
Sinkhole Update
Lance Malcolm, Vice President
Jeff Lambert, Assistant Director

Claims Committee Update

November 26, 2012

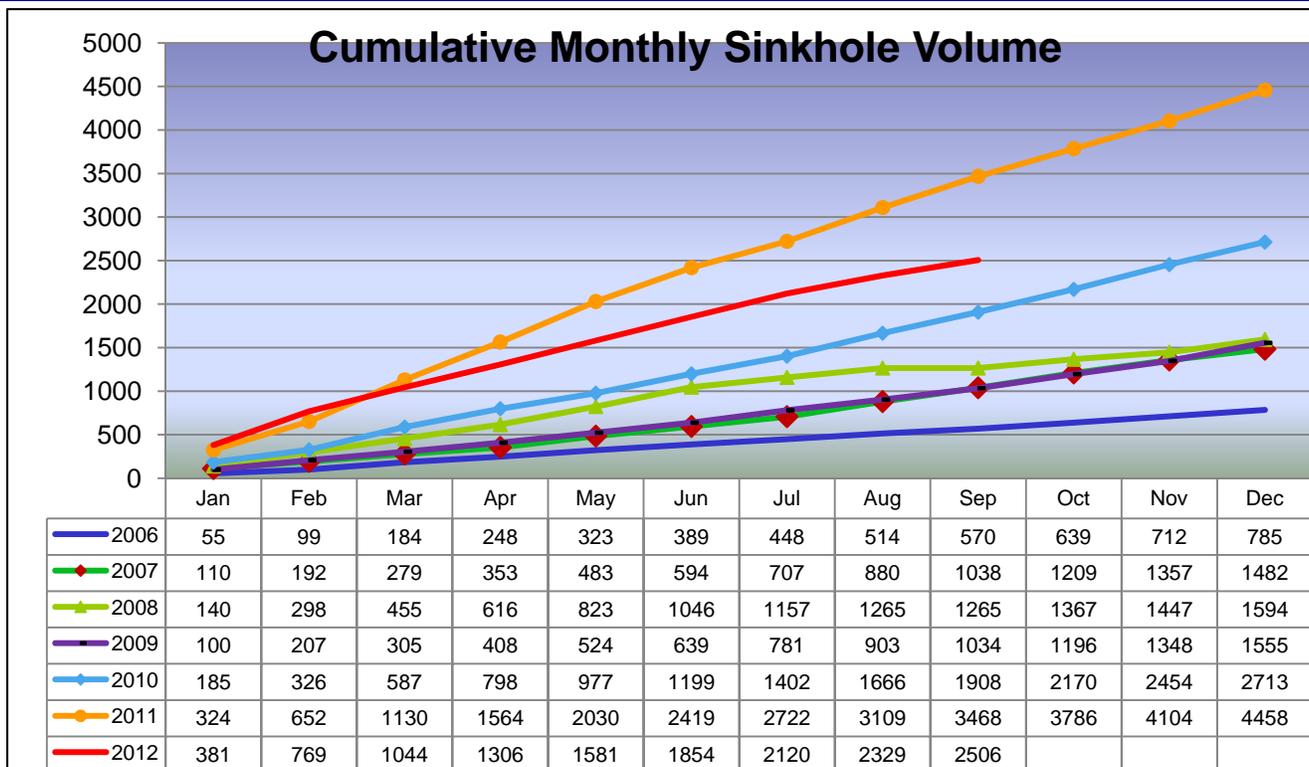
Comprehensive Sinkhole Strategy

Following the initial Sinkhole Summits on March 27th & 28th, 2012, the Insurance Operations team engaged a comprehensive sinkhole strategy intended to influence the impact of Sinkhole claims across the insurance cycle.

