

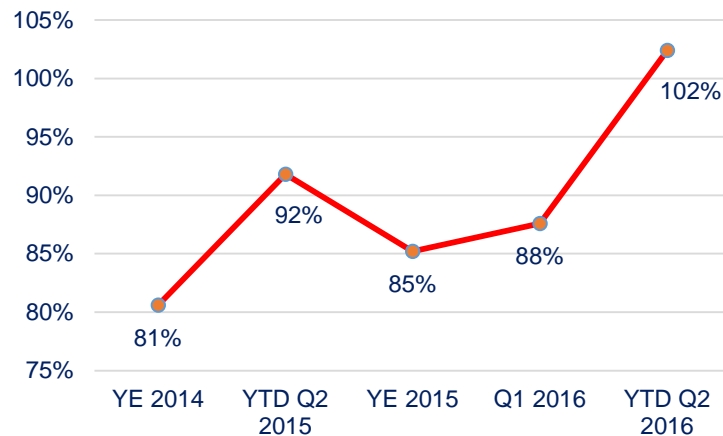


President's Report | Board of Governors

December 7, 2016

Industry Overview

FL Domestic Market - Combined Ratios



Source: *Florida Domestic Insurance Market – Primary Personal Property Writers*, Willis Towers Watson

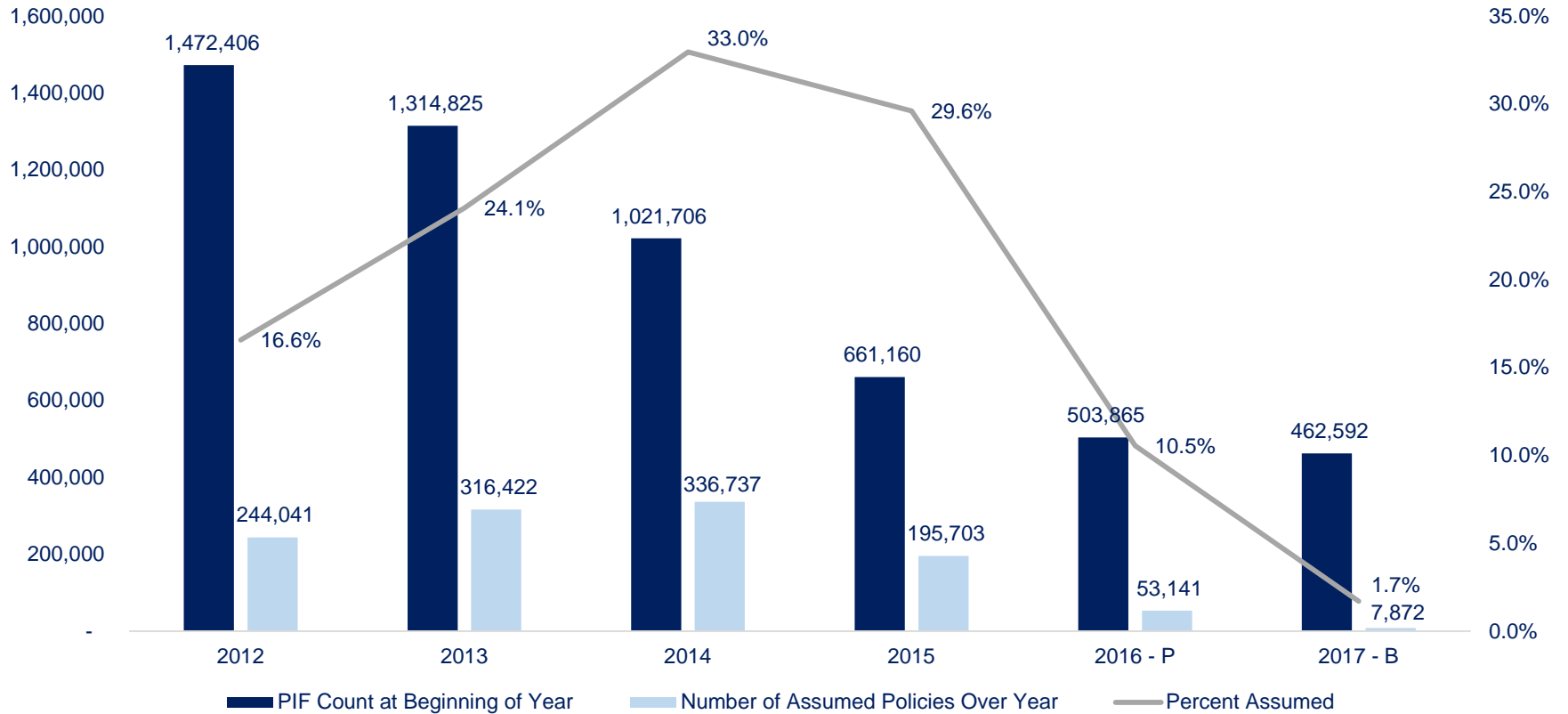
- “The AOB issue (is) rearing its ugly head down there (Tri-County) ... and we just want to make sure that we’ve got it under control.”
- “We have stopped writing new business in Broward County. We don’t write any new business in Dade County.”
- “Dade and Broward Counties have non-cat loss ratios 20 points higher than the rest of the state. So, it has gotten to be a really bad situation down there and we are walling it off.”

John Forney, President and CEO, United Property and Casualty Holdings Corporation

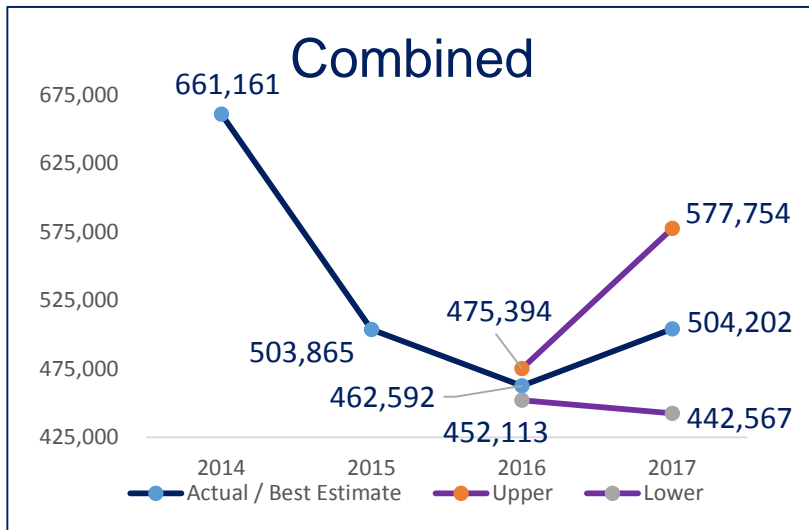
- “It not surprising that homeowners rates are going higher, and I predict rates to increase an additional 30 percent to 50 percent in the next three years in the Tri-County unless the legislature passes comprehensive assignment of benefit reform this session.”
- “Assignment of benefit fraud, particularly as it relates to water claims, is the largest instance of insurance fraud in the homeowners market in the history of Florida.”

