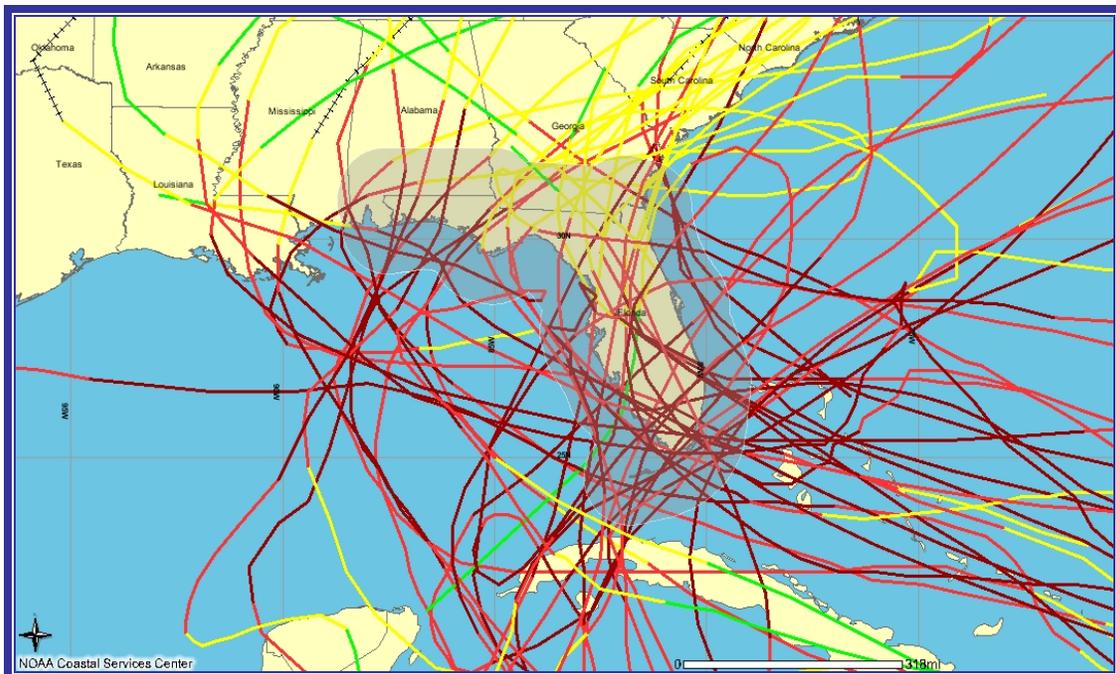


The Property Insurance Market in Florida 2004: The Difference a Decade Makes

Office of Insurance Regulation
March 2005



Historical Hurricane Tracks 1850-2000

Table of Contents

Executive Summary	iii
Overview	5
Hurricanes	8
History	9
Science	9
Current Predictions	11
Demographics	12
Historical Population Growth	13
Property Demographics	15
Single Family Housing	16
Mobile Homes	17
Recent Growth	20
Demographic Summary	20
The Insurance Market	21
Lessons from Andrew	22
Private Insurance Market	24
Competition	25
Rates and Premiums	28
Capacity	35
Managing Capacity	36
Moving Forward	39
Appendix 1	45
Appendix 2	48
Appendix 3	59
Appendix 4	74

Executive Summary

With 3 hurricanes (Charley, Frances and Jeanne) making direct landfall and a fourth (Ivan) causing major destruction in the western panhandle, the 2004 hurricane season has been the most significant reminder of Florida's unique property insurance market since Hurricane Andrew in 1992.

The lessons learned from Andrew, and the resulting market modifications and mechanisms, were tested this season with encouraging results. Unlike after Andrew, this season has not left behind a market in collapse. Claims are being paid, and to date only one insurer has become insolvent, although others have needed recapitalization. Property owners are still generally able to get and retain insurance, and there has been no threat of a mass exodus of insurers from the Florida market.

This report provides an analysis of the nature of hurricanes and predictions regarding future levels of hurricane activity. The demographics of the Florida property market as they relate to hurricane risk are then analyzed. The economic characteristics of the property insurance market are analyzed with a focus on competitive conditions. Finally, some possible courses of action to address open issues are offered.

The main results of this report are:

- Hurricane activity is likely to remain at higher than historical norms for some years to come.
- The nature of Florida's population and housing growth mean that a substantial portion of Florida's housing stock could dramatically benefit from mitigation techniques that would help manage risk exposure.
- Maintaining insurance capacity in the face of Florida's economic growth will be a major challenge.
- Where the private market is active, the market is competitive. The disruptions apparent in the property market are likely the result of the catastrophic nature of the risk, not a regulatory impediment.
- The FHCF worked, but some adjustments to retention points, exhaustion points and deductibles, currently under consideration by the Florida legislature, are warranted.
- First layer risk exposure below the FHCF retention threshold is still an impediment to private market growth, but there are some options available.
- Florida's property market could benefit from the availability of pre-tax catastrophe reserving by private firms and/or a national catastrophe reserve.

**The Property Insurance Market
in
Florida 2004:
The Difference a Decade Makes**

The Property Insurance Market in Florida 2004: The Difference a Decade Makes

Overview

With 3 hurricanes (Charley, Frances and Jeanne) making direct landfall and a fourth (Ivan) causing major destruction in the western panhandle, the 2004 hurricane season has been the most significant reminder of Florida's unique property insurance market since Hurricane Andrew in 1992.

That is not to say that hurricane risk is the only major issue impacting the Florida property insurance market today. The debate over mold claims, a growing argument throughout the country, is no less prevalent in Florida. More recently, sinkholes have emerged as a significant risk in the marketplace.

It is, however, the risk of hurricanes that makes Florida unique. Although hurricanes do make landfall all along the Eastern Atlantic coast and the Gulf Coast of the United States, the majority of landfalls, along with the majority of property losses whether insured or not, have occurred in Florida.

The lessons learned from Andrew, and the resulting market modifications and mechanisms, were tested this season with encouraging results. Unlike after Andrew, this season has not left behind a market in collapse. Claims are being paid, and to date only one insurer has become insolvent, although others have needed recapitalization. Property owners are still generally able to get and retain insurance, and there has been no threat of a mass exodus of insurers from the Florida market.

Whereas Andrew caused approximately \$20.5 billion in current dollar insured losses across a relatively compact area of Southern Florida, this year's four storms have caused, to date, about the same amount of insured loss, but spread across the entire state. Based on weekly data received by the Office of Insurance Regulation (OIR), each of these four storms generated claims in every county in the state, with the exception of one county for one storm (Liberty county reported no claims related to hurricane Charley).

At the same time as the post-Andrew market structure is being tested, new lessons are being learned. While much of the insurance industry, legislative, and regulatory focus after 1992 was on preparing the market for another "big one," this year provided lessons on the physical and economic impact of multiple, more moderate, storms.

The Basic Issue

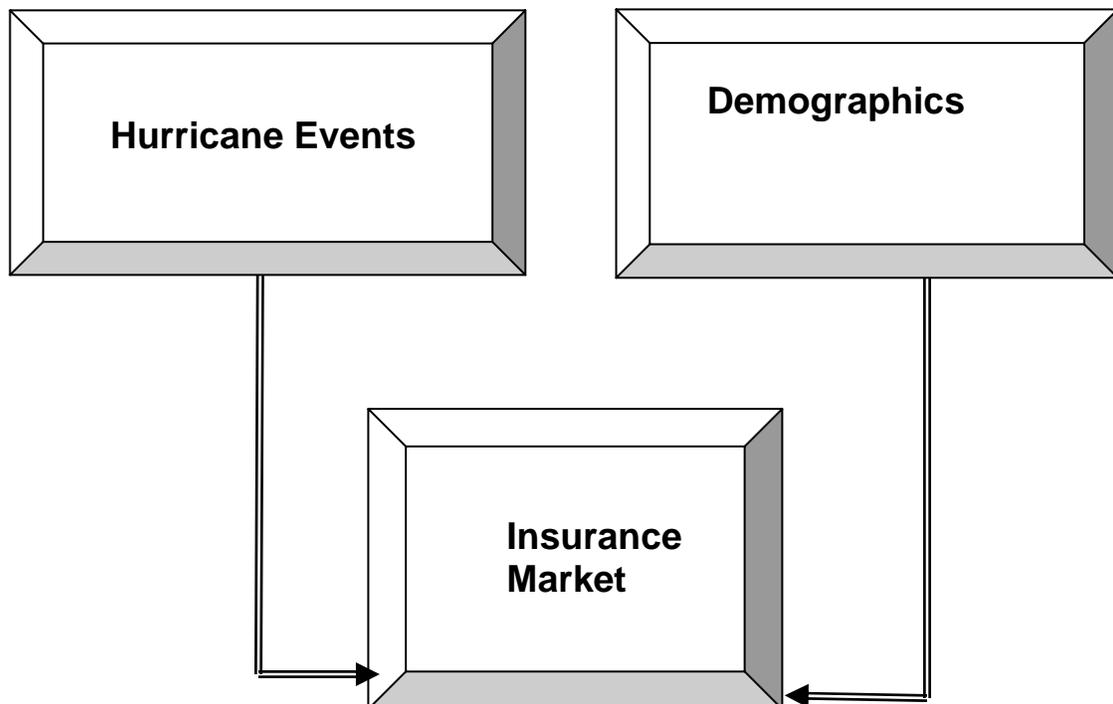
The unique aspect of Florida's property insurance market with regard to hurricane risk is the result not only of long-lived cycles of tropical storm activity, but as importantly, the confluence of these cycles with the growth of the state's population and expanding coastal economies. Simply put, the majority of the state's population arrived during years with relatively little hurricane activity. And a disproportionately large percentage of the population growth has occurred, and continues to occur, along Florida's coasts where the hurricane risk is the greatest.

An important segment of the state economy developed to satisfy the housing needs of this growing population. Much of this housing was built without the knowledge of, the perceived demand for, or building code requirements to make it resistant to even a moderate hurricane.

Now, most scientific analysis of tropical storm patterns suggests that the long-term cycle has moved from a low incidence of annual hurricane activity to a period of greater activity. If true, this change would suggest that preconditioned beliefs about hurricane risk would have to be reconsidered.

Analyzing the Market

From an insurance perspective, the issue can be recast into discussions of event frequency, event exposure and severity, market capacity, and risk pricing. Put another way, an analysis of the market necessitates a study of the event risk, the demographics of the risk population, and the characteristics of the public and private insurance marketplace. Schematically,

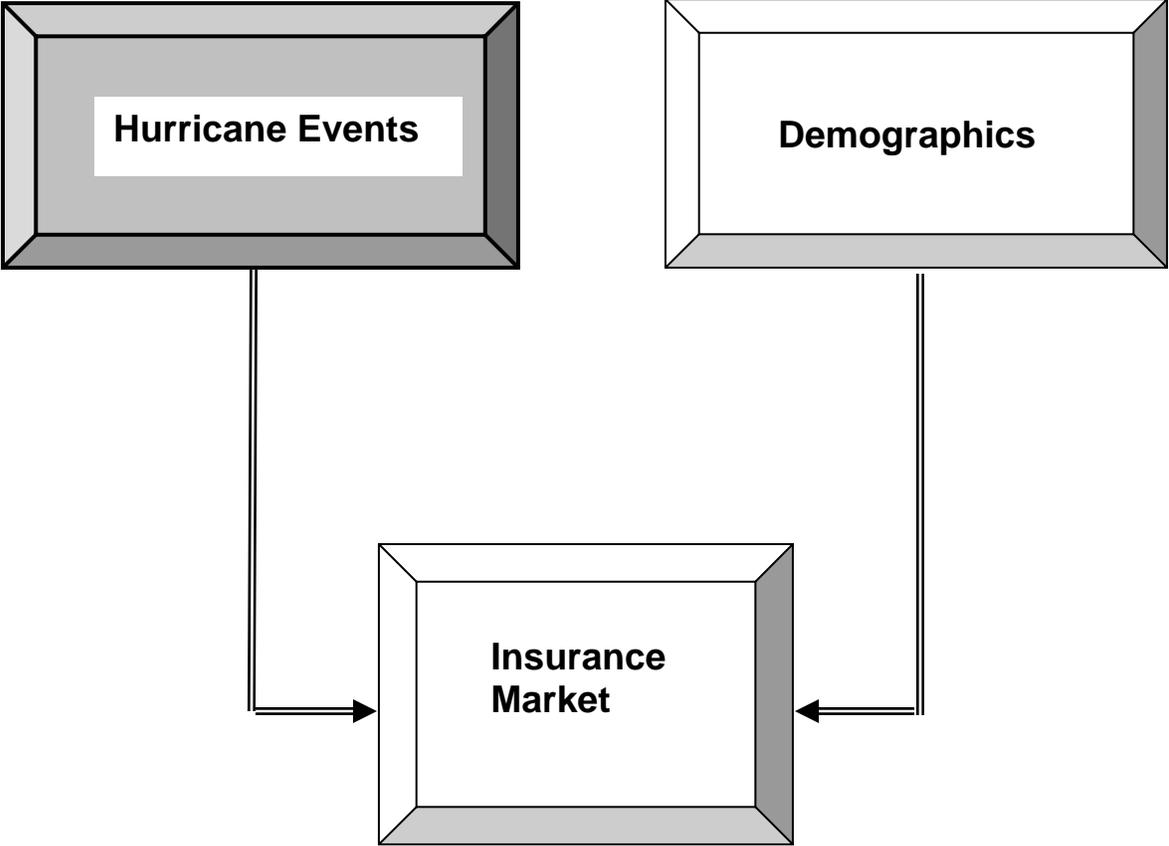


The remainder of this report addresses each of these areas. The next section of the report reviews the history of hurricane activity in Florida, culminating in the current season. The section continues with a description of advances in the study of the causal factors behind hurricane development and storm paths. The section ends with a review of some of the hurricane activity predictions resulting from this work.

The third section of the report outlines the important demographic patterns that define the hurricane risk exposure for the state. Population growth is reviewed and the interaction between population growth and hurricane landfall is demonstrated. The characteristics of the Florida housing stock and its growth patterns are reviewed. The importance of risk mitigation and a review of mitigation efforts are presented.

The fourth section of the report offers an analysis of the post-Andrew insurance market. A review of the competitive structure of the market is provided and the roles that Citizen's Property Insurance (Citizen's) and the Florida Hurricane Catastrophe Fund (FHCF) have in the market is detailed. Reinsurance and alternative risk transfer mechanisms are considered. Finally, the impact on availability and pricing to policyholders is analyzed.

Based on the forgoing analysis, the report concludes by offering some suggestions and recommendations for consideration to further strengthen the Florida property insurance market.



Hurricane History

Given its geography, Florida always has been and always will be subject to tropical storms and hurricanes – a fact that at times seems to have gone unnoticed as Florida’s population has grown and its economy expanded.

The frequency and severity with which storms make landfall is not a constant force of nature. Rather, long periods of active tropical cyclone activity in the Atlantic Basin and the Caribbean are followed by long periods of relative inactivity.

A review of major hurricane landfalls in Florida going back to 1850 bears witness to these cycles. Appendix 1 provides a table documenting major hurricane landfalls in the state from 1850 through 2000, segregated by decade. The results are striking.

While only 4 major hurricanes (Category 3 or higher) made landfall in Florida from 1850 to 1900, 18 major hurricanes landed in Florida between 1910 and the mid 1950’s. In the latter half of the century, with few exceptions, Florida experienced a fairly quiet hurricane period until the mid 1990’s.

Until recently, the estimate of hurricane frequency was based on past storm records. Probability estimates were calculated from the historical record with an implicit assumption that the distribution of activity was stable, if not fixed, over time. Risk assessment and pricing were based on these estimates.

Using this method as applied to the probability of four hurricanes making landfall within the borders of the same state, yields an interesting, albeit incorrect, conclusion:

Based on the historical record, four hurricanes made landfall in Texas in 1886, 118 years ago. Thus, it could be “predicted” that a four hurricane event would occur once every 118 years or so. Providing for some latitude in estimation, the forecast might have been bracketed as somewhere between roughly 1 in 110 years to 1 in 130 years.

Based on the insights recent developments have provided, however, that estimate of storm frequency would also likely be misleading -- possibly dangerously wrong.

Developments in Hurricane Science and Forecasting

Advances in science and climate modeling have recast the study of tropical cyclones from the simplicity of implied observations of past events into what is now a study of the causal factors behind climate phenomenon. The results of this work have dramatically enhanced the study of hurricanes, and fundamentally changed the process of hurricane prediction.

Within the field of metrological science, Dr. William Gray of Colorado State University began in the mid 1980s to establish a relationship between the wind patterns observed during “El Niño” events and a concurrent moderation of hurricane development in the Atlantic Ocean basin.

A number of other scientists, notably Dr. James Elsner of Florida State University, expanded on Gray’s work using advanced statistical analyses, yielding more robust predictive hurricane models. An excellent sampling of Dr. Elsner’s work, including multi-year forecasts, can be found at <http://garnet.acns.fsu.edu/~jelsner/www/index.html>.

Additional forecasting and hurricane tracking information is available from the National Hurricane Center, within the National Oceanic and Atmospheric Administration. NOAA provides forecasts, current information, historical information, and a comprehensive database of previous hurricanes (HURDAT) for general interest and research purposes.

What has emerged is a well-grounded and generally accepted understanding that tropical cyclone activity, particularly in the Atlantic basin, exhibits multi-decadal cycles of “high-activity” periods and “low activity” periods of hurricane formation frequency and intensity largely as a result of an atmospheric pressure cycle known as the North Atlantic Oscillation (NAO). The NAO is a multi-year pattern of atmospheric pressure differences between higher and lower latitudes (frequently measured as the temperature difference measured between Iceland and the Azores) that, by affecting ocean temperatures, is responsible for major climate changes in Europe and North America over time.

Work by Dr. James Hurrell of the National Center for Atmospheric Research (<http://www.cgd.ucar.edu/~jhurrell/>) as well as Dr. Elsner and other researchers is demonstrating a link between NAO measures and the possible intensity and path of hurricanes in the Atlantic. When the NAO causes higher ocean temperatures, hurricanes tend to grow larger. Higher temperatures also influence the track of hurricanes, increasing the chance of hurricanes making landfall in the United States. Cooler ocean temperatures are associated with smaller hurricanes, with fewer reaching the United States. The consensus estimate, derived from various measures of different indices designed to capture NAO patterns, suggests that most recent phase of the NAO causing cooler ocean temperatures ended in 1995, signaling an end to the low activity hurricane period that extended back into the 1970s.

Within these multi-decadal cycles, the behavior of tropical cyclone formation in the Atlantic basin over shorter periods appears to be related to the El Niño-Southern Oscillation (ENSO) cycle occurring in the tropical Pacific Ocean. The ENSO cycle is a repeating pattern of warmer or colder than normal Sea Surface Temperature (SST) differences measured at different locations in the Pacific.

Warmer than normal periods are referred to familiarly as “El Niño” events while colder than normal periods are referred to as the less familiar “La Niña” events. Advances in both surface and satellite temperature measuring technology have allowed the scientific

community to more frequently and precisely measure the relevant SST differences to more closely track this phenomenon.

Subsequent research has documented that regardless of the phase of the multi-decadal cycle, El Niño periods tend to reduce the number of hurricanes making landfall on the Atlantic coast of Florida, and La Niña events may increase the number of landfall hurricanes. The same patterns, however, do not appear to be as strongly evident for Gulf coast hurricane landfall events. As Figure 1 shows, an El Nino episode was in evidence at year-end 2004; forecasts for 2005 are as of yet uncertain.

