

CitizensAdvisor



Potential Citizens Assessments Continue to Drop

TALLAHASSEE, FL — Successful depopulation efforts together with strategic reinsurance purchases have enabled Citizens Property Insurance Corporation to reduce its potential assessments on all Florida policyholders by more than 80 percent in just four years.

Nearly halfway through the 2014 hurricane season, Florida policyholders face potential assessments of \$2.3 billion in the event of a 1-100 year storm. In 2011, Florida policyholders were on the hook for more than \$11.6 billion.

A favorable global reinsurance market has made it possible for Citizens to nearly double the amount of coverage it receives for the same cost, boosting reinsurance protection from \$1.9 billion last year to more than \$3.3 billion. Citizens also has been successful in securing more favorable terms; reinsurance will now kick in for smaller storms and will, for the first time, also will be available multiple storms.

At the same time, a reinvigorated private market, successful launch of the clearinghouse and prudent movement toward actuarially sound rates under the legislatively mandated glide path have resulted in a dramatic decrease in the number of policyholders who rely on the state's insurer of last resort to protect their most valuable asset. Citizens has seen its policy count drop from nearly 1.5 million in 2012 to 933,000 as policyholders find comparable coverage from a growing list of financially sound, Office of Insurance Regulation-approved Florida insurance companies.

The combination of enhanced reinsurance coverage and a lower policy count have put Citizens in its strongest financial position to date. By the end of the year, Citizens projects its surplus will be at \$7.7 billion, while its policyholders will reap the benefits of more robust reinsurance protection.

The potential assessment drop is significant. As the state's insurer of last resort, Citizens is required to levy assessments on most Florida policyholders in the event it is unable to pay claims. For Citizens policyholders, assessments can run as high as 45 percent of their premium in a single year.

Following the 2004-2005 hurricane seasons, Citizens was forced to levy emergency assessments totaling nearly \$1.4 billion over a 10-year period. Those assessments are scheduled to be retired by July 2017.

August 7, 2014

Events

August 19@ 9:00 a.m.
[Cabinet Meeting](#)

August 26 @ 10 a.m. - 11 a.m.
[Office Hours with Rep. Steve Crisafulli](#)
2460 North Courtenay Parkway,
Suite 108
Merritt Island

September 9 @ 4 p.m. – 7 p.m.
[Office Hours with Rep. Matt Gaetz](#)
Fort Walton Beach Chamber of
Commerce
34 Miracle Strip Parkway SE
Fort Walton Beach

Spotlight



Jim Henderson
Citizens Board of Governors
Appointed by Senate
President Don Gaetz
Appointed: August 1, 2014
Term Expires: July 31, 2017

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Guest Column: Consumer Advocate Defends Citizens Property Insurance

By Jay Neal

A recent Palm Beach Post article critical of Citizens Property Insurance Corporation's alleged lavish travel junkets to buy reinsurance was unbalanced, unfair, and frankly over-the-top.

My defense of Citizens may seem unlikely to some. During my tenure with FAIR, our members have filed not one, but two, class action lawsuits against Citizen's practices which we believed were unfair to policyholders.

But FAIR is FAIR (pun intended). Over the last two years, we have witnessed a positive cultural change in Citizens, a change that, if it continues, will bring lasting benefits to the people and policyholders of the state of Florida. The folks at Citizens still have a long way to go. But when you criticize someone and they start to fix the problem, don't you owe them a good word?

The Post article covered four areas: denied coverage because of a roof condition, handling of water claims, reinsurance purchases, and so-called lavish travel. The article unfairly attempts to weave these issues together in such a way to suggest that Citizens would prefer to go on junkets to exotic travel spots and waste millions on unneeded reinsurance than to provide coverage to senior citizens and pay legitimate claims.

Indeed, the roof policies and claims handling need work. Citizens must operate like any private insurance company. But they must also serve as the insurer of last resort for those Florida homeowners who simply cannot obtain affordable coverage from the private market. This is a difficult balance. Two years ago Citizens would have likely resisted change. But today, the "new Citizens" has a much better understanding of the need for balance, and a senior management team willing to roll up their sleeves, sit down with stakeholders, and work to improve their policies.

That gets us to reinsurance. Reinsurance is simply insurance for insurance companies. Much like those of us with a mortgage are required to buy homeowner's insurance, private insurance companies are required by regulators and rating agencies to buy reinsurance. It's expensive. Roughly half of total collected premium goes to pay for it. On the other hand, much like homeowners who do not have a mortgage, Citizens is not required to buy reinsurance. With the power to assess, or tax, Florida's insurance consumers if they run out of money to pay claims, Citizens has a deep well from which to draw. The policyholders hardest hit are at Citizens, but every other property insurance consumer in Florida, including auto insurance consumers, are also on the hook. Citizens has to determine each year whether buying reinsurance coverage and minimizing the possible tax they would need to levy is worth the cost of that reinsurance.

