FLORIDA OFFICE OF
INSURANCE REGULATION

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Insurance Commissioner

Florida Property Insurance Market Update 2011

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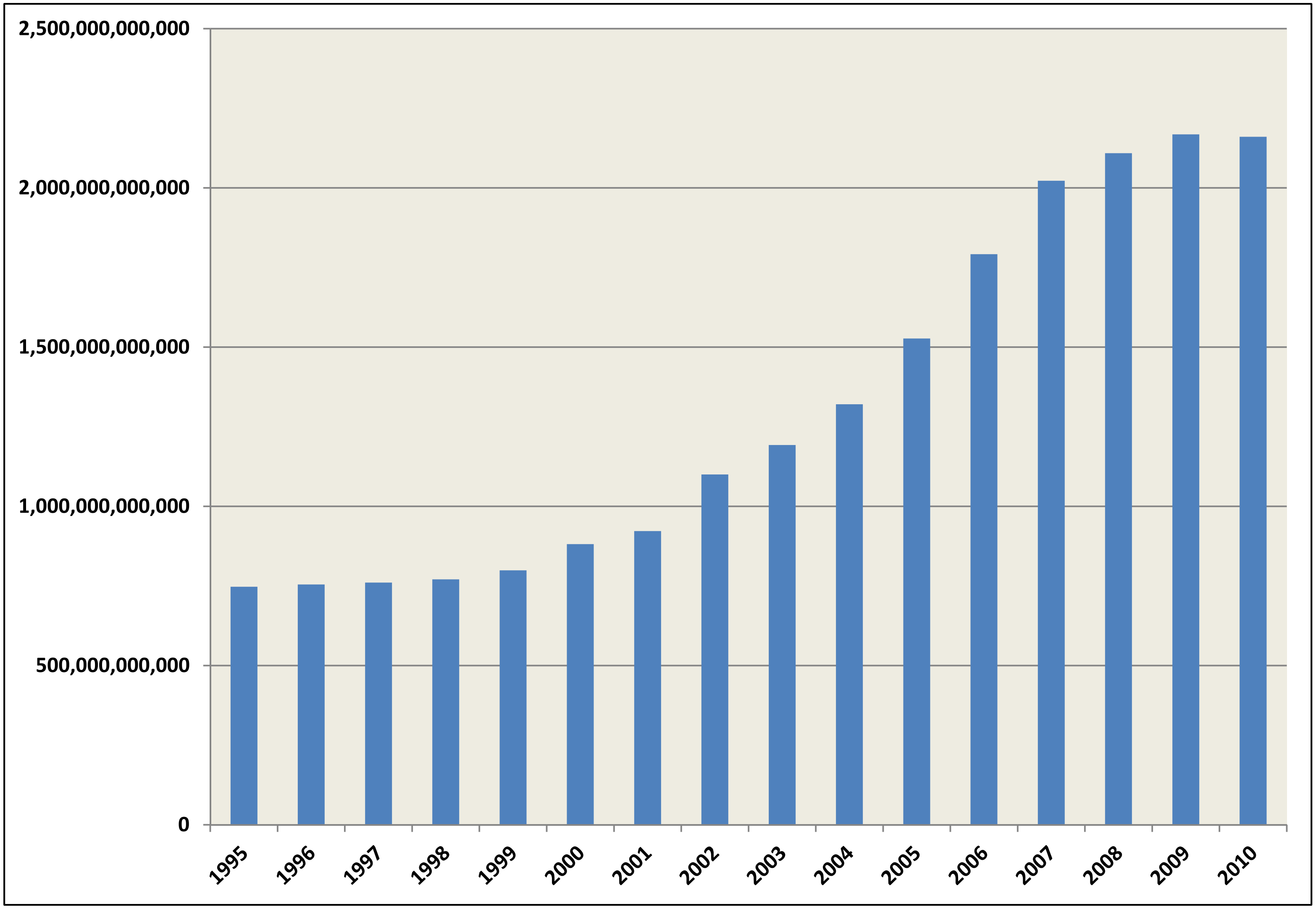
FLORIDA INSURED RESIDENTIAL PROPERTY EXPOSURE

