CITIZENS PROPERTY INSURANCE CORPORATION

SENATE BILL 408 SINKHOLE ANALYSIS

PREPARED BY:

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INTRODUCTION

INTRODUCTION

INTRODUCTION

Insurance Services Office, Inc. ("ISO") has been requested by Citizens Property Insurance Corporation ("Citizens") to conduct an actuarial study that will estimate the impact of Senate Bill 408 ("SB 408") on their prospective sinkhole loss experience for purposes of establishing indicated sinkhole rates as part of Citizens' 1/1/2013 rate filings.

This report contains the results of this study. The report shows the details of the calculations and discusses the assumptions and methodology.

BACKGROUND

Several provisions of SB 408 are expected to reduce the magnitude of insured sinkhole losses. Most notably, the clarification of the definition of "structural damage" is expected to significantly reduce the frequency of insured sinkhole claims.

When establishing insurance rates for prospective time periods, it is common to rely on historical loss experience as the basis for predicting future loss experience. Because of the significant changes that were introduced as part of SB 408, it is necessary to adjust Citizens' historical sinkhole loss experience so that it will be reflective of the expected loss experience that will be incurred after the provisions of SB 408 have been implemented.

Citizens' 1/1/2013 rate filings will rely on loss experience for accident years 2011 and prior. Since Citizens implemented the sinkhole provisions associated with SB 408 starting with policies that became effective in 2012, accident years 2011 and prior will not reflect the savings associated with SB 408. It is for this reason that an explicit adjustment needs to be made to adjust the historical sinkhole loss experience so that it will be predictive of future loss experience for policies that are written in 2012 or later.

The OIR Order for Case No. 120133-11 specified the rate changes that would be implemented on 1/1/2012 for Citizens' Homeowners and Dwelling multi-peril programs. As part of this Order, the OIR is requiring that Citizens provide a report that estimates the impact of SB 408 on their prospective sinkhole loss experience and how this savings will impact future Citizens' rate level indications. In particular, the OIR requested that the report should address the following specific issues:

1) The impact of the statutory definition of "structural damage";

2) The requirement that repairs be made in accordance with the specifications of a structural engineering report;

3) The impact of changes to public adjuster compensation;

4) The impact of the statutory requirement that insureds use insurance proceeds to repair damages;

5) The impact of excluding damage to appurtenant structures, driveways, sidewalks, decks, or patios that are directly or indirectly caused by sinkhole activity from sinkhole coverage;

6) The impact of the statutory requirement that the policyholder, upon demanding testing after denial of a claim without sinkhole testing, pay the lesser of 50% of the cost of the testing or $2,500 to be refunded if a sinkhole loss exists;

The impact of each of the above issues has been taken into consideration in the preparation of this report.

INTRODUCTION

DATA RELIED UPON

In performing our analysis, we have relied upon data and information provided to us by Citizens. Such data and information includes (but is not necessarily limited to) the following items:

- A claims file that includes paid losses, loss reserves, and paid ALAE for the set of sinkhole claims that were reported as of 3/31/2012. All loss amounts were evaluated as of 3/31/2012.
- For each sinkhole claim, an indicator as to whether the claim was open or closed as of 3/31/2012.
- For each sinkhole claim, when available, we were provided with the result of testing to determine whether or not there was a confirmed sinkhole. When applicable, Citizens indicated when the result of the testing was not conclusive.
- For each sinkhole claim, we were provided with an indicator as to whether or not a public adjuster has been involved with the claim. Information was provided for claims reported as of 3/31/12.
- For each sinkhole claim, when available, we were provided with an indicator as to whether or not there has been a previous sinkhole loss at that location. Information was provided for claims reported as of 3/31/2012.
- For a subset of 104 claims (out of a target set of 150 claims), we were provided with the results of a special engineering study requested by Citizens to estimate the relative frequency of claims satisfying the new definition of structural damage.
- A listing of the set of sinkhole claims that have been reported in 2012 that will be settled according to the provisions of SB 408. The claims list provided available information as of mid-June.
- The results of two sets of closed claims studies performed by Citizens to estimate the relative magnitude of sinkhole losses to appurtenant structures that have been coded as Coverage A losses. The first closed claim study was prepared in 2011, and the second closed claim study was recently prepared in 2012 and provided to us on 7/5/2012.
- In addition to the specific items listed above, we relied upon information obtained by way of phone calls and teleconferences with Citizens' staff.

To the extent that the above list of data items may not include all relevant information provided to us by Citizens, the footnotes included in each of the exhibits document the source of the information relied on in our calculations.

Although we have reviewed the reasonableness of the data provided to us, we have neither audited nor verified the accuracy of the data. However, we are not aware of any errors in the data relied upon. The most recent piece of information relied upon was provided to us by Citizens on 7/5/2012.

INTRODUCTION

RELIANCES AND LIMITATIONS

Our analysis and the results contained herein are subject to the following reliances and limitations:

1. This report was provided for the use of Citizens' management and employees. It is our understanding that this report, in its entirety, will be provided to the Office of Insurance Regulation, and may be relied on as part of the support for Citizens' 1/1/2013 rate filings. The report may be provided to other parties that are assisting Citizens with its rate filing process. If the report is provided to a third party, then that party may only use it on behalf of Citizens. In such cases, this report should be forwarded in its entirety. Any other use or disclosure must be agreed to in writing by ISO. The actuary signing this report is available to answer questions about the report.

2. The intent of this report is to estimate the expected impact of SB 408 on Citizens' prospective sinkhole loss experience. It is our understanding that Citizens will decide how to incorporate the results of this study into their 1/1/2013 rate filings.

3. The intent of this report is to estimate the expected impact of SB 408 on Citizens' prospective sinkhole loss experience. Our analysis relies on Citizens' historical sinkhole loss experience, which reflects the unique characteristics of the company's book of business, policy language, and claims handling practices. Because of this, the results of this study are intended to be applicable only to Citizens. In particular, the conclusions of this report may not be applicable to other insurers that write sinkhole coverage in the state of Florida.

4. Citizens' future sinkhole loss experience may differ, potentially significantly, from the projected estimates contained in this report. Citizens' future sinkhole loss experience will depend on the outcome of future contingent events, the result of which cannot be known in advance. In particular, potential litigation regarding the interpretation of new provisions of SB 408 may impact the ultimate sinkhole losses that are paid by Citizens.

5. There is a high level of uncertainty in estimating the future impact of SB 408 on Citizens' prospective sinkhole loss experience. At the time that this analysis was prepared, only about 46 sinkhole claims had been reported that will be subject to the provisions of SB 408. However, the results of engineering studies were available for only two of these claims. As such, it is not possible to base our analysis on actual claims that will be settled under the provisions of SB 408. This lack of relevant data greatly increases the uncertainty associated with the results of our study.

6. In preparing our report we have relied upon various data and information provided to us by Citizens. Although we have reviewed the data for reasonableness, we have neither audited nor verified the accuracy of the data. ISO does not assume responsibility for any error or omission in the data or information provided to us. Any material error in the data or information would result in changes to the indications. In such event, ISO cannot be responsible for any consequences resulting from its use of incorrect information or data in deriving the indications.

7. Any opinions expressed in this report are those of the actuary signing this report, and may not necessarily be those of Citizens or the actuary's employer.

SECTION 2

SUMMARY OF RESULTS

SUMMARY OF RESULTS

ESTIMATED IMPACT OF SB 408 ON CITIZENS PROSPECTIVE SINKHOLE LOSS AND ALAE PAYMENTS

Based on a comprehensive actuarial analysis of available Citizens' claims data, including a review of results from engineering and geotechnical testing, we estimate that the aggregate impact due to specific provisions of SB 408 will reduce Citizens' expected incurred sinkhole loss and ALAE by 54.7% for policy year 2013. This reduction is relative to what the incurred loss and ALAE would have been had SB 408 not been implemented.

