



Barry Gilway – Opening Comments – August 18, 2016 Rate Hearing

A core principle in Citizens Property Insurance Strategic Plan, and declared in Florida law, is that actuarially sound rates enable a financially sound Insurance Corporation to pay its claims quickly, even after a major storm, without resorting to assessments on its own policyholders or other Florida policyholders. Since 2011, important measures have been taken to reduce our overall size, which reduces our concentrated storm risk. Further, we have steadily built a robust reinsurance program to spread the remaining storm risk to willing investors around the globe to relieve the potential tax burden of Floridians. In 2015 a major milestone was achieved when, for the first time, Citizens was able to pay claims following a modeled 100-year hurricane from surplus and reinsurance without a potential assessment. We are thrilled to report that ability is extended to 2016 and we intend that it remain part of our 2017 strategy.

Further breaking down our policy-in-force reductions, we see that the aggressive depopulation of multi-peril personal lines policies that began in 2012 has shed over 70% of our peak customer base to the private market. This result was significantly impacted by the adoption of improvements to our Depopulation Program and the introduction of our Clearinghouse. Citizens' also benefited from major reductions in worldwide reinsurance costs and a stable non-weather claims environment. However, those two market tailwinds are potentially at risk.

First, non-weather claims trends have risen sharply since 2013, affecting both private insurers and Citizens Property Insurance. Secondly, global windstorm reinsurance costs are stabilizing, albeit at historically low levels. This spike in non-weather claims is responsible for the vast majority of the recommended rate hikes for some customers, as you will see shortly.

Also, the abundant and inexpensive capital to finance wind risk has created a delayed, but equally impressive, rush to depopulation in our wind-only products. In 2015 and 2016, over a third of our personal lines wind-only policies were taken out. This has reduced our Coastal Account's probable maximum loss by over half since our peak, and made it much easier to purchase a manageable amount of reinsurance to avoid assessments and protect our accumulated surplus.

All of these successes are enabled by steady progress toward actuarially sound rates. Proper rates not only provide the funds to keep our promises to our policyholders, but also provide competitive opportunities for private insurers to offer sometimes superior coverage at equal or lower premiums than Citizens Property Insurance. This is why we have so many former customers now experiencing more options at reasonable prices with proven, financially strong private insurers. With that in mind, there is mixed news for the remaining Citizens customers in 2017 regarding rates. I'll turn it over to the Chief Risk Officer and the actuaries to walk us through the rate news and cost drivers around our state.

John Rollins – Talking Points– August 18, 2016 Rate Hearing

SLIDE 5: By law, Citizens must recommend actuarially sound rates annually, subject to the 10% maximum change for any one customer under the glide path. The essence of the rating law is this: Premiums should cover expected costs, no more and no less. The best forecast to achieve this balance is recent history and trends, and these trends are clear: Non-hurricane claims costs vastly exceed premiums around most of Florida for most of our products. The uncapped indications show how much higher rates must be to capture expected costs. As a result, unless the costs are reduced and trends reverse, most Citizens consumers can expect years of near-10% increases.

SLIDE 6: The map of homeowners multi-peril policy rate impacts by county showed decreases all over Florida except for Tri-County at this time last year. Another year of higher water losses has turned the map into a checkerboard of increases and decreases, with Tri-County showing continued increases and metro Tampa Bay, Panhandle, Southwest Florida, and other areas now feeling the effects.

SLIDE 7: On the wind-only side, the need for higher rates is in part actually a success story, since well over 100,000 wind-only policies that were close to adequately priced have been selected by private insurers just in the past two years. The remaining book is only 40% as large as our peak policy count, and mostly consists of policies that are still proceeding along the glide path to adequate rates over time. Though rate increases are indicated this year, the cost structure is stable or declining, with historically low reinsurance rates and stable hurricane models.

SLIDE 8: What is not stable are the trends in water losses on multi-peril policies, so let's discuss a bit more detail. Last year, to an extent, hope was a strategy. We recommended rates based on a tempered view of the loss trends, expecting some stabilization in the cost spike. The green bars show the cost assumptions underlying last year's uncapped rate indications, the blue bars show that this year's costs have exceeded those expectations, and the orange bars show the natural trend line used in this year's indications. Something must be done to reverse this trajectory if we are to have any hope of controlling costs and therefore stabilizing rates.

SLIDE 9: The root causes of the ominous trends, the increased utilization of AOBs and increased representation at first notice of loss, have not abated or changed. Report year claim data shows a steady climb in the percent of water claims that come to Citizens with an AOB from at least one vendor, and that are reported by an attorney or public adjuster. A staggering 55% AOB rate and 76% representation rate for water claims statewide means that Citizens often never has a chance to properly inspect the damage or adjust the claim cooperatively with the insured. Once an AOB is signed, the insured is out of the picture.

SLIDE 10: The really sad consequence is that, if we could have held to the trends that prevailed in 2013 prior to the explosion in third-party claim involvement, three of every four Homeowners multi-peril customers would have likely seen a rate decrease this year. Instead, over 80% will see increases. That's over half of our policyholders that swung from a decrease to an increase solely due to water loss trends.

SLIDE 11: Wind-only is a different story. The depopulation activity began later for this group than it did for the multi-peril policies, peaking in 2015 and 2016. However, it has been just as aggressive, with over 110,000 out of a historical 250,000 or so policies taken out. That has left us with a smaller group of policies that were historically inadequately priced and still must travel along a glide path for another couple of years, assuming wind costs remain stable as they have recently. Of course, a big storm or big macro-economic event could change the market.

SLIDE 12: It's important to note that reinsurance is not the reason for wind-only rate hikes. In fact, we have been getting more for less in our reinsurance program for some time now, as shown by the program size increasing while the net costs to consumers decreased from 2012-2015. This year, the much smaller Coastal Account has created a "depop dividend" for those left in Citizens, with a 40% lower reinsurance requirement (\$2.464 billion instead of \$3.905 billion) leading to net costs in the rate base declining from \$220 million to just \$134 million. On a unit basis, the portion of the premium dollar devoted to reinsurance has declined as well, from over 15% to about 12%. And we've done all this while maintaining zero assessment risk in the modeled 100-year storm.

SLIDE 13: On the sinkhole side, not much has changed in the past year as we wait for the backlog of litigated claims to clear, with the help of a global settlement option that is attracting some, but not all, of these claims. There is not much new loss activity among the remaining sinkhole endorsements insured by Citizens. Therefore, we've asked for rate stability for another year.

SLIDE 14: Some have asked how the recent policy language changes will affect our view of rates going forward. The short-term benefit of the new maximum emergency services limit and clarification of reporting requirements and coverage features is to reduce the water peril rate indication slightly, but this is a drop in the bucket of a very large rate indication. The real benefit will become if, as we hope, these changes incent different behaviors in the claims environment, with timely reporting and properly adjusted claims replacing the situations where policyholders lose control and third-parties inflate costs. If so, it will show up as significant reductions in the loss trends used in future rates.

SLIDE 15: As the policy count has declined, so has the premium base. This is especially acute under depopulation, since Citizens continues to service the policy until it renews, but pays the takeout insurer the entire unearned premium on the date of assumption. Our fixed administrative expenses have declined significantly, but not quite as fast as the premium base, leading to about a 1% uptick in our General Expense provision in rates. Still, these expenses are only 6.5% of premium – claims costs, reinsurance costs, and agent commissions are all much larger portions of the premium dollar. We are taking aggressive measures to normalize expenses while not sacrificing our ability to provide first-class customer service and to respond to weather events, some of which are outlined here.

SLIDE 16: Finally, some thinking about the plight of Monroe County. This area is dominated by wind-only Citizens policies, with non-wind coverage aggressively offered by private insurers. There are few problems with AOB and litigation on water claims here. Historically, wind rates have been inadequate for most Monroe customers according to the hurricane models accepted by the Florida Commission that we must use by law to set rates. While the consensus of the models has been consistent over time, there is now significant disagreement among them regarding whether we have reached rate adequacy. Three of the four we use continue to indicate double-digit percent increases, while one (RMS) indicates a slight decrease for Monroe

on average. The OIR and Citizens have heard from Monroe leaders on this point and we at Citizens agree that there is a wide range of scientific opinion, as shown on this map. However, we do not believe the answer is to depart from the methodology of selecting a middle indication from multiple model results, either for one county or statewide. To do so would not be actuarially sound and might be unfairly discriminatory under Florida law. Further, you can see that simply relying on a favorable model is not the answer. If we used RMS as our sole indication, the lowest model in Monroe County would also be the highest model in much of Miami-Dade and many other parts of Florida.

SLIDE 17: This slide shows that the model divergence is complex and often related to the age of the home as well, which would exacerbate the unpredictable effects of shifting our overall wind rate methodology.

SLIDE 18: Finally, this slide shows that the geographic diversity of Monroe County in particular increases the difficulties and sensitivities with hurricane model selection. Some storm tracks could devastate Key West and leave Key Largo nearly untouched, and vice versa. All in all, we would be eager to hear the results of an inquiry by the Florida Commission into the best actuarial approach for reflecting scientific consensus about Monroe's hurricane risk.

I'll be happy to take questions, or turn it over to the Office for questions of our certifying actuaries, Brian Donovan (Chief Actuary) and Paul Kutter (Director, Forecasting).

