

The Florida House of Representatives
Representative Bill Proctor
District 20

July 14, 2011

Mr. Scott Wallace
President/CEO and Executive Director
Citizens Property Insurance Corporation
7215 Financial Way
Jacksonville, Florida 32256

Dear Mr. Wallace:

As you may know, I have a long standing interest in Florida's property insurance problem, and I would appreciate any assistance you may provide in regard to the following questions. As we approach the 2012 legislative session, I am seeking to be as informed as possible concerning the state's capacity to contend with one or more major storms. The following questions pertain primarily to Citizens staff presentation to the Cabinet on 16 June. I am enclosing a copy of the related document.

1. Financial Independence of Citizens 3 accounts: The slide showing "Estimated Claim Paying Ability" (page 2) and "Estimated Claims Paying Resources" (page 5 and 6) seem to portray Citizens as one financial entity. The notes on page 6 state the situation correctly: "Each account is accounted for separately as required by Florida statutes," Susanne Murphy, in a response to a question from Commissioner Putnam, did say "you would reallocate the money that is shown on these pages if you had three storms in a regular year." If I am not mistaken, Citizens cannot move money between the three accounts (coastal, PLA, and commercial), but I'm not sure that the Governor and the Cabinet completely understood the distinction. My point is, when talking about the possibility of an assessment or a Citizens policyholder surcharge, we must look at each account separately. As a practical matter, I believe we should focus our attention on the Coastal (HRA) account where the bulk of the hurricane exposure resides, where the

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attachment point of the FHCF is high, and where the accumulated surplus, in relation to the exposure is small. Would you confirm to me that the accounts are indeed separate and that a deficit in one cannot be offset by a surplus in the other?

2. Modeling 100% of Citizens Current Exposure: The estimated loss scenarios (page 4 and 5) appear uncommonly precise, yet as you and I know, they are estimates. The notes on page 6 explain how the numbers were calculated: AIRv12 including Loss Amplification and excluding storm surge. This is a conservative approach. Even more surprising is Ms. Murphy's statement that the estimated loss is based on weighting the long term model results (one third) and the near term model results (two thirds). I say this is surprising because: a) it's a conservative approach and b) the near term model has not been approved by the Florida Hurricane Methodology Commission. However, the notes in the presentation also state that the results are based on Citizens portfolio as of December 31, 2010, and that commercial business has been excluded from this analysis because "historically" losses have been "negligible." I would like to review the results from multiple models that reflect 100% of Citizens current exposure. Recently, the Florida Hurricane Methodology Commission approved RMSv11, Equecat 201 1A, and ARAv5.0. They did not approve the new public model, FPM 4.1. Therefore, please run each one of Citizens three accounts through each one of the five models using Citizens inforce business as of June 30, 2011. I would expect that the range of estimates for the 100 year event will be extremely large. Running the models based on the June 30th data will have the additional benefit of permitting an accurate estimate of potential recoveries from the FHCF.

3. What would it cost today for storms of yesterday: Commissioner Putnam asked the key question: "How do multiple storms throw off your model?" Ms. Murphy answered by saying, "If you had three storms in a regular season you might trigger an assessment or a Citizens policyholder surcharge," but she didn't give a precise answer to the question because "there are infinite variations." While the latter statement is true, it's not very helpful. CFO Atwater suggested laying out several different potential loss scenarios. In my view, the easiest way to do that is to model the historical storm tracks over Citizens current book of business for each one of Citizens three accounts (Coastal, PLA, CLA). I suggest doing that for 1926 (Miami event), 1992 (Andrew), 2004 (four storms), and 2005 (four storms). Those losses can then be matched to Citizens claim paying resources. My purpose in requesting this is to determine whether or not a Citizens policyholder

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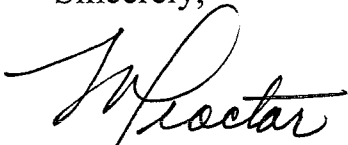
surcharge or assessment would be required if those storms were to reoccur in 2011. In other words, what would it cost Floridians today if there was a repeat of storms of the past.

I know that RMS and AIR have the ability to run historical storm tracks over a current book of business. I don't know if either Equecat, ARA, or the people at Florida International University (the public model) can do the same thing. Again, I would expect each one of the models to produce significantly different estimates of the losses from each one of these historical storms, but this will give us the best estimates so we can be honest with the public and policymakers.

4. Effect of Several Storms: One of the Governor's first questions to Susanne was: "So we don't get into assessments until the 1 in 50, right"? Her response was, "We don't rely on anything other than surplus and CAT fund until we reach a 1 in 50 year event." That would imply to the typical individual that there is less than a 2% chance of Citizens making a policyholder surcharge. While that might be true, unfortunately, it's not that simple as the subsequent questions regarding multiple storms indicate otherwise. The Governor seemed to be searching for a way to quantify the risk of a policyholder surcharge or assessment. I think that can be done by modeling the probability of one large storm or several smaller storms exhausting the "total accumulated surplus" in each one of the three Citizens accounts (see slide 2 – but the surplus of the PLA and the CLA need to be separately identified). In my view, that's the only way to give Floridians and policymakers an estimate of the probability of being assessed by Citizens in 2011.

I appreciate your assistance in providing this information, and it would be helpful if you could do that by July 25 or sooner. Thank you.

Sincerely,



William L. Proctor
State Representative
District 20

bc: The Honorable Don Brown ✓

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