

The Florida Senate
COMMITTEE MEETING EXPANDED AGENDA

BANKING AND INSURANCE
Senator Simmons, Chair
Senator Clemens, Vice Chair

MEETING DATE: Tuesday, September 24, 2013
TIME: 1:30 —3:30 p.m.
PLACE: *Toni Jennings Committee Room*, 110 Senate Office Building

MEMBERS: Senator Simmons, Chair; Senator Clemens, Vice Chair; Senators Benacquisto, Detert, Diaz de la Portilla, Hays, Lee, Margolis, Montford, Negron, Richter, and Ring

TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
		<p>Presentations on Citizens Property Insurance Corporation policyholder take-out process and update on Citizens' clearinghouse implementation.</p> <p>Barry Gilway, President; Citizens Property Insurance Corporation.</p> <p>Richard Koon, Director of Property and Casualty Product Review Unit; Office of Insurance Regulation.</p> <p>Bruce Lucas, Chairman and Chief Investment Officer; Heritage Insurance Company.</p>	Discussed
<p>Other Related Meeting Documents</p>			



Barry Gilway, President/CEO and Executive Director

Barry Gilway is President/CEO of Citizens Property Insurance Corporation.

In his role Mr. Gilway oversees all operations and is the liaison to Citizens' Board of Governors. Barry is an accomplished insurance executive with over 42 years of experience leading a number of multi-faceted insurance organizations.

Barry began his insurance career in regional marketing roles for the Insurance Company of North America (INA), Crum and Forster, and WR Berkley Corporation. In 1990, Barry became President of the \$900 million Maryland Casualty Commercial Lines Company. He was subsequently promoted to CEO of the entire Maryland Casualty Group. In 1999, Barry moved to Canada to turn around a troubled Zurich Canada operation, consisting of personal lines, commercial lines, specialty, life and health companies. Following the divestiture of the Canadian business, Barry returned to the U.S. as Executive Vice President for Zurich's \$17 billion commercial operation, managing and leading 5,000 employees responsible for the Zurich infrastructure in the U.S. while also acting as M & A liaison. Barry retired from Zurich in 2006 and became a consultant for Mystic Capital Advisors for a year. He completed several significant transactions before joining one of Mystic Capital's clients, Economical Insurance Group of Canada. Over the past three years Barry has led the turnaround of Mattei Insurance Services as Chief Executive Officer, reporting to the Economical Board of Directors.

Citizens Property Insurance Corporation

Barry Gilway, President/CEO and Executive Director

September 24, 2013



Traditional Depopulation Overview

Depopulation Overview

Florida law requires Citizens Property Insurance Corporation to “adopt one or more programs subject to approval by the Office [of Insurance Regulation] for the reduction of both new and renewal writings in the corporation.”

At any point in time, a licensed authorized company may request, for purposes of depopulation and subject to an appropriate confidentiality agreement, a data file of policies from Citizens. All policies not currently pending cancellation, not set for non-renewal or tagged for another insurer as described below, will be included in the data file.

Companies begin the assumption process with the Office of Insurance Regulation (Office). Companies must meet or exceed Florida’s rigorous statutory requirements to attain a license from the Office to sell property insurance in the state. The Office will issue a Consent Order approving the company to participate. Citizens uses the Consent Order and approved takeout plan to facilitate the assumption process.

Depopulation Overview

At least 100 days
prior assumption
date

- Takeout companies (TOCs) apply to the Office by submitting a Depopulation Plan
- Specific requirements are located at <http://www.floir.com/sections/pandc/takeoutcompanies.aspx>
- The Office review process can take up to 30 days

60 – 70 days *prior*
assumption date

- The Office will issue a Consent Order approving the company to participate in a specific assumption
- Consent Orders traditionally, require the following:
 - TOCs shall allow agents a minimum of 14 days to review solicitations
 - Agents must accept appointment from TOC prior to affected policyholders are notified
 - TOCs shall give at least 30 days advance notice to affected policyholders of pending assumption
 - Financial reporting to the Office
- TOCs execute an Assumption Agreement with Citizens
- TOCs submits a logo and signature block for Certificate of Assumption letters

Depopulation Overview

30 - 45 days *prior*
assumption date

- The TOCs policy selection must be submitted to Citizens. By submitting this selection file, the TOC is certifying that all associated agents have either been appointed by the assuming TOC or agreed to have their policies assumed under the provisions of “Consumer Choice.”