Barry Gilway, President/CEO and Executive Director
John Rollins, Chief Risk Officer

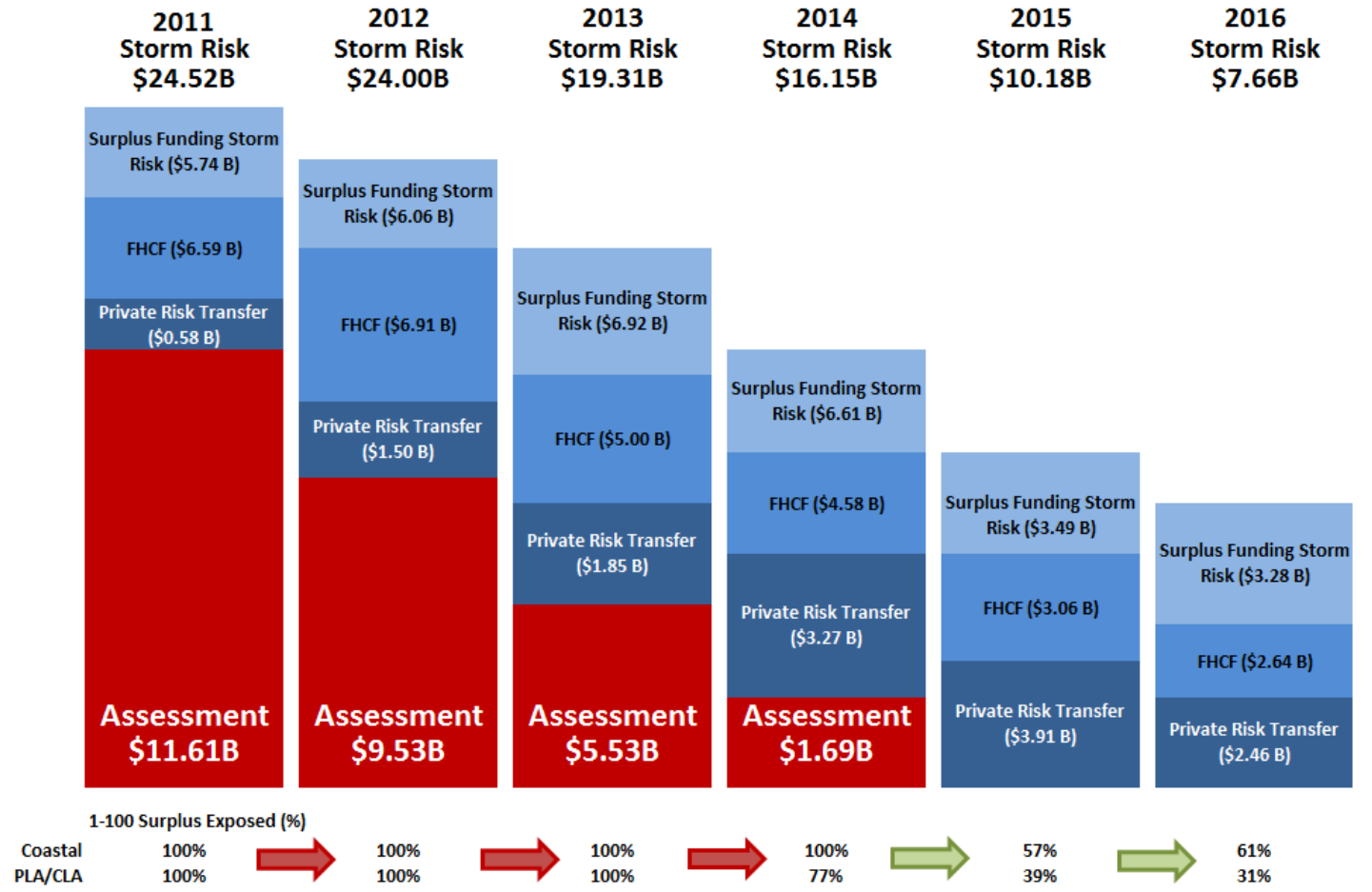
Public Hearing on Recommended Rates for 2017

August 18, 2016

Tallahassee, FL



Actuarially Sound Rates Support a Financially Sound Citizens

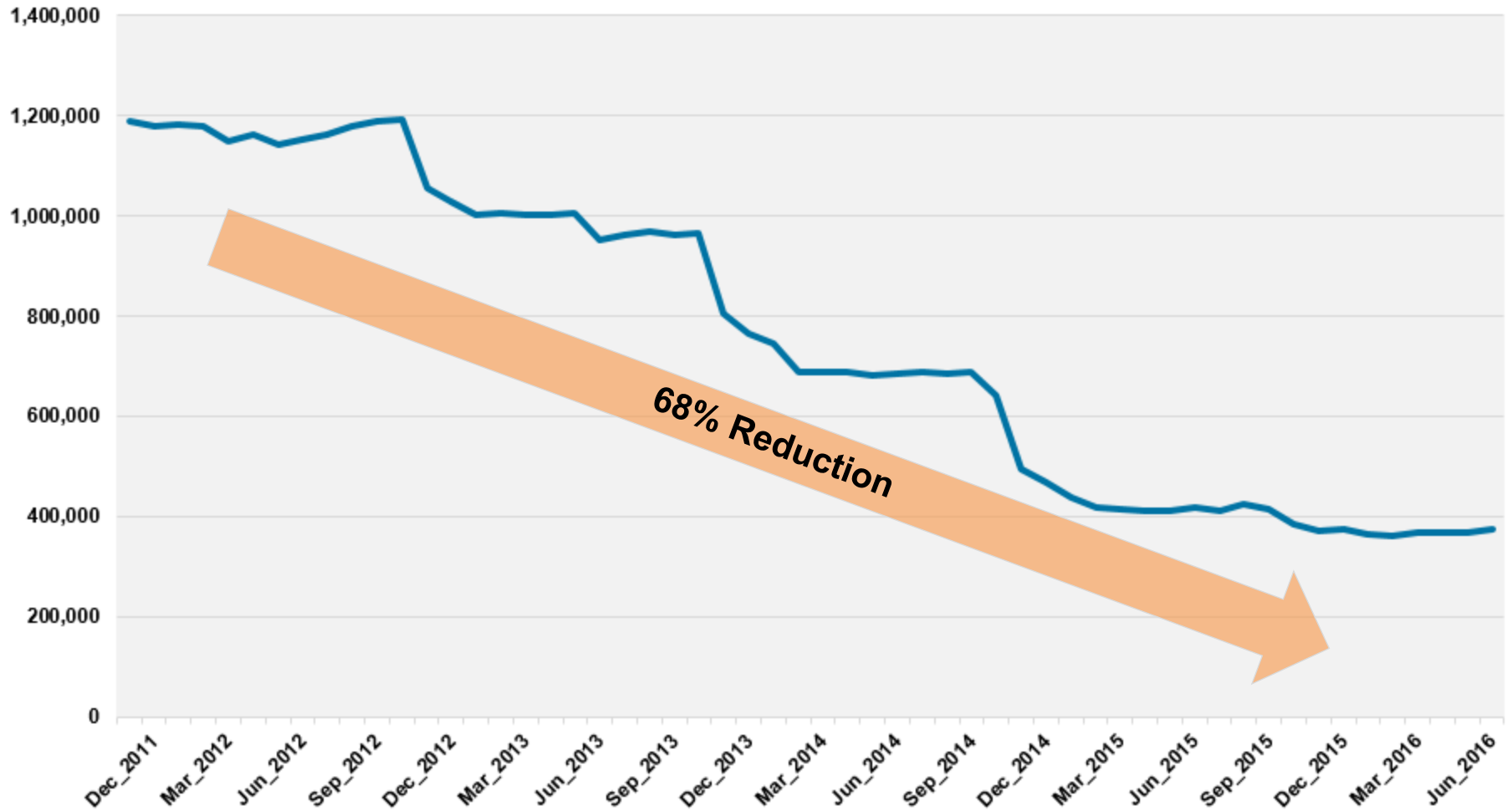


- NOTES:**
- Storm Risk is as measured by 100-year probable maximum loss (PML) plus estimated loss adjustment expenses using the Florida Hurricane Catastrophe Fund (FHCF) account allocation where PLA and CLA are combined. PLA/CLA combined PMLs are added to the Coastal PMLs to be consistent for surplus distribution.
 - 2011-2016 Surplus, Florida Hurricane Catastrophe Fund (FHCF) & Assessments are as projected at beginning of storm season. Not all PLA/CLA surplus is needed to fund a 1-100 year event in 2014. In 2015 - 2016, not all surplus in PLA/CLA and the Coastal Account is needed to fund a 1-100 year event. Remaining surplus is available to fund a second event.
 - Not all private risk transfer is needed to fund a 1-100 year event in 2015 and 2016 and is available to fund a second event.
 - PMLs from 2011-2014 use a weighted average of 1/3rd Standard Sea Surface Temperature (SSST) and 2/3rd Warm Sea Surface Temperature (WSST); 2015 - 2016 PMLs reflect only SSST event catalog.

