

# Citizens Property Insurance Corporation

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# Traditional Depopulation Overview

# Depopulation Overview

Florida law requires Citizens Property Insurance Corporation to “adopt one or more programs subject to approval by the Office [of Insurance Regulation] for the reduction of both new and renewal writings in the corporation.”

At any point in time, a licensed authorized company may request, for purposes of depopulation and subject to an appropriate confidentiality agreement, a data file of policies from Citizens. All policies not currently pending cancellation, not set for non-renewal or tagged for another insurer as described below, will be included in the data file.

Companies begin the assumption process with the Office of Insurance Regulation (Office). Companies must meet or exceed Florida’s rigorous statutory requirements to attain a license from the Office to sell property insurance in the state. The Office will issue a Consent Order approving the company to participate. Citizens uses the Consent Order and approved takeout plan to facilitate the assumption process.

# Depopulation Overview

At least 100 days  
*prior* assumption  
date

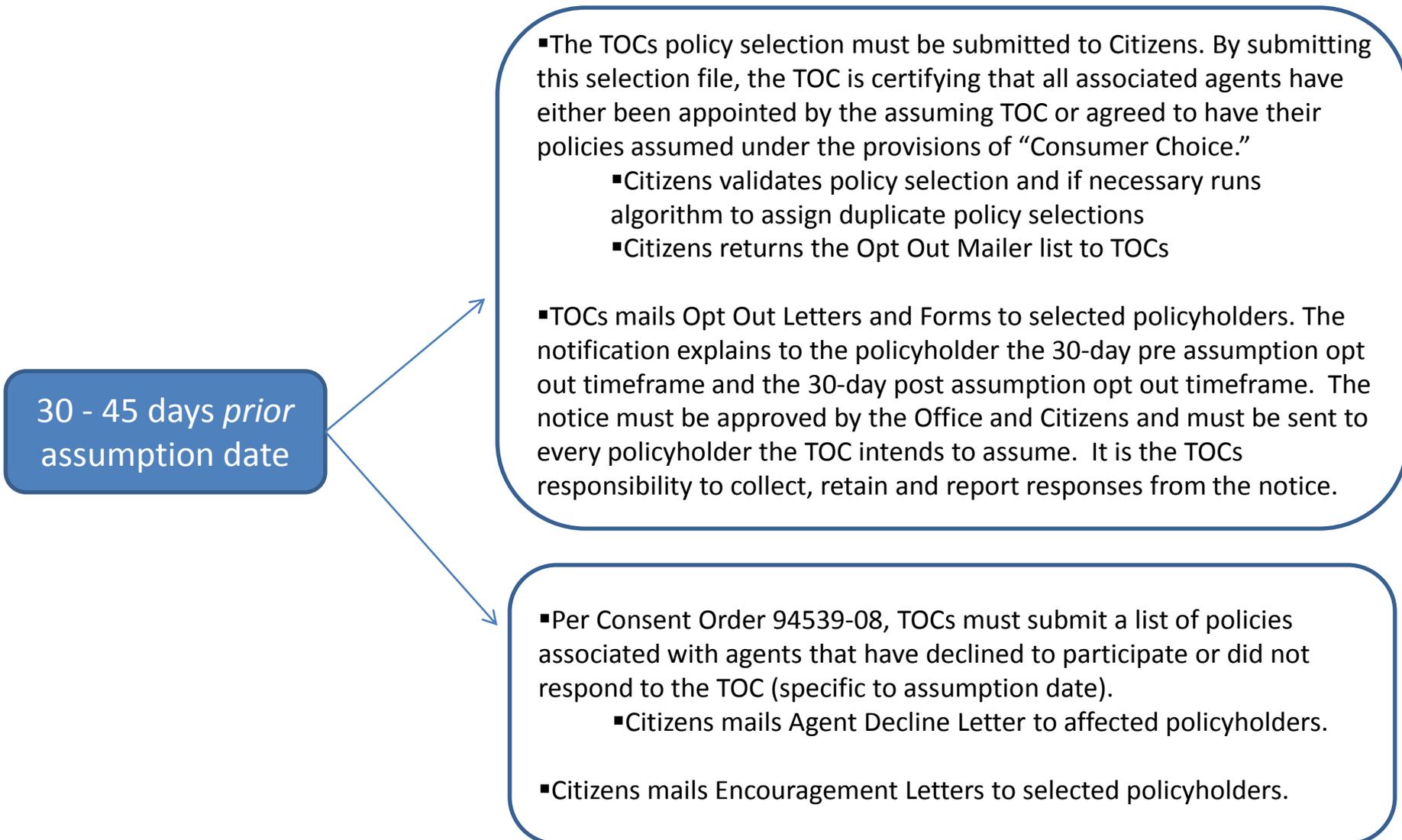
- Takeout companies (TOCs) apply to the Office by submitting a Depopulation Plan
- Specific requirements are located at <http://www.floir.com/sections/pandc/takeoutcompanies.aspx>
- The Office review process can take up to 30 days

60 – 70 days *prior*  
assumption date

- The Office will issue a Consent Order approving the company to participate in a specific assumption
- Consent Orders traditionally, require the following:
  - TOCs shall allow agents a minimum of 14 days to review solicitations
  - Agents must accept appointment from TOC prior to affected policyholders are notified
  - TOCs shall give at least 30 days advance notice to affected policyholders of pending assumption
  - Financial reporting to the Office
- TOCs execute an Assumption Agreement with Citizens
- TOCs submits a logo and signature block for Certificate of Assumption letters

# Depopulation Overview

30 - 45 days *prior*  
assumption date



- The TOCs policy selection must be submitted to Citizens. By submitting this selection file, the TOC is certifying that all associated agents have either been appointed by the assuming TOC or agreed to have their policies assumed under the provisions of “Consumer Choice.”

