



## Barry Gilway - Talking points - August 25 Rate Hearing

Good morning. I appreciate the opportunity to be here with you this morning to discuss Citizens' proposed 2015 Rate filing.

Over the next few hours, my staff will delve into the details of a 2015 rate proposal that reflects not only improvements within Citizens, but improvements throughout a vibrant and expanding private market that, like Citizens, has benefited from eight years without a major storm and an expanding global market ready to take on catastrophe risk.

I would like to take a few minutes, however, to give you an overview from 30,000 feet on where Citizens has come from over the past few years and how that impacts the proposed rates you will be hearing more about today.

The bottom line is this: Prudent rate adjustments over the past several years, coupled with depopulation efforts and a historically favorable reinsurance market have made it possible for Citizens to submit a rate schedule that will provide rate relief to nearly 70 percent of Citizens policyholders.

Taken together, our efforts over the past few years have reduced Citizens' exposure from more than \$500 billion to less than \$300 billion, an 40 percent reduction that has resulted in an equally dramatic reduction in risk to Citizens customers and all policyholders who would be required to pay assessments in the event of Citizens exhausts its ability to pay claims.

In 2011, a 1-100 year event would translate into \$11.6 billion in assessments. Going into 2015, that assessment risk has been slashed 80 percent to less than \$2.3 billion.

Citizens has reduced its policy count from a high of 1.5 million in to under 933,000. Take out activity in the final months of 2014 will reduce that number to well below 900,000.

### SINKHOLE:

Another major rate driver is sinkhole. I have good news on that front as well. Following the passage in 2011 of SB 408, which provided much needed clarity regarding sinkhole claims, we have seen a significant reduction in new sinkhole claims.

This is significant as sinkholes, which for 2013 make up 4 percent of all reported claims, and accounted for close to 50% percent of all reserves for losses and loss adjustment expenses at year-end.

In the past few months, we have entered into settlement agreements with 755 sinkhole policyholders with pending cases to end the legal battles and get prepares made.

Last year, as you recall, we proposed actuarially sound rates in all counties outside of “Sinkhole Alley” and phased in rates in those counties to cushion the sticker shock to our customers

Given such favorable indications, we think it prudent to hold off on any 2015 sinkhole rate increases in all but one county, Hernando, where rates continue to be far below actuarially sound levels. For Hernando, therefore, we are asking for a 10 percent increase.

## REINSURANCE

Any discussion of 2015 rates, however, cannot take place without acknowledging Citizens success in spreading risk across the globe. Make no mistake. Successful negotiations earlier this year between Citizens, traditional reinsurers and global cat bond investors resulted in a \$3.3 billion package of reinsurance protection that will significantly reduce the rate need in 2015.

For most Citizens policyholders, the results are simple: Lower rates for nearly seven out of 10 Citizens policyholders. For Citizens customers in some regions, largely along the coast, where Citizens rates remain inadequate, we are seeing smaller increases and a slowing of rate need.

Over the past four years, we have been on a continual mission to bring Citizens rates more in line with the actuarially sound levels necessary for a sustainable, healthy Citizens and private market, while reducing the potential risk of assessments for all Floridian policyholders.

The proposed 2015 rate schedule is the result of those efforts. It mixes lower inland and multi-peril rates with targeted rate increases in coastal areas of the state where rates, especially for wind, remain far below adequate levels.

When I arrived at Citizens two years ago our goals were clear – reduce exposure and assessment risk as we return Citizens to its original role as insurer of last resort. We are accomplishing that while at the same time relieving some of the rate pressure on most of our policyholders.

Thank you for your consideration. I would like to turn over the podium to John Rollins, Citizens Chief Risk Officer, who will walk you through, in more detail, the 2015 rate package.