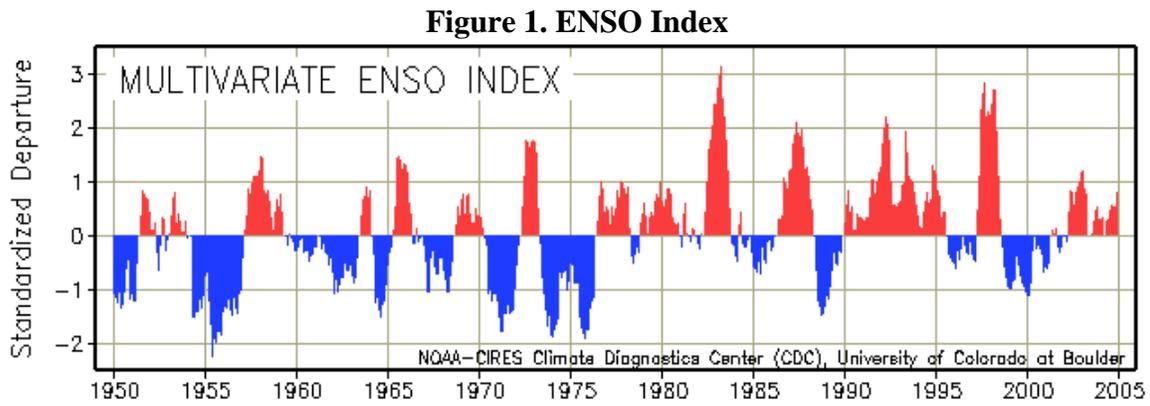
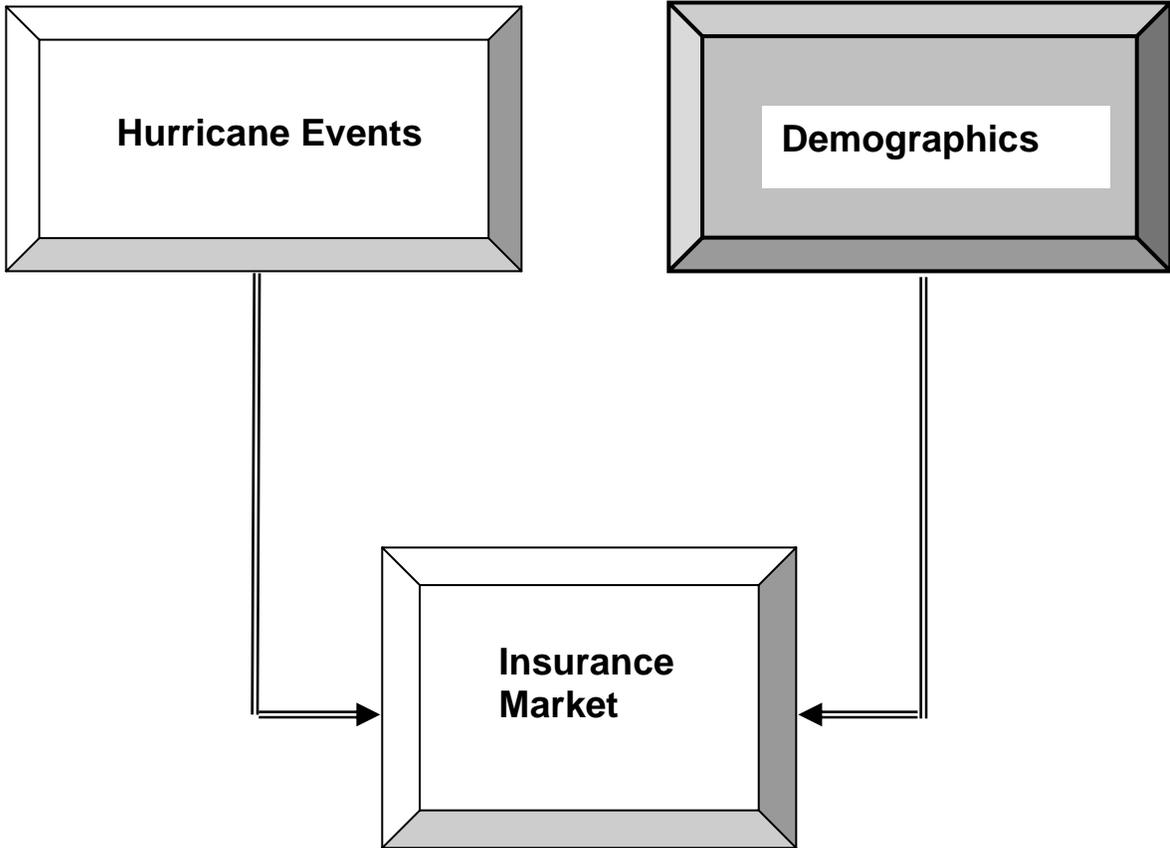


Image provided by the NOAA-CIRES Climate Diagnostics Center, Boulder Colorado from their Web site at <http://www.cdc.noaa.gov/>

Predictions

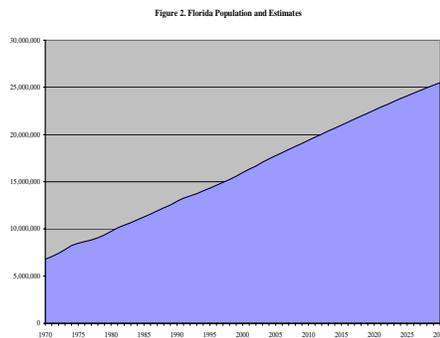
A review of recent prediction research suggests that a current “high activity” cycle has been underway since around 1995, and is expected to remain for some years to come. Differences in the stage of the ENSO cycle are likely to result in some year to year fluctuations in the frequency of hurricane activity, but in general, conditions appear to be favorable for hurricanes formation in the Atlantic basin, possibly threatening Florida, and at a rate higher than observed in past years.



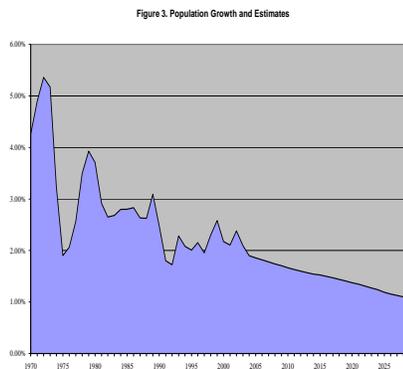
Population Growth

The history of the population inflow into Florida, when placed within the context of hurricane cycles, offers an interesting insight into the growth of Florida's property insurance market. Simply put, a substantial portion of the population migrated to Florida during the relatively inactive cycle evident during the latter half of the 20th Century.

Figure 2 plots the estimated state population change from 1970 to 2030, based on data prepared by the Office of Economic and Demographic Research of the Florida Legislature. With a current estimated population of around 17.5 million, the population has grown by over 150% since 1970, and is estimated to grow by another 46% by 2030 to an estimated population of 25.5 million.



As these estimates suggest, however, the annual rate of population growth has slowed, and is expected to continue forward at a lower level than has been observed in the past. Figure 3 shows the historical growth rates and forward estimates from the same data.



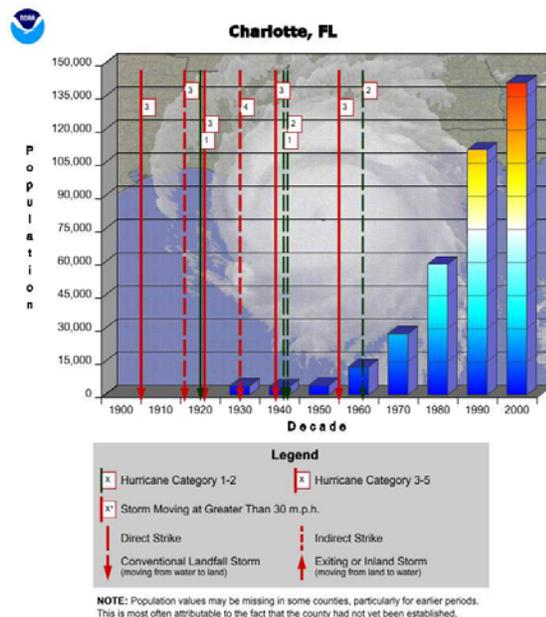
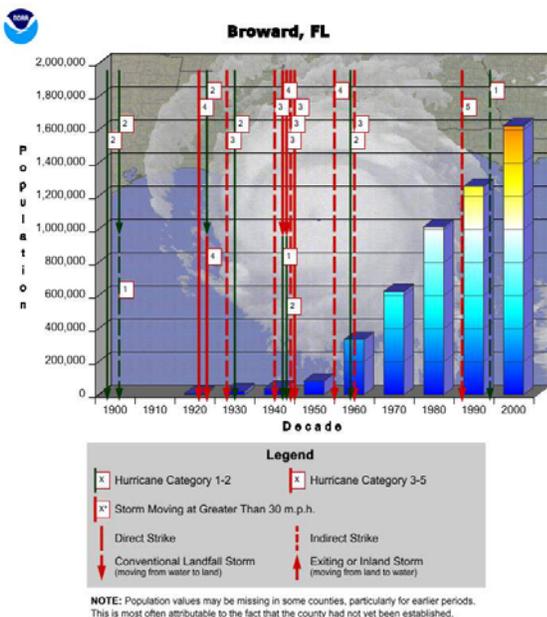
Historically, as population grew, the familiar lure of warm weather and beaches drew much of the migration to the coastal areas. Starting along the eastern coastline, population growth has now spread westward and northward producing a dramatic effect along Florida's entire Gulf coast.

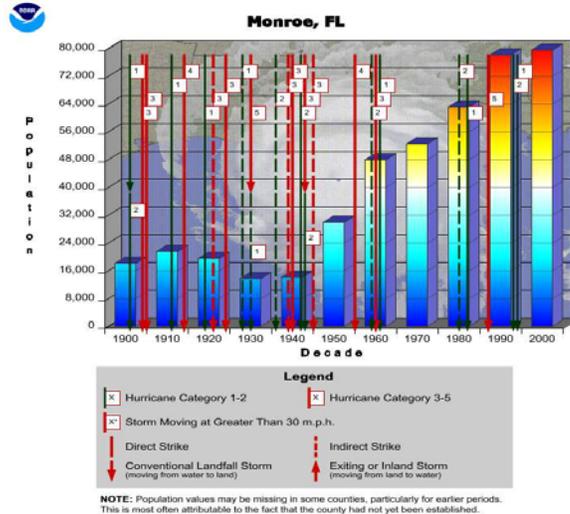
Appendix 2 lists the percentage change in the population of each county between 1990 and 2000, and reports the amount of the observed population growth that is attributable to

in-migration. On average over the decade from 1990-2000, the Florida population grew by 23 ½ percent with 85.3% of the growth coming through migration. The fastest growing areas in the state are largely along the coast. In the last 20 years, this is particularly evident along the Southwest Gulf coast.

The second part of Appendix 2 documents this trend graphically by plotting the population growth rate for each county from as early in the 20th century as the data allow through the 2000 census count. The counties are grouped into geographic regions.

The charts also present the interaction of population growth with hurricane activity in each area by superimposing hurricane landfall events on the population charts. The result of the interaction depicted on these charts provides useful insights into the fundamental issues related to hurricane risk in Florida. Three charts from Appendix 2 are reproduced below.





These charts clearly demonstrate one of the most important issues confronting the insurance market - most of the population growth in Florida has occurred during an extended period of low hurricane activity. Charts for Broward and Charlotte counties illustrate the relationship characteristic of most Florida coastal counties.

Thus, until this year, a substantial portion of the population in these areas had not had any experience with hurricanes, and as well, a significant percentage of the housing constructed to satisfy the demands of this population growth was built before there was recognition in either construction methods or building codes of how to build structures to withstand hurricanes.

One exception to the pattern of coastal area growth should be noted. Monroe county population growth was not as rapid in the county during most of the period recorded and its population of the county has had more hurricane experience.

Property Demographics

Property ownership, development, and the real estate market represent a key driver of the Florida economy. In a recent study of the economic impact of real estate in Florida for 2003, The Shimberg Center for Affordable Housing at the University of Florida (<http://www.shimberg.ufl.edu/>) estimates the value of commercial and residential property at approximately \$1.2 trillion.

Of that total, 3.9 million single-family homes contribute over \$600 billion to that wealth stock; an estimated 420,000 mobile homes represent an additional \$18.1 billion in value, and 14,300 condominium complexes add another \$180 billion.

Moreover, the Center estimates that the real estate sector contributes approximately \$237 billion annually to the Florida economy in the form of taxes, wages, investment income and construction.

Using data from the Center's *2003 State of Florida's Housing Report*, which uses 2002 data, over 22% of single family homes are in 3 counties: Broward, Miami-Dade, and Palm Beach. Additionally, the single-family homes in these 3 counties represent 30% of the reported statewide value. Table 1 below lists selected data from this report by county.

Table 1. Selected 2002 Single Family Home Statistics

	Total Units	% Of State	Total Just Value (\$mils)	% Of State	Average Age
Florida	3,889,178	100.0	519,470	100.0	26
By County					
Alachua County	47,910	1.2	4,713	0.9	24
Baker County	3,032	0.1	216	0.0	28
Bay County	45,499	1.2	3,880	0.7	25
Bradford County	5,043	0.1	306	0.1	33
Brevard County	148,411	3.8	15,010	2.9	23
Broward County	350,089	9.0	56,796	10.9	31
Calhoun County	2,472	0.1	101	0.0	32
Charlotte County	54,702	1.4	6,425	1.2	20
Citrus County	41,660	1.1	3,315	0.6	19
Clay County	38,884	1.0	4,066	0.8	18
Collier County	58,450	1.5	19,934	3.8	16
Columbia County	10,640	0.3	718	0.1	29
De Soto County	5,071	0.1	327	0.1	30
Dixie County	2,475	0.1	112	0.0	29
Duval County	211,076	5.4	22,581	4.3	32
Escambia County	85,737	2.2	6,520	1.3	31
Flagler County	21,632	0.6	2,542	0.5	13
Franklin County	5,391	0.1	780	0.2	30
Gadsden County	9,193	0.2	487	0.1	32
Gilchrist County	1,776	0.0	105	0.0	25
Glades County	1,542	0.0	92	0.0	27
Gulf County	5,111	0.1	615	0.1	22
Hamilton County	1,903	0.0	87	0.0	35
Hardee County	3,839	0.1	183	0.0	33
Hendry County	4,733	0.1	311	0.1	26
Hernando County	46,101	1.2	3,984	0.8	17
Highlands County	27,822	0.7	1,718	0.3	22
Hillsborough County	258,341	6.6	30,398	5.9	23
Holmes County	3,204	0.1	144	0.0	33
Indian River County	35,512	0.9	6,051	1.2	22
Jackson County	9,733	0.3	520	0.1	33
Jefferson County	1,988	0.1	105	0.0	29
Lafayette County	812	0.0	42	0.0	31
Lake County	62,230	1.6	6,178	1.2	22
Lee County	130,681	3.4	21,437	4.1	20

Leon County	61,392	1.6	6,488	1.2	24
Levy County	6,204	0.2	429	0.1	29
Liberty County	1,208	0.0	48	0.0	32
Madison County	2,997	0.1	135	0.0	25
Manatee County	63,419	1.6	9,680	1.9	25
Marion County	70,933	1.8	5,645	1.1	21
Martin County	39,288	1.0	8,647	1.7	17
Miami-Dade County	320,112	8.2	53,752	10.3	33
Monroe County	23,317	0.6	7,246	1.4	27
Nassau County	14,093	0.4	2,219	0.4	21
Okaloosa County	52,881	1.4	5,595	1.1	23
Okeechobee County	6,396	0.2	442	0.1	25
Orange County	219,670	5.6	28,453	5.5	23
Osceola County	51,857	1.3	5,372	1.0	15
Palm Beach County	199,462	5.1	45,787	8.8	27
Pasco County	106,353	2.7	9,442	1.8	22
Pinellas County	240,039	6.2	30,672	5.9	35
Polk County	119,717	3.1	10,057	1.9	30
Putnam County	15,429	0.4	1,027	0.2	33
Santa Rosa County	37,605	1.0	4,001	0.8	18
Sarasota County	105,329	2.7	18,641	3.6	25
Seminole County	105,448	2.7	13,860	2.7	22
St. Johns County	37,790	1.0	7,535	1.5	15
St. Lucie County	62,391	1.6	5,402	1.0	21
Sumter County	16,251	0.4	1,424	0.3	15
Suwannee County	5,087	0.1	313	0.1	32
Taylor County	4,734	0.1	233	0.0	27
Union County	1,110	0.0	60	0.0	27
Volusia County	133,424	3.4	13,178	2.5	26
Wakulla County	4,777	0.1	383	0.1	20
Walton County	13,732	0.4	2,310	0.4	19
Washington County	4,038	0.1	194	0.0	25

It is important to note that while the average single family home in Florida is 26 years old, the average age of single family homes in Broward, Miami-Dade and Palm Beach counties is over 30 years, notwithstanding the fact the average age continues to decline as new construction expands. This decline in average age of construction as a result of new development is similar for many of Florida's coastal counties.

Mobile Homes

Mobile homes present another unique aspect of the Florida property market. Long viewed as a relatively inexpensive popular housing alternative, the mobile home market is an important part of the state's housing stock. The Shimberg Center estimates that mobile homes represent 12% of the housing stock and house 10% of the population.

The age of the mobile home stock is an important consideration when analyzing the hurricane exposure risk of the Florida property insurance market.

There were virtually no construction requirements for manufacturers prior to 1976. Current wind resistance standards did not appear until 1994 for construction and 1999 for installation.

The 2000 Census report (using different measurement tools than the Shimberg Center) estimates that there are over 600,000 mobile homes in Florida, the large majority owner occupied, and that 85% of them were built before 1995. Table 2 lists the demographics of the mobile home stock estimate in the 2000 Census by type of ownership and age.

