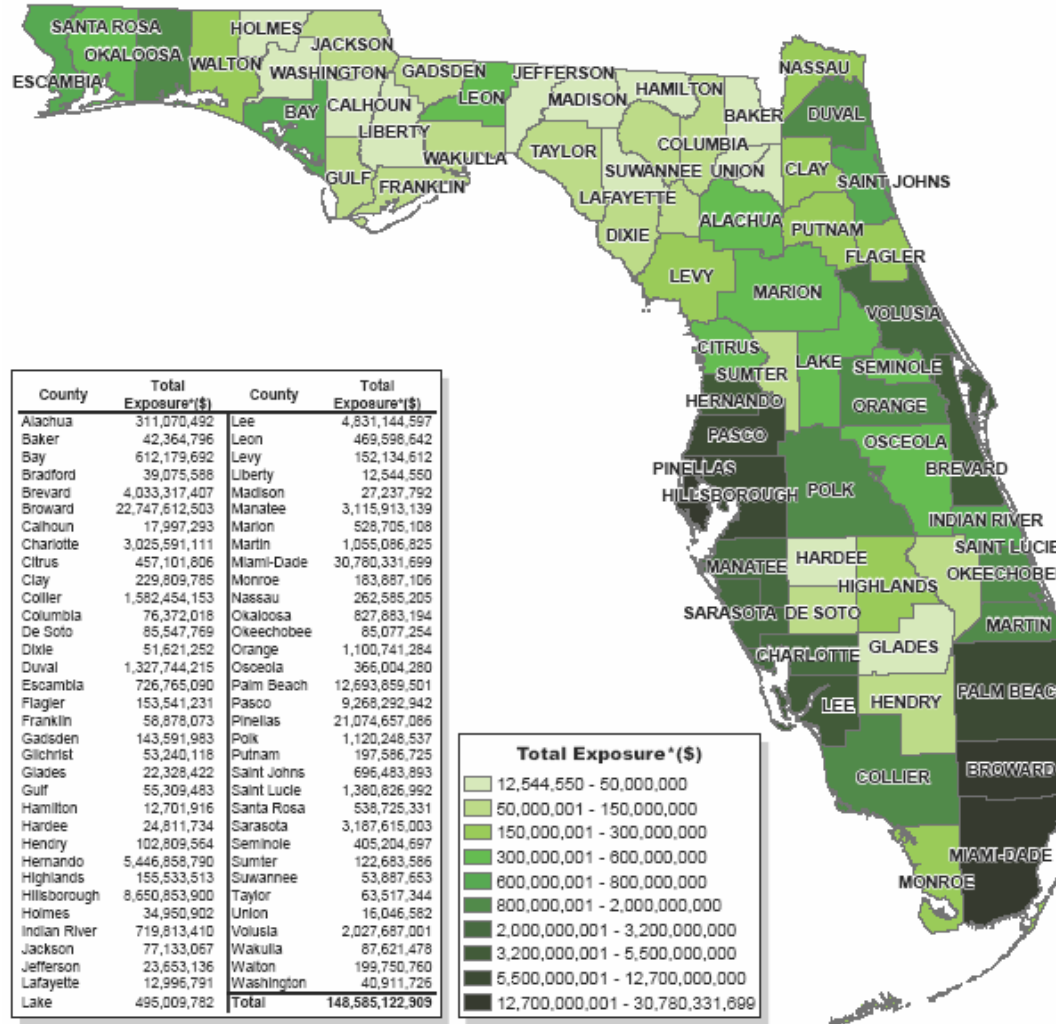


PLA Risk Counts by County – As of 08/31/08



* Excludes takeout policies.

PLA Exposure by County – As of 08/31/08

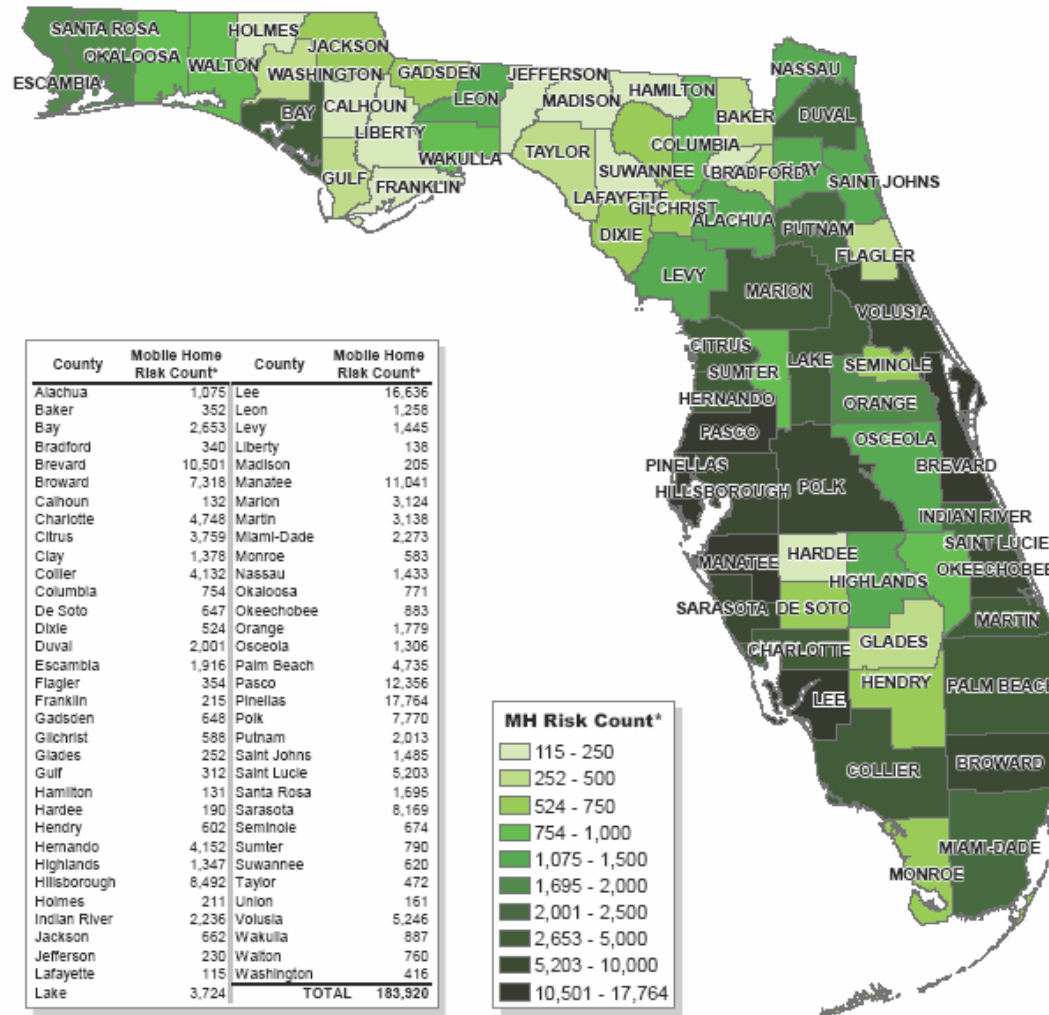


* Excludes takeout policies.
 PR-M policies includes Coverages A, B, C, and D
 except DP-1 policies which include coverages A and C only.

PLA Mobile Home Risk Counts by County – As of 08/31/08

Mobile homes 15 years and older make up 81% of all mobile home dwelling and mobile homeowner policies statewide.

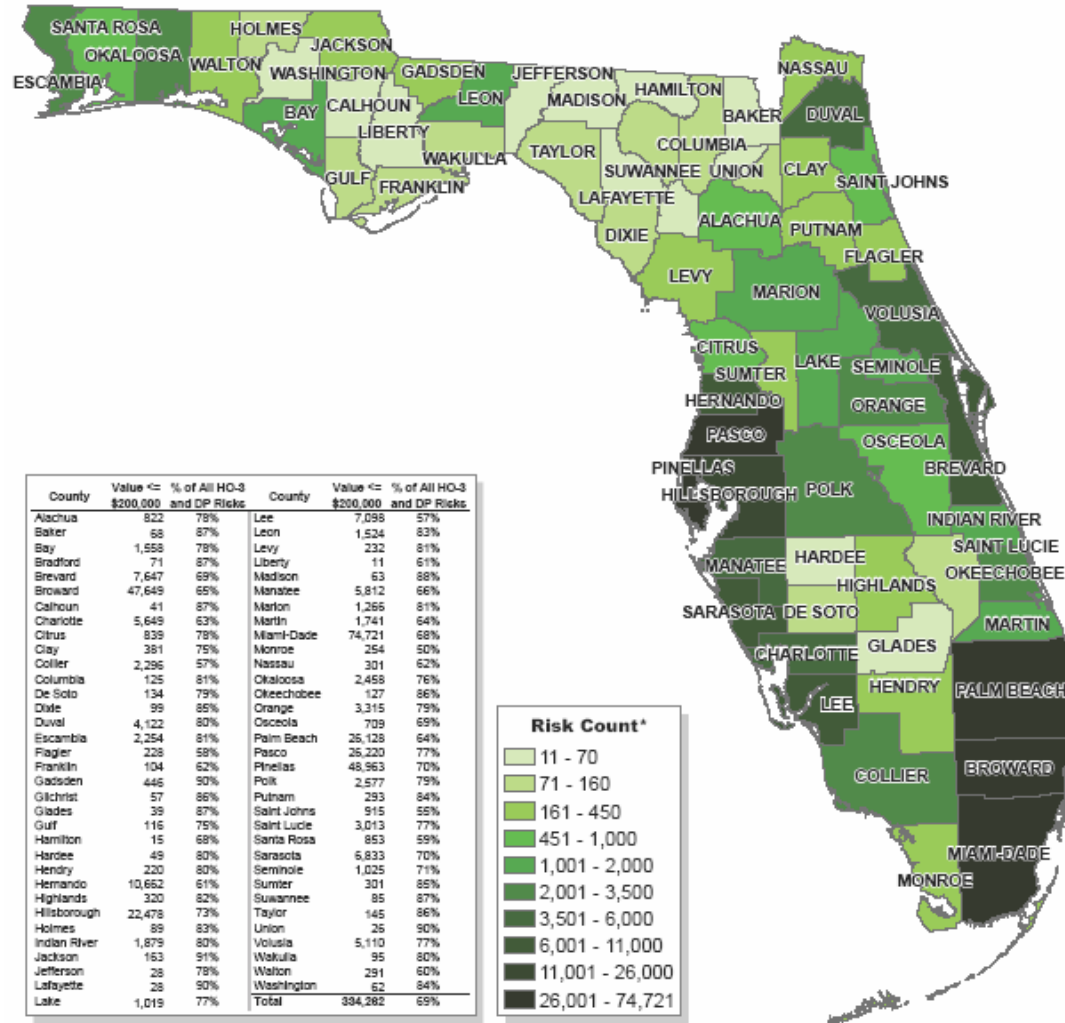
Mobile homes with Coverage A of \$75,000 or less make up 91% of all mobile home dwelling and mobile homeowner policies statewide.



* Includes only dwelling (MDP-1) and homeowner (MHO-3) policies. Excludes policies tagged for takeout.

PLA Homes (Coverage A ≤ \$200,000) by County

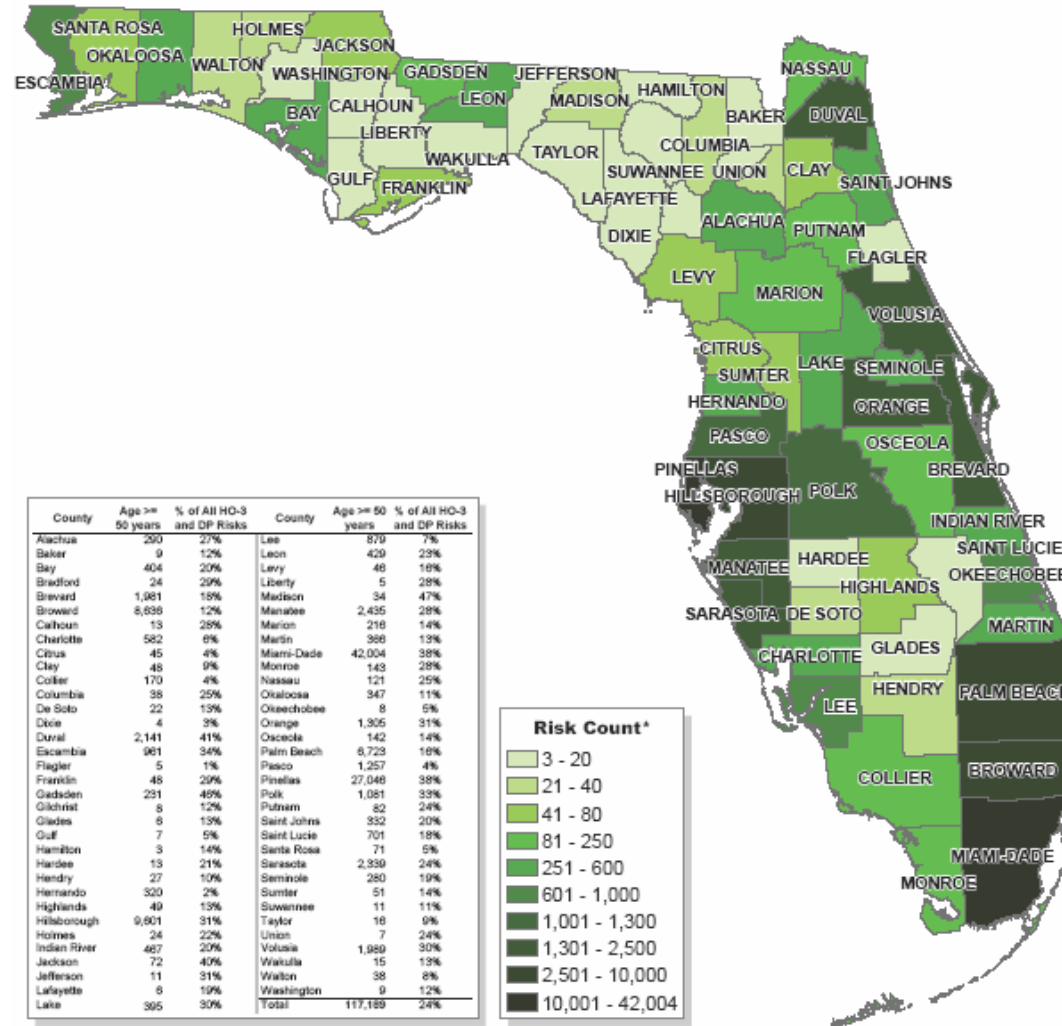
As of 08/31/08



* Includes only dwelling (DP-1 and DP-3) and homeowner (HO-3) policies. Excludes policies tagged for lakeout.