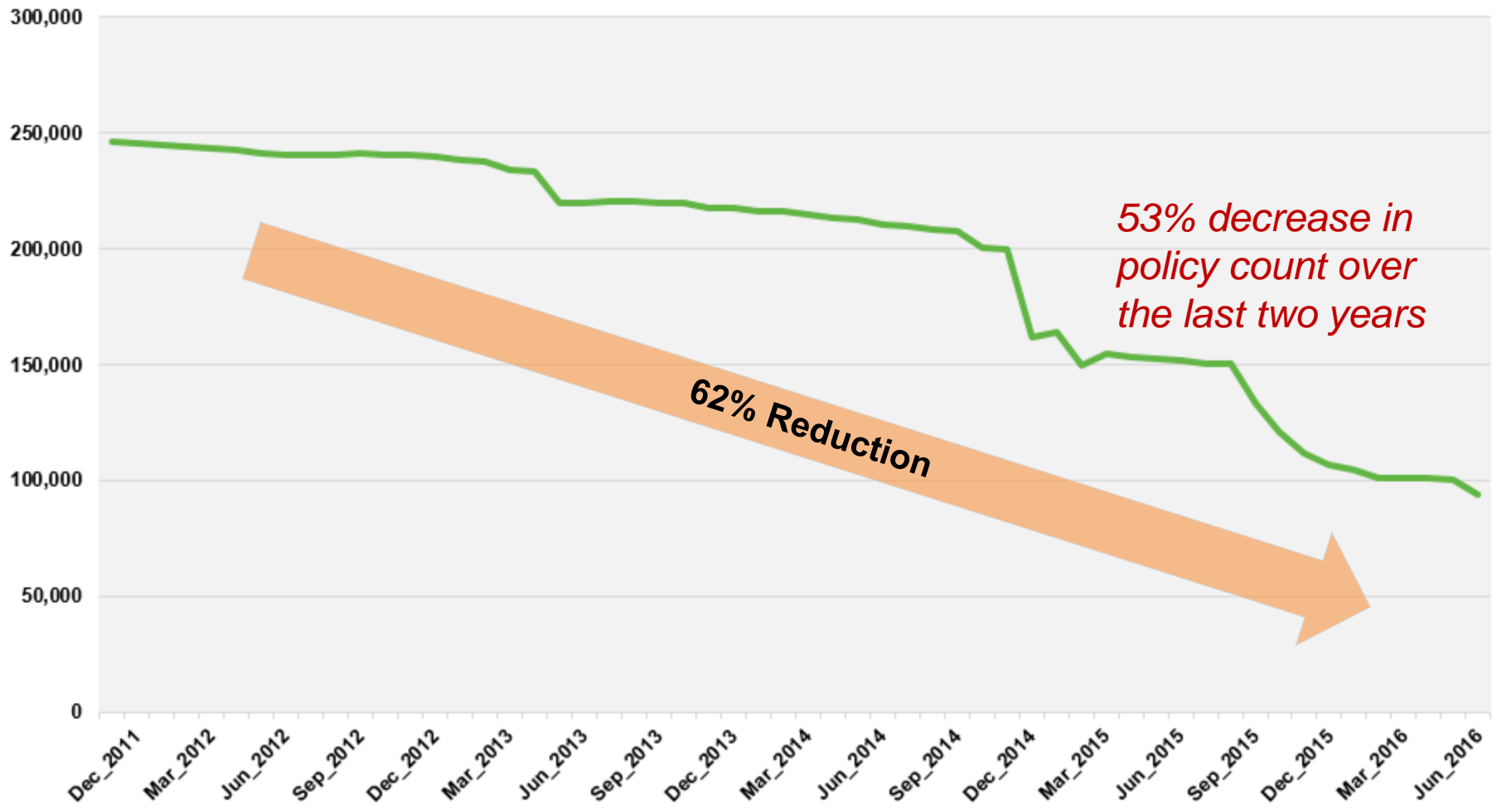
VALUES ARE NOT TO SCALE



Steady Drop in Personal Residential Multi-Peril Policy Counts Since Peak in 2012, But Depopulation is Slowing



Steep Decline in Personal Residential Wind-Only Since 2014



Costs Vastly Exceed Premiums, Signaling Years of Rate Hikes Under the Glide Path

Personal Residential Multi-Peril

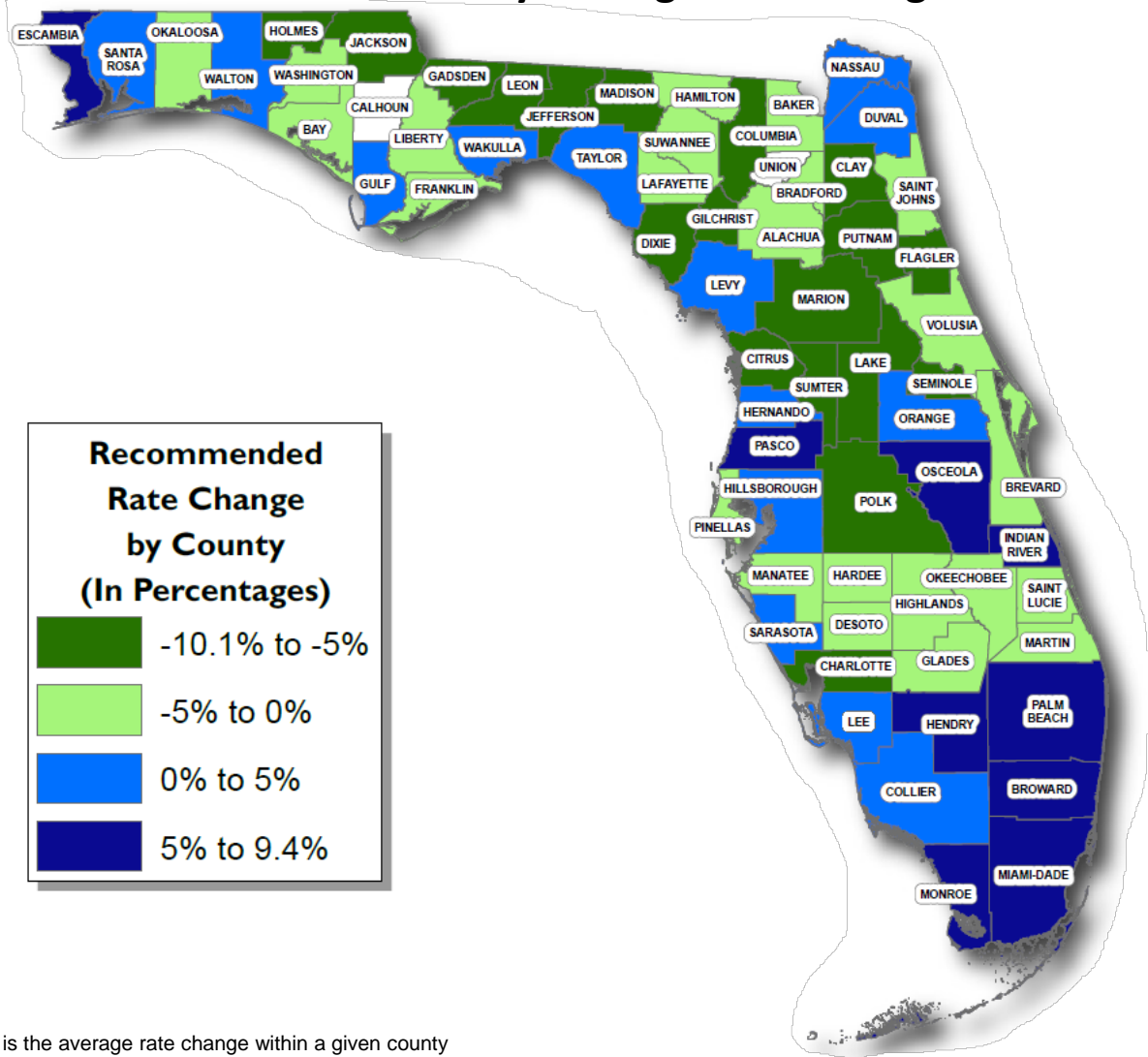
Policy Form	Uncapped Indication	Recommended Rate Change	Filing Number
HO-3	96.7%	6.9%	FCP 16-16024
HO-4	-22.6%	-13.4%	FCP 16-16024
HO-6	47.9%	8.3%	FCP 16-16024
DP1	9.6%	2.0%	FCP 16-16575
DP3	80.8%	5.8%	FCP 16-16575
MHO-3	12.0%	5.8%	FCP 16-16785
MDP-1	7.2%	3.1%	FCP 16-16867

Personal Residential Wind-Only

Policy Form	Uncapped Indication	Recommended Rate Change	Filing Number
HW-2	28.6%	8.6%	FCP 16-16025
HW-4	3.6%	0.9%	FCP 16-16025
HW-6	30.1%	5.3%	FCP 16-16025
DW-2	41.3%	9.3%	FCP 16-16576
MW-2	38.1%	10.3%	FCP 16-16788
MD-1	32.8%	10.5%	FCP 16-16866

Multi-Peril Average Rate Effects Vary by Region Due Primarily to Non-Weather Claims Trends

