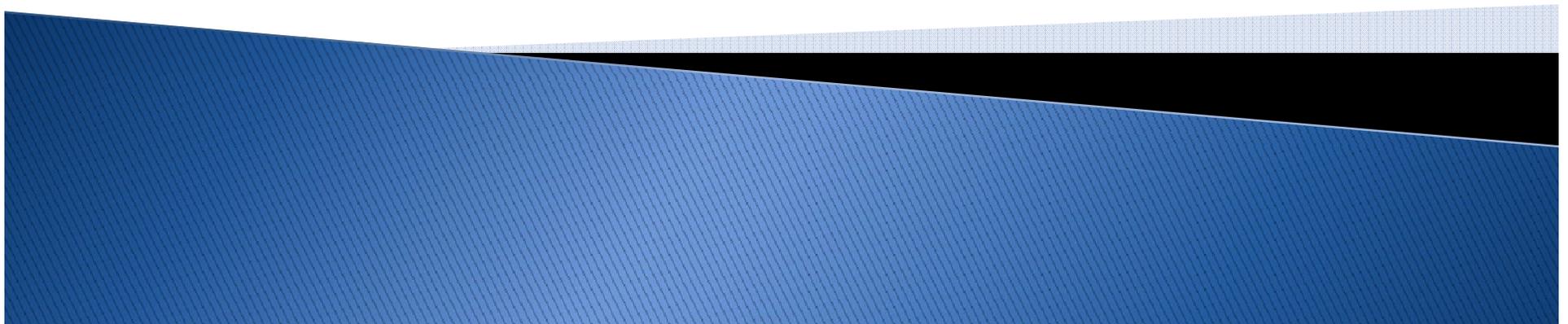


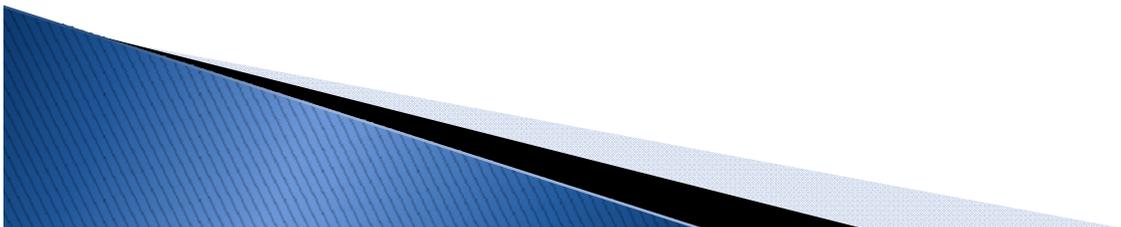
**Sunshine State Insurance Company
Personal Lines Rate Hearing
Opening Remarks**

May 17, 2012



Company Remarks

- ▶ **Background Info on SSIC**
- ▶ **Filing History**
- ▶ **What the Filing Will Achieve**
- ▶ **Filing framework**
- ▶ **Our Objectives in the Filing**



Background Info About SSIC

- ▶ **Incorporated on November 21, 1997 - one of the oldest Florida domiciled residential property writers**
- ▶ **Responsive - paid over \$400 million in catastrophe losses from the 2004-05 hurricanes**
- ▶ **Finished 2011 with gross written premium of \$84 million and policyholders' surplus of \$13.6 million**
- ▶ **MGA earnings either fund debt service or are contributed back to the company (\$600,000 contributed to SSIC in 2011)**
- ▶ **CEO and CUO (new to the company in 2010) were hired to enhance rate adequacy, improve underwriting fundamentals, reduce gross leverage and better manage catastrophe risk**

SSIC Filing History

- ▶ **Past Homeowner Filings**
 - **2010 (Effective Feb, 2011) - Request 25%, Granted 16.4%**
 - **2011 (Effective Dec, 2011) – Request 3.9%, Granted 0.0%**

- ▶ **Past Dwelling Fire Filings**
 - **2010 (Effective Feb, 2011) - Request 25%, Granted 20.7%**
 - **2011 (Effective Dec, 2011) – Request 8.8%, Granted 5.9%**

- ▶ **Pending Homeowner Filings**
 - **Rates filed on March 6 - Request 18%, 13% on HO-6**

