

# Citizens Property Insurance Corporation: 2013 Rate Hearing

Thursday, September 20, 2012

# Citizens' Mission and Vision

- Citizens' public purpose is to serve the people of Florida by providing property and casualty insurance protection and high quality customer service.
- 627.351(6)(a)1: *The Legislature intends, therefore, that **affordable property insurance be provided** and that it continue to be provided, as long as necessary, through Citizens Property Insurance Corporation, a government entity that is an integral part of the state, and that is not a private insurance company.*

# About Citizens Property Insurance Corp

- Owned by and run for Florida taxpayers
- Protects homeowners who cannot otherwise obtain insurance
- To protect homeowners, must be able to pay claims

# Citizens Faces Tradeoffs

Affordability		Surplus Adequacy
Low Rates to Promote Affordability	versus	Higher rates to reduce likelihood and severity of assessments
Reduced coverage to lower premiums	versus	Greater coverage to increase protection
Give discounts without inspections	versus	Inspect policies to promote fairness and protect the surplus

# Premium is not Sufficient to Pay Claims

- Surplus represents Citizens' ability to pay for future hurricanes and a larger surplus can reduce the amount and/or likelihood of assessments
  - Premiums are not sufficient to support the wind or sinkhole risk of loss
- PLA surplus has shrunk despite no hurricane
  - Sinkhole claims responsible
  - Only a couple are catastrophic ground collapse

# Financial Impact of Sinkhole Losses

- Citizens lost nearly \$1 billion on sinkhole losses occurring in 2007-2011
- Loss ratio for sinkhole business for 2011 is 877%
- Created net loss for the PLA for year ended 12/31/11
- Resulted in less financial resources to pay for future hurricanes

# Catastrophic Ground Collapse

- Abrupt collapse of ground cover
- Depression in ground cover that is clearly visible to naked eye
- Structural damage to the covered building, including the foundation
- Insured structure is condemned and ordered vacated by the authorized governmental agency
- Citizens has only had 6 catastrophic ground collapse claims
- **Included with basic coverage, and subject to 10% glide path**