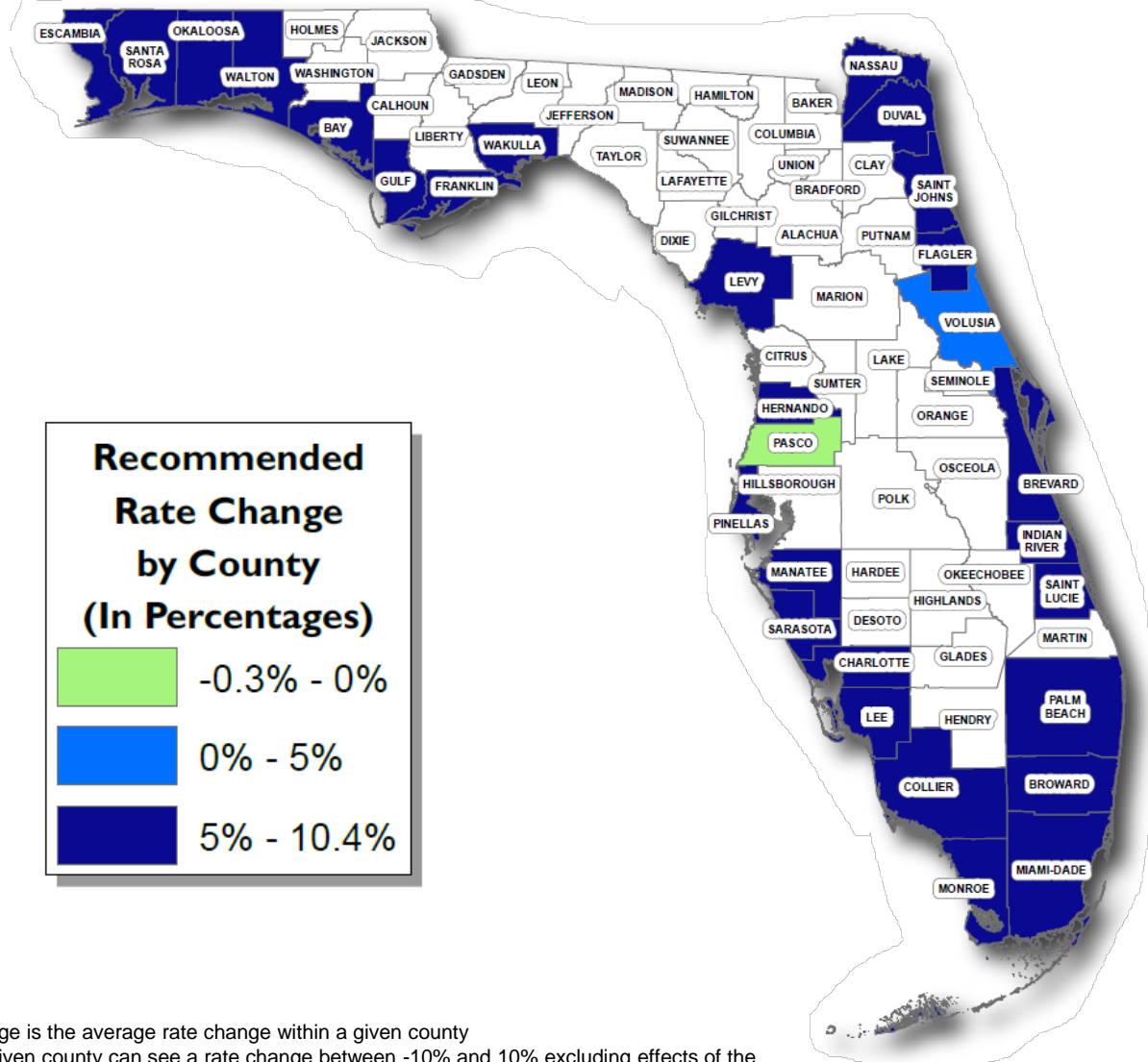
Multi-Peril HO3 County Average Rate Changes



NOTES:
 1) Percentage of rate change is the average rate change within a given county
 2) Policy holders within a given county can see a rate change between -10% and 10% excluding effects of the FHCF build-up pass through

Wind-Only Average Rate Effects on Remaining Book Reflect Heavy Depopulation of Adequately-Rated Wind Policies

Wind-Only HW2 County Average Rate Changes

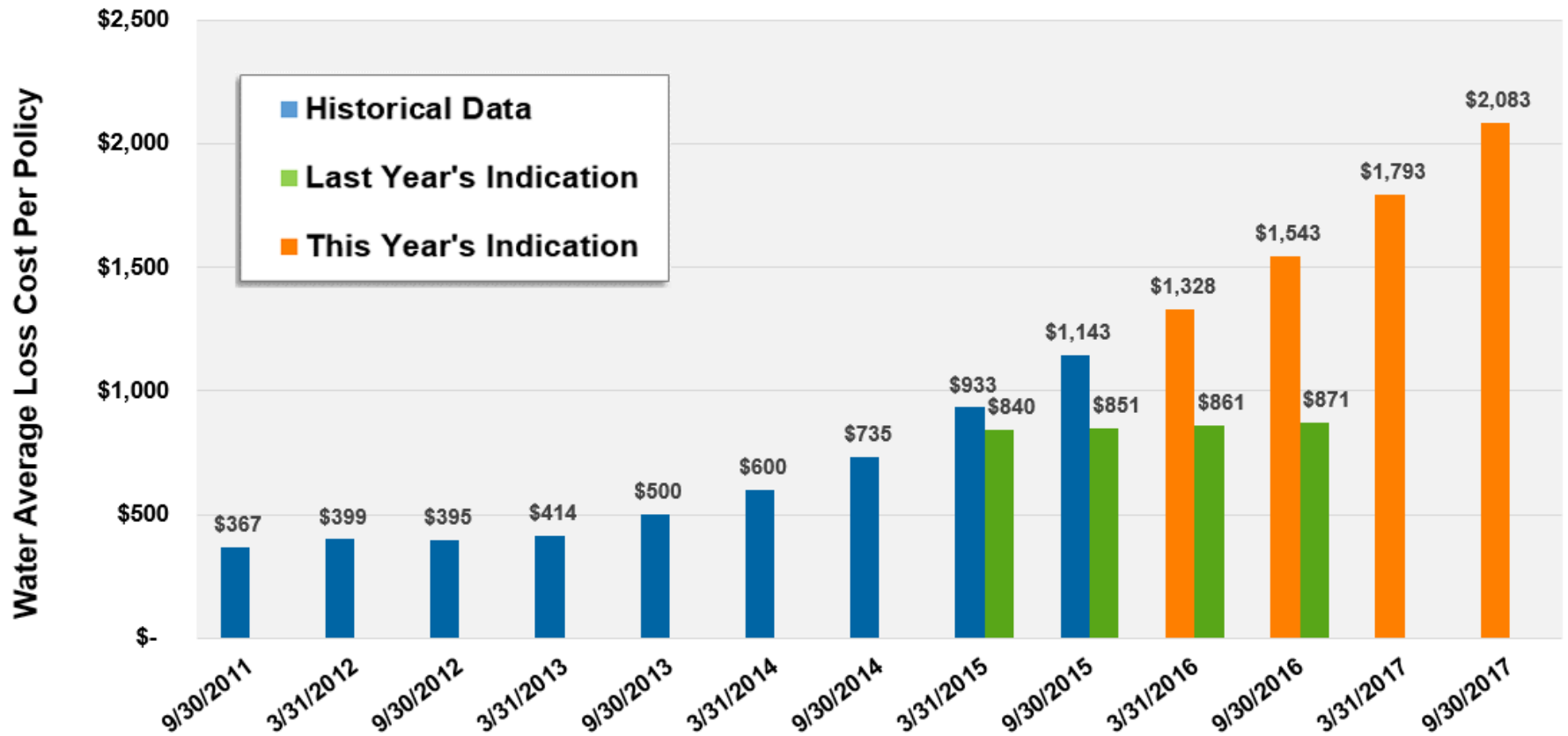


NOTES:

- 1) Percentage of rate change is the average rate change within a given county
- 2) Policy holders within a given county can see a rate change between -10% and 10% excluding effects of the FHCF build-up pass through



Water Loss Trends Have Not Stabilized, Driving Higher Rate Needs Across Florida

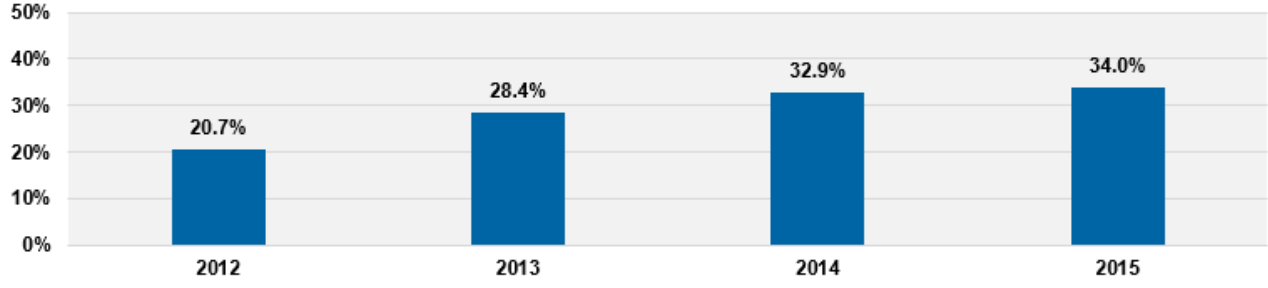


NOTES:

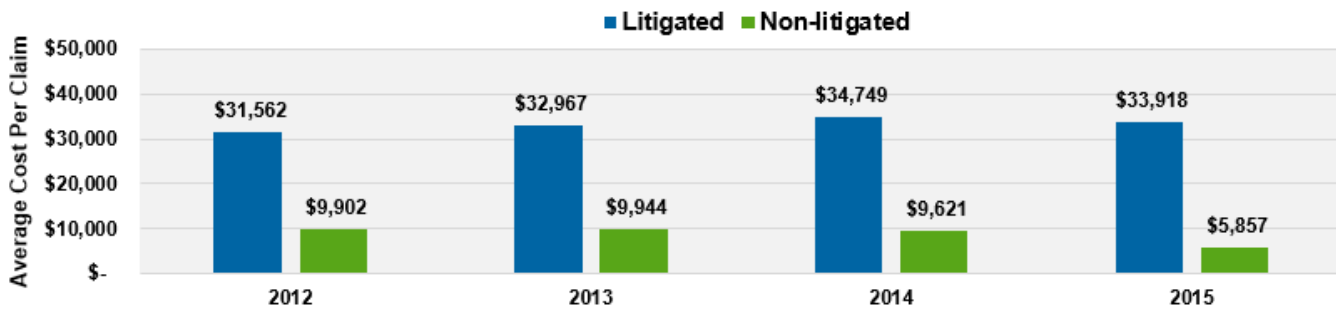
- 1) Figure above shows the average annual loss cost per policy due to water peril for Homeowners policies
- 2) Last Year's Indication uses the 2.4% all other peril loss trend filed last year
- 3) This Year's Indication uses the 35.0% water loss trend filed this year

Root Causes Identified in Citizens' White Paper Continue to Drive Water Trends by Report Year

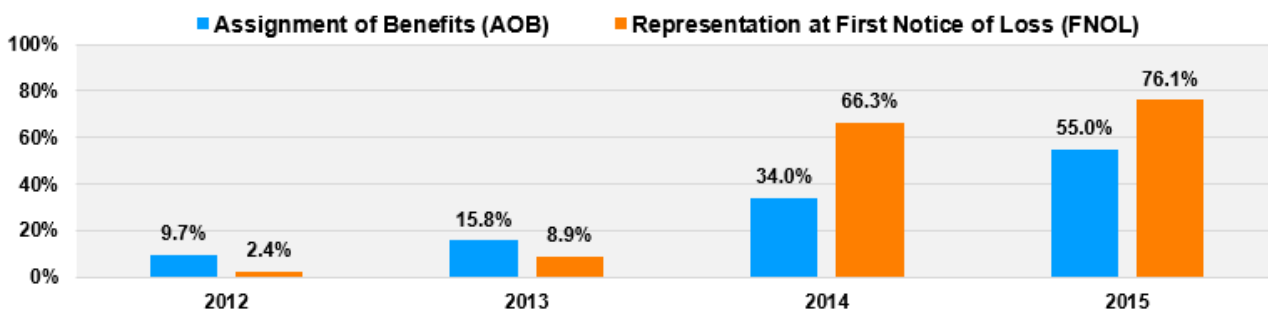
Percent of Water Claims That Are Litigated



Severity of Litigated vs. Non-litigated Water Claims



Percent of Litigated Water Claims with AOB or Representation at FNOL



NOTES:

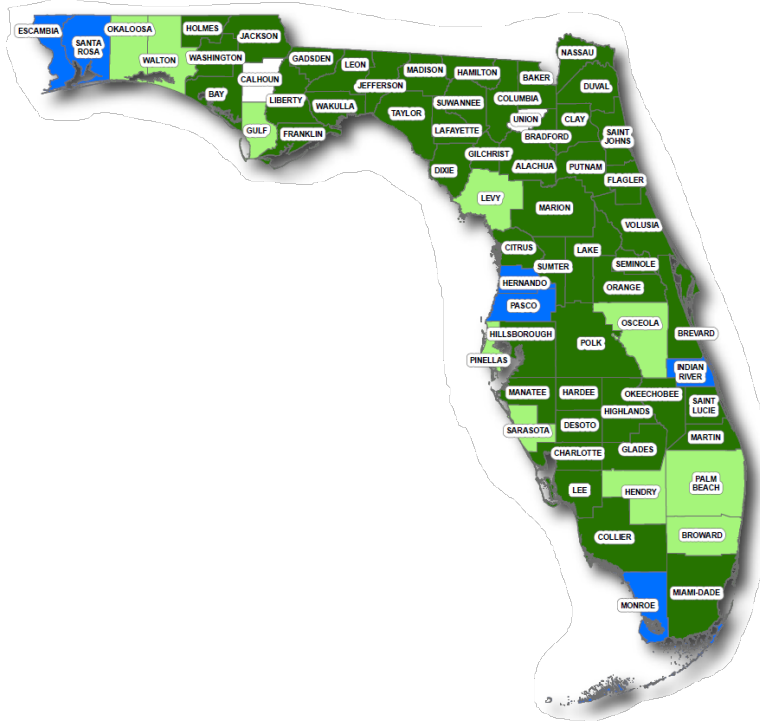
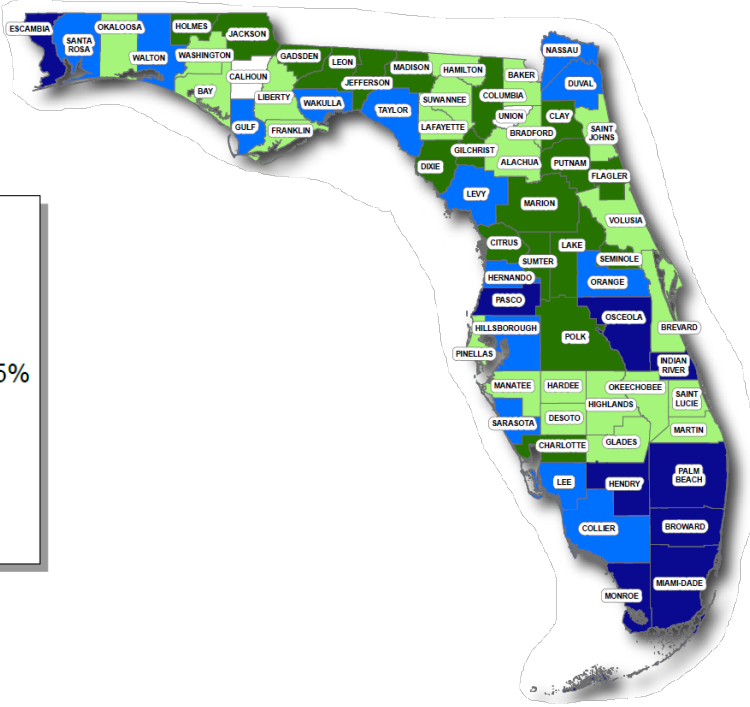
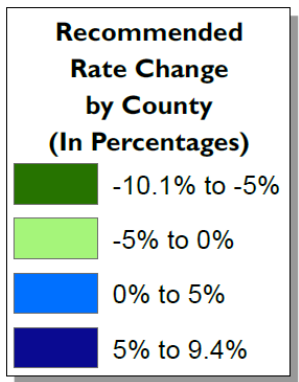
- 1) Claims data is based on non-weather related water claims by report year for Homeowners policies
- 2) Severity of litigated and non-litigated claims are based on undeveloped report year incurred loss and allocated loss adjustment expense (ALAE)



But For Recent Spike in Water Trends, Over Half of Multi-Peril Homeowners Customers Would Swing to Lower, not Higher Rates

