



## Barry Gilway - Talking points - August 25 Rate Hearing

Good morning. I appreciate the opportunity to be here with you this morning to discuss Citizens' proposed 2015 Rate filing.

Over the next few hours, my staff will delve into the details of a 2015 rate proposal that reflects not only improvements within Citizens, but improvements throughout a vibrant and expanding private market that, like Citizens, has benefited from eight years without a major storm and an expanding global market ready to take on catastrophe risk.

I would like to take a few minutes, however, to give you an overview from 30,000 feet on where Citizens has come from over the past few years and how that impacts the proposed rates you will be hearing more about today.

The bottom line is this: Prudent rate adjustments over the past several years, coupled with depopulation efforts and a historically favorable reinsurance market have made it possible for Citizens to submit a rate schedule that will provide rate relief to nearly 70 percent of Citizens policyholders.

Taken together, our efforts over the past few years have reduced Citizens' exposure from more than \$500 billion to less than \$300 billion, an 40 percent reduction that has resulted in an equally dramatic reduction in risk to Citizens customers and all policyholders who would be required to pay assessments in the event of Citizens exhausts its ability to pay claims.

In 2011, a 1-100 year event would translate into \$11.6 billion in assessments. Going into 2015, that assessment risk has been slashed 80 percent to less than \$2.3 billion.

Citizens has reduced its policy count from a high of 1.5 million in to under 933,000. Take out activity in the final months of 2014 will reduce that number to well below 900,000.

### SINKHOLE:

Another major rate driver is sinkhole. I have good news on that front as well. Following the passage in 2011 of SB 408, which provided much needed clarity regarding sinkhole claims, we have seen a significant reduction in new sinkhole claims.

This is significant as sinkholes, which for 2013 make up 4 percent of all reported claims, and accounted for close to 50% percent of all reserves for losses and loss adjustment expenses at year-end.

In the past few months, we have entered into settlement agreements with 755 sinkhole policyholders with pending cases to end the legal battles and get prepares made.

Last year, as you recall, we proposed actuarially sound rates in all counties outside of “Sinkhole Alley” and phased in rates in those counties to cushion the sticker shock to our customers

Given such favorable indications, we think it prudent to hold off on any 2015 sinkhole rate increases in all but one county, Hernando, where rates continue to be far below actuarially sound levels. For Hernando, therefore, we are asking for a 10 percent increase.

## REINSURANCE

Any discussion of 2015 rates, however, cannot take place without acknowledging Citizens success in spreading risk across the globe. Make no mistake. Successful negotiations earlier this year between Citizens, traditional reinsurers and global cat bond investors resulted in a \$3.3 billion package of reinsurance protection that will significantly reduce the rate need in 2015.

For most Citizens policyholders, the results are simple: Lower rates for nearly seven out of 10 Citizens policyholders. For Citizens customers in some regions, largely along the coast, where Citizens rates remain inadequate, we are seeing smaller increases and a slowing of rate need.

Over the past four years, we have been on a continual mission to bring Citizens rates more in line with the actuarially sound levels necessary for a sustainable, healthy Citizens and private market, while reducing the potential risk of assessments for all Floridian policyholders.

The proposed 2015 rate schedule is the result of those efforts. It mixes lower inland and multi-peril rates with targeted rate increases in coastal areas of the state where rates, especially for wind, remain far below adequate levels.

