

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
DEPOPULATION COMMITTEE MEETING
Tuesday, September 29, 2015**

The Depopulation Committee of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North, 600 N. Lake Destiny Drive, Maitland, FL 32751 on Tuesday, September 29, 2015 at 9:30 am (EST).

The following members of the committee were present:

Don Glisson, Chairman
Chris Gardner (Chairman of the Board)
Gary Aubuchon

The following members of the committee were present telephonically:

Brian Squire

The following members of the Board were present:

John Wortman

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Steve Bitar
Bruce Meeks
Kelly Booten
Christine Ashburn
John Rollins
Jay Adams
Carl Rockman
Adam Marmelstein
Dan Sumner
Barbara Walker
Bonnie Gilliland
David Woodruff
Michael Peltier

The following people were present:

Dennis Martin
Nathaniel Johnson JP Morgan

Call Meeting to Order

Roll was called.

1. Approval of Prior Meeting Minutes

A motion was made and seconded to approve the December 9, 2014 Depopulation Committee minutes. All were in favor. Motion carried.

2. Depopulation Update

Steve Bitar: Good morning Mr. Chairman and esteemed committee members. We have not met since December of last year so I thought it would be a good time for us to, at minimum, revisit some of the progress that we've made and provide you with an update with regards to Depopulation activity which has continued into 2015. Last time we met, looking at the minutes, we were sitting at right around 727,000 policies. We are now well under 600,000. As of Friday we were sitting at roughly 585,000 and we have some good activity coming and great indications of what to expect in the fourth quarter. Adam Marmelstein will hit upon that in a few moments. We are very excited about the prospects of where Citizens stands with regards to our policy counts. We've got some great indications. Our team has been working very closely with many companies; there's a lot of information coming in that's telling us we're going to have some good activity fourth quarter and even to January of 2016. I'll turn it over to Adam and let him take you through the trends, what's happening and some of the activity as well. So with that, our Director of Market Services, Adam Marmelstein.

Adam Marmelstein: Thank you Steve. Adam Marmelstein for the record. Good morning committee members. I'll just add a little bit of detail to Steve's opening remarks. The first is a recap of 2014 and the assumptions. Good year, 416,000 policies assumed. Slide 3 shows the most linear progression of depopulation and its effect on Citizens' policy count. Not surprisingly the more policies that get depopulated the fewer policies do remain in force in Depopulation. So I think this graph really lays it out nicely. 2015 Assumptions is the next slide; it is detailed around how things are going in 2015. As you can see the numbers in all of the columns aren't complete. Those will be filled in as we progress through, but currently year-to-date we have about 140,000 policies that have been assumed so we are on pace to have another good year. The next slide talks a little bit about projections. These solid bar charts are those that have already occurred. The hash marks are those that we're projecting; we've provided a range to give you an idea of how many of these policies we think will trickle through to the end state of being assumed. Through October, November and December you can see we go from solid to entirely hash marks so as with all projections, the more estimating you do the greater the likelihood of being in exact, but I think those ranges will prove to be fairly accurate as was the case earlier in the year. The last slide is very much a high level slide that speaks to what's happened to Citizens' policy count as a result of primarily Depopulation since the high water mark back in 2012 where we had approximately 1.5 million policies. The little spigot on the top talks about policies continuing to come in; that's new business of course. The little spigot on the bottom is the policies flowing out the door and we see the fall from about 1.5 million to 600,000 since then. So that's a considerable

piece. I know Mr. Gilway has spoken to the group before about water marks being somewhere around 50,000, so of course, new policies will come in, policies will go out and I think we will find that mark sometime in 2016. I'll pause to see if there are any questions and then I will give a brief recap of the Depopulation Workgroup.

Don Glisson: I have a question on the 2015 assumptions, it's not really a question, I guess it's an observation where in January we were 69% of the offers, or the assumptions were at 69% and then it dropped to 35, 59, 41...58....there's a lot of fluctuation there; do we see a type of trend where that's going downward or is it holding pretty steady? Obviously we like to see the highest rate possible in the assumption rate.