Our analysis reflects estimated savings for the following provisions of SB 408:

- The impact of the new definition of structural damage.
- The impact of requiring policyholders to use loss payments to repair damages according to specifications of a structural engineer's report.
- The impact of reducing public adjuster compensation.
- The impact of excluding sinkhole coverage for structures other than the primary structure.
- The impact of policyholders sharing in the cost of geotechnical testing under certain conditions.

Section 3 of this report (along with the attached exhibits) provides the full details of our analysis. We discuss each of the above provisions, and estimate the marginal savings due to each of the individual items.

With regards to the estimated savings due to excluding sinkhole coverage for structures other than the primary structure, this analysis only reflects the impact of such excluded items that are currently being coded as part of the Coverage A loss payment. The reason for this is that Citizens will be excluding all Coverage B sinkhole losses when preparing its 1/1/2013 rate filings. If we had accounted for these Coverage B sinkhole losses in this analysis, then Citizens would run the risk of double-counting the savings due to this issue.

Although not specific to sinkhole losses, SB 408 authorizes insurers to initially pay just the actual cash value for many types of claims. The remaining cost associated with the full replacement cost of the claim would be paid if actual repairs are made. Citizens' 1/1/2013 rate filings will include an explicit adjustment to account for the estimated savings due to this issue for all non-hurricane causes of loss (including sinkholes). So as not to double-count the savings associated with ACV holdbacks, this analysis does not address this issue.

SUMMARY OF RESULTS

UNCERTAINTY ASSOCIATED WITH FUTURE RESULTS

As with any actuarial analysis that projects future results for events that have yet to occur, there is uncertainty associated with our estimate of the savings to be generated by SB 408. However, in this particular analysis, the magnitude of the uncertainty is significant. The following is a non-exhaustive list of contributing factors that tend to increase the uncertainty associated with predicting the impact that SB 408 will have on prospective incurred sinkhole loss and ALAE:

- Potential litigation regarding the interpretation of new provisions of SB 408 may impact the ultimate sinkhole loss and ALAE payments that are made by Citizens.

- During the time this analysis was being prepared, we were aware of about 46 sinkhole claims that had been reported to Citizens that will be subject to the provisions of SB 408. These claims are very immature, with little or no loss payments having been made. Results of engineering testing were available for only two of these 46 claims. As such, it is not possible for our analysis to rely solely on actual sinkhole claims that will be settled under the provisions of SB 408.

- Certain provisions of SB 408 are expected to result in changes in the "behavior" of various parties. For example, reducing compensation for public adjusters may impact the level of their involvement in sinkhole claims. As another example, subjecting a policyholder to the chance that they will need to pay for a portion of geotechnical testing will likely reduce the frequency in which policyholders demand such testing. Actual data from Citizens does not exist regarding these types of potential changes in behavior. Although we have approached these issues in a thoughtful manner, actual future results may differ from our projections.

The above discussion helps illustrate why predicting the expected impact of SB 408 on Citizens' future incurred sinkhole loss and ALAE involves significant uncertainty. In light of these limitations, we believe that our report contains a thorough analysis of the available information and results in a reasonable estimate of the expected impact of SB 408.

We have made full disclosure of the methodology and assumptions used in our analysis. By doing this, other parties can review the reasonability of our analysis.

SUMMARY OF RESULTS

INTENDED USE OF THIS REPORT

This report is being provided to Citizens to help it assess the potential impact that SB 408 will have on their future incurred sinkhole loss and ALAE. It is our understanding that the results of this study will be incorporated into Citizens' 1/1/2013 rate filings. We have taken this intended use into consideration when preparing this report.

Our analysis relies on Citizens' historical sinkhole loss experience, which reflects the unique characteristics of the company's book of business, policy language, and claims handling practices. Because of this, the results of this study are intended to be applicable only to Citizens. In particular, the conclusions of this report may not be applicable to other insurers that write sinkhole coverage in the state of Florida.

CONCLUSION

I, Paul Ericksen, am a Principal in the Actuarial Consulting division of ISO. I am responsible for the content of this actuarial analysis. I am a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

We are pleased to have conducted this analysis for Citizens Property Insurance Corporation, and look forward to answering any questions that you may have.

Respectfully submitted,

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Principal, Actuarial Consulting
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SECTION 3

EXPLANATION OF METHODOLOGY

EXPLANATION OF METHODOLOGY

In this section we document the underlying assumptions and methodology used in this analysis. We provide an explanation of the information contained in the attached exhibits.

ESTIMATED REDUCTION TO SINKHOLE LOSS AND ALAE DUE TO SB 408

In Row (6) of **Exhibit 1** we estimate that SB 408 is expected to reduce Citizens' incurred sinkhole loss and ALAE by 54.7% on a going-forward basis for policy year 2013. Rows (1) through (5) show the marginal savings due to individual provisions of SB 408. In particular, we have analyzed the individual savings associated with each of the following items:

- The impact of the new definition of structural damage.
- The impact of requiring policyholders to use loss payments to repair damages according to specifications of a structural engineer's report.
- The impact of reducing public adjuster compensation.
- The impact of excluding sinkhole coverage for structures other than the primary structure.
- The impact of policyholders sharing in the cost of geotechnical testing under certain circumstances.

Exhibits 2 through 6 show the underlying calculation of the estimated savings for each of these items.

The savings due to each of the above items was calculated in isolation, assuming that no other changes were being made. Simply adding the estimated savings due to each of the above items would overstate the aggregate savings due to implementing all of the items simultaneously. As a result, we estimate the aggregate savings by combining the estimated savings for each of the individual items in a multiplicative manner.[1]

With regards to the estimated savings due to excluding sinkhole coverage for structures other than the primary structure, this analysis only reflects the impact of such excluded items that are currently being coded as part of the Coverage A loss payment. The reason for this is that Citizens will be excluding all Coverage B sinkhole losses when preparing its 1/1/2013 rate filings. If we had accounted for these Coverage B sinkhole losses in this analysis, then Citizens would run the risk of double-counting the savings due to this issue.

Although not specific to sinkhole losses, SB 408 authorizes insurers to initially pay just the actual cash value for many types of claims. The remaining cost associated with the full replacement cost of the claim would be paid if actual repairs are made. Citizens' 1/1/2013 rate

[1] This is comparable to the situation in Citizens' old rating algorithms where aggregate credits to wind premiums were being overstated due to the "adding" of the credits for individual items such as wind mitigation features, BCEGS, etc. The current Citizens' rating algorithm has corrected for this issue by applying the individual credits in a "multiplicative" manner.

filings will include an explicit adjustment to account for the estimated savings due to this issue for all non-hurricane causes of loss (including sinkholes). So as not to double-count the savings associated with ACV holdbacks, this analysis does not address this issue.

RELIANCE ON CLOSED SINKHOLE CLAIMS

Throughout this analysis, we have relied heavily on the set of sinkhole claims that were closed as of 3/31/12. The reason for this is that we did not want the results to be distorted due to significant changes in case reserving practices that occurred during the first quarter of 2011. In particular, it is not clear how well individual case reserves approximate the actual future payments that will ultimately be made on open claims.