- Citizens validates policy selection and if necessary runs algorithm to assign duplicate policy selections
- Citizens returns the Opt Out Mailer list to TOCs

- TOCs mails Opt Out Letters and Forms to selected policyholders. The notification explains to the policyholder the 30-day pre assumption opt out timeframe and the 30-day post assumption opt out timeframe. The notice must be approved by the Office and Citizens and must be sent to every policyholder the TOC intends to assume. It is the TOCs responsibility to collect, retain and report responses from the notice.

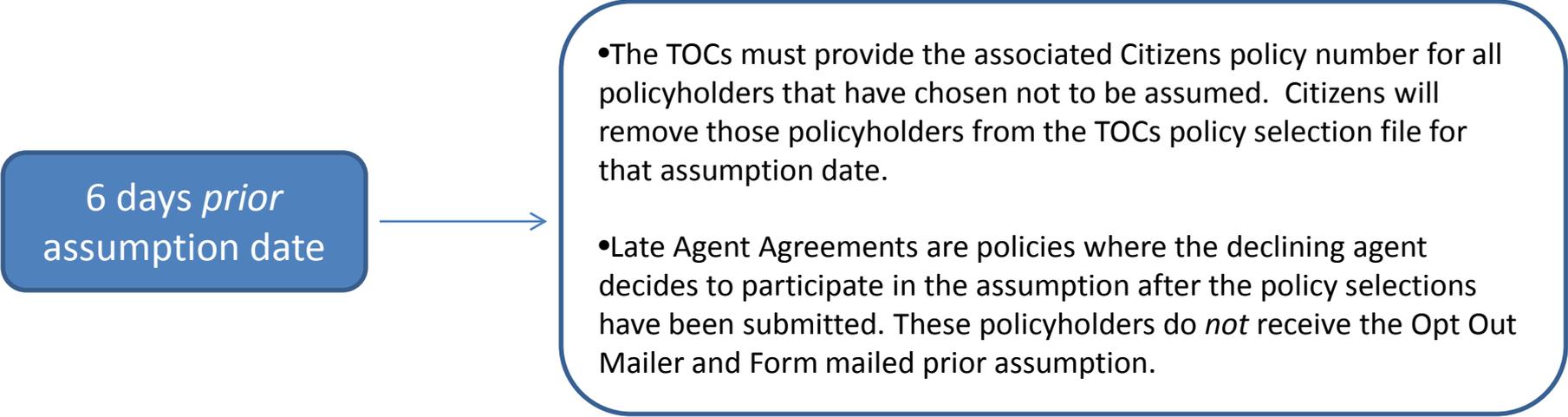
- Per Consent Order 94539-08, TOCs must submit a list of policies associated with agents that have declined to participate or did not respond to the TOC (specific to assumption date).

- Citizens mails Agent Decline Letter to affected policyholders.

- Citizens mails Encouragement Letters to selected policyholders.