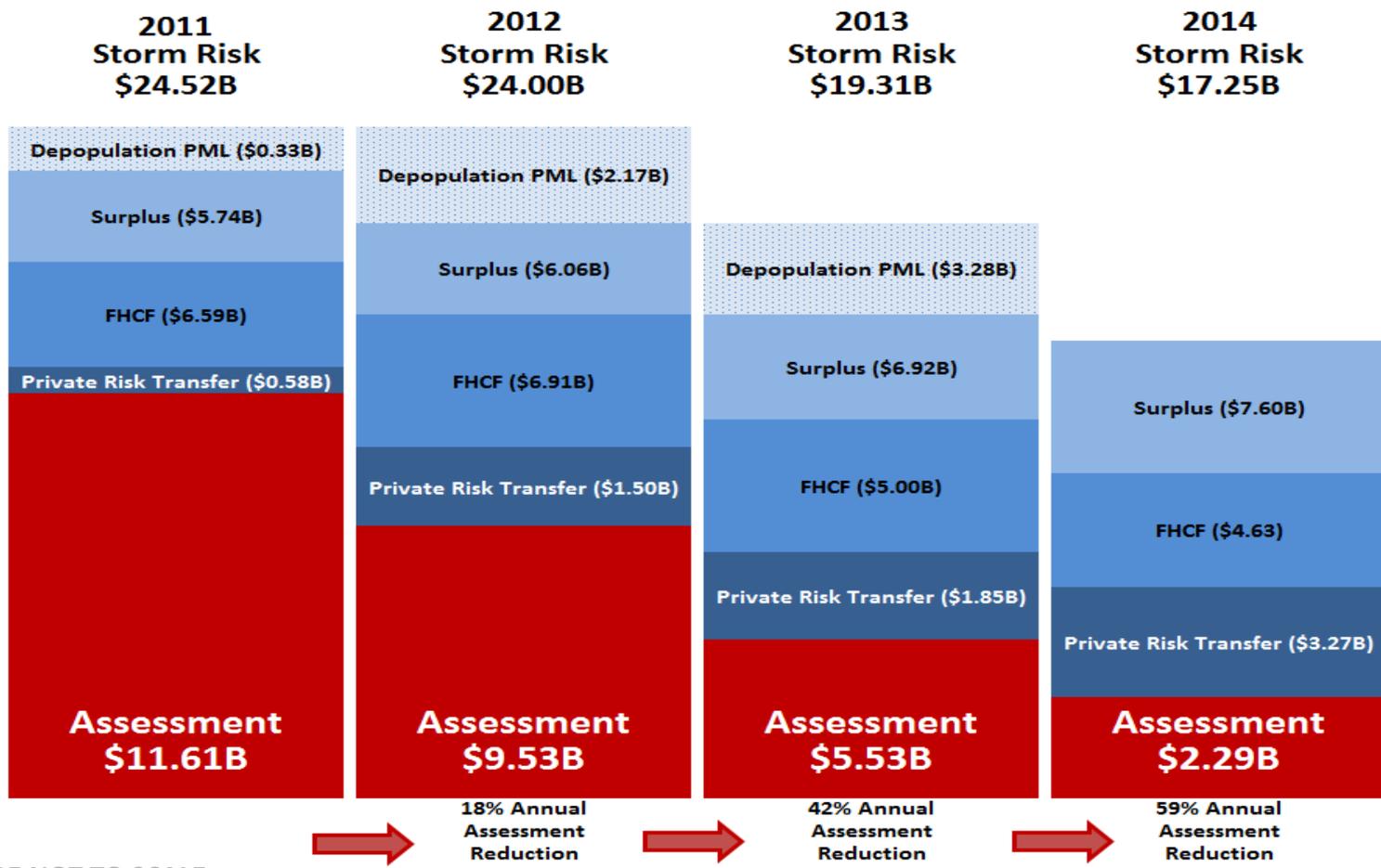
When I arrived at Citizens two years ago our goals were clear – reduce exposure and assessment risk as we return Citizens to its original role as insurer of last resort. We are accomplishing that while at the same time relieving some of the rate pressure on most of our policyholders.

Thank you for your consideration. I would like to turn over the podium to John Rollins, Citizens Chief Risk Officer, who will walk you through, in more detail, the 2015 rate package.

**Barry Gilway, President/CEO and Executive Director**  
**John Rollins, Chief Risk Officer**

**Public Hearing on Recommended Rates for 2015**  
**August 27, 2014**

# Background: Depopulation, Clearinghouse, and Risk Transfer Have Reduced Both Storm Risk and Assessment Burden



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.