- Citizens validates policy selection and if necessary runs algorithm to assign duplicate policy selections
- Citizens returns the Opt Out Mailer list to TOCs

- TOCs mails Opt Out Letters and Forms to selected policyholders. The notification explains to the policyholder the 30-day pre assumption opt out timeframe and the 30-day post assumption opt out timeframe. The notice must be approved by the Office and Citizens and must be sent to every policyholder the TOC intends to assume. It is the TOCs responsibility to collect, retain and report responses from the notice.

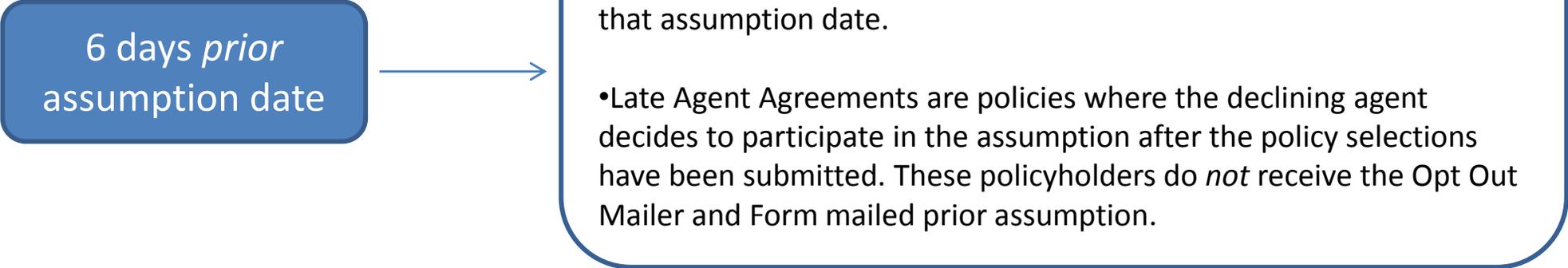
- Per Consent Order 94539-08, TOCs must submit a list of policies associated with agents that have declined to participate or did not respond to the TOC (specific to assumption date).

- Citizens mails Agent Decline Letter to affected policyholders.

- Citizens mails Encouragement Letters to selected policyholders.

