



2014 Rate Hearing

Opening Comments

Barry Gilway, President/CEO and Executive Director, Citizens Property Insurance Corporation

Thank you, Madam General Counsel Miller and members of the panel for giving me the opportunity to make a few comments as we get started today. I plan to be very brief.

We are here today to undertake a difficult and delicate exercise: Moving Citizens Property Insurance Corporation toward actuarially sound rates while recognizing that these rate recommendations affect real people. The rates in this filing are not just numbers on a page, but represent premium checks being written by policyholders trying to protect what in most cases is their greatest asset.

We are a state-created government entity and as such are working to operate as efficiently as possible to keep our costs low. As a government entity, Citizens has no profit margin to maintain and strives to keep costs down. As such, our administrative cost is significantly lower than what you would find in the private market.

But we also have an obligation to all Florida policyholders who will be called upon to pay assessments in the event our financial resources are exhausted. While this balance is difficult we believe that the filing you have before you provides that delicate balance.

Before turning it over to our actuaries, I'd like to offer a few points that illustrate our appreciation for the significance of the rates we are presenting today and the degree to which we have tried to minimize the impact on our 1.2 million customers.

Citizens has engaged in prudent risk transfer for this hurricane season using traditional reinsurance and capital markets to take an estimated \$1.85 billion off the shoulders of all Florida policyholders for this hurricane season. This risk transfer will greatly enhance Citizens ability to pay claims in the event of a major hurricane, reducing the likelihood and amount of assessments on Florida policyholders, In addition to transferring the risk of our existing policyholders, depopulation efforts have significantly reduced Citizens exposure to loss. Looking at both risk transfer and depopulation together, Citizens assessment risk has been reduced by 47 percent since 2012.

I want to emphasize that in developing our rates under the statutory glide path, most of our reinsurance costs are not passed on to customers in the recommended rates. Instead the costs are absorbed by Citizens.

With respect to our proposed 2014 rates, significant overall exposure to hurricanes and sinkholes are the major drivers behind the recommendation. The filing before you shows we are clearly making progress on our overall rate. Simply put, the statutory glide path is working. In 2011 our homeowners rate need was 56 percent. In 2014 it is 18.3 percent.

Additionally, our sinkhole rate need continues to significantly improve, due in no small part to provisions passed in Senate Bill 408. This is excellent news considering that between 2008 and 2012, Citizens collected \$191 million in sinkhole premium but paid out \$1.2 billion in sinkhole claims and related expenses.

With such progress and eight years with no major storms it may appear to defy common sense that we are here asking for higher rates, especially for wind. But while we have become financially stronger, Citizens remains only a bad storm season away from breaking the bank and being forced to assess all Florida policyholders.

As I conclude my comments, I would like to highlight two important points as you consider the recommendations of our actuaries. Just as we are moderating the impact of wind rates under the glide path, we are likewise cushioning the premium blow on sinkhole policyholders by phasing in higher rates in the region most affected by sinkholes; the Tampa Bay area.

We would now like to present you with a brief overview of our filing, with the hope that there will be ample time for questions from the panel and public testimony from members of the audience who have travelled to be here today. With that, I thank for your time and would like to introduce to you Paul Kutter, Citizens actuarial research manager to present the filing. We also have on hand Brian Donovan, our Chief Actuary and March Fisher, our director of corporate analytics.

Actuarial Comments

Paul Kutter, Actuarial Research Manager, Citizens Property Insurance Corporation

Good afternoon General Counsel Miller and members of the panel. Thank you for this opportunity to provide public testimony regarding the 2014 Citizens rate filing, which recommends rates for all of Citizens' policies written in 2014. The only policy types excluded from the filing are certain large commercial policies.

I would like to begin by discussing Citizens' overall recommended rate level of 7.5 percent. To illustrate the rate details of the filings, I will refer to the homeowners rate filing, which comprises the largest portion of Citizens' policies. Using the statutorily allowable maximum rate increase of 10 percent for any individual policyholder, we recommend an overall rate increase of 6.6 percent, or an additional \$96 million in premium.

This 6.6 percent represents the overall average premium increase for all Citizens homeowners policyholders from 2013 to 2014, with no policyholder experiencing an increase greater than 10 percent, and 68,000 policyholders receiving rate decreases.

