

Overview and History of Citizens Property Insurance Corporation

December 5, 2006

James W. Newman, Jr.

Citizens
is a
Residual Market
Mechanism

What is a *Residual Market Mechanism?*

- State created entity
- Provides coverage to applicants who are otherwise entitled to coverage, but cannot obtain coverage in the voluntary market
- **Single line or type of coverage**
 - ✓ Automobile
 - ✓ Worker's Compensation
 - ✓ Medical Malpractice
 - ✓ Commercial Property & Casualty
 - ✓ Residential Property

Availability vs. Affordability

- *Availability*
 - Best at responding to markets in which insurance supply does not meet the demand for coverage
- *Affordability*
 - Not suited to address markets where the cost of insurance is thought to be too high

Timeline of Florida's Responses to Property Insurance Problems

- 1970 Florida Windstorm Underwriting Association (FWUA)
- 1985 Florida Market Assistance Plan (FMAP)
- 1986 Florida Property & Casualty Joint Underwriting Association (FPCJUA)
- 1992 Florida Residential Property & Casualty Joint Underwriting Association (FRPCJUA)
- 1993 Florida Hurricane Catastrophe Fund (CAT Fund)
- 2002 Citizens Property Insurance Corporation (Citizens)

Federal Tax Status

Tax Exempt Entities

✓ FMAP

✓ CAT Fund

✓ FRPCJUA

✓ Citizens

Method

IRS PLR

IRS PLR

Litigation

IRS PLR

Taxable Entities

✓ FWUA

Litigation underway

✓ FPCJUA

??

Legislative Initiatives

1995 - 1997

- Depopulation incentives
- Assessment burden shifted to policyholders
- Pre-event debt
- Noncompetitive rates
- Changes in FWUA Statute
- Accelerated Exposure Reduction Program
- Percentage Hurricane Deductibles

Residual Market Financial Issues

➤ Capitalization

- ✓ Start without capital

➤ No Limits on Writing

- ✓ Compelled to write all eligible applicants

➤ Deficits

- ✓ Much larger with catastrophic exposure

Residual Market Financial Issues

continued

➤ Catastrophic loss

- ✓ Requires issuance of pre-event debt, post-event debt, or both

➤ Assessments

- ✓ Unlimited assessments on private insurers may lead to a "Death Spiral"
- ✓ Currently capable of covering deficits of any size, but at great cost

Citizens Overview - Board

- Eight member Board of Directors
- Two members appointed by Governor
- Two members appointed by CFO
- Two members appointed by Senate President
- Two members appointed by House Speaker

Citizens Overview - Accounts

- **Personal Lines Account**
 - Multi-peril personal residential policies
- **Commercial Lines Account**
 - Multi-peril commercial residential policies
- **High-Risk Account**
 - Wind-only personal and commercial policies

Citizens Overview – Accounts

continued

Each Account has separate calculations of:

- Net Income and Surplus
- Plan Year Deficit
- Assessment Base
- Deficit Assessments