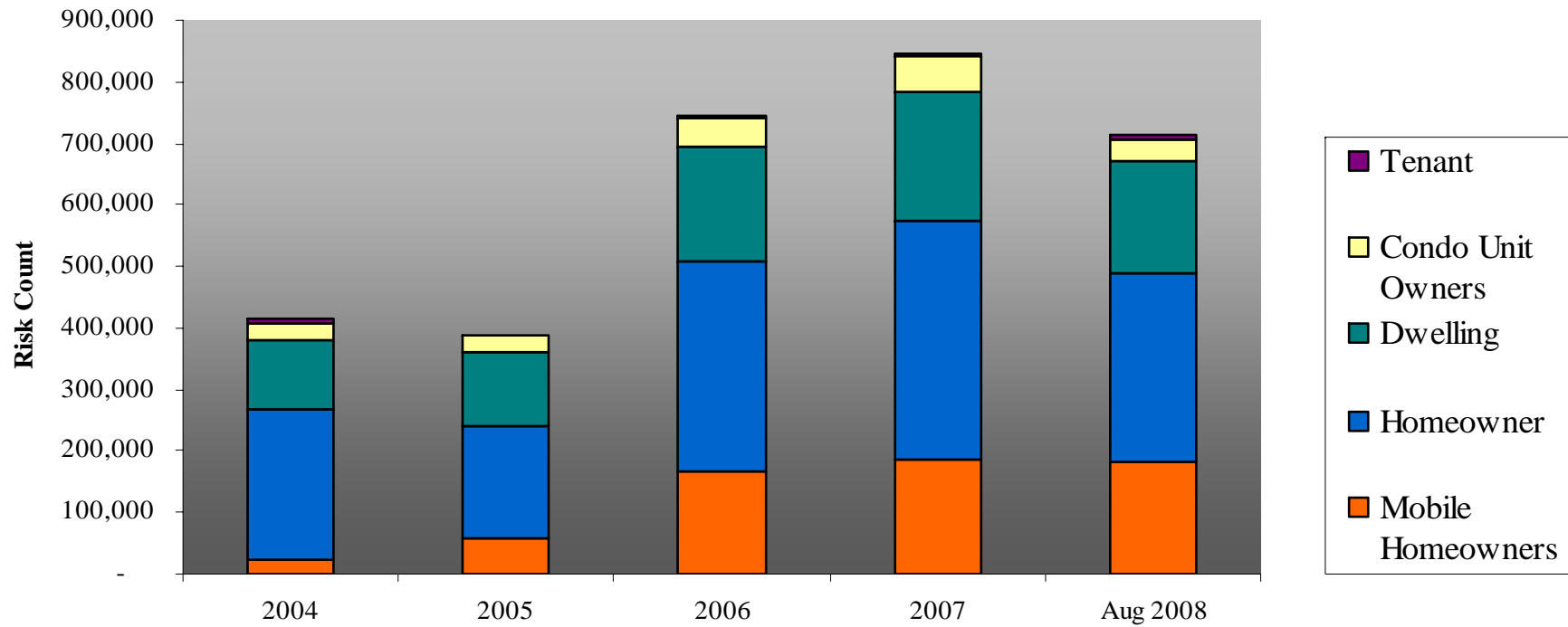
PLA Homes (Age ≥ 20 Years) by County

As of 08/31/08



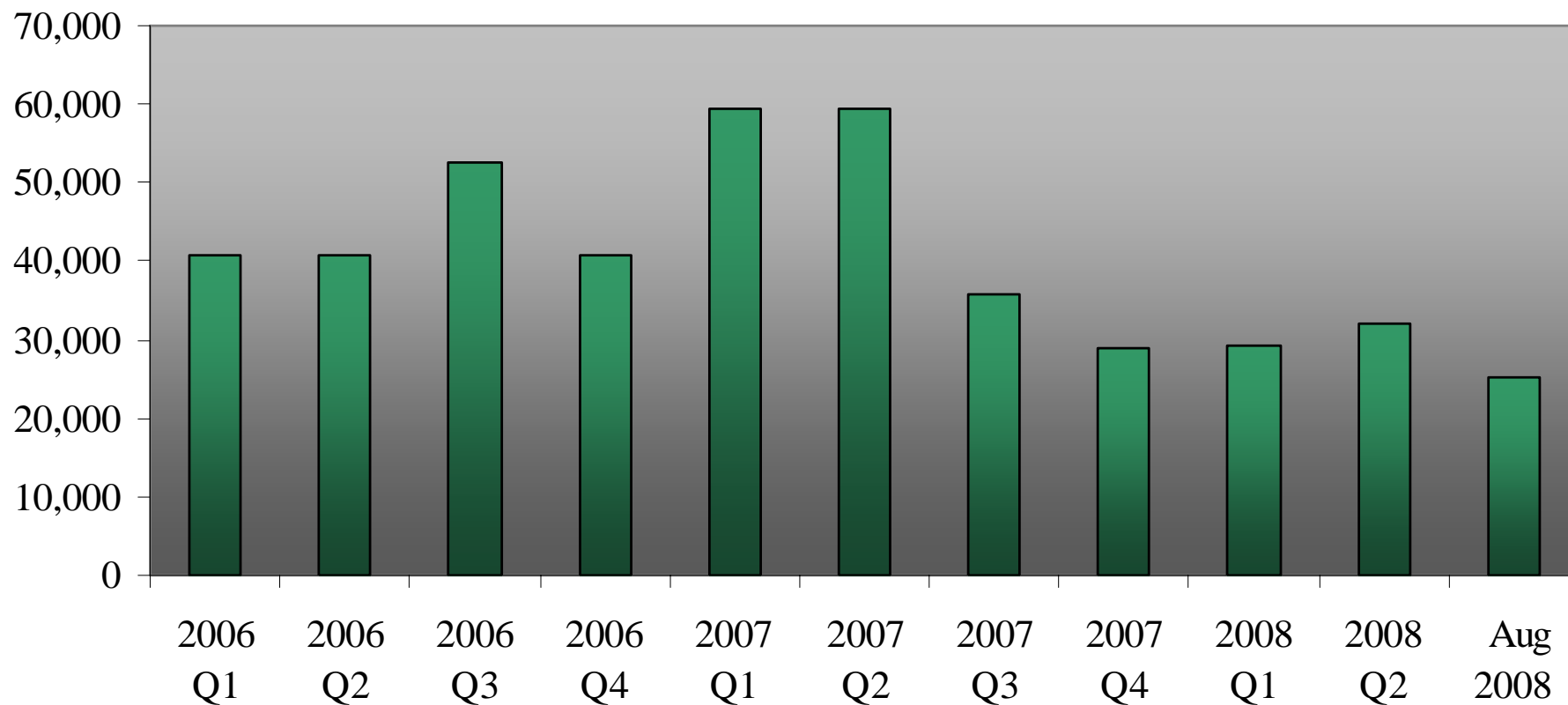
* Includes only dwelling (DP-1 and DP-3) and homeowner (HO-3) policies. Excludes policies tagged for takeout.

PLA Risk Count History by Policy Form



PLA New Business Written – As of 08/31/08

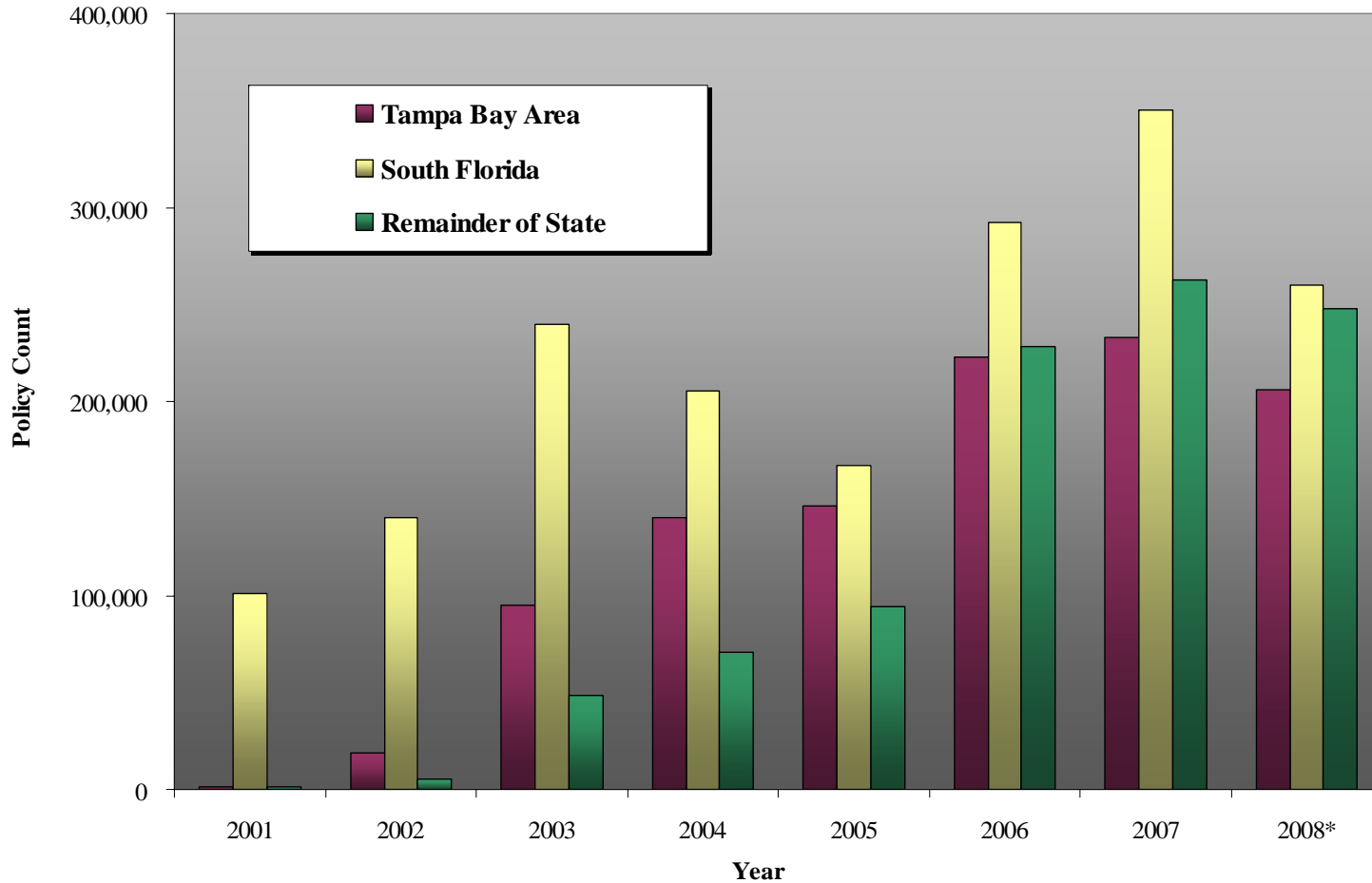
PLA New Business Written



Concentrated PLA Policy Growth

*As of August 31, 2008

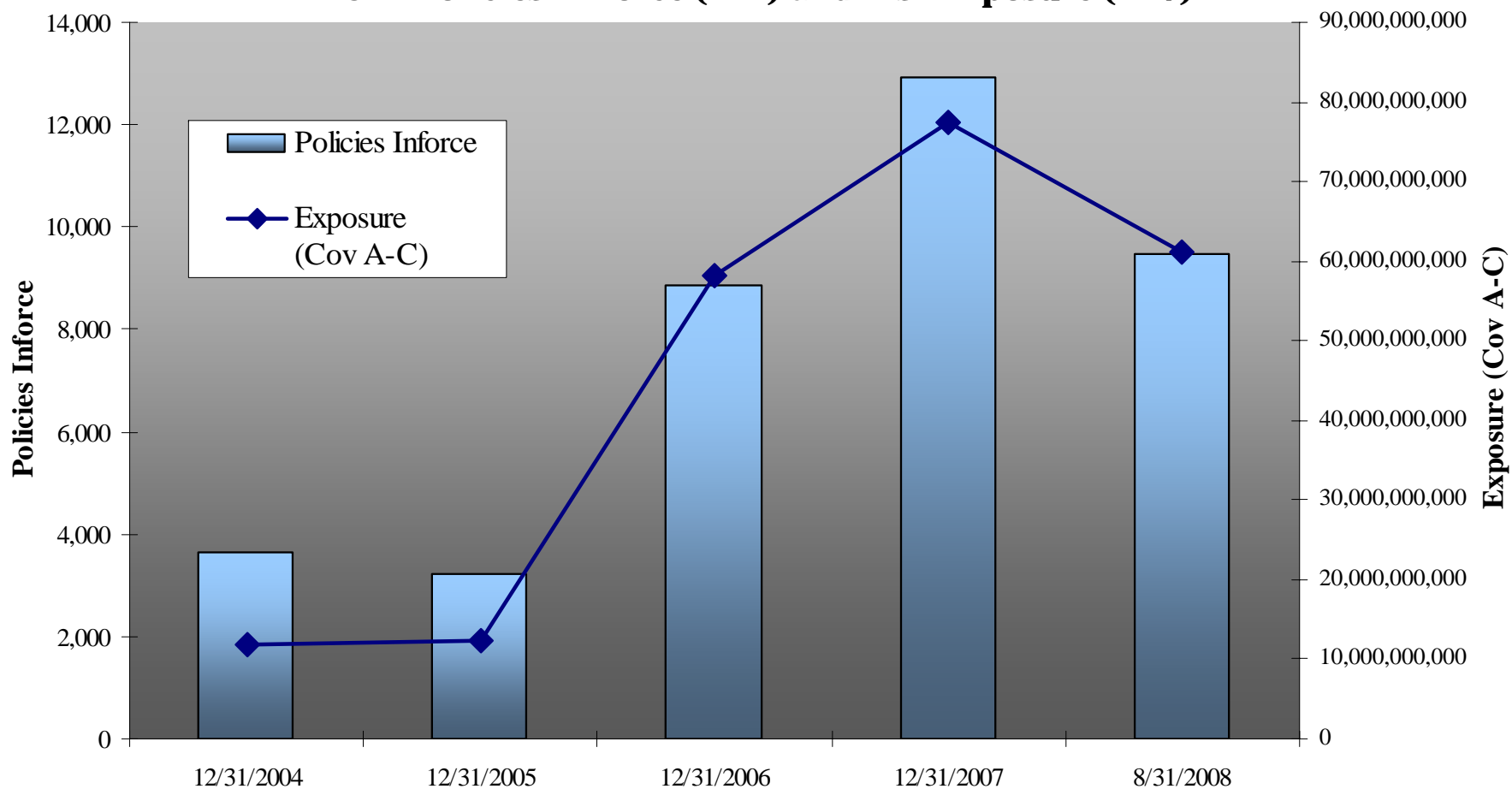
The chart below highlights concentrated exposure and growth in the areas of Florida with increased sinkhole activity (Hernando, Hillsborough, Pasco and Pinellas counties) and Southeast Florida as compared to the remaining 59 counties.



Commercial Lines Account (CLA)

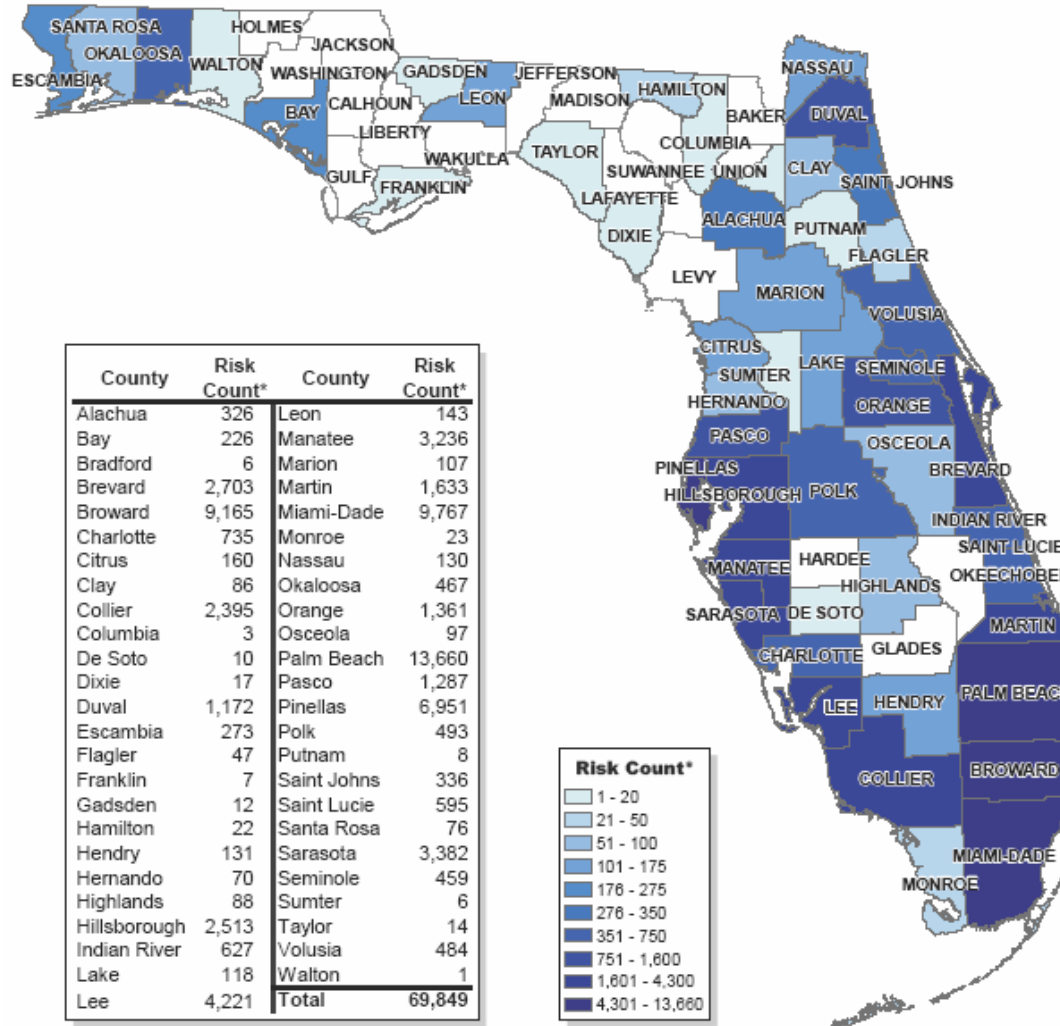
CLA Policy and Coverage Trend

CLA Policies in Force (PIF) and Risk Exposure (TIV)