Steve Bitar: Yes, we had a lot of activity earlier this year with regards to mobile homes and some of what is happening in that market place. I think with the changes in the modeling, Mount Beacon was using some of those numbers; reflecting some of the depopulation. I think they decided not pursue because of the changes in the models, so that is really reflective of that and led to a little volatility if you will, attributed to the mobile home depopulations that occurred earlier this year.

Barry Gilway: Chairman, what is interesting here is...and I'm not sure Adam, if you were going to hit this or not, but I'll jump in....What's interesting here is a shift and that shift is creating some significant uncertainty associated with the actual take-out rate. And that shift is a very positive thing. If you go back a year, this was principally a PLA play. It was a residential play. When you take a look at the makeup of the October, November and the indicated December and January assumptions, the shift has gone from a PLA play to a Coastal and a Wind-Only play, which is significant. Now, why does that create uncertainty? Because in the past, we had a good solid record of if it was a residential risk; 35% of the time they were going to take the insurer's offers. We don't know what the reaction's going to be on the wind-only and on the Coastal. We don't know whether, on one hand, it could be higher – simply because this is the first time that these insurers have received a take-out letter and on the other hand it could be lower because Citizens is considered a very strong market for that wind-only and coastal business. It's going to be very interesting to see; and that's why the range is as Steve and Adam showed you. It's hard to nail down what that ultimate take-out rate is going to be given the shift in what's happening. The good news is, we never would have expected a year ago the kind of activity we are now seeing in the wind-only and the coastal business and of course that's really going to drive PML and reinsurance costs, etc... going forward.

Don Glisson: Thank you, Barry.

Gary Aubuchon: Looking at the slide on page 5, looking at the low number, it looks like as a minimum we're looking for a potential 130,000 "ish" policies to be taken out over the balance of the year. Are we expecting our policies in force to drop below 500,000 before year end?

Steve Bitar: I think that's a very valid concern which is always going to be good for us. I think we're looking at....we're writing about 9,000 to 10,000 new business on a monthly basis. So you have to take that into account as well as what's flowing out, but it's very possible that we could be in that 500,000 range depending on what transpires over the next couple of months. For

October, our prediction is roughly, if you see here between 50,000 and 70,000, I think we'll be on the lower end of that with regards to numbers that I've seen thus far from the companies that are returning their requested lists. When you look at November, we had about 189,000 approved for November, so that's going to dwindle down as well. We're still waiting to see what the December numbers are. We truly don't know what they are. The approvals have not been issued yet; same thing for January, so this is based on a lot of intel that we have, but we're very hopeful that we will be in the 500,000 range.

Don Glisson: Any other questions at this point? (pause) Proceed.

Adam Marmelstein: An update of the Depopulation Workgroups work was provided in June to the various committees so I won't go through it here, instead I'll skip through to slide 10. The tactical recommendations that have come out of the Depopulation Workgroup and acting on those recommendations are well under way. There have been some changes to the communications as was desired by many of the stakeholders, the carriers, the agents and the consumer advocates; this includes changes to the opt-out letters as well as the agent decline letters, the policy selection file... We're modifying some things with the wish list that the agents get so that they can better inform their policyholders who may be receiving the Depopulation offer and assumption offer as to what's coming. The goal, of course, to provide more information to them and possibly the biggest piece of that is on slide 11, number 5 and that's the work that's been done in concert with the OIR to insure and it began just this October assumption that an estimated premium of the take-out offer be provided to the policyholder on the offer letter, which of course the opt-out letter accompanies. Providing to the policyholder both the estimated Citizens renewal premium as well as an estimated premium from the take-out company, gives the policyholder that missing piece of information that will allow them to better make a value-based decision. There's been a lot of talk about the concerns with offers coming from take-out carriers before renewal where the rates were considerably higher than Citizens, the hope of course is that by providing this number and creating this level of transparency, the policyholder and the agent can collaborate and say this is a very strong offer from a very good company, this is an offer that is slightly more or slightly less, but it's from a good company or it's very expensive and we're going to weigh our decisions and see what we can do. With the opt-out window, they'll have this, there will be thirty days prior to the assumption where the insured can look through this and say, "I'm going to opt-out of this because I don't know that the pricing is what I need it to be." So it takes kind of what....currently there's that 60 day opt-out period, it takes that 60 day decision window and in a lot of ways makes it more of a 60 second decision. We're very pleased to see that. It also plays into a number of different areas in depopulation including consumer choice and automations, so we're very pleased to see this. So that's slide 11, the strategic recommendations remain and continue to be worked automation policyholder choice. There's the diagram at the very end that's a very high level picture of how someday we hope this process will be fully automated to better enable the agents and the policyholders, the carriers and Citizens to make this process as seamless and effective as possible.