Effective with sinkhole claims reported on or after 2/1/2011, Citizens revised the manner in which case loss reserves are initially established. For Personal Lines sinkhole claims reported prior to 2/1/2011, an initial loss reserve was established for a nominal dollar amount (typically $45,000). For valid sinkhole claims, the ultimate loss payments were generally much higher than the initial case reserve that was set for the claim. As such, older accident years have experienced significant adverse development in case-incurred losses. For Personal Lines sinkhole claims reported on or after 2/1/2011, the default practice is to set an initial loss reserve equal to 60% of the Coverage A limit. Although this will result in a more reasonable estimate of ultimate losses for valid sinkhole claims, it will significantly exceed the losses paid on claims that turn out not to be due to a sinkhole.

Due to these considerations, we have decided to rely heavily on the set of sinkhole claims that were closed as of 3/31/12. For Personal Lines, this represents a total of 9,278 sinkhole claims. As such, we believe that Citizens' historical sinkhole experience for closed Personal Lines claims represents a credible set of data.

RELIANCE ON PERSONAL LINES EXPERIENCE

Unless otherwise noted, this analysis relies on sinkhole experience for Personal Lines policies (Homeowners, Dwelling, and Mobile Homes combined).[2] We have decided not to rely on the experience for Commercial Lines policies.

Personal Lines policies represent 96.7% of the total number of sinkhole claims that have been closed as of 3/31/12. Commercial Lines policies represent only 3.3% of closed sinkhole claims. In addition, many closed Commercial Lines claims can be associated with same policy.[3] In particular, the vast majority of paid sinkhole losses for Commercial Lines policies have been generated by a relatively small number of policies. As a result, the average sinkhole loss per policy for Commercial Lines business may not be representative of Personal Lines business. Because of these considerations, we have decided not to rely on the experience for Commercial

[2] For Personal Lines claims, the sinkhole claims file did not identify the policy form associated with the claim.

[3] A single Commercial Lines policy can provide coverage for multiple structures.

Lines policies in this study due to our concern that it might distort the results for Personal Lines business.

INCLUSION OF ALAE

Throughout our analysis we consider both losses and ALAE for sinkhole claims. Compared to non-sinkhole claims, the average ALAE is much larger for sinkhole claims. As such, it is important that our analysis considers both losses and ALAE when quantifying the savings due to SB 408.

EXPLANATION OF METHODOLOGY

ESTIMATED SAVINGS DUE TO THE NEW DEFINITION OF STRUCTURAL DAMAGE

For policies written prior to 2012, Citizens required that a structure have "physical damage" in order for there to be coverage for a sinkhole claim. Effective with policies written in 2012, Citizens has replaced the "physical damage" requirement with a "structural damage" requirement based on the new definitions that are specified in SB 408. This change is expected to result in a material reduction to the total amount of sinkhole losses that would otherwise have been incurred. We quantify the percentage savings in **Exhibit 2**.

Average Sinkhole Claim Severity

In **Exhibit 2, Page 1** we calculate the average loss and ALAE severity for closed sinkhole claims as of 3/31/2012. We show the average claims severities for the following three categories of sinkhole claims:

- Claims where testing has confirmed no sinkhole is present (shown in the first row).
- Claims where results of testing are unknown or inconclusive (shown in the second row).
- Claims where testing has confirmed that a sinkhole is present (shown in the third row).

Column (4) shows the average claim severity for each of these three types of claims. As expected, the average severity is much higher for claims where testing has confirmed that a sinkhole is present.

It is important to observe that a significant amount of loss and ALAE has been paid on claims where information suggests that no sinkhole was present. Based on discussions with Citizens, the following represent contributing reasons for this phenomenon:

(1) Even when coverage is ultimately declined, Citizens will have incurred the cost of testing to determine whether or not sinkhole coverage is applicable.

(2) Even in situations when Citizens doesn't make any loss payments, they may incur substantial legal costs associated with claims that involve litigation or public adjusters.

(3) Even when Citizens has performed testing that suggests that no sinkhole is present, there may be other experts provided by the claimant that suggest that a sinkhole is in fact present.

(4) Even in cases when a claim should have been rightfully denied, adverse results from litigation may have caused loss payments to have been made.

When analyzing the effect that Public Adjusters have had on sinkhole claims, we have explicitly observed that they have been most successful at inflating the average severity for those claims

that Citizens' testing has implied that no sinkhole is present.[4] In particular, it is the set of claims that presumably should have closed without a loss payment that Public Adjusters have been most effective at generating loss payments from Citizens. This provides further insight into why Citizens has often paid loss and ALAE for claims that evidence suggests may not have been caused by a sinkhole.

Exhibit 2, Page 2 summarizes this important observation. Based on the closed claim study, sinkhole claims that should be denied based on testing performed by Citizens are associated with an average loss and ALAE severity of $41,698.

Results From Engineering Studies

In order to estimate the impact of the new definition of structural damage, we have analyzed the results of engineering studies conducted on a sample of Citizens' sinkhole claims.

The first source of sinkhole claims that have had engineering studies conducted is the set of claims that are from policies that were written in 2012 (as these are the claims that will be settled according to the provisions of SB 408). However, due to the natural lag in the reporting of claims, many of the claims reported during the first part of 2012 were incurred prior to 2012 and/or were from policies that have effective dates prior to 2012. During the time that we prepared this sinkhole analysis (around mid-June), only about 46 sinkhole claims had been reported that will be subject to the provisions of SB 408. Unfortunately, results of engineering studies were available for only two of these claims.

To augment the available set of claims that could be used for our analysis, Citizens had hired independent engineering firms to review 150 random sinkhole claims to see if the damage would meet the new structural damage definition implemented as part of SB 408. These 150 claims represent a random subset of newly reported sinkhole claims that Citizens had received.[5] All of these claims were incurred on policies that were effective prior to 2012 and will be settled under the old physical damage criteria. However, Citizens specifically requested that the engineering firms determine whether these claims would meet the more restrictive structural damage requirement. Note that this information will only be used for our study, and will not play a role in deciding whether there will be sinkhole coverage for these claims.

Due to time constraints imposed on the engineering firms, we were only provided with the results of the engineering studies for 104 of the 150 targeted claims. Together with the 2 claims where results of engineering testing are available for newly reported claims that are subject to SB 408, we have a total of 106 claims where results from relevant engineering studies can be analyzed.

[4] For more details about this, see the section of the report that discusses Exhibit 4.

[5] The 150 targeted sinkhole claims were randomly selected from newly reported claims. Of the 150 targeted claims, 127 came from HO3 policies and 23 came from DP3 policies. Of the 150 targeted claims, 52% were located in Hernando County, 19% were located in Pasco County, 22% were located in Hillsborough County, and 7% were located in Pinellas County.

EXPLANATION OF METHODOLOGY

Estimated Losses Under Physical Damage Requirement

As a basis upon which to measure the savings associated with the new structural damage definition, we first estimated the expected loss and ALAE that would have been incurred by these 106 sample claims if the old physical damage requirement is utilized. This calculation is performed in **Exhibit 2, Page 3**. Column (2) shows the distribution of these 106 claims according to results of geotechnical testing that has been conducted (i.e. confirmed no sinkhole, confirmed sinkhole, or testing results unknown). Column (3) shows the average claim severity for each of the three categories based on the closed claims study.[6] Using these average claim severities, Column (4) shows the estimated total incurred loss and ALAE for these 106 claims under the scenario that the old physical damage requirement is being used.[7]

Estimated Losses Under the New Structural Damage Requirement

Next, we estimate the expected loss and ALAE that would be incurred by these 106 sample claims if the new structural damage requirement is used. This calculation is performed in **Exhibit 2, Page 4**. Column (4) shows the distribution of the 106 sample claims according to results from engineering studies and geotechnical testing. The 106 sample claims are split into four categories (as shown in Column (1)).