Depopulation Overview

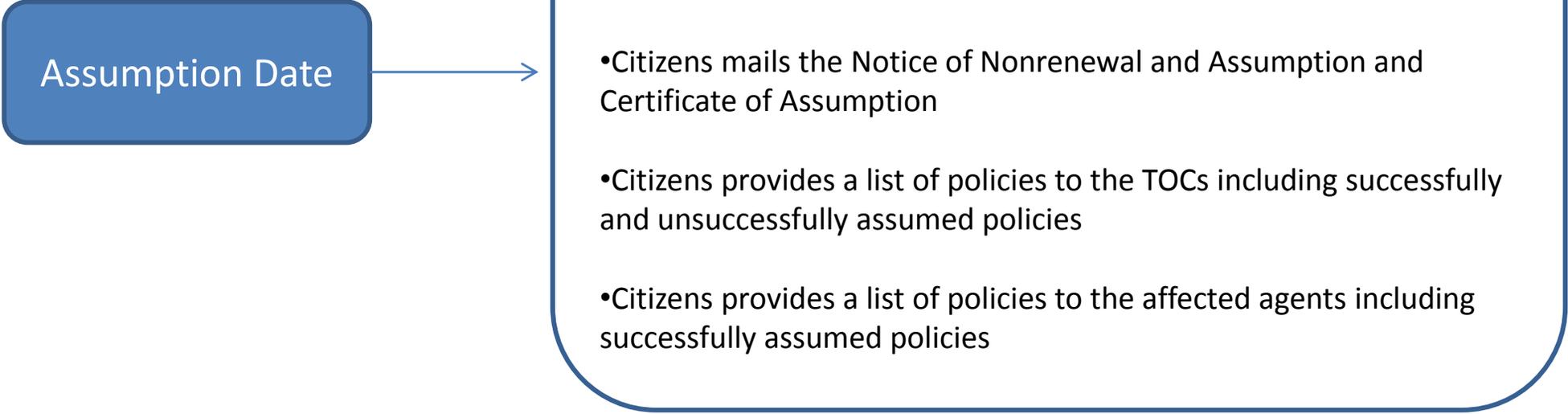
6 days *prior*
assumption date



- The TOCs must provide the associated Citizens policy number for all policyholders that have chosen not to be assumed. Citizens will remove those policyholders from the TOCs policy selection file for that assumption date.
- Late Agent Agreements are policies where the declining agent decides to participate in the assumption after the policy selections have been submitted. These policyholders do *not* receive the Opt Out Mailer and Form mailed prior assumption.

Depopulation Overview

Assumption Date



- Citizens processes the assumption and policies are 'tagged' as assumed. Successfully assumed policies are set to non-renew.
- TOCs become liable for losses that occur on or after the assumption date
- Citizens mails the Notice of Nonrenewal and Assumption and Certificate of Assumption
- Citizens provides a list of policies to the TOCs including successfully and unsuccessfully assumed policies
- Citizens provides a list of policies to the affected agents including successfully assumed policies

Depopulation Overview

5 – 7 days *post* assumption

- Citizens sends a Results Extract file to the TOCs (includes detailed policy level information of successfully assumed policies)

post assumption

- TOCs will continue to receive Opt Out Forms and will send to Citizens a spreadsheet on a monthly basis. Citizens will 'untag' eligible policies.
- Agents are notified via email of the successful/unsuccessful untags.
- Successfully untagged policyholders receive an Opt Out Confirmation Letter.
- Citizens releases Month End Extracts to TOCs for 14 months with updated policy information.

Depopulation Overview

Notes

- Citizens services assumed policies until the expiration date and the policy is renewed on the TOCs paper
- Agents are notified via email of the successful/unsuccessful untags.
- Successfully untagged policyholders receive an Opt Out Confirmation Letter.
- For 14 months after an assumption, Citizens releases Month End Extracts (reports) to TOCs which include the most current policy information.

Depopulation Overview

Citizens
Depopulation
Website

- Frequently Asked Questions
- Sample Letters and Documents
- Calendars
- Statistics
- Non-Bonus Takeout Plans

www.citizensfla.com/about/depopinfo.cfm

Historical Depopulation Activity (2003-2013)

Depopulation Activity by Account and Year



Notes:

- 2013 data is as of 07/09/2013
- The number of policies and exposure removed are derived from the initial assumption; does include opt outs

Citizens' Existing Book of Business

Account	Policies Inforce	Premium	Total Exposure	100-Year Probable Maximum Loss
Personal Lines	787,616	\$ 1,303,759,492	\$ 156,127,893,745	\$ 5,305,558,000
Coastal	415,103	\$ 1,124,368,321	\$ 176,271,393,992	\$ 11,987,983,000
Commercial Lines	7,746	\$ 197,496,723	\$ 37,704,310,946	\$ 1,208,052,000
TOTAL	1,210,465	\$ 2,625,624,536	\$ 370,103,598,683	\$ 18,623,156,000

As of June 30, 2013

What Could Citizens Look Like?