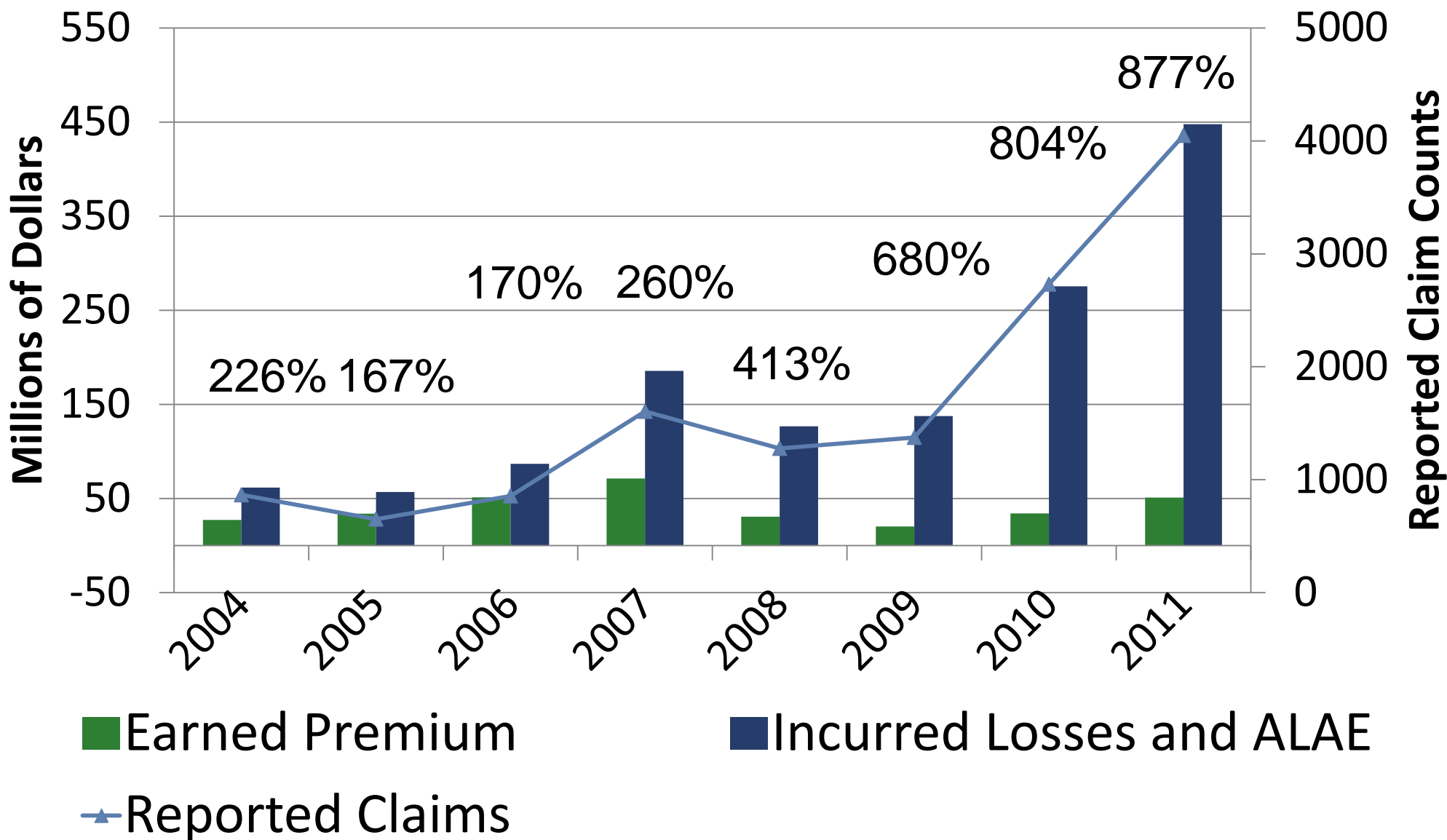
# Non-Catastrophic Sinkhole Claims

- **Sinkhole loss** means **structural damage** to the covered building, including the foundation, caused by sinkhole activity.
- **“Structural Damage”** Definition(s)
  1. Interior floor displacement in excess of acceptable variance
  2. Foundation displacement in excess of acceptable variance
  3. Listing, leaning, or buckling of the exterior load bearing walls
  4. Damage resulting in the primary structural members or systems being significantly likely to collapse
  5. Damage occurring on or after October 15, 2005, that qualifies as substantial structural damage.



