



## Barry Gilway – Opening comments – August 25 Rate Hearing

Good morning Commissioner McCarty and members of the panel. For the record, my name is Barry Gilway. I am the President, CEO and Executive Director of Citizens Property Insurance Corporation.

We are here today to present our 2016 Rate Request for your consideration. Before turning the meeting over to the experts, I wanted to take a few moments to give you a 30,000-foot perspective on the issues and trends that are underlying our request today.

Over the past year, Citizens has made great strides in returning to our mission of being Florida's insurer of last resort. When we were before you last year, Citizens was insuring 930,000 policyholders unable to find coverage in the private market. Today, thanks to the glide-path, takeout efforts and an increasingly robust private market, we have reduced our footprint shrunk to 592,000 policies. That's a 36 percent decrease in a little under a year.

While we have made great progress in reducing our exposure and have virtually eliminated the risk of assessments on Floridians, we continue to face formidable challenges in our role as the state's residual carrier.

While our proposal lowers rates for 60 percent of our personal lines policyholders, we are seeking an average 3.2 percent increase in statewide rates for personal lines customers, a request that reflects both longstanding disparities in wind-only rates and recent challenges relating to water losses.

On the wind-only side, we insurer fewer policyholders, but those policyholders tend to live in the most hurricane prone regions of the state.

In the multi-peril arena, we are experiencing a disturbing rise of water loss claims in South Florida, particularly in Miami-Dade. Those losses, more than anything else, are driving our request. If water loss trends in South Florida mirrored other parts of the state, Citizens could offer rate decreases to 99 percent of homeowner's policyholders in Miami-Dade.

Rest assured we are doing all we can to limit the impact on our policyholders. Three years ago, we embarked on an effort to streamline operations and improve how Citizens does business. I brought in outside experts to provide guidance and, more importantly, listened to what they had to say.

A major portion of our restructuring efforts has been to transfer core functions from contingent staff to in-house employees. The rationale was simple: Establish the stable workforce necessary to run critical functions at Citizens whether we insured 1.5 million or 500,000 policyholders.

As a result, our overall workforce has been cut by nearly a third. The number of contingent staff employed by Citizens has fallen by nearly 67 percent from a high of 1,344 in 2012, a reduction of nearly 900 positions. In their place, Citizens has added 97 full-time employees, an increase of only 8.5 percent.

By the end of next year, we will have consolidated operations from nine office facilities to three, reducing our overhead and eliminating some positions while improving communication between our employees.

Internally, we streamlined and reorganized our management team to be more effective, efficient and accountable. We eliminated some senior level positions and re-assigned duties to improve workflow and transparency.

Since the 2004-2005 season, we have not sat idle waiting for the wind to blow again. We invested policyholder premiums in technology to replace legacy systems that no longer met our needs. We also took advantage of an emerging global investment market to transfer risk in the event of a major storm.

Taken together, these efforts have eliminated the assessment risk on Floridians in the event of a 1-in-100 year storm while spreading the cost of technological improvements over a wide policyholder base to reduce the financial burden on individual customers.

We still face challenges.

Though fewer in number, the policies that remain with Citizens represent those in high risk areas, older structures and mobile homes for which private insurance remains unavailable or prohibitively expensive.

We are also experiencing a disturbing rise in water claims and litigation, especially in Miami-Dade County, where water claims now account for more than half of every premium dollar paid by policyholders.

Let me be crystal clear: Water losses are THE major reason Citizens is seeking rate hikes for the coming year, especially in South Florida. Were it not for water loss, even South Florida policyholders would see rate reductions.

We will continue our efforts to operate as efficiently as possible and limit the rate impact on our customers, while ensuring that we fulfill our duties to all Floridians as our policy count continues to fall over the next few years.

Our Board of Governors has been very clear. Citizens' management team will take a strategic approach now to further reduce expenses and increase efficiencies without jeopardizing Citizens ability to be ready when disaster strikes.

Thank you for your thoughtful consideration of our request. I would be happy to answer questions before turning the program over to our Chief Risk Officer, John Rollins.

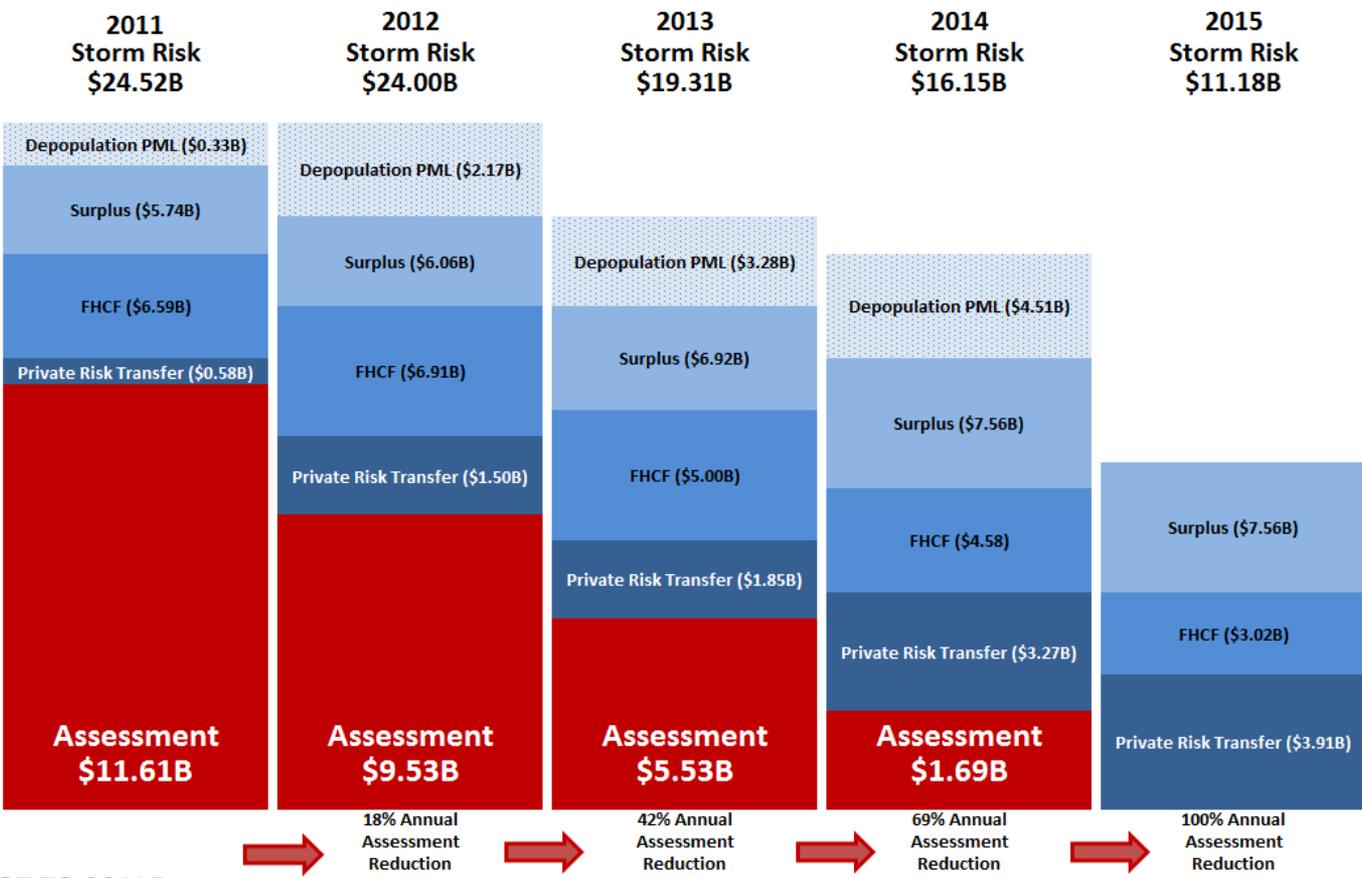
## John Rollins – Talking Points – August 25 Rate Hearing