Table 2. Distribution of Mobile Home Stock and Average Age by County

County	Owner Occupied built after 1994	Owner Occupied built before 1995	Renter Occupied built after 1994	Renter Occupied built before 1995	Total	Percent of State Total	Percent built pre 1995
Alachua	1,916	5,446	339	1,904	9,605	1.47%	76.52%
Baker	697	1,770	17	641	3,125	0.48%	77.15%
Bay	2,262	5,319	306	2,255	10,142	1.55%	74.68%
Bradford	662	1,647	52	494	2,855	0.44%	74.99%
Brevard	1,101	15,022	54	2,313	18,490	2.83%	93.75%
Broward	773	16,172	128	2,409	19,482	2.98%	95.38%
Calhoun	475	864	11	333	1,683	0.26%	71.12%
Charlotte	527	6,350	17	581	7,475	1.14%	92.72%
Citrus	1,578	9,376	98	2,029	13,081	2.00%	87.19%
Clay	1,807	4,973	136	1,525	8,441	1.29%	76.98%
Collier	505	5,602	96	1,482	7,685	1.18%	92.18%
Columbia	2,088	4,317	231	1,465	8,101	1.24%	71.37%
De Soto	344	2,470	28	993	3,835	0.59%	90.30%
Dixie	622	1,761	12	394	2,789	0.43%	77.27%
Duval	3,380	10,349	410	5,468	19,607	3.00%	80.67%
Escambia	1,625	4,594	403	3,646	10,268	1.57%	80.25%
Flagler	304	1,306	20	311	1,941	0.30%	83.31%
Franklin	182	797	19	158	1,156	0.18%	82.61%
Gadsden	1,489	2,794	95	892	5,270	0.81%	69.94%
Gilchrist	641	1,775	77	335	2,828	0.43%	74.61%
Glades	348	1,329	39	336	2,052	0.31%	81.14%
Gulf	198	765	30	193	1,186	0.18%	80.78%
Hamilton	504	1,001	19	364	1,888	0.29%	72.30%
Hardee	231	1,462	38	541	2,272	0.35%	88.16%
Hendry	685	2,893	120	903	4,601	0.70%	82.50%
Hernando	1,102	8,114	57	1,407	10,680	1.63%	89.15%
Hillsborough	440	6,678	47	934	8,099	1.24%	93.99%
Holmes	3,825	21,294	643	9,316	35,078	5.37%	87.26%
Indian River	527	1,318	47	407	2,299	0.35%	75.03%

County	Owner Occupied built after 1994	Owner Occupied built before 1995	Renter Occupied built after 1994	Renter Occupied built before 1995	Total	Percent of State Total	Percent built pre 1995
Jefferson	1,208	2,982	90	890	5,170	0.79%	74.89%
Lafayette	431	933	42	291	1,697	0.26%	72.13%
Lake	168	486	20	188	862	0.13%	78.19%
Lee	2,017	18,751	121	2,609	23,498	3.59%	90.90%
Leon	1,528	20,507	147	2,752	24,934	3.81%	93.28%
Levy	2,235	4,649	368	2,379	9,631	1.47%	72.97%
Liberty	1,548	4,508	122	851	7,029	1.08%	76.24%
Manatee	493	1,534	34	359	2,420	0.37%	78.22%
Marion	901	15,510	49	1,427	17,887	2.74%	94.69%
Martin	4,569	18,038	463	4,394	27,464	4.20%	81.68%
Miami Dade	172	5,052	10	976	6,210	0.95%	97.07%
Monroe	776	8,958	384	3,360	13,478	2.06%	91.39%
Nassau	166	4,302	146	1,799	6,413	0.98%	95.13%
Okaloosa	1,183	3,810	74	1,106	6,173	0.94%	79.64%
Okeechobee	1,083	2,504	145	1,845	5,577	0.85%	77.98%
Orange	511	3,630	46	1,472	5,659	0.87%	90.16%
Osceola	1,615	12,482	198	3,773	18,068	2.76%	89.97%
Palm Beach	868	6,328	172	1,419	8,787	1.34%	88.16%
Pasco	966	12,284	241	2,388	15,879	2.43%	92.40%
Pinellas	3,333	22,978	281	5,094	31,686	4.85%	88.59%
Polk	809	30,248	81	4,200	35,338	5.41%	97.48%
Putnam	6,980	30,590	541	7,623	45,734	7.00%	83.55%
Santa Rosa	1,926	7,938	201	1,793	11,858	1.81%	82.06%
Sarasota	1,339	3,709	171	1,666	6,885	1.05%	78.07%
Seminole	467	7,320	82	643	8,512	1.30%	93.55%
St. Johns	1,533	3,912	207	1,730	7,382	1.13%	76.43%
St. Lucie	408	12,365	35	1,100	13,908	2.13%	96.81%
Sumter	311	3,419	68	781	4,579	0.70%	91.72%
Suwannee	934	5,305	62	1,115	7,416	1.13%	86.57%
Taylor	1,670	3,889	149	790	6,498	0.99%	72.01%
Union	588	1,439	38	396	2,461	0.38%	74.56%
Volusia	349	815	44	344	1,552	0.24%	74.68%
Union	1,446	15,860	96	2,412	19,814	3.03%	92.22%
Wakulla	653	2,262	59	701	3,675	0.56%	80.63%
Walton	1,195	2,571	239	823	4,828	0.74%	70.30%
Washington	825	1,354	73	510	2,762	0.42%	67.49%
Totals	78,532	455,421	8,950	110,818	653,721		

Of particular note in Table 2 is Charlotte County where some 90% of its mobile homes were built before 1995. As many reports indicate, Hurricane Charley destroyed or severely damaged a significant portion of these mobile homes. Follow-up study is likely to indicate that most surviving homes were of recent manufacture or have been retrofitted to meet more recent wind resistance standards. Taken in aggregate, the data in Table 2

offer a cautionary note moving forward with estimates of potential risk in mobile home communities across other areas of Florida.

Recent Growth Experience

Data from the Florida Hurricane Catastrophe Fund can be used to examine the recent growth in property values, and hence the nominal growth in hurricane risk exposure, at least for insured properties. As most residential properties are insured by companies participating in the FHCF, the data provide a useful approximation of the state market for residential property and some estimate for commercial property. FHCF year-end exposure data for 2001, 2002, and 2003 are available from the Florida Insurance Council (www.flains.org). Table 3 summarizes the data by exposure by type of property risk.

Table 3. Growth of the Number of Insured Properties

	2001	2002	2003	Change 2001-2003	% Change 2001-2003
Number of Property Risks					
Residential	4,853,569	5,024,843	5,168,547	314,978	6.49%
Mobile Home	574,780	588,509	579,506	4,726	0.82%
Commercial	166,422	190,958	198,418	31,996	19.23%
Total	5,594,771	5,804,310	5,946,471	351,700	6.29%

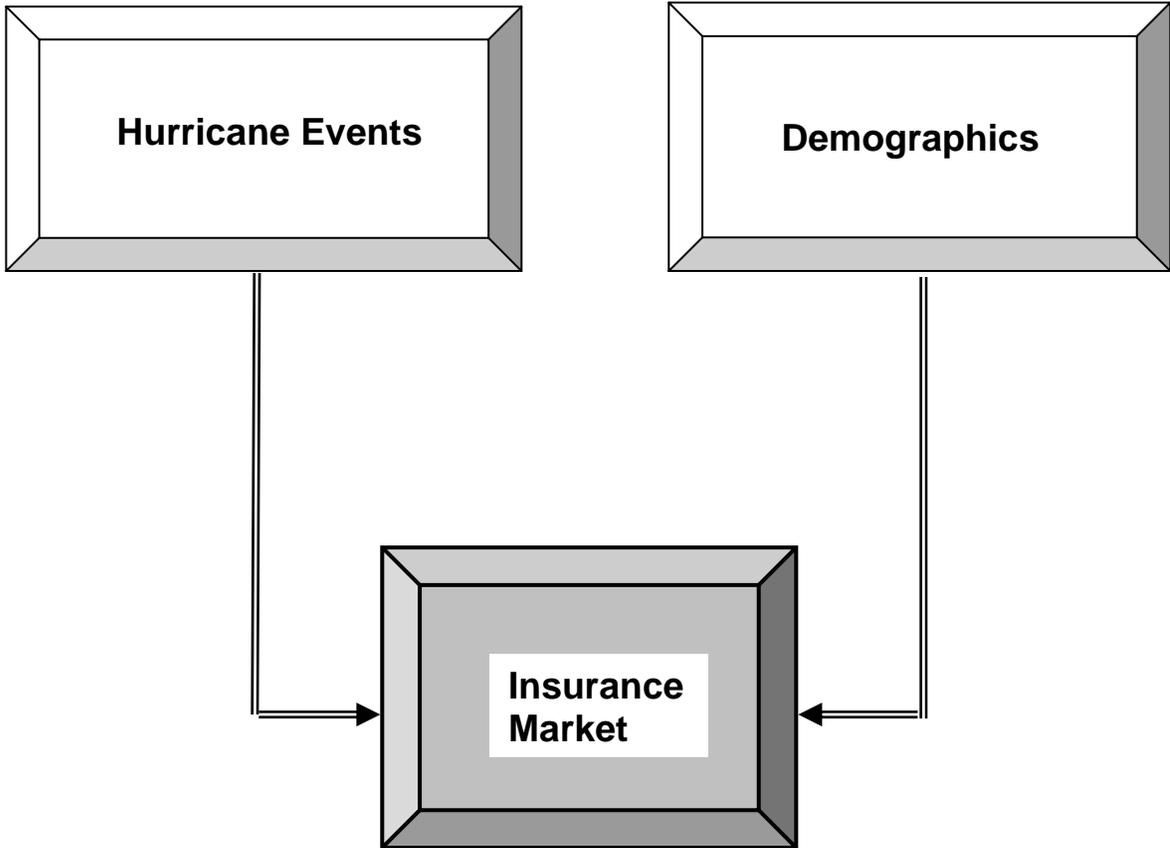
Data are from the FHCF Exposure Reports, various years. The “Residential” lines in Table 3 refer to Homeowners, Tenant and Condominium owners.

Demographic Summary

Florida’s population continues to grow, with an observed recent growth rate of around 1 ½% per year. With a current population of about 17.5 million people, the state is expected to grow to over 25 million people by 2030. Until this year, a substantial portion of this population had little or no experience with hurricanes.

The growth of the population drives the demand for housing reflected in property stocks and aggregate value. With nearly 4 million single family homes, over 500,000 mobile homes, nearly 700,000 condominium units and nearly 200,000 commercial properties, the property market represents nearly \$1.2 trillion in wealth subject to the risk of damage or destruction by hurricanes. Of particular concern is the relative age of the housing stock and the resulting implication for the ability of these properties to withstand a hurricane.

Between 2001 and 2003, over 300,000 new single-family homes, nearly 4,800 mobile homes and 32,000 commercial properties were added. This continued growth puts additional strains on the ability of the insurance market to cover property risks.



Insurance Market Background and Hurricane Andrew

With an aggregate estimated value in excess \$1.2 trillion, property ownership and development represent a significant long-term investment in the State of Florida.

Historically, the risk of physical damage to property is managed through the purchase of property insurance. As the Florida real estate market developed in the latter half of the 20th century, the demand for insurance protection was met by a highly competitive insurance industry.

As insurers competed for market share in this growing economy, the level of premiums charged declined to at or below the levels needed to actuarially compensate for hurricane risk. Hurricane risk estimation tools common at the time were, at best, simplistic. It was not uncommon for an insurer to determine the risk by looking through their claim and loss records for hurricane losses over some past period, develop a “hurricane load factor” and apply it mostly uniformly throughout the state. So long as no major hurricanes caused repetitive substantial damage, these low premiums and the resulting thin capital positions could remain in effect.

This market worked well until the inevitable occurred, in the form of Hurricane Andrew. Recently reclassified as a Category 5 hurricane, Andrew blew through south Florida in late August of 1992. The storm cost \$15.5 billion in insured damages (approximately \$20.5 in current year dollars), resulted in insolvency for 12 insurance companies, and left surviving companies with the need to either inject new capital or consider leaving the Florida market. The state quickly recognized that major changes were necessary to rebuild a Florida property insurance market.

Lessons from Andrew

Anyone familiar with either property insurance or the Florida economy can recite the lessons learned from Andrew and the actions taken since 1992. These include:

- **The storm that could not happen did.** Prior to Andrew, conventional wisdom was that the maximum insured losses from a single hurricane was around \$8 billion, not the more than \$15 billion that occurred.
- **Florida got lucky.** Had Andrew come ashore a little north in the Miami – Ft. Lauderdale area, some experts estimate that it would have been up to a \$50 billion event.
- **Rates were inadequate.** This fact was the end result of years of strong competition for market share.
- **Surplus and Capital were not adequate.** This is just the corollary from years of inadequate rates.

- **It might be prudent to consider developing true pre-event catastrophic reserves.** Current regulation and tax law prevent this from occurring in the US market.
- **Public/private cooperation was needed to provide risk protection to the citizen's of Florida.**

Insurance rate increases were immediately requested, and rates have increased over the intervening years to a point where they had generally considered adequate to pay claims and allow insurers to maintain reasonable capital and surplus positions. The current hurricane losses, while in aggregate comparable to Andrew, are so far expected to have only a moderate impact on rate increases for most lines of business in most areas throughout the state.

Deductibles for hurricane damage were changed from a flat dollar deductible to either 2% or 5% of the insured value for many homes valued at over \$100,000. This change, while putting a portion of hurricane risk back to the policyholder, helped keep rate increases lower than would have otherwise been the case and provided private insurers with an additional layer of cushion before loss claims occurred. These types of deductibles are not unusual for loss due to catastrophic risk; indeed some 16 or 17 states have the same policy provisions for damage due to hurricanes and earthquakes.

A series of hurricane risk mitigation initiatives were implemented. Building codes were rewritten to require both site-built and manufactured housing to be able to more readily withstand major hurricane wind levels. Programs to retrofit site-built homes were implemented by state and local agencies. Initiatives to provide mitigation tools to mobile homes were begun. The majority of these are programs designed to strengthen the installation of existing mobile homes to meet the more stringent 1999 code.

The Florida Residential Property Casualty Joint Underwriting Authority (FRPCJUA) was expanded to provide a public/private response to the deterioration of insurance availability in the private market. As well, the Florida Windstorm Underwriting Association (FWUA) offered wind-only coverage to those who could not acquire it in the private market. By year-end 1995, the FRPCJUA had about 850,000 policies in force. By year-end 1999, the FWUA had roughly 500,000 policies in force with a combined exposure of almost \$86.5 billion.

In 2002, these two entities were merged to create Citizen's Property Insurance. Designed to offer insurance only where the private market will not provide coverage, Citizen's is required to charge the highest rates so as not to displace the private market by price competition. By December 31st 2004, Citizen's (www.citizens.fl.com) reported 873,996 policies in force (including high risk, personal-residential, and commercial-residential accounts), with a \$206.7 billion combined exposure. Due largely to the presence of Citizen's, non-renewals of policies for hurricane risk, prevalent after Andrew, had fallen to less than 1% prior to this year.

The Florida Hurricane Catastrophe Fund (FHCF) was created in November 1993 during a special legislative session after Hurricane Andrew. Designed to provide a form of protection similar to reinsurance in an effort to maintain insurance capacity, the FHCF provides reimbursements to insurers, paid for by policyholders, for some level of catastrophic losses resulting from hurricanes. Insurers writing in Florida are required to participate in the fund, but are given some choice in their level of participation. In 2004, the FHCF was authorized to offer partial reimbursement on an industry-wide level of up to \$15 billion, after an industry-retained loss of \$4.5 billion. Individual insurance companies may be reimbursed for 45%, 75%, or 90% of their losses above the retention point, depending on their chosen level of participation. The FHCF 2002-2003 Annual report shows that 75.5% of participating companies (representing 98.45% of the Fund's premiums) chose the 90% option.

With rates being allowed to find more sustainable levels, with Citizen's in place to provide insurance for those risks the private market would not underwrite and with the FHCF in place to provide a level of catastrophic protection, the private insurance market had largely stabilized by the end of 2003 and on in to 2004.

The Private Insurance Market Today

Analyzing the competitive conditions in the property insurance market in Florida poses an interesting challenge. The sheer size of the residual market, at between 15 and 20+% of the state market in recent months, is by itself suggestive of a market not conducive to private market competition.

Yet, as the residual market writer, Citizen's does not proactively determine its coverage areas as a conscious business decision. Rather, the statutory structure guiding Citizen's creates an environment where their market is dictated to them by the private market insurers. Recent evidence of this can be seen in the recent dramatic increase in new policies being written by Citizen's in Hillsborough and Pasco counties. This recent growth is driven not by hurricanes, but by the risk of sinkhole damage that some firms in the private market feel unable to underwrite as part of their property programs.

One aspect of a competitive market is a firm's freedom of entry to and exit from the market. By consciously choosing not to write certain coverage in particular areas, private insurers are exercising their freedom to enter and exit segments of the market, resulting in a market structure that, on a statewide basis, appears empirically uncompetitive.

Over 200 private property insurance companies currently write business in Florida. While in state-level aggregate numbers, Citizen's is one of the largest writers in the state; this is primarily due to the disproportionately large property risk exposure in high-risk areas (like Broward, Palm Beach, Miami-Dade, and Monroe counties), where private insurers, given the current framework, are still unable or unwilling to write. A program to reduce the size of Citizen's has resulted in over 221,000 policies being moved from Citizen's back to the private market from January 1, 2004 and January 18, 2005; over 99,000 of these moves occurred between Labor Day 2004 and January 18, 2005. Further aggregate

reductions in hurricane policies are currently being offset to a degree by increases in sinkhole coverage being moved from the private market to Citizen's.

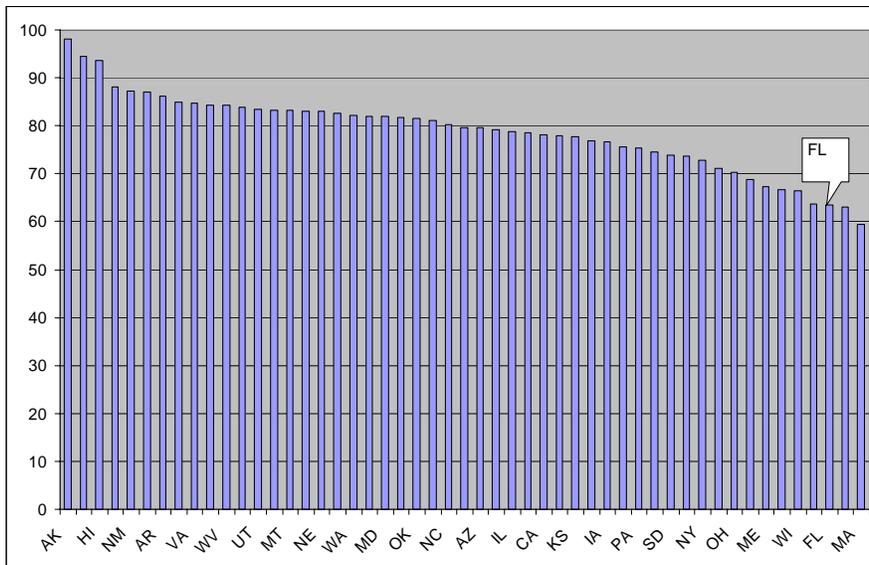
Private Market Competitive Analysis

Assuming that Citizen's is underwriting risks that the private market is currently unwilling or unable to underwrite, an analysis of the competitive nature of the private market is possible. Traditional measures of competition look for market share concentration, price variability within a market, and "rationality" in pricing. These tools were employed on a county-by-county basis. The results are generally encouraging.

Market Share

A common measure of the degree of competition in a market is to compare the market share of the largest writers. The idea is that, all else constant, the smaller the market share for the largest writers, the more competitive the market might be. The National Association of Insurance Commissioners publishes a Market Share Report annually, with top-10 writer market shares for every line of business. Figure 4 depicts the state-level results for the "Homeowner's multi-peril" which would also include mobile homes and condominium owner's policies.

Figure 4. Market Shares, Homeowner's Multi-peril, 2003.



The data are ranked from highest top-10 market share to lowest. With a market share of 63.61% Florida ranked 49th out of 51 jurisdictions. These data do not include residual market plans, except for FAIR plans, so the numbers and rankings could be misleading. Using an average market share over the recent past, the data in Figure 4 was recalculated to include Citizen's. The results are presented in Figure 5.

Using a 15% market share for Citizen's (the latest statistics from the OIR list the current market share at about 13.5%), the Florida market share moves up to about 78%. This obviously moves Florida's rank up, to 32nd place, still in the lower third of all states.

These Figures suggest that while Citizen's dominates the market in some areas of Florida, using market share as a measure of possible competitive disruption, Citizen's does not seem to adversely affect the market on a statewide basis.

Intrastate Market Share Measures

Using data from the OIR, a top-5 and top-10 market share, based on the number of policies written, was calculated for homeowners, farm owners, mobile homeowners, and dwelling fire insurance as of the end of the first Quarter, 2004 for every county in Florida. The market shares were calculated including Citizen's. The results are provided in Table 4.