# Depopulation Overview

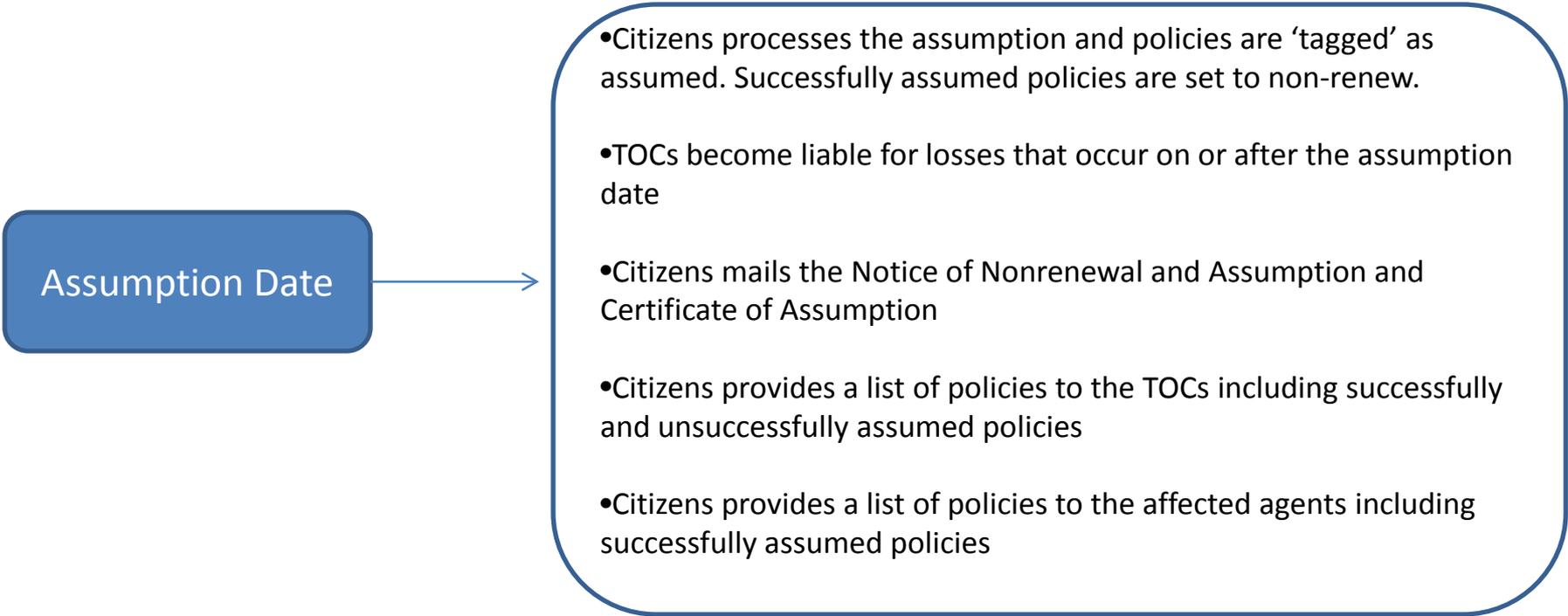
6 days prior  
assumption date



- The TOCs must provide the associated Citizens policy number for all policyholders that have chosen not to be assumed. Citizens will remove those policyholders from the TOCs policy selection file for that assumption date.
- Late Agent Agreements are policies where the declining agent decides to participate in the assumption after the policy selections have been submitted. These policyholders do *not* receive the Opt Out Mailer and Form mailed prior assumption.

# Depopulation Overview

Assumption Date



- Citizens processes the assumption and policies are 'tagged' as assumed. Successfully assumed policies are set to non-renew.
- TOCs become liable for losses that occur on or after the assumption date
- Citizens mails the Notice of Nonrenewal and Assumption and Certificate of Assumption
- Citizens provides a list of policies to the TOCs including successfully and unsuccessfully assumed policies
- Citizens provides a list of policies to the affected agents including successfully assumed policies

# Depopulation Overview

5 – 7 days *post* assumption

- Citizens sends a Results Extract file to the TOCs (includes detailed policy level information of successfully assumed policies)

*post* assumption

- TOCs will continue to receive Opt Out Forms and will send to Citizens a spreadsheet on a monthly basis. Citizens will 'untag' eligible policies.
- Agents are notified via email of the successful/unsuccessful untags.
- Successfully untagged policyholders receive an Opt Out Confirmation Letter.
- Citizens releases Month End Extracts to TOCs for 14 months with updated policy information.

# Depopulation Overview

## Notes

- Citizens services assumed policies until the expiration date and the policy is renewed on the TOCs paper
- Agents are notified via email of the successful/unsuccessful untags.
- Successfully untagged policyholders receive an Opt Out Confirmation Letter.
- For 14 months after an assumption, Citizens releases Month End Extracts (reports) to TOCs which include the most current policy information.

# Depopulation Overview

Citizens  
Depopulation  
Website

- Frequently Asked Questions
- Sample Letters and Documents
- Calendars
- Statistics
- Non-Bonus Takeout Plans

[www.citizensfla.com/about/depopinfo.cfm](http://www.citizensfla.com/about/depopinfo.cfm)

# Historical Depopulation Activity (2003-2013)

## Depopulation Activity by Account and Year



**Notes:**

- 2013 data is as of 07/09/2013
- The number of policies and exposure removed are derived from the initial assumption; does include opt outs

# Citizens' Existing Book of Business

Account	Policies Inforce	Premium	Total Exposure	100-Year Probable Maximum Loss
Personal Lines	787,616	\$ 1,303,759,492	\$ 156,127,893,745	\$ 5,305,558,000
Coastal	415,103	\$ 1,124,368,321	\$ 176,271,393,992	\$ 11,987,983,000
Commercial Lines	7,746	\$ 197,496,723	\$ 37,704,310,946	\$ 1,208,052,000
<b>TOTAL</b>	<b>1,210,465</b>	<b>\$ 2,625,624,536</b>	<b>\$ 370,103,598,683</b>	<b>\$ 18,623,156,000</b>

As of June 30, 2013

# What Could Citizens Look Like?

Properties Citizens will likely cover as the Insurer of Last Resort include the following characteristics:

- Coastal Properties
- Older Homes
- Older Mobile Homes
- Portion of the Sinkhole Prone areas
- Older, Taller and Higher Value Condominium Associations
- Rental Properties
- Commercial Non-Residential

## Estimated “Residual Market” Policy Count

	As of 12/31/12	Returned to Private Market	Citizens Retains	Percent Reduction
<b>PLA</b>	860,502	517,000	343,502	60%
<b>Coastal Account</b>	446,163	120,000	326,163	27%
<b>CLA</b>	8,146	4,000	4,146	49%
<b>TOTAL</b>	<b>1,314,811</b>	<b>641,000</b>	<b>673,811</b>	<b>49%</b>

# Consumer Choice Clearinghouse Update

# Clearinghouse Goals and Benefits

## Goals:

- Ensure that all Citizens applicants have access to every possible private insurance option, including better policy coverage, before choosing Citizens
- Ensure that all Citizens renewal customers have expanded access to every possible private insurance option, including better policy coverage, before choosing to renew with Citizens
- Provide private carriers expanded market distribution
- Ensure that only policies meeting statutory eligibility requirements are placed with Citizens