Bruce Lucas, Chairman and CEO, Heritage Insurance Holdings

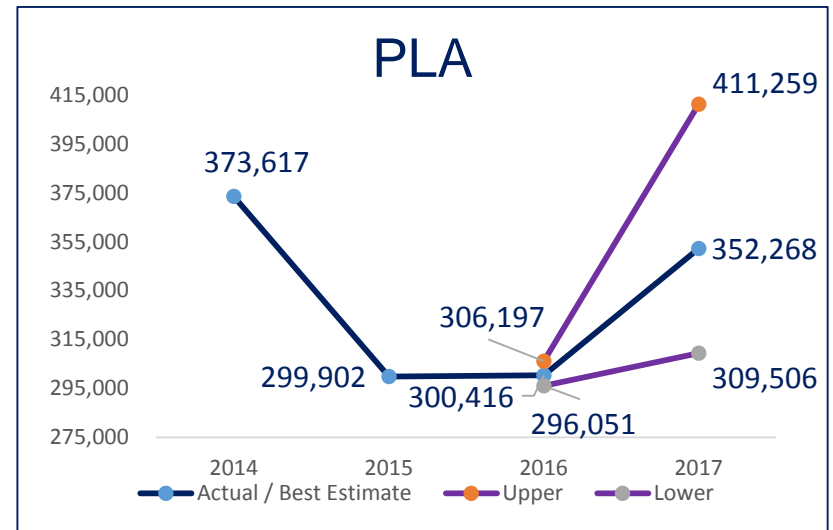
Trends in Depopulation



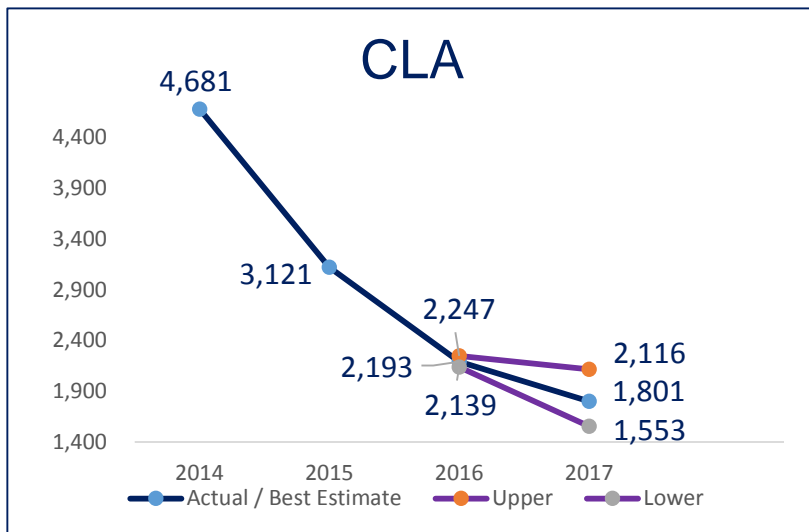
Policies Inforce (PIF) – Recent and Projected Trends



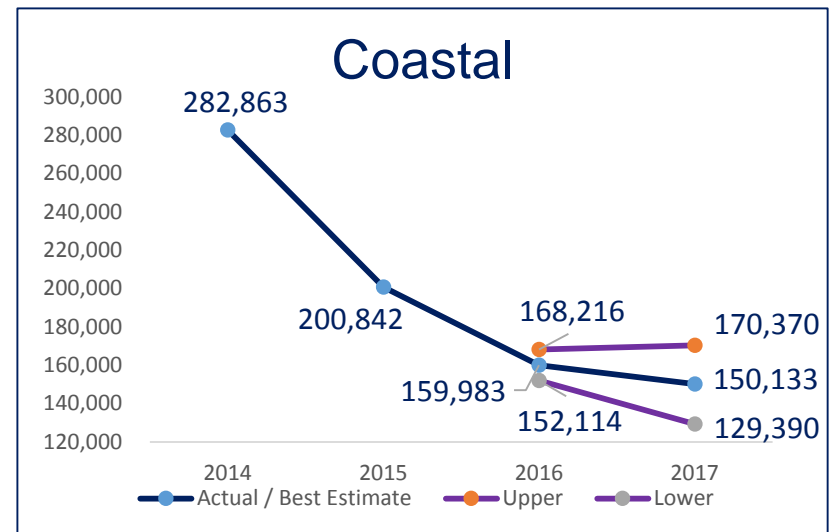
2018: Best Estimate (591,710); Upper (790,586); Lower (425,900)



2018: Best Estimate (442,009); Upper (603,665); Lower (313,362)



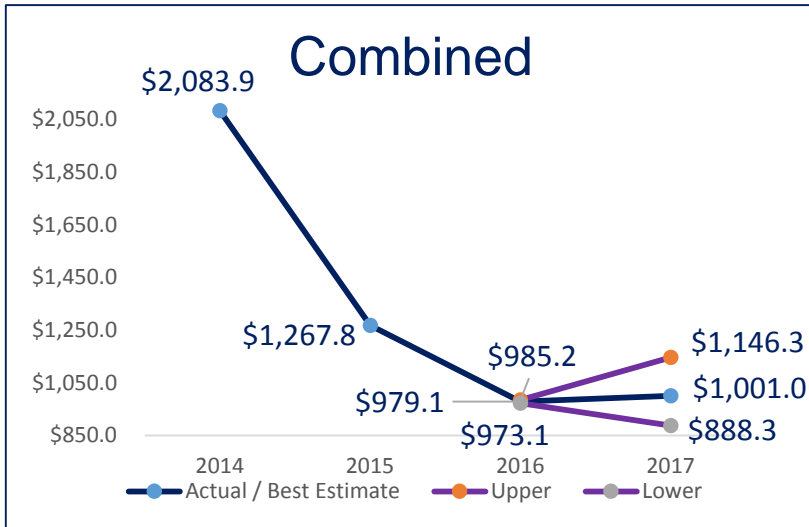
2018: Best Estimate (1,747); Upper (2,472); Lower (1,141)



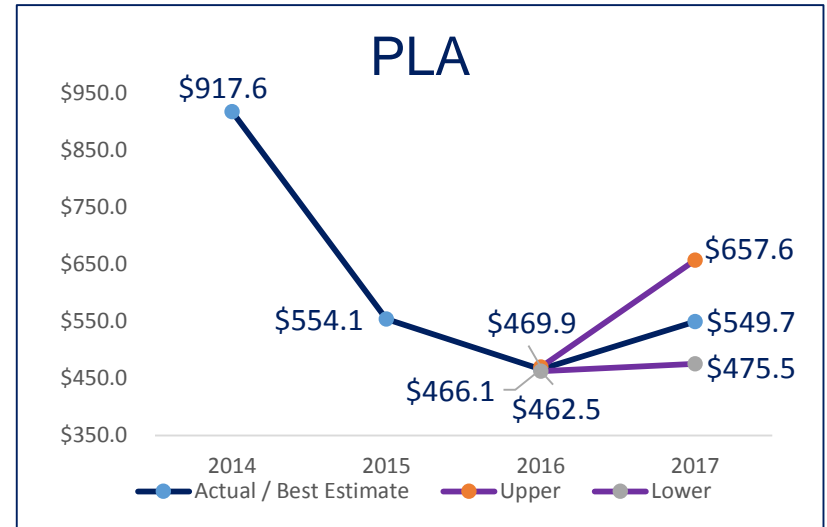
2018: Best Estimate (147,954); Upper (188,655); Lower (106,972)

Direct Written Premium – *Recent and Projected Trends*

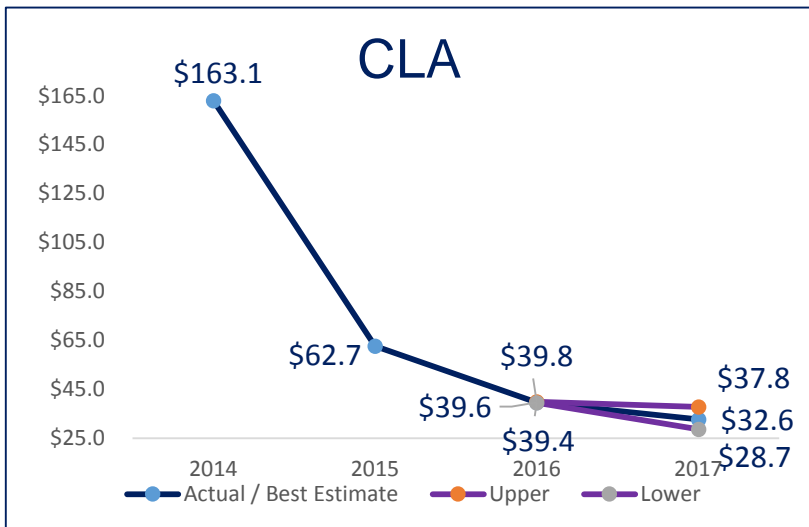
(\$ millions)