Figure 5. Market Share Ranks with Citizen's included for Florida



Table 4. Top-5 and top-10 Market shares, by County.

County	Top 5 mkt share	Top 10 mkt share	Citizens	Note
Alachua	50.8	65.6	1.2	
Baker	59	75.4	Na	
Bay	52.4	66.3	12.8	2
Bradford	53.9	68	1.2	
Brevard	55	67.9	6.2	2
Broward	64.3	74.5	22.1	1
Calhoun	53.8	69.8	2.2	
Charlotte	44.8	58.3	5.7	2
Citrus	49.6	64.3	2.4	
Clay	57.4	70.9	Na	
Collier	48.5	63	10.4	2
Columbia	46.1	63.5	Na	
De Soto	60.7	73.3	1.9	
Dixie	45	67.5	8.4	2
Duval	56.4	69.2	2.2	
Escambia	57.1	71.6	11	2
Flagler	55.7	68.3	7.8	2
Franklin	66.3	77.4	46	1
Gadsden	41.5	61	3.5	
Gilchrist	44	67.3	1.7	
Glades	67.6	82.2	1.3	
Gulf	62.3	73.7	33.9	1
Hamilton	42.6	69.1	Na	
Hardee	55.3	74.6	Na	
Hendry	65.5	77.6	1.6	
Hernando	53.1	65.6	15.9	2
Highlands	52.7	65.4	Na	
Hillsborough	40.4	56.4	8.8	2
Holmes	49.1	70.3	Na	
Indian River	52.6	67.6	11.7	2
Jackson	52.7	71.3	1.5	
Jefferson	50.7	70.8	Na	
Lafayette	63.1	76.8	2.6	
Lake	48.9	62.3	1.3	
Lee	47.1	61	10.6	2
Leon	51.7	66.2	Na	2
Levy	39.2	60.4	5.7	
Liberty	50.1	68.2	2.9	
Madison	51.7	76.9	1.7	
Manatee	36.2	54.6	5.8	2
Marion	46.5	60.2	1.0	
Martin	44.9	58.7	2.8	
Miami Dade	76.7	83.9	49.4	1
Monroe	97.3	98.6	92.7	1
Nassau	43.1	65.2	6.9	2
Okaloosa	59.5	75.9	4.4	2
Okeechobee	59	74	1.3	
Orange	54.8	67.7	1.3	

Osceola	57.7	69.8	Na	
Palm Beach	57.1	69.7	20.3	1
Pasco	56.9	68.6	23.7	1
Pinellas	51.7	63.6	17.9	1
Polk	46.4	60	Na	
Putnam	43.9	59.5	1.7	
Santa Rosa	51	68.2	4.4	
Sarasota	46.9	61	16.5	1
Seminole	58.3	72.1	1	
St. Johns	53	69.3	5.7	2
St. Lucie	45	61.6	6.3	2
Sumter	58.4	71.1	1.1	
Suwannee	49.1	68.4	Na	
Taylor	57.1	73.7	4	
Union	49.9	70.4	Na	
Volusia	57.5	68.6	7.7	2
Wakulla	38.7	59.2	10.2	1
Walton	60.9	75.6	29.1	1
Washington	48.3	64.6	2.6	

Note: 1) Citizen's is the largest writer, 2) Citizen's is among the 5 top writers

Note 1 and the shaded rows denote the 11 counties where Citizen's is the largest writer. Note 2 indicates the counties where Citizen's is among the top 5 writers. "Na" in the notes column indicates that Citizen's was not among the 10 largest writers. The market share numbers for most counties suggest that, even with Citizen's participating, the top 5 or 10 companies do not seem to overly dominate the market. Clearly, in the 11 counties where Citizen's is the largest writer, competitive conditions are absent. Citizen's presence as a top 5 writer in the other 18 counties identified above would also suggest a degree of disruption to the private market.

Analysis of Rates and Premiums

Another method used to determine the competitiveness of a market is to look for variation in rates charged for common risks. A more competitive market should exhibit more variability in rate or premium. As well, rates should exhibit a degree of "rationality" where higher rates are charged for higher risks.

When a company files a rate plan with the OIR, they are required to use the proposed rates to determine the premiums that would result on a hypothetical risk exposure. The hypothetical risks are common across all rate filings.

These rates were collected for the top 20 writers in each county for a hypothetical homeowner's policy premium, a mobile home policy and a condominium policy. For each county, the average premium, the range of premium from high to low, and the standard deviation of the average premium were calculated for each of these hypothetical risk exposures.

Citizen's was excluded from the calculation because by statute they are required to charge the highest rates, and the purpose of the analysis is to analyze competitive conditions.

To focus on the hurricane wind risk, an average wind risk was calculated from the zip code designated wind risk categories. These risk measures, maintained by the FHCF, range from the lowest hurricane wind risk of 1 to the highest of 25. For each county, a simple arithmetic average of the wind risk rating for each zip code in the county was taken.

Finally, two indicator (or dummy) variables were created. The variable "Gulf" was assigned a value of 1 if the county was on the Gulf Coast and assigned a value of 0 elsewhere; the variable "Atlantic" was assigned a value of 1 if the county was along the Atlantic coast and assigned a value of zero elsewhere. If both variables had the value of 0, an inland county is defined. These indicator variables are used in conjunction with the average county risk rank to carry out the rationality tests.

Appendix 3 contains the data and analysis for the premium example tests for Homeowners, Mobile Homeowners, and Condominium hypothetical policies. The first analysis done was to construct a correlation matrix for each example. The average premium should be highly positively correlated with the average risk ranking. The dispersion in example premiums, given by either the standard deviation or range of values should be positively correlated as well. A correlation matrix was constructed for each example policy for all counties, Gulf Coast Counties, Atlantic Coast Counties and Inland Counties. A total of 12 matrices, then, were created.

The estimated correlations between the average premium for each policy and the average risk rank for each county were all highly positively correlated, ranging in value from 0.96 to 0.67. Generally, the correlations were higher for the single-family home policy, then the condominium policy, with the mobile home policy showing the weakest correlation. Across regions, the Atlantic coastal correlations tended to be the highest across policy types, with the Inland coast counties tending to be the lowest.

The estimated correlations between the average risk rating and the dispersion, measured by either the standard deviation of premium or the range of premium, provided varying results. The estimated correlation coefficients were positive when measured across all counties, albeit of somewhat lower values than the premium correlations. The Atlantic coastal correlations were highly positive across all policy types, the Gulf coastal counties were positive but not as strong as the Atlantic counties, and the Inland counties were the lowest as a group. Again, the homeowners tended to have the strongest positive correlations, followed by the condominium policy, and then the mobile homeowners.

On the whole, while a few anomalies were observed, the combined results suggest that the general pattern of rates across these lines of business is rationally, and competitively, structured.

A second set of tests is a bit stronger. In this set of tests, the average premium is regressed against the counties risk rank and the “Gulf” and “Atlantic” coastal indicator variables described above. That is, for each “Y” variable average premium, standard deviation and range, a linear regression of the form:

$$Y = a + b_1(\text{Average Risk Rank}) + b_2(\text{Gulf}) + b_3(\text{Atlantic}) + e \quad (1)$$

is estimated. Because Citizen’s writes over 90% of the market in Monroe county, and as such hardly allows for a robust test of private market premiums, Monroe county was excluded from the regression tests. For the 3 regressions using the average premium as the dependent variable, the estimated regression equations are:

Homeowners

$$\text{Avg premium} = 462.15 + 58.08(\text{Risk Rank}) + 117.92(\text{Gulf}) + 100.51(\text{Atlantic})$$
$$R^2 = 0.881$$

Mobile Homeowners

$$\text{Avg premium} = 357.92 + 18.36(\text{Risk Rank}) + 33.37(\text{Gulf}) + 45.73(\text{Atlantic})$$
$$R^2 = 0.810$$

Condominium

$$\text{Avg premium} = 192.83 + 9.012(\text{Risk Rank}) + 14.61(\text{Gulf}) + 24.32(\text{Atlantic})$$
$$R^2 = 0.827$$

All of the regression coefficients are statistically different from zero at a 95% confidence level. The R^2 s suggest that each model explains over 80% of the variation in the average premium for each policy. The models can be interpreted in a straightforward manner.

Using the estimated Homeowners model as an example, the base premium across the state for this risk is \$462.15. For each location, the premium rises by \$58.08 for each one-unit increase in the average risk rating. In Gulf coastal areas, the premium rises by \$117.92 over the same risk in an inland county, while in Atlantic coastal areas; the premium rises by \$100.51 over the same risk in an inland county. Similar interpretations can be made using either the mobile home policy regression or the condominium regression.

These results provide further evidence of rationality in pricing, while also showing that no one or two companies within an area can manipulate price out of the realm of reasonableness when risk is considered.

Appendix 3 also presents similar regression results for the standard deviation and range measures of dispersion. The results confirm the insights from the correlation analysis; dispersion increases as exposure risk increases, but the relationship is not as strong as it appears for the average.

Competitive Conditions Summary

The analysis presented above suggests that where private insurers are active, the Florida property market is not overly concentrated compared to the rest of the states, even when Citizen's is included in the market share measures. Within the state, analysis at the county level generally supports the same conclusion, with the obvious exceptions of those counties where Citizen's is the dominant writer.

An analysis of rates, as represented by average premiums on hypothetical risks, suggests that premiums and pricing behave rationally and do not seem to exhibit any noticeable non-competitive trends.

Qualifying Comments on Competitive Analysis

The overriding issue with regard to the competitive nature of the Florida property market is not how competitive the private insurers are, but rather why the residual market, as represented by Citizen's, is so large and, more troubling, growing.

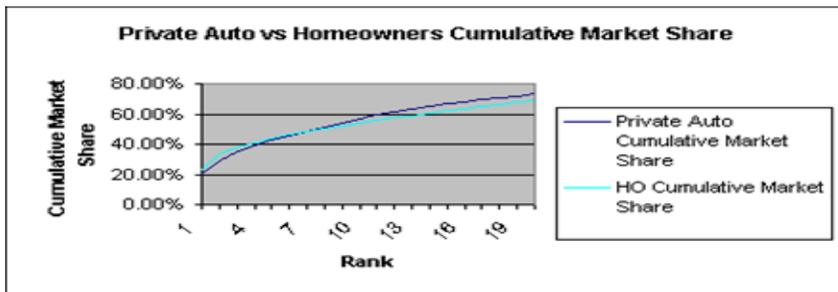
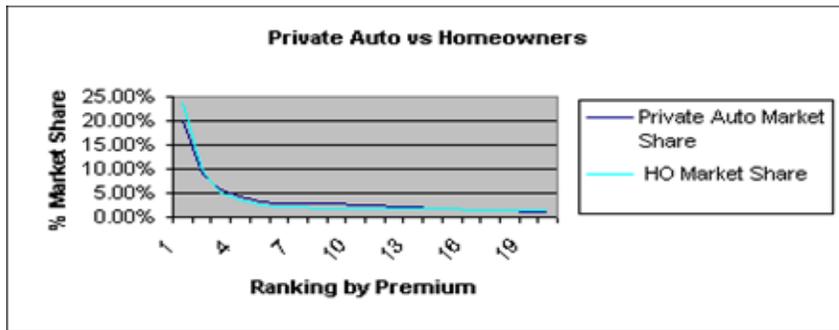
The critical question is why the private market chooses not to participate in these areas. It could be that rates are not sufficiently attractive or adequately flexible enough for the private market to justify writing the risks. This is an empirical question relating both to rate adequacy as well as the rate approval process.

An interesting comparison between the homeowner's insurance market and the private passenger automobile insurance market offers some insights on this possibility as both lines of business are subject to the same regulatory structure regarding rate approvals; that is the insurer's choice between "use and file" and "file and use" rate approvals.

Table 5 shows the private-insurer market share calculations for the private auto market and the homeowner's insurance market using year-end data from the NAIC. The market share numbers are virtually indistinguishable from one another.

Table 5
 FL Homeowners vs. Private Auto, Market Share, 2003*

Private Auto Rank	Private Auto Market Share	Private Auto Cumulative Market Share	HO Rank	HO Market Share	HO Cumulative Market Share
1	20.12%	20.12%	1	23.43%	23.43%
2	9.04%	29.16%	2	9.67%	33.10%
3	5.75%	34.91%	3	4.88%	37.98%
4	4.35%	39.26%	4	3.40%	41.38%
5	3.36%	42.62%	5	2.43%	43.81%
6	2.98%	45.61%	6	2.31%	46.12%
7	2.98%	48.58%	7	1.99%	48.12%
8	2.78%	51.37%	8	1.93%	50.05%
9	2.78%	54.15%	9	1.85%	51.90%
10	2.52%	56.67%	10	1.83%	53.73%
11	2.48%	59.14%	11	1.79%	55.52%
12	2.15%	61.30%	12	1.70%	57.22%
13	1.98%	63.28%	13	1.69%	58.91%
14	1.67%	64.95%	14	1.62%	60.53%
15	1.63%	66.58%	15	1.61%	62.14%
16	1.55%	68.13%	16	1.47%	63.61%
17	1.28%	69.41%	17	1.45%	65.06%
18	1.28%	70.69%	18	1.43%	66.49%
19	1.21%	71.90%	19	1.38%	67.87%
20	1.20%	73.10%	20	1.36%	69.23%



* Data From NAIC
 State Pages, 2003

Additionally, using data from the OIR from 2002 through the end of January 2005, rate-filing comparisons between the two lines of business can be made. These results are presented in Table 6.

Table 6

Homeowners Multi-Peril Rate Filings 2002-1/31/2005*

	Total Rate Filings	Approved	Disapproved/Withdrawn	Errors	Informational	Pending
2002	272	190	41	21	20	0
2003	401	312	35	31	23	0
2004	293	201	28	28	23	13
To 1-31-2005	28	4	1	1	2	20
Totals	994	707	105	81	68	33

% Working Total Approved 87.07%
 % Working Total Disapproved or Withdrawn 12.93%

Note: May Have Been Approved, but at less than the filing company's original

Private Passenger Auto Rate Filings 2002-1/31/2005*

	Total Rate Filings	Approved	Disapproved/Withdrawn	Errors	Informational	Pending
2002	435	362	24	38	12	0
2003	478	412	30	26	9	0
2004	407	323	12	15	33	24
To 1/31/2005	30	9	1	0	3	17
Totals	1350	1106	67	79	57	41

% Working Total Approved 94.29%
 % Working Total Disapproved or Withdrawn 5.71%

Note: May Have Been Approved, but at less than the filing company's original

* Data From Florida Office of Insurance Regulation

As with the market share comparison, the numbers are highly comparable. In fact, the only noticeable difference in structure between the market for these two lines of business is the size of the residual market. For the auto market, the Florida Automobile JUA

reported fewer than 10,000 policies in force by year-end 2004, substantially below 1% of the market. In contrast, for property insurance, Citizen's consistently writes between 15 and 20% of the market when measured over different intervals.

Taken together, these results seem to suggest it is the nature of the risk, not the regulatory process that drives the property market in Florida.

When considering the catastrophic possibilities associated with hurricanes, rates aside, the probabilistically weighted chance of financial distress or ruin to a private insurer company arising from hurricane losses may simply be too great to be a viable business choice. While this is also an empirical question to some extent, it is a bit more complicated.

Assuming that the likelihood of a truly catastrophic hurricane, such as Andrew, is outside anyone's control, the tools available to manage this risk are limited on a practical level, and consist of reinsurance, capital market alternatives, or the limited ability to bolster policyholder surplus. One possible source of uncertainty reduction would be a revision of the FHCF retention levels and exhaustion points for losses in these specific areas, although changes to the Fund's plan are not costless. Additionally, a separate "first layer" program designed to provide a public/private risk sharing of the hurricane risk below the FHCF threshold could be considered.

Another possible remedy would be to allow insurers to establish meaningful reserves for future loss possibilities, a device largely unavailable currently. More on this idea is offered later in this report; suffice it to say for now, that while it is doable and a possible structure exists, a lot of activity on the regulatory and legislative fronts would have to occur at both the state and federal levels.

Lastly, there is some concern and evidence that Citizen's may be inadvertently precluding the private market from these areas. By statute, Citizen's is required to charge uncompetitively high rates relative to private market rates. Recently, Citizen's has been publicly criticized for not maintaining sufficiently high rates for some lines in some areas. The OIR has directed Citizen's to provide new rate filings to address this issue. In the interim, if pervasive, Citizen's rate structure could be serving to disrupt the market.

With regard to the rates charged, Citizen's again faces a situation different from the one facing private market insurers. Rather than proactively determining rates for their lines of business, Citizen's rates are required to be maintained on a reactive basis, continually responding to rates set by the private insurers. Even with a use and file rating approval process, there will be some lag in application.

As well, the possibility of inadvertently not updating a particular rate or set of rates in an area or line in response to a new private rate structure remains. One possible remedy that may deserve some serious inquiry is the degree to which revisions to Citizen's rate structure can be made automatic, relying on some formulaic approach to modify their rates in response to rate changes occurring in the private market.

Other Aspects of the Market

Capacity

As the Florida property market continues to expand, the demand for property insurance continues to grow. In the years following Andrew, meeting that demand has proved a challenge. Table 5 provides an example of the issue. According to aggregate exposure risk data from the FHCF the amount of residential exposure reported by the FHFC increased by nearly 31% (\$246.4 billion) between 2001 and 2003. Mobile home exposure increased by almost 16% and commercial property exposure increased by 29%. The combined dollar increase was \$278.5 billion, with the bulk coming from increases in residential risk exposure.

Table 5. Increase in Exposure 2001 to 2003

Value of Property Risk (\$ in millions)				Change	% Change 2001-2003
	2001	2002	2003	2001- 2003	
Residential	795,366	951,364	1,041,747	246,381	30.98%
Mobile Home	29,517	34,067	34,208	4,691	15.89%
Commercial	94,444	112,857	121,835	27,391	29.00%
Total	\$919,327	\$1,098,288	\$1,197,790	\$278,463	30.29%

Data are from the FHCF Exposure Reports, various years. The "Residential" lines in Table 3 refer to Homeowners, Tenant and Condominium owners.

Insurers can only increase their capacity to underwrite risk as net income covers payment for losses and expenses while providing for capital and surplus growth. If net income does not provide for prudent capital growth, other means must be found to manage exposure risk. These means include reinsurance, mitigation, or reduced underwriting.

Figures 6 and 7 highlight the recent experience in Florida. Figure 6 shows the growth in capital and surplus between 1999 and 2003 for all companies covered by the FHCF in 2003 except for Citizen's. Figure 7 shows the resulting Surplus to Exposure ratio (a measure of underwriting risk, or leverage) for the same companies between 2001 and 2003.