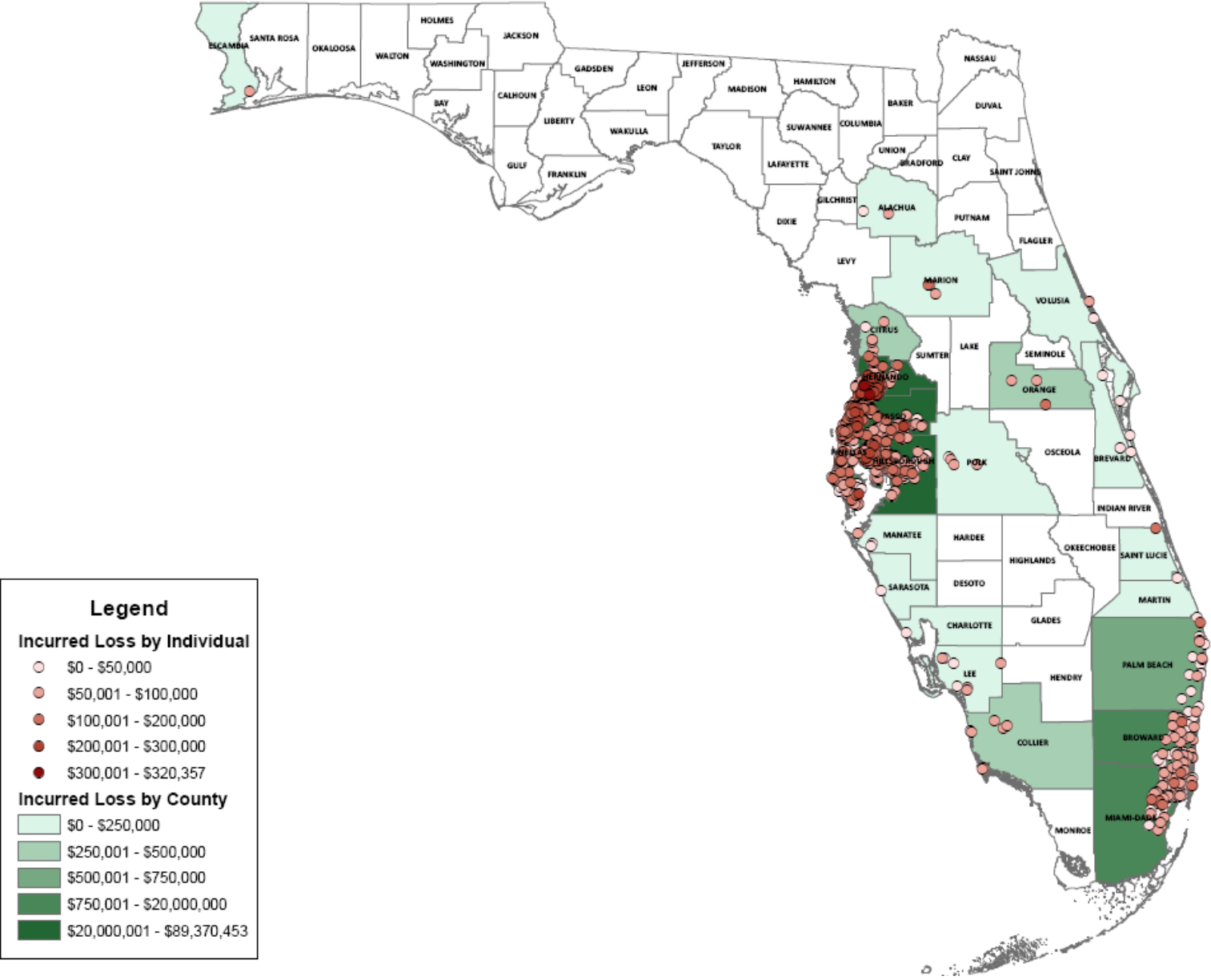


# Sinkhole Premium and Losses plus Allocated Loss Adjustment Expenses by Accident Year



Ratio of Incurring Losses+LAE to Premium given as %

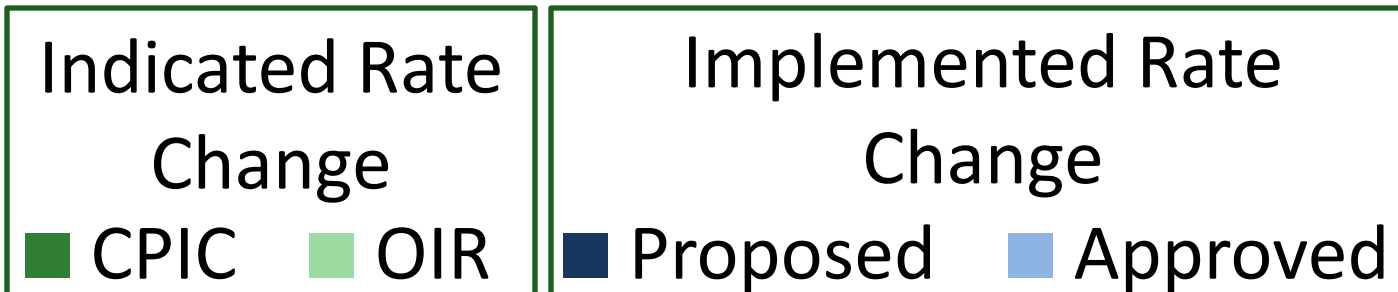
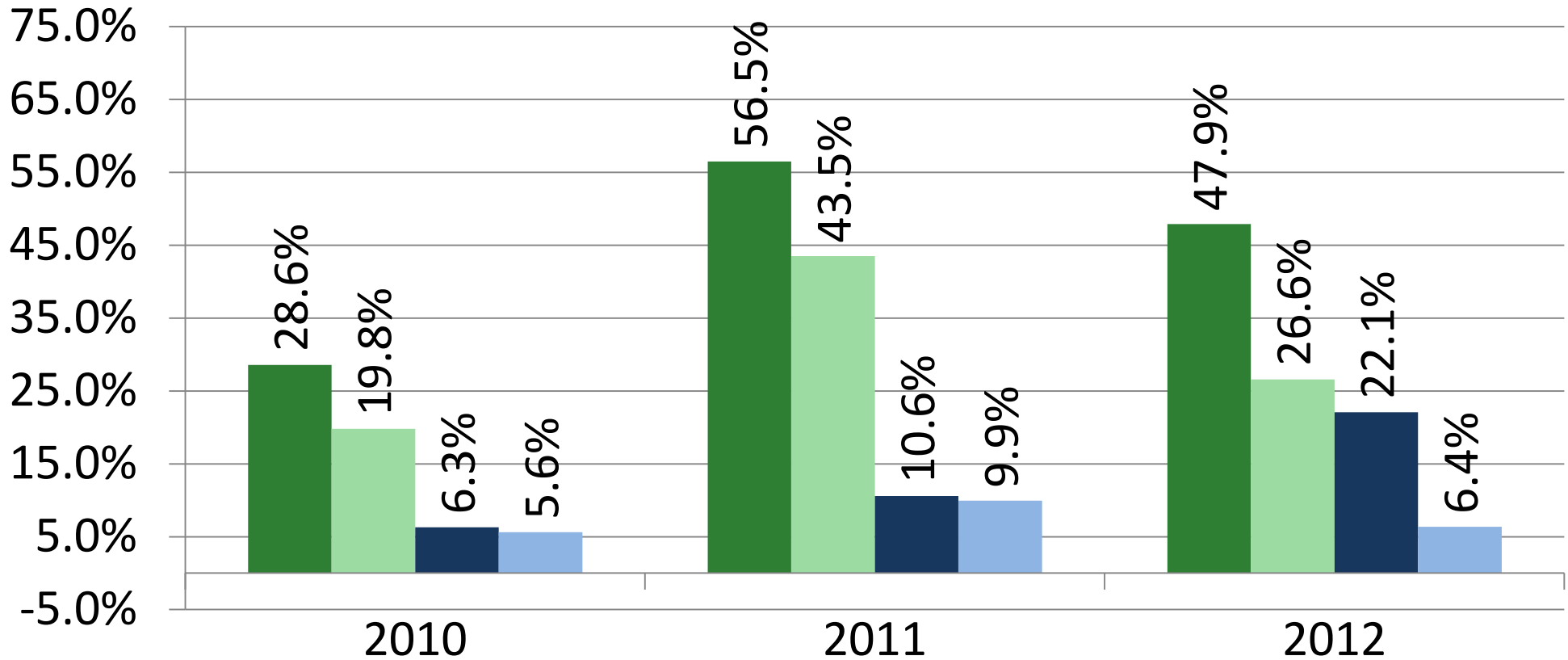
# Locations of Sinkhole Losses in 2010



# 10% Glide Path To Actuarial Soundness

- 627.351(6)(n)6: **Beginning on or after January 1, 2010**, and notwithstanding the board's recommended rates and the office's final order regarding the corporation's filed rates under subparagraph 1., the corporation shall **annually implement a rate increase** which, except for sinkhole coverage, **does not exceed 10 percent** for any single policy issued by the corporation, excluding coverage changes and surcharges.
- 627.351(6)(n)8: **The corporation's implementation of rates as prescribed in subparagraph 6. shall cease** for any line of business written by the corporation **upon** the corporation's **implementation of actuarially sound rates. Thereafter, the corporation shall annually make a recommended actuarially sound rate filing** for each commercial and personal line of business the corporation writes.
- Catastrophic ground collapse limited to 10%/year, other sinkhole losses are limited by Citizens' Board of Governors' decision and OIR approval rather than statute