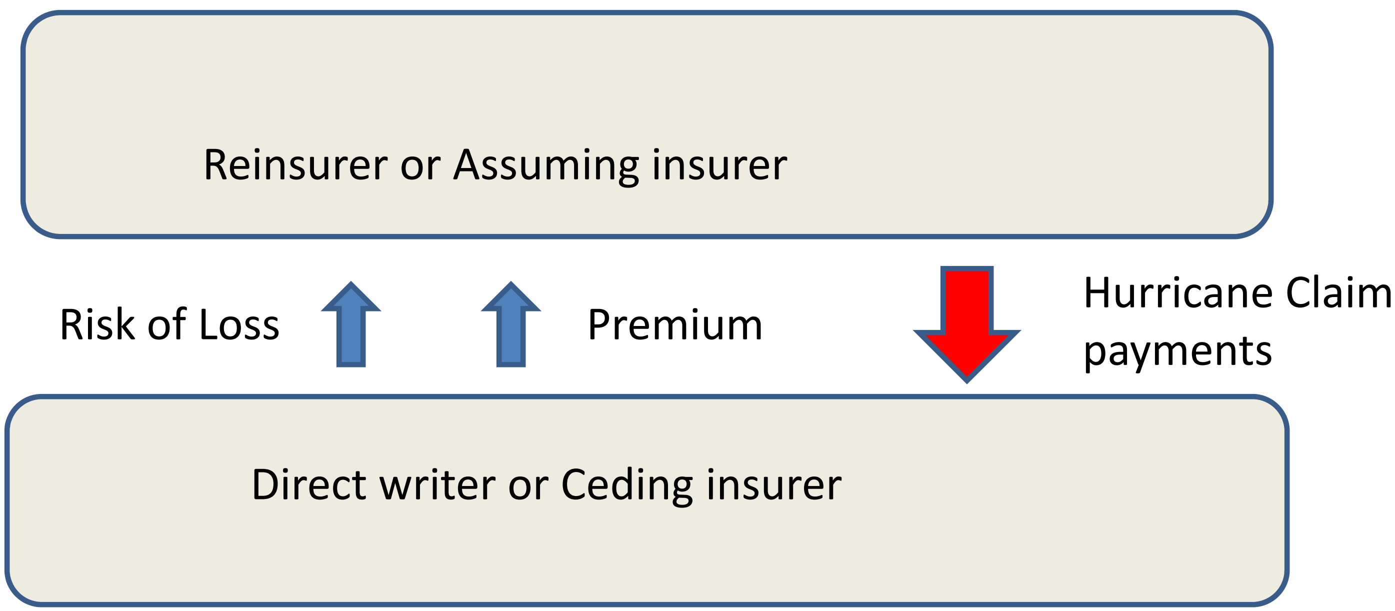


Source: FHCF ratemaking reports

Some estimates show Florida with 50% of the nation's hurricane exposure

Our direct insurers could not carry that much risk without catastrophe reinsurance. Florida relies heavily on catastrophe reinsurance, including substantial coverage from the London and Bermuda markets.

Reinsurance allows the direct writer to cede part of its risk to a reinsurer.



Companies use models to predict probable maximum losses

Modelers produce reports of the probability that losses will exceed certain amounts for a company's particular book of business

You hear "1-in-100 or 1-in-250 year event," but this does not measure solvency or ability to withstand events without knowing more:

- Which model was used?
- Was demand surge turned on or off?
- How much risk did the ceding insurer retain?
- How much surplus does the ceding insurer have?
- Based on the above, after an event, how much surplus will the ceding insurer have?
- Did the ceding insurer purchase reinstatement coverage for a second hurricane? If so, how much? Is the premium for this reinstatement coverage prepaid?

A 1-in100 year event occurs once in 100 years. So it has a 1% chance of occurring in any given year. A 1-in-200 year event has a 0.5% chance of occurring in a given year.

In Florida, for rate filings, insurance companies are required by law to use one model that has been "accepted for use" by the Hurricane Loss Projection Methodology Commission, and may not alter the results.

Insurance companies make the decisions to purchase reinsurance, how much to purchase, covering which business and which layers. They are not specifically required to use an accepted model for these decisions, nor buy to a 1-in-100 year standard.* But rating organizations such as AM Best or Demotech look at the reinsurance purchase and have requirements to maintain a company's rating.