Figure 6. Capital and Surplus

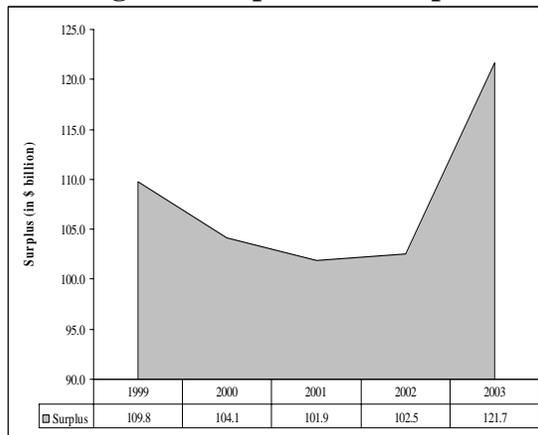
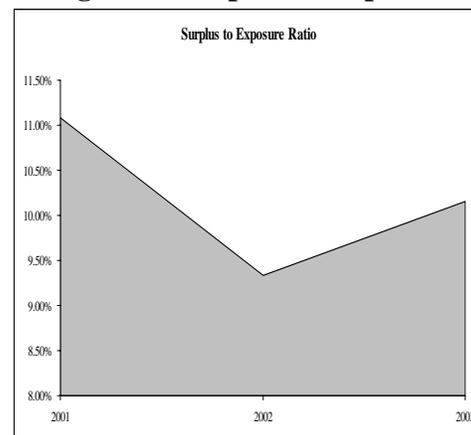


Figure 7. Surplus to Exposure



As Figure 6 shows, the aggregate surplus position, after declining in 2001 and 2002, rose by 2003 to \$121.7 billion. This number reflects reported surplus for all companies in the FHCF; for companies also writing outside of Florida, their surplus must also support those non-Florida risks. While surplus grew by year-end 2003, so too did the aggregate risk exposure. As Figure 7 shows, the result is that by the end of 2003, the Florida property market was being underwritten with a higher leverage ratio than in 2001.

Moving beyond 2003, insurers in this sample reported an aggregate net underwriting gain of \$3.61 billion and an investment gain of \$6.5 billion by the end of the second quarter of 2004, according to statutory statements filed with the NAIC. Obviously, a large portion of this \$10.1 billion is being used to pay claims resulting from this year's hurricane damage, so year end 2004 surplus gains will likely be modest in aggregate.

These are aggregate numbers; individual company experience varies. Some companies have reported continued surplus gains, others continued declines. Similarly, the income numbers are aggregates as well; a number of companies reported net underwriting losses.

Managing Capacity to Meet Demand

As the challenge of increasing capacity continues, other means of managing exposure risk become important. Reinsurance can be used to reduce an insurance company's exposure risk by transferring some level of the risk to another entity. Alternative Risk markets are being explored. Mitigation efforts can be employed to lessen the likely severity of damage to particular risk exposures resulting from a risk event. In the current market, all of these tools are being used.

Reinsurance

As noted earlier, the FHCF provides a form of reinsurance designed to provide coverage for catastrophic hurricane events. Currently, the FHCF provides coverage of up to \$15 billion in losses above an industry retention level of \$4.5 billion in losses, on a per event

basis. This leaves the industry responsible for losses up to the \$4.5 billion attachment point, some portion of losses between \$4.5 and \$15 billion, and as well beyond the \$15 billion exhaustion point.

For losses below or above the FHCF layer of coverage, a number of insurers writing in Florida use the private reinsurance market. In confidential reports to the OIR, insurers report their reinsurance plans. While it is difficult to generalize, a review of these plans reveals that a number of insurers maintain “first layer” reinsurance programs for losses below the FHCF attachment point. For this hurricane season, as an example, reinsurers are estimating approximately \$5 billion in losses in Florida. Somewhat fewer companies use reinsurance to limit their risk exposure above the FHCF upper limit. Much of this is written on a single event basis, with some offering a reinstatement provision, although a few insurers use third and even fourth event programs.

Maintaining a reinsurance program for catastrophic losses poses another challenge to insurers. Reinsurance rates and availability have proven to be quite volatile, especially since Andrew. The September 11, 2001 terrorist attacks, along with other global natural disasters, have had the effect of causing rates to rise. This hurricane season is not expected to cause a major increase in rates, but certainly did nothing to help the recent national trend toward rate softening.

Alternative Risk Transfer and Catastrophe Bonds

Since Andrew, another avenue for risk transfer has emerged. Some insurers have sought risk-bearing capacity in the catastrophe bond market. In this market, an insurer establishes a Special Purpose Entity (SPE) that offers reinsurance to the insurer, for which a premium is paid. At the same time, the SPE issues notes to the market that promise to pay unless a specific catastrophic event of a certain size occurs. Proceeds from the note sale are combined with the reinsurance premium paid by the insurer to purchase a portfolio of high-quality debt securities that are held in trust by the SPE. Should no qualifying catastrophic event occur the trust portfolio is used to pay the note holders; if a qualifying event does occur, the trust portfolio is used to pay claims.

This market originated after Andrew, as insurers seeking risk protection were not satisfied by the reinsurance market. Florida hurricane risk was one of the original catastrophic risks transferred in this market. It has since expanded to earthquake risk, European and Asian wind risk, and more recently to business interruption protection resulting from disasters both natural and man-made. To date, no catastrophe bonds have yet been triggered to pay claims.

As the reinsurance market for Florida hurricane risk moderated, and the FHCF expanded its range, Florida hurricane risk became a smaller percentage of the risks covered in this market. As of this year, only a few deals are outstanding that cover Florida hurricane, although a major property insurer just completed a transaction that includes Gulf coast hurricane.

Mitigation

Changes in building codes in defined high-risk areas are helping to ensure that newly constructed properties are more resistant to hurricane damage than was true in the past. These codes are an aid in managing exposure risk moving forward, but a substantial portion of the property in Florida was built prior to their implementation.

A number of initiatives initiated by the State of Florida and coordinated by the Department of Community Affairs (www.dca.state.fl.us), involve state government, local governments, research centers, the private sector, and individual property owners. Details of all of the programs are outside the scope of this report, but are aimed at protecting existing property from damage due to disasters, including hurricanes.

As part of its mandate, the FHCF provides funding for mitigation efforts. In the current budget cycle, \$10 million was allocated to these efforts.

Among the many mitigation efforts is the International Hurricane Center at Florida International University (<http://www.ihrc.fiu.edu>). The Center houses four laboratories:

- Laboratory for Coastal Research
- Laboratory for Social and Behavioral Research
- Laboratory for Insurance, Financial and Economic Research
- Laboratory for Structural Mitigation Research.

The structural mitigation research laboratory is actively involved in work related to effective risk mitigation for existing property. A primary example of their work is the “Hurricane Loss Reduction for Residences and Mobile Homes in Florida Project” which focuses on eliminating barriers to upgrading existing mobile homes, determining the feasibility of recycling older mobile homes, and testing mitigation methods for site-built housing.

Additionally, the Federal Alliance for Safe Homes (formerly the Florida Alliance for Safe Homes) actively advocates a number of mitigation programs and efforts, including low-cost do it yourself type tools. Their Web site (www.flash.org) is a useful guide to homeowners and government bodies interested in mitigation. The insurance and reinsurance industry have created the Institute for Home and Business Safety (www.ibhs.org) that also focuses on the effectiveness of disaster mitigation efforts and building codes for a number of natural disaster risks, especially including hurricanes.

Mitigation efforts have also been encouraged through rate discounts on property insurance for specific mitigation methods in particular high-risk areas. As many of these mitigation efforts are relatively new, their effectiveness is still being determined. A comprehensive review of the costs and benefits will ultimately help determine the best use of mitigation dollars for purposes of managing the state’s aggregate hurricane exposure risk.

One concern worth exploring is the degree to which these building codes are being uniformly enforced. Evidence does exist that some local building code enforcement programs may not be strictly enforcing existing codes; and unfortunately, some of these programs are in coastal, high-risk areas.

Moving Forward

The storms this season and the resulting impact on the property insurance market demonstrate the strength of the post-Andrew insurance market. They also raise some issues to be addressed moving forward.

As of January 13, 2005, the 4 storms have resulted in over 1.6 million claims resulting in around \$21.5 billion in expected gross losses. Of this \$21.5 billion, about \$1.65 billion is recoverable from deductibles, estimated FHCF payouts are around \$ 2.6 billion, and private market reinsurance payments are estimated to be around \$5 billion. This leaves a net retained loss to the industry of about \$11.2 billion, which will come from income this year and out of capital and surplus, which had grown in 2002 and 2003. As mentioned earlier, to date only one company has been declared insolvent, although two others will be recapitalizing from their parent company.

Citizen's experience to date accounts for about 7% of the reported claims and around 8.5% of the overall gross losses reported as of January 13, 2005. The FHCF is expected to finish the year with a substantial cash balance after paying its claims.

The Contract and Deductibles

At the heart of many of the open issues evident in the Florida property market issues is a fundamental mismatch between the risk horizon faced by a property owner and the nature of the insurance contract. The property owner has a long term, multi-year horizon, yet the traditional property policy is a one-year contract. In most markets, this is not an issue as the policy is renewed every year, with whatever adjustments to premiums, endorsements or coverage levels are warranted. This works to provide the insurer with some risk protections, and to provide the insured with the opportunity to reconsider their risk exposures as well. At the same time, renewals are generally not a major source of uncertainty for the insured as the nature of the risk exposure from one year to the next is largely the same. That has not been the case in Florida since Andrew.

Annually, property owners have faced substantial uncertainty regarding insurance availability and pricing. The advent of a period of rate increases, along with the growth of Citizen's and the existence of the FHCF have reduced this uncertainty quite a bit, but some still remains.

As it would be logical to assume that property owners would express a demand for multi-year coverage policies, it would not seem to be out of the actuarial, technological or contractual expertise of the industry to offer some type of multi-year coverage.

Currently, insurers are beginning to avail themselves of that type of cover in the reinsurance market and, in some instances, in the catastrophe bond market.

Many property owners were surprised to find out that each storm required, contractually, the payment of a separate deductible. While these indeed were separate events, treating them as such is again at odds with the nature of the risk management decision facing a property owner. From their perspective, the risk is that the property, by being in Florida and immovable, is subject to hurricane risk every year whether from one storm or several. While the current year activity has about a 1 in 250 to 1 in 300 event probability, in fact it could happen again.

A number of insurers are waiving the multiple deductibles in instances where they could have been applied. Part of the motivation is simply that it may be difficult or impossible for an adjuster to determine precisely which storm caused what damage. Recently, the Florida offered reimbursements to those policyholders who paid a multiple deductible. Again it would seem that the insurance industry could design and effectively price a policy that covered a season or seasons, rather than a policy driven by separate events.

The percentage deductible was also an unwelcome surprise for many policyholders. Paying out 2% or 5% of the value of the property can be difficult, especially after a storm when there are a number of other expenses incurred not covered by insurance or when, in some cases no income is being earned as businesses are closed. A return to a flat dollar deductible of \$500 or \$1,000 would lessen the difficulties associated with the much higher deductibles; although it would come at a cost. Premiums would be expected to rise, as the additional possible losses are transferred back to the insurer. Moreover, this could exacerbate the ongoing capacity challenge, as insurers' loss exposures for existing properties would increase.

Providing for Deductibles

Another alternative would be to keep the percentage deductible, but also create an attendant product, either through the insurer or in conjunction with a depository financial institution that would create a "deductible fund" that the policyholder would own. Instead of paying a higher premium throughout the life of the risk exposure as would occur with the flat dollar deductible, additional premiums would be paid into these deductible fund accounts and allowed to accumulate and earn interest.

At some point, the deductible would be funded, and only maintenance contributions might be required to maintain the appropriate amount as property values appreciated. Should a hurricane cause significant damage prior to the deductible being fully funded, a below market interest rate "policy loan" could be added.

FHCF and other Public/Private Partnership Possibilities

From the insurers' perspective, two issues seem to be dominant. Even prior to this year's storms, the private market simply would not underwrite risks in certain primarily coastal areas. The risk/return profile was not acceptable, and as a result Citizen's has remained a bigger part of the overall market than anyone intended or desired.

Current proposals to lower the FHCF retention level, as well as to provide for progressively lower levels for multiple storms in a season, may serve to reduce the exposure level for hurricane events in these areas to a level that brings the risk/return level back into balance. While some insurers use the private reinsurance market to obtain risk reduction for losses under the FHCF retention level, many others do not, feeling it may not be cost effective.

Lowering the FHCF retention level implicitly provides this additional risk transfer at a rate substantially below the private reinsurance market. This has the dual advantage of providing coverage to policyholders below the market rate and strengthening the financial position of the insurers for a given rate structure. This in turn could open the possibility of some insurers using this flexibility to think about risk transfer through private reinsurance above the FHCF's upper exhaustion point. This again provides protection to the policyholder and risk transfer to avoid insolvency for the insurer.

It is important to point out however, that simply lowering retention points may not be a panacea for capacity in the Florida market. While it is true that under current market conditions, lowering the retention level has the effect of providing lower levels of reinsurance at below market rates, there are costs.

Initially, Fund reserve balances would presumably be drawn upon more frequently. In the event of a major catastrophe, fund balances would more quickly have to be supplemented with market borrowing, which ultimately is paid for via assessments to the policyholder. The overall cost of lowering retention levels should consider this "second order" cost as part of the decision.

Moreover, at some point, the Fund could easily displace the private reinsurance market as a source for first layer reinsurance, with policyholders ultimately responsible for an even lower layer of risk transfer than is currently the case. While this is ultimately a public policy decision, the possible crowding out effects should be carefully considered, as outside private capital has historically been an important part of the hurricane risk management mix.

The second ongoing issue for insurers is the continuing struggle to grow capacity to provide coverage in a growing market. Gains made to capital and surplus over the last two years prior to this year's storms still resulted in the industry writing at a higher level of leverage (surplus to exposure) than in 2001. The proposed changes to the FHCF structure could be of help, as they would result in a lower net exposure for the risks assumed.

The FHCF and the emergence of Citizen's Property Insurance from the previous Joint Underwriting Authorities were designed to provide continued affordable hurricane coverage to the property owners of Florida. By design, the Florida structure relies on the private market and Citizen's for "first layer" coverage and the FHCF for catastrophic second layer coverage.

The 2004 season showed that the FHCF worked as it was intended. Even though it was originally designed to provide a layer of catastrophic protection in the event of the return of another Andrew-like hurricane, it worked well in the face of four, individually less powerful storms. The resulting issues of multiple limits and deductibles are being addressed, but the basic structure of the second layer protection proved itself.

Issues within the first layer of protection remain. Citizen's has not been able to depopulate as intended, and their performance in settling and administering claims has received quite a bit of criticism. The private market does not appear to be a competitive factor in a number of areas within the Florida market, and as a result, Citizen's book of "high risk" exposures remains.

Absent the ability to establish meaningful reserves on a tax-deferred basis, like the property insurers in Europe for example, there are only a few risk management tools available to private insurers for coping with the potentially ruinous impact of even this first layer of hurricane risk.

Even though efforts to establish the ability for insurers to create these reserves continue at the national level, it remains important that Florida seek its own solutions. One possibility is a public/private arrangement through a quota share reinsurance structure.

Conceptually, property policies, especially residential property policies, could be mandated to include wind cover. The private market insurers would offer these policies. Then, either through Citizen's or some other dedicated wind capacity facility, quota share reinsurance could be made available to the private market insurers on an aggregate "book of business" basis for the wind risk only.

That is, the private insurer could decide how much of their aggregate wind risk they wished to maintain, and how much they wanted to cede to the facility. All policy administration and claims adjustment would remain with the private insurers. The reinsurance facility collects reinsurance premiums and pays losses according to the specific quota share contracts.

This arrangement offers the possibility of several economically important advantages over the current first layer structure. Initially, resources would not be expended by the facility for claims processing, adjusting, and settlement. Rather, these functions remain within the proven abilities of the private market. This also allows the facility to use its financial resources to provide additional capacity, not redundant administration.

By establishing the quota share on an aggregate basis, rather than by specific exposure, the adverse selection problem for the facility is mitigated. At the same time, the aggregate basis allows the private insurer to manage their wind risk on a more diversified basis than may be available through just direct writing.

It would be important to establish some minimum retention level (e.g. 10% for example) for private insurers within this program. Retaining some level of their aggregate exposure should provide the necessary incentives for the private writers to maintain underwriting discipline as well as to provide an alignment of public and private interests in the processing of loss claims.

Mitigation and building code enforcement credits would ideally be an integral part of the ratemaking process in this structure. As well, presuming the wind facility has tax-exempt status; the reinsurance rate offered would include a factor for a truly meaningful reserve buildup for the first layer exposure.

In the event of hurricane losses, the private market and the wind facility would share in the retained losses until the retention threshold levels established for the FHCF have been reached, at which point the proven second layer protection structure is activated.

Other Tools

It is frequently easier to gain capacity from new entrants rather than by growing capital and surplus within the existing firms in the market. The OIR is working to bring new entrants with new capacity to the market.

Millions of dollars are earmarked for hurricane mitigation initiatives. Successful mitigation also serves to reduce the risk exposure for a given stock of real property, allowing available capital to support more coverage. If not currently underway, a coordinated audit on the effectiveness of these efforts during the recent spate of storms should be undertaken to ensure they are providing the most cost-effective solutions and if not, to identify other possibilities.

Catastrophe Reserving

Another way to address the capacity challenge would be to support the introduction of legislation to create a national pre-tax catastrophe reserve for property insurers who write that business. Unlike most other economies, the US system has not historically allowed insurers to create a reserve account for specific risks that have a probabilistic chance of occurring in the future.

A proposal developed by the National Association of Insurance Commissioners Property/Casualty Catastrophe Working Group, chaired by Florida was finalized over 1999-2000 and offers a workable plan.

An insurance company builds up a reserve over time on a pre-tax basis using a specified formula. If, after some time, the reserve is unused or the company ceases writing that business, the funds are released from the reserve and appropriate income tax is paid.

The advantage is that it is a market solution funded by the insurance companies themselves that provides yet another layer of capital for the absorption of catastrophic losses before government at the state or federal level incurs the financial responsibility of catastrophic loss. The disadvantage is that it requires a change to the Federal tax code.

When originally developed there was limited support for the plan. Some states felt it amounted to a subsidy from their policyholders to those living in catastrophe prone areas. Many in industry liked the idea, although some were concerned about capital being “stranded,” while others were skeptical that the US Federal Tax Code could be changed.

Since that time, a number of states have suffered through the consequences of catastrophic events and seen the result in their insurance markets. The industry has suffered through some bad underwriting years and seen periods of unexpectedly high losses not only from hurricanes, but also from earthquake, fires, tornados and ice storms.

On the other hand, the International Accounting Standards Board has recently adopted a rule (IFRS 4) that would expressly prohibit these sorts of deductions for catastrophic reserves. The rule has an effective date of January 1, 2005. While the US has not formally adopted International Accounting Standards (IAS), there is a move toward convergence. This could make the creation of these types of reserve deductions more difficult to adopt, although at present it is not clear how many nations that currently use pre-tax reserves are planning on adopting this part of the accounting standard.

National Catastrophe Fund

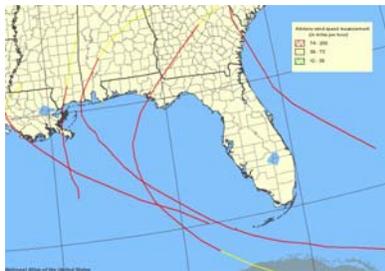
A different method, relying on the federal government would be the creation of a national catastrophe fund. Various proposals and legislation to create such a fund have circulated over the last few years, but natural as well as man-made catastrophes occurring within the recent past have rekindled the discussion. Given all these factors, the timing may well be right to support legislation for this kind of reserve fund during the upcoming Congress.

Currently, the Catastrophe Insurance Working Group of the National Association of Insurance Commissioners, chaired by Florida, is working project that combines elements of both of these tools and expects to be working with the National Conference of Insurance Legislators (NCOIL) to move these plans forward.