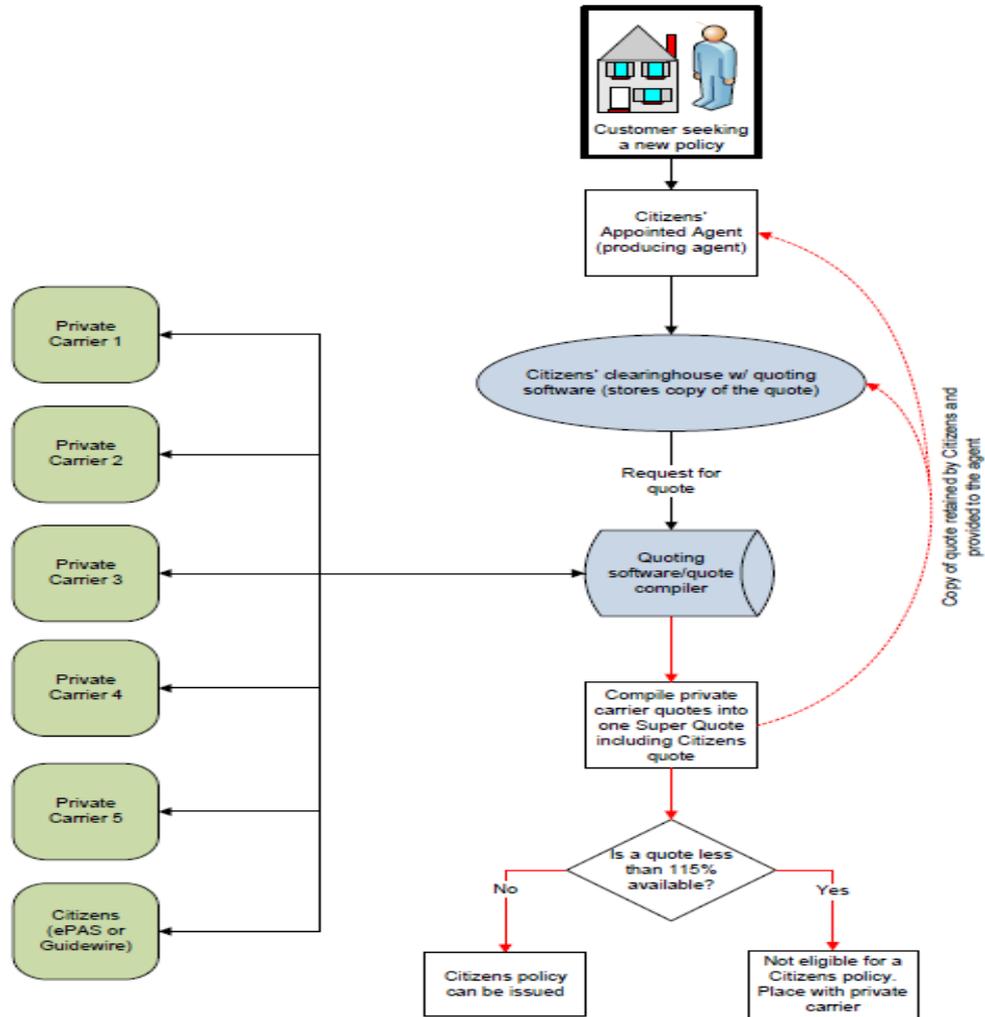
## Benefits for the State:

- Gives applicants a clear picture of their private market options
- Reduce homeowners' assessment liability by shrinking Citizens
- Expand the private carrier access to potential policyholders
- Creates a mechanism for shrinking Citizens and returning it to a true market-of-last resort