Properties Citizens will likely cover as the Insurer of Last Resort include the following characteristics:

- Coastal Properties
- Older Homes
- Older Mobile Homes
- Portion of the Sinkhole Prone areas
- Older, Taller and Higher Value Condominium Associations
- Rental Properties
- Commercial Non-Residential

Estimated “Residual Market” Policy Count

	As of 12/31/12	Returned to Private Market	Citizens Retains	Percent Reduction
PLA	860,502	517,000	343,502	60%
Coastal Account	446,163	120,000	326,163	27%
CLA	8,146	4,000	4,146	49%
TOTAL	1,314,811	641,000	673,811	49%

Consumer Choice Clearinghouse Update

Clearinghouse Goals and Benefits

Goals:

- Ensure that all Citizens applicants have access to every possible private insurance option, including better policy coverage, before choosing Citizens
- Ensure that all Citizens renewal customers have expanded access to every possible private insurance option, including better policy coverage, before choosing to renew with Citizens
- Provide private carriers expanded market distribution
- Ensure that only policies meeting statutory eligibility requirements are placed with Citizens

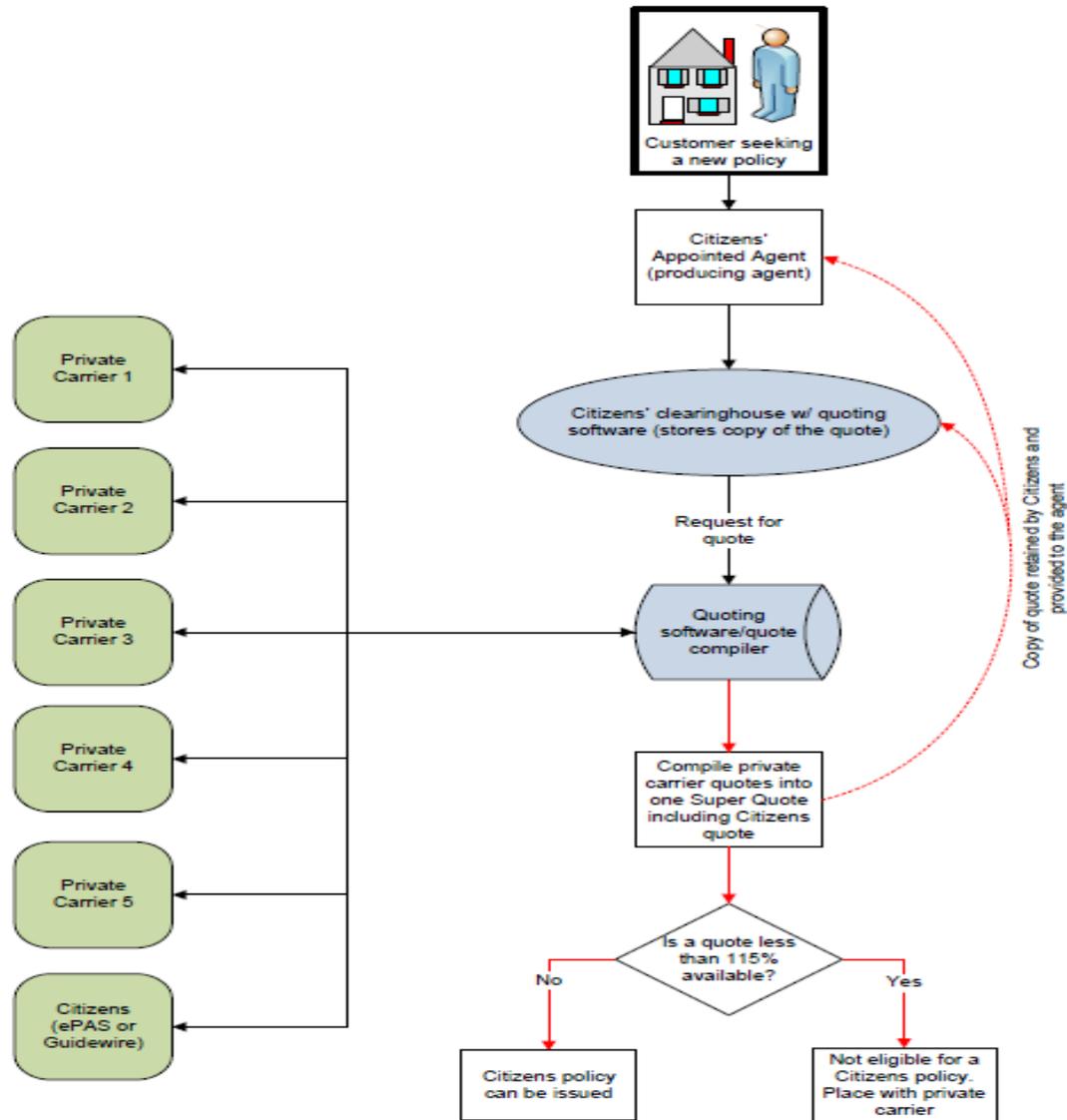
Benefits for the State:

- Gives applicants a clear picture of their private market options
- Reduce homeowners' assessment liability by shrinking Citizens
- Expand the private carrier access to potential policyholders
- Creates a mechanism for shrinking Citizens and returning it to a true market-of-last resort

Overview of Approach

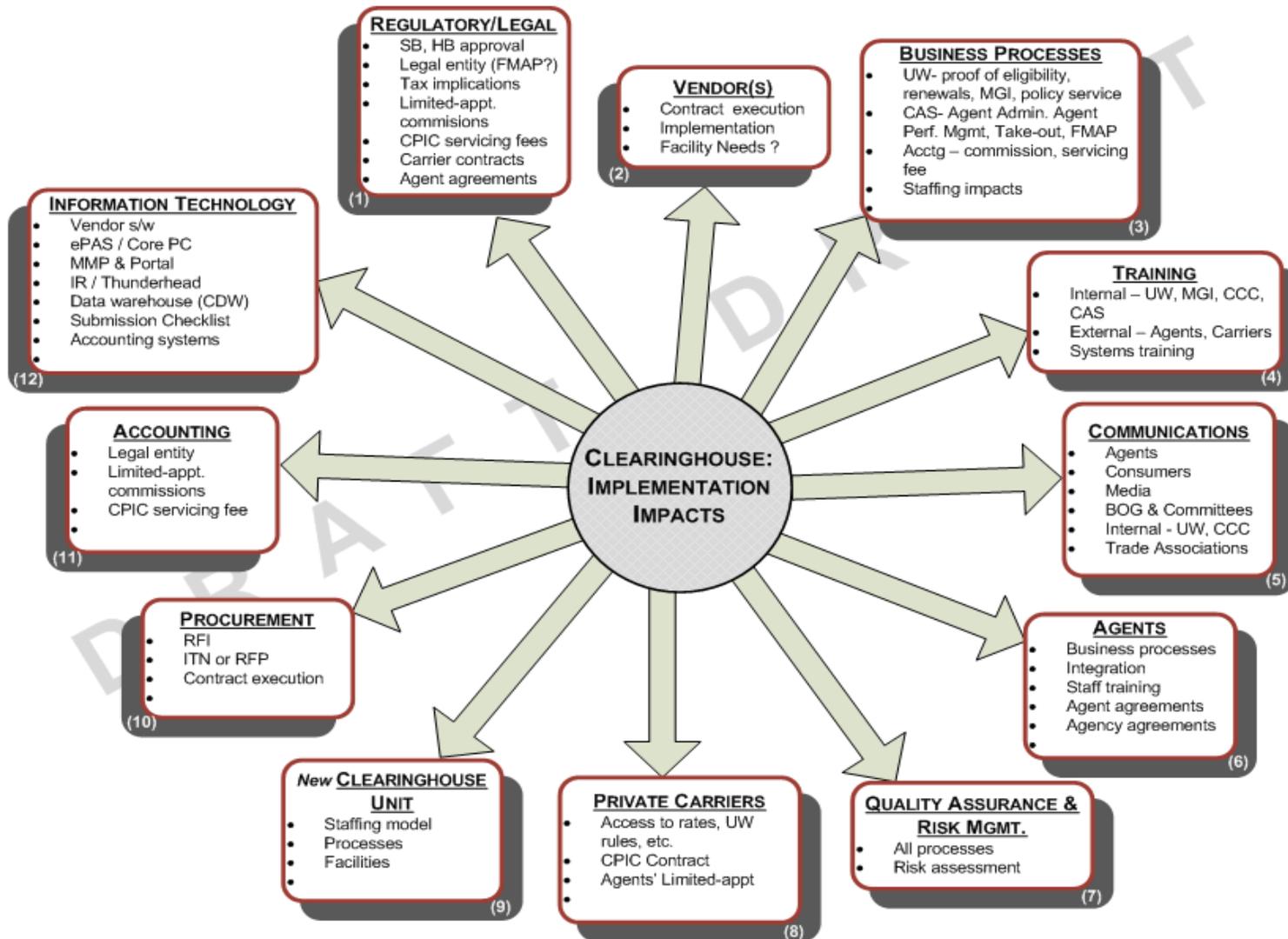
- SB 1770 mandates the implementation of a Citizens Clearinghouse by January 1, 2014
- A real-time mechanism that will systematically enable private insurers to make an offer of coverage to personal lines' applicants seeking coverage from Citizens
- Procure a SEMCI (Single Entry Multi-Carrier Interface) software tool
- Based on private carriers' underwriting, exposure and selection criteria, request offers of coverage from "eligible" private insurers participating in the Clearinghouse
- All offers, including coverage and pricing, will be delivered back to the producing agent
- Business placement is guided by statute
 - For new business if the rate is less than 115% of Citizens quote for comparable coverage, the offer renders the applicant ineligible for Citizens coverage
 - If the rate is greater than 115% of Citizens' rate, the consumer makes the choice
 - If there is no private market offer of coverage rendering the applicant ineligible, the business is placed with Citizens
- For renewal business, if the rate is equal to or less than Citizens quote for comparable coverage, the offer renders the applicant ineligible for Citizens coverage
- A report regarding the Clearinghouse approach for commercial residential is due January 1, 2014