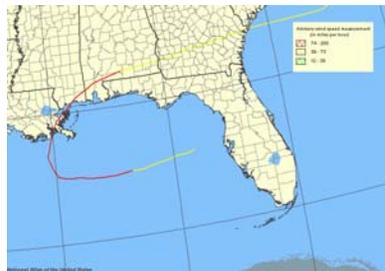
Appendix 1

Hurricane History

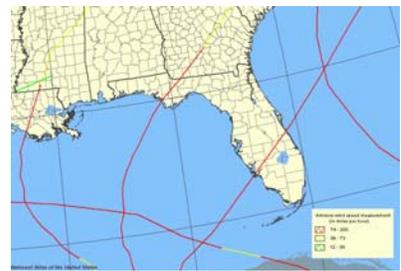
Major Hurricane Landfalls, by Decade 1850-2000



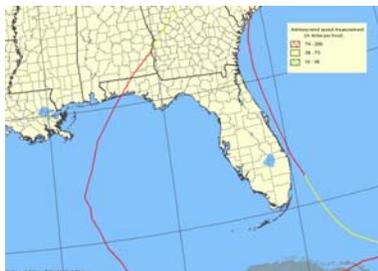
1850s



1860s



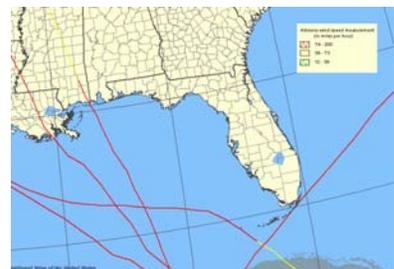
1870s



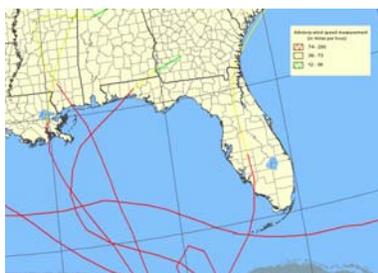
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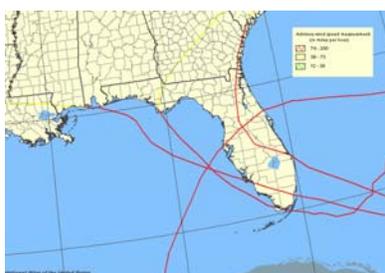
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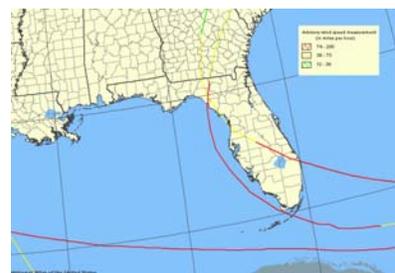
1900s



1910s



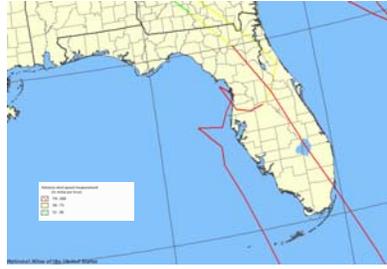
1920s



1930s



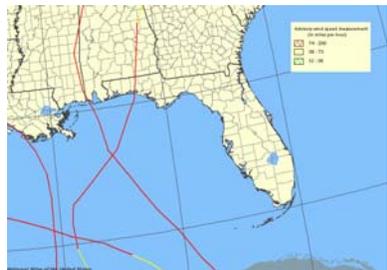
1940s



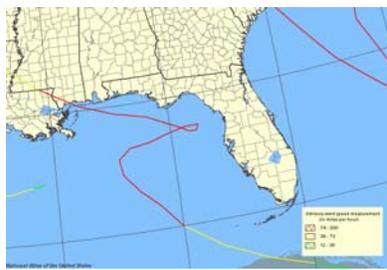
1950s



1960s



1970s



1980s



1990s

Source: National Oceanic and Atmospheric Administration, www.noaa.gov

Appendix 2

Population Growth and Tropical Storm Activity in Florida By County

Population Growth, 1990-2000

	Percentage change in Population, 1990-2000	% Of Population change due to migration
State Average	23.5	85.3
County		
Alachua	20	67.3
Baker	20.4	60.2
Bay	16.7	61.8
Bradford	15.9	81.4
Brevard	19.4	88.6
Broward	29.3	88.5
Calhoun	18.2	96.4
Charlotte	27.6	100
Citrus	26.3	100
Clay	32.9	76.8
Collier	65.3	92.8
Columbia	32.6	84.9
Desoto	35	86.9
Dixie	30.6	91.1
Duval	15.7	43.2
Escambia	12	50.4
Flagler	73.6	100
Franklin	23.3	100
Gadsden	9.7	24.6
Gilchrist	49.3	94.9
Glades	39.3	100
Gulf	15.9	100
Hamilton	21.9	80.9
Hardee	38.2	67.5
Hendry	40.5	64.7
Hernando	29.4	100
Highlands	27.7	100
Hillsborough	19.8	62.6
Holmes	17.7	100
Indian River	25.2	100
Jackson	13	87.8
Jefferson	14.2	80
Lafayette	25.9	83.7
Lake	38.4	100
Lee	31.6	99.1

County	Percentage change in Population, 1990-2000	% Of Population change due to migration
Leon	24.4	67.1
Levy	32.9	99.6
Liberty	26.1	82.6
Madison	13.1	81.1
Manatee	24.7	100
Marion	32.9	100
Martin	25.6	100
Miami-Dade	16.3	55.9
Monroe	2	0
Nassau	31.2	78.4
Okaloosa	18.6	51.4
Okeechobee	21.2	72.3
Orange	32.3	69.2
Osceola	60.1	85.3
Palm Beach	31	96.1
Pasco	22.6	100
Pinellas	8.2	100
Polk	19.4	79.1
Putnam	8.2	76.7
St. Johns	46.9	94.9
St. Lucie	28.3	92.1
Santa Rosa	44.3	80.9
Sarasota	17.3	100
Seminole	27	71.8
Sumter	68.9	100
Suwanee	30.1	99.8
Taylor	12.5	79.3
Union	31.1	100
Volusia	19.6	100
Wakulla	61	91.5
Walton	46.3	97.3
Washington	24	94

Shaded cells identify those counties with population growth rates greater than the state average

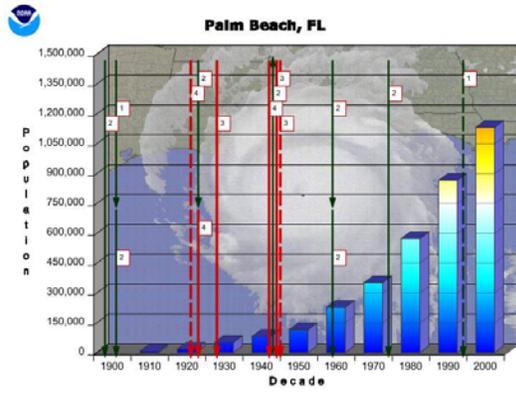
Data: U.S. Bureau of the Census

Population Growth and Tropical Storm Activity By Region

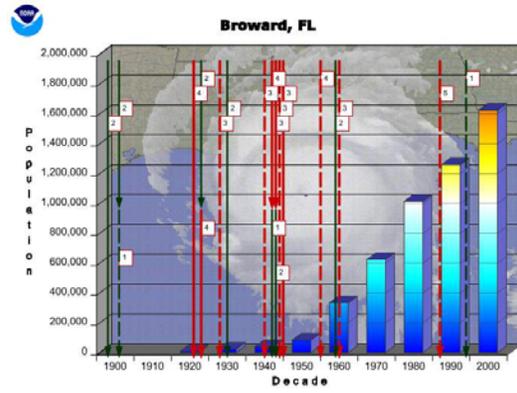
The following tables present the population growth, by decade, for Coastal Counties in Florida along with Historical Hurricane Information. The Counties are grouped by region.

The charts and data are from NOAA's Coastal Service Center's Historical Hurricane Track Population Tool available at <http://hurricane.csc.noaa.gov/hurricanes/pop.jsp>.

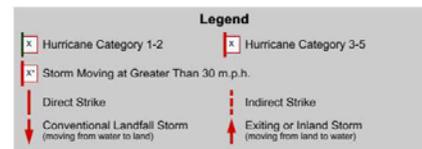
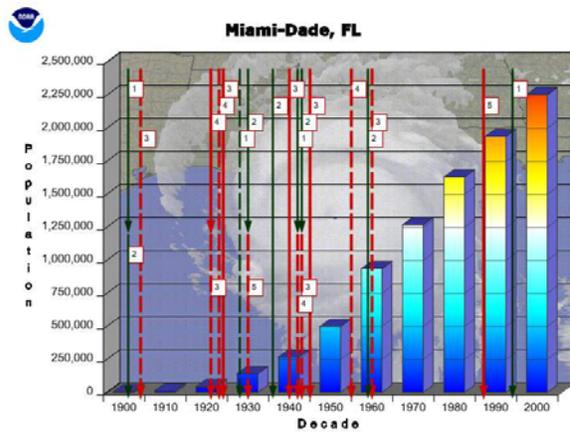
Southeast Counties



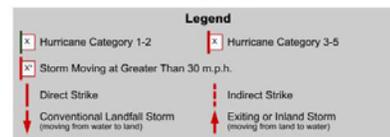
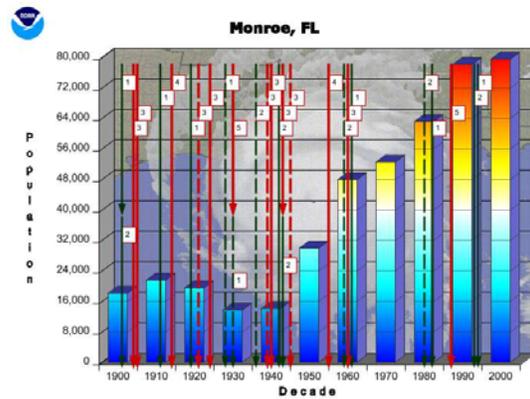
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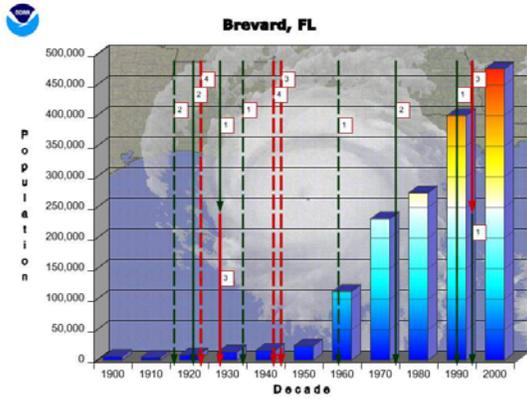


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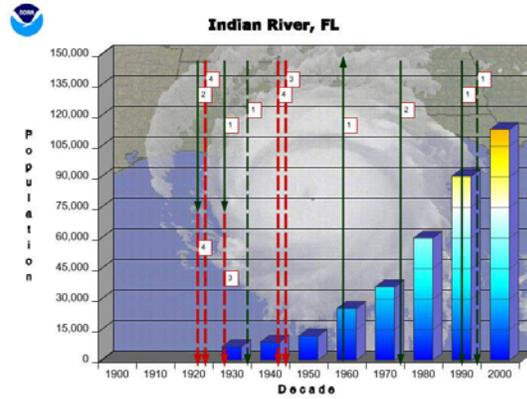


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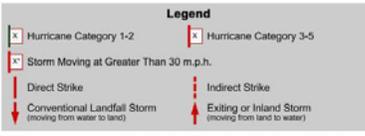
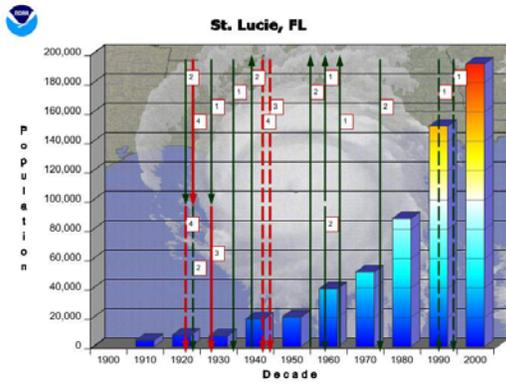
East Central Counties



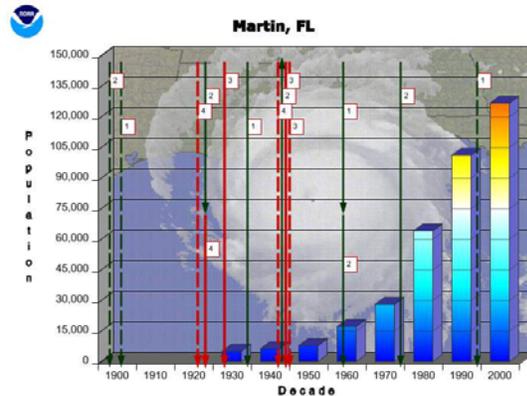
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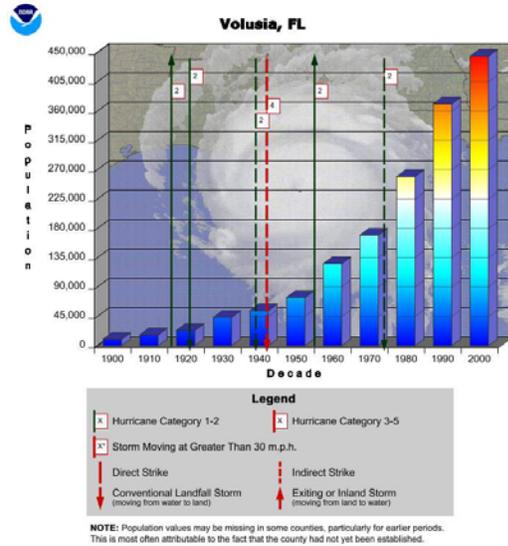
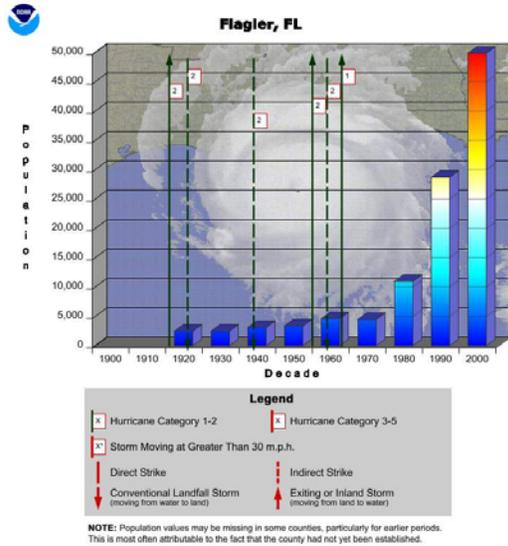
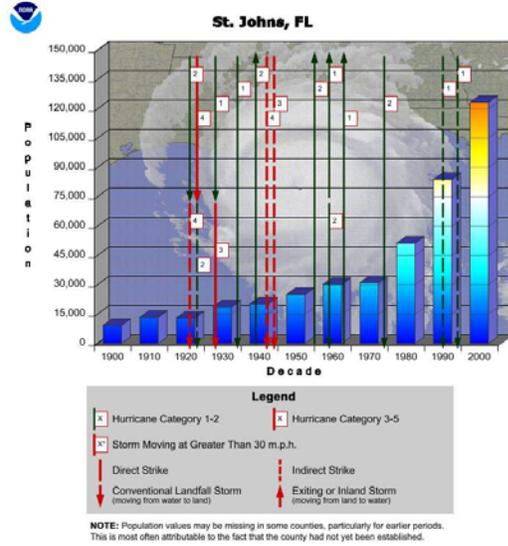
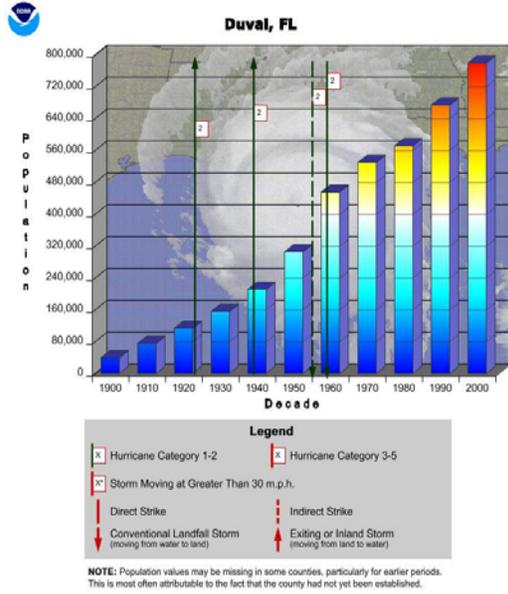


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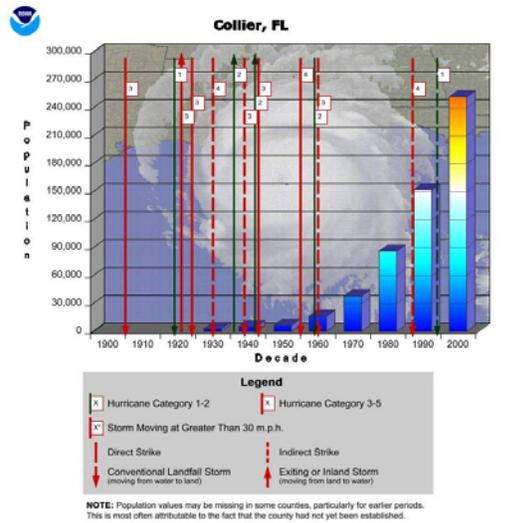
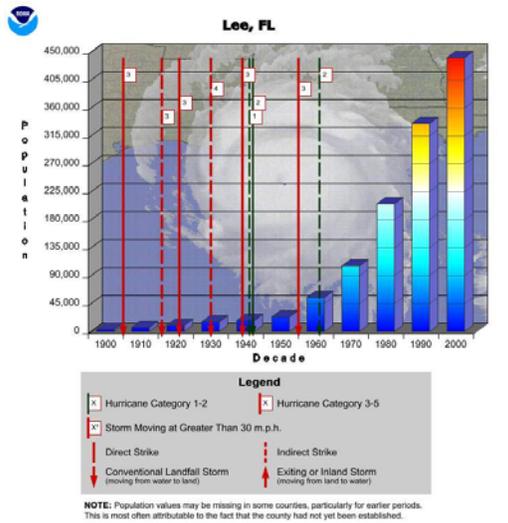
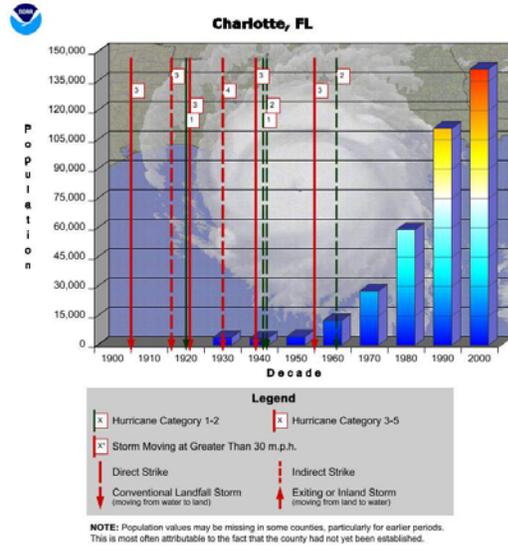
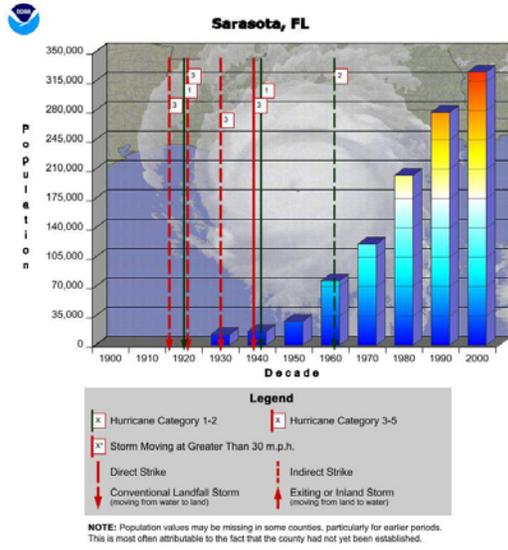