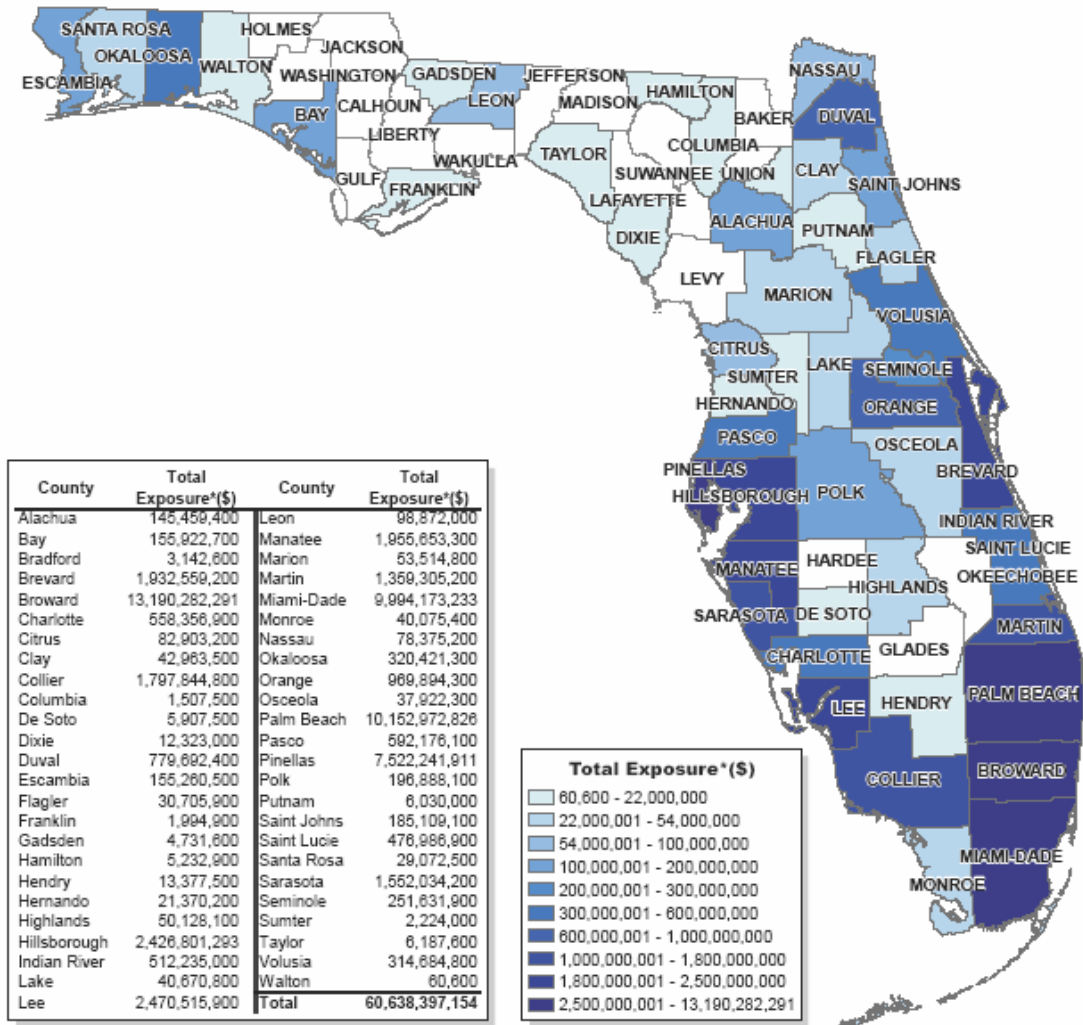
Includes Commercial Inland Wind (commercial non-residential wind-only) policies

CLA Risk Counts by County – As of 08/31/08



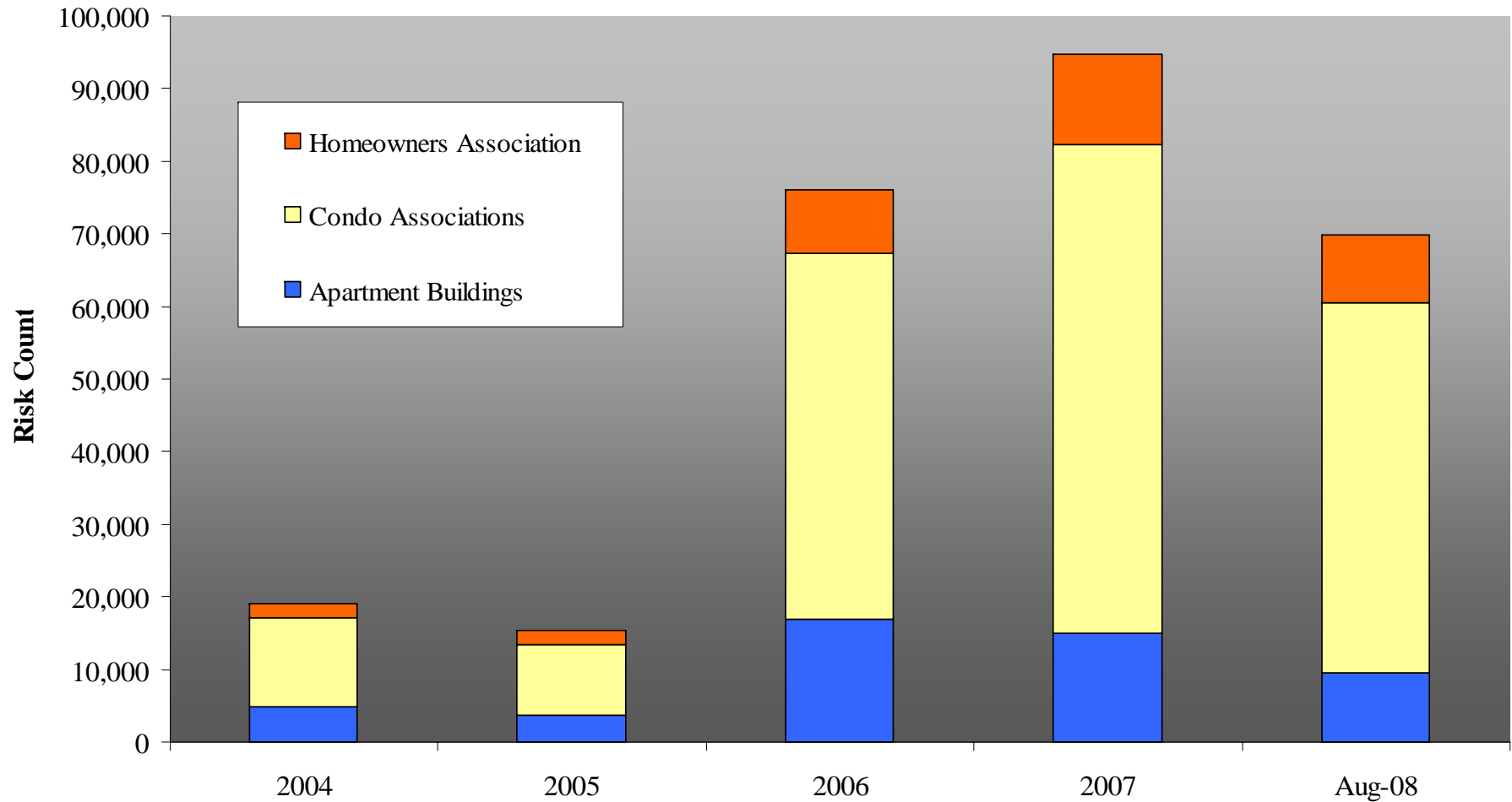
* Excludes takeout policies.
 Excludes Commercial Inland Wind policies.

CLA Exposure by County – As of 08/31/08



* Excludes takeout policies.
Excludes Commercial Inland Wind policies.

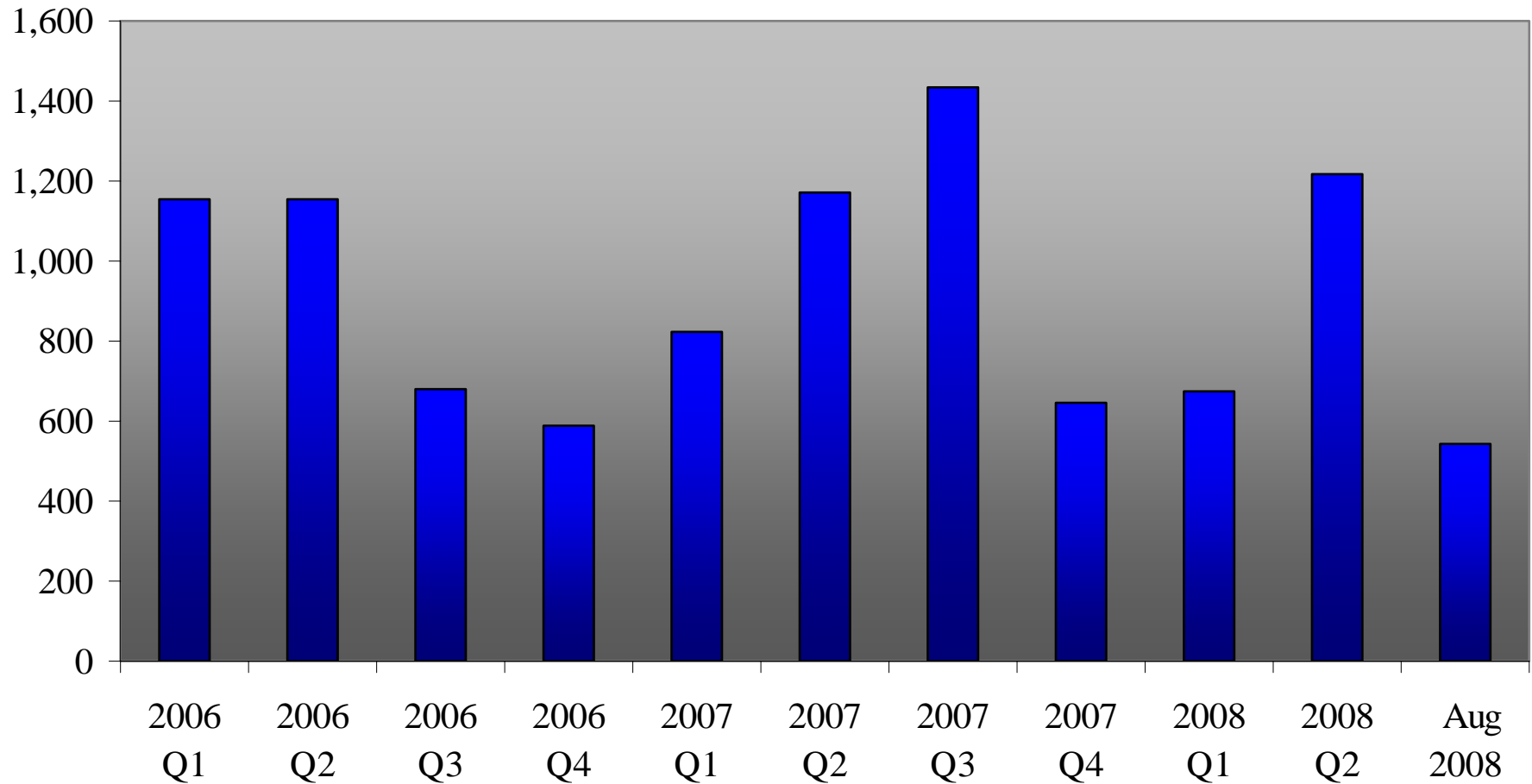
Citizens' CLA Risk Count History by Policy Form



Does not include Commercial Inland Wind (commercial non-residential wind-only) policies.

CLA New Business Written – As of 08/31/08

CLA New Business Written



Eligibility and Rate Making

Eligibility and Rate Making Then...

- When Citizens was created, applicants for coverage were ineligible unless they were unable to procure coverage in the admitted voluntary market
- Rates for the corporation were required to be actuarially sound and not competitive with approved rates charged in the admitted voluntary market
- Average rates by county were required to be at least as high as the highest rate charged among the Top 20 writers in the State

Eligibility and Rate Making Now...

- Applicants with an offer of coverage from the admitted voluntary market continue to be ineligible for coverage with Citizens unless that offer is more than 15% higher than Citizens' rates for comparable coverage
- Rates for Citizens are frozen through December 31, 2009. Beginning July 15, 2009 and each year thereafter, Citizens must make a recommended actuarially sound rate filing for each personal and commercial line of business it writes, to be effective no earlier than January 1, 2010
- The rates recommended by Citizens are filed with and reviewed by the Office of Insurance Regulation, which shall "establish" rates for Citizens within 45 days

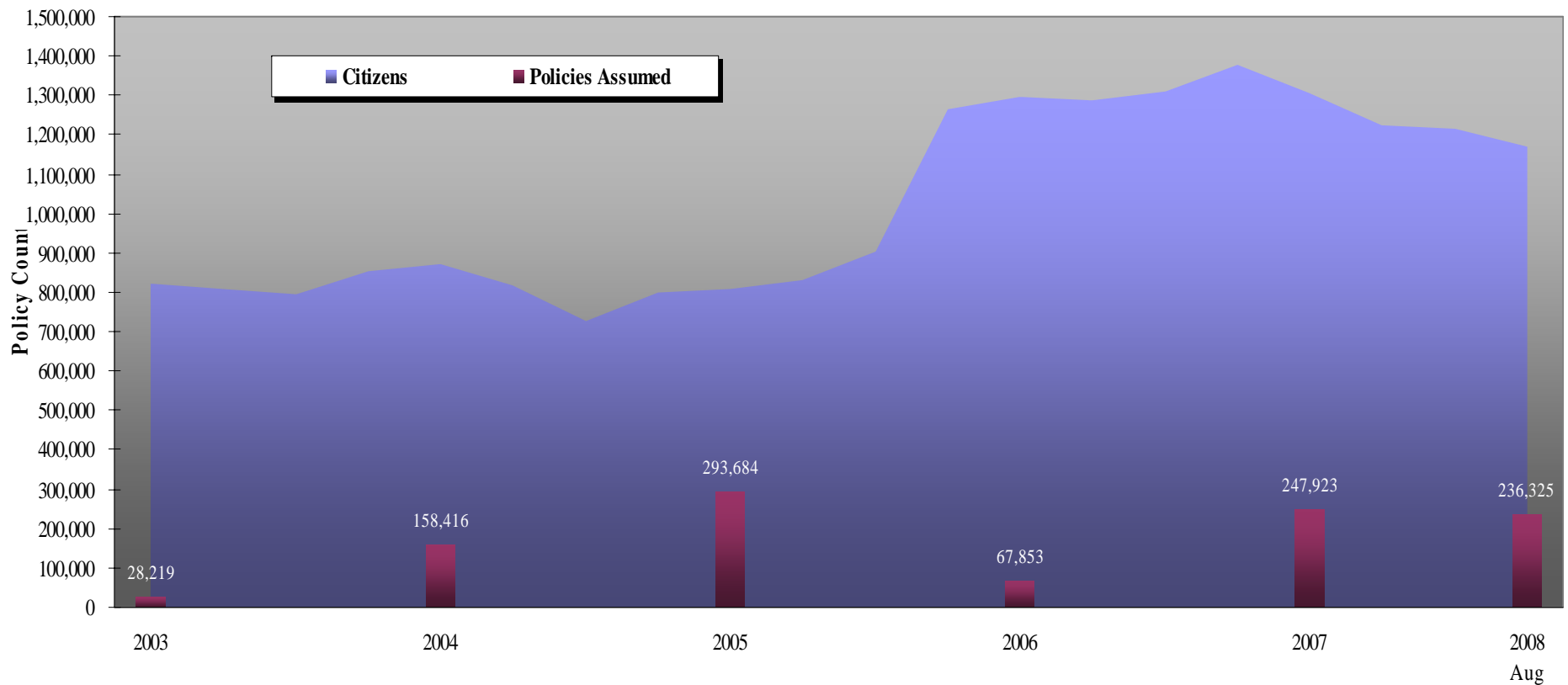
Depopulation

Depopulation Then and Now

- Depopulation Then:
 - Bonus and Non-bonus programs
 - If a policyholder received an offer from a takeout carrier they became ineligible for coverage with Citizens
 - Agent consent was not required
 - Wind-only takeouts occurred

- Depopulation Now:
 - Non-bonus program
 - Consumers can opt out when they receive a takeout offer and remain insured with Citizens.
 - Agent consent is required
 - Wind-only takeouts have proved unsuccessful
 - Includes participation by Capital Build-Up Incentive Program Companies

Depopulation Assumption Summary 2003-2008





Citizens Property Insurance Corporation

Mission Review Task Force: Capacity Availability Discussion

October 10, 2008





- **Benfield Florida Overview**
- **Florida and the Reinsurance Market**
- **Florida Market Dynamics**

1



Benfield Florida Overview



Benfield Overview



- **More than \$3.5B Florida-only reinsurance limit* was placed by Benfield in 2008**
 - \$20B in the US and \$42B Worldwide
- **Benfield is broker to 6 of the top 10 insurance companies in Florida**
- **Benfield Florida customers represent more than 50% of the Homeowners DWP**
- **FHCF relationship**
 - Master Administrator since inception
 - Actuarial Consultant since 1995