After applying the 10 percent per-policy glide path over the last 4 years, Citizens is making progress towards actuarially sound rates, while also recognizing policyholders' need to absorb rate increases over time.

This slide shows the overall indicated homeowners rate increases that Citizens has filed for the last four years. The indicated rate change filed for homeowners policies has decreased from 56.5 percent in 2011, to 47.9 percent in 2012, to 32.1 percent in 2013. Now, for 2014, the indication is 18.3 percent. The 2014 filing continues our steady progress towards actuarial soundness while moderating the actual premium increases by no more than the allowable 10 percent per-policy glide path.

I would now like to address the optional sinkhole coverage offered to homeowners and dwelling policyholders. Unlike the premiums for other types of coverage, sinkhole premiums are specifically exempted from the statutory 10 percent per-policy glide path. Rather, rates for sinkhole coverage are statutorily required to be actuarially sound, that is, to reflect the true cost of providing insurance.

We have some encouraging news regarding Citizens' cost to provide sinkhole coverage. With the passage of SB 408, our best projections based on the data available are that Citizens' sinkhole losses will decrease by over 52 percent relative to what they would have been without the provisions of SB 408. However, even with this projected reduction in sinkhole losses, we still have a significant indicated rate deficiency.

Based on data that was available when preparing these filings, our indicated rate need for optional sinkhole coverage is 207 percent even after application of the 52 percent projected reduction in costs to account for SB 408.

Before I get into the details behind the overall rate need, I would like to go ahead and inform you of our proposed actual recommended sinkhole rate changes contained in this filing.

As allowed under Florida Statute, Citizens Board of Governors has recommended that the 2014 sinkhole rates be phased in for policyholders in Pasco, Hernando and Hillsborough Counties. The board's recommendation is increases of 20 percent for Pasco and Hernando counties and 50 percent in Hillsborough County.

Citizens is proposing this phase-in to reduce further financial hardship on sinkhole policyholders. For all other counties, the filing is for the actuarially indicated sinkhole rates, with average actual-dollar cost of increases in these other territories ranging from \$0 to \$76, with an overall average of \$7. Statewide, we are filing for an average sinkhole rate increase of 24.8 percent, which would produce an addition \$15 million to pay sinkhole claims.

The significant rate difference between Hernando, Pasco and Hillsborough counties and the rest of the state can be explained by the fact that 82 percent of our sinkhole claims occur in these three counties. In proposing these sinkhole rates, we are choosing to substantially moderate the rate indication at this time and will wait to see how sinkhole losses develop in future years in response to provisions passed in Senate Bill 408.

To put this in perspective, I'd like to talk for a moment about the overall numbers behind this large sinkhole rate deficiency. Like other insurers, Citizens has experienced an escalation in sinkhole claims over the last decade. Since 2008, Citizens has paid \$1.2 billion for sinkhole coverage, but only collected \$191 million in premium.

As we move forward, we will continue to collect more data on actual sinkhole losses, review loss control measures other than rate and will use more and more actual loss data for future year sinkhole rate filings.

Now, I would like to speak about the catastrophic risk from which it is so important to protect homeowners and property in Florida- hurricanes.

After eight years with no major hurricane losses, Citizens has \$6.295 billion in surplus as of December 31, 2012. This puts Citizens in its best financial position ever to pay claims after a major hurricane. However, the catastrophic nature of hurricanes generates loss scenarios that still exceed Citizens' financial resources.

Let me provide the following illustrations: if the Great Miami Hurricane hit today we estimate it would cause \$18.674 billion in claims losses to Citizens, which is far more than Citizens' surplus.

Because, historically, hurricane landfalls in Florida are relatively infrequent, but severe when they occur, to create an actuarially sound rate, premiums are based on Citizens expected average costs to insure hurricanes each year, evaluated over a very long period of time. In this way, each year's premium represents an average amount to pay expected hurricane losses over time.

To illustrate this process. Citizens has experienced no major storm losses since 2005. Suppose a hurricane were to hit Florida this year and cause enough damage to consume all the surplus we have accumulated over the past eight years. In developing rates, Citizens' is attempting to charge premiums that average the costs of both the years without any storms, and the years in which major storms actually occur.

Like any other Florida insurance company, Citizens uses computer hurricane loss models to project average hurricane losses for each year. These hurricane loss models represent one of the most important and complicated parts of any Florida rate filing.