Categories 2 through 4 in Column (1) show that 7 of the 106 claims were confirmed to have met the new structural damage criteria. Column (4) shows the distribution of these 7 claims based on results of geotechnical testing. For example, geotechnical testing has determined that 4 of the 7 claims have a confirmed sinkhole. For each of these 7 claims, we assigned an average claim severity according to the results of the geotechnical testing. In particular, we relied on the implied average severities based on the results of the closed claims study.

Category 1 in Column (1) shows that 99 of the 106 claims appear to not satisfy the new structural damage definition established by SB 408. These sinkhole claims would be best described as "claims that should be denied based on testing performed by Citizens". As summarized in Page 2 of Exhibit 2, claims that should have been denied based on testing performed by Citizens have historically resulted in an average loss and ALAE severity equal to $41,698. In the absence of any loss data for closed claims that have been adjusted under the new provisions of SB 408, we have selected this average severity for the 99 claims shown in Category 1 of Exhibit 2, Page 4.

[6] Note that these 106 claims have been recently reported to Citizens, and were almost all open as of the time this study was prepared (with most claims being assigned the default loss reserve equal to 60% of the Coverage A limit). As a result, we assigned average loss and ALAE severities to these 106 claims based on results from the closed claims study.

[7] Note that our analysis relies on average claim severities associated with a closed claims study. These average severities have not been trended to reflect future cost levels. Loss trending is necessary in traditional ratemaking, when the intent is to estimate the actual premiums to be charged. Instead, our analysis isn't concerned with the absolute magnitude of sinkhole losses, but rather the percent that aggregate payments will be reduced due to certain provisions of SB 408. We believe that applying loss trend to the results from the closed claims study would have unnecessarily complicated the analysis without materially impacted the results.

We believe that this is a prudent selection in light of the fact that the new provisions of SB 408 have not yet been tested in the court system.

Exhibit 2, Page 4, Column (6) shows the estimated total incurred loss and ALAE for these 106 claims under the scenario that the new structural damage requirement is being used to settle these claims.

Estimated Savings Due to the New Definition of Structural Damage

Exhibit 2, Page 5 we calculate the indicated savings due to Citizens implementing the new definition of structural damage (as specified in SB 408). The savings is calculated by comparing the estimated total loss and ALAE for the 106 sample claims under the old physical damage criteria and under the new structural damage criteria. In Row (3) we show that the new structural damage definitions are expected to result in a 48.9% reduction to incurred sinkhole loss and ALAE. In other words, we estimate that sinkhole loss and ALAE will be approximately cut in half due to this new provision of SB 408.

EXPLANATION OF METHODOLOGY

ESTIMATED SAVINGS DUE TO REQUIRING LOSS PAYMENTS BE USED TO REPAIR SINKHOLE DAMAGE BASED ON SPECIFICATIONS OF ENGINEER'S REPORT

The following two new provisions of SB 408 are closely related to each other:

- Insureds must use insurance proceeds to repair sinkhole damages.
- Repairs to sinkhole damage must be made in accordance with the specifications of a structural engineering report.

These new provisions of SB 408 stipulate how an insured must use the loss proceeds that they receive from Citizens. For a given claim, we do not believe that these new provisions of SB 408 will have an immediate impact on what the loss payment will be.

However, requiring insureds to repair sinkhole damages in accordance with specifications of a structural engineering report will be good for society as a whole. In particular, if damaged structures are repaired properly (including appropriate ground stabilization activities), then it is reasonable to expect that there will be a reduced chance that the same structure will sustain another sinkhole loss within the near future. Although the effect might not be seen immediately, these two new provisions of SB 408 should be expected to have a downward effect on sinkhole losses over the long-term horizon.

In order to quantify the upper-bound of the potential long-term savings associated with these new provisions of SB 408, we calculated the percentage of total sinkhole loss and ALAE for closed claims that were from claims that had experienced a prior sinkhole loss. The idea being that if the original sinkhole had been repaired appropriately (in accordance with engineer's specifications), then the subsequent sinkhole losses might not have been incurred. These calculations are performed in **Exhibit 3, Page 1**. For the subset of claims where Citizens has definitive information regarding whether or not there was a prior sinkhole loss, we estimate that subsequent sinkhole claims account for 5.4% of total loss and ALAE payments.

Hence, 5.4% represents the upper-bound of the long-term reduction to sinkhole loss and ALAE due to these two new provisions of SB 408 (after the provisions have been in effect for several years). Note that 5.4% should be considered an "upper-bound" for the following two reasons:

- For claims that had a previous sinkhole claim, it is not known whether appropriate repairs had been made following the first sinkhole claim. If appropriate repairs had been made, then the impact of these new statutory provisions would not have prevented the subsequent sinkhole losses from being incurred.

- On a prospective basis, even if appropriate repairs are made (in accordance with engineer's specifications), it is not clear that a subsequent sinkhole loss will not occur due to natural causes.

EXPLANATION OF METHODOLOGY

In **Exhibit 3, Page 2** we summarize the indicated savings associated with these two new provisions of SB 408. Row (2) shows our expected long-term savings due to these two provisions. Our expected long-term savings is equal to 50% of the upper-bound estimate of the long-term savings. Note that it may take several years before the long-term savings are actually realized. The reason for this is that improperly repaired sinkhole damage over the past few years will continue to pose a threat of incurring a subsequent sinkhole loss. In particular, Citizens only implemented the provisions of SB 408 with policies that were written in 2012. As a result, policy year 2013 is only expected to realize a small portion of the potential long-term savings. In Row (5) we set our expected (i.e. middle) estimate of savings for policy year 2013 to equal 20% of the long-term savings.[8] The 20% tempering factor reflects the assumption that it will take five years before the long-term savings of these new provisions are realized.

[8] We explicitly consider policy year 2013 since this represents the policies that will be impacted the rate filings that Citizens will be submitting in 2012.

EXPLANATION OF METHODOLOGY

ESTIMATED SAVINGS DUE TO REDUCED PUBLIC ADJUSTER COMPENSATION

It is widely acknowledged that public adjusters have had an upward influence on aggregate loss payments made by insurers. As part of SB 408, limitations have been placed on the compensation that can be earned by public adjusters for individual claims.[9] All else equal, it is reasonable to expect that this will result in a downward influence in the aggregate level of public adjuster involvement. This should result in an expected reduction to future incurred sinkhole loss and ALAE. To quantify the potential savings, we performed the following steps:

(1) First, we estimated the aggregate amount that Citizens' historical sinkhole losses have been inflated due to public adjuster involvement.
(2) Second, we estimate the percentage reduction in public adjuster involvement that will result from SB 408.

By combining the results of these two Steps, we are able to estimate the aggregate reduction to sinkhole losses that will result from this new provision of SB 408.

Impact of Public Adjusters on Aggregate Sinkhole Loss and ALAE

In **Exhibit 4, Page 1** we calculate the percentage of Citizens' closed sinkhole claims that involved a public adjuster. In addition, we compare how this percentage varies by category of confirmed sinkhole claim. According to Column (5), 18.6% of sinkhole claims have involved a public adjuster. However, for those claims where testing has confirmed that a sinkhole is present, the percentage of public adjuster involvement increases to 25.6%.

Since public adjusters are typically compensated based on the amount that a loss payment exceeds a certain base-line threshold, one would expect that claims involving public adjusters will have a higher average severity than claims that do not involve a public adjuster.

In **Exhibit 4, Page 2** we estimate the impact that public adjusters have on individual claim severities. Column (2) shows average severities for claims that do not involve a public adjuster, and Column (3) shows average severities for claims that involve public adjusters. Separate comparisons are made depending on whether there is a confirmed sinkhole or not. Column (5) shows the indicated impact of public adjusters on average claim severities. For claims that involve a confirmed sinkhole, it appears that public adjusters do not have much impact on the average claim severity. This makes sense, since these are the claims that Citizens would be expected to make payments to insureds (whether or not a public adjuster is involved). However, for claims that testing indicates that there isn't a sinkhole, it appears that public adjusters have been extremely successful. For these claims, the average severity when a public adjuster is involved is 140% higher then when a public adjuster isn't involved.