Top 50 by 2007 Florida HO DWP

Benfield Clients	Market Share Rank	Market Share %
Citizens	1	29.00%
Universal P&C	3	4.50%
Tower Hill Group	4	3.22%
Allstate	5	2.88%
Royal Palm	8	2.46%
Liberty Mutual	9	2.39%
Federated National	20	1.00%
Southern Fidelity	21	0.93%
Florida Peninsula	24	0.84%
Gulfstream	30	0.57%
Homewise	32	0.53%
Amica	34	0.49%
Olympus	44	0.30%
Hillcrest	45	0.28%
Horace Mann	47	0.27%
Philadelphia Indemnity	49	0.23%

*Includes only FL-domestic co. reinsurance limits

Benfield's Florida Citizens Depopulation Record



- **Benfield clients depopulated approximately 60% of the policies taken out of Citizens since 2003**
- **Since depopulation of the FWUA and FRPCJUA began, Benfield has depopulated nearly 2 million policies**

Benfield Client	# of Policies Depopulated Since 2003
Federated National	14K
First Home	40K
Florida Peninsula	167K
Gulfstream	80K
Homeowners Choice	25K
Homewise	80K
Magnolia	91K
Southern Fidelity	46K
Universal P&C	<u>63K</u>
TOTAL	606K

Source: Policy Counts are from Citizens Website thru 8/12/08

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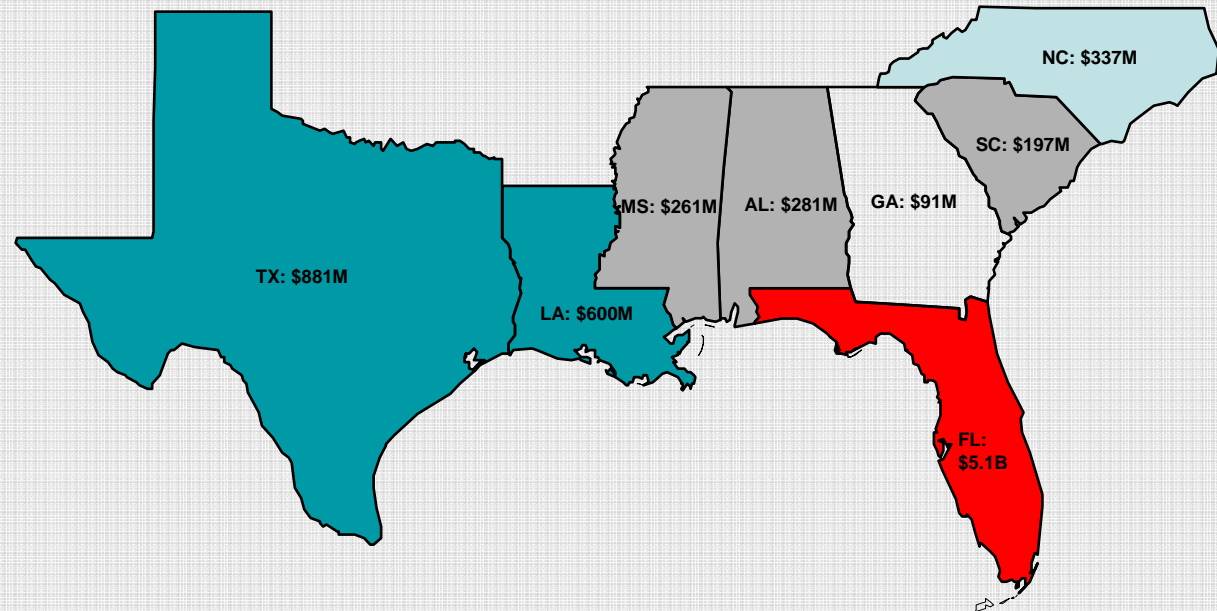
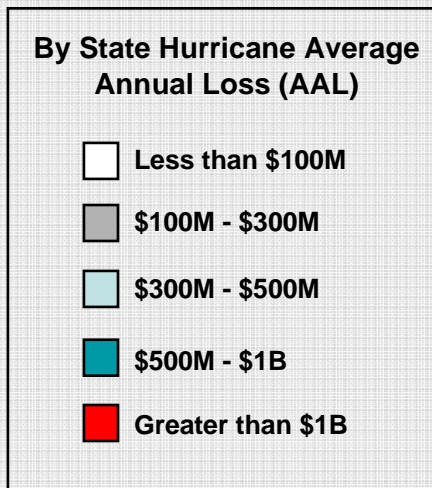
Florida and the Reinsurance Market

Florida is the Peak of Insured Catastrophe Exposure



- Florida accounts for 59% of total US hurricane average annual loss (AAL)

Modeled Hurricane AAL by State

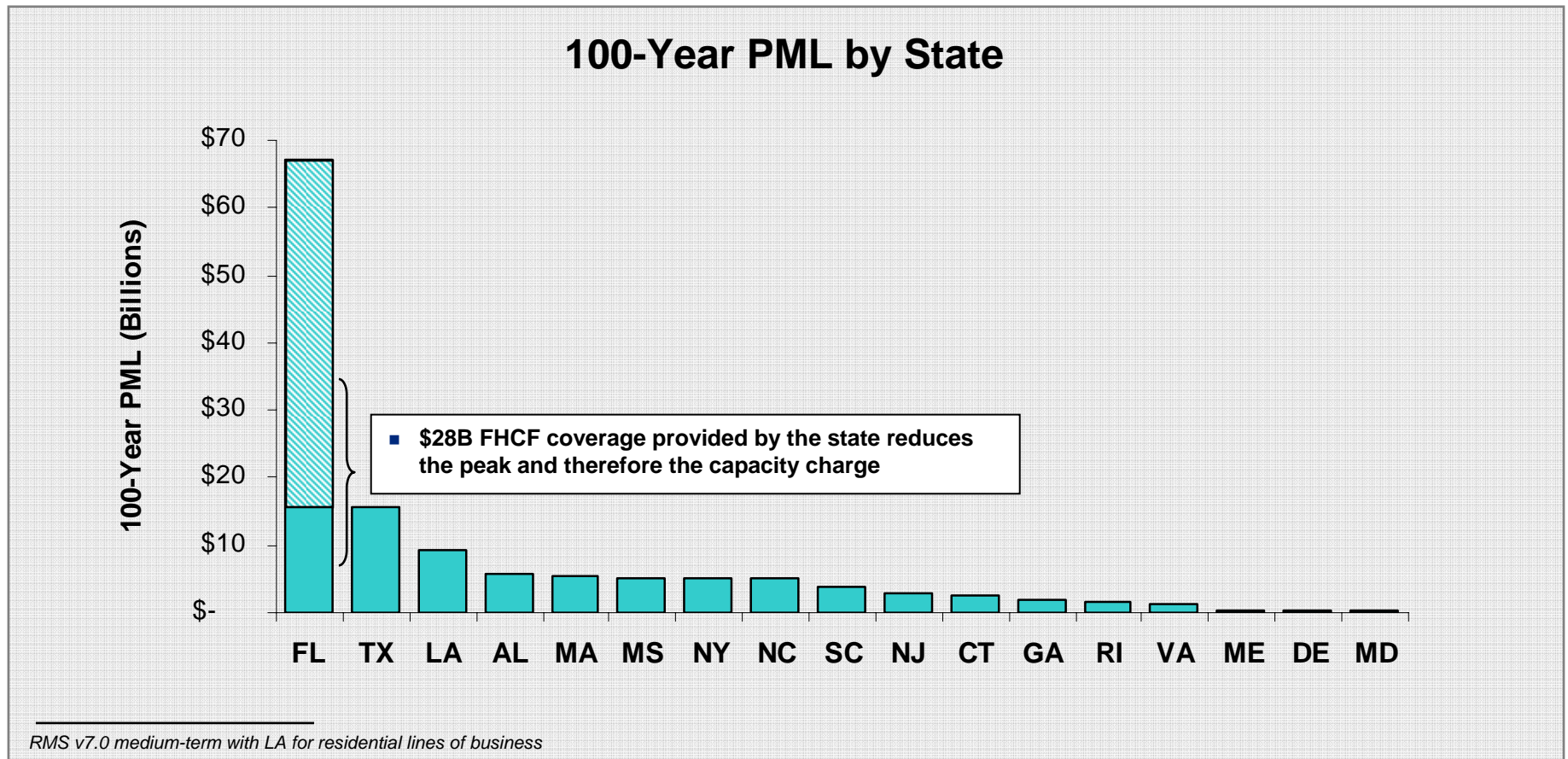


RMS v7.0 medium-term with LA for residential lines of business

Florida is the Peak of Insured Catastrophe Exposure



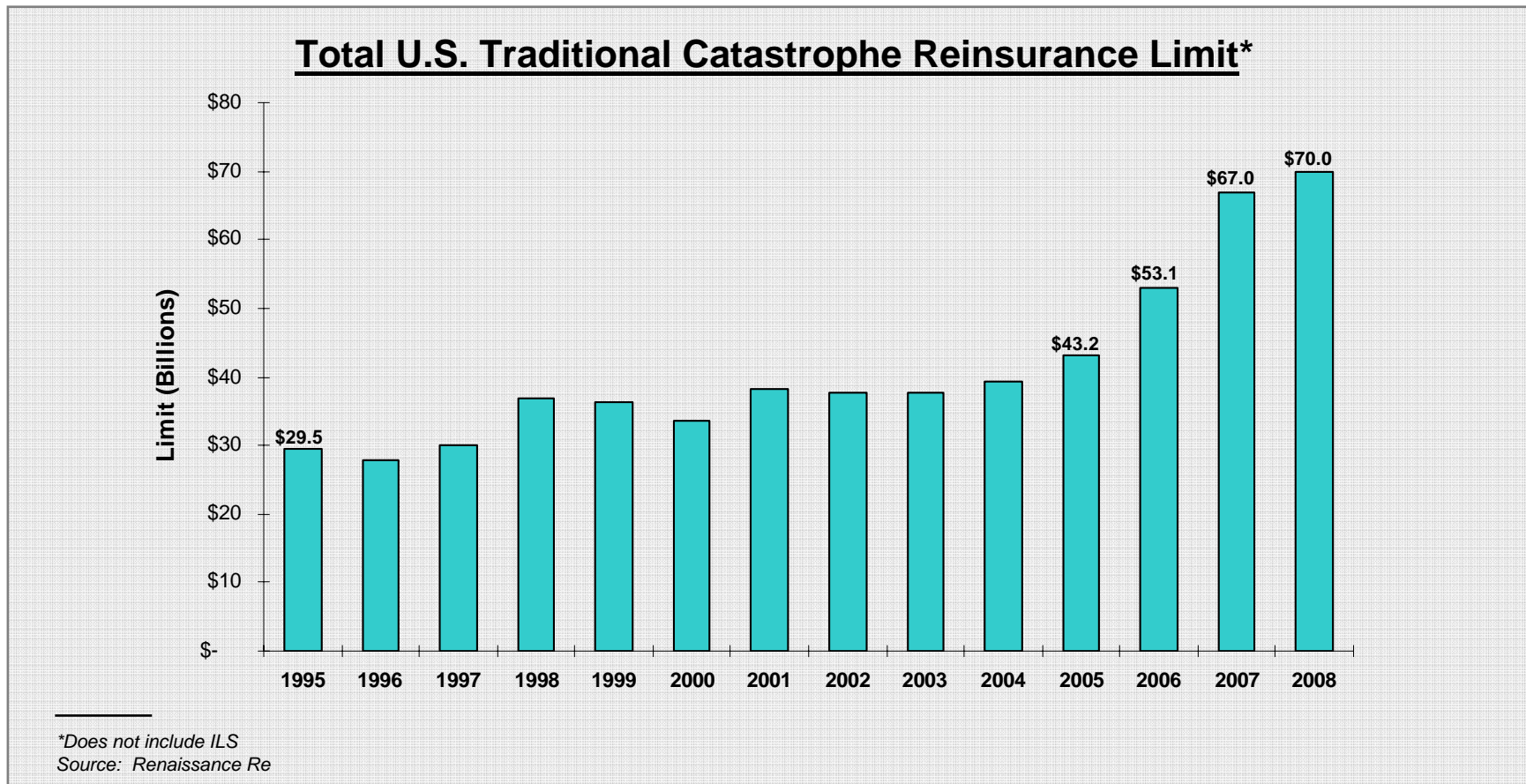
- **Florida's 100-year PML vastly exceeds other states**
 - Excess need has no other zone to be diversified against



Reinsurance Capacity



- In General Reinsurance Market Capacity Has Kept Pace with Exposure Change, Model Change and Rating Agency Requirements

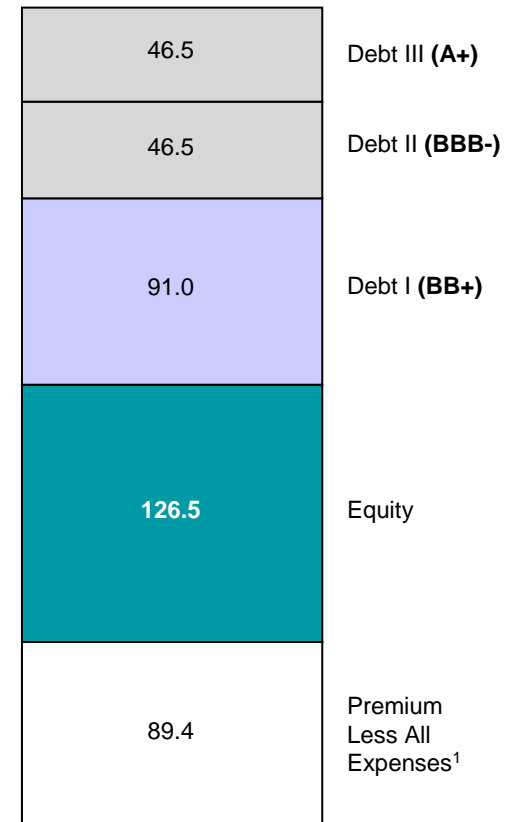


Sidecars: Starbound Re



- **Benfield’s Response to Shortage of Market Capacity**
 - Starbound I: \$310.5M in Additional FL Capacity
 - Starbound II: \$341.5M in Additional FL Capacity
- **Predominantly (> 90%) Florida Personal Lines Capacity**