Don Glisson: Do we have a timeline or a goal for that?

Adam Marmelstein: We do. There's currently underway and effort to enact a manual process to allow for some of these things to take place. It will be like the depopulation process itself, highly

manual, and we hope to be able to implement some of those pieces in 2016. Full automation, of course, we're subject to the same state guidelines around invitations to negotiate and that adds considerable length to the desired solution, optimistically in 2017, for automation if things break the right way.

Steve Bitar: Chairman, if I may, I'd like to go on record. If you look at slide 17, this gives a recap of all the participants that are on the depopulation workgroup. I want to thank this committee as well as Chairman Gardner for reinstating the Depopulation Committee and kind of giving us the forum, if you will, for bringing these parties together so that we could all work towards our common goal to hopefully improve the depopulation process. All of these people from the agent community, from Citizens, from the consumer community; also representing the insurers as well as our state regulators have all come together so that we can ultimately apply our knowledge and experience over the past few years with depopulation and really make it better. That's what the group is working on now is coming up with the recommendations that are based on past experience to ultimately make this flow more efficiently. I think what you'll find is, in addition to all of the improvements that we have planned, we have to take that into account with what's coming in the upcoming legislative session as well as what's happening in Clearinghouse. I really think they go hand in hand with regards to all the activity we've had in the prior years in Clearinghouse and we're getting ready to give you an update on that. I think it's really sparked a lot of movement in the Depopulation arena. A lot of companies are participating on the Clearinghouse, they're able to get at a lot of the policies they might not have been able to pursue in Depopulation and that sparked some additional interest in new relationships that are being built and some new companies that are appearing. When you look at the landscape of all Depopulation and understand what we're doing here plus looking at Clearinghouse, it's very promising for where things stand and we hope to get to that 450,000 mark. As Barry eluded to earlier, we're seeing some very creative pursuits on the Coastal Account that we didn't expect, so it will be interesting to see where the numbers really land in the upcoming year.

Don Glisson: Okay, any further questions on Depopulation before we move on to Clearinghouse?

Gary Aubuchon: Thanks Chairman, so explain to me how those of you who are working on Depop work together with those that are charged with purchasing reinsurance to ensure something that we didn't think about 4 or 5 years ago, and that was potentially having too much reinsurance because we're dropping so much of our risk, where all along we were striving to get enough reinsurance so how do the two work together?

Barry Gilway: For the record, Barry Gilway. That's a great question, Governor Aubuchon. What I will be doing at the Board Meeting is explaining the program that we instituted about a year ago. We refer to it as Strategic Scenario Planning. The whole purpose of this program is to address exactly what you're talking about. This is headed up by Kelly Booten and her team; she's done a phenomenal job with this. The summary of this program basically is, it's very comprehensive, we take a look at all the history of policy counts, we do projections at different scenario levels, we then calculate the PML associated with each of these scenarios and that will lead basically into a discussion not only of budget, because obviously when we're running a \$3.2 billion revenue company, we can't spend...when we're running on a \$1.2 billion company (emphasized), we can't spend what we could spend for a \$3.2 billion company, so then we make sure all the decisions,