- “The current Citizens looks very different than the oversized insurance company that exposed Floridians to large post-storm assessments in the past. As a true market of last resort now, Citizens tends to insure problematic risk exposures in pockets around the state – areas of extreme wind risk, known sinkhole risk, and troublesome regional claims environments. We lowered rates last year for the majority of policyholders – and they found cheaper and possibly more expansive coverage in the private market anyway, and are now gone from Citizens. Current customers of Citizens represent more of a mixed bag in terms of rate adequacy.”
- “Florida’s assessment-driven hurricane financing structure has often been described as ‘pay me now or pay me later.’ After five years of hard work, Citizens believes we have eliminated the ‘pay later’ part. Now Floridians know that when they pay their Citizens premium, they are fully protected and not exposed to post-storm payments as well. The best part of this story is that the cost of all that reinsurance protection is stable or declining, and therefore not driving rate increases year over year.”
- “The exception to the good news is in South Florida, where an intense deterioration in the regional multi-peril claims environment is driving non-wind rate increases. The actuarial equation here is simple – there are no black boxes and no scary scientific climate predictions. In order to get the actuarially sound rates required by Florida law, communities that incur the losses must ultimately pay higher rates to fund the frequency and cost of those claims. We have looked deeply and cannot find evidence of construction issues or legal distinctions between South Florida and the rest of the state – only the claims volume and participation by attorneys and public adjusters is what is different.”

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

Public Hearing on Recommended Rates for 2016  
August 25, 2015

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



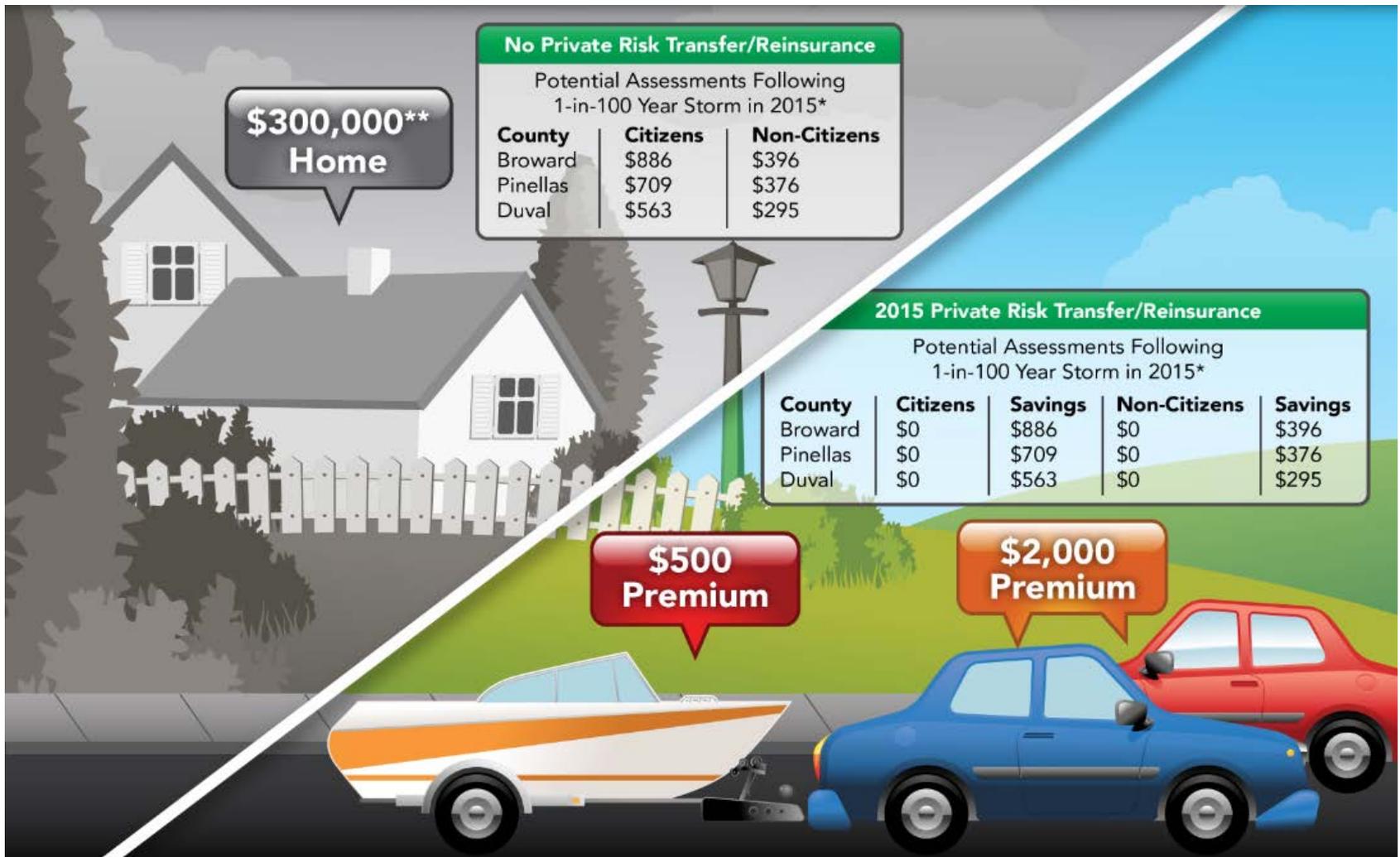
VALUES ARE NOT TO SCALE

**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. Not all PLA/CLA surplus is needed to fund storm risk in 2014; total projected surplus is shown above.
- 3) Depopulation PML data is as of 12/31/14; therefore, 2015 information is not included. Depopulation PMLs are not included in storm risk totals.
- 4) 2015 FHCF projections are preliminary and actual amounts may differ significantly from these projections.
- 5) PMLs from 2011-2014 use a weighted average of 1/3rd Standard Sea Surface Temperature (SSST) and 2/3rd Warm Sea Surface Temperature (WSST).
- 6) 2015 PMLs reflect only SSST and are based on beginning year exposures.



