

Each one of you cares that we have a prop market that will provide the best for our citizens and if we are able today to get a group of presentations and let's think that would be the best to protect the state of Florida and lets get it done . We need a multifaceted solution for a multifaceted problem . that solution in part is the clearinghouse and its logical to include in a bill that will help deal with this.

We need to look at reinsurance for citizens and in the short term, if there were a large event that were to occur that we would be in a position to know that after that event citizens would be able to address a new catastrophe. That makes sense – reinsurance with the right reinsurer.

You will see that we need to that when we have a patient that is in dire circumstances then you stop the bleeding and we need to stop Citizens from bleeding.

Let's work on how to stop the continued population of citizens and prevent sidestepping or evade the process and he will talk about new applicants with paying the highest rate and even if we don't do that to renewals. We have to make sure we provide the flexibility and the rate band we deal with the exigencies of the market.

We will hear about mitigation and we need to deal with all kinds of issues and we don't have a silver bullet. We need a group of solutions that will make the total picture we are going to address better and I look forward to having a bill that will withdraw from the problem we have which is a dysfunctional market and system and not so quickly it disrupts our markets even worse. We can't do this to charge citizens amts they can't take but allows us to enter a free market and allows us to provide a market for insrueres to compete with rates as low as possible.

CFO Atwater

I believe the chair's concerns are well founded. I was comig to present to you a slide presentation about the jurisdiction about our department and he shredded that document and he said that's not our topic today! I think each of you should take an inventory of the quality work of the path you have done – sen hays, sen richter – I would like to touch on those during the conversation . We are dealing with a fragile thing with a fragile economic recovery. I kknow there are members who want to have a robust marketplace and they want to place the risk of a cat across the globe. We are also holding on dearly to the pace at which this philosophy can be achieved.
It is time for the pathway to be made clear and to get all on the same page

For those who believe that if a cat happens this summer, then we would be extracting the market we would need to address the claim itself. You are talking in large dollars – we are in the billions of dollars in losses and assessments would occur which would be a signivicant hit to the state. However, the urgency of addressing that matter can't outstrip the capacity of the present premium payers to

be able to accelerate those premiums for rates to be actuarially sound. TO those at the other end and members you know, there are individuals filing bills that would clarify the cap rates would be the same for new and existing and there are those who are trying to clarify different rates for new and existing. For those that are trying to accept the accelerated rate of premiums for those they represent will need to be reminded that those individuals will be the very ones that will be hit when the assessment comes. While we are working hard in that mindset to protect that individual, remember that when the assessment comes they are the ones to carry the burden.

I would like to give this as an estimate – from 2004 to today, the profile home in citizens in Miami dade has increased 50%. Some would say that is 90% from where it should be. That household that is paying \$2500 in premium then they will pay an assessment of \$1300 and most likely \$900 immediately. So wherever you are in your priorities as to an urgency that you believe to be the appropriate market rates and we take the risk off the back of taxpayers, threading the needle to make the changes with they can afford,. In 2004, the premium is 5% of household income and today that premium is 10 to 12%

In 2001, 500k policies in citizens and 460k in coastal acct. Today, we would be at 1.4 million and still 460k are in coastal acct. the horrific expansion isn't in the coastal acct but more broadly across florida – that has created citizens the size of 1.5 million households . I would ask that when you bring in the data in front of this team and let the data drive your decision making . If we go thru another session and folks will file a bill to rightsize the cat fund, address mitigation, address policy coverages, there are others to expand coverages and will not be acceptable may 3. The citizens of fl will be at risks of cat event that will be devastating and the households receiving the brunt of that with an assessment are the ones receiving the brunt with high premiums. To build consensus and build that pathway and walk down that pathway with a pace to avoid cat economic calamity there is no easy pathway . the answer isn't to sit and hope it doesn't occur . I encourage you at the chair's leadership that you will exhaust yourself and look at the facts and evidence and remind yourself that standing still can't be the solution.

Ring: Evern since I started here with president Atwater, he has taken on this issue and is good on this issue and he comes at it as one of the great experts we have in Tallahassee. My question is that citizens is a symptom – it is a result of the quagmire we are in. we need to think of risk –rates are over here but we need to take care of risk. Do you believe that we should have – citizens should be independent in our thought and if we can deal with cat fund, opening markets and risk that citizens can take care of itself. That if we try to push this legislation for citizens, we are creating a bigger social problem. Companies are going to manage risk no matter what. They will remove folks from their rolls and folks will be left with only citizens. do you think we should focus on everything else and citizens can take care of itself vs focusing on citizen initially?