Process Flow



→ Request for coverage
 → Return quotes, coverage written

Functional Impact Assessment



Progress Update

- Request for Information (RFI) Solicitation
 - Used to obtain current market information, gain a better understanding of vendor capabilities and provide a basis for developing the solicitation.
 - Four responses received on April 12, 2013
- Invitation to Negotiate (ITN) Solicitation
 - Competitive solicitation process consistent with Citizens' policy and 287.057, F. S.
 - Six Responses were received on June 25, 2013
 - The top two vendors advanced to the negotiation phase
 - The negotiation team identified Bolt, Inc. as providing the best value offer to Citizens because:
 - Ability to implement by January 1
 - Multiple integration platforms enable broad carrier participation
 - Demonstrated required functionality and ease of use
 - Competitive pricing
 - Contract approved August 23, 2013 by Board of Governors

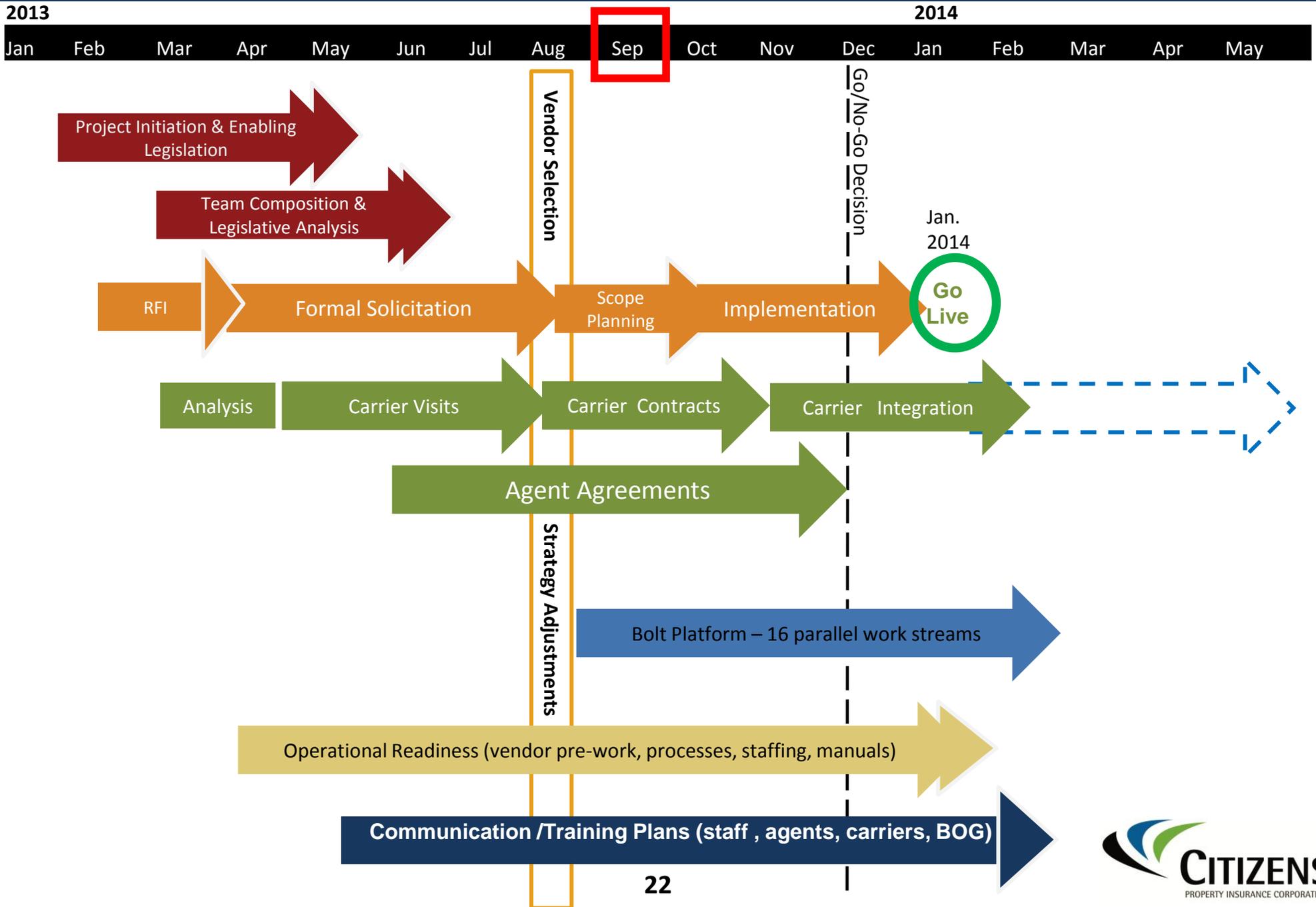
Progress Update

- Carrier Visits
 - 31 meetings conducted
 - Many misconceptions were clarified
 - High interest from private carriers to participate
- Agent Interests
 - Discussions with agent association representatives
 - Impact analysis meetings with high-volume Citizens agents
- Carrier on-boarding process initiated September 13, 2013
 - Review and sign the participation agreement; complete the carrier readiness questionnaire
 - Timely response and readiness assessment will ultimately determine the on-boarding schedule

Progress Update

- Executive Steering Committee meetings held regularly
- Bolt resources arrived on-site September 4, 2013
- Citizens and Bolt teams are transitioning into one, collaborative team
- Planning, scheduling, requirements, and delivery are occurring in parallel
- Multiple teams and workstreams have been established and will run in parallel
 - Bolt Clearinghouse Platform
 - Carrier Integrations
 - Third Party Report Services
 - Communications and Training
 - Operational Readiness
 - Back-End IT Systems
 - Commercial Report
- Scope management will be a key variable for a January 1, 2014 delivery
- Final scope and implementation plan targeted for the end of September