not just reinsurance, but all the decisions we are making today are reflective of what Citizens is going to look like tomorrow and certainly a huge piece of that is reinsurance. Tomorrow, we will not need the same level of reinsurance because the PML is already dropped to a third. We used to have a \$24 billion PML and now we've got a \$10 billion PML so when you've got a \$10 billion PML your reinsurance requirements are different. Jennifer and John will basically be stepping back, taking a look at the reinsurance buy, they'll take a look at what's expiring in 2016, before the 2016 season and really making a decision as to exactly how much we should purchase based upon the PML we expect before the 2016 wind season. I'll also be talking to the Board about other aspects which include obviously decisions made with respect to budget. While we have done a phenomenal job of reducing contingency staff over the last year and a half, we've dropped about 900 contingent employees over the course of the last 24 months. We still have a way to go in terms of dropping contingency staff and then we have to be more restrictive in terms of internal employees that we hire, because we've got to right-size the company ultimately for a much smaller company. The key is making absolutely sure that you're looking ahead and then anytime we look at large spends; ERP is a good example. I talked to Governor Henderson just a couple of days ago regarding ERP and Kelly again is taking a look at ERP and saying, "Does it make sense to invest in a \$20 million or \$10 million, whatever the final number is, and I think that's the kind of range we're talking about because it makes sense to invest in that at a current revenue level and the anticipated revenue level. Or, should we proceed down the road of really doing individual procurements and is that a more cost efficient way to approach it? Your point is well made and my President's Report will focus on Scenario Strategic Planning and letting the Board really know all the steps we're taking to ensure that the decisions we're making now are the right decisions for the citizens that might drop to that 450/500 by the end of the year and we don't know at this point.

Don Glisson: Any other questions on Depop? Alright, next is Clearinghouse Update, obviously the more we can prevent from coming in the company, the more efficient we are in the back side.

3. Clearinghouse Update

Steve Bitar: Think of the Clearinghouse as a filter on the front end. At this point, legislatively we have a mechanism; we're running most of our new business through the Clearinghouse filter trying to see if there's any offer of coverage that exists in the private market before ultimately letting it in through the Citizens' door. Adam will give you an overview of the activity that we've had both on new business and renewal, the additional policy forms that we've added, plans for additional companies as well as how successful that filter has been when you look at our new business that's coming in the door year over year, so with that I'll turn it over to Adam and let him take you through some of the highlights.

Adam Marmelstein: Thank you, Steve. Let's talk first about that filter, that new business filter. Good news on this front; year-to-date approximately \$2 billion of coverage A has been averted and if you look on this bar chart on the far left, you'll see three numbers, 6.2% and 7.7%. Now the scale doesn't do it justice and we're talking about smaller numbers, but that's an increase year over year of making policies ineligible for Citizens of about 24%. Although it's only one and a half percentage points, the change from 6.2% to 7.7% is a 24% increase which I think is significant. Some of that has come from offers being received that allow the person to be

eligible and now they are ineligible. The good news is 24%. We'll turn the page and talk a little bit about renewal results and we can see here as well that they're about flat. Renewals continue to fall out. The good news here is in the middle column. Blue, of course, is 2014. 2015 is year to date and we see a significant uptake here in offers being received from carriers. These offers, to contrast them with the ones on the first page, aren't rendering the person ineligible, but there are offers that are being presented, the policyholder and the agent can work together to decide whether or not those are offers that they want to pursue and I think as time goes by, I'd like to think we'll see happening on the renewal side, what we saw on the new business side is carriers realizing that these risks meet their eligibility criteria and as they do their rate filings and look at pricing they might reach a point where they become offers that render someone ineligible. Again, here, it's always worth keeping in mind that the threshold for ineligibility is different on new business. If we've heard it once, we've heard it a hundred times that if the offer is within 115% of the Citizens' offer on the renewal side it has to be less than or equal to. It's more of a challenge on the renewal side to render policies ineligible.

Don Glisson: Do we have a sense that maybe the agents are actually shopping the business with other carriers first and never even makes Clearinghouse?I'm seeing a lot of heads going up and down. To me, that would be the ultimate objective here, to actually have the agents do what they are supposed to do and shop the risk elsewhere; we're the company of last resort, before they come straight to us. Now they are going to the Clearinghouse...maybe they shop it first. I know it's hard to measure, but you do believe that's happening?