[9] Note that public adjuster's fees are paid by the insured, and are not an amount "added" to the claim settlement by the insurer.

EXPLANATION OF METHODOLOGY

In **Exhibit 4, Page 3** we estimate the impact that public adjusters have had on aggregate loss and ALAE for the set of all closed sinkhole claims. Columns (2) and (3) show the distribution of closed claim counts based on public adjuster involvement and category of confirmed sinkhole. Columns (4) and (5) show the corresponding selected average claim severities for these various categories.[10] In Column (6) we show the aggregate loss and ALAE payments for the set of closed claims, reflecting the actual level of public adjuster involvement. In Column (7) we estimate what the aggregate loss and ALAE payments would have been if there had been no public adjuster involvement. To do this, we relied solely on the claim severities shown in Column (4) that reflect the case where there is no public adjuster involvement. In Column (8) we estimate that public adjusters have caused aggregate loss and ALAE payments for closed sinkhole claims to be inflated by 7.7%.

Although we believe that the 7.7% inflationary factor accurately reflects the impact that public adjusters have had on closed claims, we believe that this underestimates the impact on reported claims for the recent accident years. The following are two reasons for this:

- The relative frequency of public adjuster involvement is greater for the set of open sinkhole claims than for the set of closed claims.

- The relative frequency of public adjuster involvement has increased during accident years 2010 and 2011.

To account for these systematic differences in the level of public adjuster involvement, **Exhibit 4, Page 4** shows the calculation of the estimated impact that public adjusters will have on aggregate loss and ALAE for the set of reported sinkhole claims for accident years 2010 and 2011. Note that Page 4 is similar to Page 3, with the exception that Columns (2) and (3) of Page 4 show reported claims counts for accident years 2010 and 2011. For accident years 2010 and 2011, we estimate that public adjusters will cause aggregated loss and ALAE payments for reported sinkhole claims to be inflated by 10.4%. Note that this is greater than the 7.7% inflationary effect on the set of closed claims.

Estimated Reduction in Public Adjuster Involvement Due to SB 408

In **Exhibit 4, Page 5** we show the percent of reported claims that involve public adjusters. In Column (5) we show how these percentages vary by accident year from 2007 to 2011. As previously noted, there has been higher public adjuster involvement during accident years 2010 and 2011 than was the case for the previous three years.

[10] For claims with a confirmed sinkhole, we set the average severity for claims involving a public adjuster to equal the average severity for claims that don't involve a public adjuster. In particular, we disregarded the small negative differential that was indicated based on the set of closed claims.

EXPLANATION OF METHODOLOGY

All else equal, it is reasonable to expect that SB 408 will reduce the level of public adjuster involvement. However, it is purely speculative as to how much of a decline might be realized. For purposes of this analysis, we have assumed that the level of reduction will bring the aggregate frequency of public adjuster involvement from the levels associated with accident years 2010 and 2011 back to the levels seen during accident years 2007 through 2009. Exhibit 4, Page 4, Row (8) shows that this implies there will be a 25% reduction in the level of public adjuster involvement.

Estimated Savings Due to Limiting Public Adjuster Compensation

In **Exhibit 4, Page 6** we calculate the estimated percentage reduction in sinkhole loss and ALAE that will result from limiting public adjuster compensation. The estimated savings reflect the following two assumptions that were derived in Pages 1 through 5 of Exhibit 4:

- Currently, public adjusters are causing aggregate sinkhole loss and ALAE payments to be inflated by 10.4% (reflective of reported claims for accident years 2010 and 2011).

- SB 408 will result in a 25% reduction in the frequency of public adjuster involvement with sinkhole claims.

In Row (4) we conclude that limiting public adjuster compensation is expected to reduce future sinkhole loss and ALAE payments by 2.4%.

It is important to note that there is uncertainty associated with this estimate. For example, it is possible that part of the increased claim severity that has been associated with public adjuster involvement may actually be due to the impact of plaintiff attorneys. To the extent that this is the case, reducing public adjuster involvement might not result in as much savings as is indicated. However, due to the speculative nature of this argument, we have decided not to temper our indication because of this potential issue.

EXPLANATION OF METHODOLOGY

ESTIMATED SAVINGS DUE TO EXCLUDING COVERAGE FOR APPURTENANT STRUCTURES

As part of SB 408, sinkhole coverage is excluded for structures other than the primary structure. As result, there will no longer be sinkhole coverage for such items as appurtenant structures, driveways, sidewalks, decks, or patios. For simplicity, we will refer to the general collection of excluded items as "appurtenant structures".

Within Citizens' claims database, losses to appurtenant structures can either be included as part of Coverage A losses or as part of Coverage B losses. For those claims where sinkhole losses to appurtenant structures have been assigned to Coverage B, Citizens is able to explicitly exclude such losses in the preparation of its 1/1/2013 rate filings. As a result, this report only quantifies the implied savings due to the exclusion of sinkhole coverage for appurtenant structures that have been classified as Coverage A losses. By doing this, we reduce the risk of double-counting the savings due to eliminating Coverage B sinkhole losses.

In **Exhibit 5** we estimate the savings due to excluding sinkhole coverage to appurtenant structures that have been included as part of Coverage A losses. The calculation of the estimated savings is based on results of two separate closed claims studies performed by Citizens' claims department. The result of the first closed claims study (completed in 2011) is shown in Rows (1) through (3), and the result of the second closed claims study (recently completed in 2012) is shown in Rows (4) through (6). The general magnitude of the indicated percentage reduction to sinkhole losses due to excluding coverage for appurtenant structures is similar for each of the two closed claim studies. In Row (7) we select a provision by giving equal weight to the results from the two closed claim studies.

In Row (10) we convert the indicated savings from a percent of incurred losses to a percent of incurred loss and ALAE.

EXPLANATION OF METHODOLOGY

ESTIMATED SAVINGS DUE TO POLICYHOLDERS SHARING THE COST OF GEOTECHNICAL TESTING

SB 408 is expected to have a downward impact on sinkhole ALAE due to reduced costs associated with geotechnical testing. To understand the source of the savings, we need to understand how things will be different after SB 408 has been implemented. Based on discussions with Citizens, the following highlights the impact of SB 408 on when testing will be performed:

- Prior to SB 408, Citizens would request a geotechnical test for each reported sinkhole claim to confirm whether or not a sinkhole is the cause of loss.

- After SB 408, Citizens will first request testing by a structural engineer to determine whether the home has sustained structural damage. If there is found to be structural damage, then Citizens will request (and pay for) geotechnical testing to confirm whether or not a sinkhole is the cause of loss. If no structural damage is found, then a policyholder can demand geotechnical testing. When the policyholder demands geotechnical testing, they are responsible to pay the minimum of 50% of the cost of testing or $2,500. If testing confirms the presence of a sinkhole, then the policyholder is refunded their contribution to the cost of geotechnical testing.

With regards to the cost of geotechnical testing, there are two sources of savings that are expected to be realized by SB 408. These sources are as follows:

(1) When there is no structural damage, and the policyholder doesn't request geotechnical testing, Citizens will not need to incur the cost of geotechnical testing.

(2) When there is no structural damage, and the policyholder requests geotechnical testing, the policyholder will share in the cost of such testing (for those cases where testing confirms that no sinkhole is present).