Atwater: I don't believe you can isolate the portfolio of citizens from the conversation. 23% of the marketplace is significant. I think you are onto something. You have to identify the pathway and don't be distracted. The size of citizens because the size of risk. 200k have come out because you dealt with sinkhole. The pml is in the coastal acct and it's a \$13 billion pml. If you bring that down, there are ways to bring that down. Do we provide reinsurance while we work a glidepath? Do we offer support to drive down pml? How many other things can we work? which ingredients can we redeploy. No one wanted to be in citizens. you and I share geography. The citizens household isn't the mansion on the coast. These are hardworking homes - 1700 and 1800 sq ft paying these rates and some have filed no claims. I think you have the pathway to narrow the risk issue.

Ring: I have seen a lot of bills that are citizens focused. It seems to be all about citizens. I come back to if we are just focusing on citizens then we aren't fixing major things that could be bigger than florida. It may be bigger than florida can handle. If we look at citizens independently, I am fearful we won't solve this if we look at one bill that is a citizens bill.

Atwater: I have not heard him speak to that and that is a very real issue. That's the point. If we don't do anything, there will be 15 to 20 bills filed doing the opposite. If I rightsize the cat fund I am only talking x % - it's the same household absorbing and their household isn't keeping up with these premiums. This needs to be comprehensive of how to get the cat fund right - there's no way to get it right that doesn't drive costs. What should we do in 3 years - what should we do in citizens and look at that data and instead of simply saying these folks in citizens should pay more rates. The large market players are not putting their capital in. we are all wrestling. We need to get the drive to solve the risks and get rates up will be disservice of the whole. Thanks

Hays: Cfo Atwater - I am puzzled. You talk about the PML and the policy census in the HRA has not changed. The only way to reduce the pml is to reduce the windspeed or reduce exposure or mitigate. I don't think we can mitigate a large percentage of that \$13 billion in pml - how would you propose that we go about reducing the pml?

Atwater: I once had 6 years of my life in this committee. I would still the conversation has to be broader. I appreciate how you have focused but at the same time that we share the concern and I share the objective and I watch the end of session as of late and there is a torture of the fight of the outcome. This isn't a difference of philosophy - we are here as individuals with concern of our constituents. We can't outpace and I believe that mitigation can be an answer. We dedicate what we are using to buy or consider ways in certain geography to mitigate. There needs to be a way to pace the change to get the risk to marketplace, mitigation options, worked a glidepath, but we have to create that pathway that is wholesome and walk that path together instead of waiting till april 28 and all ideas running into each other. I think everyone needs to move risk to market and I think that tens of

thousands of households thought they were paying market premiums but they weren't and after a couple of years and you know what we were a little aggressive and thank goodness ---

It's unfortunate we keep battling each other and not have a plan. We need a plan that these changes will help "you get to a carrier that wants you" we need to say to the Floridians that this is a pathway to that and instead of wondering who will win the day in the legislature and its hard work and we can come together. Can we create all the elements to be a part of this.

Detert: I think we are all familiar with the arguments from the public and the general responses. The most interesting thing is that the coastal account is at 450k and that is the excuse that the rates go up. The folks can understand that - but I am amazed that the coastal account is the same. The center part of the state and you put me in citizens and they keep raising my rates with less coverage and you have changed things and folks don't understand. I don't understand why the coastal residences aren't the problem - it's the internal. We need a bigger marketplace - what is the answer?

Atwater explained non cat losses.

McCarty

I appreciate my Christmas assignment and with that Christmas vacation and I listened to the proceedings in December and I want to share those principles that we used in this process of OIR giving direction on this issue.

- return to free market approach
- enhance Florida's attractiveness to capital
- align policyholders risk and reward
- expand risk sharing opportunities
- stimulate additional private sector capital
- reduce the overall exposure of citizens
- ensure coverages and policies are meaningful

Another way to look at our state is to break down by peril - wind, sinkhole, etc. sinkhole has created a huge drain and left citizens the only writer. The fact that citizens rates are lower reduces incentive.

Citizens writes 8k policies a week. Just focusing on the operation of this is a crushing feat and trying to manage that flow of business is herculean.

Quantifying the risk of citizens will help.
We want to attract new capital
Promote consumer choice
Enhance meaningful mitigation programs.

