OFFICE OF THE INSURANCE CONSUMER ADVOCATE

ROBIN SMITH WESTCOTT, ESQ.
INSURANCE CONSUMER ADVOCATE

October 1, 2012

Carlos Lacasa, Chair
Citizens Property Insurance Corp.
2312 Killearn Center Boulevard
Building A
Tallahassee, Florida 32309

Dear Chairman Lacasa:

The Office of the Insurance Consumer Advocate shares the Board's goal of depopulating Citizens and reducing the potential assessments on all property and casualty policyholders in the state. The surplus note take-out program tentatively approved at the last Board meeting appears to advance this goal. However, Citizens must assure consumers and policymakers that a thorough cost-benefit analysis justifies the commitment of up to $350 million of Citizens' surplus, as this program would allow.

As a government entity it is incumbent on the Board to fully analyze the impact of the proposal on Citizens' financial condition under various scenarios and assumptions. The Board materials that have been provided to date neither provide enough detailed information for consumers and policymakers to have a complete understanding of the program's operation and benefits nor enough transparency of the process employed to choose this program over others presented and the anticipated impact to our marketplace.

It would be very helpful to achieve a better understanding of the surplus note program if the following questions could be answered and any supporting documentation made available to support the answers:

1. The program would provide a surplus note equal to four times the Cat Fund premium for each policy removed, up to $50 million per insurer.
    a. How were these amounts determined?
    b. How would the results differ if the surplus note equaled three times the Cat Fund premium? Two times?

2. The materials presented to the Depopulation Committee and Board included an analysis of the potential reduction in PLA exposure based on a 100-Year PML event, assuming 350,000 policies are removed and surplus notes of $300M are issued.

APPOINTED BY JEFF ATWATER, CHIEF FINANCIAL OFFICER, STATE OF FLORIDA
DEPARTMENT OF FINANCIAL SERVICES
200 EAST GAINES STREET, TALLAHASSEE, FLORIDA 32399-0308
(850)413-5923 FAX (850)-487-0453
ROBIN.WESTCOTT@MYFLORIDACFO.COM

a. How did staff select the 350,000 policies for this example? Were other groupings of policies run for comparisons? Can a map or table be provided that more specifically identifies the location of these policies?
b. What is the estimated surplus of the PLA (before the surplus note program) for this example? Is this the estimated 2012 year-end surplus?
c. Did staff use the 2012 Cat Fund premium for these 350,000 policies to calculate the total $300M surplus notes?
d. The example notes that the estimated 100-Year PML for the PLA before the surplus note program is $7.9B. Which model was used for this estimate? What are the estimates using other models? (As we understand, Citizens uses RMS, AIR, and the Public Model.)
e. The example notes that the estimated 100-Year PML after the surplus note program is $5.83B (a reduction of $2.07B or 26.1%). Is this estimate matched to removal of the same 350,000 policies used to calculate the $300M surplus note? What are the estimates using other models?
f. What is Citizens' estimated surplus after the surplus note program? Specifically:
    i. The example notes, "Assumes surplus note is carried at 50% of its face value." Does this mean that Citizens would have a $150M accounts receivable asset offsetting the $300M reduction in cash, resulting in a $150M reduction in surplus?
    ii. Do the calculations for the reduction in emergency assessments (from $3.06B to $1.89B) assume that Citizens will have $300M less in surplus that can be used to pay claims (even though the surplus note is carried at 50% of its face value)?
    iii. Does the estimate for surplus (available for paying claims) after the surplus note program account for the annual change in net income resulting from the removal of these 350,000 policies? (See question 4.)

3. Can additional examples be provided for 10-year, 25-year, and 50-year PML events?

4. Under the various storm scenarios, how are assessment reductions affected if the PML event occurs 5 years or 10 years after the program begins? If the policies are not taken out, wouldn't Citizens' be earning net income on these policies and building surplus under the glide path?

5. What is the estimated amount or percentage of the surplus notes expected to be waived over the next five years due to hurricane events? Can this be modeled for the 350,000 policies identified in the previous example? What is the formula for determining the amount of the note that will be forgiven in the event of the storm?

6. What is the value to the insurer (and cost to Citizens) of the "free reinsurance" provided by the surplus note waiver provision?

7. How will Citizens determine that an insurer meets the program's financial requirements? Will the Office of Insurance Regulation certify or otherwise determine that an insurer meets and continues to meet the requirements?

8. How will the requirement be enforced for an insurer to renew policies for 10 years? What exceptions will be allowed? What is the penalty? Is the penalty mandatory or discretionary? Is the requirement likely to be enforced or penalty imposed if an insurer is in financial distress due to a hurricane or otherwise?

9. Is there an estimated cost for the administration of the note program?

10. Has there been any analysis of the note program by a non-affiliated third party that would have reviewed the reasonableness of the assumptions used and made an independent evaluation of the cost-effectiveness of the program?

11. Has there been any review regarding the choice of this model versus the other four takeout programs accepted by the Board for consideration? Has there been any analysis of the impact of this program or any of the other proposals and the economic impact to the marketplace including new market players investing new capital in Florida and impact for carriers willing to take policies under the traditional program?

I commend you and the Board for your diligent efforts to reduce Citizens' exposure and returning policies to the private market. We understand the time constraints involved with responding to such a detailed request and this Office does not expect a formal reply or any documents to be sent directly to us but would encourage the Depopulation Committee to use this request as a guide for giving transparency to this process at the scheduled meeting on October 9. By providing additional analysis and answering outstanding questions, the Board can help assure that the surplus note take-out program serves the goal of reducing potential assessments on the consumers of Florida.

Thank you in advance for your attention in this matter.

With regards,

Robin Smith Westcott, Esq.
Insurance Consumer Advocate

cc: The Honorable Jeff Atwater, Chief Financial Officer
Commissioner Kevin McCarty, Office of Insurance Regulation
Barry Gilway, President/CEO and Executive Director, Citizens Property Insurance Corp.
Sharon Binnun, CFO, Citizens Property Insurance Corp.
Christine Ashburn, Director of Legislative & External Affairs, Citizens Property Insurance Corp.
Belinda Miller, Office of Insurance Regulation