MODEL CHANGES can have a dramatic effect on the projected hurricane losses and probable maximum loss of an insurer. Recent RMS model changes affected some companies by more than 50% in PML projections, and others by 17%. AIR made changes in the previous year.

*except companies that participated in the Capital Incentive Build Up program. They are required to buy to a 1-in-100 year event but the statute does not specify whether or not demand surge must be on.

For a 1-in-100 year event, on average, companies retained 11% and the FHCF and reinsurers took 89% of the risk for the 2011-2012 season based on data call reports

Most companies purchase reinsurance over the FHCF from private reinsurers

Optional TICL last yr is 2013-2014 contract year

10%

17 Billion mandatory FHCF layer

7 billion retained by the direct insurance companies and their private reinsurers

Policyholders pay deductibles of 2% typically for hurricane peril

Assets	Liabilities
Bonds	Losses
Stocks	Reinsurance Payable
Real Estate	Loss Adjustment Expenses
Cash or short term investments	Commissions Payable

Surplus as to policyholders

Losses on the balance sheet include the losses that the company already has reported, and the actuary's estimate of those losses that are incurred, but not reported. But losses do not include a projection for hurricane losses. The tax code does not allow an insurer to set a reserve for catastrophe losses and consider it a liability. So retained hurricane losses are paid out of surplus. Other losses are already included in the surplus calculation.

What does the annual data call ask companies to report?
Some examples:

Company Code
Company Name
State of domicile
Net retention
Excess Surplus
Retention as a % of excess surplus
Level to which reinsurance was purchased
Net retention below the FHCF
PML data
Multiple events coverage
Number of policies included in model
Model used (version)
Preliminary or final reinsurance purchase

2011-2012 Data Call Synopsis

For the data call, the Office specified a “required model” so that results could be compared across companies. OIR also obtained information on the actual models used and actual reinsurance purchased.

- OIR “Required Model”:
  - The Model used in the most recent rate filing
  - We encourage companies to use the most current version, but don’t require
  - Demand Surge must be turned on

- Demand Surge
  - Demand Surge is the increase in costs of building materials, labor, etc., that commonly occurs after a hurricane due to high demand. The models have a switch that can be turned on or off to include or not include demand surge in the output.

2011-2012 Data Call Synopsis

- 112 entities participated, either on an individual or group basis
  - Overall, we looked at 73 individual programs and 15 group programs
  - Some were duplicates, so in total, OIR reviewed 88 separate programs

- The average reinsurance program*:
  - $777,673,661 of reinsurance coverage
  - Total cost of $63,948,142
  - Note: From rate filings, the average cost for the top 5 writers

- Of the 88 programs, 82 programs are above a 1-in-100 year event without demand surge or a 1-in-70 year event with demand surge, based on the OIR's "Required Model"

- Of the 6 remaining programs, two were Florida domestic insurers.
  - One uses a blend of RMS and AIR for its actual reinsurance purchase and based on this, meets a 1-in- 100 year event standard.
  - The other has since merged with another insurer