For many years new construction increases our exposure to hurricane. As construction has leveled, our exposure

From 2000 to 2007, construction increased and made our exposure at around \$2 trillion. In 2008, things leveled due to the declining economic conditions and it's a good time for us to reexamine our regulatory and laws to get our arms around what we need to do to ensure maximizing private capital.

Here's what happens when a hurricane makes landfall:

In the 20 years since hurricane Andrew, in 1992, only 4% of the market was written by domestics and today more than half is written by these domestics. The large carriers are concerned with the risk of ruin and the domestic companies have stepped in to pick up the slack. Some of the press have criticized them as thinly capitalized. Some of them have a good track record and are role models out of florida. Our domestic mkt has a lot of resiliency. 2007 to 2009 – we have seen a dip in their surplus for a variety of reasons..

Insurance surplus and net income have rebounded since 2009 but FL companies serve as the gateway of brining capital into FL – Bermuda and others come to floirda to back up ins companies. This is the best way to spread risk – the amt of reinsurance purchased by FL domestics is substantial and FL domestic companies have \$23 billion in claims paying capacity - \$20 billion in resnsurance spend.

One of the problems we had after 04 and 05 is the lack of ability to recapitalize. We saw troubles in the Bermuda market 2011 was the 2nd worst year for cat reinsurers in the uS. Yet in 2012, they had more capital than ever. It tells us how complex this market is. We are in a different situation than in 2007.

Large storm preparedness

96% of FL domestic co's are reinsured 1 in 80 with one reinstatement –
91% are at 1 in 100
what event was citizens reinsured too

citizens reinsures to a 45 year event per barry gilway

Citizens large storm preparedness

Fair plan access/beach plan earned premium

FL is largest of all residual markets. Lots of companies thought they were shielding themselves by writing in the northeast and now they are in trouble. Massachusetts plan increased by 102%, Louisiana is on a progressive downward path and they have an active depop, texas 231%

Hays: it would be a good idea for Florida to model the Louisiana plan?

Mccarty: The problem with going from the rate structure we had and even with actuarial sound rates are fine for a company and not for a company. A residual market don't include taxes, etc. the better approach is to tag those rates to the top 20 and we used to have this process in 2003 and then changed that. Over a time of the year they wouldn't stay at the top but would stay at close to the top.

Hays: continuing to call citizens a residual market is disingenuous

Mccarty: I am referring to citizens in an aspirational goal. Citizens is an alternative market and has a mixed mission. You can't be a residual and be affordable.

Hays: you think for Florida to follow Louisiana plan is an alternative?

Mccarty: not enough. Fl has a stubborn coastal plan. Its difficult to depop. If we could make citizens stripped out the wind only and dedicate resources to get rid of the regular residual market.

Mccarty: you can look at this like a policy type or the peril type. You don't take up a market that takes it by peril. 31 pct of policies are coming into citizens per quarter. You can't focus on the peril so ideally you would separate the three perils. You would separate these out. Then you can focus attn. on going from an alternative to a residual. Louisiana doesn't have sinkholes. Break citizens up into manageable pieces. Setting the rates at the highest to exhaust the capital. We have companies that can't raise their rates because they can't compete with citizens.

Simpson: should we split our rates for new and existing?

Mccarty: stop digging a hole. Return citizens mission to being residual market. Then charge the top 20 rates. We used to do that. That's where Louisiana got it from and we need to be sensitive to that. What we would say is that allow existing to be left alone but make them shop and compare their rates with the voluntary market and you are not creating a life time citizens policyholder.

Hays: why don't we direct citizens to charge actuarial premiums?

Simpson: we are going with this comm's direction we will put a plan together and we will come up with a direction to go in. I think that for those who are concerned as members of our legislature and Floridians, we would provide the commissioner with the ability to make exceptions under exigent circumstances where there isn't another market.

Clemens:

Simpson: once we get a plan put together, we will ask them to give us a proforma – a reasonable expectation of what will happen? We know we need to fix this and if there is a cat event and folks will be traumatized and we have to plan and do the right thing. Once we do the right thing everything will take care of itself. We are not doing the right thing and we are manipulating the market and have caused a flight of qualified carriers in this state. We have traumatized the market and do the right thing in answer to your question sen clemmons.