# Overview of Approach

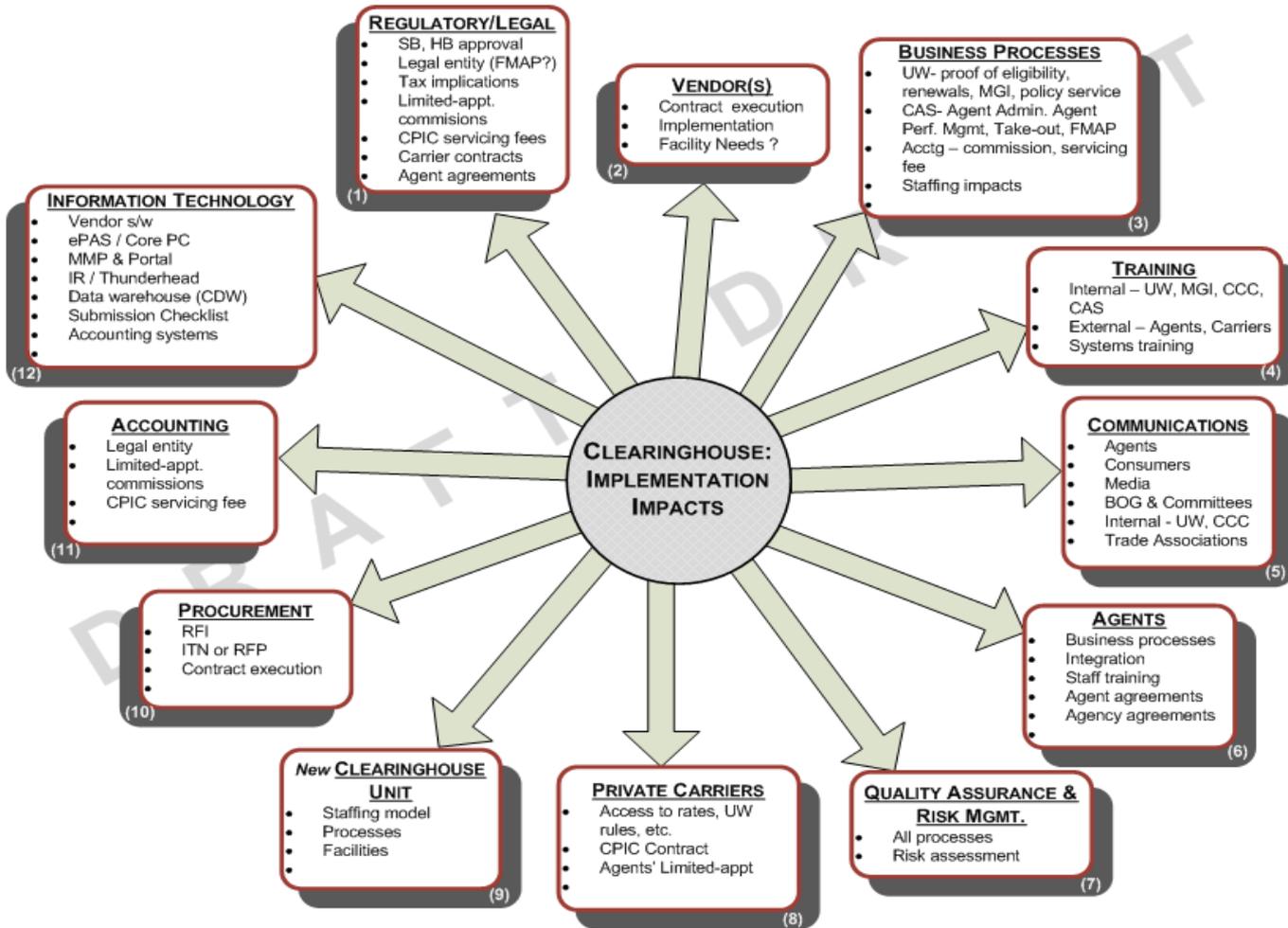
- SB 1770 mandates the implementation of a Citizens Clearinghouse by January 1, 2014
- A real-time mechanism that will systematically enable private insurers to make an offer of coverage to personal lines' applicants seeking coverage from Citizens
- Procure a SEMCI (Single Entry Multi-Carrier Interface) software tool
- Based on private carriers' underwriting, exposure and selection criteria, request offers of coverage from "eligible" private insurers participating in the Clearinghouse
- All offers, including coverage and pricing, will be delivered back to the producing agent
- Business placement is guided by statute
  - For new business if the rate is less than 115% of Citizens quote for comparable coverage, the offer renders the applicant ineligible for Citizens coverage
  - If the rate is greater than 115% of Citizens' rate, the consumer makes the choice
  - If there is no private market offer of coverage rendering the applicant ineligible, the business is placed with Citizens
- For renewal business, if the rate is equal to or less than Citizens quote for comparable coverage, the offer renders the applicant ineligible for Citizens coverage
- A report regarding the Clearinghouse approach for commercial residential is due January 1, 2014

# Process Flow



→ Request for coverage  
 → Return quotes, coverage written

# Functional Impact Assessment



# Progress Update

- Request for Information (RFI) Solicitation
  - Used to obtain current market information, gain a better understanding of vendor capabilities and provide a basis for developing the solicitation.
  - Four responses received on April 12, 2013
- Invitation to Negotiate (ITN) Solicitation
  - Competitive solicitation process consistent with Citizens' policy and 287.057, F. S.
  - Six Responses were received on June 25, 2013
  - The top two vendors advanced to the negotiation phase
  - The negotiation team identified Bolt, Inc. as providing the best value offer to Citizens because:
    - Ability to implement by January 1
    - Multiple integration platforms enable broad carrier participation
    - Demonstrated required functionality and ease of use
    - Competitive pricing
    - Contract approved August 23, 2013 by Board of Governors