To date the following actions have been taken:

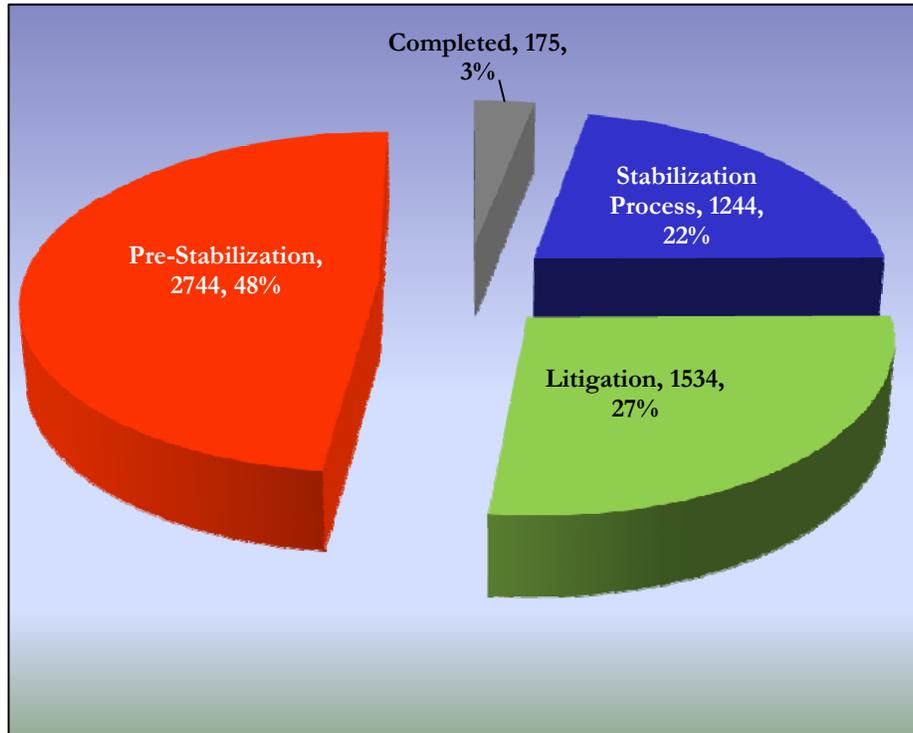
- Continued focus on Sinkhole Project Plan:
 - Six project teams are identified, with team leads. Teams are focused on;
 - Coverage
 - Claims Handling
 - Fraud Prevention
 - Litigation
 - Managed Repair Program
 - Legislation
 - Training is being developed and delivery has initiated
 - Sinkhole specific Best Practices and Estimating Guidelines completed
- Sinkhole Claims Organization transition is underway evolving from a desk-based adjustment model to a predominantly field-based adjustment model
 - Sinkhole Assistant Director position filled by Jeff Lambert
 - Three Sinkhole Field Managers are on-board
 - Two field teams have been formed
 - Pending inventory strategy being finalized, engaging Sinkhole Desk Adjusters to manage through the current pending inventory, expect to engage this strategy for 9 to 12 months due to long-tail nature of sinkhole claims
- Litigation Strategy accelerated with naming of Coordinating Counsel
 - Engaging with Defense Firms and with Claims Team
- SIU Strategy is moving forward
 - SIU Specialist Investigator in Tampa, selected to Sinkhole investigations
 - Implementing SIU Analyst team, Supervisor selected, identifying team members currently
 - Every sinkhole claim will be routed through this team to support identification of potentially illegitimate Sinkhole claims for referral to Sinkhole Investigators
- Sinkhole policy language under review,
 - 2013 Sinkhole Rate Filings submitted and approved by Office of Insurance Regulation
 - Ongoing evaluation of new policy language and endorsements, for future implementation
- Underwriting process initiatives implemented and in process
 - In 2011 implemented new business sinkhole underwriting process requiring physical inspections in four counties, expanded to 16 counties in Q2 2012
 - Scheduled for late-2012 implementing a Sinkhole Re-Underwriting program to address existing business