Partially offsetting the above savings is the cost that will be incurred by performing structural engineering testing for all reported sinkhole claims. However, in the aggregate, the additional cost due to structural damage testing is expected to be less than the savings in the cost of geotechnical testing. In **Exhibit 6** we estimate the net savings that are expected to be achieved. To do this, we rely on the set of 106 sinkhole claims where results from engineering studies have been provided to us.

Estimated Cost of Geotechnical Testing Prior to SB 408

In order to measure the savings due to SB 408, we first estimate what the cost of geotechnical testing would have been for the 106 sample claims prior to the implementation of SB 408. We perform these calculations in **Exhibit 6, Page 1**. We assume that the average cost of performing

a single geotechnical test will be $10,585. Note that $10,585 is the actual average cost of such testing for the 60 claims (of the 106 claim sample) where we were provided the actual costs of geotechnical testing. Column (6) shows the estimated aggregate cost of geotechnical testing (prior to the implementation of SB 408).

Estimated Cost of Geotechnical and Engineering Testing Under SB 408

In **Exhibit 6, Page 2** we estimate what the aggregate cost of geotechnical and engineering studies for the set of 106 sample claims would be after the implementation of SB 408. We assume that each claim will incur an average cost of $3,501 due to structural engineering testing. Note that $3,501 is the actual average cost of engineering testing for the 65 claims (of the 106 claim sample) where we were provided the actual costs of engineering tests.

With regards to geotechnical testing, we need to separately consider those claims that are confirmed to have structural damage. For the 7 sample claims that have confirmed structural damage, we assume that Citizens will incur an average cost of $10,585 for geotechnical testing.

For the 99 sample claims that appear not to have structural damage, Citizens is expected to realize a lower average cost of geotechnical testing. The first source of savings is associated with the fact that not all of these 99 policyholders are expected to request geotechnical testing. Estimating the percent of these policyholders that will request testing is speculative, since Citizens does not have any actual data regarding this issue. For purposes of this analysis, we have assumed that 30.3% of these 99 policyholders would request geotechnical testing. Note that 30.3% is the percent of reported sinkhole claims for accident years 2010 and 2011 that involve public adjuster involvement (this was derived in Exhibit 4, Page 5). We believe that the historical frequency of a policyholder choosing to use of a public adjuster is a reasonable proxy for the frequency that a policyholder would demand geotechnical testing after the implementation of SB 408, since each of these situations involves a policyholder taking active steps to increase their insured loss payments beyond what Citizens would normally be expected to pay.

For the 99 sample claims that appear not to have structural damage, Column (7) shows the estimated average cost of geotechnical testing that will be incurred by Citizens (after reducing the costs for the policyholders' expected share of the expenses). The footnotes to the exhibit explain exactly how we calculated these estimated average costs.

Estimated Savings Due to Policyholders Sharing the Cost of Geotechnical Testing

In **Exhibit 6, Page 3** we calculate the estimated savings that is due to provisions in SB 408 that require policyholders to share in the cost of geotechnical testing.

To estimate the savings, we compare the estimated cost of geotechnical testing for the 106 sample claims prior to the implementation of SB 408 with the estimated cost of geotechnical and engineering testing after the implementation of SB 408. In Row (3) we show that SB 408 is

expected to result in a 34.5% reduction to the aggregate cost of sinkhole testing. In Row (6) we convert this savings from a percent of ALAE to a percent of loss and ALAE combined.

Note that there is uncertainty associated with the estimated savings due to this provision of SB 408. For example, although not required by statute, there may be situations where Citizens finds it necessary to conduct geotechnical testing (and incur the associated cost) in order to respond to potential disputes with policyholders. Depending on the frequency that this situation occurs, our estimated savings in the aggregate cost of sinkhole testing may not be as high as what is indicated by our analysis. However, due to the uncertainty about how often such "voluntary" geotechnical testing might occur, we have decided not to temper our indication because of this potential issue. However, it should be noted that this issue could cause the ultimate savings due to this provision of SB 408 to be lower than what our analysis indicates.

SECTION 4

EXHIBITS

EXHIBIT 1

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATED REDUCTION TO SINKHOLE LOSS AND ALAE DUE TO SB 408
PERSONAL LINES

	Personal Lines
(1) Estimated savings due to the new definition of structural damage	-48.9%
(2) Estimated savings due to requiring loss payments be used to repair sinkhole damage based on specifications of engineer's report	-0.5%
(3) Estimated savings due to limiting public adjuster compensation	-2.4%
(4) Estimated savings due to excluding damage to appurtenant structures, driveways, sidewalks, decks, or patios	-3.6%
(5) Estimated savings due to requirement that the policyholder, upon demanding testing after denial of a claim without sinkhole testing, pay the lesser of 50% of the cost of testing or $2,500 to be refunded if a sinkhole exists	-5.4%
(6) Estimated reduction to sinkhole loss and ALAE due to SB 408	**-54.7%**

Notes:

(1) From Exhibit 2, Page 5, Row (3)
(2) From Exhibit 3, Page 2, Row (5)
(3) From Exhibit 4, Page 6, Row (4)
(4) From Exhibit 5, Row (10)
(5) From Exhibit 6, Page 3, Row (6)
*(6) = [1+(1)] * [1+(2)] * [1+(3)] * [1+(4)] * [1+(5)] - 1*

CITIZENS PROPERTY INSURANCE CORPORATION

AVERAGE SINKHOLE CLAIM SEVERITY
FOR CLAIMS CLOSED AS OF 3/31/12
PERSONAL LINES

(1)	(2)	(3)	(4)
Confirmed Sinkhole	**Total Paid Loss & ALAE**	**Number of Claims**	**Average Claim Severity**
No	159,621,623	3,828	41,698
Unknown	170,506,111	3,007	56,703
Yes	312,762,337	2,443	128,024
Total	642,890,071	9,278	69,292

Notes:

(2) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(3) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(4) = (2) / (3)

CITIZENS PROPERTY INSURANCE CORPORATION

AVERAGE SINKHOLE CLAIM SEVERITY
CLAIMS THAT SHOULD BE DENIED BASED ON TESTING PERFORMED BY CITIZENS
PERSONAL LINES

(1)	Average severity for sinkhole claims that should be denied based on testing performed by Citizens	41,698

Notes:

(1) From Exhibit 2, Page 1, Column (4), for confirmed no sinkhole.

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATED LOSS AND ALAE FOR 106 SAMPLE CLAIMS
OLD PHYSICAL DAMAGE CRITERIA

(1)	(2)	(3)	(4)
Confirmed Sinkhole	**Number of Claims**	**Estimated Average Loss & ALAE Per Claim**	**Estimated Loss & ALAE**
No	32	41,698	1,334,350
Unknown	20	56,703	1,134,061
Yes	54	128,024	6,913,289
Total	106		9,381,701

Notes:

(2) Calcaluated based on information provided by Citizens for the 106 claims.
(3) From Exhibit 2, Page 1, Column (4)
*(4) = (2) * (3)*

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATED LOSS AND ALAE FOR 106 SAMPLE CLAIMS
NEW STRUCTURAL DAMAGE CRITERIA

(1)	(2)	(3)	(4)	(5)	(6)
Category	**Confirmed Structural Damage**	**Confirmed Sinkhole**	**Number of Claims**	**Estimated Average Loss & ALAE Per Claim**	**Estimated Loss & ALAE**
1	No	Varies	99	41,698	4,128,145
2	Yes	No	1	41,698	41,698
3	Yes	Unknown	2	56,703	113,406
4	Yes	Yes	4	128,024	512,096
Total			106		4,795,346

Notes:

(4) Calcaluated based on information provided by Citizens.