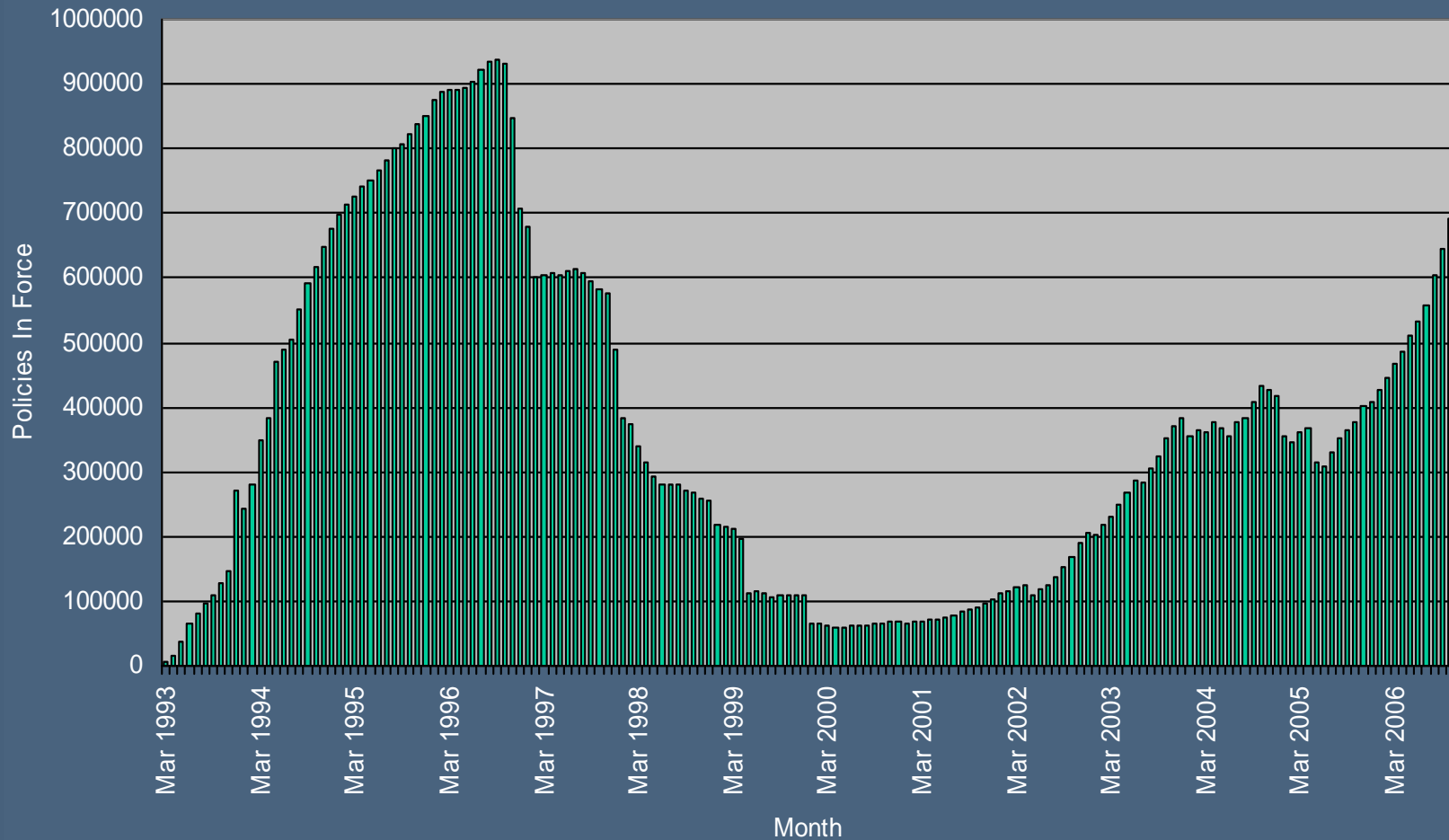
Citizens Overview – Deficit Assessments

- Citizens Policyholder Assessments and Surcharges
- Regular Assessments on insurance companies – passed through to policyholders
- Emergency Assessments – collected by Citizens and insurance companies from their policyholders – designed to pay off long-term debt