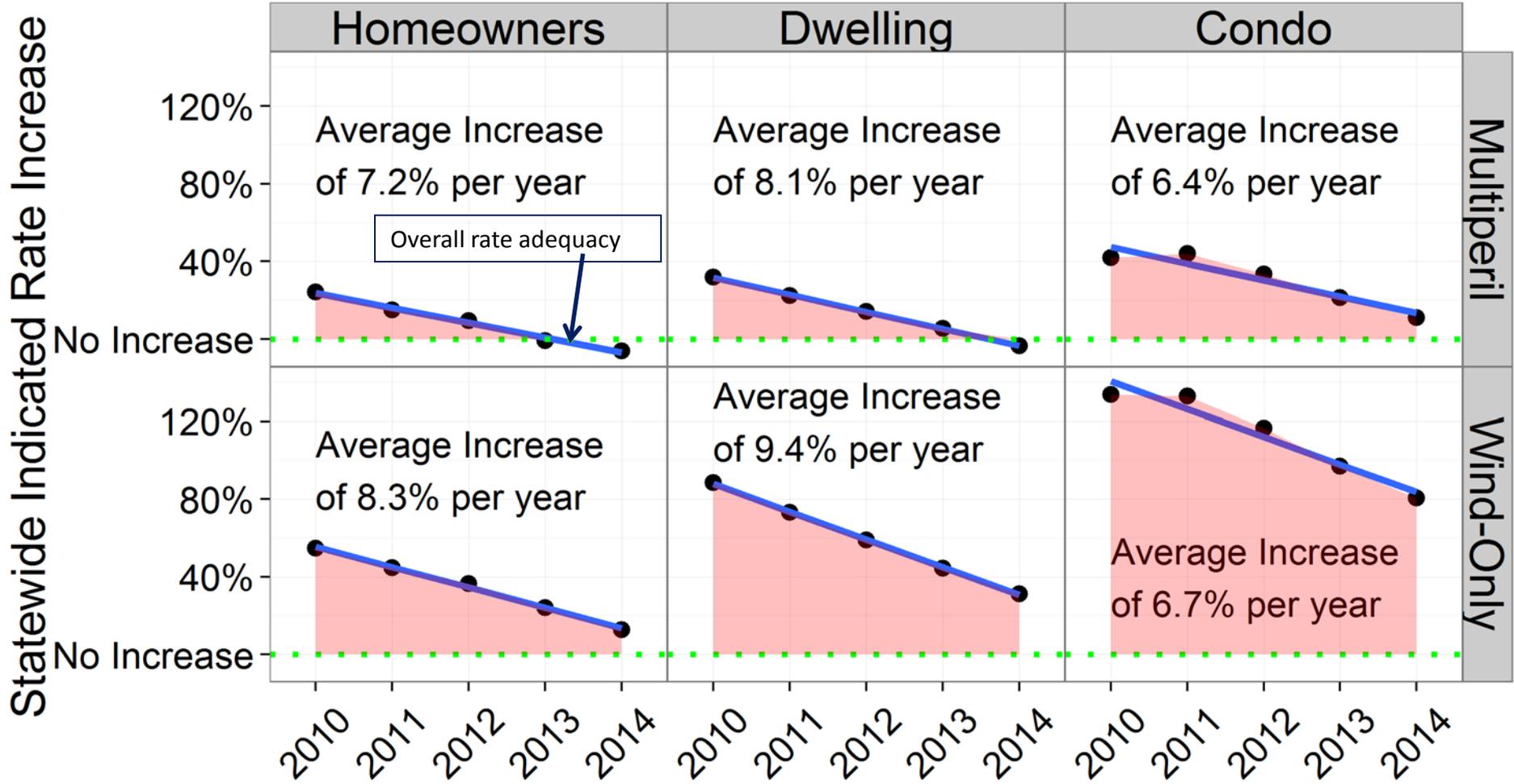
# 2015: Citizens Recommends a Mix of Lower Rates and Targeted Increases, Capped by Glide Path

- Recommended actuarially sound rates decline for nearly 70% of personal lines policies, particularly inland and multi-peril home and unit-owners. Why?
  1. Five years of glide path have restored rate adequacy in many lines and areas
  2. Moderation of loss trends for most causes, including sinkhole
    - Major exception: water losses in certain areas
  3. Decline in unit costs for reinsurance means lower net costs of capital even with larger buy
    - Risk-adjusted rates on line are down ~15% year over year
  4. Range of scientific opinion on expected hurricane losses stable (cat model results)
    - High Public Model results impact Condo Unit and Mobile Home
- Recommended rate increases are confined to generally coastal territories and wind-only. Why?
  - Historical rate inadequacy was more severe, particularly for policies with high wind loss mitigation credits, so glide path to adequacy is longer
  - Decline in reinsurance costs has shortened glide path by a year or two, and rate indications have moderated significantly