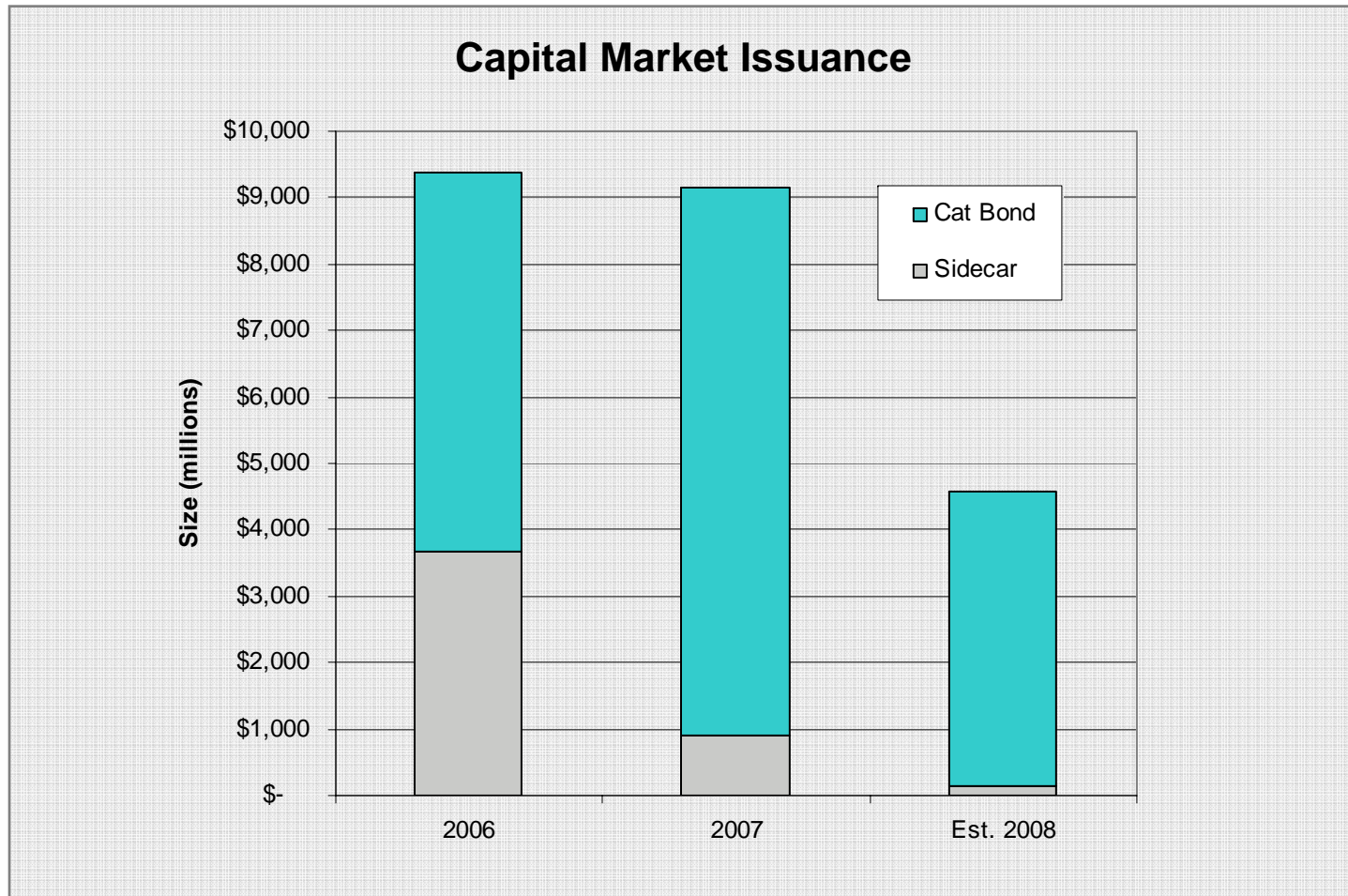
Sidecar Schematic:
Starbound I



Capacity Shortages Increased Capital Markets Involvement



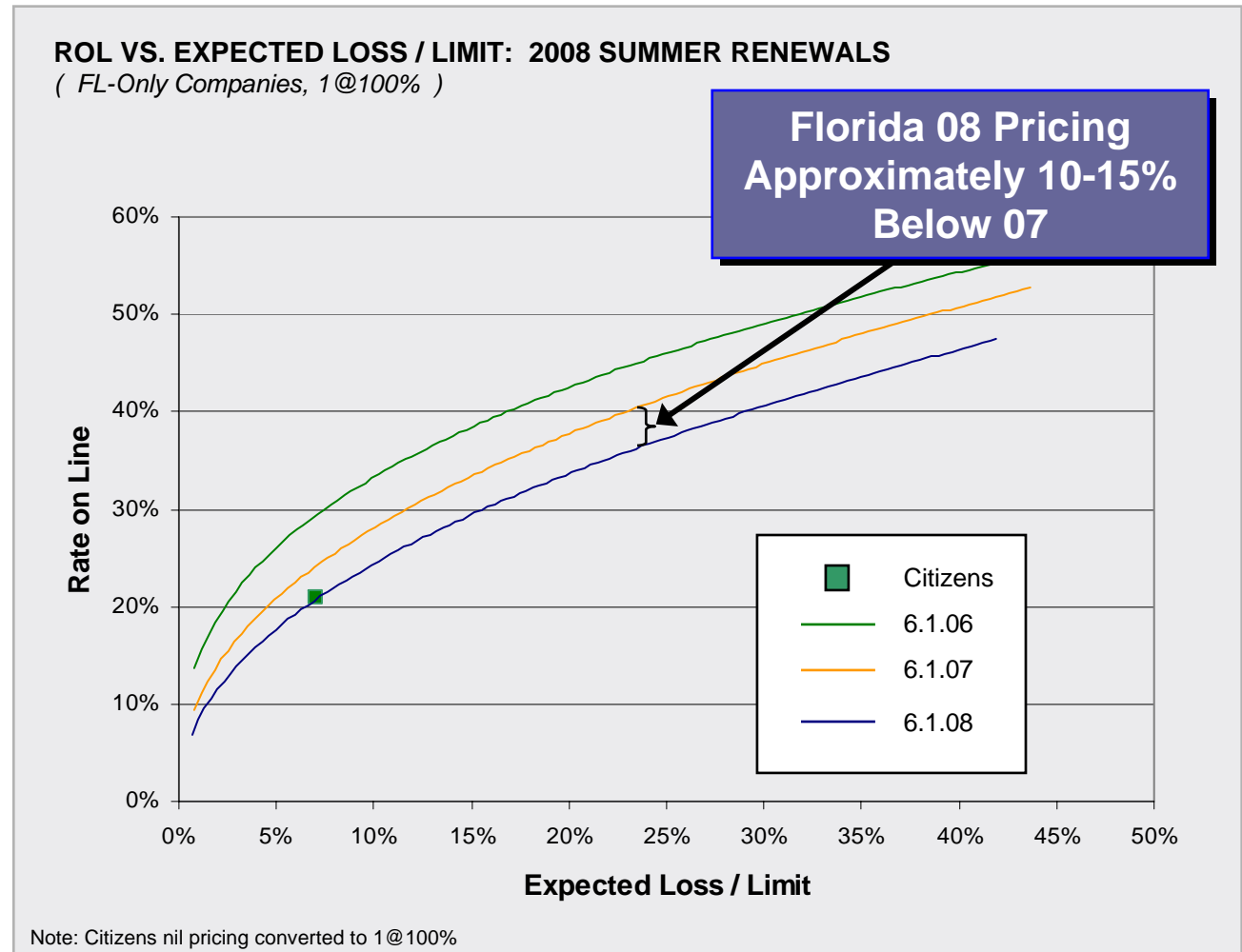
- Approximately \$5B in additional capacity could be developed again given the right price



Florida-only Price Decrease

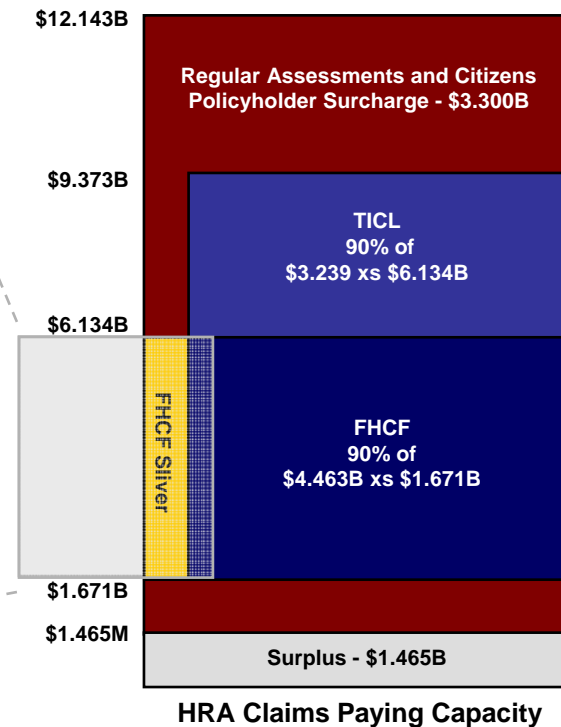
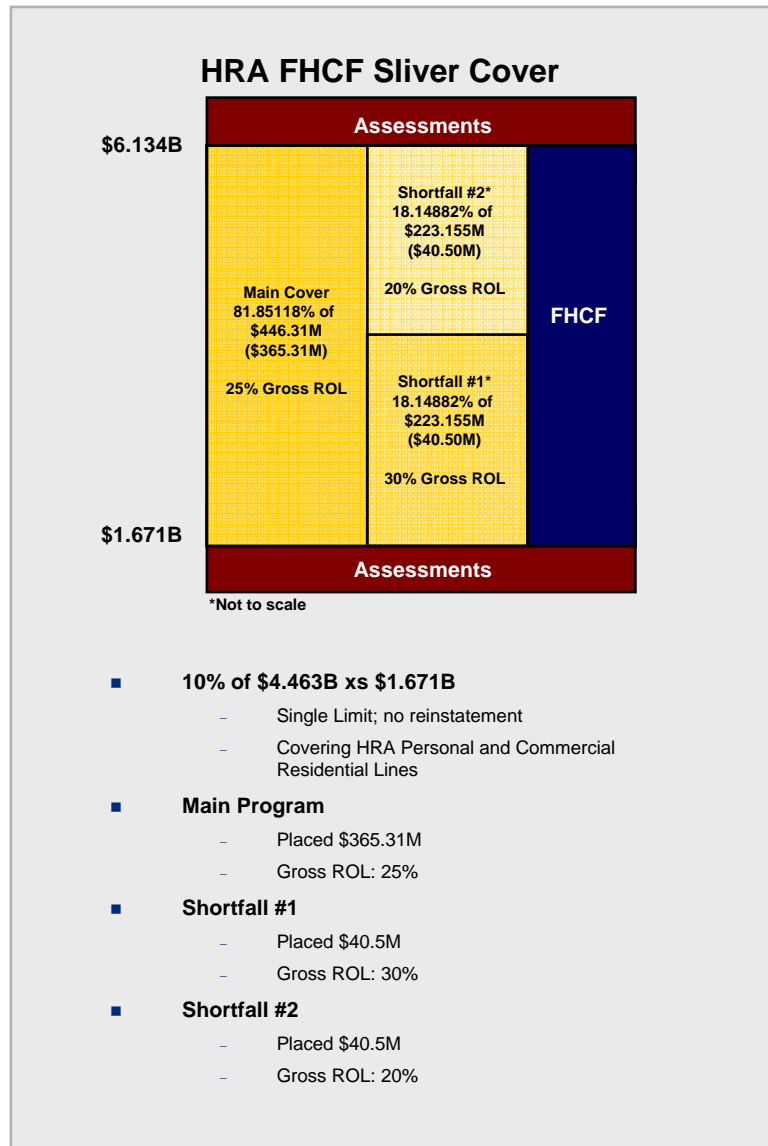


- Florida reinsurance prices have decreased significantly since 2006
- Citizens' pricing was in line with other Florida-only writers



Near-term RMS v6.0 with LA, no SS for 2006 & 2007 Renewals
Near-term RMS v7.0 with LA, no SS for 2008 Renewals

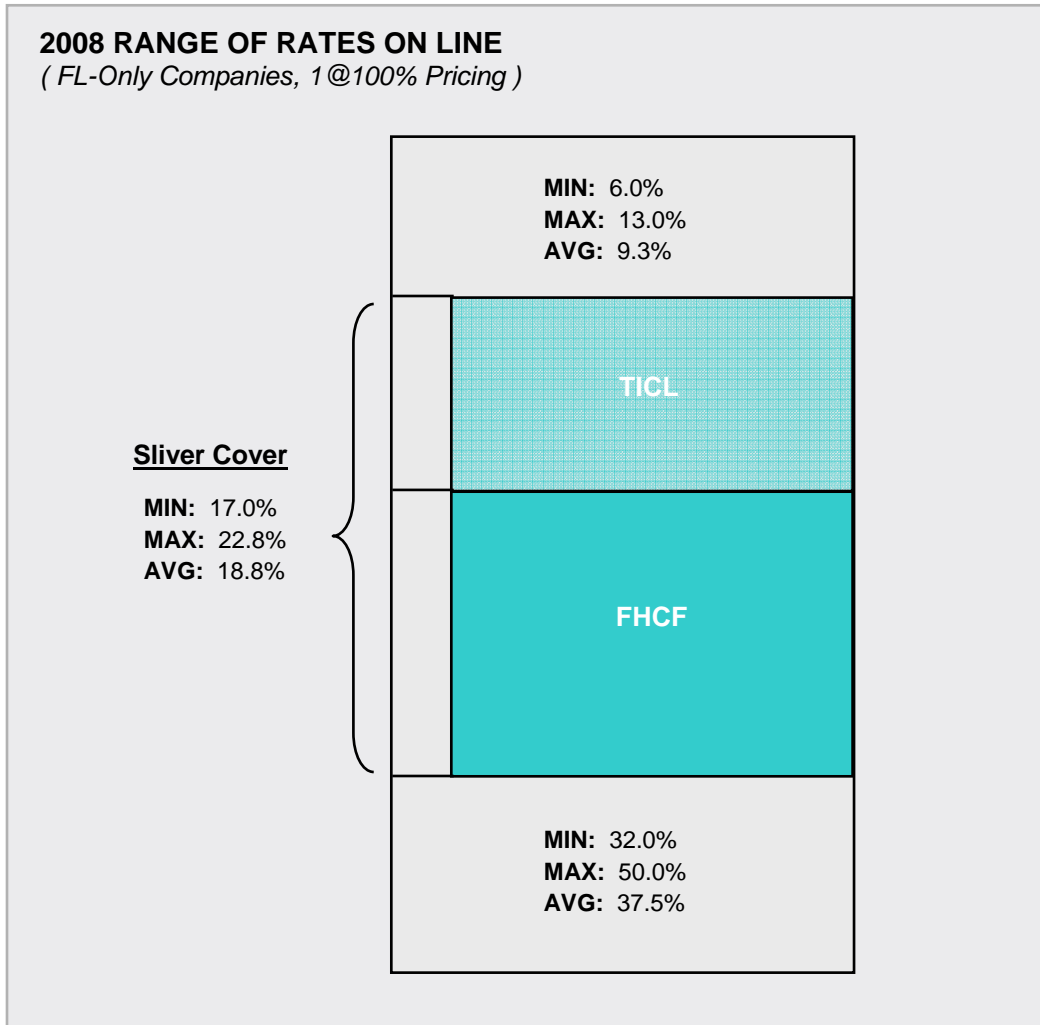
2008 Reinsurance Program



Pricing Around the FHCF: Florida-Only Accounts



- **FHCF attaches and exhausts at different return times depending on individual company PML curve**
 - Range of ROL is greater below and above the FHCF and minimal for the sliver covers alongside
- **Return time of attachment for lowest layer as a percent of FHCF attachment:**
 - MIN: 31.5%
 - MAX: 80.9%
 - AVG: 51.8%



3

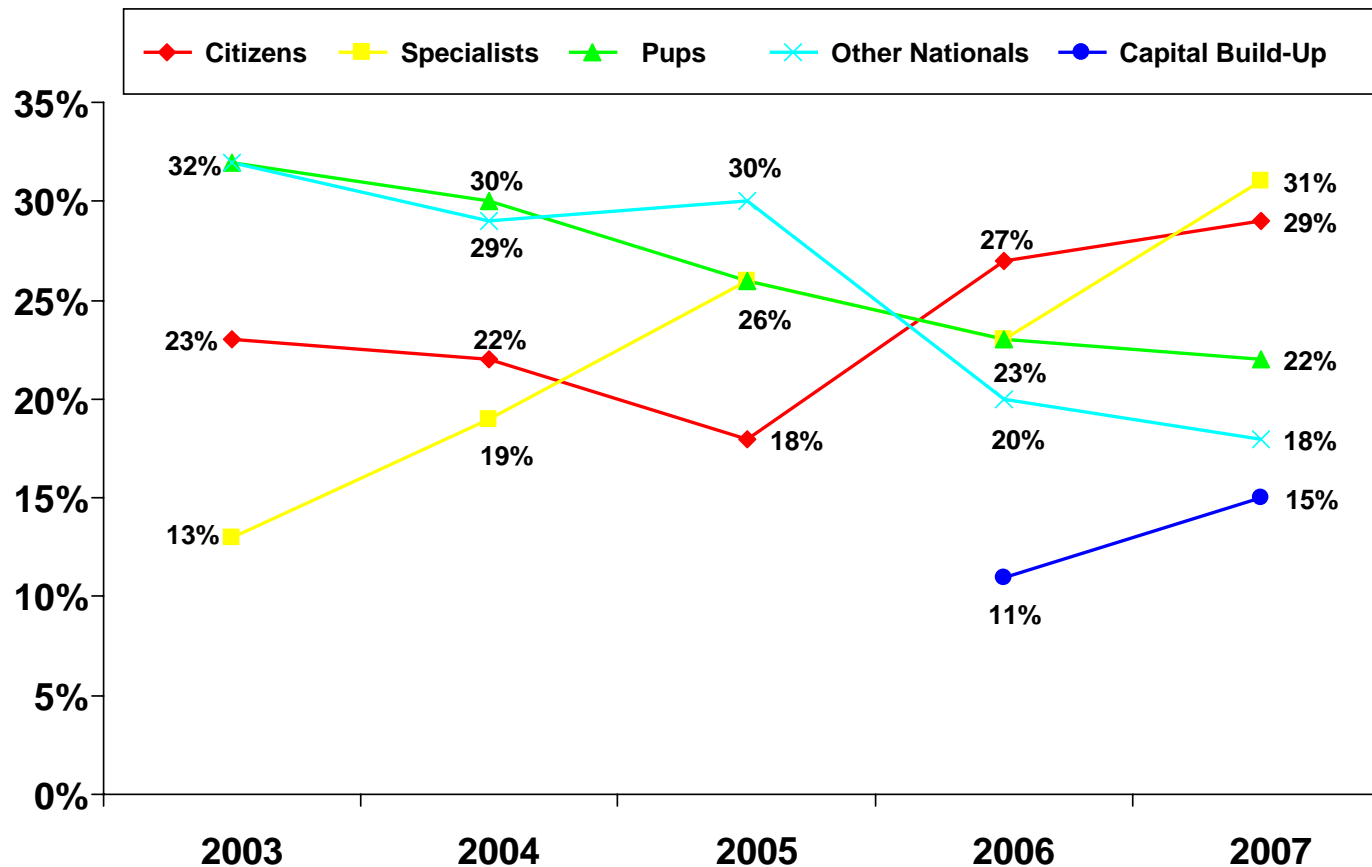


Florida Market Dynamics

New Capital is Coming to Florida



- **Citizens has facilitated development of new insurance companies in the state**
 - Many of these may were non-renewed pup company policies
- **Specialist writers wrote only 3% of premium 11 years ago**