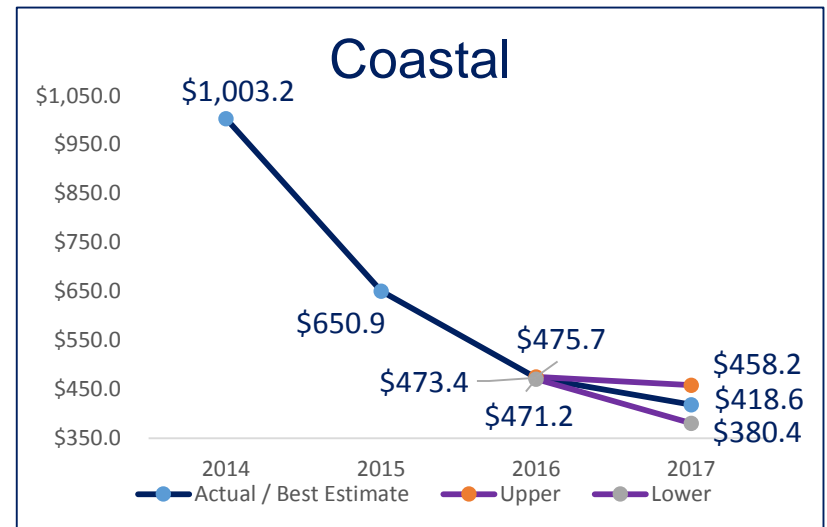
2018: Best Estimate (\$1,215.3); Upper (\$1,646.0); Lower (\$866.9)



2018: Best Estimate (\$745.9); Upper (\$1,057.4); Lower (\$503.9)

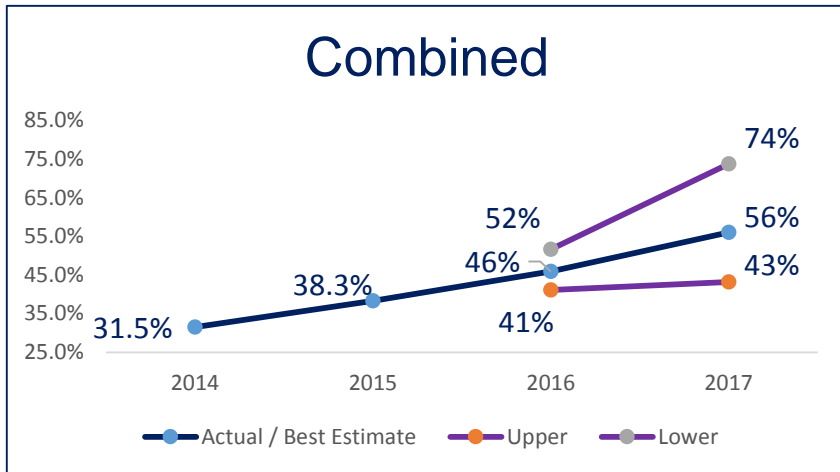


2018: Best Estimate (\$33.0); Upper (\$46.9); Lower (\$21.4)

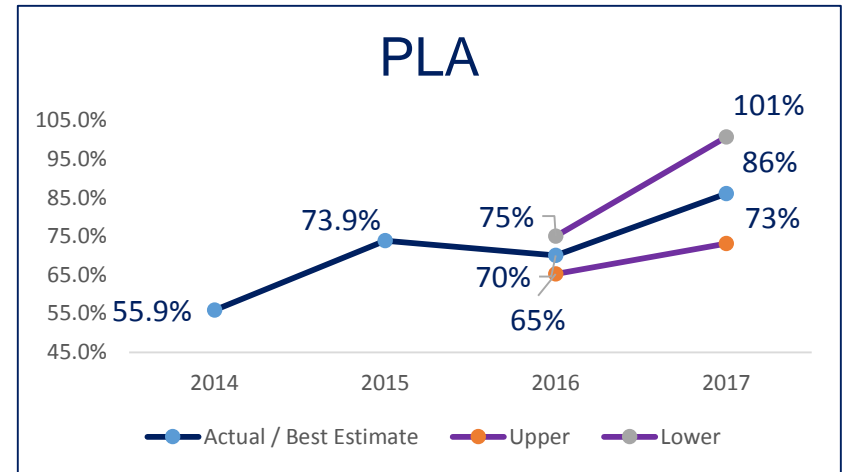


2018: Best Estimate (\$436.4); Upper (\$542.4); Lower (\$336.2)

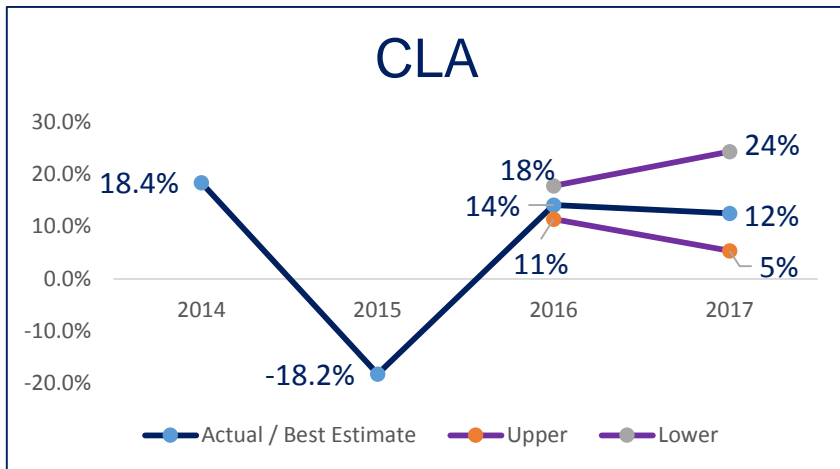
Loss / LAE Ratio – Recent and Projected Trends



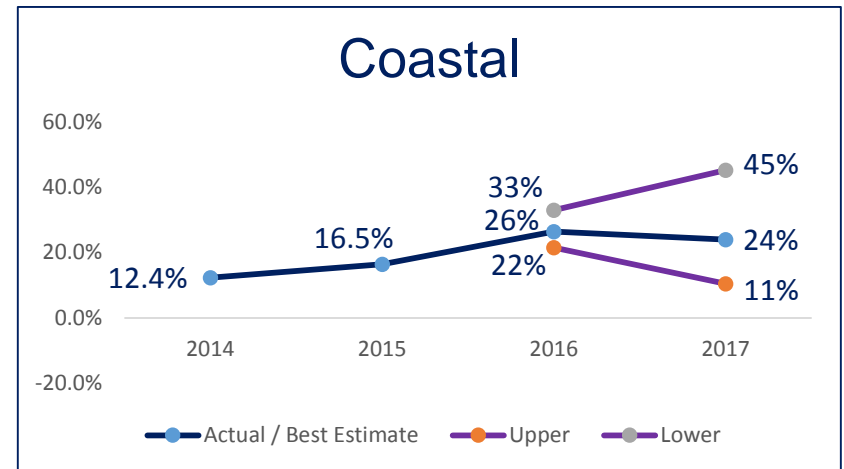
2018: Best Estimate (65%); Upper (90%); Lower (44%)



2018: Best Estimate (95%); Upper (122%); Lower (70%)