# 2015: Citizens Recommends a Mix of Lower Rates and Targeted Increases, Capped by Glide Path

- Sinkhole rates – no change recommended except +10% in Hernando. Why?
  1. Senate Bill 408 has positive impacts to more recent claim years, but may be court-tested
    - New claim reports are down ~60% versus pre-SB408 claim years
  2. Global settlement offers may help close out claims from earlier years
    - Five law firms representing 755 claims have signed on
  3. An actuarial pause is appropriate while claims and legal impacts are sorted out
- Existing glide path implementation will continue to be followed

# The Glide Path Has Steadily Restored Rate Adequacy, but Gaps Remain in Wind-Only Lines



# Net Costs of Reinsurance Have Declined Despite Explosion in Program Size, Due to More Bang for Buck

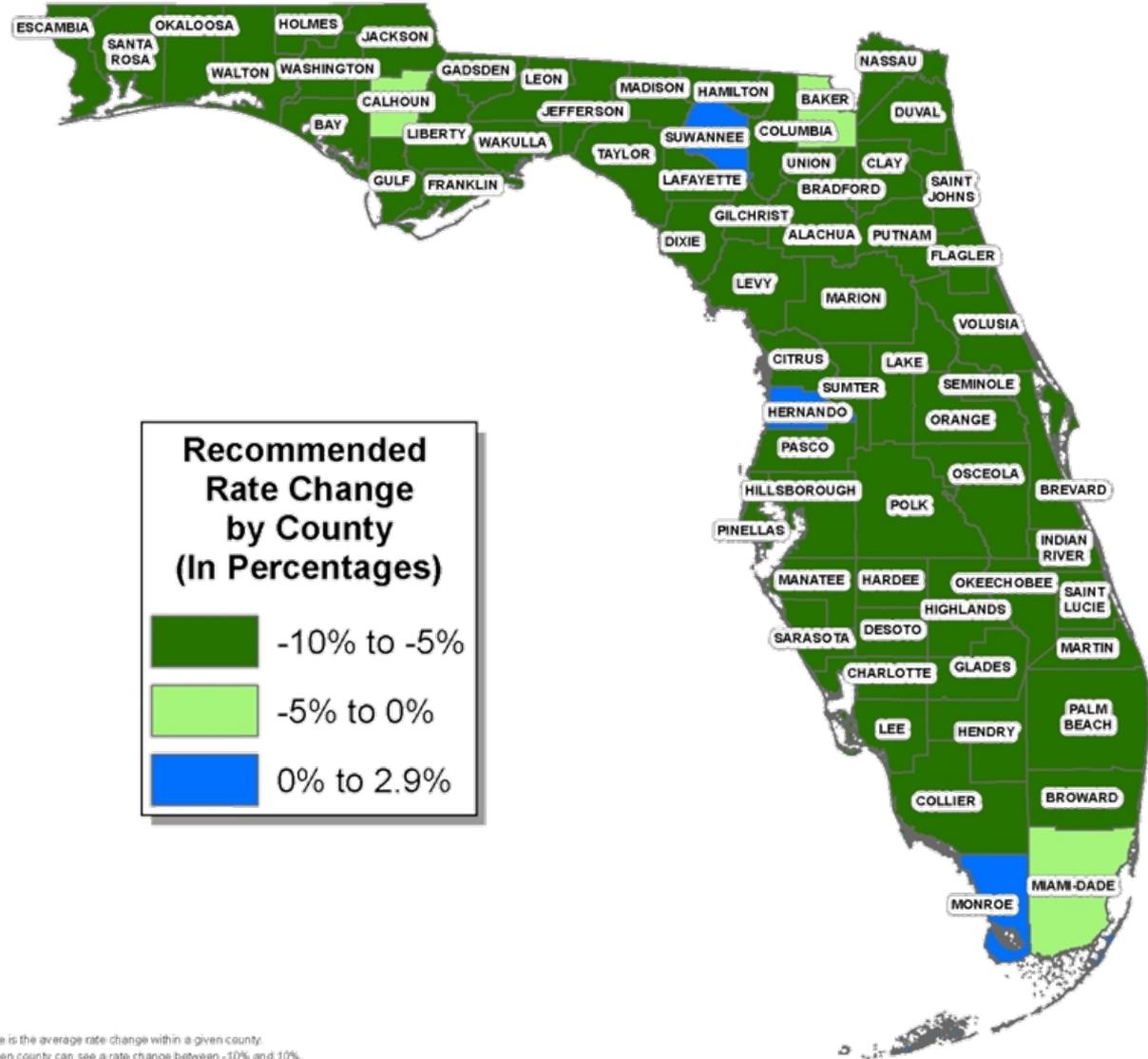


	Total Risk Transfer Program (in millions)			
	2011	2012	2013	2014
Risk Transfer Amount	\$ 575	\$ 1,500	\$ 1,854	\$ 3,269
Risk Transfer Spend	\$ 124	\$ 276	\$ 310	\$ 311
Risk Transfer Rate On Line	21.5%	18.4%	16.7%	9.5%

- Gross spend is similar to last year, but more coverage, better terms, and lower retentions improve net costs after expected recoveries, and contribute to lower rates