Source: VJ Dowling

Citizens Modeled Exposure



- **Citizens cannot be viewed as a whole**
 - The dynamics are significantly different by account
- **Realistically the PLA is the most attractive for depopulation efforts**

Probability of Non-Exceed	Avg Return Time (Years)	HRA			PLA/CLA			All Accounts
		3/31/2008 FHC Subject (000's)	3/31/2008 Non-FHC (000's)	3/31/2008 All Lines (000's)	3/31/2008 PLA (000's)	3/31/2008 CLA (000's)	3/31/2008 PLA/CLA (000's)	3/31/2008 All Accounts (000's)
99.00%	100	\$14,869,510	\$1,807,529	\$16,576,450	\$6,392,835	\$3,256,154	\$9,630,658	\$26,151,361
98.00%	50	\$9,288,907	\$1,189,356	\$10,448,107	\$4,121,480	\$2,058,377	\$6,165,722	\$16,452,301
96.00%	25	\$5,356,033	\$742,082	\$6,090,178	\$2,640,489	\$1,213,914	\$3,850,061	\$9,889,156
95.00%	20	\$4,474,121	\$633,701	\$5,100,286	\$2,262,462	\$1,007,206	\$3,268,532	\$8,320,712
90.00%	10	\$2,481,677	\$355,321	\$2,840,618	\$1,298,361	\$513,374	\$1,811,728	\$4,614,148
80.00%	5	\$1,107,407	\$158,855	\$1,267,021	\$564,162	\$192,943	\$765,281	\$2,050,070
Portfolio Summary								
Insurance In Force (000s)		\$224,557,949	\$18,936,170	\$243,494,119	\$141,675,108	\$66,429,674	\$208,104,782	\$451,598,901
Premium In Force (000s)		\$1,148,553	\$85,183	\$1,233,736	\$1,152,359	\$453,481	\$1,605,840	\$2,839,576
Location Count		489,035	44,869	533,904	660,698	92,033	752,731	1,286,635
Average Annual Loss & Ratios								
Average Annual Loss		\$1,148,401,907	\$150,989,727	\$1,299,391,634	\$538,623,549	\$227,814,290	\$766,437,839	\$2,065,829,473
PML:Premium - 100 year		12.9:1	21.2:1	13.4:1	5.5:1	7.2:1	6:1	9.2:1
Loss Ratio (%)		100.0%	177.3%	105.3%	46.7%	50.2%	47.7%	72.8%

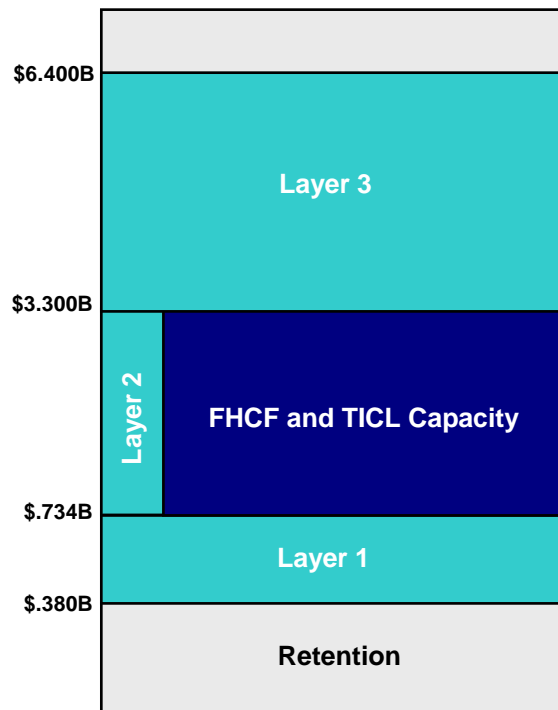
RMS RiskLink v7.0, Near-Term Frequency, Includes Loss Amplification, Excludes Storm Surge

Data as of March 31, 2008

Privatized PLA: Estimated Reinsurance Needs



- Additional capacity limits to privatize PLA account are approximately \$4B**
 - Assuming there is a solution to the FHCF capacity issue this capacity could be accommodated within the current risk transfer market (reinsurance / capital markets)



<u>Layer</u>	<u>Limit</u>	<u>ROL</u>	<u>Premium</u>
1	\$354M	42.50%	\$150.5M
2	\$257M	19.00%	\$48.8M
3	<u>\$3,100M</u>	<u>9.25%</u>	<u>\$288.3M</u>
Total	\$3,711M	13.14%	\$487.6M



Citizens Financial Overview

Mission Review Task Force

October 10, 2008

Financial Resources

Citizens has at its disposal both the typical resources available to all property and casualty companies that conduct business in the state, as well as special assessment powers granted to Citizens by the state legislature.

Citizens' Financial Resources

Typical Financial Resources

- Insurance Premiums
- Investment Income
- Operating Surplus from Prior Years
- Florida Hurricane Catastrophe Fund Reimbursements
- Private Reinsurance (if purchased)

Unique Financial Resources

- Citizens Policyholder Surcharges
- Regular Assessments
- Emergency Assessments
- Pre-event liquidity resources (debt issuances and lines of credit which, if drawn upon must be repaid)

Financial Information At-A-Glance

- Cash & Invested Assets (total \$7.7 billion, includes bond proceeds of \$1.75 billion)
 - PLA \$1.7 billion
 - CLA \$1.6 billion
 - HRA \$4.4 billion

- Surplus (total \$3.4 billion)
 - PLA \$1.4 billion
 - CLA \$.7 billion
 - HRA \$1.3 billion

- Assessment Base
 - Broad base covering multiple lines of business
 - \$34 Billion – Regular Assessment
 - \$37.4 Billion – Emergency Assessment

Note: Cash & Invested Assets and Surplus at 6/30/08

Bond Ratings

Ratings Agency	PLA/CLA Long Term	HRA Long Term/Short Term
S&P	A+	A+/A-1+
Moody's	A2	A2/MIGI

Estimated Claims Paying Ability – 2008 Hurricane Season

\$'s in Millions				
	Description	PLA/CLA	HRA	Pro-Forma Combined
a.	Year-end 2007 Surplus	\$1,759	\$884	\$2,643
b.	2008 Budgeted Net Income	\$997	\$541	\$1,538
c.=a.+b.	Total Available for Claims from Surplus	\$2,756	\$1,425	\$4,181
d.	Pre-event Liquidity Available ¹	\$1,666	\$2,500	\$4,166
e.	Projected FHCF Coverage (Mandatory Layer) ²	\$1,868	\$3,605	\$5,473
f.	Projected FHCF Coverage (TICL Layer) ²	\$1,356	\$2,617	\$3,973
g.	Private Reinsurance	\$0	\$446	\$446
h.=e.+f.+g.	Total Reinsurance	\$3,223	\$6,668	\$9,892
i.=c.+d.+h.	Total Funds Available to Pay Claims (Includes Surplus, Pre-Event Liquidity, Reinsurance)	\$7,645	\$10,593	\$18,239

Notes:

- 1) Pre-Event Liquidity reflects current liquidity for PLA/CLA and HRA.
- 2) Cat Fund coverage is based on preliminary exposure data, rating factors and coverage multiples. The final retentions and coverage amounts may be significantly different from these estimations.

Balance Sheet: Statutory Accounting (unaudited as of 6/30/08)

	Consolidated	PLA	CLA	HRA
Assets				
Cash and invested assets	\$ 7,718,316,294	\$ 1,791,032,112	\$ 1,521,777,093	\$ 4,405,507,089
Premium receivable, net	206,611,702	130,759,742	5,553,632	70,298,328
Due from takeout companies	9,926,546	9,337,269	-	589,277
Reinsurance recoverable	60,667,609	16,198,869	11,615,589	32,853,151
Edp equipment, net	9,281,865	9,281,865	-	-
Accrued investment income	10,338,325	3,978,347	221,559	6,138,419
Income tax recoverable	-	-	-	-
Other assets	188,424	87,799	100,625	-
Due from investment broker	-	-	-	-
Inter-account receivable (payable)	146,352	558,923,333	(420,679,545)	(138,097,436)
Assessment receivables	761,065,186	34,805,240	10,924,220	715,335,726
Total Assets	\$ 8,776,542,303	\$ 2,554,404,576	\$ 1,129,513,173	\$ 5,092,624,554
Liabilities				
Loss reserves	\$ 611,415,576	\$ 323,502,136	\$ 96,038,985	\$ 191,874,455
Loss expense reserves	182,519,756	123,896,843	22,721,084	35,901,829
Unearned premiums, net	851,085,997	453,198,812	114,079,678	283,807,507
Reinsurance premiums payable	556,720,552	143,777,180	48,185,764	364,757,608
Funds held under reinsurance treaties	13,160	-	-	13,160
Provision for reinsurance	17,084,566	13,980,088	-	3,104,478
Advance premiums & suspended cash	180,957,770	43,213,356	73,180,306	64,564,108
Notes payable	2,828,844,366	-	-	2,828,844,366
Interest payable	16,445,670	-	-	16,445,670
Taxes and fees payable	2,490,616	1,594,252	538,456	357,908
Due to investment broker	8,697,296	6,649,953	2,047,343	-
Other liabilities	89,041,851	61,984,675	5,598,874	21,458,302
Total Liabilities	5,345,317,176	1,171,797,295	362,390,490	3,811,129,391
Surplus (Deficit)				
Beginning surplus (deficit)	2,593,052,613	1,156,822,477	601,965,196	834,264,940
Restricted surplus	50,155,515	-	-	50,155,515
Change in non-admitted assets	1,044,794	(2,493,239)	1,259,896	2,278,137
Change in other	1,926,526	-	-	1,926,526
Net Income	785,045,679	228,278,043	163,897,591	392,870,045
Ending surplus (deficit)	3,431,225,127	1,382,607,281	767,122,683	1,281,495,163
Total Liabilities & Surplus(Deficit)	\$ 8,776,542,303	\$ 2,554,404,576	\$ 1,129,513,173	\$ 5,092,624,554

Income Statement: Statutory Accounting (unaudited as of 6/30/08)

	Consolidated	PLA	CLA	HRA
Net earned premiums:				
Direct earned premiums	\$ 1,731,853,599	\$ 854,559,648	\$ 239,064,154	\$ 638,229,797
Ceded earned premiums	(299,226,971)	(223,988,761)	(7,481,611)	(67,756,599)
Net earned premiums	<u>1,432,626,628</u>	<u>630,570,887</u>	<u>231,582,543</u>	<u>570,473,198</u>
Underwriting expense:				
Losses incurred	395,808,264	289,524,715	41,975,330	64,308,219
Loss adjustment expense incurred	73,868,982	52,982,544	12,056,497	8,829,941
Producer commissions	139,579,289	52,579,850	21,516,980	65,482,459
Ceded commissions	(19,346,967)	(18,224,888)	(798,351)	(323,728)
Taxes and assessments	29,166,533	14,139,378	3,634,436	11,392,719
Administrative	66,545,277	33,456,961	10,200,361	22,887,955
Total underwriting expenses	<u>685,621,378</u>	<u>424,458,560</u>	<u>88,585,253</u>	<u>172,577,565</u>
Net underwriting income	<u>747,005,250</u>	<u>206,112,327</u>	<u>142,997,290</u>	<u>397,895,633</u>
Other income (expense)				
Investment income	161,311,307	37,896,442	25,533,375	97,881,490
Interest expense	(111,368,890)	(12,254,284)	(3,772,768)	(95,341,838)
Financing costs	(11,219,897)	(2,794,351)	(860,306)	(7,565,240)
Takeout bonuses	(682,091)	(682,091)	-	-
Assessment income	-	-	-	-
Total other income (expense)	<u>38,040,429</u>	<u>22,165,716</u>	<u>20,900,301</u>	<u>(5,025,588)</u>
Federal income taxes	-	-	-	-
Net income (loss)	<u>\$ 785,045,679</u>	<u>\$ 228,278,043</u>	<u>\$ 163,897,591</u>	<u>\$ 392,870,045</u>

Modeled Loss Report (as of 6/30/08)

PML Occurrence – Single Event (in thousands)

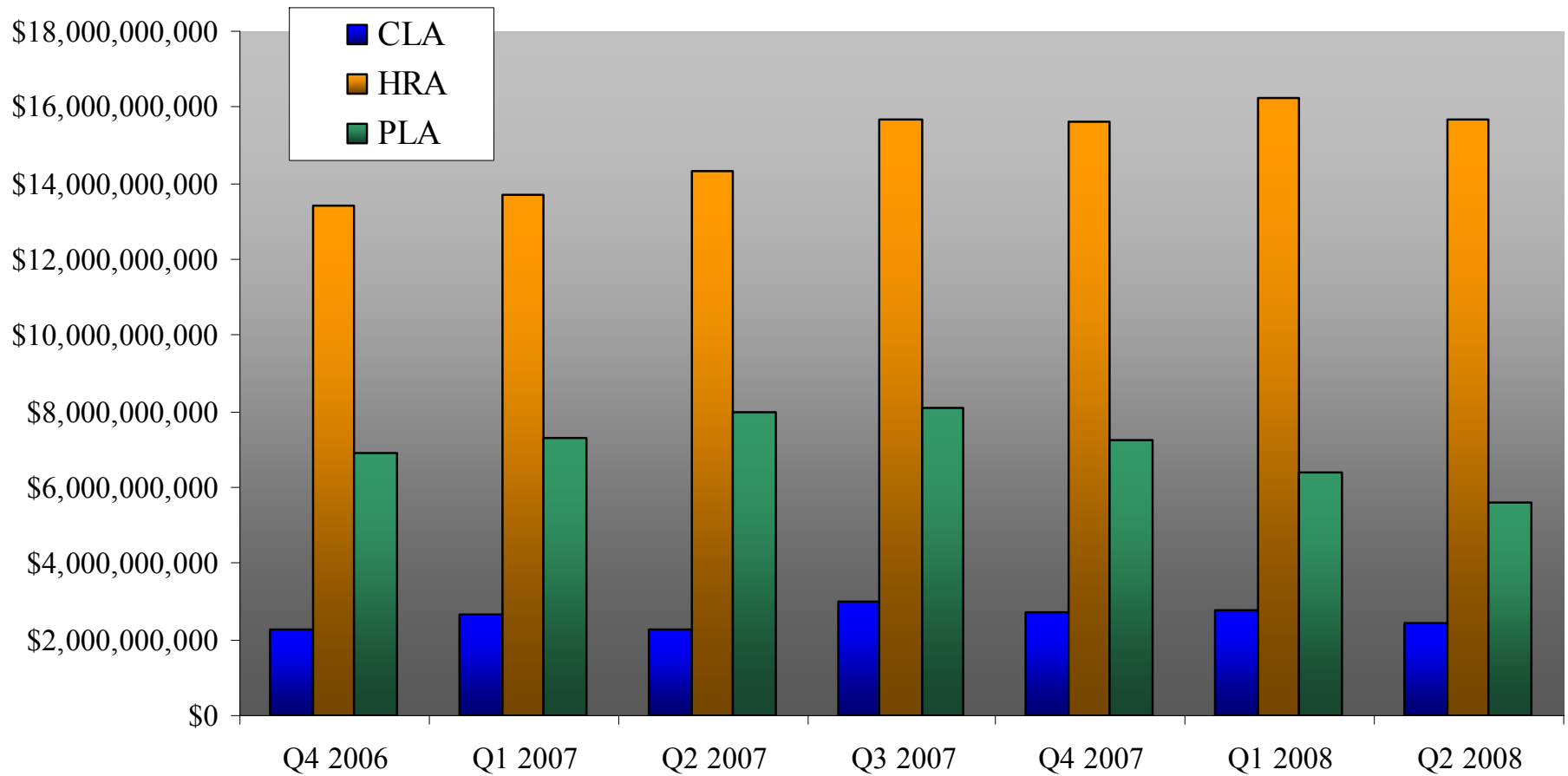
Return Period	HRA (High Risk Account)	PLA (Personal Lines Account)	CLA (Commercial Lines Account)
10	\$2,421,044	\$1,100,197	\$367,652
20	\$4,425,967	\$1,,954,788	\$724,936
30	\$6,123,448	\$2,598,108	\$1,009,062
50	\$9,146,641	\$3,629,950	\$1,471,650
100	\$14,689,706	\$5,611,282	\$2,312,737

Notes:

- 1) PMLs in these tables were calculated using RiskLink version 7.0, Historical (long-term) and Stochastic (mid-term) event sets, weighted, including loss amplification (demand surge) and excluding storm surge. Citizens prepares its PMLs with a weighted rate comprised of 67% Stochastic rate and 33% Historical Rate.
- 2) Beginning August 2007, HRA includes personal residential multi-peril policies in the wind-eligible territories. Beginning December 2007, HRA includes commercial residential multi-peril policies in the wind-eligible territories.
- 3) The CLA modeled losses exclude the commercial non-residential wind-only policies (Commercial Inland Wind program) managed by ICAT.