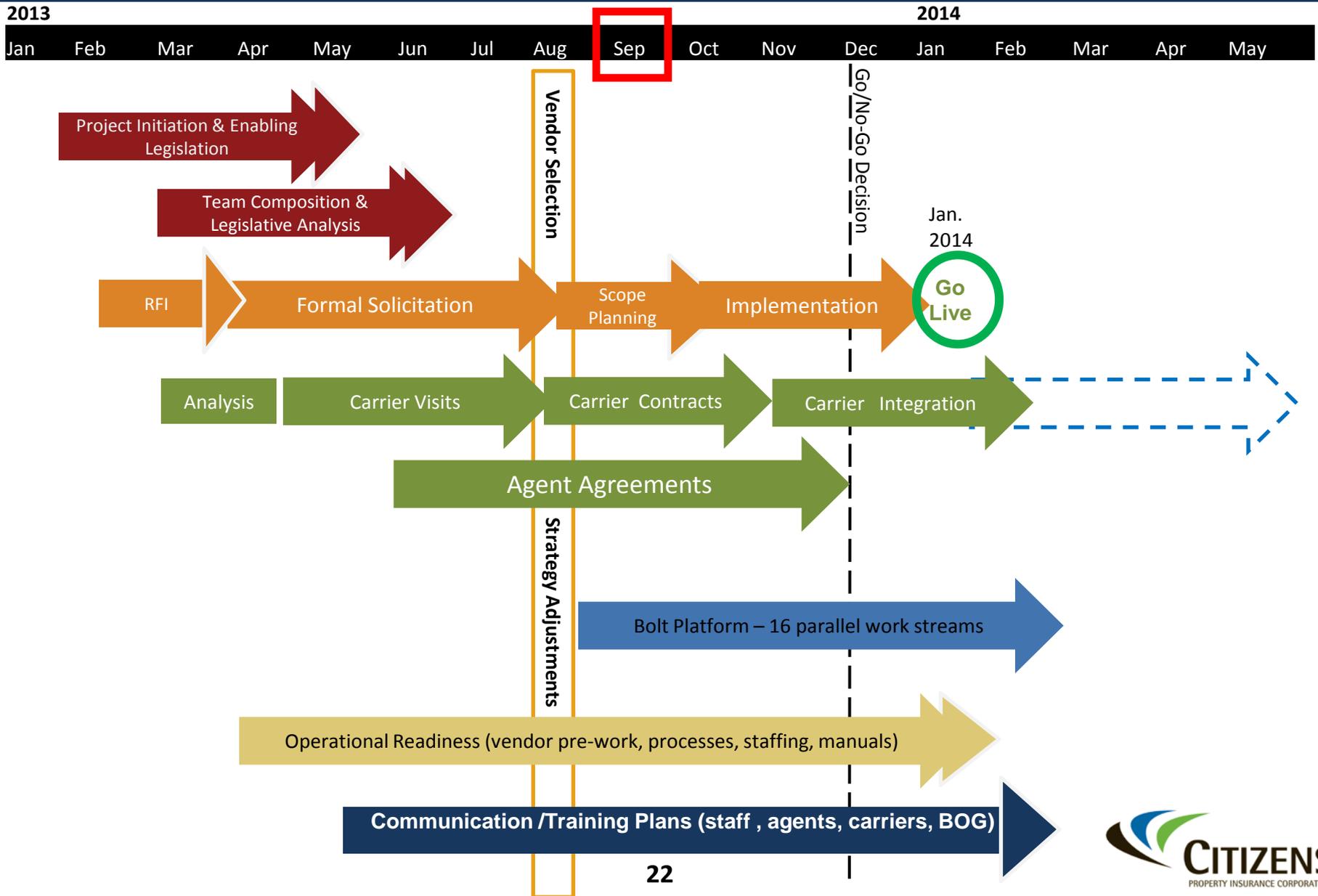
# Progress Update

- Carrier Visits
  - 31 meetings conducted
  - Many misconceptions were clarified
  - High interest from private carriers to participate
- Agent Interests
  - Discussions with agent association representatives
  - Impact analysis meetings with high-volume Citizens agents
- Carrier on-boarding process initiated September 13, 2013
  - Review and sign the participation agreement; complete the carrier readiness questionnaire
  - Timely response and readiness assessment will ultimately determine the on-boarding schedule

# Progress Update

- Executive Steering Committee meetings held regularly
- Bolt resources arrived on-site September 4, 2013
- Citizens and Bolt teams are transitioning into one, collaborative team
- Planning, scheduling, requirements, and delivery are occurring in parallel
- Multiple teams and workstreams have been established and will run in parallel
  - Bolt Clearinghouse Platform
  - Carrier Integrations
  - Third Party Report Services
  - Communications and Training
  - Operational Readiness
  - Back-End IT Systems
  - Commercial Report
- Scope management will be a key variable for a January 1, 2014 delivery
- Final scope and implementation plan targeted for the end of September