Mccarty: we are all keenly aware of the drag citizens is on the marketplace. We live in a different time than when we combined these markets. I am gonna make a pitch to :

Separate the coastal acct

Focus on wind only allows for a more granular structured product to lower costs

Maximize resources in a cat

Mgt should consist of technical experts

Active insurers should have a role on the board

Risk sharing arrangements

-allow citizens to enter into risk sharing arrangements in PLA with private market and consumer opt outs would need to be kept to a minimum

Private market willing to write

-Rate band for private carriers

-Consent to rate where individuals can pay more if they want to – citizens are put on notice and lets the individual policyholders to keep their policies

-There is a mismatch between losses and mit credits – let the company use the same modeling

-impact that the rate hearings have on companies wanting to make rate filings and most don't want to do that – companies will file 14.9% to avoid the hearing. I am advocating companies file what they need. We wont have the hearing and we approve rates higher than 14.9% . we can have a hearing on anything but prescribing in statute that they be subject to a rate hearing is archaic.

Reinsurance pool -- Private facility for wind coverage

Would provide opportunity for reinsurers to participate in covering a pool of wind

-scale of purchase could result in expanded capacity

-managed by technical experts with insurers having a role

-not an agency subject to rulemaking

-cat fund could handle shortfall

continue to provide consumer choice and enhance consumer market power

CHOICES is a great tool to compare rates and is on their website

Expand ideas to help consumers find coverage

Enhance meaningful wind mit – a sound comprehensive program. 82% were built before statewide building codes and obviously we can work with a collaborative effort with FLASH and iBHS.

Timing, pricing, execution – higher prices on the front end is better than hidden taxes on the back end. We need to also be careful to not allow things to go off the guard rails like Monroe county that has no market, etc.

Implementing the suggestions:

-citizens would be less competitive with private carriers

-allows to break up citizens in digestive parts

-provides consumers with increased choices

-give more meaningful mit credits

Hays: it's my understanding that citizens presented an ho8 with an actuarial sound rate and your office reduced that rate significantly and how does that action be consistent?

Mccarty: I think you raise two interesting points. I think the legislature that folks should have an ho8. The concern was that folks would drop their ho3 to get their ho8.

Hays: where in the law it had to be cheaper

Mccarty: I'd be happy to go thru with you to go through the numbers – but to say I wouldn't approve an actuarially sound rate

Simpson: is it good public policy for citizens to be writing policies that are less expensive and in the event there is a major cat and there will be a large group of homeowners who can't rebuild. In this attempt to "cheap out" it's not the best. Are we as a matter of public policy doing the right thing and we have a huge portion and leave a portion of their homes unrebuilt. The idea to cheap out is a bad thing. We need to provide its consumers a quality product – not an illusory product. We will

address that and I want to make sure what we do is the right thing. We will run these in the sense of a pro forma. We need to adopt this multi faceted approach to solve the problem. We need a road map to tell folks we are in the right directions.

In response to sen clemmens who is justifiably concerned where he comes from and the effect is we will analyze this. If we continue what we are doing wont work.

Lee: you have been remarkably adaptable. And I say that as a compliment and your job is change. You speak of an aspirational residual market. That's how many poliicies roughly?

Mccarty: you have huge portfolios who aren't interested in florida and we have new risk transfer mechanisms – the capital will be there. I don't mean to be insensitive . if we don't utilize the capital the compaies currently have then we cant utilize the it with no rate of return

Lee: I say this with trepidation – yhou are the only constant. The stars are lining up again and we could do something substantial and I know you are collaborating. There is chicken/egg question – and you touched on it. We have created dysfunction and we are tying to depop an environment with no markets. There are other areas in the state where there is an absence of competition. In areas that don't delay our goals, we have really taken a good idea and created a monster. That didn't happen overnite but I want to be sensitive that there are places that has no place togo or someone that has bravely filed for a rate and I want to make sure that we are sensitive to that. This exuberance to hae major public policy breakthrus but we don't leave populations outta here until such time that our aspriateional goals happen and there is a robust market regardless of what those rates are.

Mccarty: I am keenly aware of pockets and we need to optimize how e dial up the getting to the top 20. That top 20 that is done in a way where the rates are higher but no one will write at any price. It's the rality now.

Gilway

The working relationship with OIR and the staff is excellent and I would tell you that we re on the same track and hae the same basic goals.

We divide the account into PLA, CLA, Coastal acct and divide it for financia purposes.

Gilway: when you look at the PLA acct, the issue isn't wind. The rate inadequacy with the PLA differs dramatically – the result differ between wind and nonwind. It's a paramount . the loss ratio is 3 times as high in dade county as anywhere else in the state.