Water Loss Trend at Current Level
Multi-Peril HO3 County Average Rate Changes

Water Loss Trends at pre-2013 Levels
Multi-Peril HO3 County Average Rate Changes



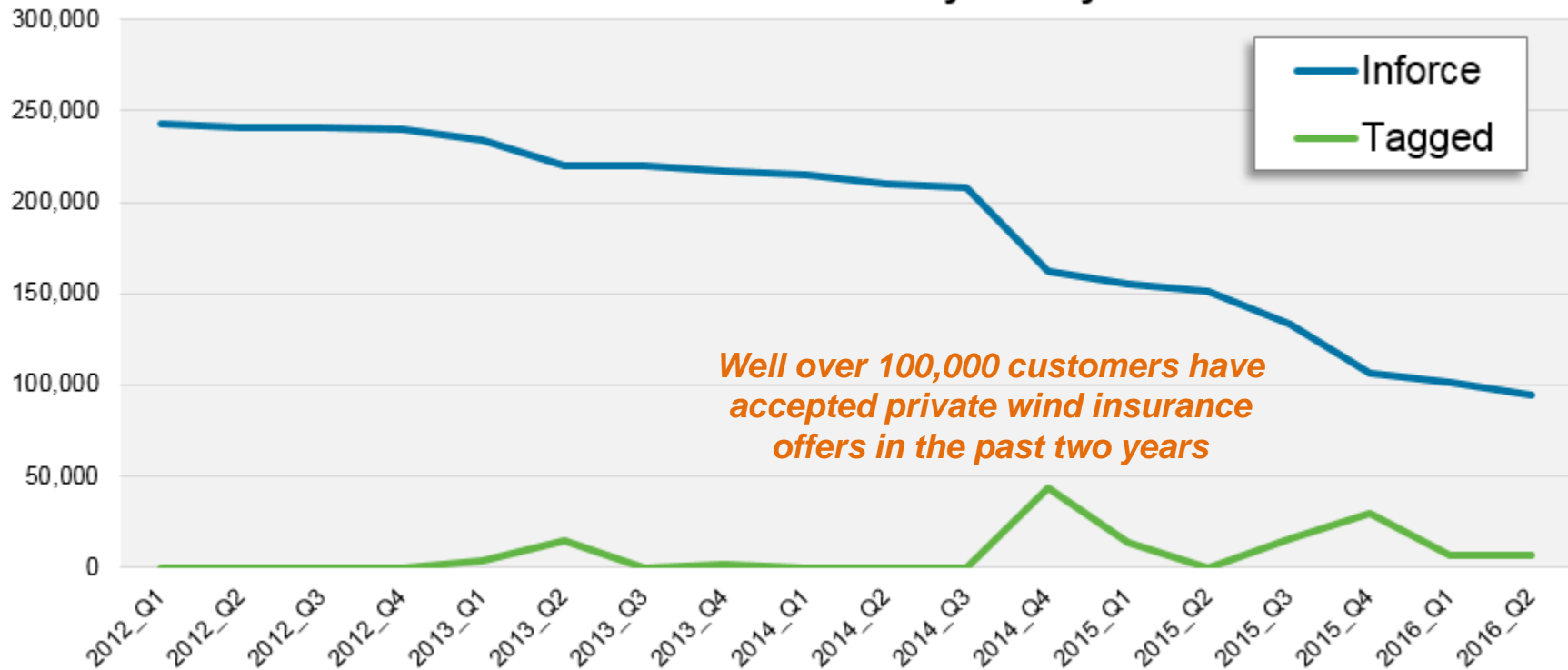
Water Loss Levels	Number of HO3 Rate Decreases in 2017
Pre-2013 Base Trend	103,000 out of 142,000
2017 Indication	23,000 out of 142,000

NOTES:
 1) Percentage of rate change is the average rate change within a given county
 2) Policy holders within a given county can see a rate change between -10% and 10% excluding effects of the FHCf build-up pass through



Wind-Only Depop Success Leaves Few Adequately Priced Policies, Driving Rate Hikes - But on Much Smaller Group

Personal Residential Wind-Only Policy Count

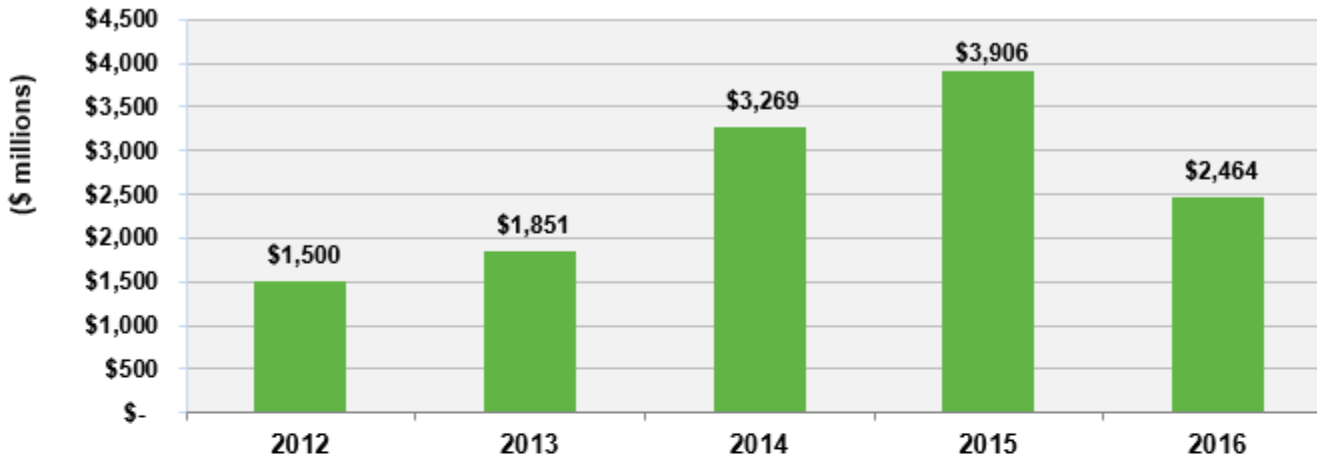


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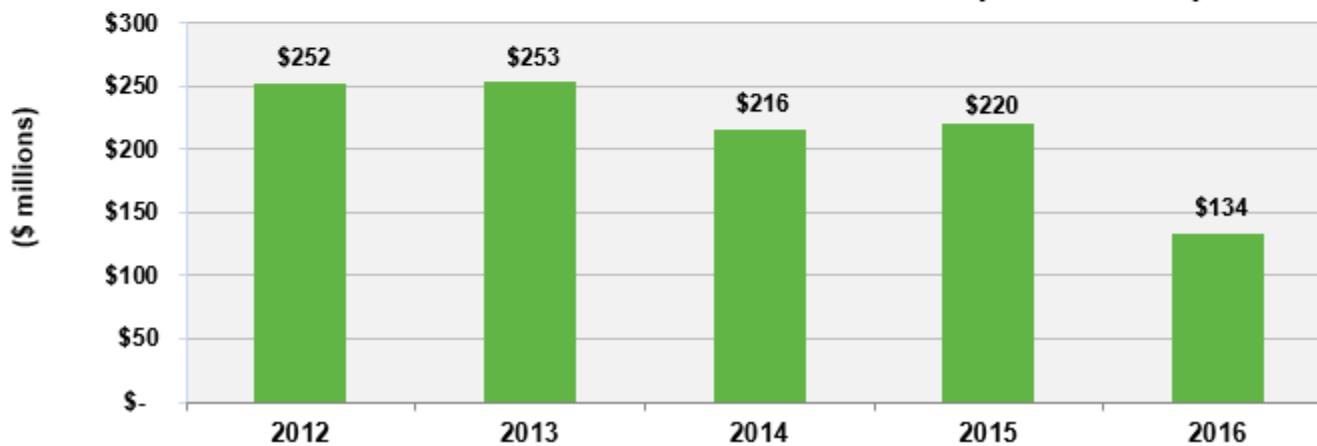
- 1) Inforce policy counts exclude risks tagged for depopulation; quarter end values shown above
- 2) Tagged policy counts are as of the date of assumption and does not include post date of assumption opt outs

Stable Hurricane Models, Abundant Capital, and Depopulation Have Cut Consumer Reinsurance Costs in Half

Total Private Risk Transfer (2012 - 2016)

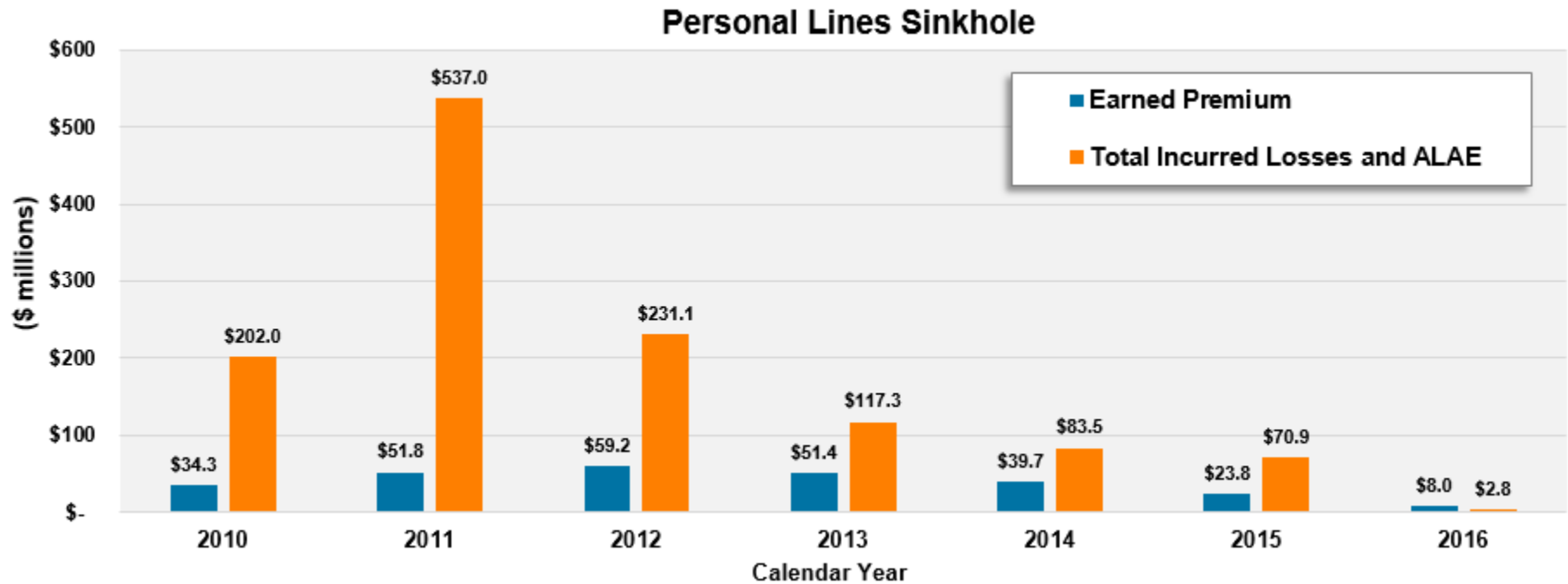


Net Cost of Private Risk Transfer (2012-2016)