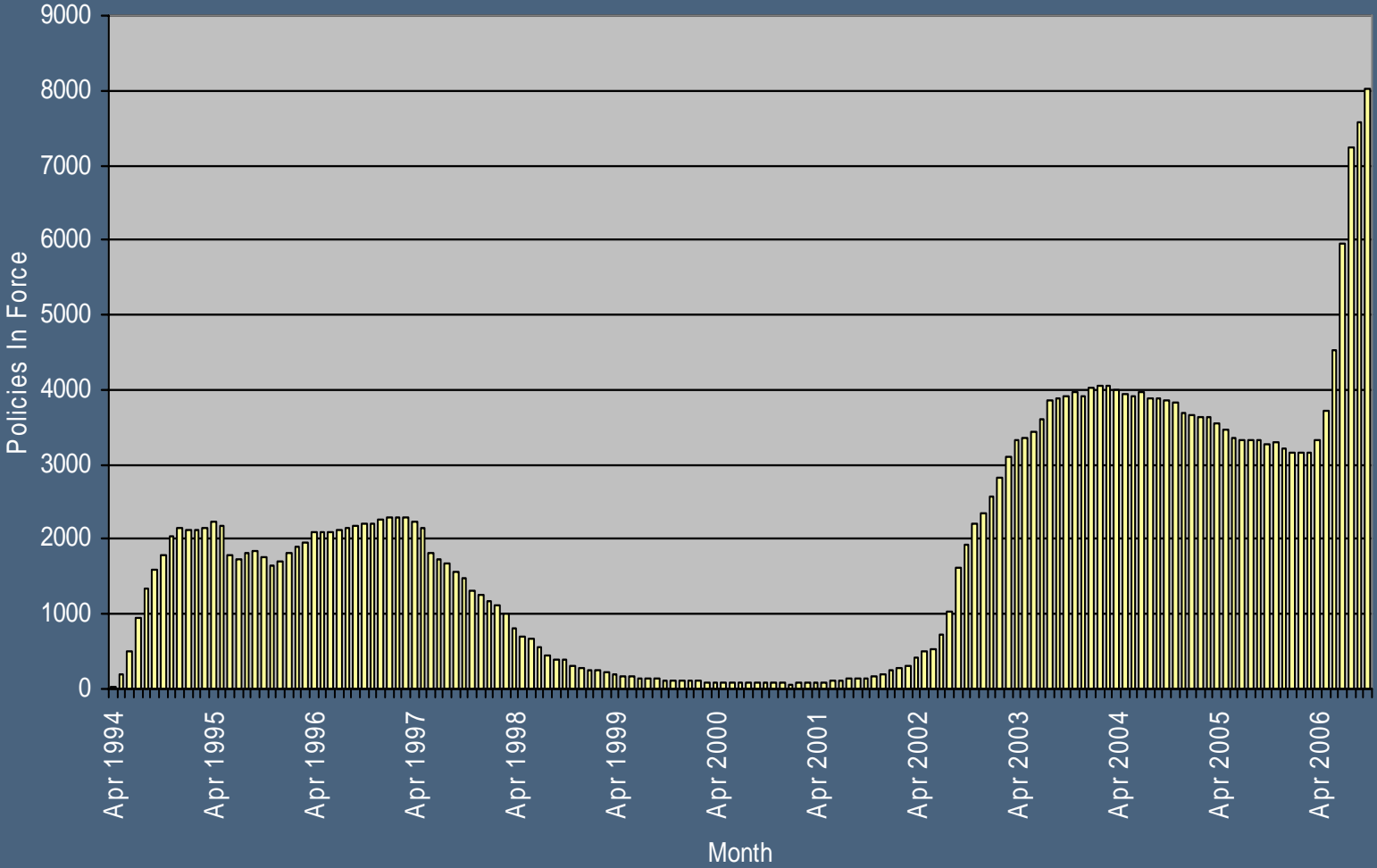
Residual Market Population Trends

- FRPCJUA / Citizens Personal Lines Account
- FRPCJUA / Citizens Commercial Lines Account
- FWUA / Citizens High-Risk Account
 - Personal residential policies
 - Commercial policies