# Clearinghouse Timeline Overview



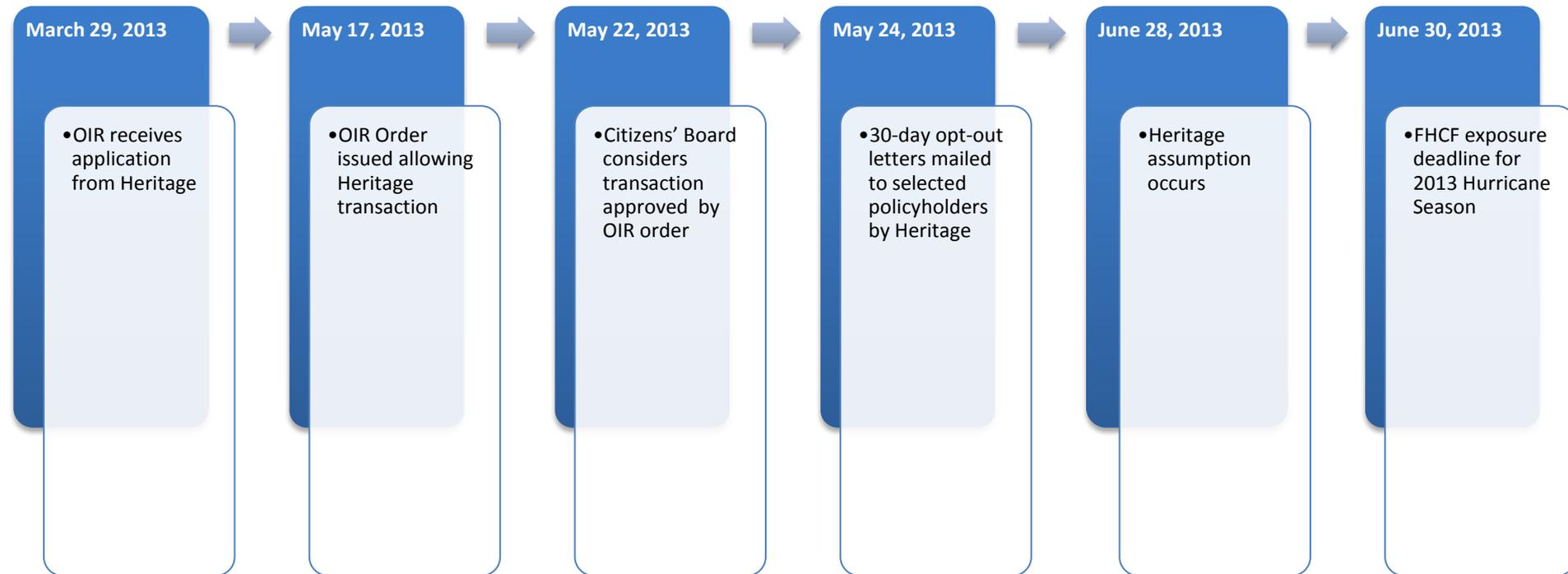
# Heritage Transaction

# Transaction Overview

- The intent of both parties (Citizens and Heritage) was to facilitate the removal of a large number of policies in advance of hurricane season (June 1<sup>st</sup> to November 30<sup>th</sup>)
- Although the assumption of policies occurred on June 28, 2013, the quota share arrangement facilitated risk transfer on those policies back to January 1, 2013
- Not only does this transaction remove a substantial level of wind risk from Citizens, it also removes the related multi-peril losses that occurred or may occur on the selected policies from January 1, 2013 and forward
- As of June 30, 2013, the following loss data on policies reinsured by Heritage is known:
  - 286 claims
  - \$2.4 million of reported losses
- Prior to formally considering this arrangement, internal and external resources were used to validate the initial policy selection and perform loss modeling for the purpose of quantifying the reduction in Citizens' Probable Maximum Loss (PML), FHCF reinsurance premium, and assessments

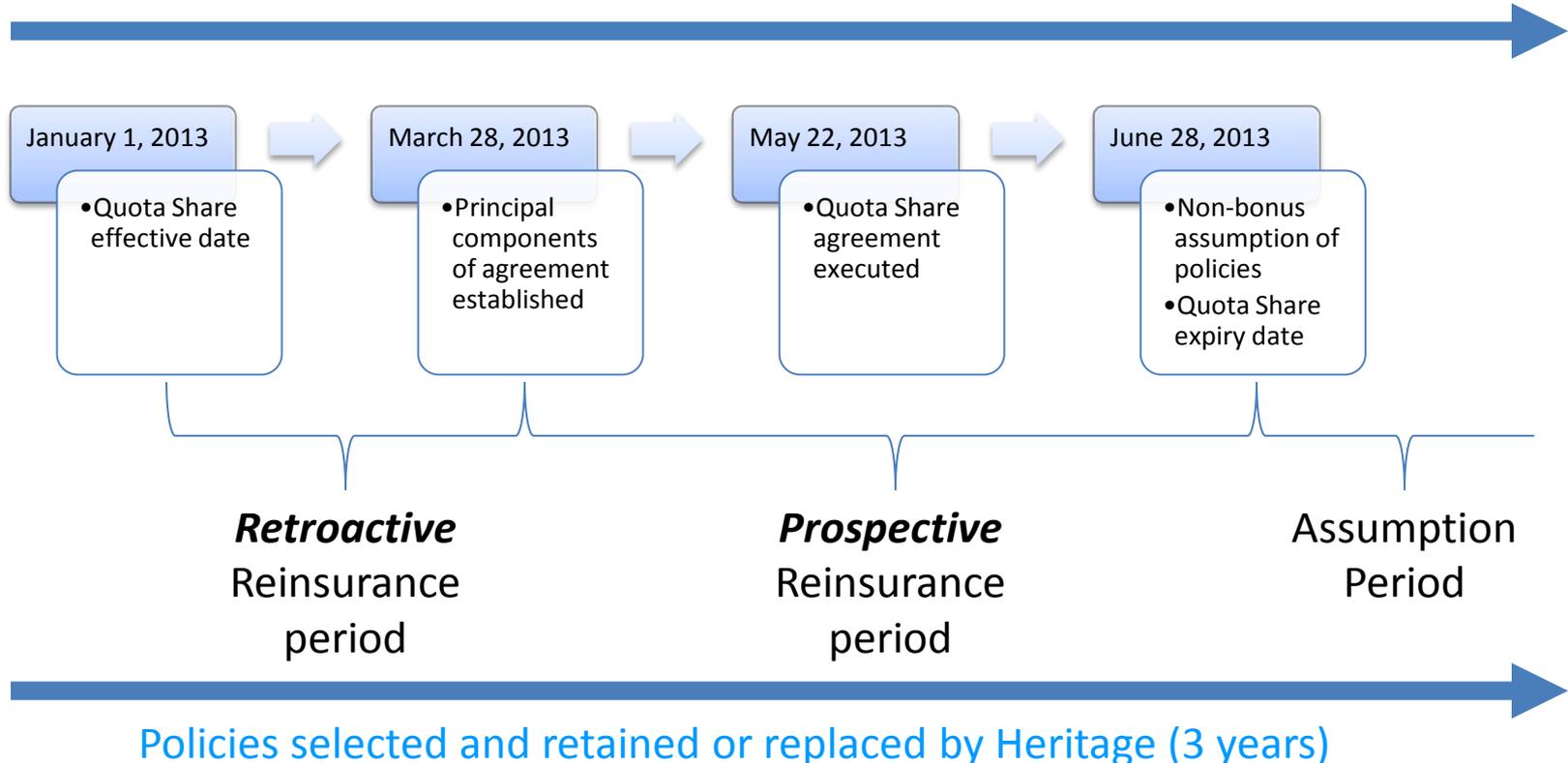
# Transaction Structure – *Approval Timeline*

- Following is a timeline illustrating the key approval dates of the Heritage transaction



# Transaction Structure – Risk Transfer Timeline

Citizens cedes 100% of losses occurring on or after January 1, 2013



# Transaction Structure – *Financial Statement Impact*

- Amounts paid to Heritage represent the unearned (unexpired) portion of the policies Heritage assumed
- The payment of the unearned portion of assumed policies **does not** reduce Citizens' surplus
- In substance, the payment reduces Citizens' liability of unearned premium
- This transaction, including the quota share component, results in the same balance sheet and income statement impact as other policy assumption transactions