Modeled Losses over Time

CLA, HRA and PLA 100YR Probable Maximum Loss (000s)

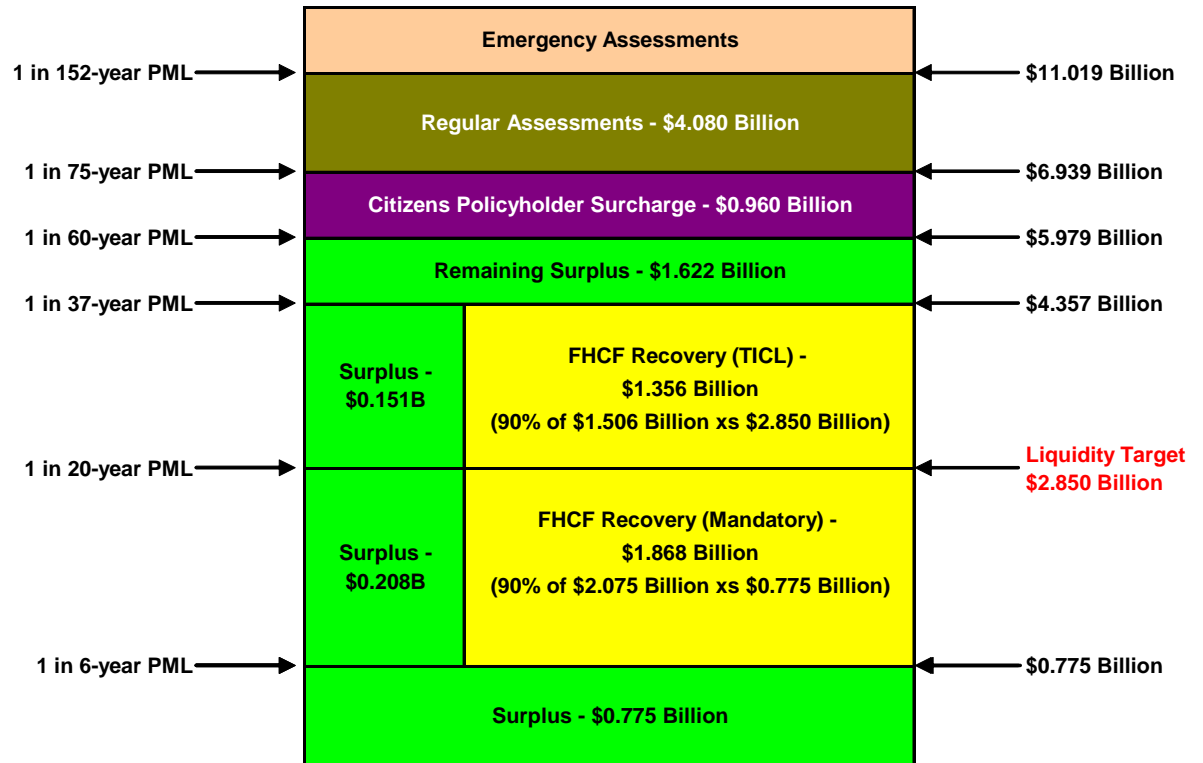


PLA/CLA Projected Claims Paying Resources (2008 Hurricane Season) ¹

(Not to scale)

100 Year PML - \$8.291 Billion
As of 6/30/08

PMLs are weighted 1/3 Historical
and 2/3 Stochastic and reflect Single
Event Occurrence



Note: Cat Fund coverage is based on preliminary exposure data, rating factors and coverage multiples. The final retentions and coverage amounts may be significantly different from the estimates shown in the layer chart.

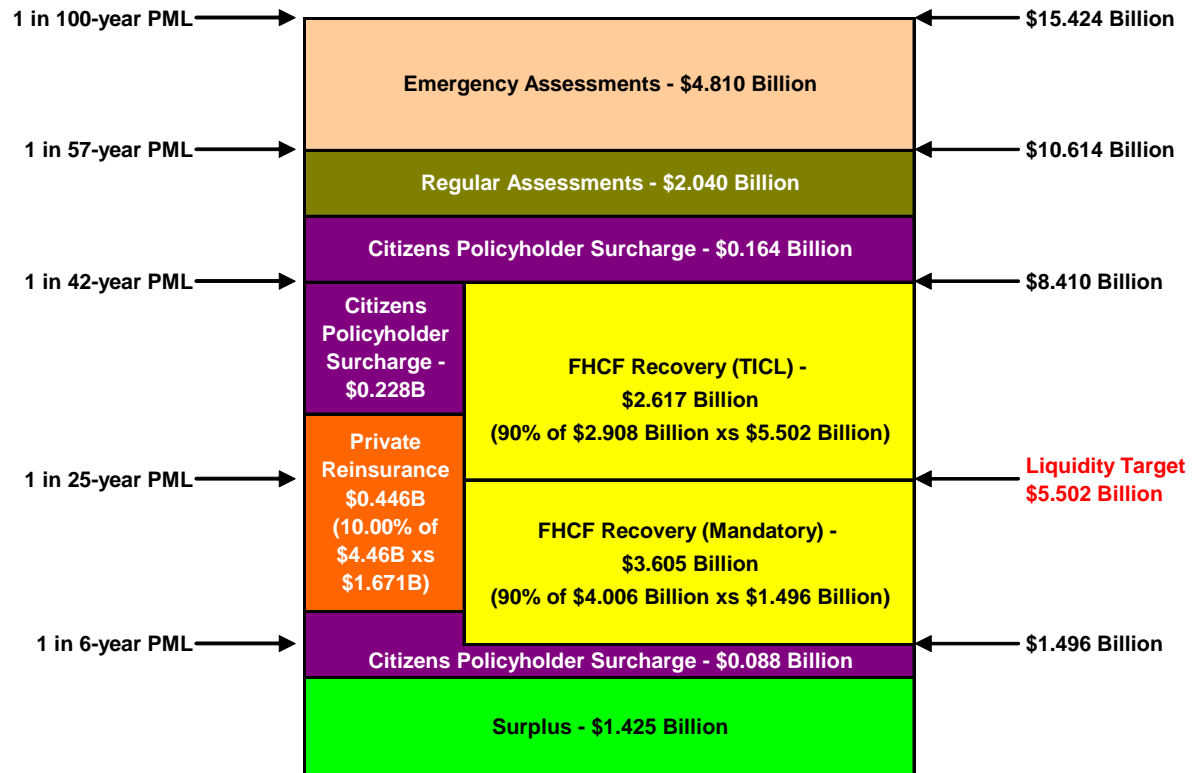
¹ Please see Notes & Assumptions attached hereto

HRA Projected Claims Paying Resources (2008 Hurricane Season) ¹

(Not to scale)

100 Year PML - \$15.424 Billion
As of 6/30/08

PMLs are weighted 1/3 Historical and 2/3 Stochastic and reflect Single Event Occurrence



Note: Cat Fund coverage is based on preliminary exposure data, rating factors and coverage multiples. The final retentions and coverage amounts may be significantly different from the estimates shown in the layer chart.

¹ Please see Notes & Assumptions attached hereto

Citizens' Projected Claims Paying Resources: Notes and Assumptions

ASSUMPTIONS for New Law

▶ Citizens DWP	\$3.2 Billion
▶ Citizens Policyholder Surcharge Maximum %	15.0%
▶ Regular Assessment Base Premium	\$34.0 Billion
▶ Regular Assessment Maximum %	6.0%
▶ Emergency Assessment Base Premium	\$37.2 Billion
▶ Citizens participation in FHCF is based on estimated exposure and rates	
▶ Interim return periods are derived by linear interpolation	
▶ Return periods reflect a 5% adjusting expense grossup	
▶ Surplus based on projections at December 31, 2008	

NOTES

- ▶ These charts are imperfect! They attempt to show projected PML resources, but they are approximations only. Four significant complicating factors are described below.
 - ☼ HRA PML vs. PLA/CLA PML: An actual 100-year PML event in HRA may not be a 100-year PML event for PLA/CLA. The relative magnitude of actual losses for HRA and PLA/CLA will depend on the storm size and path.
 - ☼ Combining PLA and CLA: The PLA and CLA are separate accounts for deficit calculation and assessment purposes, but are combined for FHCF and credit purposes. It is impossible to accurately show the PML resources situation of these accounts on either separate or combined charts since simplifications must be made in either case that could prove materially inaccurate. Although we show the combined accounts, there is no guarantee that they will have deficits at the same time or of similar magnitude.
 - ☼ Nonresidential exposure: Commercial nonresidential exposures in the CLA and HRA are not reinsured by FHCF. Actual deficits and assessments may be significantly different than an aggregated PML would otherwise indicate.
 - ☼ Liquidity: These charts do not show the liquidity needs of the accounts. An account with ample PML resources may still require liquidity as many of the PML resources are not available immediately following a major hurricane. The timing and magnitude of receivables such as FHCF recoveries and assessments are unknown. Therefore, Citizens must have a liquidity bridge. Liquidity needs are analyzed separately.

Citizens Assessment Overview

1.

Citizens Policyholder Surcharge

2.

Regular Assessment

3.

Emergency Assessment

Citizens Policyholder Surcharge (Tier 1)

If a deficit is incurred in any individual account (HRA, PLA, CLA), up to a 15% of premium surcharge may be required for 12 months on all Citizens' policies.

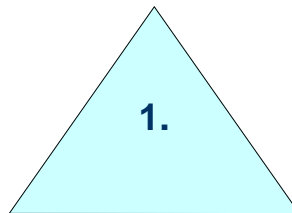
Tier 1 assessments apply on a per account basis.

If there is a deficit in all three accounts, Citizens policyholders could receive up to a 45% of premium surcharge for 12 months.

- 15% for the HRA account deficit
- 15% for the PLA account deficit
- 15% for the CLA account deficit

Citizens policyholder surcharges would be collected upon issuance or renewal.

Failure to pay shall be treated as a failure to pay premium.



Citizens Policyholder Surcharge

Regular Assessment (Tier 2)

If the Tier 1 surcharge is insufficient to fully cure the deficit for any individual account, a regular assessment of up to 6% of premium or 6% of the deficit, whichever is greater, may be required.

- This applies to admitted and surplus lines property and casualty policies, including auto insurance (but excluding workers compensation, medical malpractice, federal flood and crop)
- Citizens policyholders are not subject to the regular assessment

The regular assessment is levied against admitted carriers, and may be passed through to its policyholders through a rate filing process. Agents collect the regular assessment directly from surplus lines policyholders.

Insurers are obligated to pay within 30 days.

Citizens has a program in which assessable insurers may reduce their assessment exposure based on their wind writings in the HRA.

Limited Apportionment Companies may pay their regular assessment over a twelve month period.

Tier 2 assessments apply on a per account basis.



Regular Assessment

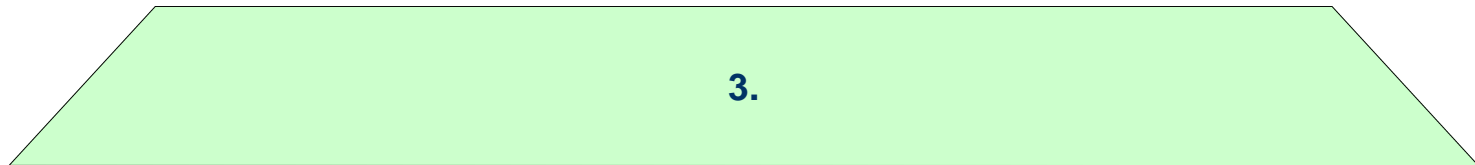
Emergency Assessment (Tier 3)

If the deficit is not fully cured by Tier 1 and 2 assessments for any individual account, an emergency assessment of up to 10% of premium or 10% of the deficit, whichever is greater, may be required.

- Applies to admitted and surplus lines policies, including auto insurance (but excluding workers compensation, medical malpractice, federal flood and crop); and
- Citizens policyholders.

The emergency assessment would be collected for as many years as necessary to cure the deficit, but not to exceed 10% in any calendar year.

Tier 3 assessments apply on a per account basis.



Emergency Assessment

Summary

1.

Citizens Policyholder Surcharge

Up to 15% for HRA, PLA, and/or CLA deficits
Applies at new business/renewal for all Citizens' policyholders

2.

Regular Assessment

Up to 6% for HRA, PLA and/or CLA deficits
Applies at new business/renewal for all non-Citizens' policyholders

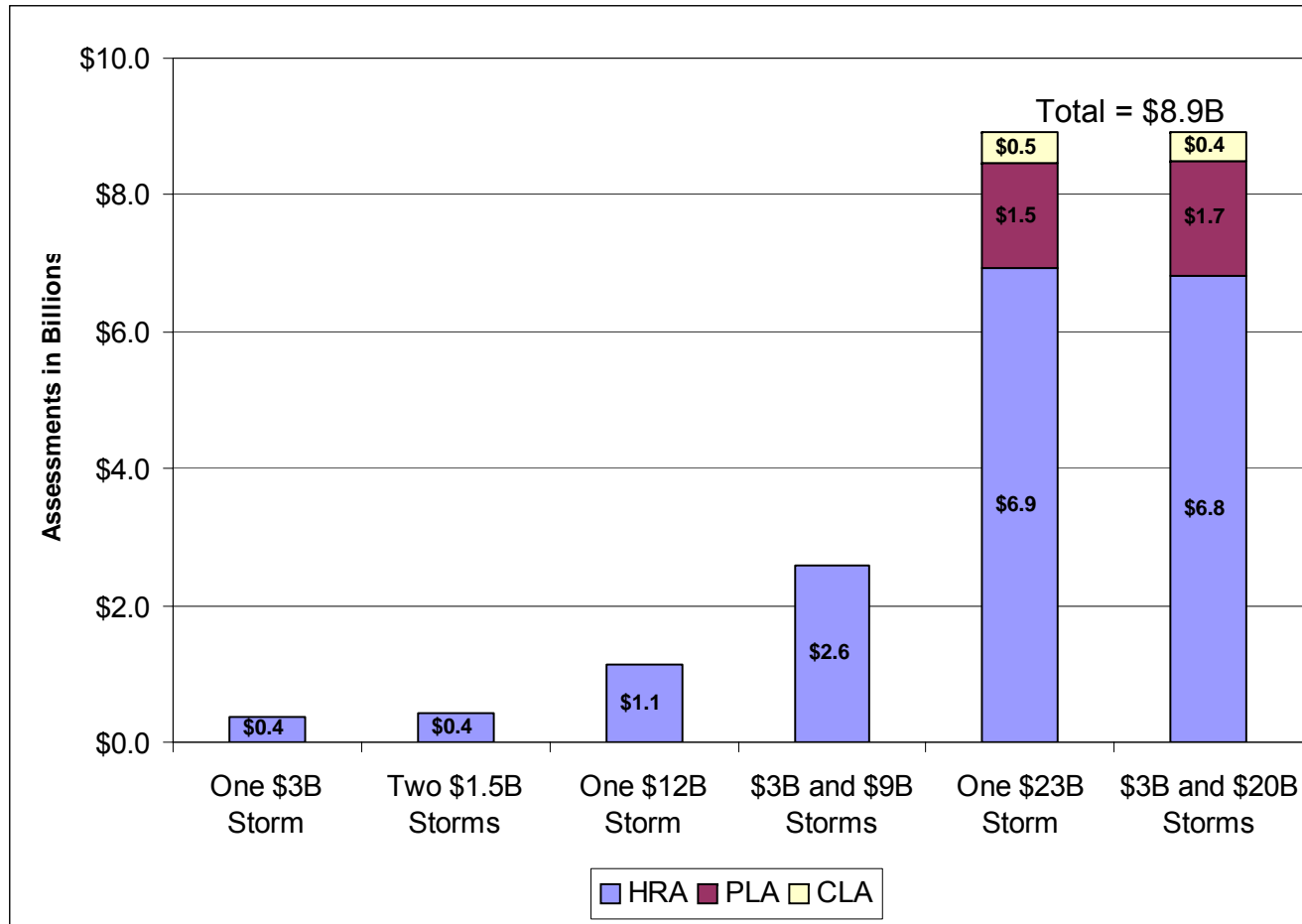
3.

Emergency Assessment

Up to 10% per year for HRA, PLA and/or CLA deficits
Applies at new business/renewal for all Citizens' and non-Citizens' policyholders

Estimated Assessment Scenarios – 2008 Hurricane Season

\$3B, \$12B, and \$23B Hurricane Season Losses



Note: Assessments shown above are based on estimates of FHCF coverage, year-end surplus, and modeled losses in each account. Actual assessments may be significantly different than estimated.