Steve Bitar: We definitely see it on the new business side, without a doubt. Going through the Clearinghouse process, because we have so many companies participating in each one of them, has its own unique set of questions that have to be asked. It's a process to go through the front end and so many agents are, absolutely, we have total indications that they're shopping it on the front end, trying to find them a home outside of Citizens and the Clearinghouse first, then only coming to Citizens when they absolutely need to and then there are some surprises in that as well and Adam will get into that in a moment.

Adam Marmelstein: Yes, just to piggyback on what Steve said, first of all it's hard to measure. Of course, you can't count the number of policies that you don't see, but we can look at the affects around it and one of them is slide 8. We continue to see the number of new policies being presented to Citizens for a quote fall. Slide 8 shows year 2015 in red compared to 2014 in blue. There's significant drops there in most months between 33% and 50% and of course keep in mind that if we were to throw 2013 in here, there was already a decline from 2013 to 2014 and now the trend continues in 2015.

Don Glisson: The housing market need to back up...a lot more transactions going on...you would think we would have more submissions.

Adam Marmelstein: Right, you'd think it would go up...exactly the opposite. That's attributable to I think the fiercer competition in the private market place. Reinsurance rates play into this, but I also think one of the issues at play here, and we spoke about it at one of the other committee meetings a few months ago, is the fact that agents are also learning through the Clearinghouse that there are private markets available that they were unaware of. We're

seeing large number of successes in counties that we don't usually think of. I don't believe...actually we did provide it...slide 5 talks to this a little bit. In green, you can see where Clearinghouse is winning. It's showing agents who came to Clearinghouse in good faith, thinking that Citizens was their only option, that there are in fact other carriers in the private market that are going to make offers on these risks and we're very much winning there. We're creating a feedback loop so we'll continue to see, I think, submissions go down. The down side of course is as the submissions that come in that do have other places that agents learn to go to that place first. Our offer rates may decline as a result because as they refine their criteria for what needs to come to Citizens, they'll go to the private market first.

Brian Squire: I'd like to comment on this issue, something to keep in mind also is in years past when the market was tight, a lot of the insurance agencies representing carriers in the state of Florida, they had limited markets, so Citizens at one point in time for a lot of the smaller agencies was really the only market they had access to. With the access to reinsurance and then the plethora of insurance companies coming into the market, we're seeing insurance carriers readily appoint these smaller agencies, so now you have most of the agencies competing for business in the state of Florida having multiple resources.

Steve Bitar: And to that point, if you look at slide 5 we have a little update here. We have two new companies: Monarch and Edison that are going to be joining in the first quarter of 2016 and both have indicated they have capacity in South Florida and Southwest Florida where we are seeing a lot of activity but not many offers being made, so we're very optimistic that as the market continues to soften and reinsurance is much more readily available, the appetites are opening up and we're seeing some additional indications of potential success, so we'll definitely keep you updated there as well.

Gary Aubuchon: When I came on the Board of couple of years ago, and we talked about Clearinghouse, the expectation I think was that we really expected it to scrub our policies and remove lots of policies that didn't belong at Citizens. And now seeing where we are today, it seems like maybe the new role or the morphing role of this Clearinghouse is more as a deterrent for policies coming in to Citizens rather than necessarily clearing out policies.

Steve Bitar: Well, I hate to think of it as a deterrent if you will, but I will say that it is probably a catalyst for depopulation. The way I look at it is when you are in the Clearinghouse, you're really taking a policy on an individual basis and the Depopulation Program, I think, has gained a lot more support and success because the companies that are participating in the Clearinghouse are also there on the Depopulation side. Remember, one of the major inducements of Depopulation is that unearned premium check that you receive on that assumption date. So I think, if anything, you look at the Clearinghouse and the infrastructure that it's built and the fact that there is some validation going on not only in the new business, but also on the renewal side, and as that continues to progress, as you know we are still seeing rate increases hit in certain pockets of the state with our recent rates that were approved, so you're going to find we are getting more and more close to actuarial sound and those success rates on the Clearinghouse side should continue to improve, but at the same time, a lot of the companies are hitting hard in Depopulation while they can. So again, I look at it as a catalyst rather than a deterrent to the overall program, but I think it's just semantics.