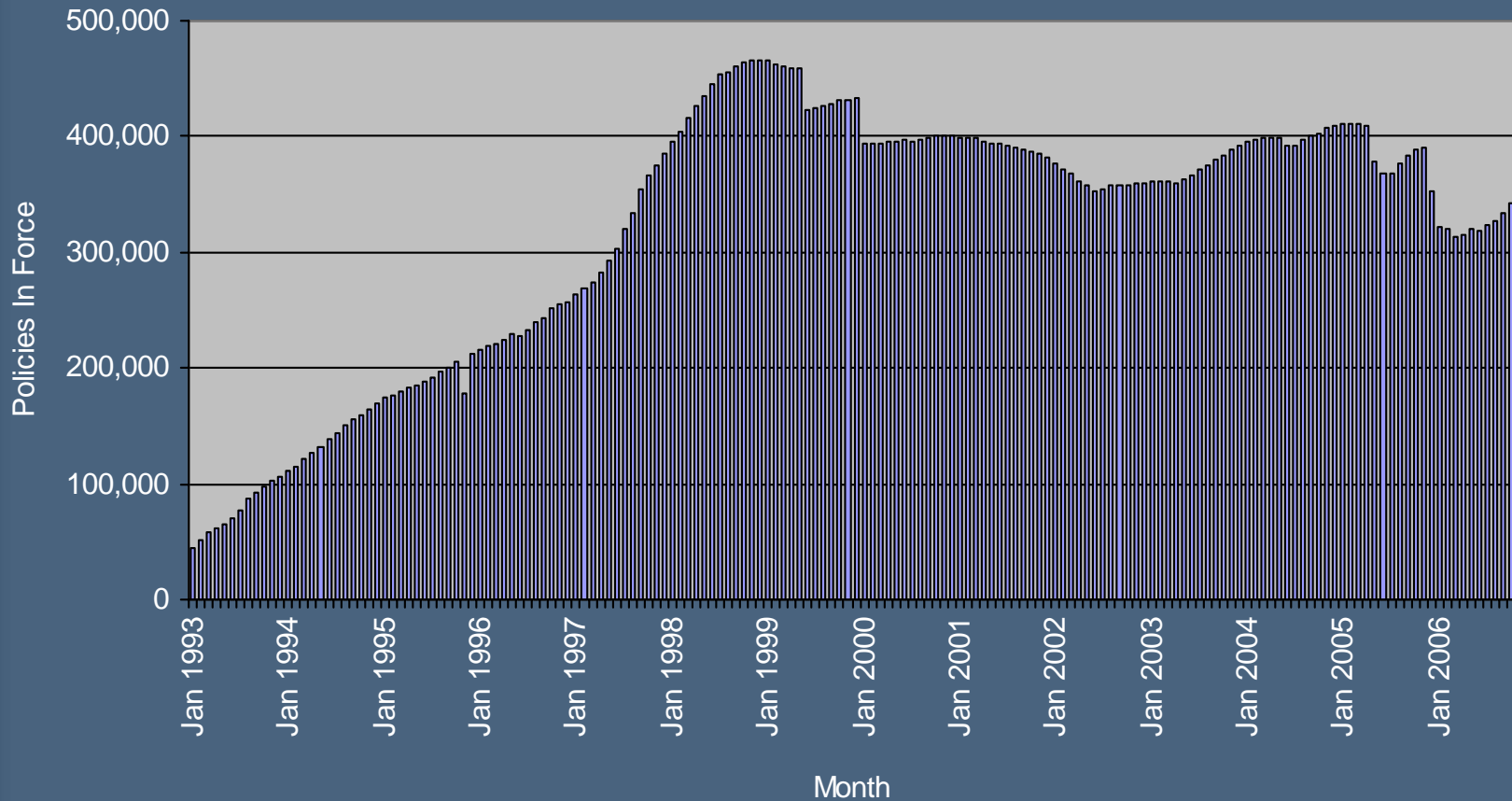
Personal Lines Account Policies In Force March 1993 to October 2006