# How Reinsurance Makes Pocket \$ense

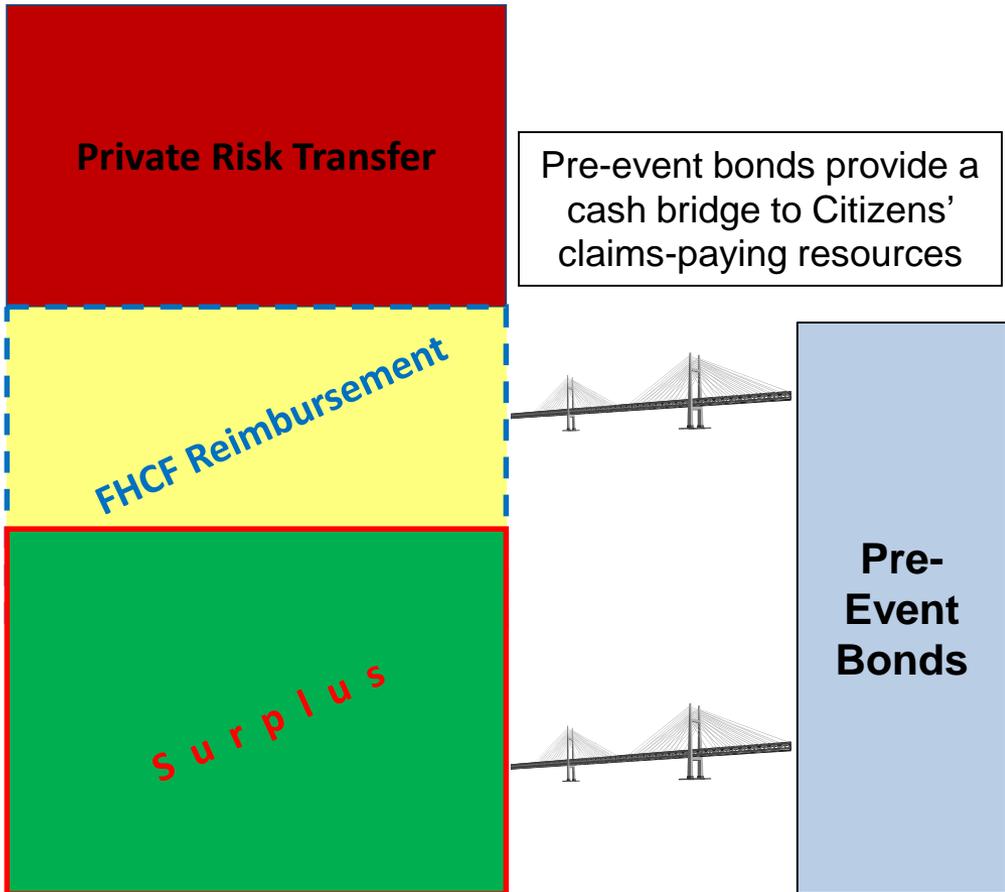


**NOTES:** Scenario assumes assessments would be collected over a 10-year period.  
 \*For boat, home and auto policies combined.  
 \*\*Total insured value of home.

# In 2015, Citizens Issued Pre-Event Bonds to Transfer Liquidity Risk to the Financial Markets

## Citizens' Primary Claims-Paying Resources

- Citizens' pre-event bonds provide multi-year liquidity to help ensure timeliness of payment for policyholders after a hurricane event
  - Citizens has multiple claims-paying resources, but some of them are not immediately available post-event – pre-event financing helps provide a bridge to those sources, particularly reimbursements from the FHCF
  - Draws on any liquidity financing instruments are intended to be repaid primarily from FHCF reimbursements or assessments



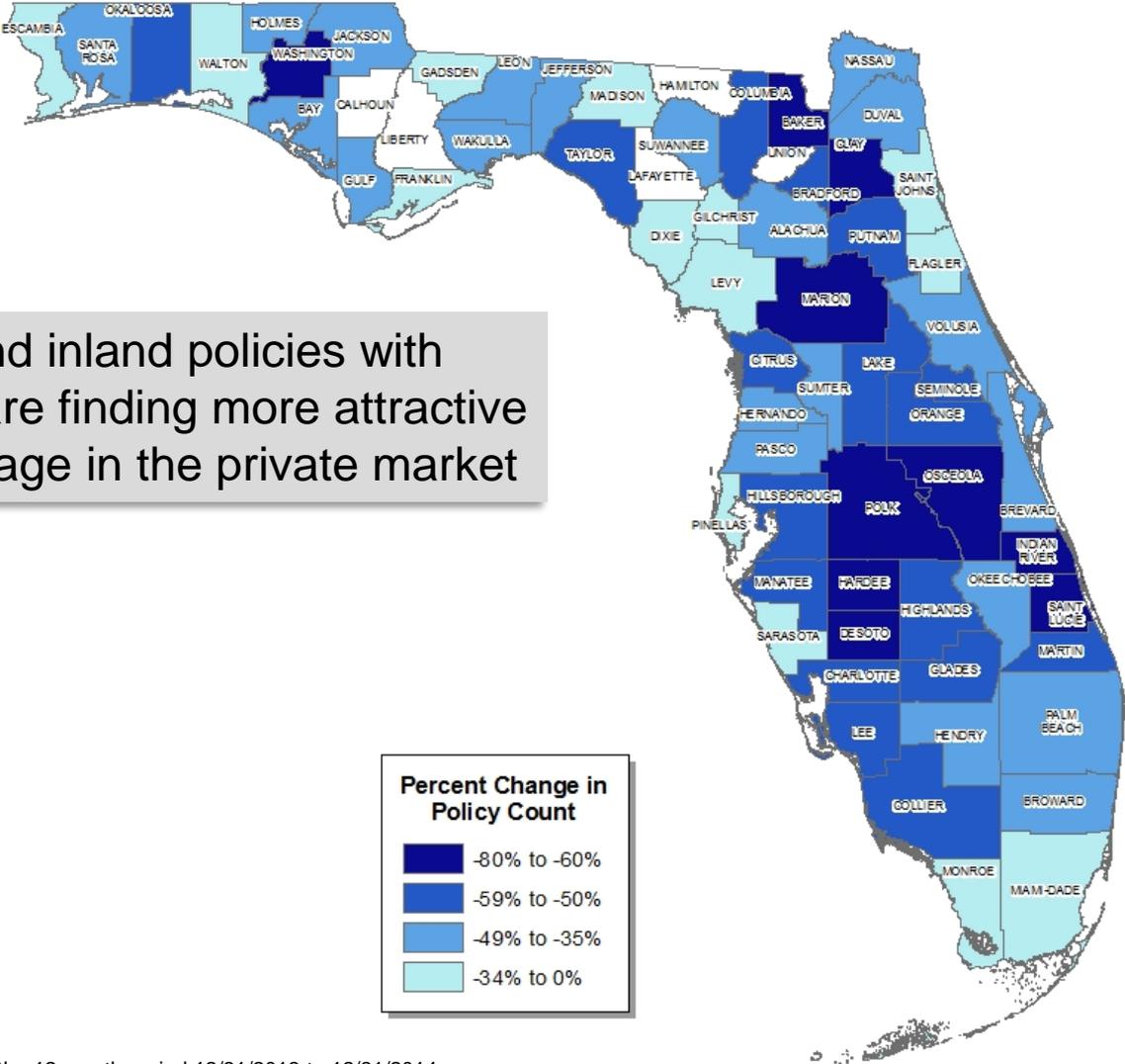
# For 2016: Citizens Recommends a Mix of Lower Rates and Targeted Increases, Capped by Glide Path