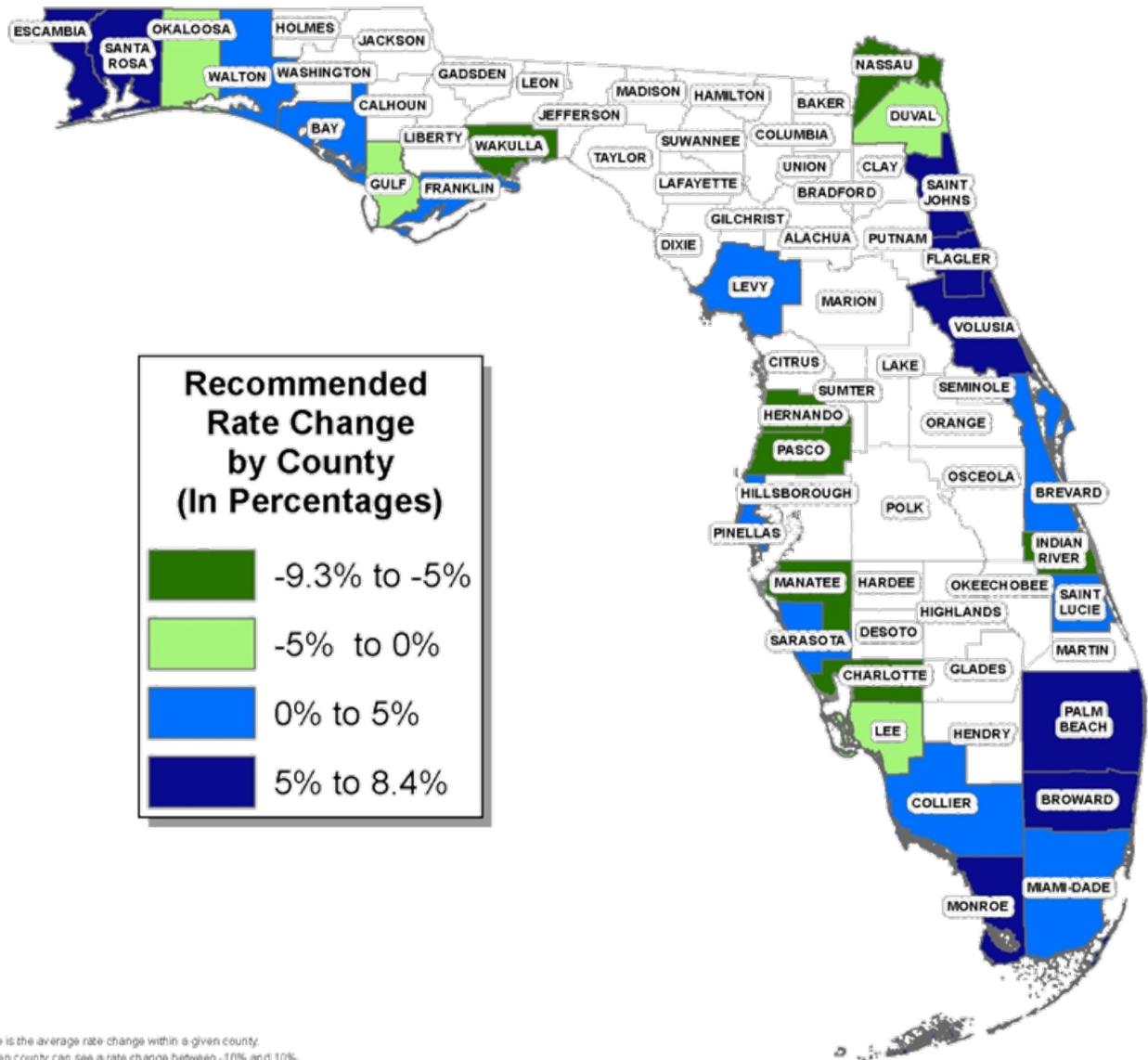


# Rate Impacts Vary By Region, but Generally Decline for Multi-Peril Personal Lines



**Notes:**  
 1. Percentage of rate change is the average rate change within a given county.  
 2. Policy holders within a given county can see a rate change between -10% and 10%.