(5) Category 1: From Exhibit 2, Page 2, Row (1)
Category 2: From Exhibit 2, Page 1, Column (4), for Confirmed Sinkhole - No
Category 3: From Exhibit 2, Page 1, Column (4), for Confirmed Sinkhole - Unknown
Category 4: From Exhibit 2, Page 1, Column (4), for Confirmed Sinkhole - No

*(6) = (4) * (5)*

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATED SAVINGS DUE TO NEW STRUCTURAL DAMAGE DEFINITION
PERSONAL LINES

(1) Expected loss and ALAE for 106 sample claims under the old physical damage criteria	9,381,701
(2) Expected loss and ALAE for 106 sample claims under the new structural damage definition	4,795,346
(3) Indicated savings due to new structural damage definition	**-48.9%**

Notes:

(1) From Exhibit 2, Page 3, Column (4), Total
(2) From Exhibit 2, Page 4, Column (6), Total
(3) = (2)/(1) - 1

EXHIBIT 3, PAGE 1

CITIZENS PROPERTY INSURANCE CORPORATION

PERCENT OF TOTAL SINKHOLE LOSS AND ALAE RESULTING FROM CLAIMS THAT INVOLVED A PRIOR SINKHOLE LOSS

	PAID SINKHOLE LOSS AND ALAE	
(1)	From claims without a previous sinkhole loss	469,826,243
(2)	From claims with a prevous sinkhole loss	27,073,393
(3)	From claims where prior sinkhole loss is unknown	145,990,435
(4)	Total paid sinkhole loss and ALAE	642,890,071

(5)	**Indicated percent of loss and ALAE resulting from claims that had a prior sinkhole loss**	**5.4%**

Notes:

(1) Based on claims closed as of 3/31/12 for Personal Lines policies.

(2) Based on claims closed as of 3/31/12 for Personal Lines policies.

(3) Based on claims closed as of 3/31/12 for Personal Lines policies.

(4) = (1) + (2) + (3)

(5) = (2) / [(1)+(2)]

CITIZENS PROPERTY INSURANCE CORPORATION

Estimated Savings Due to Requiring Loss Payments Be Used to Repair Sinkhole Damage Based on Specifications of Engineer's Report

LONG-TERM SAVINGS

(1)	Low Estimate	0.0%
(2)	Middle Estimate	-2.7%
(3)	High Estimate	-5.4%

POLICY YEAR 2013 SAVINGS

(4)	Low Estimate	0.0%
(5)	Middle Estimate	-0.5%
(6)	High Estimate	-1.1%

Notes:

*(1) = 0.0 * [Exhibit 3, Page 1, Row (5)]*
*(2) = -0.5 * [Exhibit 3, Page 1, Row (5)]*
*(3) = -1.0 * [Exhibit 3, Page 1, Row (5)]*
(4) = (1) / 5
(5) = (2) / 5
(6) = (3) / 5

CITIZENS PROPERTY INSURANCE CORPORATION

PERCENT OF SINKHOLE CLAIMS WITH PUBLIC ADJUSTER INVOLVEMENT
FOR CLAIMS CLOSED AS OF 3/31/12
PERSONAL LINES

(1)	(2)	(3)	(4)	(5)
	CLOSED SINKHOLE CLAIM COUNTS			Percent of Claims with Public Adjuster Involvement
Confirmed Sinkhole	Without Public Adjuster Involvement	With Public Adjuster Involvement	Total	
No	3,175	653	3,828	17.1%
Unknown	2,556	451	3,007	15.0%
Yes	1,817	626	2,443	25.6%
Total	7,548	1,730	9,278	18.6%

Notes:

(2) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(3) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(4) = (2) + (3)

(5) = (3) / (4)

CITIZENS PROPERTY INSURANCE CORPORATION

IMPACT OF PUBLIC ADJUSTERS ON INDIVIDUAL SINKHOLE CLAIMS
FOR CLAIMS CLOSED AS OF 3/31/12
PERSONAL LINES

(1)	(2)	(3)	(4)	(5)	(6)
	AVERAGE PAID LOSS AND ALAE PER CLOSED CLAIM			IMPACT OF PUBLIC ADJUSTERS ON INDIVIDUAL CLAIM SIZE	
Confirmed Sinkhole	Without Public Adjuster Involvement	With Public Adjuster Involvement	Total	Indicated	Selected
No	33,640	80,880	41,698	140.4%	140.4%
Unknown	51,573	85,777	56,703	66.3%	66.3%
Yes	128,719	126,007	128,024	-2.1%	0.0%
Total	62,601	98,486	69,292	57.3%	

Notes:

(2) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(3) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(3) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(4) = (3)/(2) - 1

(5) Equal to the maximum of (4) and 0.0%.

CITIZENS PROPERTY INSURANCE CORPORATION

IMPACT OF PUBLIC ADJUSTERS ON AGGREGATE SINKHOLE LOSS AND ALAE
FOR CLAIMS CLOSED AS OF 3/31/12
PERSONAL LINES

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	CLOSED SINKHOLE CLAIM COUNTS		SELECTED AVERAGE LOSS AND ALAE PER CLAIM		AGRREGATE INCURRED LOSS AND ALAE		Estimated Impact of Public Adjusters on Aggregate Loss and ALAE
Confirmed Sinkhole	Without Public Adjuster Involvement	With Public Adjuster Involvement	Without Public Adjuster Involvement	With Public Adjuster Involvement	Current	Without Any Public Adjusters	
No	3,175	653	33,640	80,880	159,621,623	128,773,686	24.0%
Unknown	2,556	451	51,573	85,777	170,506,111	155,080,352	9.9%
Yes	1,817	626	128,719	128,719	314,459,743	314,459,743	0.0%
Total	7,548	1,730			644,587,478	598,313,781	7.7%

Notes:

(2) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(3) Calcaluated based on information provided by Citizens. Represents claims closed as of 3/31/12.

(4) From Exhibit 4, Page 2, Column (2)

*(5) = (4) * {1 + [Exhibit 4, Page 2, Column (6)]*

(6) = (2)(4) + (3)*(5)*

(7) = (2)(4) + (3)*(4)*

(8) = (6)/(7) - 1

CITIZENS PROPERTY INSURANCE CORPORATION

IMPACT OF PUBLIC ADJUSTERS ON AGGREGATE SINKHOLE LOSS AND ALAE
FOR CLAIMS REPORTED AS OF 3/31/12 FOR ACCIDENT YEARS 2010 AND 2011
PERSONAL LINES

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	REPORTED SINKHOLE CLAIM COUNTS		SELECTED AVERAGE LOSS AND ALAE PER CLAIM		AGRREGATE INCURRED LOSS AND ALAE		Estimated Impact of Public Adjusters on Aggregate Loss and ALAE
Confirmed Sinkhole	Without Public Adjuster Involvement	With Public Adjuster Involvement	Without Public Adjuster Involvement	With Public Adjuster Involvement	Current	Without Any Public Adjusters	
No	1,271	512	33,640	80,880	84,167,061	59,980,011	40.3%
Unknown	2,081	822	51,573	85,777	177,831,991	149,716,748	18.8%
Yes	1,495	776	128,719	128,719	292,320,130	292,320,130	0.0%
Total	4,847	2,110			554,319,181	502,016,889	10.4%

Notes:

(2) Calcaluated based on information provided by Citizens.
Represents reported claim counts as or 3/31/12 for accident years 2010 and 2011.

(3) Calcaluated based on information provided by Citizens.
Represents reported claim counts as or 3/31/12 for accident years 2010 and 2011.