- Recommended rate decreases for a majority (60%+) of personal lines account policyholders, and rate increases for a majority (80%+) of personal lines coastal account policyholders. Why?
  1. Many policyholders that would have seen rate decreases have already migrated to equal or lower premiums from the private market, usually through depopulation
  2. A decline in unit costs for reinsurance means lower net costs to consumers even with a larger buy.
    - But, average provision in rates is higher because remaining policies have higher hurricane risk relative to their premiums
  3. Water claims are steeply trending up in the South East Florida Region.
    - Rate recommendations assume that these trends will moderate
    - If average non-sinkhole, non-wind costs in Miami-Dade were like the rest of the state, 99% of its multiperil homeowners policyholders would have been recommended a rate decrease
  4. Range of scientific opinion on expected hurricane losses is stable (cat model results)
    - High Public Model results impact Condo Unit and Mobile Home Owners policies
- Recommended rate increases generally affect South Florida coastal territories and wind-only. Why?
  - Historical wind rate inadequacy was more severe, particularly for policies with high wind loss mitigation credits, so the glide path to adequacy is longer
  - Increasing water claims leads to recommended rate increases in South East Florida

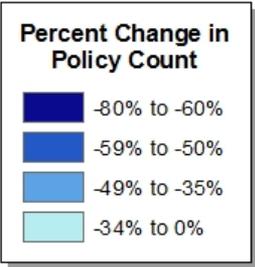
# For 2016: Citizens Recommends a Mix of Lower Rates and Targeted Increases, Capped by Glide Path

- Sinkhole rates – no change recommended. Why?
  1. Senate Bill 408 has positive impacts in more recent claim years, but may be court-tested
    - New claim reports continue to decrease. ~68% fewer claims were reported in 2014 than 2013
  2. Global settlement offers are helping to close out claims from earlier years
    - Nineteen law firms, representing over 2100 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, protecting each consumer

# Increased Depopulation Has Changed Citizens' Landscape



Less risky and inland policies with adequate rates are finding more attractive premiums/coverage in the private market



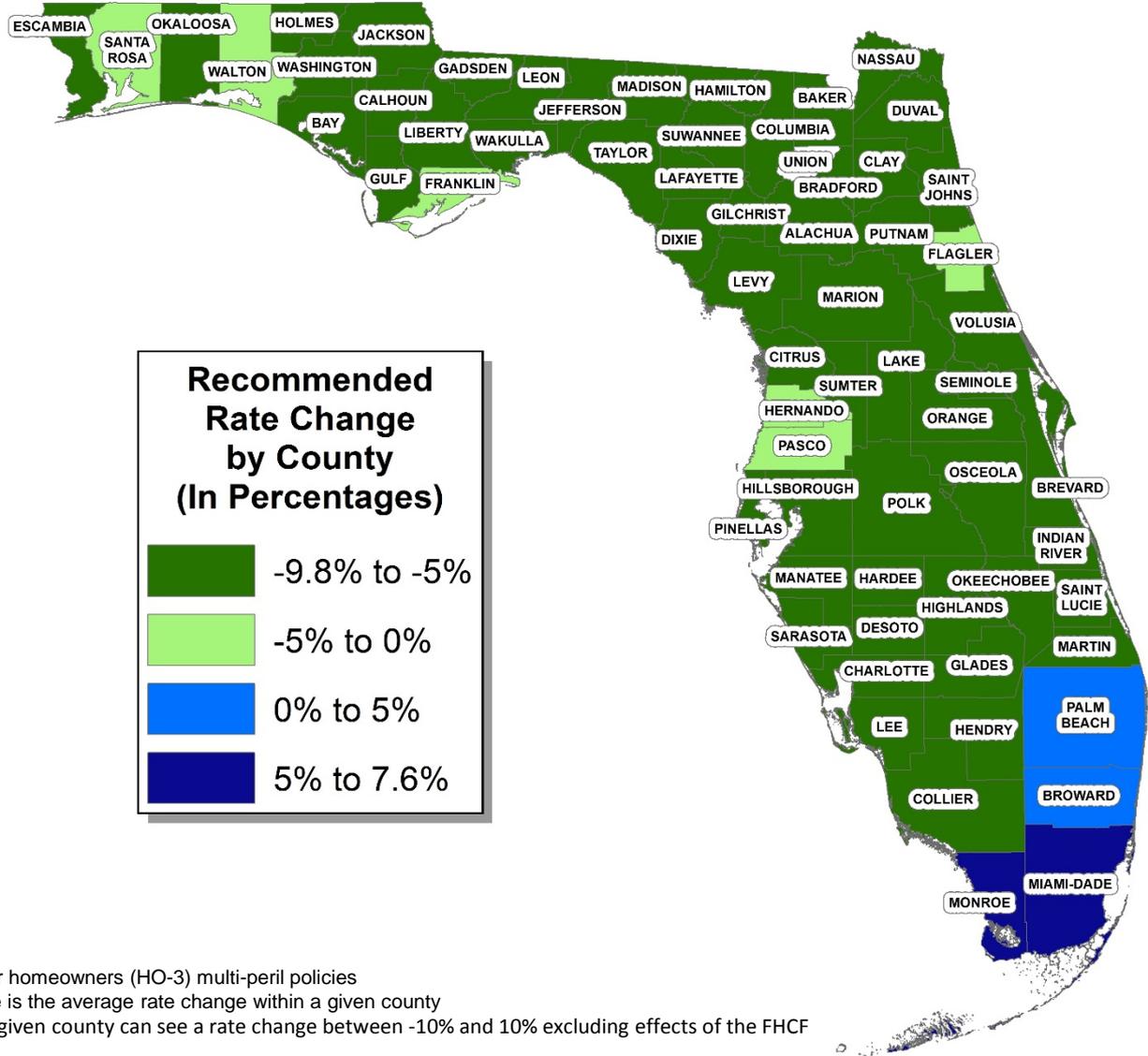
**NOTES:**  
 1) Percent change in policy count over the 12 month period 12/31/2013 to 12/31/2014  
 2) Counties with less than 10 policies insured as of 12/31/2013 have been removed from this analysis

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



- Net cost is lower than last year which contributes to lower overall rates, and contracts have more coverage, better terms, and lower retentions