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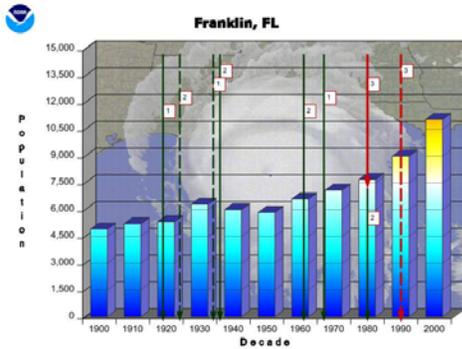
North East Counties



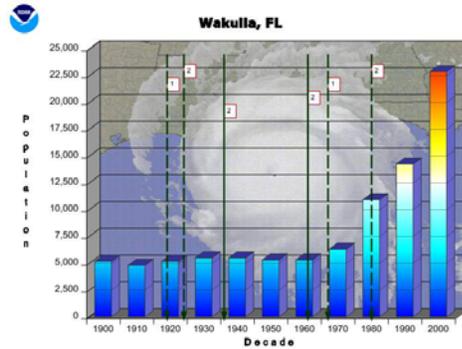
South Gulf Counties



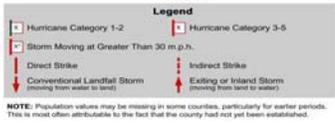
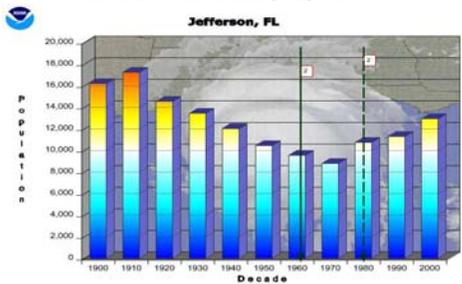
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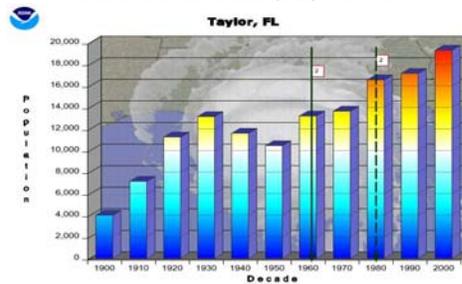
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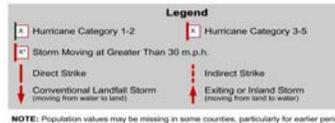
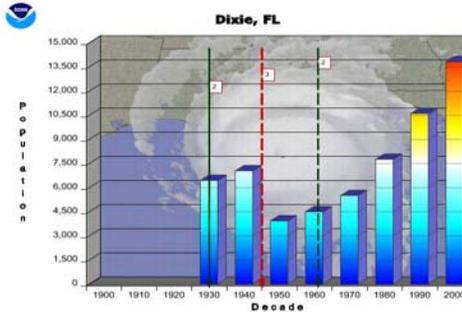
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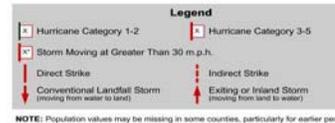
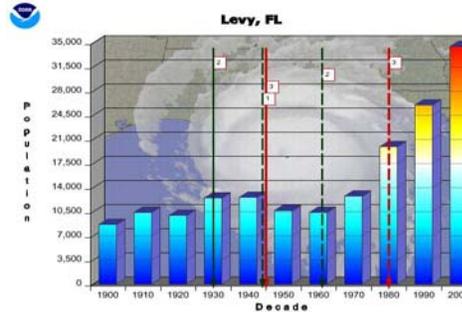
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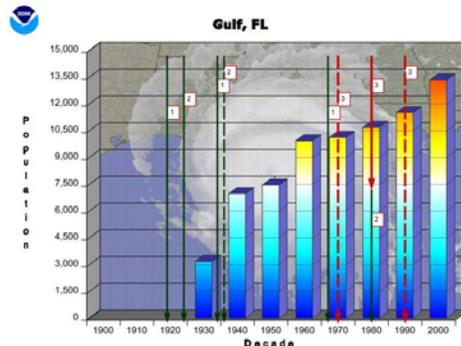
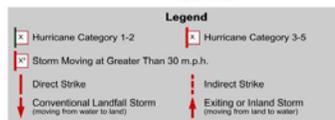
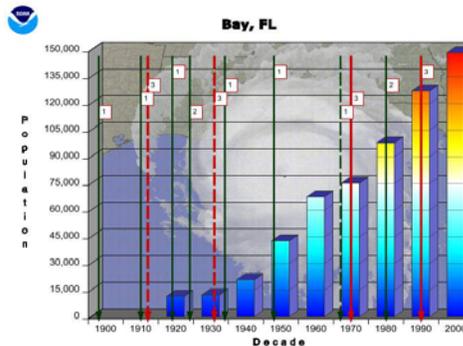
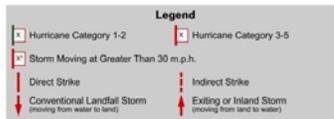
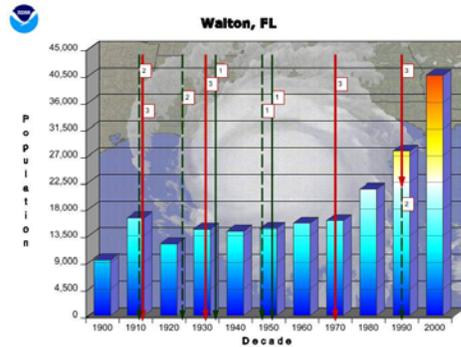
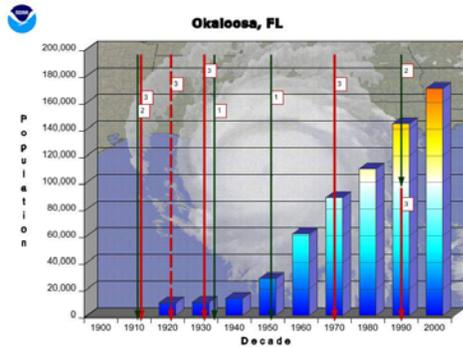
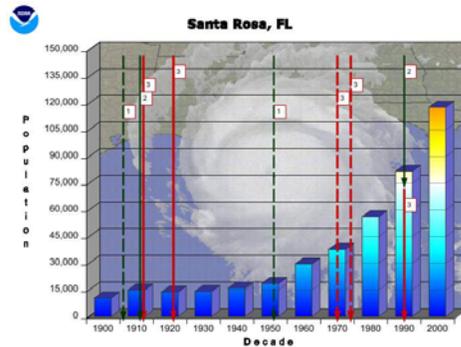
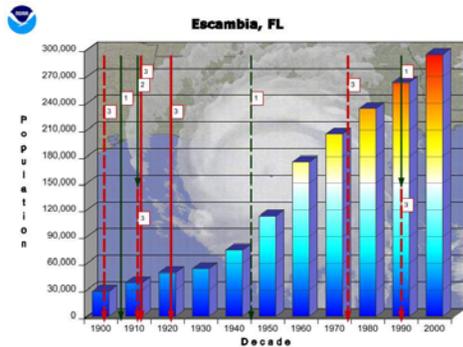


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Northwestern Gulf Counties



Appendix 3

Premium Example Analysis

Average Homeowners Premium Analysis By County and Region

HO-3 - \$75,000 FRAME STRUCTURE - \$500 ALL PERILS DEDUCTIBLE

Frame structure insured for replacement cost at \$75,000 with a single \$500 deductible for all Section I perils combined; Other structures insured at 10% of the amount of insurance on the structure; Contents insured for replacement cost at 50% of the amount of insurance on the structure; Loss of Use insured at 20% of the amount of insurance on the structure; \$100,000 Liability coverage; \$1,000 Medical Expense; Ordinance or Law coverage provided at 25% of the amount of insurance on the structure; I.S.O. Protection Class 4; I.S.O. HO-3 Policy Type. The rates should be ANNUAL RATES for NEW BUSINESS for a 40 YEAR OLD INSURED with NO CLAIMS IN THE PAST 3 YEARS. The structure is a 5 YEAR OLD STRUCTURE.

COUNTY	Average County Risk Rating	Without Citizens			Citizens Property Ins Corporation
		Average Premium	Std. deviation	Range	
ALACHUA	1.00	\$481	\$84	\$397	\$736
BAKER	1.00	\$523	\$95	\$363	\$749
BAY	2.12	\$841	\$339	\$1,601	\$1,261
BRADFORD	1.00	\$488	\$59	\$186	\$762
BREVARD	7.21	\$826	\$209	\$859	\$1,242
BROWARD	13.26	\$1,537	\$327	\$1,035	\$2,190
CALHOUN	1.00	\$563	\$97	\$340	\$752
CHARLOTTE	8.94	\$946	\$175	\$707	\$1,236
CITRUS	1.75	\$719	\$151	\$616	\$1,203
CLAY	1.00	\$477	\$68	\$234	\$740
COLLIER	12.08	\$1,177	\$361	\$1,396	\$1,932
COLUMBIA	1.00	\$515	\$74	\$269	\$736
DADE	16.00	\$1,900	\$379	\$1,384	\$2,624
DESOTO	4.00	\$643	\$111	\$414	\$872
DIXIE	1.25	\$652	\$144	\$527	\$1,142
DUVAL	1.13	\$521	\$90	\$343	\$775
ESCAMBIA	5.44	\$888	\$343	\$1,504	\$1,583
FLAGLER	3.00	\$614	\$100	\$423	\$861
FRANKLIN	1.60	\$894	\$329	\$1,495	\$1,332
GADSDEN	1.00	\$550	\$96	\$340	\$752
GILCHRIST	1.00	\$518	\$81	\$314	\$740
GLADES	5.00	\$760	\$132	\$531	\$1,186
GULF	1.67	\$848	\$333	\$1,563	\$1,307
HAMILTON	1.00	\$524	\$78	\$269	\$871
HARDEE	3.00	\$630	\$102	\$414	\$872
HENDRY	5.50	\$747	\$114	\$486	\$1,186
HERNANDO	2.43	\$779	\$179	\$763	\$1,391
HIGHLANDS	3.45	\$613	\$108	\$463	\$872
HILLSBOROUGH	3.74	\$795	\$172	\$618	\$1,049
HOLMES	1.00	\$568	\$103	\$340	\$752
INDIAN RIVER	10.63	\$1,156	\$317	\$1,359	\$1,813
JACKSON	1.00	\$560	\$100	\$340	\$752
JEFFERSON	1.00	\$605	\$118	\$467	\$892
LAFAYETTE	1.00	\$540	\$85	\$312	\$751

COUNTY	Average County Risk Rating	Average Premium	Std. deviation	Range	Citizens Property Ins Corporation
LAKE	1.10	\$516	\$86	\$379	\$913
LEE	9.10	\$964	\$194	\$672	\$1,260
LEON	1.00	\$485	\$82	\$294	\$712
LEVY	1.70	\$659	\$150	\$599	\$1,040
LIBERTY	1.00	\$565	\$101	\$351	\$838
MADISON	1.00	\$531	\$89	\$312	\$751
MANATEE	7.80	\$905	\$195	\$831	\$1,164
MARION	1.00	\$499	\$95	\$386	\$736
MARTIN	13.08	\$1,188	\$309	\$1,359	\$2,153
MONROE	18.46	\$2,226	\$734	\$2,185	\$3,235
NASSAU	1.00	\$548	\$111	\$402	\$892
OKALOOSA	4.89	\$865	\$355	\$1,599	\$1,400
OKEECHOBEE	4.33	\$739	\$105	\$393	\$1,001
ORANGE	1.54	\$551	\$107	\$468	\$826
OSCEOLA	2.13	\$560	\$83	\$337	\$823
PALM BEACH	13.51	\$1,432	\$349	\$1,332	\$2,083
PASCO	3.47	\$837	\$303	\$1,383	\$1,391
PINELLAS	7.41	\$876	\$217	\$825	\$1,193
POLK	2.06	\$656	\$119	\$560	\$928
PUTNAM	1.00	\$489	\$65	\$234	\$740
SANTA ROSA	4.80	\$889	\$354	\$1,538	\$1,809
SARASOTA	8.97	\$908	\$182	\$696	\$1,198
SEMINOLE	1.27	\$555	\$107	\$452	\$759
ST. JOHNS	1.67	\$567	\$125	\$472	\$892
ST. LUCIE	10.47	\$1,143	\$302	\$1,304	\$1,738
SUMTER	1.22	\$523	\$87	\$352	\$677
SUWANNEE	1.00	\$528	\$86	\$312	\$836
TAYLOR	1.00	\$652	\$136	\$475	\$904
UNION	1.00	\$513	\$73	\$261	\$749
VOLUSIA	2.60	\$646	\$110	\$387	\$872
WAKULLA	1.00	\$747	\$200	\$910	\$1,282
WALTON	3.09	\$847	\$347	\$1,601	\$1,279
WASHINGTON	1.40	\$577	\$104	\$350	\$838

Correlation Matrices

Average Premiums, Risk Rankings, Ex-Citizens

Regions
All
Counties

	<i>Average premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rank</i>
Average premium	1.00			
Std deviation	0.88	1.00		
Range	0.78	0.97	1.00	
Average Risk Rank	0.93	0.75	0.65	1.00

Atlantic
Coastal
Counties

	<i>Average premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rank</i>
Average premium	1.00			
Std deviation	0.94	1.00		
Range	0.84	0.97	1.00	
Average Risk Rank	0.96	0.98	0.94	1.00

Gulf
Coastal
Counties

	<i>Average premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rank</i>
Average premium	1.00			
Std deviation	0.85	1.00		
Range	0.62	0.93	1.00	
Average Risk Rank	0.86	0.60	0.36	1.00

Inland
Counties

	<i>Average premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rank</i>
Average premium	1.00			
Std deviation	0.80	1.00		
Range	0.72	0.91	1.00	
Average Risk Rank	0.91	0.64	0.63	1.00

Regression Estimates on Average Premium, Std. Deviation and Range Using Average Risk Rank and Coastal Dummy Variables

Excluding Monroe County

<i>Dependent Variable</i>	Average Premium		
<i>Regression Statistics</i>			
R Square	0.881		
Adjusted R Square	0.875		
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	462.153	18.117	25.510
Average Risk Rank	58.080	3.984	14.580
Gulf	117.922	28.554	4.130
Atlantic	100.507	42.919	2.342

<i>Dependent Variable</i>	Std. deviation		
<i>Regression Statistics</i>			
R Square	0.690		
Adjusted R Square	0.675		
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	71.409	10.712	6.666
Average Risk Rank	12.643	2.355	5.368
Gulf	113.759	16.883	6.738
Atlantic	62.054	25.377	2.445

<i>Dependent Variable</i>	Range		
<i>Regression Statistics</i>			
R Square	0.606		
Adjusted R Square	0.587		
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	280.853	53.835	5.217
Average Risk Rank	45.038	11.838	3.805
Gulf	541.745	84.851	6.385
Atlantic	278.513	127.537	2.184

Statistically significant at 5%
 Statistically significant at 10%

Mobile Home Average Premium Analysis By County and Region

MH (HO-3) – MOBILE HOME - \$500 ALL PERILS DEDUCTIBLE

Mobile Home insured for replacement cost at \$25,000 with a single \$500 deductible for all Section I perils combined; Other structures insured at 10% of the amount of insurance on the mobile home; Contents insured for replacement cost at 50% of the amount of insurance on the mobile home; Loss of Use insured at 20% of the amount of insurance on the mobile home; \$100,000 Liability coverage; \$1,000 Medical expense; I.S.O. Protection Class 4. The rates should be ANNUAL RATES for NEW BUSINESS for a 40 YEAR OLD INSURED with NO CLAIMS IN THE PAST 3 YEARS. The structure is a 5 YEAR OLD STRUCTURE, TIED DOWN, and located IN PARK.

COUNTY	Average Risk Rating	Without Citizens			Citizens Property Ins Corporation
		Average Premium	Std Deviation	Range	
ALACHUA	1.00	\$369	\$111	\$386	\$711
BAKER	1.00	\$365	\$113	\$386	\$727
BAY	2.12	\$474	\$127	\$471	\$955
BRADFORD	1.00	\$366	\$113	\$386	\$727
BREVARD	7.21	\$492	\$193	\$578	\$695
BROWARD	13.26	\$820	\$282	\$1,209	\$1,081
CALHOUN	1.00	\$425	\$112	\$427	\$955
CHARLOTTE	8.94	\$507	\$155	\$502	\$727
CITRUS	1.75	\$428	\$129	\$423	\$727
CLAY	1.00	\$376	\$153	\$532	\$711
COLLIER	12.08	\$554	\$220	\$810	\$727
COLUMBIA	1.00	\$365	\$113	\$386	\$727
DADE	16.00	\$793	\$295	\$1,209	\$1,028
DESOTO	4.00	\$391	\$123	\$382	\$727
DIXIE	1.25	\$412	\$115	\$430	\$727
DUVAL	1.13	\$393	\$160	\$532	\$695
ESCAMBIA	5.44	\$474	\$124	\$471	\$955
FLAGLER	3.00	\$415	\$163	\$532	\$695
FRANKLIN	1.60	\$475	\$124	\$471	\$955
GADSDEN	1.00	\$412	\$108	\$427	\$727
GILCHRIST	1.00	\$375	\$121	\$430	\$727
GLADES	5.00	\$484	\$139	\$417	\$1,015
GULF	1.67	\$473	\$126	\$471	\$955
HAMILTON	1.00	\$364	\$113	\$386	\$727
HARDEE	3.00	\$387	\$120	\$382	\$711
HENDRY	5.50	\$485	\$139	\$417	\$1,015
HERNANDO	2.43	\$440	\$139	\$423	\$727
HIGHLANDS	3.45	\$383	\$127	\$382	\$711
HILLSBOROUGH	3.74	\$468	\$133	\$502	\$727
HOLMES	1.00	\$416	\$107	\$427	\$727
INDIAN RIVER	10.63	\$549	\$257	\$927	\$719
JACKSON	1.00	\$413	\$107	\$427	\$727
JEFFERSON	1.00	\$431	\$112	\$408	\$727
LAFAYETTE	1.00	\$370	\$123	\$430	\$727