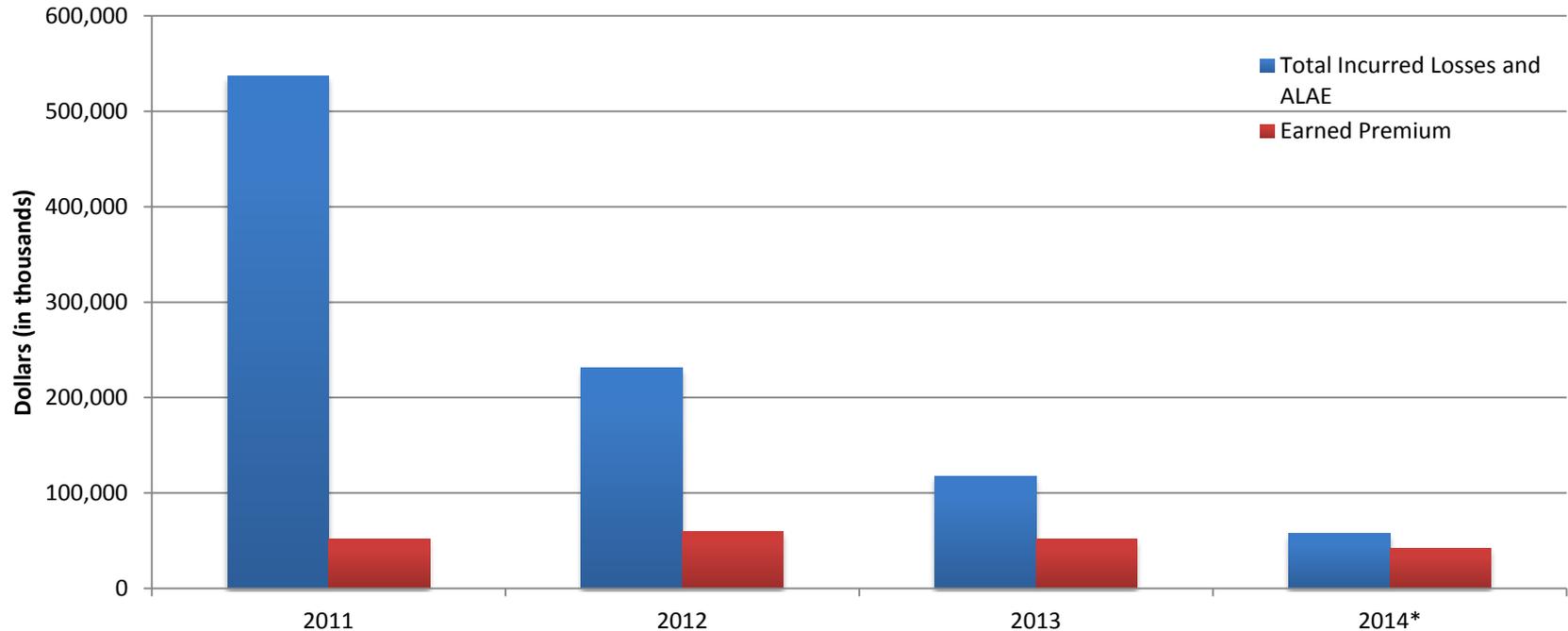
# Rate Increases Generally Affect Wind-Only and Coastal Policies



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# Sinkhole Rates: Standing Pat due to Legal and Claims Factors and High Actuarial Uncertainty