# HO3+HW2 rate changes have stayed below 10%

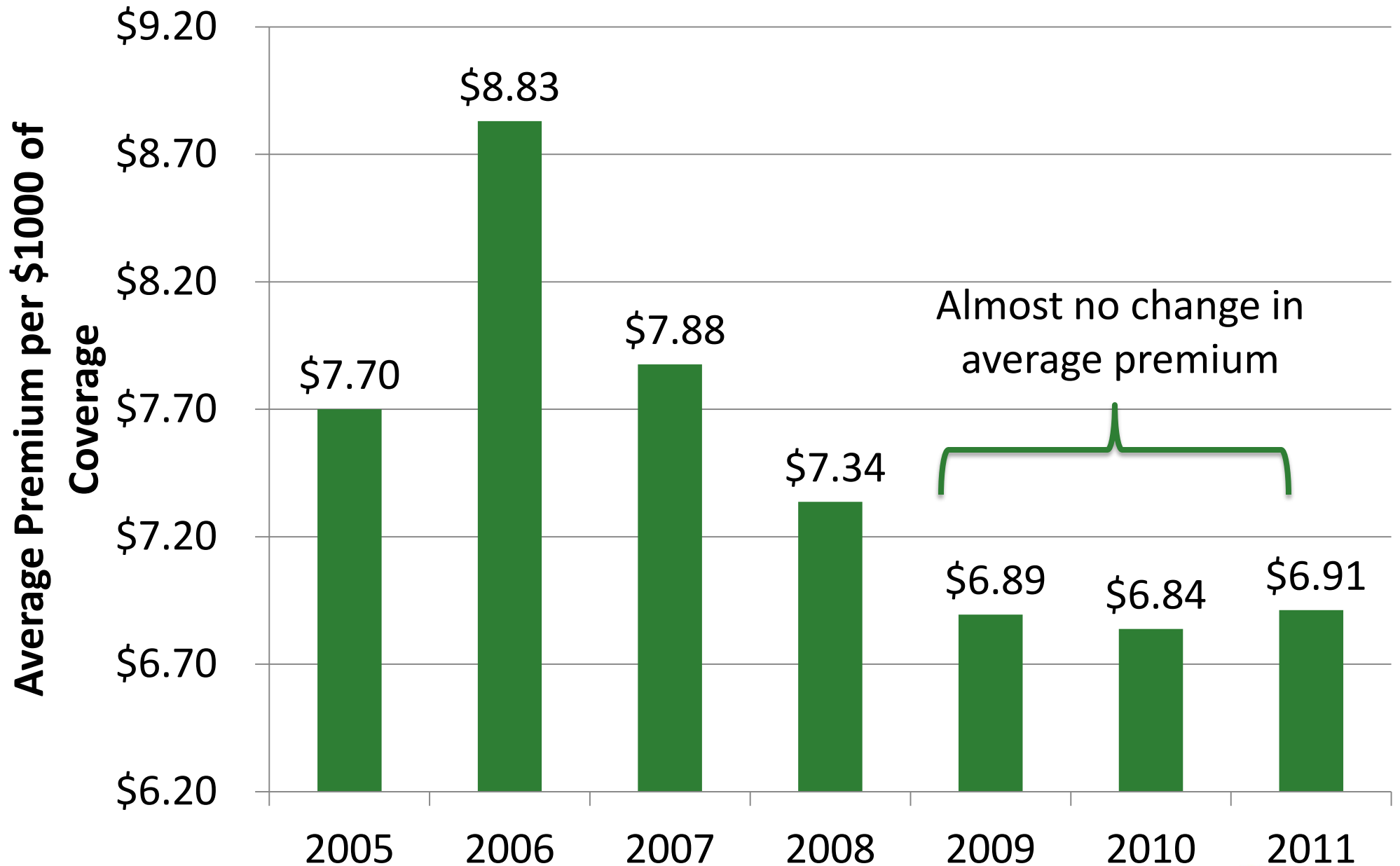


# Homeowners Rate Deficiencies are Significant

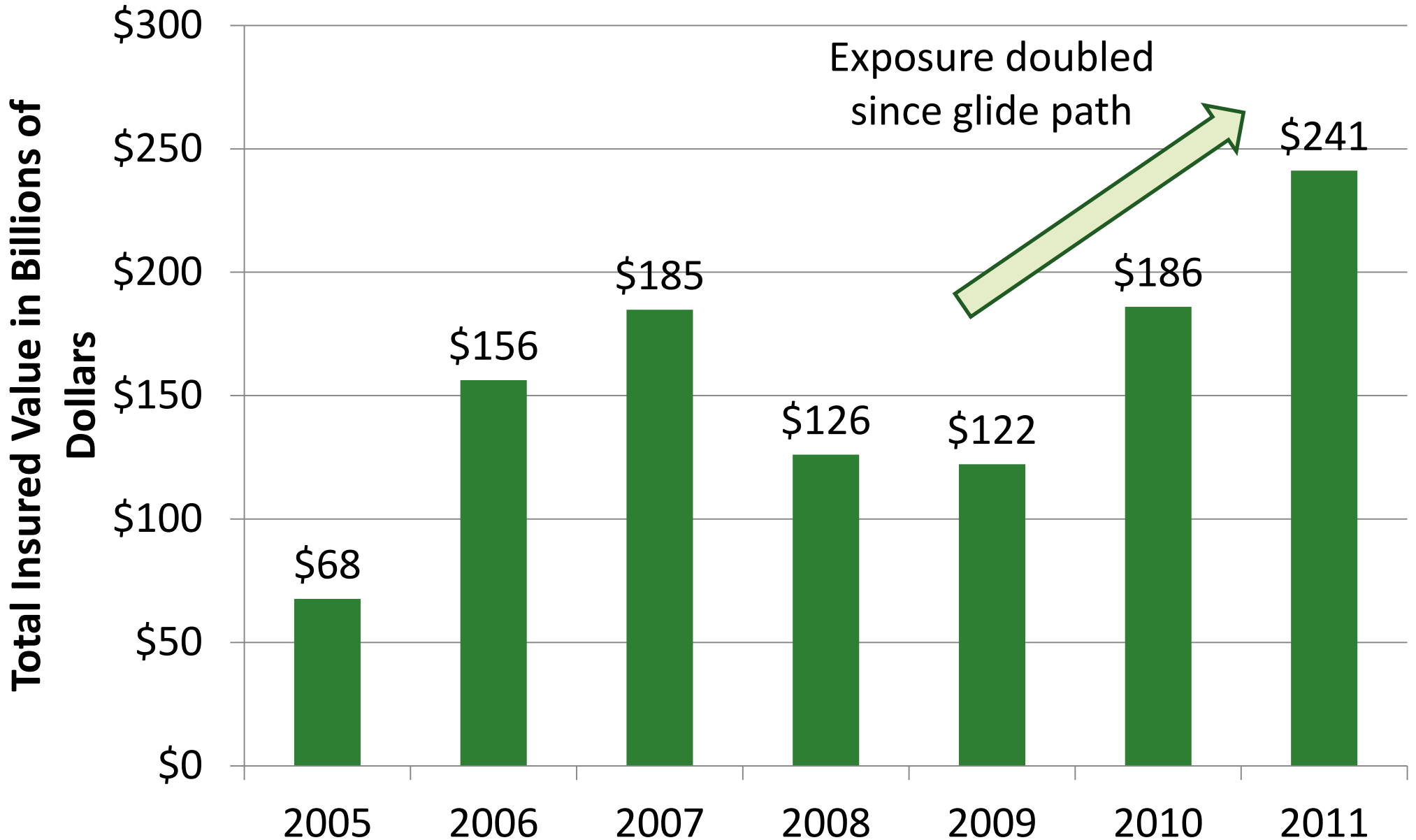
Year	Indicated Rate Change		Proposed	Approved	Indicated Deficiency	
	CPIC	OIR			CPIC	OIR
2010	28.6%	19.8%	6.3%	5.6%	21.7%	13.4%
2011	56.5%	43.5%	10.6%	9.9%	42.3%	30.5%
2012	47.9%	26.6%	22.1%	6.4%	39.1%	19.0%