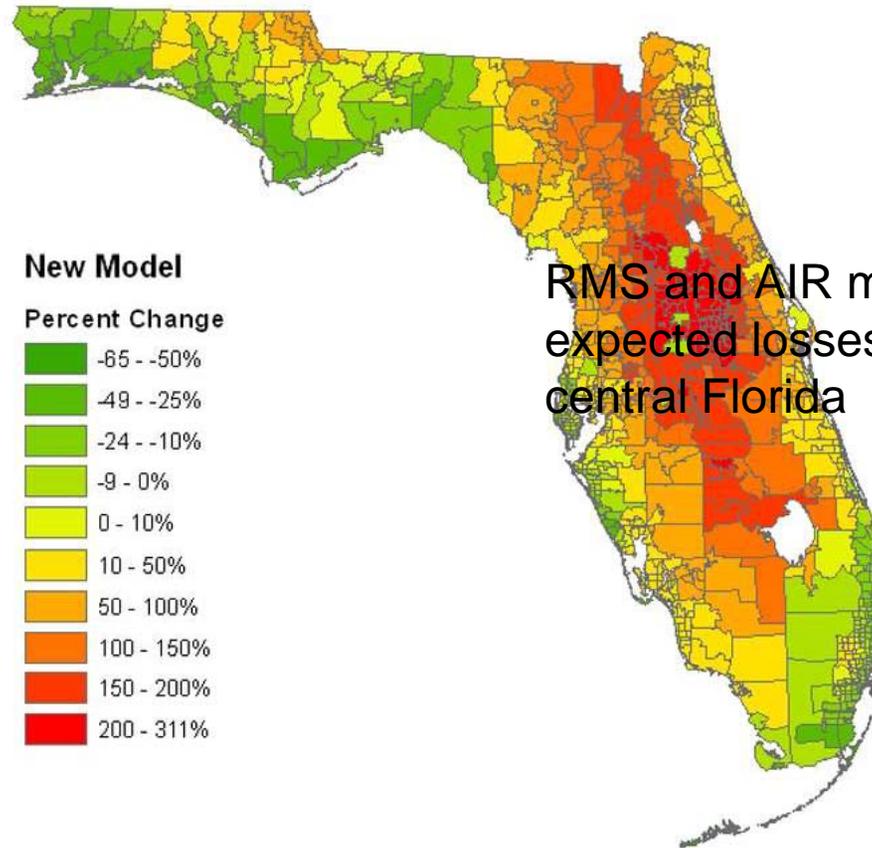
- ▶ **Pending Dwelling Fire Filings**
 - **Rates filed on March 24 - Request 29%**

What the Filing Will Achieve

- ▶ **Increase in rates in territories where SSIC pricing is well below the market thereby gaining rate adequacy across the state**
- ▶ **Improved choices for policyholders**
- ▶ **Transparency to consumers of rates for specific perils**
- ▶ **Matching of catastrophe loss, reinsurance costs and rates**
- ▶ **Updating expense assumptions to reflect current costs**
- ▶ **Needed policy changes for sinkhole and pool screens**
- ▶ **Allow SSIC to reopen for new business in the 20 counties that have been closed since the third quarter of 2011 pending implementation of rate and SB 408 related form changes**