This savings has been achieved even as Citizens eliminated its potential assessment in a 100-year storm and protected over 40% of its surplus after the “big one” for future years

Citizens Asks for Sinkhole Rate Stability as Claims Backlog is Resolved, Leveraging Global Settlement Option



Outstanding Reserves In Settlement	Post SB 408	Pre SB 408	Total
No	17,555,359	95,867,372	113,422,731
Yes	170,223	35,076,689	35,246,912
Total	17,725,582	130,944,062	148,669,643

Pending Sinkhole Claims in Settlement	Post SB 408	Pre SB 408	Total
No	147	538	685
Yes	1	263	264
Total	148	801	949

NOTE: Personal lines sinkhole data is as of 6/30/2016

Rate Indications Were Adjusted for Product Changes – But the Real Hope Is That Changes Restore Historical Trends

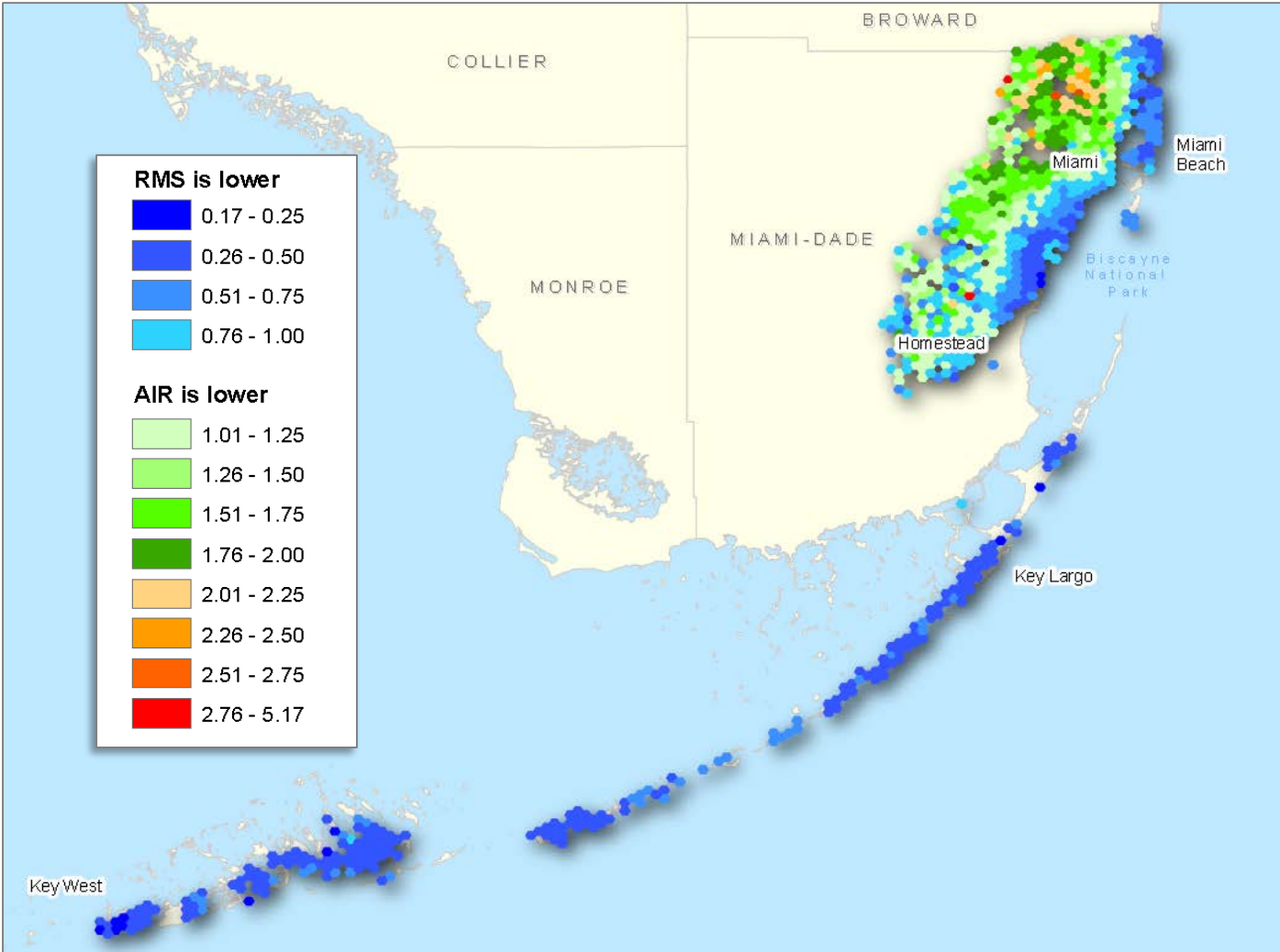
- Reasonable Emergency Measures
 - Not to exceed \$3,000 or 1% of Coverage A unless approved by Citizens
- There may be no coverage for permanent repairs that begin before one of the following occurs:
 - 72 hours after the loss is reported to Citizens
 - Loss is inspected by Citizens
 - Verbal or written approval is provided by Citizens
- Clarification of “access to repair” and “collapse” language to discourage non-covered and excessive repairs
 - Covers the access required to replace only the part or portion of the system that caused the loss, regardless of the condition of the entire system.
 - Collapse coverage language has been revised to state that abrupt collapse of plumbing and other similar systems, from age, deterioration or maintenance, is not covered.
- Expected Impact
 - Lowered the HO-3 Water indication by **7.6%**
 - Long term rationale is to change claims environment and reverse recent water loss trends

Administrative Expenses Are Low and Stable Relative to Policy Count, While Keeping Citizens Ready to Respond

- General expenses make up only 6.5% of the premium dollar
- Citizens is streamlining its infrastructure reflecting smaller customer base
 - Comprehensive strategic review
 - Strategic scenario analysis and related improvements to budgeting process
 - Physical space consolidation to a single building in Jacksonville, Tallahassee, and Tampa
 - Additional scrutiny of filling of vacant positions and creation of new ones
 - Comprehensive review of all vendor contracts
 - Automated underwriting improvements and less reliance on external processing vendors

Monroe County Wind Rate Indications Reflect Significant Divergence in Accepted Hurricane Models

Ratio of Modeled Hurricane Risk RMS/AIR




- Across Monroe, RMS loss costs average less than half of AIR
- But in Miami-Dade, RMS becomes higher than AIR for many home types just a few miles inland

Multi-Faceted Nature of Model Divergence Defies Easy Statewide Answers for Rate Indications

Green shade gets darker as AIR gets lower relative to RMS

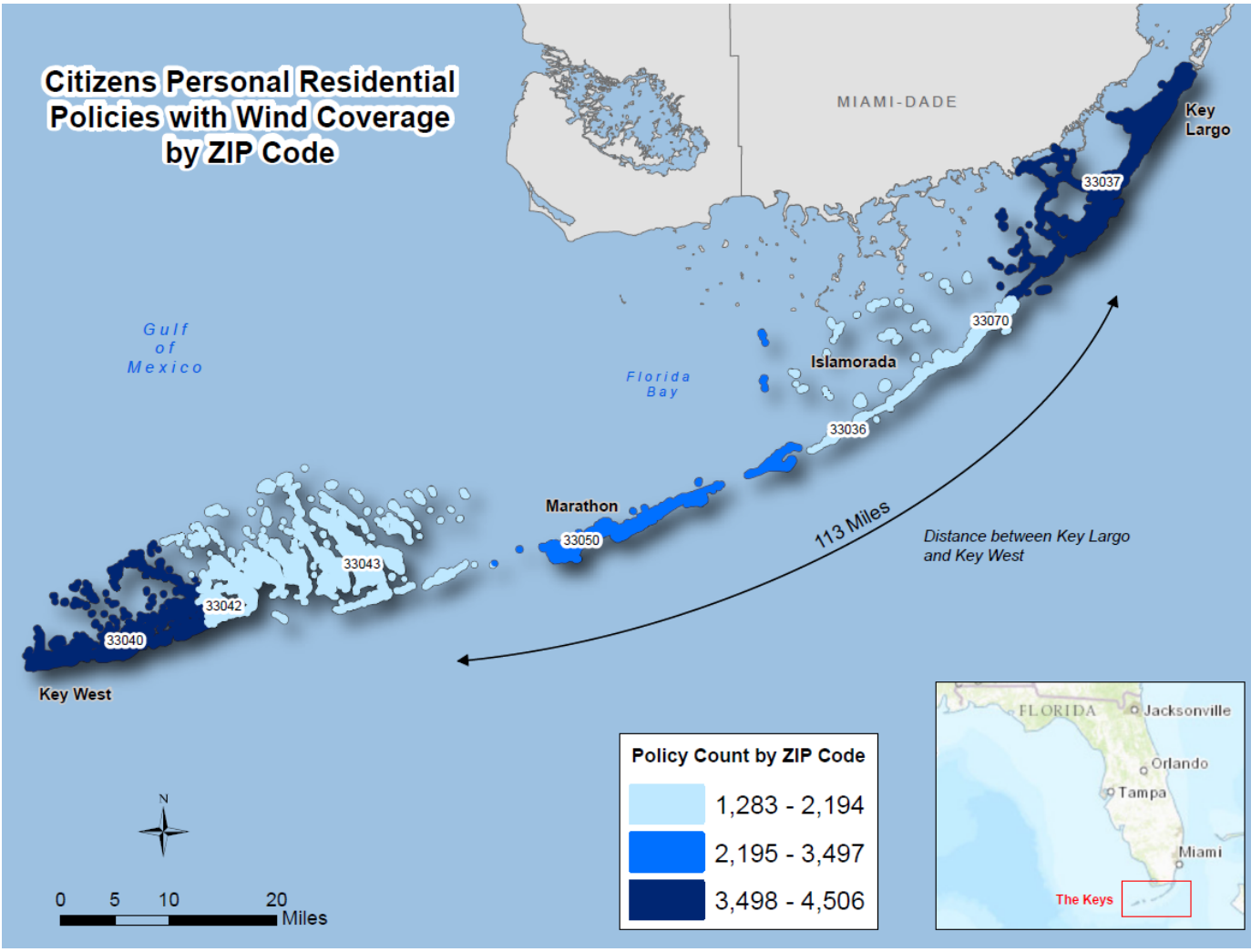
**Miami-Dade County
Masonry Single Family Dwelling
RMS/AIR Loss Cost Relativity**