To be used in a Florida rate filing, a hurricane loss model must be approved by the Florida Commission on Hurricane Loss Projection Methodology (Commission). This Commission is an independent body of experts created by the Florida Legislature in 1995 for the purpose of developing standards and reviewing hurricane loss models used in the development of residential property insurance rates and the calculation of probable maximum loss levels. Its members include experts in actuarial science, finance, statistics, computer system design, meteorology and engineering, in addition to the Insurance Consumer Advocate, the president of Citizens, the Director of the Division of Emergency Management, and actuaries from both the Florida Hurricane Catastrophe Fund Advisory Council and the Office of Insurance Regulation.

The high variability of hurricanes means that a series of consecutive years without major hurricane losses, as we have experienced since 2005, can be punctuated with extremely costly storms. The AIR hurricane loss model is used by Citizens to project the average hurricane losses relied upon in calculating rate indications.

Models are also used to estimate the statistical probability that an extremely large hurricane loss will occur in any one year period. For the policies insured by Citizens at the end of June, 2013, there is a 1 percent chance, that during the course of one year, Florida could experience a hurricane causing losses to Citizens' policyholders of \$17.5 billion, or more.

Since the rates are based on the average costs of years both with, and without, large storms, Citizens saves its unspent premium in years with below-average hurricane losses to pay for future hurricanes. This money is held as surplus and reduces the amount of additional funding that, in the case of a large storm, Citizens would need to collect through assessments charged to every Florida policyholder.

Members of the panel, this concludes our prepared remarks. We appreciate your attention, and are happy to answer any questions regarding the filing. Additionally, we look forward to hearing from members of the audience who have travelled to be here.

Citizens Property Insurance Corporation 2014 Rate Hearing

August 20, 2013

Indicated and Filed Rate Change

	Uncapped	Capped
	Indicated Rate Change	Filed Rate Change (by Territory)
All Lines	19.8%	7.5%
Homeowners HO-3 and HW-2	18.3%	6.6%

Historical Homeowners Rate Change

Year	Indicated Rate Change	Change in Indicated Rate from Prior Year
2011	56.5%	-
2012	47.9%	(15.2%) ↓
2013	32.1%	(33.0%) ↓
2014	18.3%	(43.0%) ↓

Catastrophic Ground Collapse

- **Included with basic coverage and subject to 10% glide path**
- Depression in ground cover that is clearly visible to naked eye
- Abrupt collapse of ground cover
- Structural damage to the covered building, including the foundation
- Insured structure is condemned and ordered vacated by the authorized governmental agency
- Citizens has had 7 catastrophic ground collapse claims



Non-Catastrophic Sinkhole Claims

- **Sinkhole loss** means **structural damage** to the covered building, including the foundation, caused by sinkhole activity.
- **“Structural Damage”** Definition(s)
 1. Interior floor displacement in excess of acceptable variance
 2. Foundation displacement in excess of acceptable variance
 3. Listing, leaning, or buckling of the exterior load bearing walls
 4. Damage resulting in the primary structural members or systems being significantly likely to collapse
 5. Damage occurring on or after October 15, 2005, that qualifies as substantial structural damage.



Historical Homeowners Sinkhole Rate Change

Year	Indicated Sinkhole Rate Change	Change in Indicated Rate from Prior Year
2011	307.8%	-
2012	476.3%	157.7% ↑
2013	263.2%	(44.7%) ↓
2014	222.6%	(15.4%) ↓