Catastrophe Model Changes

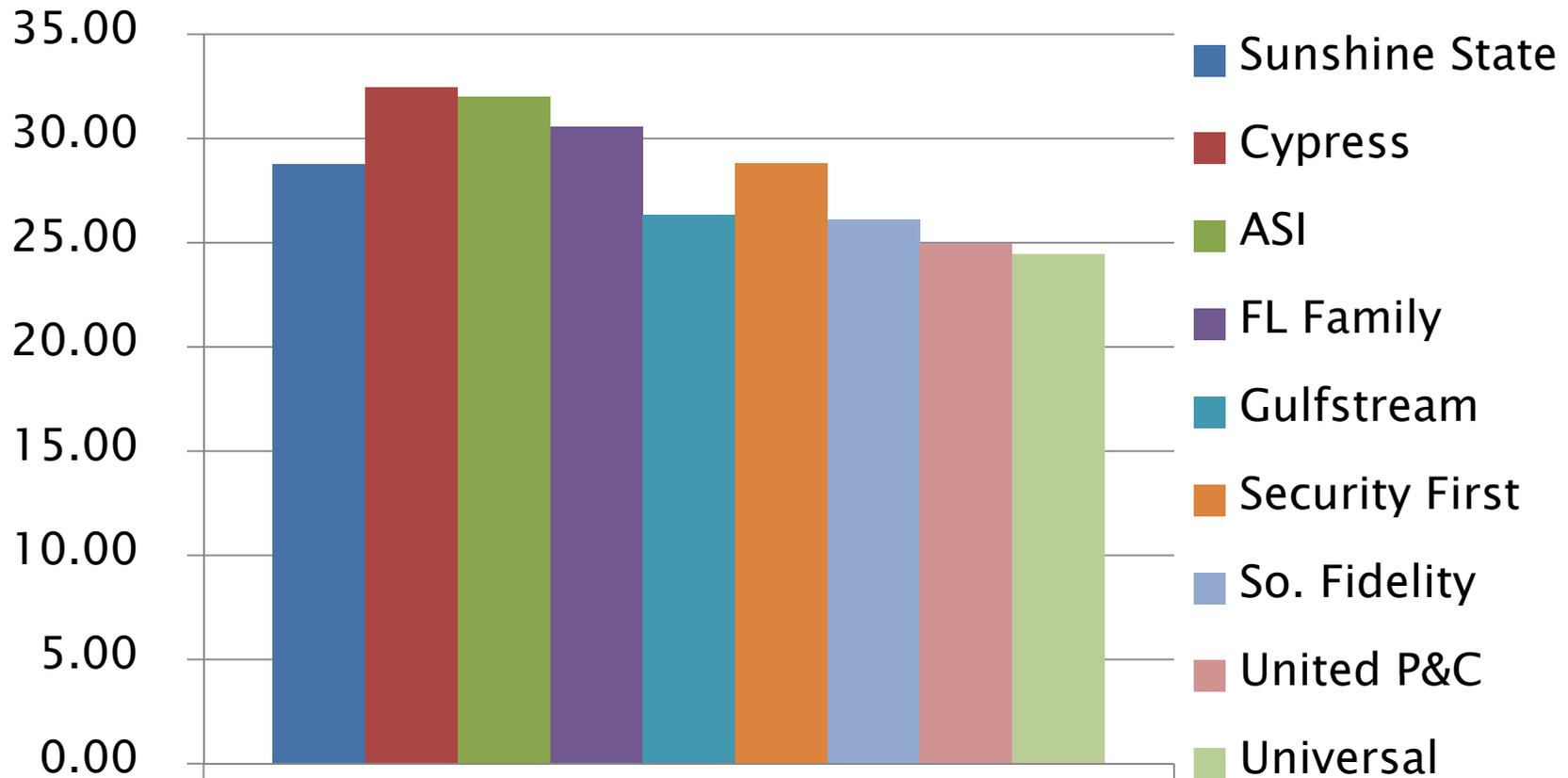
(Resulting in increased reinsurance costs)



RMS and AIR models increased expected losses in northern and central Florida

Direct Underwriting Expense Ratio

(includes all lines of business)