Sinkhole Volume Update



- The September YTD 2012 Sinkhole claims are down 27.7% from September YTD 2011
 - Driven by reduced Sinkhole Endorsements YTD 2012 and consistent application of Claims and Underwriting strategies
- 2012 Year End Paid Indemnity (for all accounts) is forecast to be approximately \$174,000,000 approximately a 21% increase over year end 2011.
 - A driving factor is Citizens' continued adherence to the sinkhole statute, as this continues, more insureds are stabilizing sinkholes and repairing homes
- 2012 Year end Paid Allocated Loss Adjustment Expenses (for all accounts) is forecast to be approximately \$59,500,000, approximately a 20% increase over year end 2011
 - Expenses incurred in the Neutral Evaluation Process showing increases under SB 408 changes, as Neutral Evaluators are permitted to engage additional experts in their evaluation, these expenses are borne 100% by the insurance carrier
 - Citizens is receiving Neutral Evaluation invoices as high as \$15,000
- As of September 2012, year to date pending claim level reserves are relatively consistent with year end 2011 reserves
 - Indemnity Reserves are \$513,841,559
 - Allocated Loss Adjustment Expense reserves are \$36,105,086
- These forecasts do not include an IBNR (Incurred But Not Reported) reserve analysis

Distribution of Sinkhole Pending Inventory



- As of September 2012 Citizens has approximately 5,697 pending sinkhole claims
 - 4,163 FNOL sinkhole claims in pending inventory, reduced from 4,702 as of mid-May 2012
 - 1,534 Litigation sinkhole claims in pending inventory as of September 2012 compared to 884 as of September 2011
- The trend of stabilization being completed continues as Citizens' remains consistent in settling Sinkhole claims, according to Florida Statutes, at ACV (exclusive of Stabilization Costs) and requiring the insured to select a Stabilization Vendor
 - Citizens then tenders Stabilization costs as stabilization efforts are completed and costs are incurred
- Citizens is currently investigating 385 sinkhole claims under the 2012 policy language, which incorporates SB 408 initiatives
 - Increased closures attributed to decreasing cycle time to receive Engineering Evaluations and decreased incoming volume
- Citizens has closed 4,163 sinkhole claims through September 2012 compared to 2,412 through September 2011