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

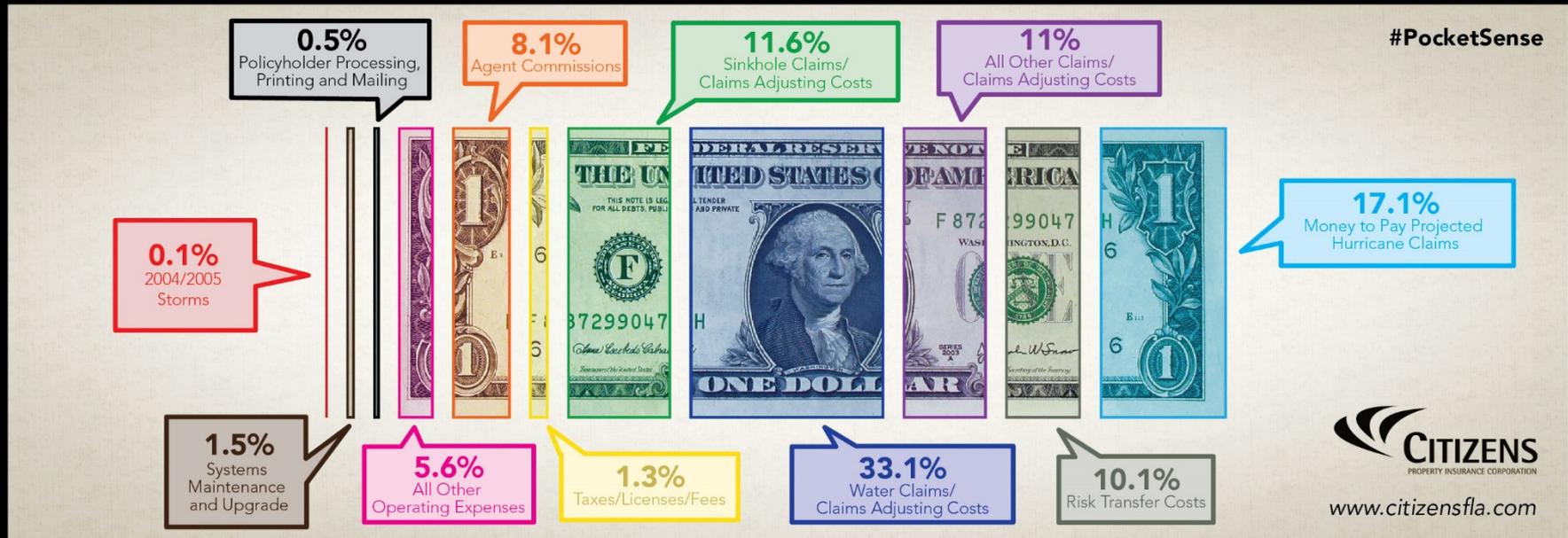


**NOTES:**

- 1) Exhibit shows results for homeowners (HO-3) multi-peril policies
- 2) Percentage rate change is the average rate change within a given county
- 3) Policy holders within a given county can see a rate change between -10% and 10% excluding effects of the FHC build-up pass through

# Premium Rates are Driven by Cost Factors – Not Profit

## Where does my premium dollar go?



#PocketSense

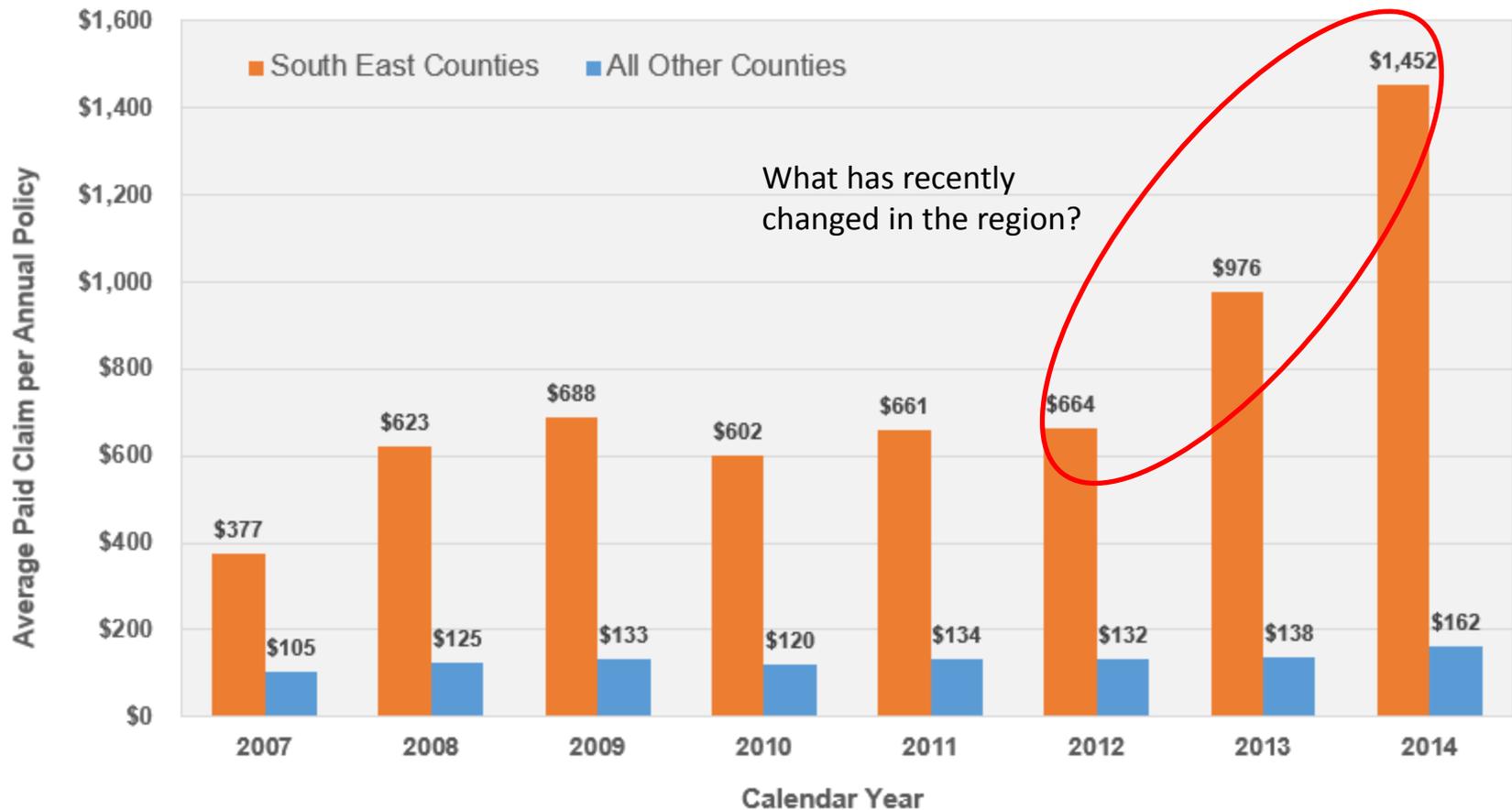


**NOTE:**

- 1) Based on all personal lines account homeowners multi-peril policies (PLA HO-3)
- 2) Uses calendar year 2014 losses and expenses