Don Glisson: Well, I think as Brian mentioned, three or four years ago there weren't many carriers out there for the agents to sign up. So agents really had no choice, they had to come to Citizens, it was one of their only appointments, so now they have multiple companies they represent, so it's easier to just deal with those guys than...I call Clearinghouse "the bouncer". Who gets past "the bouncer"?

Adam Marmelstein: We'll continue on slide 5. This is a short update as to the operational objectives of the Clearinghouse and what we'll continue to do here the main focuses are targeting those carriers and saying here's a list of agents who are submitting good risks that you like, but you haven't gotten them appointed so let's take a look and see if it's within your business strategy and if so let's get them signed up so you can continue to get the risks that you want. A related effort to that is doing the same based on the volume of risks that particular agents are submitting. The other piece of this puzzle was to continue to encourage our participating carriers who have already made the upfront investment in Clearinghouse to continue to add new products. Speaking of new products, HO6 condo policies will be on the Clearinghouse platform in December of this year which will bring the number of policies that are currently, by policy count, available on the Clearinghouse past the 50% mark. So now we can say that the majority of the policies in force at Citizens are accessible through the Clearinghouse on the renewal side, so we're excited about that. In 2016 we'll continue to look at which policies may be next to join us on Clearinghouse, that's an ongoing conversation. The next slide Steve talked to additional insurers joining; I'll add two to those that he mentioned. He mentioned Edison and Monarch, we're also looking forward to Southern Fidelity Insurance Company and their sister companies, Southern Fidelity Property & Casualty joining the Clearinghouse as well in 2016. Slide 7 is an update on offers made we spoke to earlier about the Clearinghouse impact on new business submission. I completely agree with Steve, probably the best measurement for the effect of Clearinghouse is none of Clearinghouse's metrics, it's the Depopulation Metrics. It's better to go in and get them before they go through Clearinghouse than to wait, so that's proven very successful. The last and final page is the contract spend summary, these numbers are through August 21, 2015, which is the end of the fiscal year for this effort. That concludes my report and if there are any questions, I'll be happy to take them.

Gary Aubuchon: When you look at the spend and what sort of matrix do you run that spend through to know if we are getting value on the spend? How do you measure it?

Steve Bitar: The contract is based on transaction and when we originally came to the Board for our approval it was really based on the number of transactions we felt would be seen coming through and remember, we were doing this in 2013. Our policy counts were totally different, the market, quite frankly, was totally different, so we needed to make sure that we had the appropriate approval spend authority to continue the program for five years. For us, we're really looking at simply the number of transactions and just because we have the approval from the Board to spend that, by no means do we budget for that in what we bring to the Board on an annual basis. This reflects the true budget authority that we have and the fact that we're significantly under budget, but what we do is we factor along the lines of what Barry was sharing earlier, we look at what is the condition of the marketplace, where are we going, what do we truly expect to be presented to Citizens, understand what those transactions look like and we budget in that direction. So for us, that to us is more of the success, looking at what we feel the

true activity will be and then where we are from that perspective, but also keeping in mind that we are way under the budget in spending authority that the Board gave us back in 2013.

Don Glisson: Obviously the Clearinghouse is required by law, correct? So we have to run it and we have to spend money regardless of whether or not we think we're getting value there; it's just required.

Steve Bitar: If you look at the numbers of the exposure that's been averted just through the Clearinghouse and the activity that's happening and you look at year over year. You know from 2013 to 2014 we saw new business on the HO3 decrease by 43% in submissions that were coming in through Citizens. Then you take that from 2014 to 2015, we're down another 44%. I'd love to attribute all of that to the Clearinghouse and say this is a great spend, and that is true; a lot of that is also a reflection of the marketplace.

Don Glisson: I do think we can attribute a lot of the 44% down to the Clearinghouse, not just what's going out, but what's not even being submitted. I think that's the biggest piece. Because they know they come to the Clearinghouse, it may go elsewhere anyway. Any other questions on Clearinghouse? Any other questions in general? Barbara, have we had anyone ask to speak?

Barbara Walker: No, sir.

Don Glisson: Any new business? (none)

[Meeting adjourned]