(4) From Exhibit 4, Page 2, Column (2)

*(5) = (4) * {1 + [Exhibit 4, Page 2, Column (6)]*

(6) = (2)(4) + (3)*(5)*

(7) = (2)(4) + (3)*(4)*

(8) = (6)/(7) - 1

CITIZENS PROPERTY INSURANCE CORPORATION

PERCENT OF SINKHOLE CLAIMS WITH PUBLIC ADJUSTER INVOLVEMENT
PERSONAL LINES

(1)	(2)	(3)	(4)	(5)
	REPORTED SINKHOLE CLAIM COUNTS AS OF 3/31/12			**Percent of Claims with Public Adjuster Involvement**
Accident Year	**Without Public Adjuster Involvement**	**With Public Adjuster Involvement**	**Total**	
2007	1,270	368	1,638	22.5%
2008	1,072	284	1,356	20.9%
2009	1,138	372	1,510	24.6%
2010	1,873	1,056	2,929	36.1%
2011	2,974	1,054	4,028	26.2%
	(6) Weighted average for 2007 to 2009:			22.7%
	(7) Weighted average for 2010 to 2011:			30.3%
	(8) Estimated reduction in public adjuster involvement due to SB 408			-25.0%

Notes:

(2) Evaluated as of 3/31/12. Calcaluated based on information provided by Citizens.
(3) Evaluated as of 3/31/12. Calcaluated based on information provided by Citizens.
(4) = (2) + (3)
(5) = (3) / (4)
(6) = [sum of Column (3) for 2007 to 2009] / [sum of Column (4) for 2007 to 2009].
(7) = [sum of Column (3) for 2010 to 2011] / [sum of Column (4) for 2010 to 2011].
(8) = (6)/(7) - 1

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATED SAVINGS DUE TO LIMITING PUBLIC ADJUSTER COMPENSATION
PERSONAL LINES

(1)	**Pre SB 408**: Estimated impact of public adjusters on aggregate loss and ALAE	10.4%
(2)	Estimated reduction in public adjuster involvement	-25.0%
(3)	**Post SB 408**: Estimated impact of public adjusters on aggregate loss and ALAE	7.8%
(4)	Estimated savings due to limiting public adjuster compensation	-2.4%

Notes:

(1) From Exhibit 4, Page 4, Column (8), Total
(2) From Exhibit 4, Page 5, Row (8)
*(3) = (1) * [1+(2)]*
(4) = [1+(3)] / [1+(1)] - 1

EXHIBIT 5

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATED SAVINGS DUE TO EXCLUDING SINKHOLE COVERAGE FOR STRUCTURES OTHER THAN THE PRIMARY STRUCTURE

Closed Claim Study Performed in 2011

(1) Total indemnity paid	12,395,616
(2) Total cost for other structures not included as part of Coveage B	564,648
(3) Percentage reduction in loss payments	-4.6%

Closed Claim Study Performed in 2012

(4) Total indemnity paid	7,027,760
(5) Total cost for other structures not included as part of Coveage B	285,199
(6) Percentage reduction in loss payments	-4.1%

(7) Estimated reduction in loss payments due to excluded items	-4.3%
(8) Total sinkhole losses for personal lines claims closed as of 3/31/12	543,104,407
(9) Total sinkhole ALAE for personal lines claims closed as of 3/31/12	99,785,664
(10) Estimated savings due to excluding sinkhole coverage for structures other than the primary structure	**-3.6%**

Notes:

(1) Provided by Citizens. Based on a closed claim study of 75 Personal Lines sinkhole claims.

(2) Provided by Citizens. Based on a closed claim study of 75 Personal Lines sinkhole claims.

(3) = - (2)/(1)

(4) Provided by Citizens. Based on a closed claim study of 70 Personal Lines sinkhole claims.

(5) Provided by Citizens. Based on a closed claim study of 70 Personal Lines sinkhole claims.

(6) = - (5)/(4)

(7) = [(3)+(6)] / 2

(8) Calculated based on information provided by Citizens.

(9) Calculated based on information provided by Citizens.

(10) = {(8)[1+(7)]+(9)} / [(8)+(9)] - 1*

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATE OF THE COST OF GEOTECHNICAL STUDIES FOR 106 SURVEYED SINKHOLE CLAIMS
PRIOR TO SB 408

(1)	(2)	(3)	(4)	(5)	(6)
Category	**Confirmed Structural Damage**	**Confirmed Sinkhole**	**Number of Claims**	**Estimated Average Cost of Geotechnical Studies**	**Estimated Cost of Geotechnical Studies**
1	No	No	31	10,585	328,148
2	No	Unknown	18	10,585	190,538
3	No	Yes	50	10,585	529,271
4	Yes	Varies	7	10,585	74,098
Total			106		1,122,055

Notes:

(4) Calcaluated based on information provided by Citizens.

(5) The average cost of 10,585 is based on a subset of 60 of the claims where we were provided the cost of the geotechnical study.

*(6) = (4) * (5)*

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATE OF THE COST OF GEOTECHNICAL AND ENGINEERING STUDIES FOR 106 SURVEYED SINKHOLE CLAIMS
AFTER TO SB 408

(1) Category	(2) Confirmed Structural Damage	(3) Confirmed Sinkhole	(4) Number of Claims	(5) Estimated Average Cost of Engineering Studies	(6) Estimated Probability that Geotechnical Testing Tesing is Done	(7) Estimated Average Cost of Geotechnical Studies	(8) Estimated Cost of Engineering and Geotechnical Studies
1	No	No	31	3,501	30.3%	8,131	184,985
2	No	Unknown	18	3,501	30.3%	9,646	115,681
3	No	Yes	50	3,501	30.3%	10,585	335,581
4	Yes	Varies	7	3,501	100.0%	10,585	98,606
Total			106				734,854

Notes:

(4) Calcaluated based on information provided by Citizens.

(5) The average cost of $3,501 is based on a subset of 65 of the claims where we were provided the cost of the engineering study.

(6) Categories 1 through 3 : From Exhibit 4, Page 5, Row (7). We assume that the frequency of policyholders using a public adjuster will be a reasonable proxy for the probability that they will demand geotechnical testing.
Category 4 : Equal to one.

(7) The average cost of $10,585 is based on a subset of 60 of the claims where we were provided the cost of the geotechnical study.
The average cost of $8,131 reflects the estimated impact of the policyholder paying the minimum of $2,500 and 50% of the cost of the study,
The average cost of $8,131 is based on the subset of 60 claims were we were provided the actual cost of the engineering studies.
For Category 2, the average cost of $9,646 reflects a weighted average of the costs for Categories 1 and 3, with weights from Column (3).

*(8) = (4) * [(5)+(6)*(7)]*

CITIZENS PROPERTY INSURANCE CORPORATION

ESTIMATED SAVINGS DUE TO POLICYHOLDER SHARING IN COST OF GEOTECHNICAL TESTING
PERSONAL LINES

Based on a Survey of 106 Open Sinkhole Claims

(1) Pre SB 408: Estimated cost of geotechnical studies	1,122,055
(2) Post SB 408: Estimated cost of engineering and geotechnical studies	734,854
(3) Estimated percentage reduction in the cost of testing	-34.5%

(4) Total sinkhole losses for personal lines claims closed as of 3/31/12	543,104,407
(5) Total sinkhole ALAE for personal lines claims closed as of 3/31/12	99,785,664
(6) Estimated savings due to excluding sinkhole coverage for structures other than the primary structure	**-5.4%**

Notes:

(1) Exhibit 6, Page 1, Column (6), Total
(2) Exhibit 6, Page 2, Column (8), Total
(3) = (2)/(1) - 1
(4) Calculated based on information provided by Citizens.
(5) Calculated based on information provided by Citizens.
(6) = {(4)+(5)[1+(3)]} / [(4)+(5)] - 1*