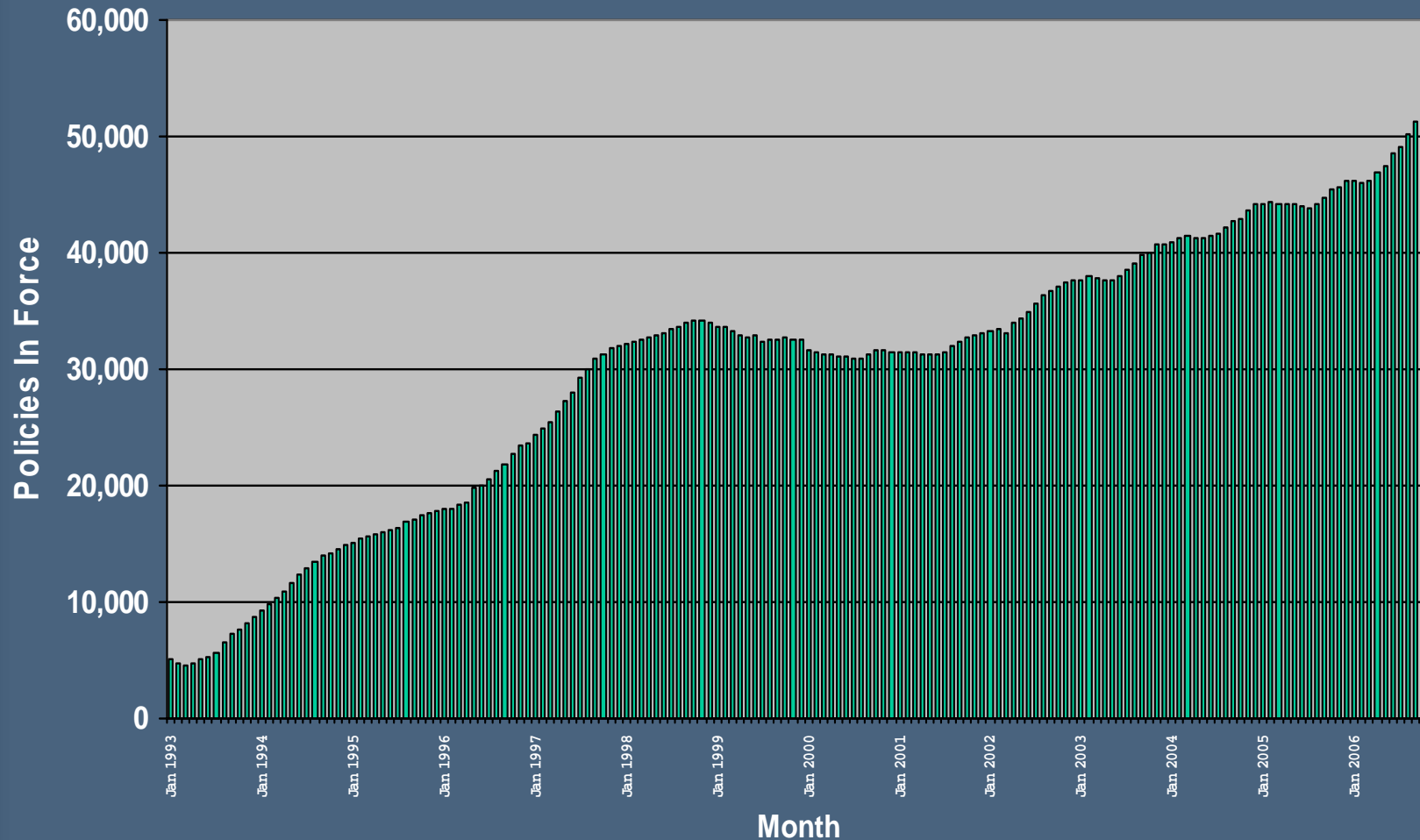
Commercial Lines Account Policies In Force April 1994 to October 2006



High-Risk Account Personal Lines Policies In Force January 1993 to October 2006



High-Risk Account Commercial Lines Policies in Force January 1993 to October 2006



Comparison of Policies in Force

<u>Account</u>	<u>Late 1996</u>	<u>Mid 2001</u>	<u>Late 2006</u>
Personal lines	937,000	85,000	692,000
Commercial lines	2,200	100	8,000
High-risk	274,000	425,000	394,700
Remaining Poe Policies			198,900
Total	1,213,200	510,100	1,293,600
% of Households	21%	8%	18%