Sinkhole Claims Received in 2012

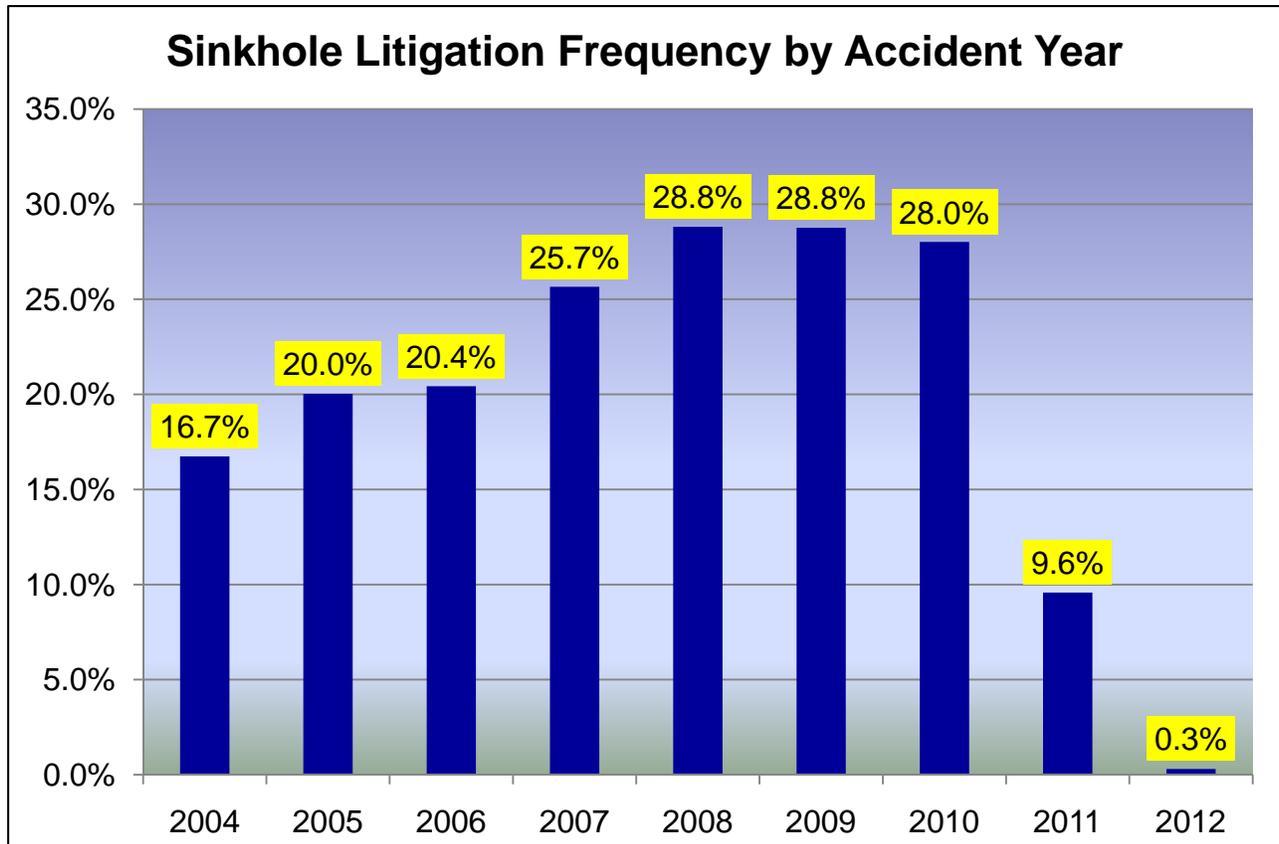
Distribution of 2012 Sinkhole Claims

- Of the 2,505 new Sinkhole claims received through September 2012, Citizens has received a total of 867 (or 34.6%) that were reported for a prior Accident Year
 - This is driven by insureds reporting claims under prior policy language to avoid provisions of SB 408 adopted into the policy language
 - Expectation is for this trend to continue through May 2013 as SB 408 also adopted a 2-year limitation on reporting new sinkhole claims
 - Citizens investigates each claim thoroughly to validate when the sinkhole claim manifested to ensure compliance with the 2-year reporting limitation

Sinkhole Claims Received Under Revised 2012 Policy Language

- Citizens adopted the SB 408 revisions into the policy contract through policy language revisions approved by the Office of Insurance Regulation
 - This language adopts revisions from SB 408 into the policy contract
 - Became effective with new and renewal policies beginning January 1, 2012, full cycle of renewals will move all policies to the new language by year end 2012
 - Citizens' generally engages a Structural Engineer on every new sinkhole claim, which falls under the 2012 Policy Language, to ensure full compliance with the five part Structural Damage definition
- Through mid-October 2012 Citizens has received approximately 385 Sinkhole claims under the new 2012 policy language
 - 110 of these claims have been closed
 - No structural damage identified for 68.5% of these claims,
 - Structural damage identified, but no sinkhole activity found, on 2.5% of these claims
 - No damage to the primary structure for 3.5% of these closed claims
 - Insured withdrew their claim on 17% of these closed claims
 - No Optional Sinkhole Endorsement, selected by the insured, for 8.5% of these claims
 - ✓ For these claims Citizens evaluated the applicability of Catastrophic Ground Cover Collapse and the structures did not pass all four statutorily required tests
- Citizens' Sinkhole Claim Team engages with Citizens' Litigation Team to review any denials as an opportunity to confirm conformance with policy language
- All sinkhole claims are tendered according to the statutory and policy language, protecting the insured and the mortgage holder

Sinkhole Litigation Update



- 900 new Sinkhole suits received through 9/30/2012 compared to 492 through 9/30/2011
 - Representing a 83% increase year over year
- Litigation increases driven, in part, due to Citizens tendering ACV exclusive of Stabilization, in compliance with the Sinkhole Statute, since mid-2010
 - Largest increases are in 2010 and 2011 accident year sinkhole claims, anticipate these years continuing to increase and reach approximately 30% as these years mature
 - **61%** of new suits received in 2012 were filed where Citizens had **tendered in compliance with Sinkhole Statute, and Stabilization had not been initiated**
 - **23.8%** of new suits received in 2012 were filed **due to Citizens denial** of a sinkhole claim
- Pursuing appropriate defense of Sinkhole Litigation
 - One 2012 Sinkhole Trial ended in a mistrial as unable to select a full jury panel
 - One 2012 Sinkhole Trial ended with a Defense Verdict based on requirement for insured to select a stabilization vendor and engage stabilization