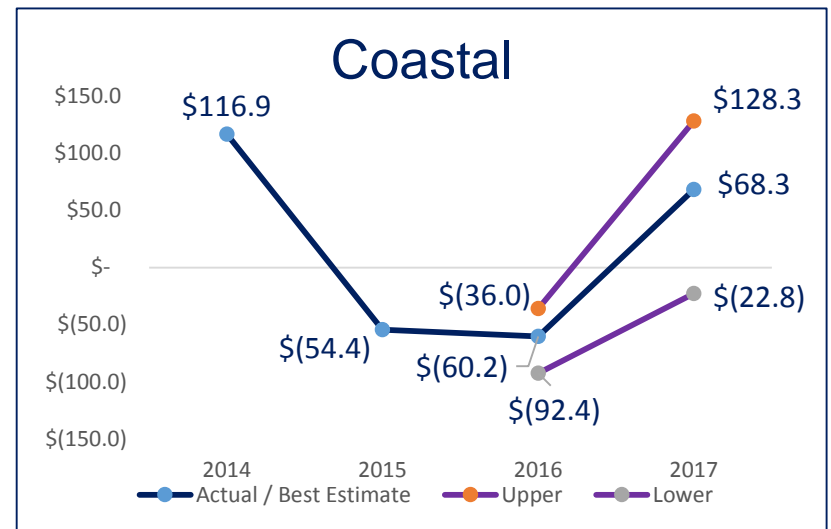
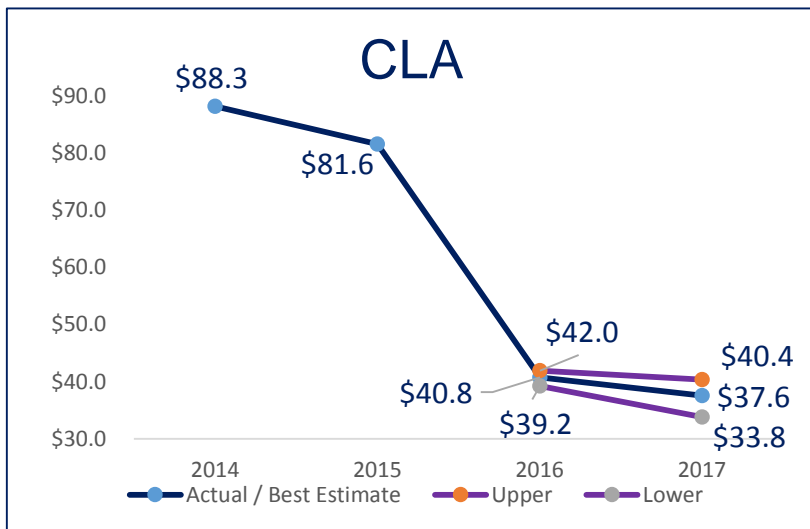
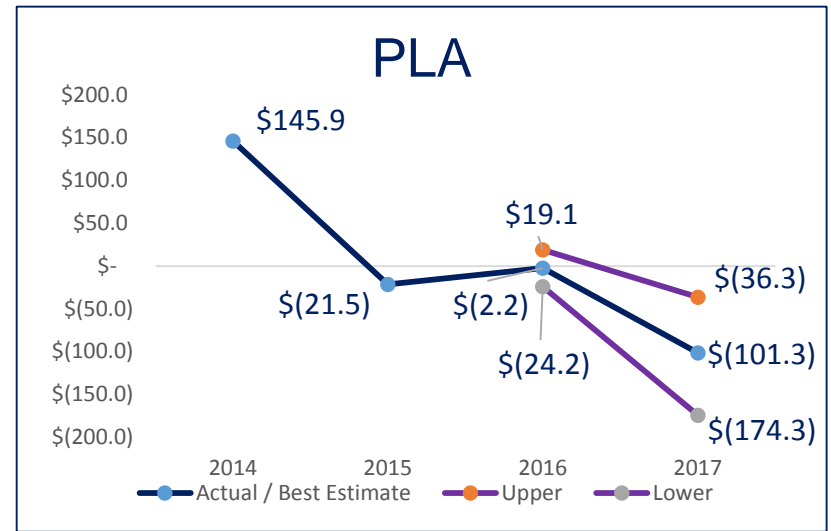
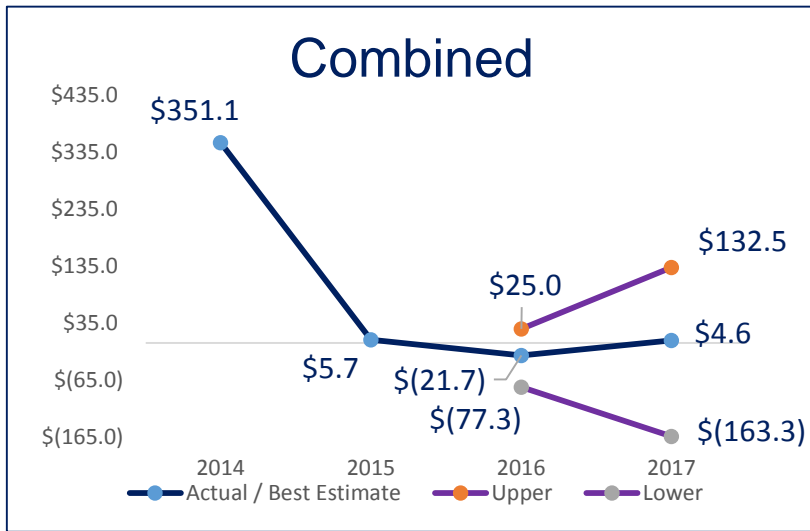
2018: Best Estimate (12%); Upper (24%); Lower (5%)



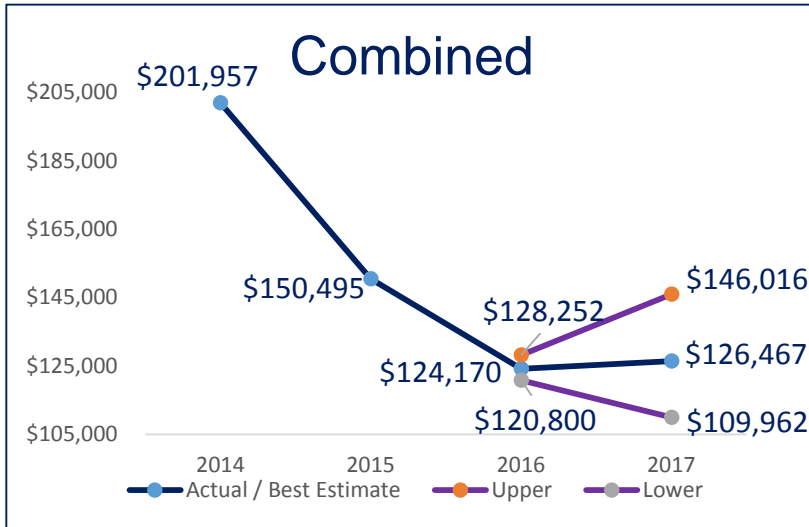
2018: Best Estimate (26%); Upper (50%); Lower (11%)