In our view, Citizens management made a smart and reasoned choice. They spent \$300 million on reinsurance which secured \$3.39 billion of coverage and contributed to a reduction in assessment risk from \$11.6 billion to \$2.3 billion. The transaction had negligible impact on the terms private insurance carriers received and paved the way for potentially more favorable terms from the investment community in the future when we really need it. Even

Policies in Force

933,577

as of August 1, 2014.

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slightly better terms in such a scenario could mean billions of dollars in savings for Florida insurance consumers.

That gets us to travel. Travel is unavoidable when buying reinsurance. Almost two thirds of reinsurance companies are located in Bermuda with a bunch more in London. Investors who make multi-billion dollar deals want to see principals face to face, ask tough questions, and take the full measure of who they are dealing with. Citizens has a new CFO, a new Chief Risk Officer, and a new Board Chair. Along with other key executives, all three needed to be physically present and play an active visible role during the negotiations. Hotels in these locations are expensive. A quick search on one of those budget travel sites showed the cheapest room in all of Bermuda at \$352 per night, with several choices at twice that rate. Citizens had a travel expense problem in the past that was fixed. Their employees now have the same travel standards as any other state or federal agency.

Chris Gardner, as Board Chair, serves as an unpaid volunteer, not an employee. Still, he reimbursed Citizens for the \$104 (\$52 per night for 2 nights) over the travel guidelines. Was this really newsworthy? The Brits have a name for frivolous news stories in the heat of summer when there is little else to print. It's called "Silly Season".

As the legendary Sam Rayburn, the longest serving speaker of the US House of Representatives once said: "Any jackass can burn down a barn, but it takes a carpenter to build one." We at FAIR prefer to work with the new Citizens to find better ways for them to operate a smart business that covers Floridians who have nowhere else to go and treats them fairly when they have a claim.

Jay Neal is President and CEO of FAIR, the Florida Association for Insurance Reform

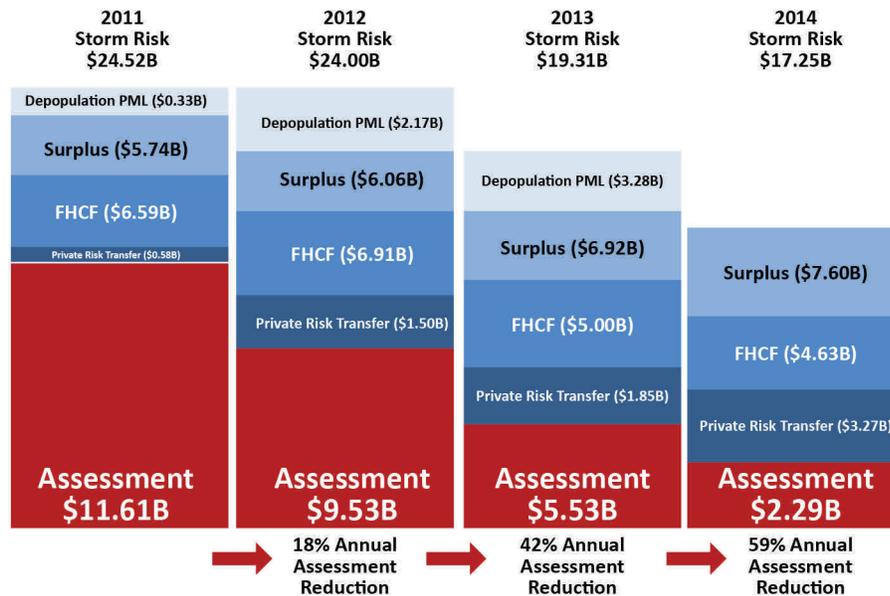
**Hurricane Prep Tip:
Brace Your Garage.**

Your garage is the largest opening for wind to enter your home during a storm. Inspect your garage door for signs it's pressure-rated – look for a label, solid steel wheels, large metal braces spanning the width of the door and brackets attaching the tracks to the wall. If it isn't pressure-rated, purchase a do-it-yourself bracing kit from your local hardware store, or hire a licensed contractor.

#HurricanePrep

CITIZENS
PROPERTY INSURANCE CORPORATION

Risk and Assessment Reductions



Values Are Not To Scale

NOTES:

1. Storm Risk is as measured by 100-year probable maximum loss (PML) plus estimated loss adjustment expenses using the Florida Hurricane Catastrophe Fund (FHCF) account allocation where PLA and CLA are combined. PLA/CLA combined PMLs are added to the Coastal PMLs to be consistent for surplus distribution.
2. Surplus, Florida Hurricane Catastrophe Fund (FHCF) & Assessments are as projected at beginning of storm season.
3. 2014 FHCF projections are preliminary and actual amounts may differ significantly from these projections.
4. Depopulation PML data is as of 12/31/13; therefore, 2014 information is not included.



News Links

[Florida's Citizens to Lower Rates for 2015](#)
Insurance Journal

[CEO: Citizens Property Insurance now on a better financial footing](#)
Tallahassee Democrat

[Catastrophe bonds are on track for a record year](#)
Business Insurance

[Inside the World's Largest Catastrophe Bond](#)
AM BestTV

[Citizens Property offers settlements on 600 sinkhole claims](#)
Jacksonville Business Journal