# Water Losses: A Significant Cost Driver for the South East Region



## NOTES:

- 1) Figure above shows calendar year average paid claim per insured homeowners policy for only water claims
- 2) **South East Counties** include Palm Beach, Broward, and Miami-Dade Counties

# Increasing Numbers of Claims are Arriving with Representation at First Notice to Citizens

**PROPERTY DAMAGE?**

**Contact Us "BEFORE" You File An Insurance Claim.**

The insurance company will send out their "own" adjuster and you'll need us to represent you to **MAXIMIZE YOUR CLAIM!**



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- Commercial & Residential Claims
- Thousand of Satisfied Customers
- Millions \$ In Recovery Settlements
- Reopen Old Claims
- Experienced Adjusters
- Business Loss of Income
- Nationwide Representation

**WINDSTORM INSURANCE NETWORK** Public Adjusting Services

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This is solicitation for business. If you have had a claim for an insured property loss or damage and you are satisfied with the payment by your insurer, you may disregard this advertisement.

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We maximize and expedite your Insurance claim, whether it's a reopen claim or new insurance claim.

**Reasons to Call**

- Hurricanes
- Tornadoes
- Flood
- Mold
- Roof Leaks
- Kitchen Leaks
- Vandalism
- Fires
- Broken Pipe
- Air Conditioning Leaks
- Water Damage
- Loss by Collapse
- Bathroom Leaks
- Policy Review

**FREE 11 POINT HOME INSPECTION**

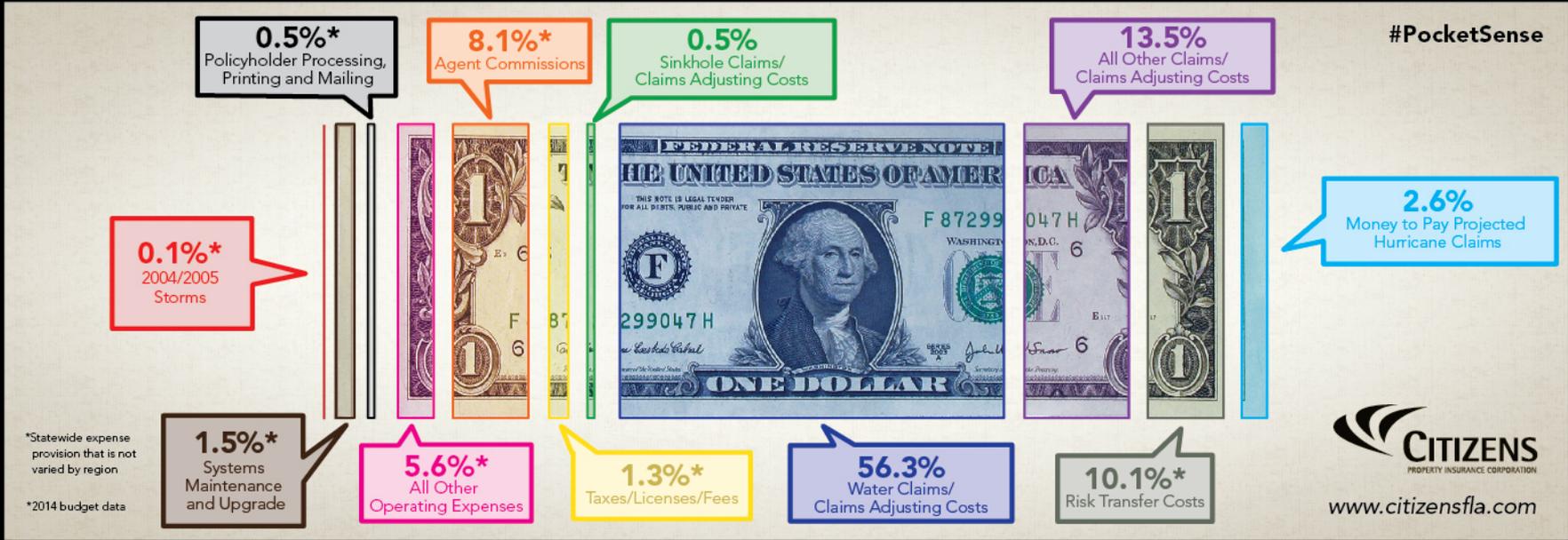
With this Moneysaver Coupon. May not be combined with other offers. Expires 3/14/14

772-478-3114  
772-345-0538

\*THIS IS A SOLICITATION FOR BUSINESS. IF YOU HAVE HAD A CLAIM FOR AN INSURED PROPERTY LOSS OR DAMAGE AND YOU ARE SATISFIED WITH THE PAYMENT BY YOUR INSURER, YOU MAY DISREGARD THIS ADVERTISEMENT.\*