Quota Share premium: \$33.1 million

Assumed premium: \$43.8 million (unearned premium under traditional non-bonus assumption arrangement)

Total premium: \$76.9 million

- As of January 1, 2013, the total premium obligation of \$76.9 million consists entirely of the unearned premium on policies assumed and **does not** impact surplus

# Transaction Considerations – *Heritage*

- Heritage was provided the ability to review claims data on policies selected for a period of approximately four months prior to the assumption date
- Heritage was also provided the ability to review historical claims data on policies selected, which is a benefit afforded to all assumption carriers
- Through the quota share arrangement, Heritage was able to earn premium in advance of hurricane season in order to support its claims paying capacity – this is predominantly why most assumption activity occurs in November and December of each calendar year, and why the quota share arrangement was effective January 1, 2013
- To further support the integrity of the transaction, Heritage agreed to the following provisions that are currently not established for traditional non-bonus assumption agreements:
  - Three year restriction on the payment of dividends, unless approved by the Florida OIR
  - Contribution of an additional \$10 million of capital to secure claims obligations
  - Rate increases on assumed policies cannot exceed Citizens' rate increases for three years
  - Replacement of policies (from either Citizens or private market) for policies that opt-out or otherwise cancel/non-renew with Heritage

# Transaction Considerations – *Heritage*

## *(continued)*

### Claims Information on Selected Assumptions (January 1, 2010 – June 30, 2013)

Company	Assumption Date	Assumed Policy Count	Assumed Policy Claim Count	Claim Frequency	Historical Reported Losses
Homeowner's Choice	11/6/2012	54,210	1,627	3.0%	\$ 13,768,718
Southern Fidelity	11/6/2012	25,436	470	1.8%	4,276,047
Heritage P&C (Non Quota Share)	12/4/2012	37,106	3,517	9.5%	38,423,336
Florida Peninsula	1/8/2013	7,581	236	3.1%	1,850,546
Heritage P&C (Non Quota Share)	1/8/2013	4,770	211	4.4%	1,920,885
United P&C	1/8/2013	12,973	1,705	13.1%	16,713,606
Weston (Commercial)	5/2/2013	1,973	49	2.5%	225,646
Southern Oak	5/7/2013	3,511	32	0.9%	244,483
Weston (Commercial)	5/16/2013	67	3	4.5%	1,650
Weston (Personal)	5/17/2013	10,626	165	1.6%	467,611
Weston (Personal)	5/31/2013	2,035	37	1.8%	158,717
Tower Hill Select	6/4/2013	15,185	1,753	11.5%	17,090,793
<b>Heritage P&amp;C (Quota Share)</b>	<b>6/28/2013</b>	<b>39,656</b>	<b>3,226</b>	<b>8.1%</b>	<b>43,729,164</b>
Southern Oak	7/9/2013	2,111	9	0.4%	156,433

#### Data Notes:

1. *Assumed Policy Count* refers to policies that have not opted out of assumption as of 7/31/2013. If a policy has opted out of assumption, then no claims are included for that policy.
2. Only claims reported on or after 1/1/2010 are included in this report.
3. Salvage and Subrogation Recoveries have been removed from reported *Historical Reported Losses*.
4. *Historical Reported Losses* is the sum of all paid losses and LAE as well as the current loss and LAE reserves. It represents all expenses incurred and reported on the claims since their report date.

# Transaction Considerations – *Citizens*

As a result of the transaction with Heritage, Citizens and its stakeholders enjoy the following benefits:

- Removal of 45,709 policies
- Reduction in exposure (TIV) of \$12,250,146,252
- Reduction in PML of \$363,264,939 (2%)
- Savings of approximately \$10 million in premiums paid to the FHCF

NOTE: The TIV, PML and FHCF premium savings were calculated based upon the 45,709 policies removed as of the date of assumption - June 28, 2013. A previous slide (Slide 29) shows assumed policy count of 39,656 which includes post assumption opt-outs through July 31, 2013.

# Looking Forward

To address any future concerns involving the submission, evaluation, and execution of future non-traditional assumption arrangements, Citizens has established the following process:

1. All proposals are first submitted to and vetted by Citizens' Depopulation Committee
2. Citizens' Depopulation Committee may direct staff to evaluate the proposals
3. Staff presents its recommendations to Citizens' Depopulation Committee
4. Citizens' Depopulation Committee will determine if the proposal should move forward to Citizens' Board of Governors for consideration and approval.

# Appendix

# Appendix 1 – Accounting Considerations

- Retroactive Reinsurance accounting treatment is required since the effective date of the quota share arrangement (January 1, 2013) precedes the date when the principal components of the transaction were established (March 28, 2013)
- This method of accounting is required by accounting principles (SSAP No. 62(R))
- The net impact to Citizens’ balance sheet, surplus, and net income as respects retroactive reinsurance accounting is neutral
- The accounting treatment reflected in Citizens’ financial statements has been confirmed with Citizens’ Independent Auditors
- Provided below is an illustration of prospective and retroactive methods as they relate to Citizens financial statements

	<i>Prospective Method</i>	<i>Retroactive Method</i>
Ceded earned premiums	Reduction in net earned premium	Ceded earned premiums and ceded incurred losses/LAE are netted and reported in other income (loss)
Ceded incurred losses/LAE	Reduction in net incurred losses	
Ceded loss/LAE reserves	Reduction in net loss/LAE reserves	Recorded as “retroactive reinsurance reserves ceded”