Net Income (Loss) – Recent and Projected Trends

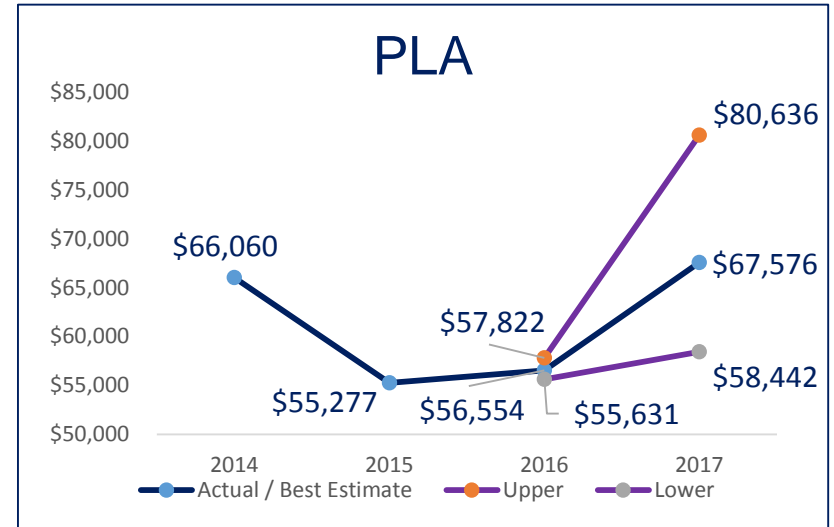
(\$ millions)



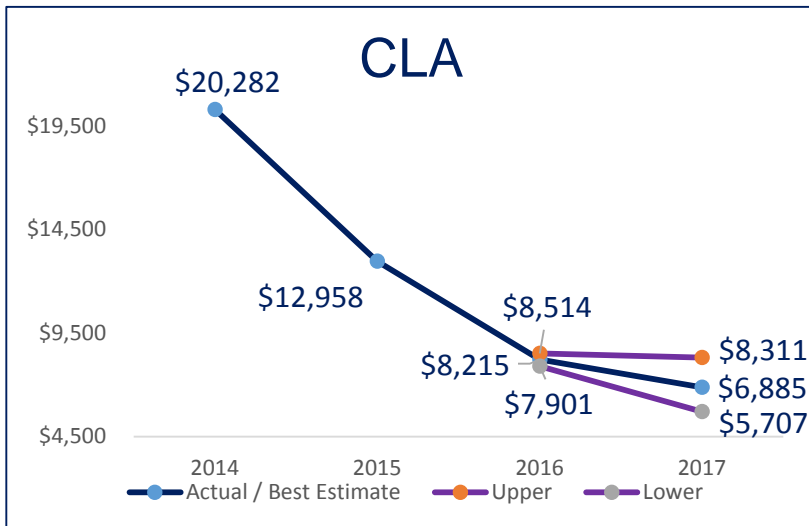
Exposure – Recent and Projected Trends (in millions)



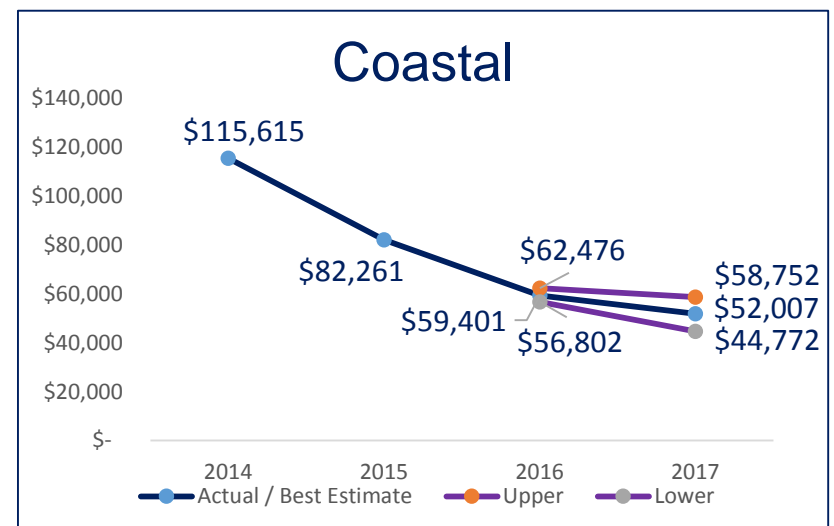
2018: Best Estimate (\$140,180); Upper (\$191,262); Lower (\$97,749)



2018: Best Estimate (\$85,847); Upper (\$122,046); Lower (\$57,823)



2018: Best Estimate (\$6,831); Upper (\$9,961); Lower (\$4,174)



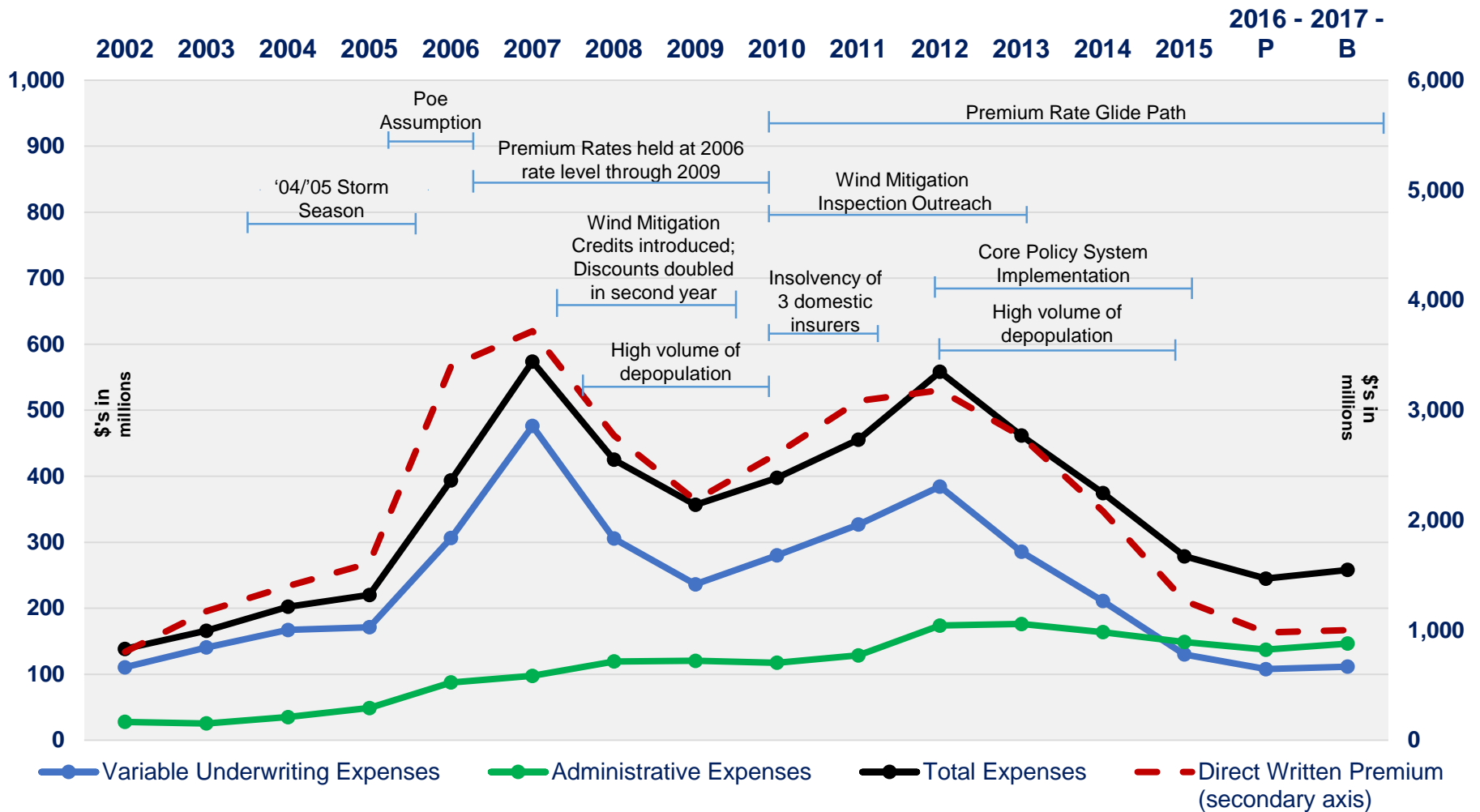
2018: Best Estimate (\$47,503); Upper (\$60,198); Lower (\$34,188)