COUNTY	Average Risk Rating	Without Citizens			Citizens Property Ins Corporation
		Average Premium	Std Deviation	Range	
LAKE	1.10	\$361	\$114	\$382	\$711
LEE	9.10	\$507	\$150	\$502	\$727
LEON	1.00	\$358	\$113	\$386	\$727
LEVY	1.70	\$422	\$129	\$430	\$727
LIBERTY	1.00	\$430	\$120	\$471	\$955
MADISON	1.00	\$363	\$114	\$386	\$727
MANATEE	7.80	\$502	\$148	\$502	\$727
MARION	1.00	\$362	\$115	\$382	\$711
MARTIN	13.08	\$559	\$298	\$1,145	\$719
MONROE	18.46	\$622	\$373	\$1,134	\$1,652
NASSAU	1.00	\$396	\$159	\$532	\$695
OKALOOSA	4.89	\$475	\$124	\$471	\$955
OKEECHOBEE	4.33	\$412	\$132	\$382	\$711
ORANGE	1.54	\$373	\$118	\$382	\$711
OSCEOLA	2.13	\$373	\$120	\$382	\$711
PALM BEACH	13.51	\$725	\$298	\$1,136	\$1,015
PASCO	3.47	\$450	\$162	\$542	\$727
PINELLAS	7.41	\$511	\$151	\$502	\$727
POLK	2.06	\$376	\$122	\$382	\$711
PUTNAM	1.00	\$378	\$153	\$532	\$711
SANTA ROSA	4.80	\$476	\$125	\$471	\$955
SARASOTA	8.97	\$508	\$154	\$502	\$727
SEMINOLE	1.27	\$372	\$119	\$382	\$711
ST. JOHNS	1.67	\$402	\$160	\$532	\$695
ST. LUCIE	10.47	\$550	\$257	\$927	\$719
SUMTER	1.22	\$362	\$114	\$382	\$711
SUWANNEE	1.00	\$363	\$113	\$386	\$727
TAYLOR	1.00	\$426	\$111	\$408	\$727
UNION	1.00	\$367	\$113	\$386	\$727
VOLUSIA	2.60	\$429	\$159	\$545	\$695
WAKULLA	1.00	\$456	\$124	\$471	\$955
WALTON	3.09	\$473	\$127	\$471	\$955
WASHINGTON	1.40	\$429	\$120	\$471	\$955

**Correlation Matrices for Mobile Home Example
Average Premiums, Risk Rankings, Ex-Citizens**

Regions

All Counties	<i>Average Premium</i>	<i>Std Deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
	Average Premium	1.000		
Std Deviation	0.814	1.000		
Range	0.875	0.966	1.000	
Average Risk Rating	0.876	0.897	0.866	1.000

Gulf Coastal Counties	<i>Average Premium</i>	<i>Std Deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
	Average Premium	1.000		
Std Deviation	0.862	1.000		
Range	0.911	0.982	1.000	
Average Risk Rating	0.899	0.980	0.962	1.000

Atlantic Coastal Counties	<i>Average Premium</i>	<i>Std Deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
	Average Premium	1.000		
Std Deviation	0.845	1.000		
Range	0.865	0.979	1.000	
Average Risk Rating	0.940	0.862	0.849	1.000

Inland Counties	<i>Average Premium</i>	<i>Std Deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
	Average Premium	1.000		
Std Deviation	0.284	1.000		
Range	0.288	0.702	1.000	
Average Risk Rating	0.627	0.359	-0.188	1.000

**Regression Estimates on Average Mobile Home Premium, Std. Deviation
And Range Using Average Risk Rank and Coastal Dummy Variables**

Excluding Monroe County

<i>Dependent Variable</i>		Average Premium		
<i>Regression Statistics</i>				
R Square		0.810		
Adjusted R Square		0.801		
		<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept		357.192	7.804	45.773
Average Risk Ranking		18.376	1.716	10.709
Gulf		33.367	12.299	2.713
Atlantic		45.723	18.487	2.473

<i>Dependent Variable</i>		Std deviation		
<i>Regression Statistics</i>				
R Square		0.899		
Adjusted R Square		0.894		
		<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept		107.176	2.979	35.981
Average Risk Ranking		8.287	0.655	12.652
Gulf		-6.262	4.695	-1.334
Atlantic		52.392	7.057	7.425

<i>Dependent Variable</i>		Range		
<i>Regression Statistics</i>				
R Square		0.829		
Adjusted R Square		0.820		
		<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept		355.672	16.096	22.097
Average Risk Ranking		33.475	3.539	9.458
Gulf		-16.294	25.369	-0.642
Atlantic		205.953	38.131	5.401

 Statistically significant at 5%
 Statistically significant at 10%

Condominium Average Premium Analysis By County and Region

HO-6 – CONDO IN A FRAME BUILDING - \$500 ALL PERILS DEDUCTIBLE

Condominium unit in a frame building with six units; Contents insured for replacement cost at \$25,000 with a single \$500 deductible for all Section I perils combined; Loss of Use insured at 40% of the amount of insurance on the contents; \$100,000 Liability coverage; \$1,000 Medical Expense; I.S.O. Protection Class 4; I.S.O. HO-6 Policy Type. The rates should be ANNUAL RATES for NEW BUSINESS for a 40 YEAR OLD INSURED with NO CLAIMS IN THE PAST 3 YEARS. The structure is a 5 YEAR OLD STRUCTURE.

COUNTY

	Average	Std deviation	Range	Average Risk Rating	Citizens Property Ins Corporation
ALACHUA	\$191	\$55	\$194	1.00	\$335
BAKER	\$199	\$51	\$190	1.00	\$335
BAY	\$251	\$64	\$295	2.12	\$420
BRADFORD	\$197	\$54	\$197	1.00	\$335
BREVARD	\$248	\$47	\$198	7.21	\$428
BROWARD	\$397	\$99	\$364	13.26	\$643
CALHOUN	\$208	\$44	\$185	1.00	\$383
CHARLOTTE	\$259	\$50	\$175	8.94	\$439
CITRUS	\$227	\$51	\$186	1.75	\$430
CLAY	\$198	\$53	\$199	1.00	\$335
COLLIER	\$298	\$62	\$231	12.08	\$492
COLUMBIA	\$197	\$50	\$190	1.00	\$335
DADE	\$429	\$109	\$452	16.00	\$1,039
DESOTO	\$213	\$45	\$162	4.00	\$335
DIXIE	\$223	\$59	\$205	1.25	\$433
DUVAL	\$216	\$59	\$172	1.13	\$447
ESCAMBIA	\$261	\$65	\$297	5.44	\$434
FLAGLER	\$216	\$54	\$193	3.00	\$440
FRANKLIN	\$267	\$64	\$242	1.60	\$503
GADSDEN	\$211	\$49	\$185	1.00	\$350
GILCHRIST	\$194	\$55	\$194	1.00	\$335
GLADES	\$242	\$65	\$245	5.00	\$420
GULF	\$252	\$62	\$259	1.67	\$423
HAMILTON	\$198	\$51	\$190	1.00	\$335
HARDEE	\$213	\$45	\$162	3.00	\$335
HENDRY	\$243	\$62	\$216	5.50	\$420
HERNANDO	\$229	\$50	\$183	2.43	\$433
HIGHLANDS	\$211	\$47	\$162	3.45	\$335
HILLSBOROUGH	\$229	\$45	\$159	3.74	\$366
HOLMES	\$212	\$48	\$185	1.00	\$356
INDIAN RIVER	\$299	\$72	\$285	10.63	\$525
JACKSON	\$213	\$50	\$185	1.00	\$356
JEFFERSON	\$222	\$54	\$194	1.00	\$409
LAFAYETTE	\$207	\$45	\$184	1.00	\$335
LAKE	\$195	\$46	\$144	1.10	\$335
LEE	\$260	\$47	\$171	9.10	\$450
LEON	\$203	\$57	\$196	1.00	\$335

LEVY	\$228	\$53	\$199	1.70	\$433
LIBERTY	\$208	\$45	\$185	1.00	\$335
MADISON	\$206	\$46	\$184	1.00	\$335
MANATEE	\$254	\$55	\$190	7.80	\$439
MARION	\$193	\$53	\$190	1.00	\$335
MARTIN	\$321	\$68	\$258	13.08	\$481
MONROE	\$460	\$139	\$513	18.46	\$866
NASSAU	\$221	\$58	\$193	1.00	\$429
OKALOOSA	\$255	\$63	\$295	4.89	\$440
OKEECHOBEE	\$238	\$62	\$221	4.33	\$420
ORANGE	\$211	\$47	\$201	1.54	\$363
OSCEOLA	\$205	\$47	\$162	2.13	\$335
PALM BEACH	\$358	\$93	\$402	13.51	\$493
PASCO	\$234	\$54	\$195	3.47	\$430
PINELLAS	\$245	\$44	\$142	7.41	\$418
POLK	\$211	\$47	\$166	2.06	\$335
PUTNAM	\$201	\$51	\$195	1.00	\$335
SANTA ROSA	\$254	\$63	\$295	4.80	\$440
SARASOTA	\$255	\$50	\$171	8.97	\$439
SEMINOLE	\$223	\$63	\$208	1.27	\$335
ST. JOHNS	\$218	\$57	\$191	1.67	\$436
ST. LUCIE	\$293	\$71	\$285	10.47	\$503
SUMTER	\$196	\$47	\$149	1.22	\$335
SUWANNEE	\$206	\$46	\$184	1.00	\$335
TAYLOR	\$226	\$54	\$205	1.00	\$433
UNION	\$201	\$53	\$190	1.00	\$335
VOLUSIA	\$221	\$48	\$175	2.60	\$428
WAKULLA	\$238	\$58	\$200	1.00	\$433
WALTON	\$253	\$64	\$295	3.09	\$420
WASHINGTON	\$209	\$44	\$185	1.40	\$335

**Correlation Matrices for Condominium Example
Average Premiums, Risk Rankings, Ex-Citizens**

Regions

	<i>Average Premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
All Counties				
Average Premium	1.00			
Std deviation	0.90	1.00		
Range	0.88	0.95	1.00	
Average Risk Rating	0.91	0.73	0.71	1.00

	<i>Average Premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
Gulf Coastal Counties				
Average Premium	1.00			
Std deviation	0.92	1.00		
Range	0.81	0.94	1.00	
Average Risk Rating	0.82	0.57	0.44	1.00

	<i>Average Premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
Atlantic Coastal Counties				
Average Premium	1.00			
Std deviation	0.96	1.00		
Range	0.96	0.98	1.00	
Average Risk Rating	0.94	0.83	0.88	1.00

	<i>Average Premium</i>	<i>Std deviation</i>	<i>Range</i>	<i>Average Risk Rating</i>
Inland Counties				
Average Premium	1.00			
Std deviation	0.49	1.00		
Range	0.51	0.73	1.00	
Average Risk Rating	0.79	0.38	0.30	1.00

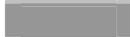
**Regression Estimates on Condominium Premium, Std. Deviation
And Range Using Average Risk Rank and Coastal Dummy
Variables**

Excluding Monroe County

<i>Dependent Variable</i>		Average Premium		
<i>Regression Statistics</i>				
R Square	0.827			
Adjusted R Square	0.819			
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	
Intercept	192.835	3.629	53.130	
Average Risk Rating	9.012	0.798	11.292	
Gulf	14.614	5.721	2.555	
Atlantic	24.318	8.598	2.828	

<i>Dependent Variable</i>		Std. dev		
<i>Regression Statistics</i>				
R Square	0.487			
Adjusted R Square	0.462			
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	
Intercept	48.161	1.689	28.516	
Average Risk Rating	1.632	0.371	4.396	
Gulf	0.746	2.662	0.280	
Atlantic	8.774	4.001	2.193	

<i>Dependent Variable</i>		Range		
<i>Regression Statistics</i>				
R Square	0.422			
Adjusted R Square	0.394			
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	
Intercept	174.240	8.510	20.475	
Average Risk Rating	7.253	1.871	3.876	
Gulf	11.821	13.412	0.881	
Atlantic	37.180	20.160	1.844	

 **Statistically significant at 5%**
 **Statistically significant at 10%**

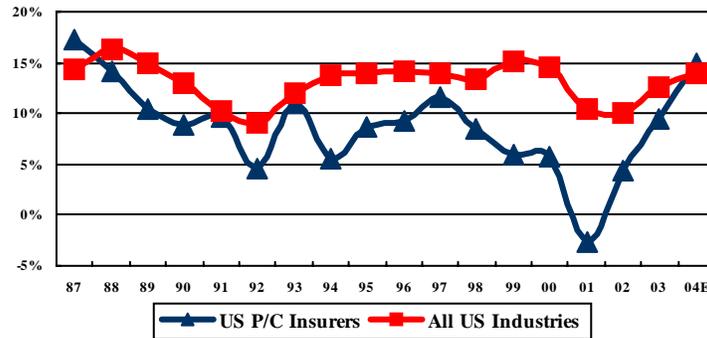
Appendix 5

General Points on Property/Casualty Profitability

General Points on Property/Casualty Profitability

1. Property/Casualty Insurance in the US has historically been less profitable to equity providers and more volatile than for the rest of the industries in the economy.

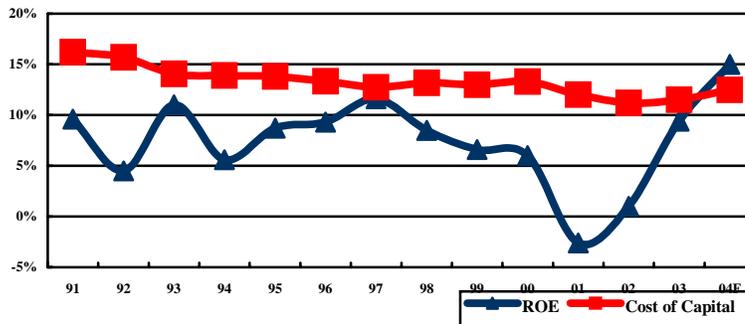
ROE: US P/C vs. US Industrial Sector



Source: Insurance Information Institute; *Fortune*

2. The US Property/Casualty Industry seldom earns its estimated Cost of Capital

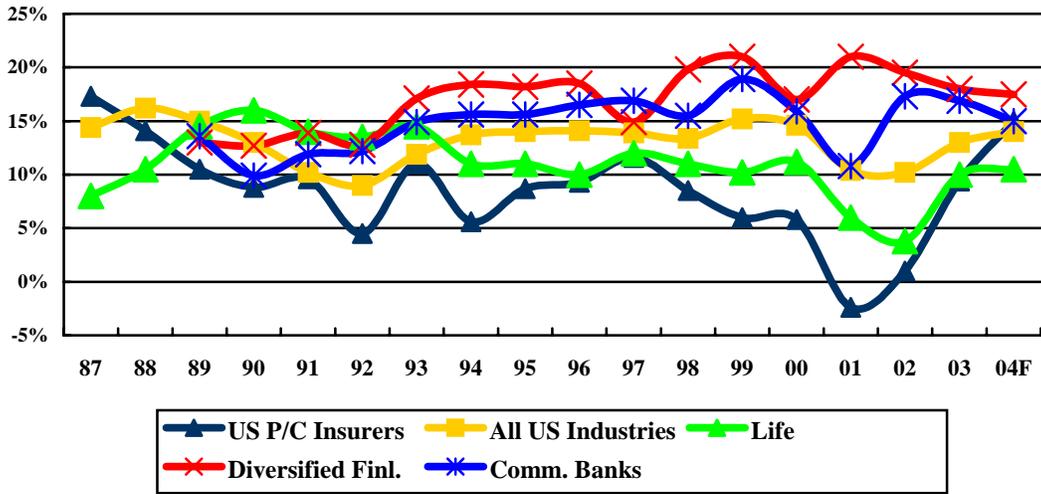
**ROE vs. Cost of Capital:
US P/C Insurance: 1991 – 2004F**



Source: The Geneva Association, Ins. Information Inst.

3. The US Property/Casualty Industry consistently underperforms the rest of the Financial Services Sector.

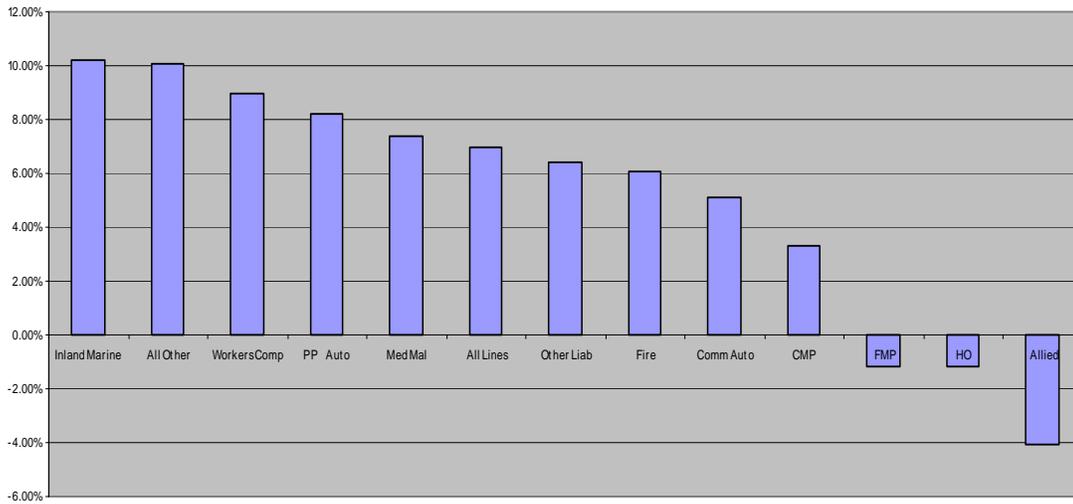
ROE: Financial Services Industry Segments, 1987–2004F



Source: Insurance Information Institute, *Fortune*, *Value Line*.

4. Over the last 10 years, some lines of the P/C business, as measured by Return on Net Worth, have fared well; homeowners has not.

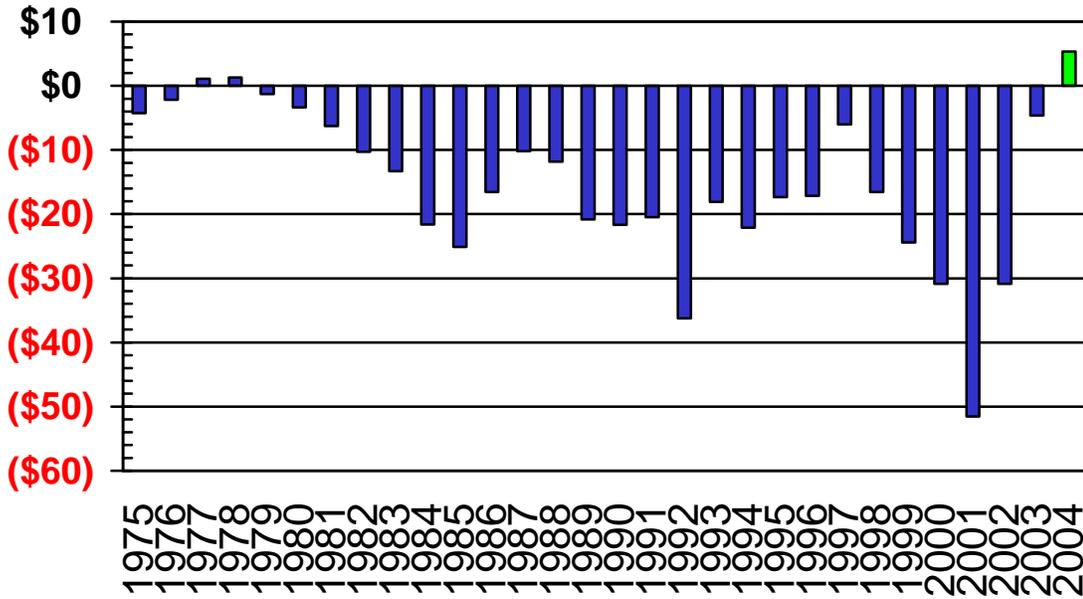
RNW Selected P/C Lines 92/03



Source: NAIC; Insurance Information Institute

- 4. The weak profitability performance in aggregate is driven by consistent Underwriting Losses

**Underwriting Gain (Loss)
1975-2004F* (\$ B)**



*2004 underwriting gain is based on first quarter result.
Source: A.M. Best, Insurance Information Institute

- 5. From an underwriting loss perspective, Florida’s homeowners market has outperformed the national average in recent years (before 2004 season is considered).