- From HO3 and HW2 rate filings
- 2010 indications include cash buildup; 2011 & 2012 indications do not
- Proposed and approved rate changes include cash build up

# Personal Lines Account Average Premiums are Flat



# Personal Lines Account Is Growing



# Goals of 2013 Filing

- Actuarially sound rate accounting for all costs
- Implement rate increases in accordance with 10% glide path and FL statute
- Mitigate reduction in surplus due to inadequate rates
- Become less competitive to reduce exposure
- Account for savings due to:
  - Senate Bill 408 and Sinkhole Inspection Program
  - Reduced dropped object coverage
  - Other Coverage Changes



# Homeowners HO3+HW2 Rate Changes

Peril	Indicated		Proposed
	Citizens Risk Load	OIR Risk Load	
Wind	55.9%	32.9%	14.8%
All Other Perils	-10.3%	-4.1%	3.2%
Sinkhole	239.6%	263.2	29.6%
Combined	35.0%	26.0%	10.5%

- All rate changes stated prior to FHCF cash buildup
- Combined changes are weighted based on in force premium at 12/31/11
- Citizens Board of Governors chooses to phase in sinkhole indicated rate changes over several years.

# H03+HW2 Territorial Selection Methodology

- Wind
  - Capped between 0% and 75%
  - Capped at territorial wind indication
  - Capped so that combined with AOP does not exceed 10%
- All Other Perils
  - Capped between 0% and 10%
- Sinkhole
  - Hernando, Pasco, Hillsborough capped at 50%
  - All other territories equal indication

# Projected HO3 Average Sinkhole Rate Increases in Dollars per Month

Description	Territory Number	Current Average Annual Premium	Average Monthly Increase in Premium
Pasco, Remainder	736	\$1494	\$62
Hernando, Coastal	159	\$1391	\$58
Pasco, Coastal	595	\$1382	\$58
Hernando, Remainder	733	\$1379	\$57
Hillsborough, Excluding Tampa	80	\$265	\$11
Hillsborough, Tampa	47	\$263	\$11
Remainder of State	Each territory's rate change on average is \$4/month or less		

# 2013 HO3/HW2 Indications Including Sinkhole and 3.7% Risk Load

	Indicated	Proposed	AOP No Zero and Wind Increase	AOP No Zero and Wind No Change
% Rate Increase after Capping	28.5%	<b>10.2%</b>	8.9%	7.1%
\$ Additional Premium (in millions)	\$470	\$169	\$147	\$117
% Difference from Proposed			-1.3%	-3.1%
\$ Difference from Proposed (in millions)			\$(22)	\$(51)
% Indicated Deficiency		16.5%	18.0%	19.9%
\$ Indicated Deficiency (in millions)		\$301	\$323	\$352

Based on 12/31/11 Onlevel Inforce Premium at Current Rate Level of \$1.65 billion

# 2013 HO3/HW2 Indications Including Sinkhole and CPIC Risk Load

	Indicated	Proposed	AOP No Zero and Wind Increase	AOP No Zero and Wind No Change
% Rate Increase after Capping	37.3%	<b>11.5%</b>	10.2%	6.0%
\$ Additional Premium (in millions)	\$616	\$190	\$168	\$99
% Difference from Proposed			-1.4%	-5.5%
\$ Difference from Proposed (in millions)			\$(22)	\$(91)
% Indicated Deficiency		23.1%	24.6%	29.5%
\$ Indicated Deficiency (in millions)		\$425	\$448	\$517