# Water Claims Drive Costs More Intensely in Miami-Dade

## Miami-Dade: Where does my premium dollar go?

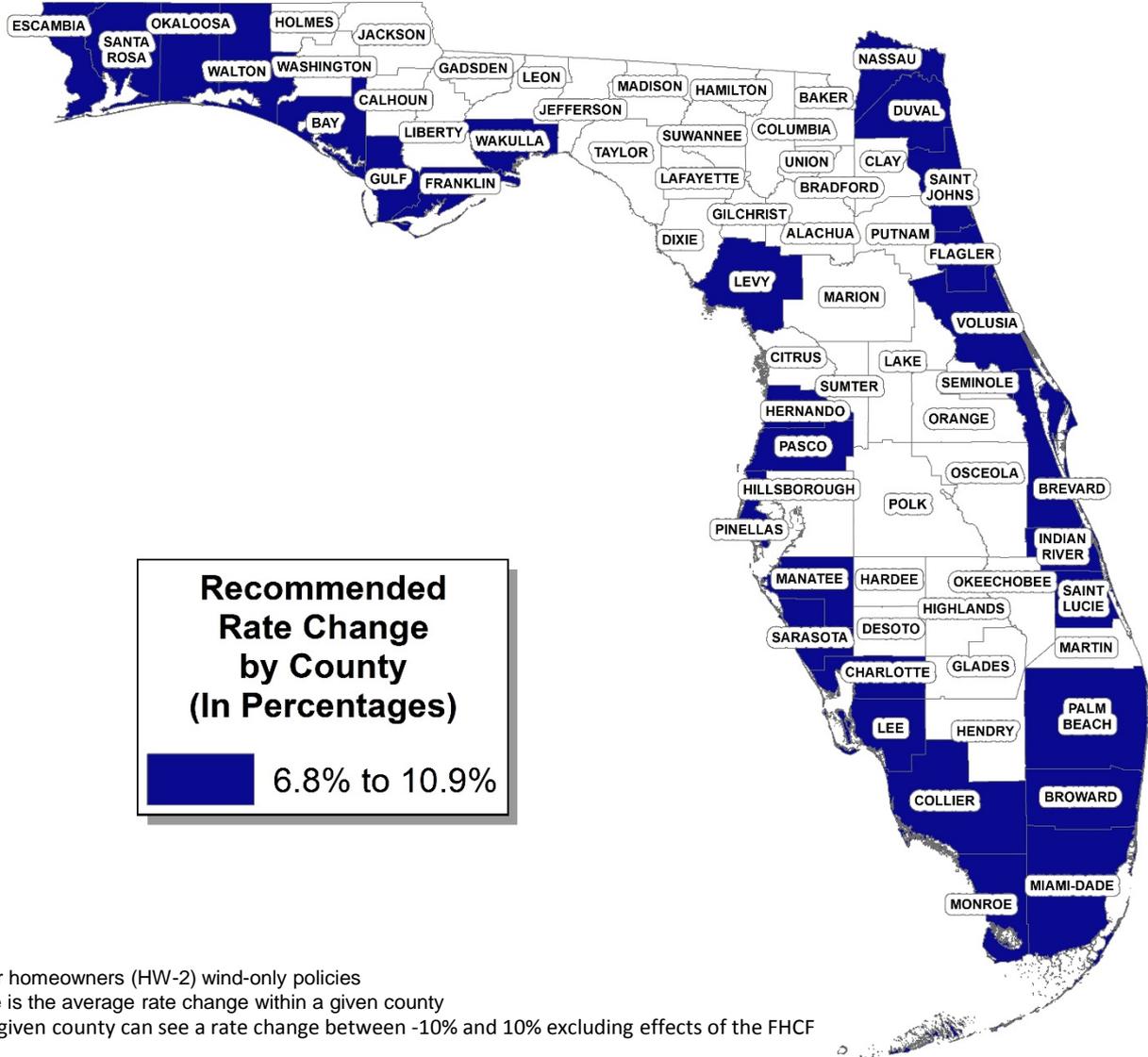


**NOTE:**

- 1) Based on personal lines account homeowners multi-peril policies (PLA HO-3) written on homes in Miami-Dade County
- 2) Uses calendar year 2014 losses and expenses

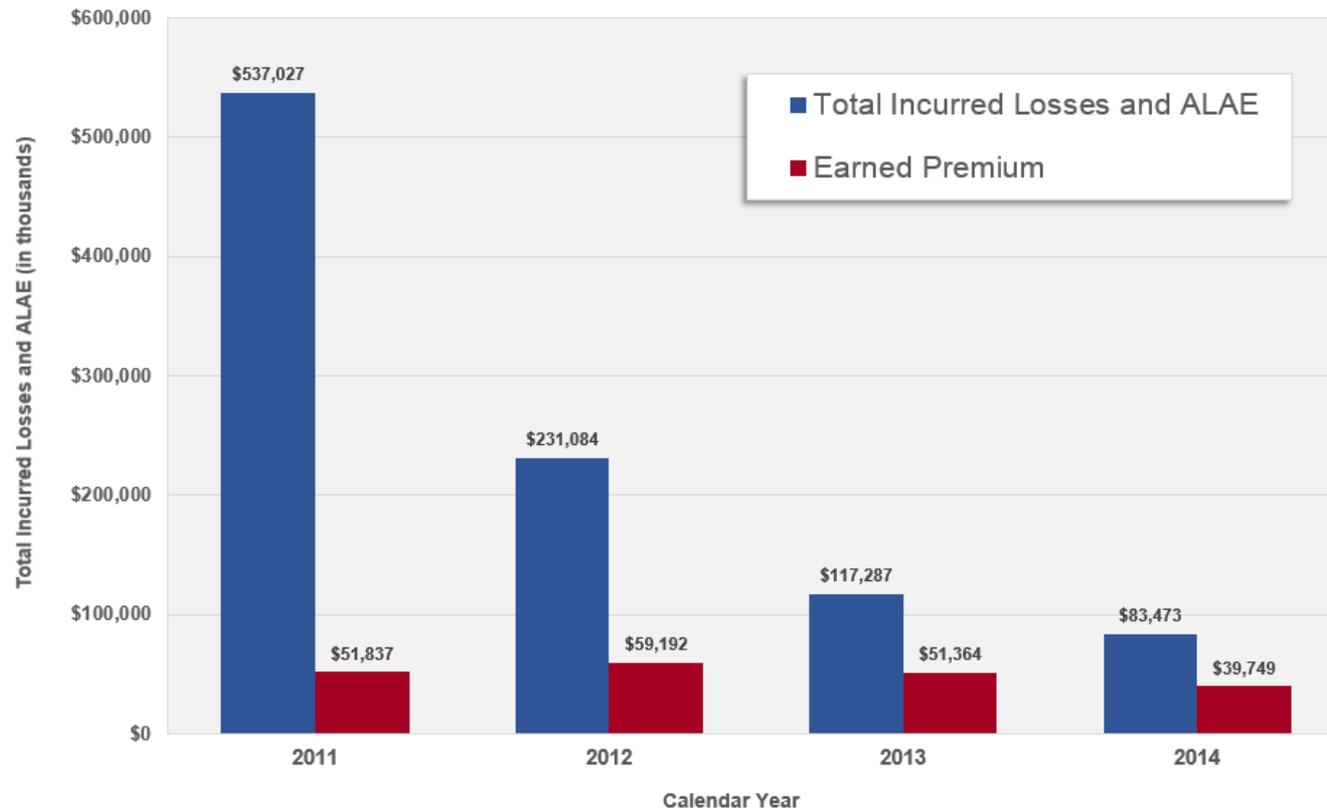


# Remaining Rate Increases Generally Affect Wind-Only and Coastal Policies



- NOTES:**
- 1) Exhibit shows results for homeowners (HW-2) wind-only policies
  - 2) Percentage rate change is the average rate change within a given county
  - 3) Policy holders within a given county can see a rate change between -10% and 10% excluding effects of the FHC build-up pass through