Indicated Sinkhole Rate & Premium Change

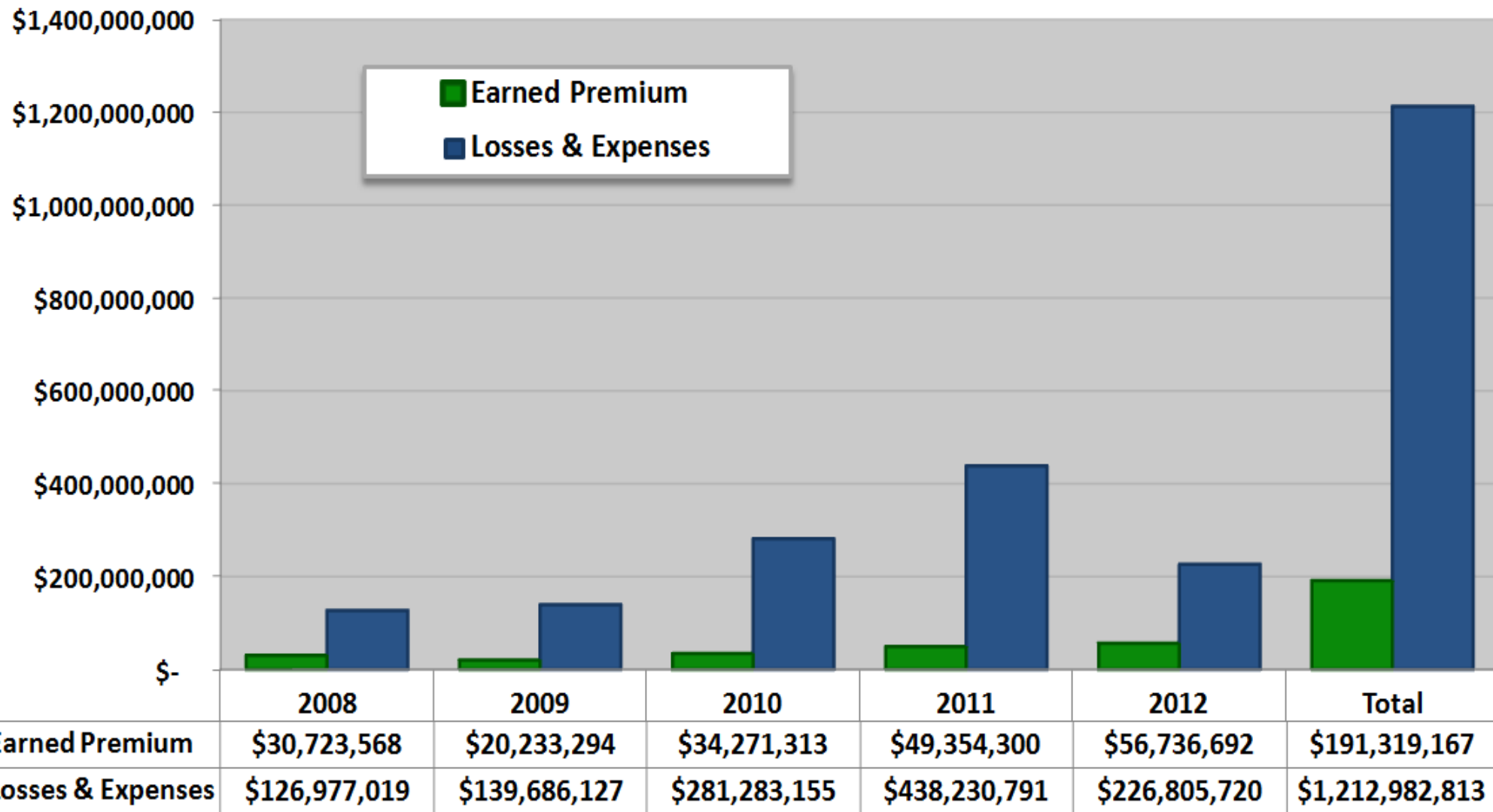
County	Indicated % Change	Filed % Change	Average Premium		
			Current	Proposed	Difference
Hernando	451%	20%	\$1,688	\$2,026	\$338
Pasco	177%	20%	\$1,829	\$2,195	\$366
Hillsborough	235%	50%	\$ 383	\$ 574	\$191

Sinkhole Premium and Losses

Data Evaluated as of August 2008 – September 2012

County	Earned Premium	Incurred Loss	Difference
Hernando	\$52,813,533	\$657,031,909	(\$482,896,867)
Pasco	\$59,634,479	\$292,119,024	(\$232,484,545)
Hillsborough	\$27,806,623	\$166,660,062	(\$138,853,439)
Remaining Counties	\$51,064,534	\$97,171,819	(\$ 46,107,285)

Historical Sinkhole Premium and Losses



Great Miami Hurricane (1-in-100 Yr PML) Scenario with Current Book

Estimated Hurricane Losses	\$18.674 Billion
<i>LESS</i> Surplus	\$6.295 Billion
<i>LESS</i> Florida Hurricane Catastrophe Fund	\$5.500 Billion
<i>LESS</i> Reinsurance	\$1.851 Billion
<i>EQUALS</i> (Deficit) or Redundancy	(\$5.028) Billion