History of Purchasing Private Reinsurance Coverage

- Florida statutes require that Citizens, *“shall make its best efforts to procure catastrophe reinsurance at reasonable rates, to cover its projected 100-year probable maximum loss as determined by the board of governors.”*
- Prior to the 2005 hurricane season, Citizens had not purchased private reinsurance
- \$515 million of assessments caused by 2004 storm losses led to closer evaluation and purchase of private reinsurance for the 2005 hurricane season
- No private reinsurance purchased for the 2006 and 2007 hurricane seasons
- For 2008 hurricane season, Citizens Board of Governors approved the purchase of private reinsurance: \$466 million of coverage for losses in excess of \$1.67 billion was purchased for the HRA (excludes commercial non-residential)



Citizens' Rates

Mission Review Task Force

October 10, 2008

Citizens' Rates Then...

- Prior to 2007, by statute, rates were based on the Top Twenty insurers in the state and were required not to be competitive with approved rates for other insurers
- Average Rates were calculated by county for each insurer
- Citizens' rates were set equal to the highest insurer for that county
- In 2007, the law was amended to replace the Top Twenty requirement and provide that Citizens implement actuarially sound rates

Citizens' Rates Now...

- The first filing to implement actuarially sound rates was effective in January of 2007
- Those rates were rescinded by the Legislature in the 2007 Special Session and Citizens was directed to continue to charge the rates in effect in 2006
- Rates for Citizens are frozen at 2006 levels until no earlier than January of 2010
- Citizens is required to make an actuarially sound rate filing for all lines of business by July 15, 2009

Citizens Rate Plan Considerations

- Elements of Citizens' Rating Plan
- Underwriting Guidelines – Citizens versus the private market

Elements of Pricing a Homeowners Policy

1. Territory
2. Age of Home
3. Building Code Compliance
4. Construction Type
5. Protection Class
6. Burglar/Fire/Sprinkler Credit
7. Seasonal or Unoccupied
8. Wind Mitigation Credit
9. No Prior Insurance
10. *Amount to rebuild the house in the event of a total loss (replacement value)*
11. *Deductible*

Risk Characteristics

- Items 1 thru 9 are risk characteristics that are used to predict the expected costs of the policy (10 and 11 are coverage amounts)
- Private companies use all of these characters as well as others such as additional territories, loss history, financial history, number of years with the company, age of insured and others
- The result is that many of the private carriers have a more refined rating plan
- This makes it difficult to compare Citizens' rates to those of other insurers

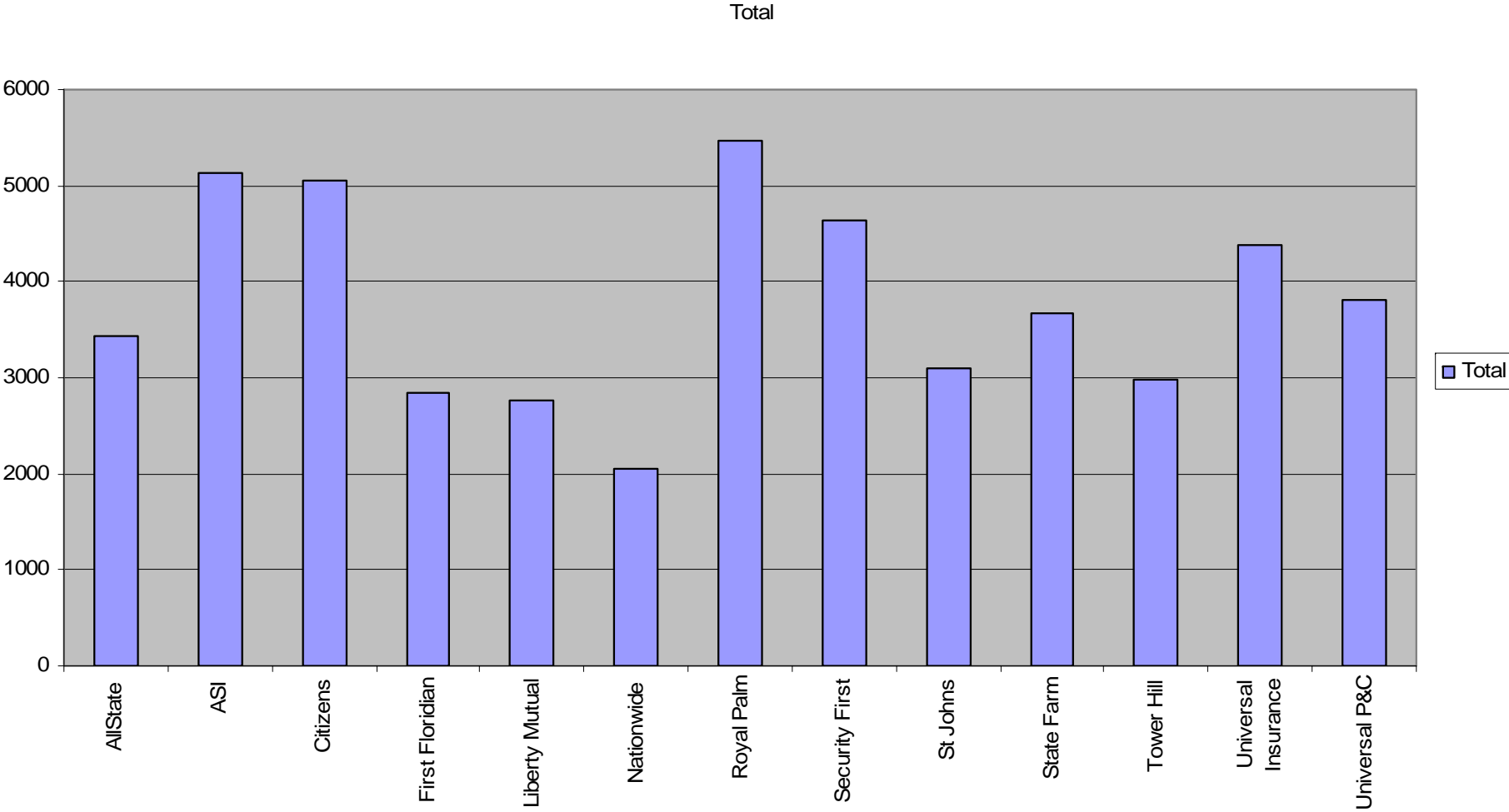
Underwriting Guidelines

- Relative to the private market, and in furtherance of its duty to provide coverage to those unable to find affordable coverage in the voluntary market, Citizens has less restrictive U/W guidelines
- Private companies consider many other characteristics that cause a risk to either be rejected or surcharged
- Examples are: location in the state, loss history, financial history, certain types of dogs, poorly maintained homes, roof in poor condition, etc.
- As an insurer charged with providing coverage to those unable to find affordable coverage in the voluntary market, Citizens is not permitted to reject as many applications as the private market

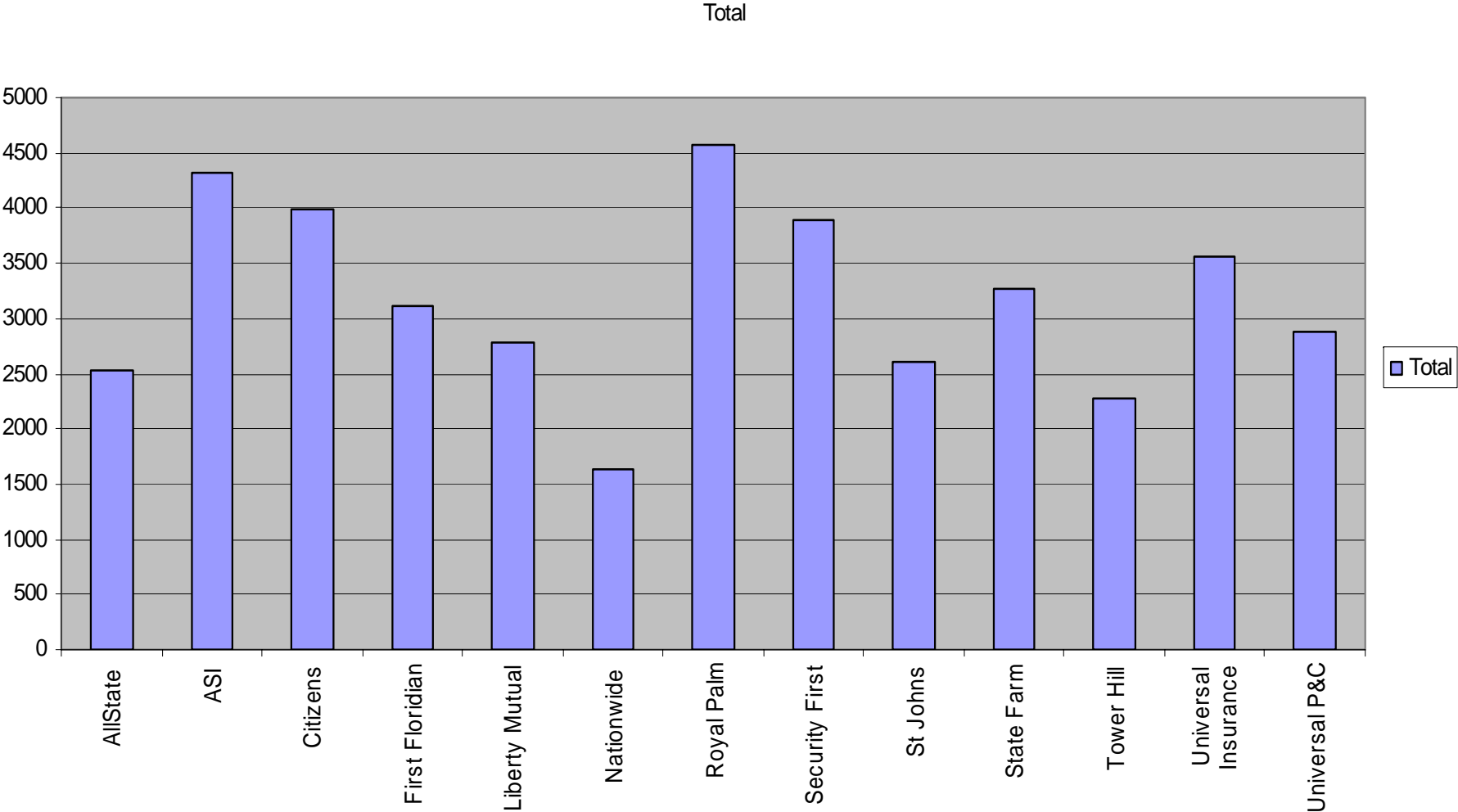
Summary

- Rate Plan – A more refined rating plan allows proper rating of policies based on individual risk characteristics
- Underwriting Guidelines – The fact that the private market has more restrictive eligibility requirements means that an “apples-to apples” comparison of rates is difficult
- Citizens’ rates need to be adjusted periodically to assure they are “actuarially sound”

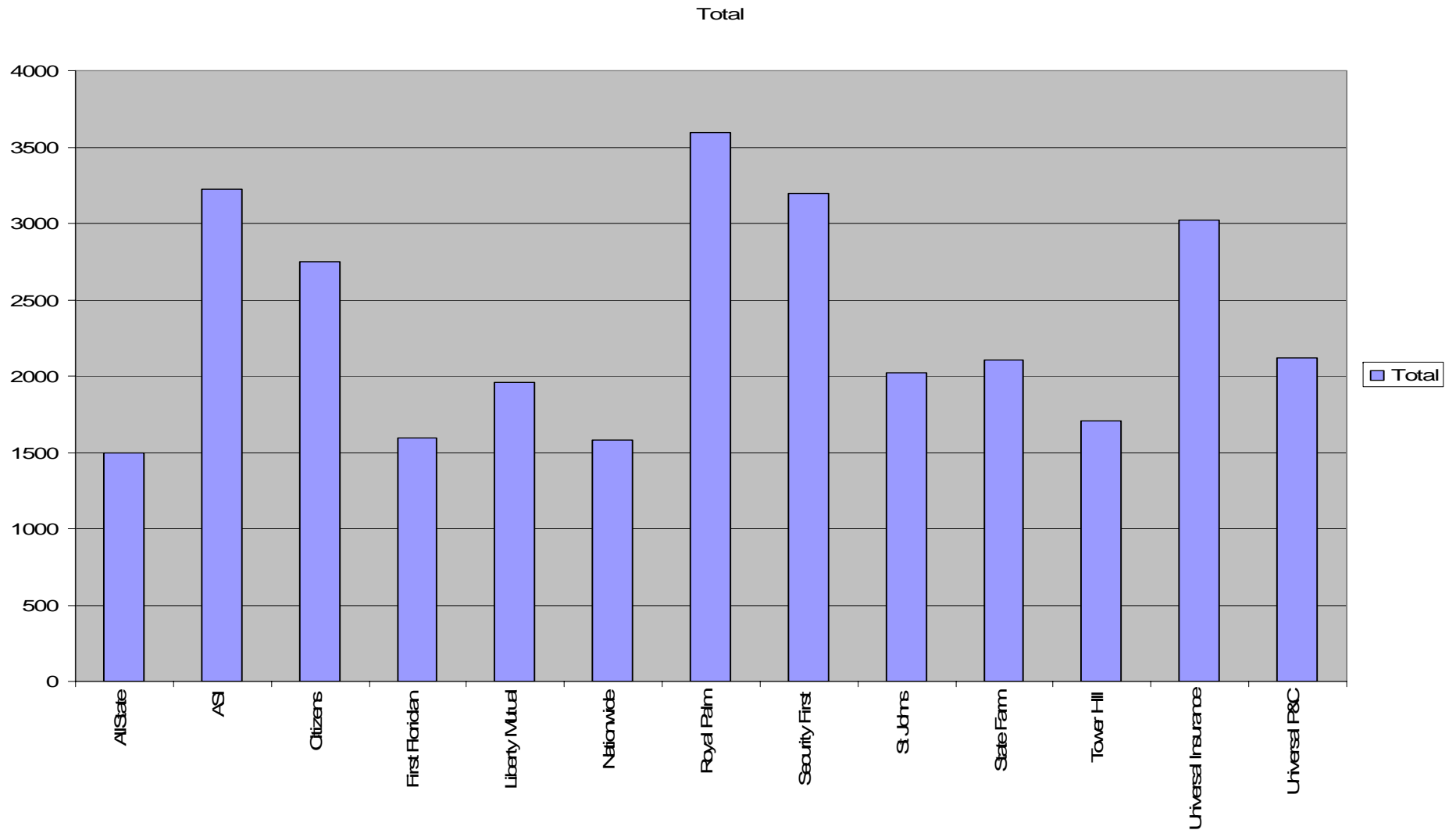
Dade County



Broward County



Pinellas County



Summary Of Rate Comparison

300 Coverage A Amount; Year Built – 2005; With Wind Mitigation

Citizens' Rank	# of Counties	% of Counties	Cumulative
1	43	64.2%	64.2%
2	13	19.4%	83.6%
3	11	16.4%	100%

Summary of Rate Comparison

300 Coverage A Amount; Year Built – Pre-2001; No Wind Mitigation

Citizens' Rank	# of Counties	% of Counties	Cumulative
1	3	4.5%	4.5%
2	17	25.4%	29.9%
3	10	14.9%	44.8%
4	13	19.4%	64.2%
5	13	19.4%	83.6%
6	3	4.5%	88.1%
7	4	6.0%	94.0%
8	3	4.5%	98.5%
9	1	1.5%	100.0%

Summary of Rate Comparison

300 Coverage A Amount; Year Built – 2005; No Wind Mitigation

Citizens' Rank	# of Counties	% of Counties	Cumulative
1	15	22.4%	22.4%
2	6	9.0%	31.3%
3	12	17.9%	49.3%
4	33	49.3%	98.5%
5	1	1.5%	100.0%

Other Considerations that affect Citizens Rate Need

- Depopulation

- Wind Mitigation Credits

Depopulation

- Depopulation Programs have been implemented to encourage other insurers to write coverage for risks currently insured by Citizens to reduce the number of property owners insured by Citizens
- Since 2006 over 500K policies have been taken out of Citizens and returned to the private market
- This is a positive result in terms of reducing the exposure to Citizens
- Consideration must be given to the fact that the better than average risks are being selected by companies participating in Depopulation Programs which, while reducing exposure, puts an upward pressure on the rate need

Wind Mitigation Credits

- In 2001, there were changes to the Florida Building Code
- ARA conducted a study to quantify the impact of the new building code
- ARA developed hurricane severity relativities by studying characteristics such as roof covering, roof shape, roof-to wall connections, openings, building height, and roof framing
- OIR mandated the partial implementation of wind premium discounts based on results of this study

Wind Mitigation Credits

- New requirements to fully implement the 2001 wind mitigation credits went into effect on 3/08 for Citizens' personal residential policies and 9/08 for its commercial residential policies
- In addition to larger credits, a larger percent of insureds are receiving them
- Today, roughly 45% of all Citizens' policies have a wind mitigation credit. The average credit, for those who have it, is close to 20% of the total premium
- In 2009, it is estimated that 50% of Citizens' policies will have a wind mitigation credit with an average credit of over 40% of the total premium