* Averages based on those companies that participated in the data call

Office of Insurance Regulation

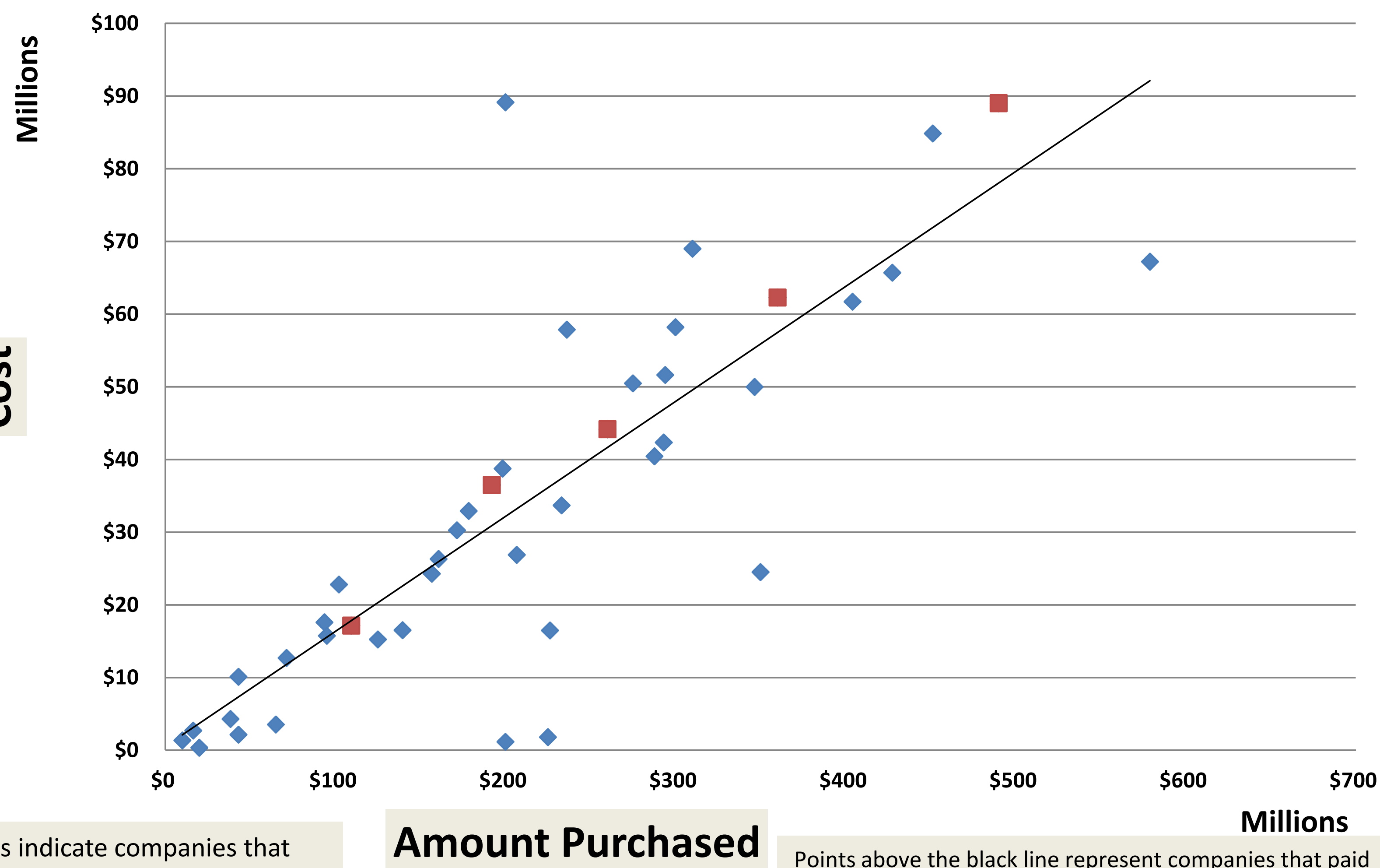
Homeowners Top 5 Writers Reinsurance cost

Company	March 2011 Policy Count	March 2011 Inforce Premium	Reins Premium Pct to dir	Reins Cost Pct to dir	File Number
State Farm Florida	535,458	925,557,050	29.1%	11.3%	10-21378
Universal Property and Casualty*	531,178	630,340,845	45.1%	26.1%	10-18747
St. Johns Insurance**	165,566	252,923,353	19.6%	22.4%	11-00002
Castle Key Insurance	135,877	141,573,632	45.0%	27.7%	11-09496
United Services Automobile Assn	134,034	220,496,949	51.5%	39.9%	11-00690
Total	1,502,113	2,170,891,829	36.0%	20.9%	

* Reins premium excl Quota share. If include Quota share reins premium pct is 77.3%