# Sinkhole Rates: No Change Due To Legal and Claims Factors Driving High Actuarial Uncertainty



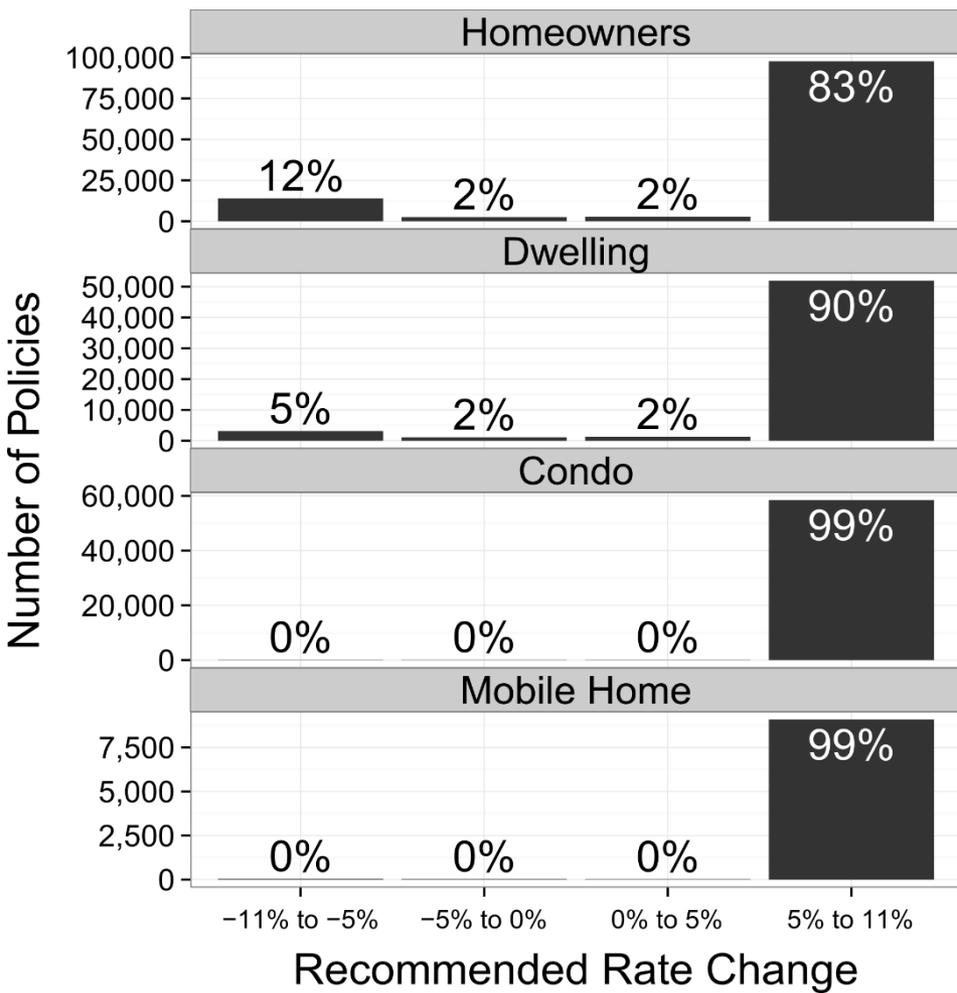
- No sinkhole rate change recommended
- Senate Bill 408 has positive impacts to more recent claim years, but will be tested by courts
- Global settlement offers may help close out earlier claim years

**NOTE:**

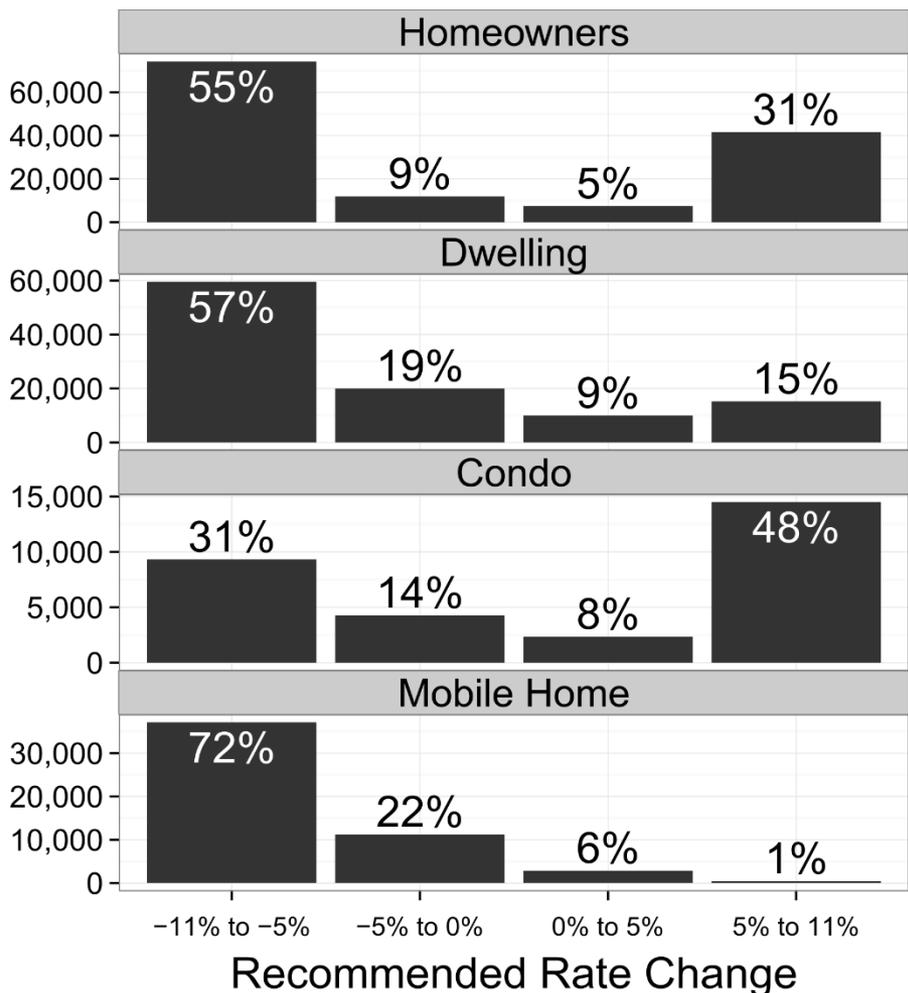
1) Figure above shows calendar year incurred losses including IBNR.

# Range of Policyholder Impacts Reflects Cost Factors, Both Positive and Negative, and Glide Path Caps

Coastal Account (Wind-Only and Multi-Peril)



Personal Lines Account (Multi-Peril)



# Important Assumptions

- Per Office of Insurance Regulation (OIR) rules, indication based on policies insured between 10/1/2009 – 9/30/2014 with hurricane modeling based on policies insured on 12/31/2014
- Hurricane models used: AIR Touchstone V1.5.1, RMS RiskLink v13.1, EQECAT RQE v14.00.02, Florida Public Model v5.0. All models have been accepted by the Florida Commission on Hurricane Loss Projection Methodology. No model results were modified or changed.
- Final hurricane indication based on selecting an indication closest to the second- and third-highest models. This statistically sound approach effectively disregarded any outliers while providing a result that summarizes the overall information from the models for each line.
- Water claims are steeply trending up in the South Florida Region, but the rate recommendations assume that these trends will reasonably moderate before 2016. If the trends do not moderate, this may lead to higher indicated rate changes next year.
- Any rate recommended rate changes are limited to between 10% increase and 10% decreases (except for renters multiperil policies which are limited to between 10% increases and 15% decreases in accordance with previous OIR guidance.) This ensures compliance with the 10% “glide path statute” that limits Citizens’ annual rate increases to no more than 10% for any single policy, excluding sinkhole perils, coverage changes and surcharges.
- Reinsurance and liquidity costs are allocated to policies in the account that generate those costs.
- CORE costs have been removed from the estimates of future administrative costs. CORE is a one-time upgrade to Citizens’ computer infrastructure that benefits consumers and saves money in the long term.

# Questions and Discussion