Corporate Initiatives

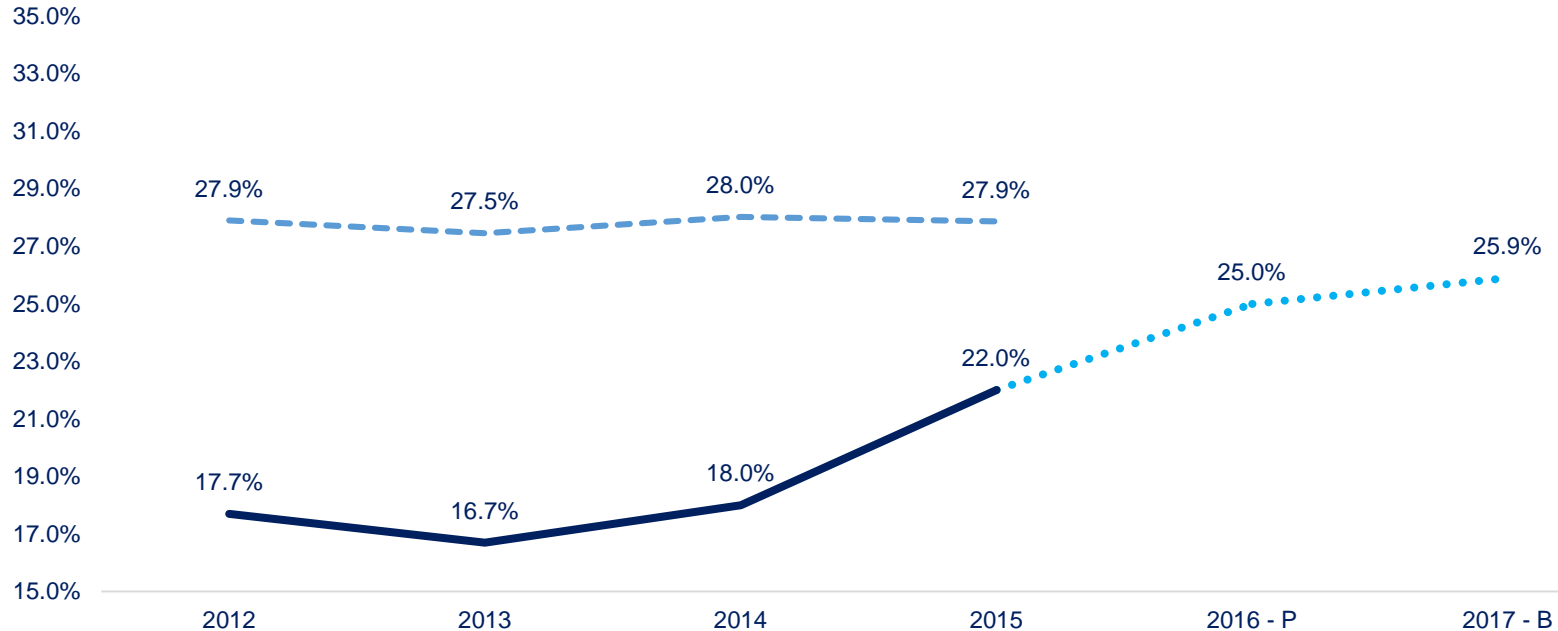
Overarching theme for 2017 is **STABILITY** and **CONTINUOUS IMPROVEMENT**

- Focus on completing initiatives started in 2016 without taking on new / discretionary projects unless they directly support **stabilization** and **continuous improvement** of existing business processes and systems while producing tangible economic value
- 2017 Enterprise Project Budget estimated at \$21 million
 - \$13.8 million or 65% of the \$21 million Enterprise Project Budget is attributable to our 13 Key Strategic Initiatives (larger-scale, higher visibility)
 - 56 or 67% of the Corporate Initiatives are classified as mandatory, continuation of service, high priority, or key strategic initiative
 - Centerpoint (ERP) is the largest project investment at \$8.5 million
- The total estimated investment needed for all 84 *candidate* projects in the 2017 portfolio is projected at \$29 million. However, the approach will be to align resource capacity to the \$21 million Enterprise Project Budget and select projects based upon ROI and value to the organization

Historical Expense and Premium Comparison



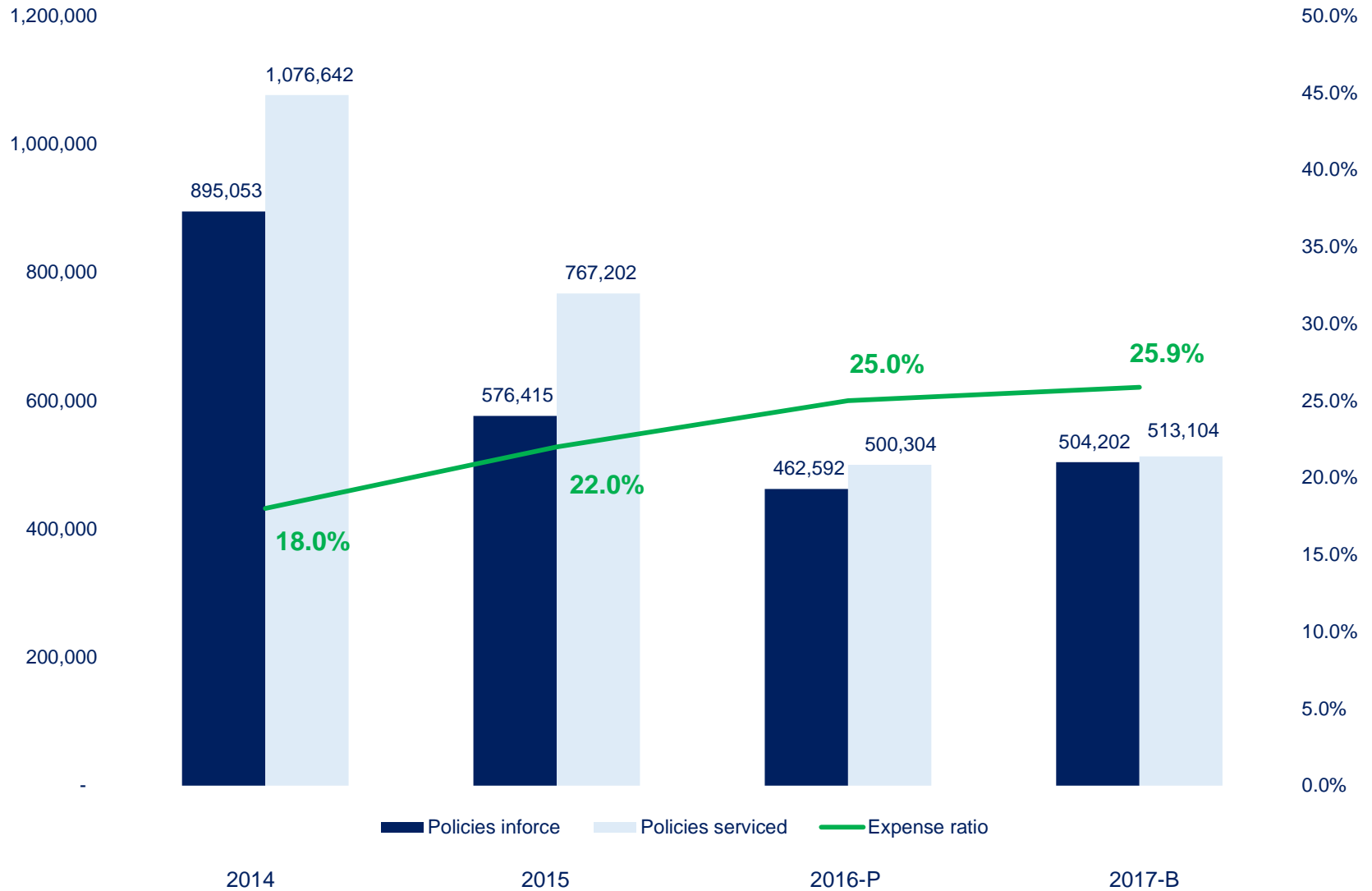
Industry Composite Expense Ratio (2012 – 2015)