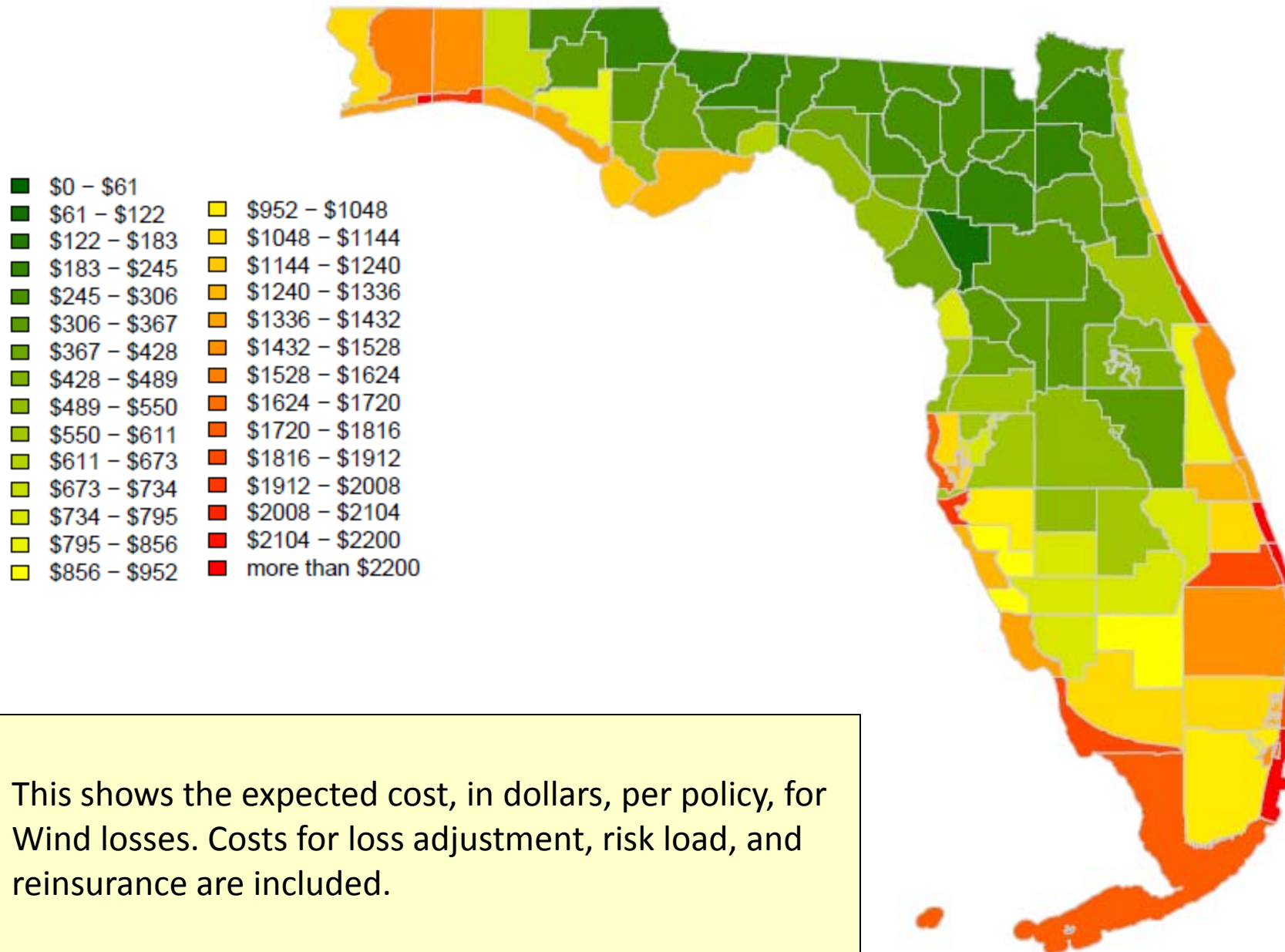
Based on 12/31/11 Onlevel Inforce Premium at Current Rate Level of \$1.65 billion

# Procedure Behind Proposed Rate Changes

- Rate proposals reflect
  - Actual indications by territory
  - Statutory limit of 10% designed to protect affordability
  - Need for sinkhole rates to be phased in over a number of years- also protects affordability
  - Reality that Citizens' rates will be deficient after rate increase
  - Importance of limiting leakage of Citizens' surplus due to rate deficiencies