** Reins premium excl Quota share. If include Quota share reins premium pct is 88.5%

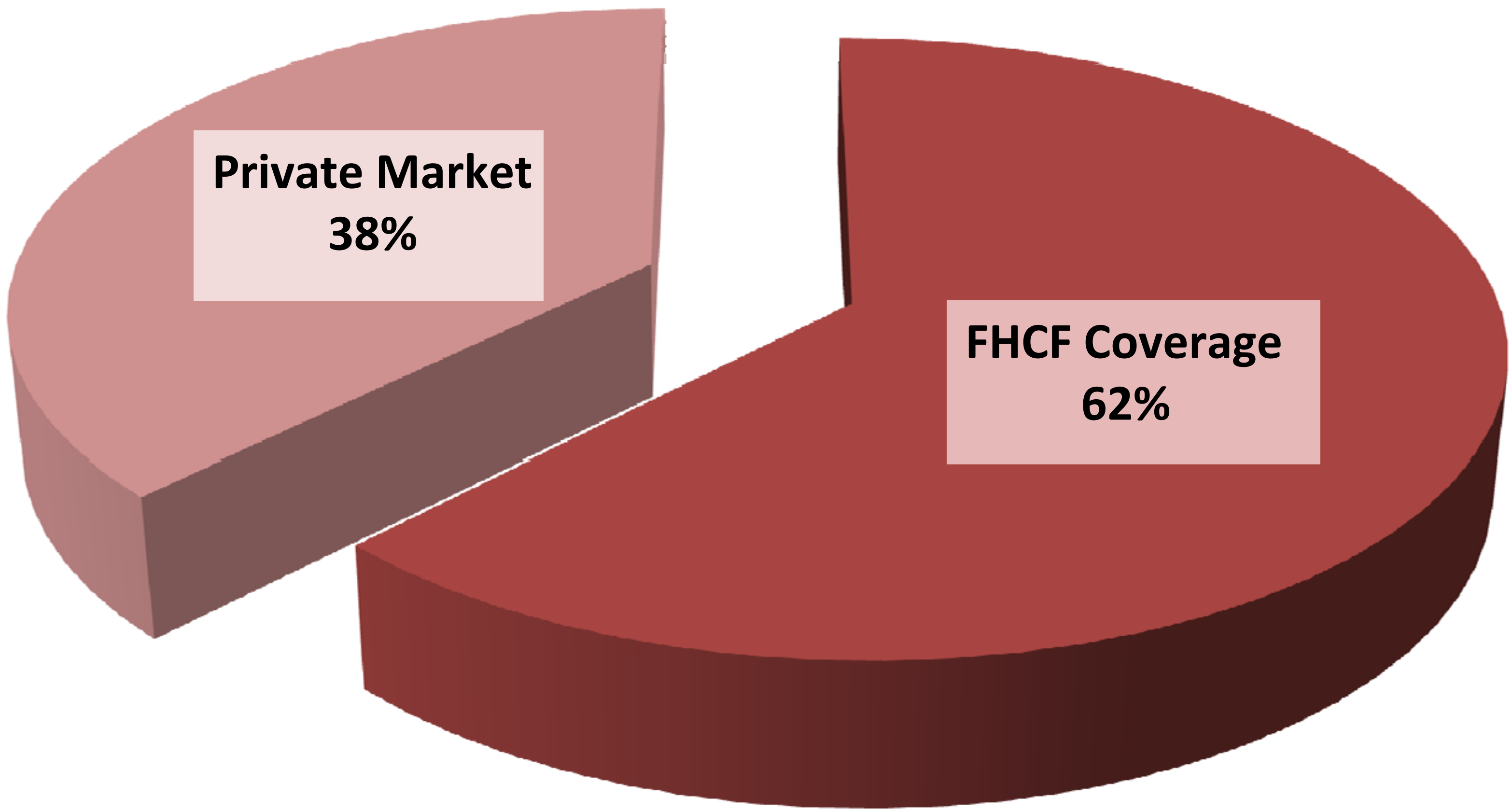
Cost vs. Amount Purchased by Florida Domestic Insurers