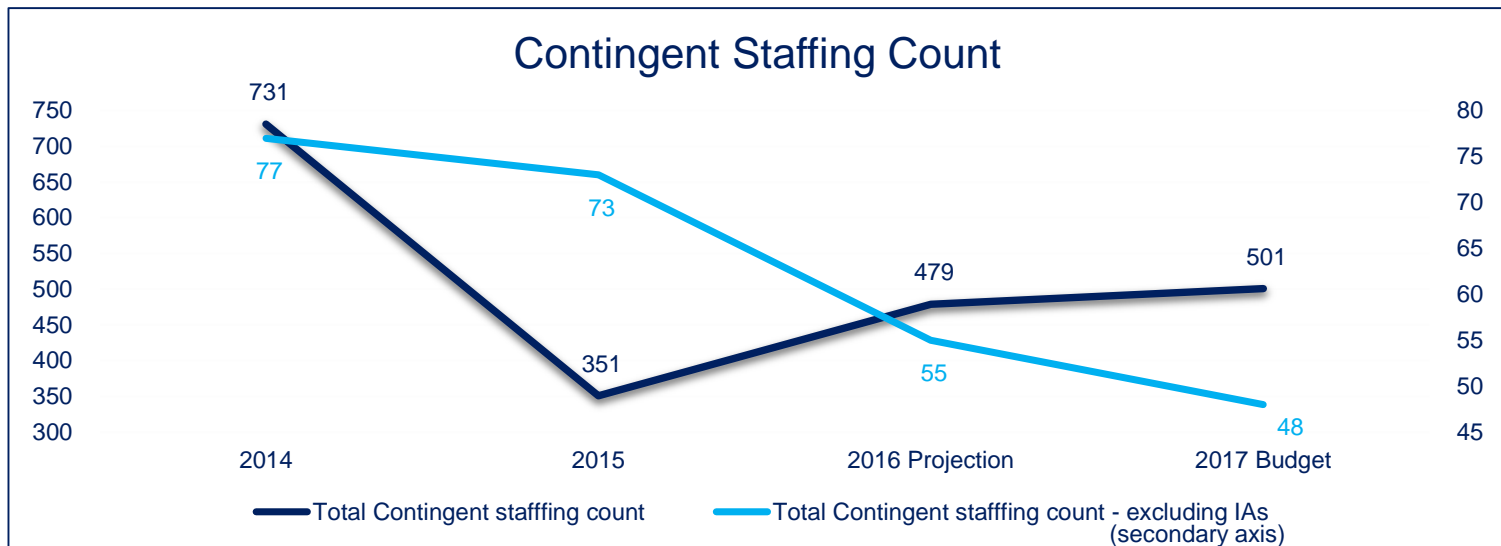
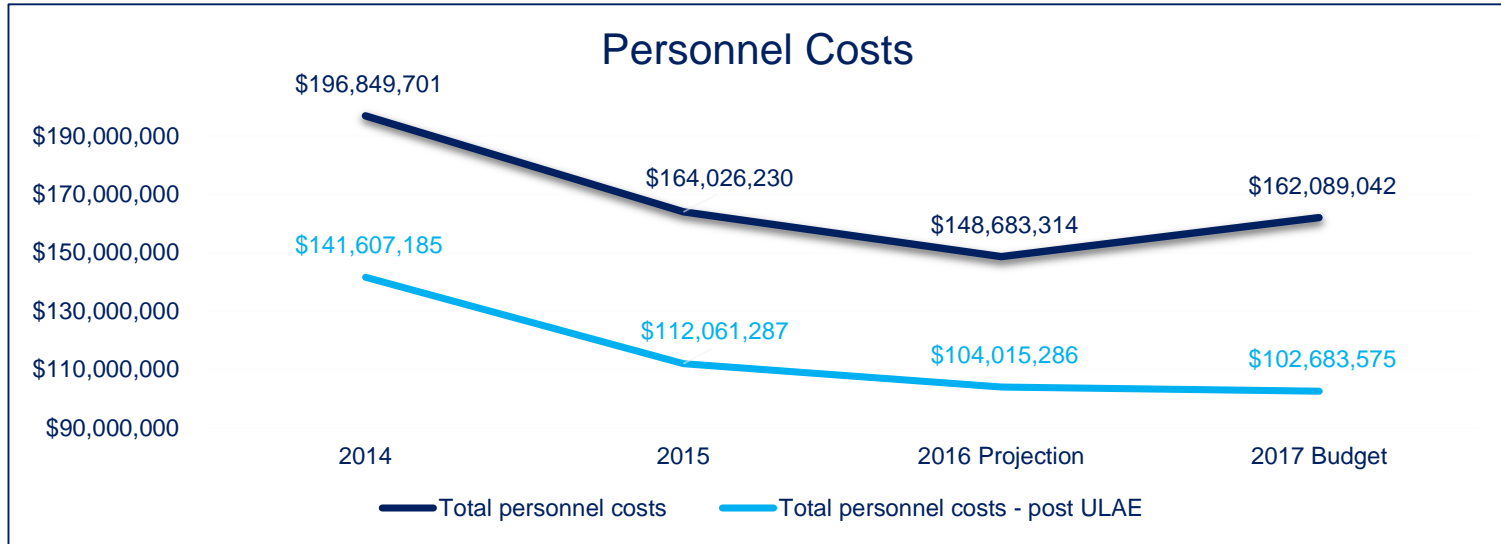
Carriers included in composite:

AIG Property Casualty Co.	Federal Insurance Co.	Safepoint Insurance Co.
Amer Integrity Ins Co. of FL	Federated National Ins Co.	Security First Insurance Co.
Amer Modern Ins Co. of FL Inc.	First Community Insurance Co.	Southern Fidelity Insurance Co
American Bankers Ins Co. of FL	First Protective Insurance Co.	Southern Fidelity P&C Inc.
American Capital Assr Corp.	Florida Peninsula Insurance Co	Southern Oak Insurance Co.
American Colonial Insurance Co	Heritage P&C Insurance Co.	St. Johns Insurance Co.
American Traditions Ins Co.	Homeowners Choice P&C Ins Co.	Tower Hill Preferred Ins Co.
Anchor P&C Insurance Co.	Modern USA Insurance Co.	Tower Hill Prime Insurance Co.
Ark Royal Insurance Co.	Monarch National Insurance Co.	Tower Hill Select Insurance Co
ASI Preferred Insurance Corp.	Mount Beacon Insurance Co.	Tower Hill Signature Ins Co.
Avatar P&C Insurance Co.	National Specialty Ins Co.	United P&C Insurance Co.
Capitol Preferred Insurance Co	Olympus Insurance Co.	United Svcs Automobile Assn
Cypress P&C Insurance Co.	People's Trust Insurance Co.	Univ Ins Co. of North America
Edison Insurance Co.	Prepared Insurance Co.	Universal P&C Insurance Co.
Elements Property Ins Co.	Safe Harbor Insurance Co.	Weston Insurance Co.