Lee: gotta love it!

We grew 361k policies in 2012 and that is down from 450k policies in 2011 and down from 2010's 500k.

We had some controversial initiatives to reduce citizens exposure. There is concern that our product is inferior. Do policyholders understand what they have and I suggest that they don't.

Clemmens: why does coverage options and changes differ from auto? If you have a consumer who has to choose a higher level of coverage or lower coverage vs buying food.

Gilway: we allowed a buyback provision – if folks want to buy back coverage they can.

Hays: most of the consumers don't know what they have. Is it worthwhile to put in bold print to caution the consumer that the premium they will pay won't be the full premium based on assessment

Gilway: should say your premi is 4k but should a big storm hit, then your assessment will be x – there should be clear delineation. There is so much opportunity for folks to depop. Companies who want to write risk in dade and broward. There is an opportunity today and there are risks that no one will write but the clearinghouse is a win win and will create an opportunity not only to provide a better rate but better coverage.

Simpson: caution – the polcy you are buying is inadequate for the purposes intended and if a storm hits you will be hit with an assessment!

Gilway – if you include all perils is around 56% in 2011 and in 2013 its 37%. All bets are off with sinkholes. We collected \$200mil in premiums in 5 years and spent \$1.5 billion in claims. SB 408 has had a profound affect.

Gilway: if we continue on the glidepath – 42% of coastal acct is rate acct and 72% in pla are rate adequate. You can't get there with glidepath. Hernando has a 180% rate need

Gilway: the 15% rule has not been effectively driven home. The clearinghouse would allow for companies that have a market – there are ideas that say we need to strengthen FMAP. This is FMAP on steroids. So much of what we do is negative but this is positibve for consuemmers and companies.

Lee: I only met you thru a newspaper and you are surprisingly competent and I feel your pain. I mean that sincerely. You strike me as very competent. Kevin mentioned the consent to rate and expanding that and you get that call and you see

that there are other artes and if you go ahead and write that policy would this consent to rate apply to you guys?

Margolis : let me ask you about the consideration and when citizens was first thought about - a lot of the reason we put florida in the ins bz is that we would get the money aback from sales tax. We gave loans to dade county to rebuild and there was plenty of money circulating to take care of issues. We need economist to look at these issues before we burden people. I rep all of dade county east of US 1 and it starts in homestad and goes up to broward. When you went to not insuring folks over a million dollars there was a cry from community. There was no place to go. If they go to half million then that would be catastrophic. If you call an insurance broker they can't place you. I live on an island and that's worse.

Gilway: when I step back and take a look at citizens then the answer should be the insurer of last resort - so if no coverage then we should provide it. Coverage issues with mobile homes. These are issues that we do our best to assess the marketplace.

Returning Citizens to the insurer of last resort

- Provide statutory language that outlines a risk load factor
- allows citizens to pass thru the cost of cat fund and private reinsurance
- eliminate the glide path and implement a LA plan or increase the glidepath

- increase the 15% rule or eliminate it
- provide policyholders cant opt out and must reapply for coverage
- make necessary statutory provisions to allow citizens to adequately shop the mkt to keep out business
- require agents to certify annually they represent at least one other carrier that is actively writing
- consider a sinkhole facility 0- I know this is controversial and I believe it's the only way to solve the sinkhole -

if hurricane Andrew were to hit next week what would occur.

Margois: we bonded to have the sales tax to repay it. We are talking about making sure we have solvent insurers to pay for those losses.

Hays - if another storm hits next week and next month then citizens will bear all the assessments. What percent of policies in an admitted polices are actuarially correct?

Gilway: the ability to charge is to get 100% actuarially sound. 85 to 90% should be right

Hays: we are 20% in citizens and 90% in the private market

Gilway: why are you bringing new policies into citizens without adequate rate? It is citizens role to provide coverage for those who can't get affordable insurance in the marketplace. Until such time legislation is changed, my objective is to provide an alternative. If they can't get coverage should we charge we 200% more.

Hays: why should we allow sen Margolis constituents have a cheaper rate at the expense of other consumers.

Simspon stopped the question.

Richter: the option to do nothing is a terrible option. Doing nothing is not an option. We have just highlighted the risk and the challenges. I was gonna say it was civil but sen hays just screwed tht up.

Ring: obviously this is a complex issue and I have always stated and we have to think bigger and beyond that. We have to think that its not just the folks on the beach and be sensitive.