Red dots indicate companies that have segregated accounts or captives

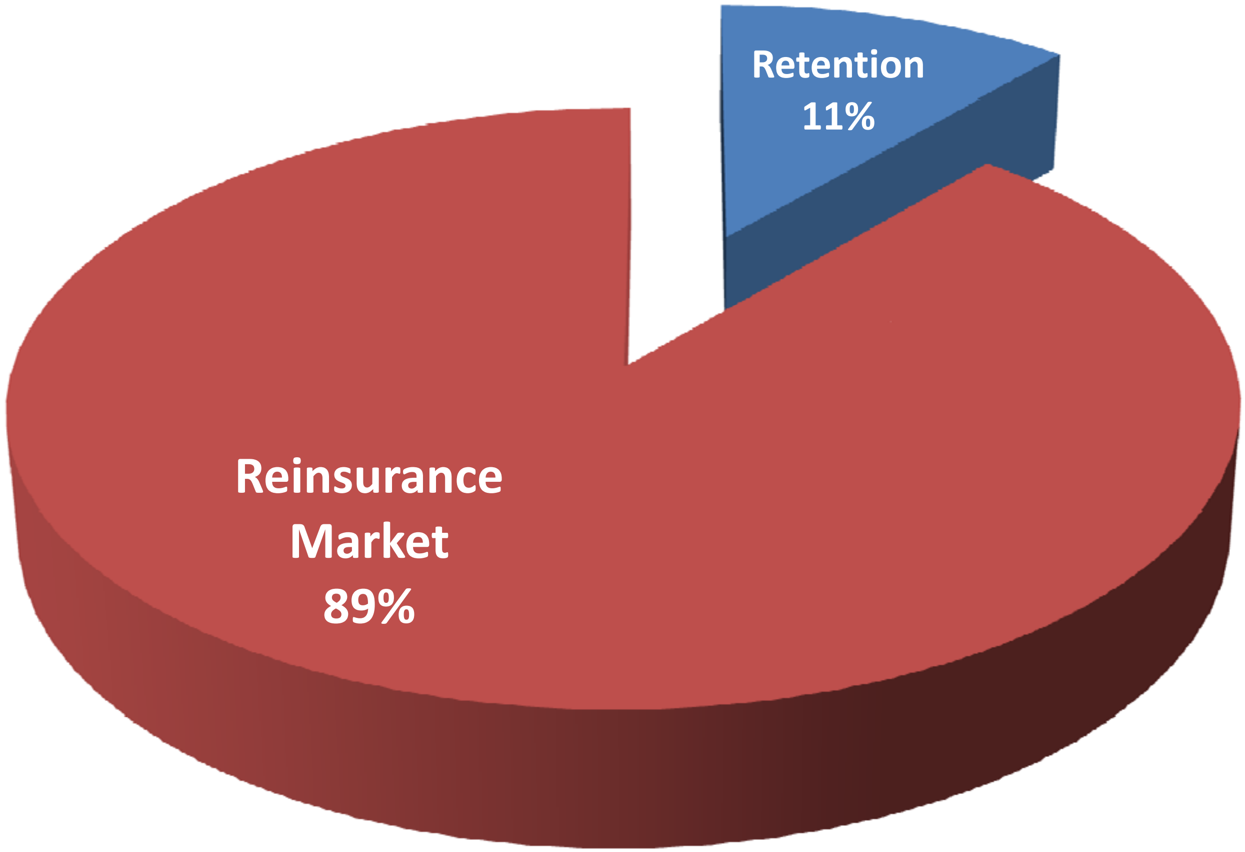
Points above the black line represent companies that paid more than industry average. Those below the black line paid less.

Private Market vs. FHCF Coverage



Based on 44 programs for domestic insurers reported in the data call

100 year-event scenario



Florida domestics based on model with demand surge on. Amount shown includes private reinsurance and FHCF

Homeowners Limited Reinsurance
Filings as of September 19, 2011

Company	File Number	Earned House Years	On Level Earned premium	Filed Pct Chg	Approved Pct Chg	Filing Status
American Integrity of Florida	11-11982	24,204	$62,581,022	5.2%	5.0%	Approved
Ark Royal Insurance Company	11-12968	31,345	$44,873,885	10.6%		Pending
Capitol Preferred Insurance Company	11-13877	28,551	$41,442,441	2.2%		Pending
Florida Family Insurance Company	11-14007	65,141	$77,894,044	2.1%		Pending
First Community Insurance Company	11-14529	31,628	$45,769,796	6.3%		Pending
Southern Fidelity Insurance Company	11-13775	49,530	$84,402,138	6.5%		Pending
Sunshine State Insurance Company	11-13674	53,467	$97,836,154	3.9%		Pending
United Property and Casualty Ins Co	11-11853	80,279	$182,751,275	7.4%	7.4%	Approved
USAA Group	11-14050	173,783	$363,716,315	13.4%		Pending
Total		537,928	1,001,267,070	8.5%		