STAT EXPENSE RATIO - 2011 DIRECT



What Sinkhole Coverage Was Intended to Protect Against



Catastrophic
Ground Collapse
Is Still Covered

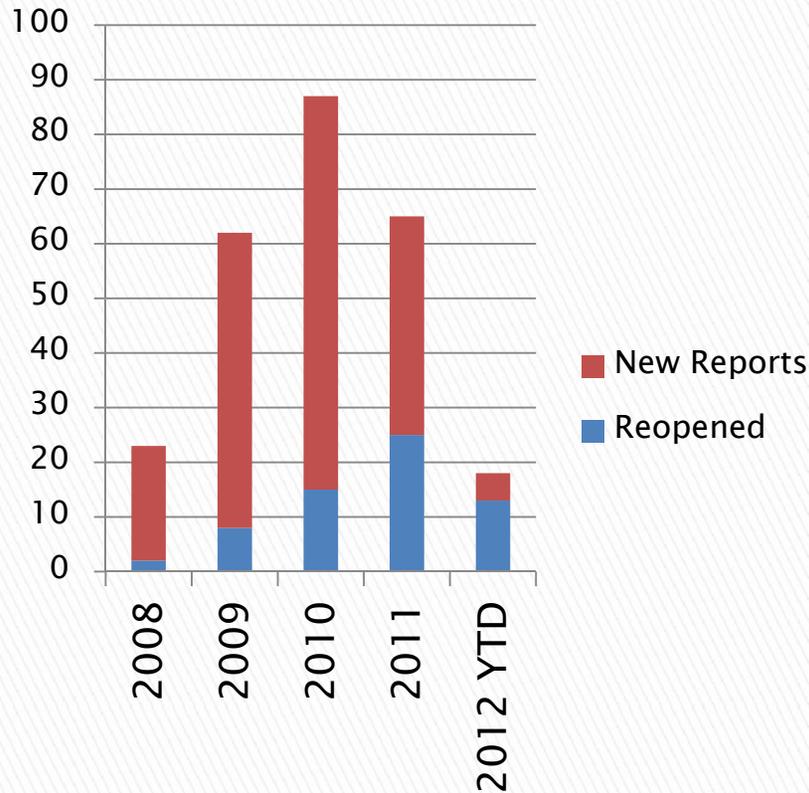
Alachua County – May, 2012



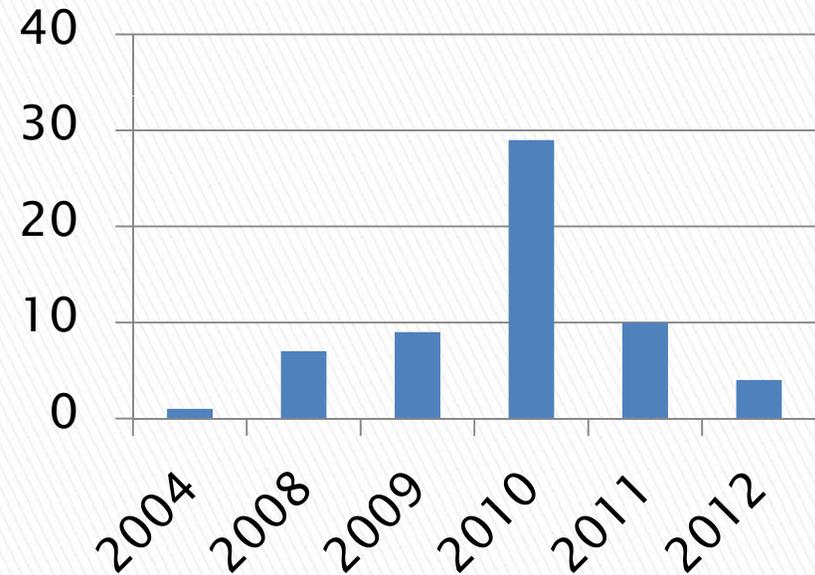
Expensive
Neighborhoods
Are Not Immune

Windemere , FL – May, 2012

Sinkhole Coverage Modification Important to Company Health



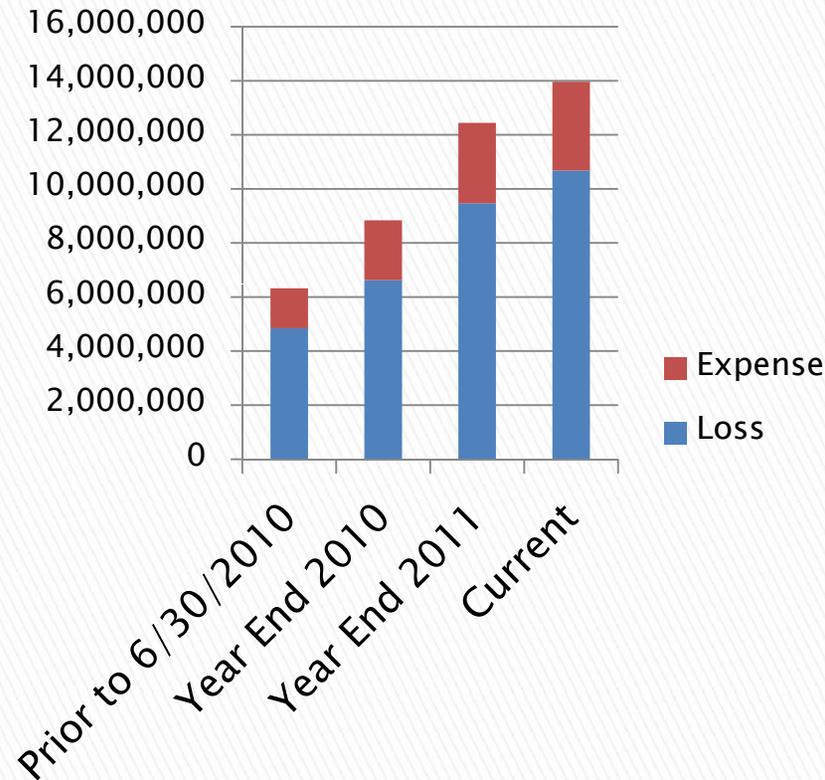
Open Claims By Accident Year



Sinkhole Claims Reported and Reopened

Currently Have 60 Open Sinkhole Losses

Sinkhole \$\$ Are Significant



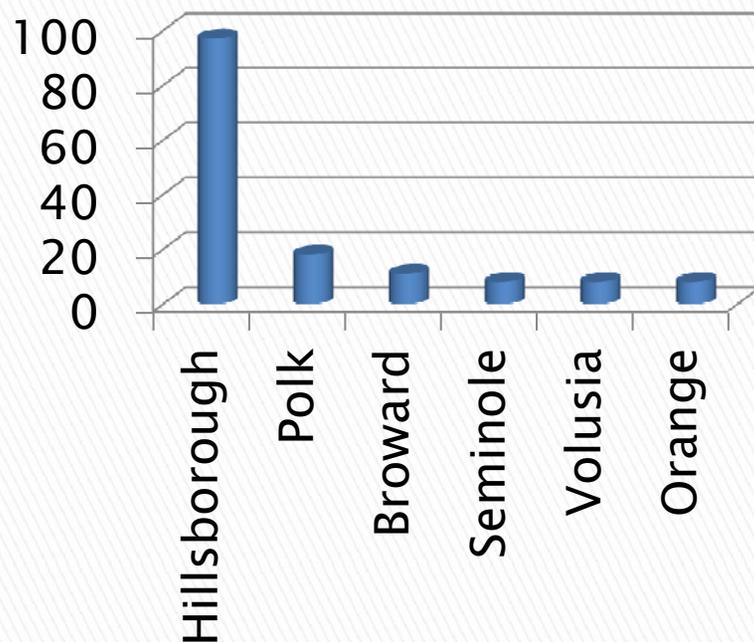
- ▶ Number of reopened sinkhole claims doubled in 2010 and again in 2011
- ▶ Over 25 claims filed since 2008 were “new business”
- ▶ Average paid loss now exceeds \$100,000, plus expense
- ▶ Sinkholes claims filed in Marion, Sarasota and St. Lucie counties in 2012

Cumulative Incurred Loss and Expense \$ Since Inception

Trends Are Disturbing

Mitigating Potential Risk to Our Balance Sheet is Critical

Reported By County



- ▶ Housing market trends
- ▶ Active solicitation of homeowners by public adjusters and attorneys can increase frivolous claims
- ▶ Inherent subjectivity of damage determination
- ▶ Expense of investigation and litigation is significant

Site of SSIC Sinkholes

Environmental Factors

Filing Framework

- ▶ Reduce base amounts for coverage B and C
 - ▶ Allow consumer to choose level of desired hurricane coverage for screen enclosures
 - ▶ Introduce distance to coast rating factor
 - ▶ Revise base rates
- ▶ Reduce base amounts for coverage B and C
 - ▶ Catastrophic ground collapse is covered
 - ▶ Other sinkhole is excluded with buy back option available for an additional premium
 - ▶ Revise key rating factors
 - ▶ Revise base rates in line with coverage changes

Hurricane Premium

Non Hurricane Premium

Our Objectives in the Filing

- ▶ **Be responsible and enhance our ability to keep the promises that we make to our policyholders by controlling balance sheet risk due to sinkholes**
- ▶ **Open up for new business across the state and continue to be a stable and responsive insurance market for agents in Florida**
- ▶ **Implement SB 408 provisions**
- ▶ **Provide improved coverage options to policyholders**
- ▶ **Increase transparency in rates for specific perils**
- ▶ **Achieve statewide rate adequacy**