# Appendix

# Personal Lines Account - Homeowner (HO-3) Average Cost Per Policy: Wind Peril

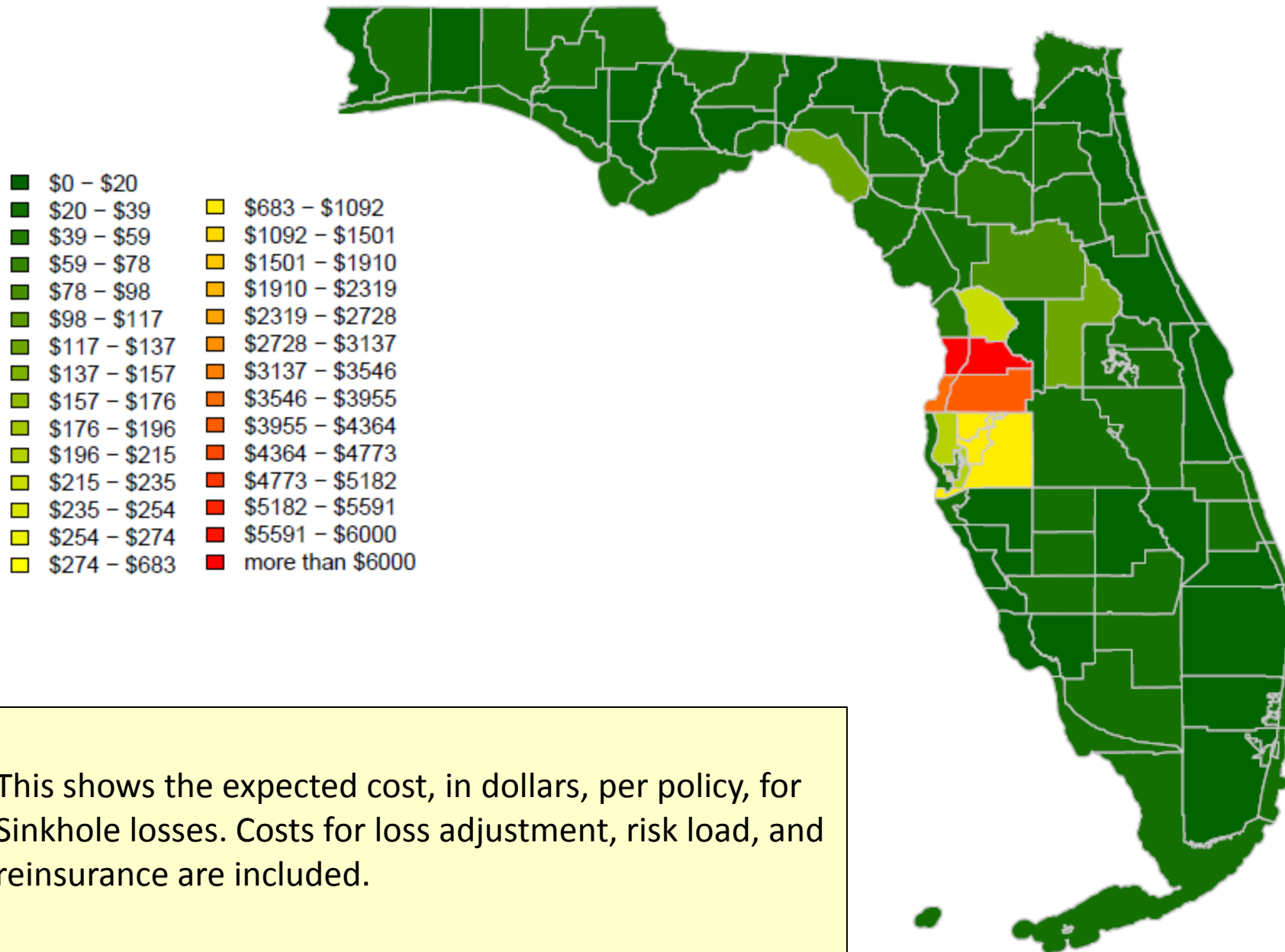


This shows the expected cost, in dollars, per policy, for Wind losses. Costs for loss adjustment, risk load, and reinsurance are included.



# Personal Lines Account - Homeowner (HO-3)

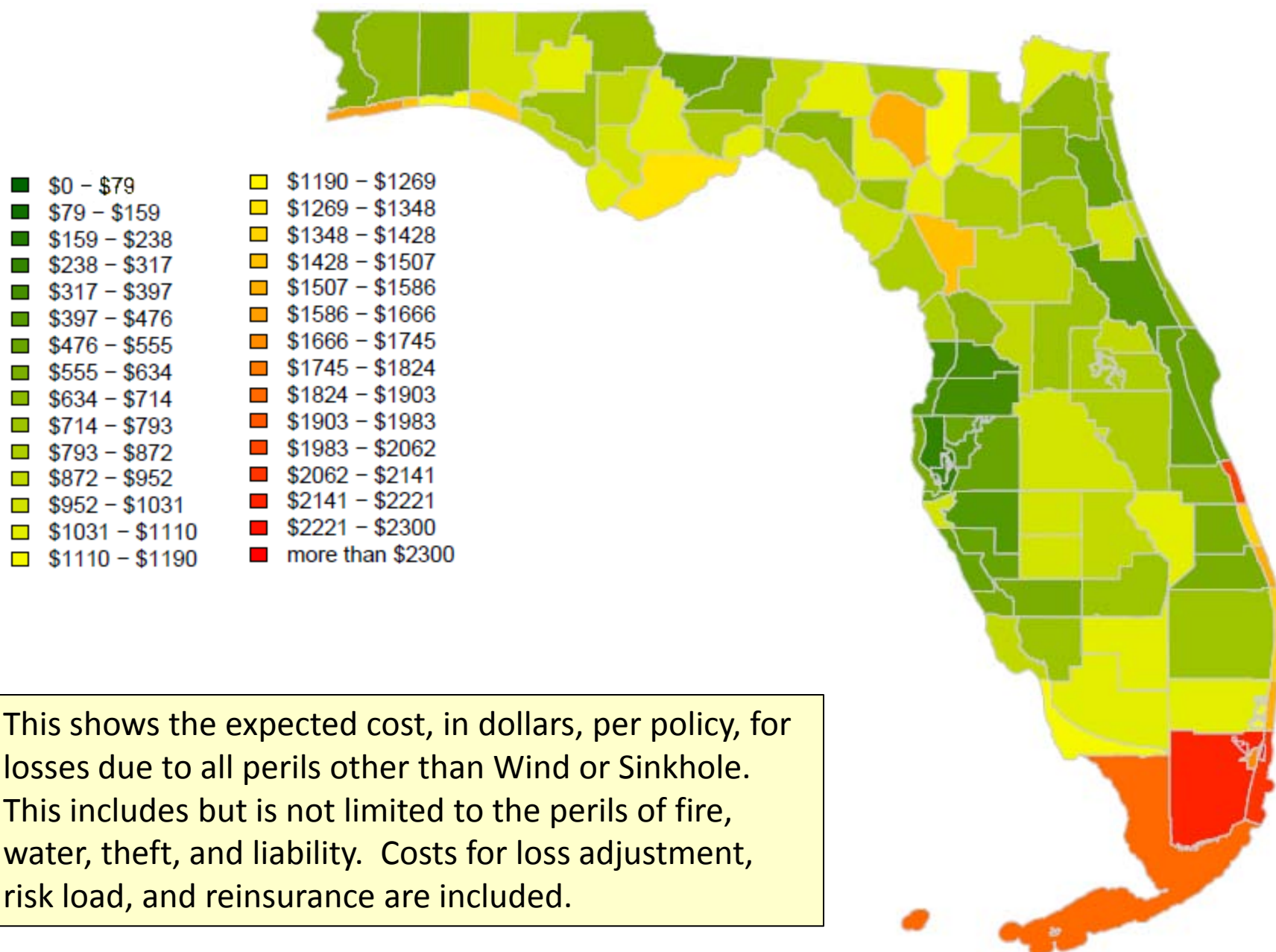
## Average Cost Per Policy: Sinkhole Peril