Expense Ratio Stabilization



Personnel Costs – Recent and Projected Trends



Litigated Water Claims

Driver of loss costs in the PLA continues to be litigated water claims

Approximate Claim Cost:

Non-litigated	\$ 5,000 - \$ 8,000
Litigated	\$25,000 - \$30,000

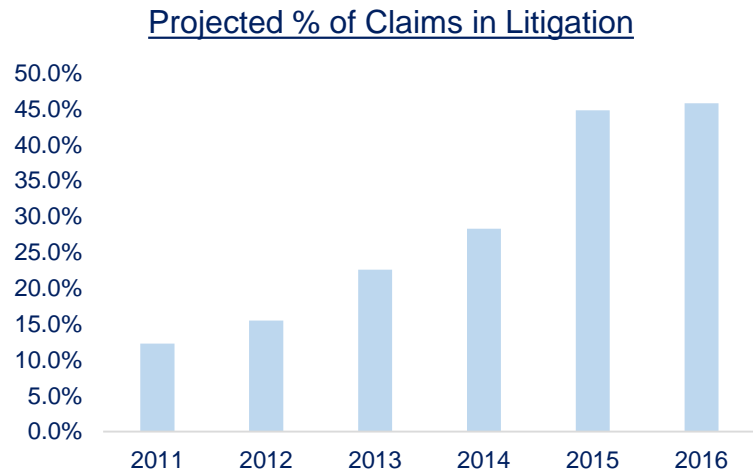
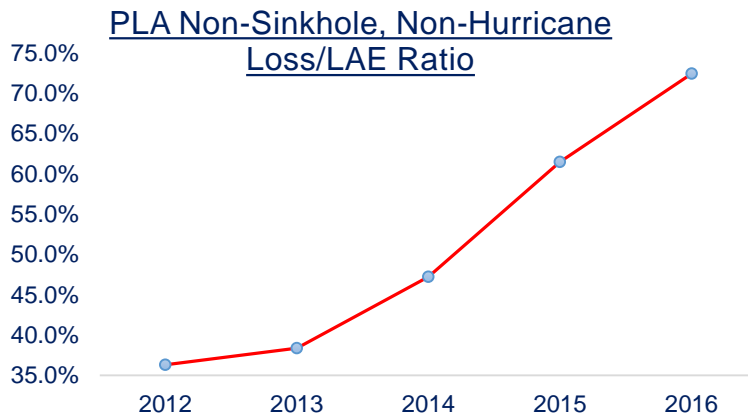
Chance of Litigation:

Without representation at FNOL	< 20%
With representation at FNOL	70%

- An increasing number of claims are entering litigation
- AOB increases litigation rates, but so do other factors such as representation at first notice of loss
- Entering litigation increases the average claims cost by about \$20,000 per claim, driving up overall costs.

Representation at First Notice of Loss:

AY 2014	40.4%
AY 2015	52.3%



Litigated Water Claims – *continued*

- January 2016 – October 2016: **8,097 lawsuits** (30% increase relative to same period in 2015)
- October 2016: **9,306 pending lawsuits** (28% increase relative to October 2015)
- **96% of lawsuits** arise out of Tri-County area (consistent distribution since March 2014)

Miami-Dade	66%
Broward	25%
Palm Beach	5%
- Insureds represented at FNOL in **85% of lawsuits**

Public Adjuster	50%	(5% increase over 2015)
Attorney	34%	(4% decrease since 2015)
Both PA & Attorney	1.5%	
- **47% of lawsuits** are brought within 6 months of FNOL

Within 6 weeks of FNOL	1%
Within 3 months of FNOL	9%
Within 6 months of FNOL	37%
Within 1 year of FNOL	37%
Within 2 years of FNOL	9%
2 or more years from FNOL	6%

Litigated Water Claims – *continued*

FNOL



New Suits



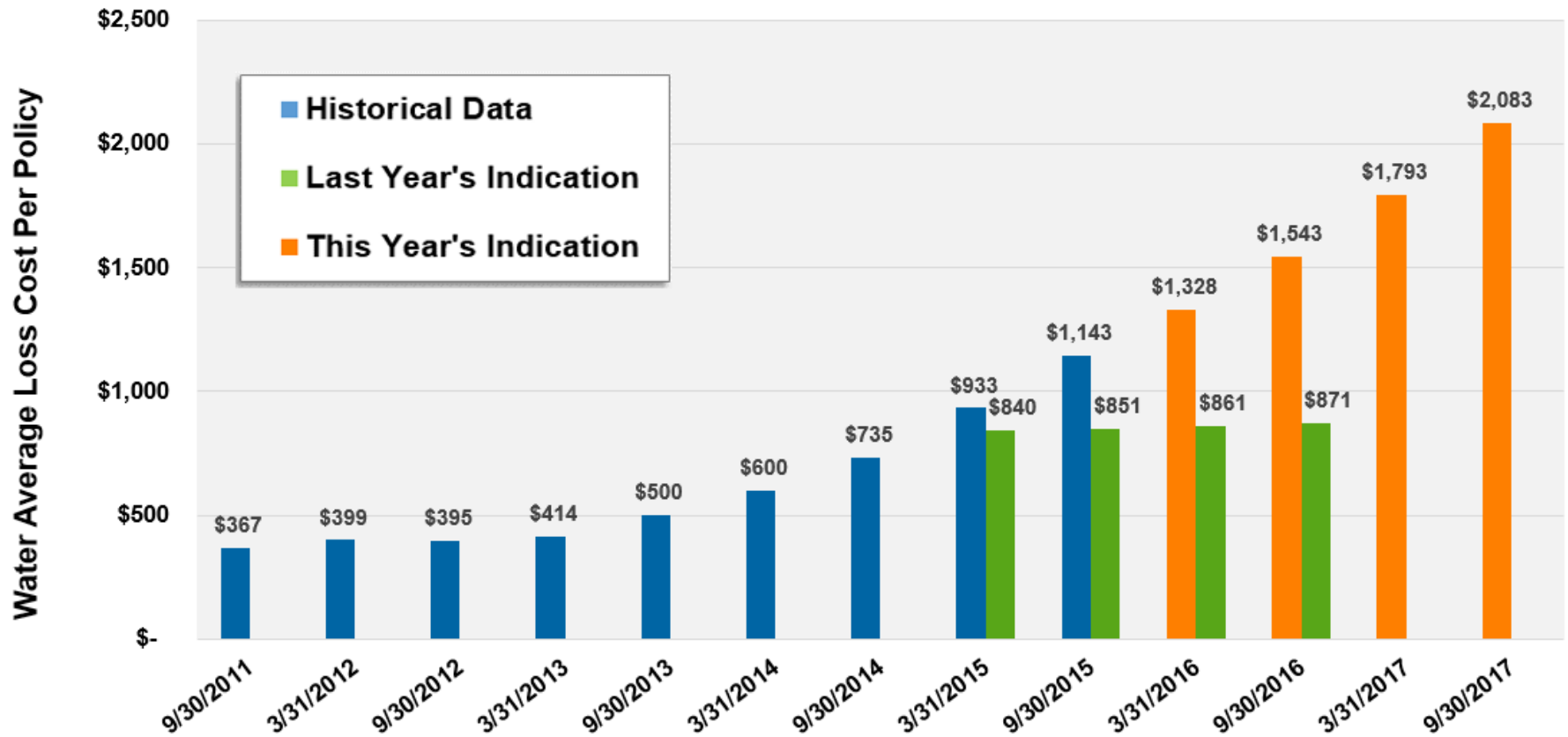
Litigation Pending



AOB Suits



Litigated Water Claims – *continued*



NOTES:

- 1) Figure above shows the average annual loss cost per policy due to water peril for Homeowners policies
- 2) Last Year's Indication uses the 2.4% all other peril loss trend filed last year
- 3) This Year's Indication uses the 35.0% water loss trend filed this year

Private Risk Transfer (2011 – 2017)