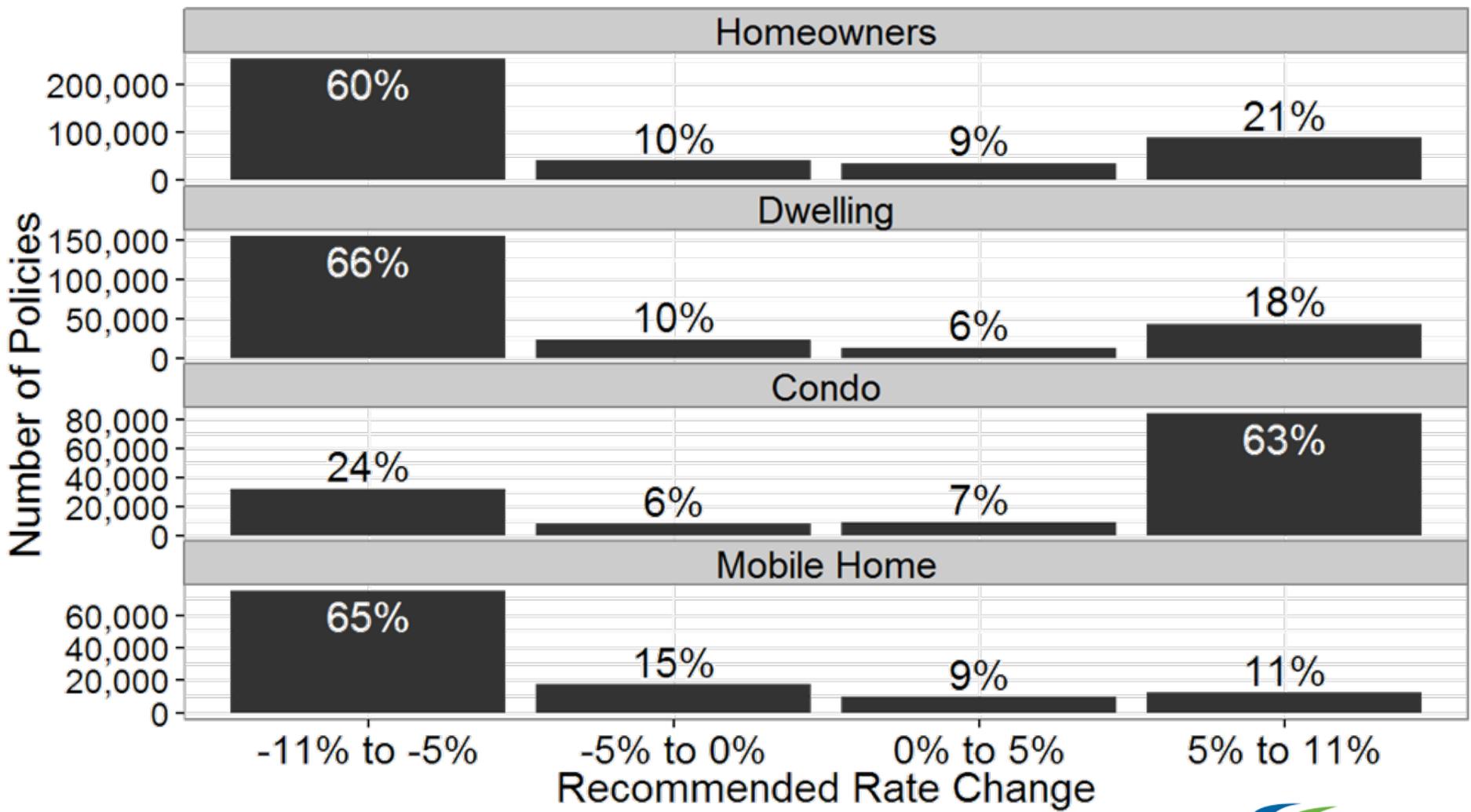


- No sinkhole rate change recommended except +10% in Hernando
- Senate Bill 408 has positive impacts to more recent claim years, but will be tested by courts
- Global settlement offers may help close out earlier claim years

Figure shows calendar year incurred losses including IBNR.

\* For 2014, projected values based on premium and losses through 6/30/2014.

# Range of Policyholder Impacts Reflects Overall Decreases, Targeted Increases and Caps



# Questions and Discussion