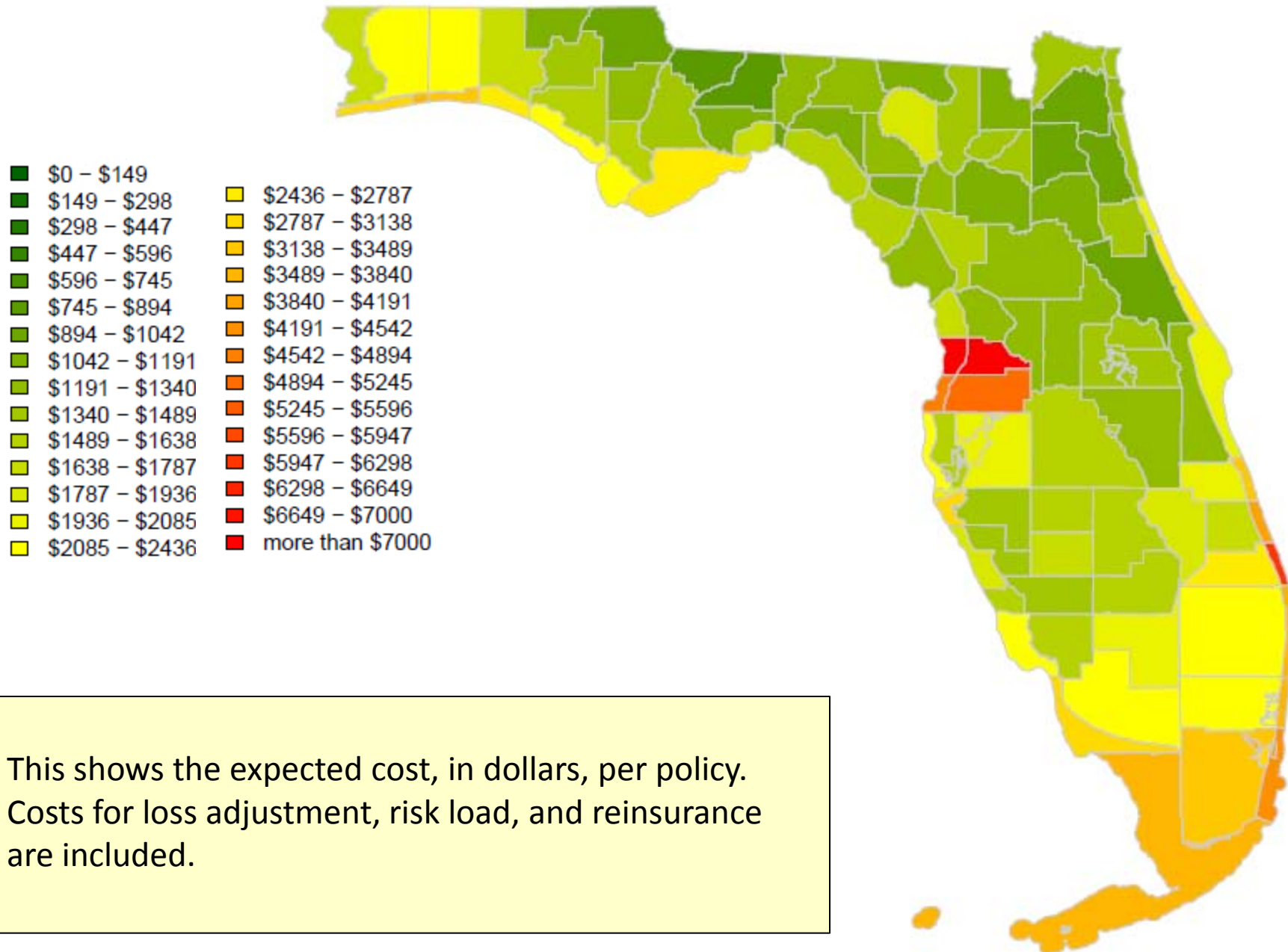
This shows the expected cost, in dollars, per policy, for Sinkhole losses. Costs for loss adjustment, risk load, and reinsurance are included.

# Personal Lines Account - Homeowner (HO-3)

## Average Cost Per Policy: All Other Perils (not Sinkhole or Wind)



# Personal Lines Account - Homeowner (HO-3) Average Cost Per Policy



This shows the expected cost, in dollars, per policy. Costs for loss adjustment, risk load, and reinsurance are included.