Square Feet	Year Built	Number of Stories	Distance to Coast (in miles)						
			<1	1-2	2-3	3-4	4-5	5-10	
All	All	All	63%	40%	52%	60%	67%	65%	
<=1,506	1996 - 2001	1	86%	39%	44%	77%	91%	85%	↓ Taller
<=1,506	1996 - 2001	>1	55%	46%	52%	94%	NA	92%	
<=1,506	2006 - 2008	1	107%	87%	72%	94%	115%	107%	↓ Newer
<=1,506	2006 - 2008	>1	99%	52%	69%	91%	125%	123%	
2,508 - 3,000	2006 - 2008	1	38%	46%	44%	50%	NA	81%	↓ Larger
2,508 - 3,000	2006 - 2008	>1	90%	40%	51%	73%	97%	95%	


 Moving Inland

- RMS loss costs are generally less than AIR loss costs for masonry construction but difference narrows or even reverses as one moves inland
- For Citizens' Miami-Dade single family masonry homes less than 2500 square feet, built after 2002 and more than 5 miles inland, RMS loss costs are generally higher than AIR costs
- In inland Miami-Dade, Citizens has over 30,000 policies more than 5 miles from the coast

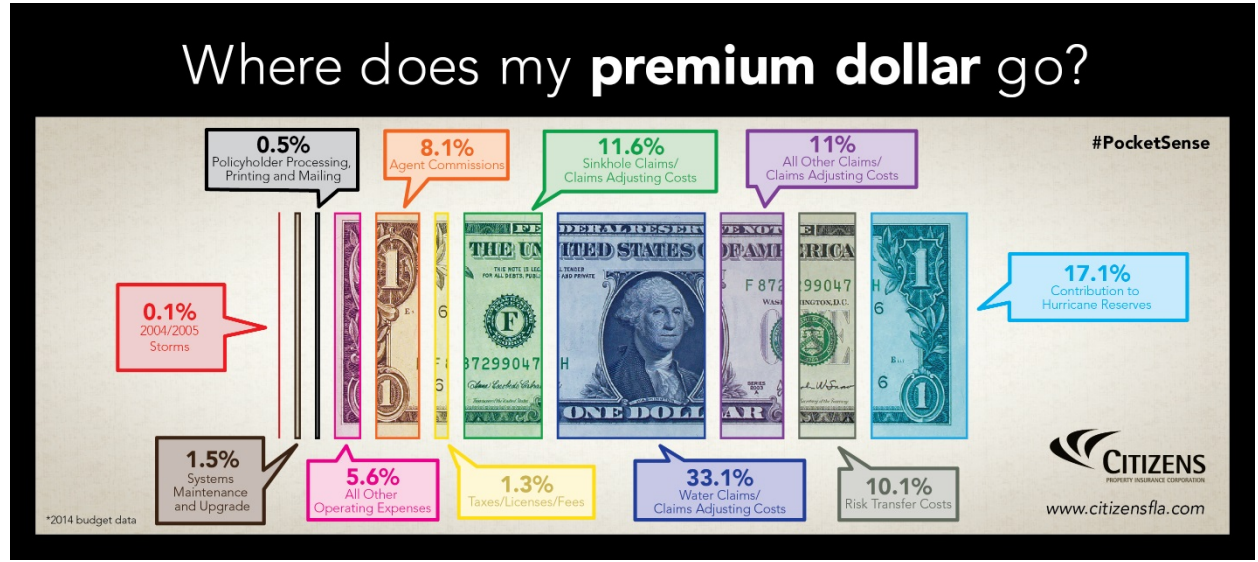
Monroe Geography Reflects Unique Concentration and Distribution of Hurricane Risk



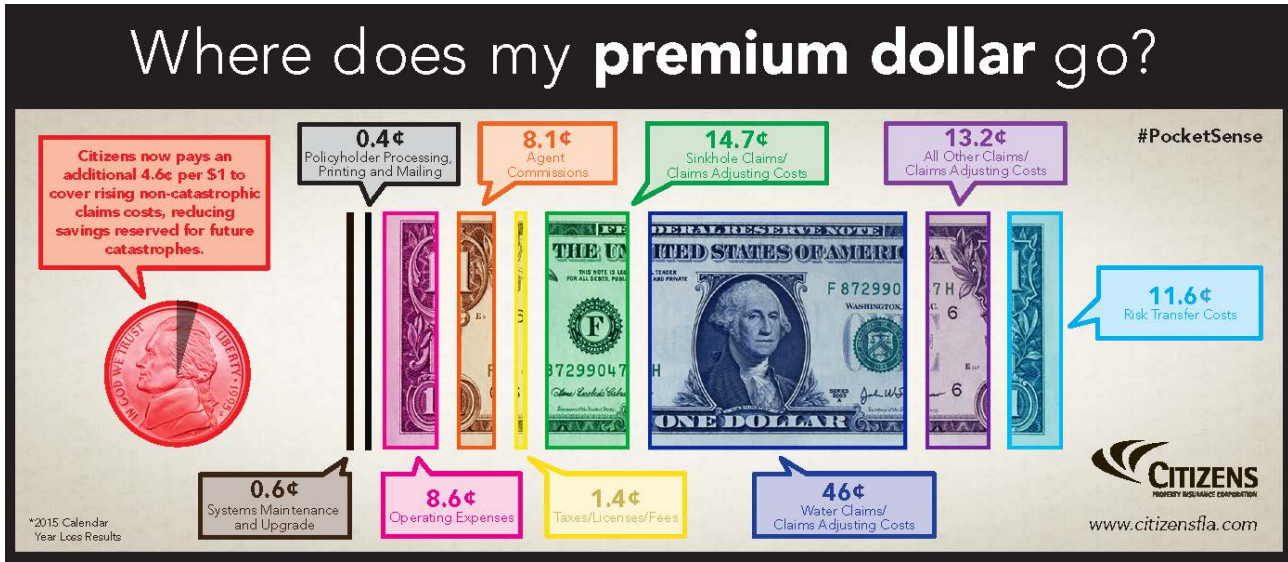
Questions and Discussion

Threats to Financial Strength - Statewide

2014



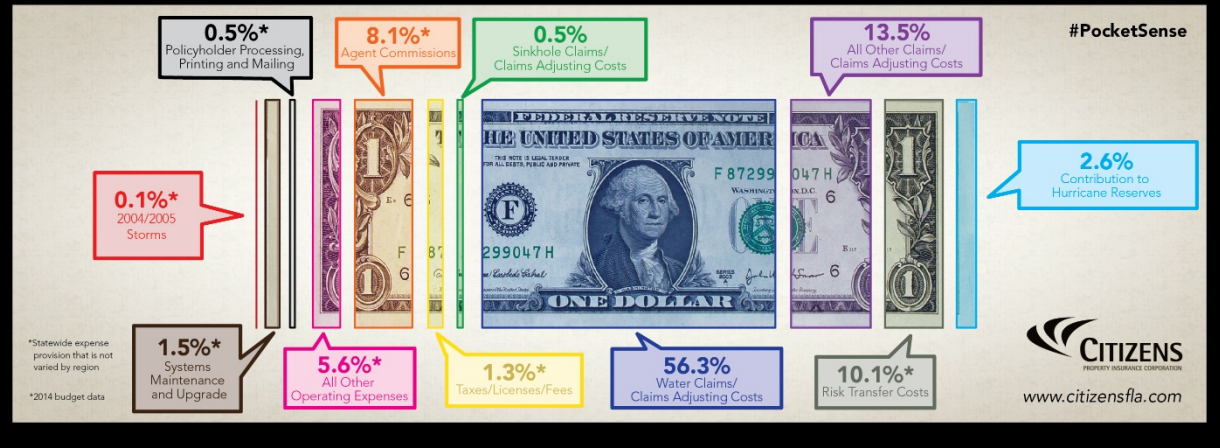
Where does my premium dollar go?



2015

2014

Miami-Dade: Where does my premium dollar go?



Miami-Dade: Where does my premium dollar go?



2015