Clearinghouse Timeline Overview



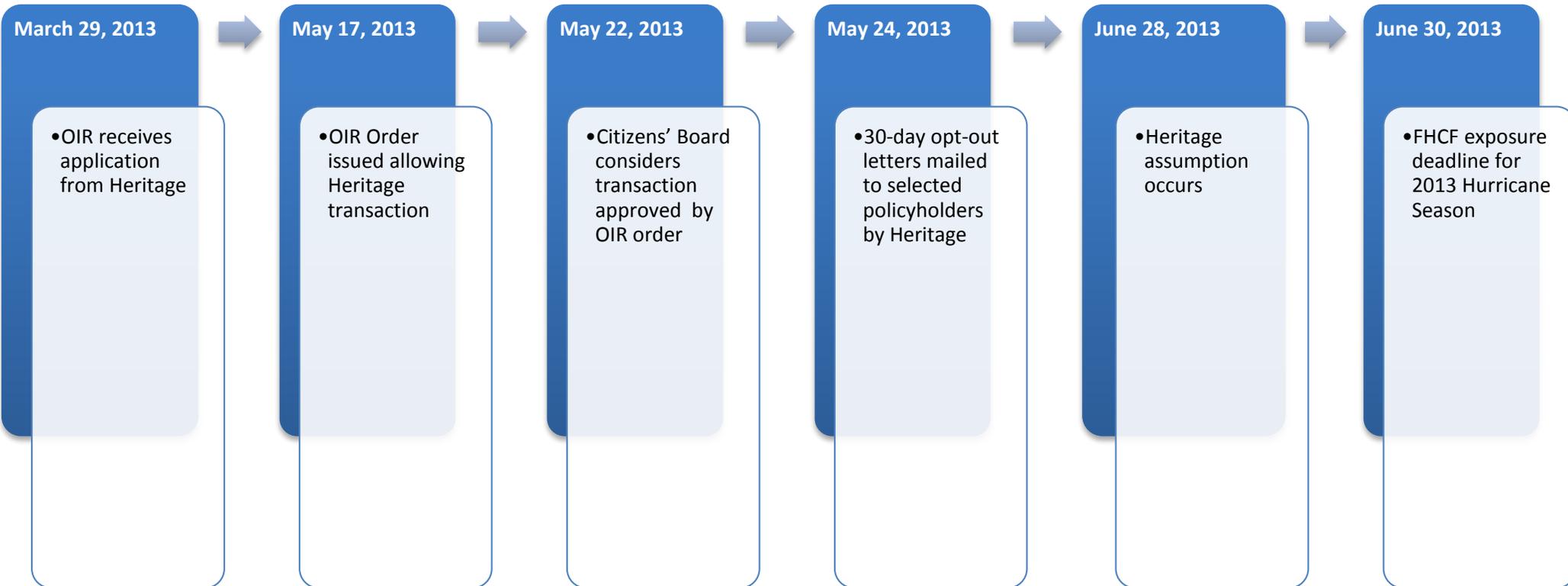
Heritage Transaction

Transaction Overview

- The intent of both parties (Citizens and Heritage) was to facilitate the removal of a large number of policies in advance of hurricane season (June 1st to November 30th)
- Although the assumption of policies occurred on June 28, 2013, the quota share arrangement facilitated risk transfer on those policies back to January 1, 2013
- Not only does this transaction remove a substantial level of wind risk from Citizens, it also removes the related multi-peril losses that occurred or may occur on the selected policies from January 1, 2013 and forward
- As of June 30, 2013, the following loss data on policies reinsured by Heritage is known:
 - 286 claims
 - \$2.4 million of reported losses
- Prior to formally considering this arrangement, internal and external resources were used to validate the initial policy selection and perform loss modeling for the purpose of quantifying the reduction in Citizens' Probable Maximum Loss (PML), FHCF reinsurance premium, and assessments

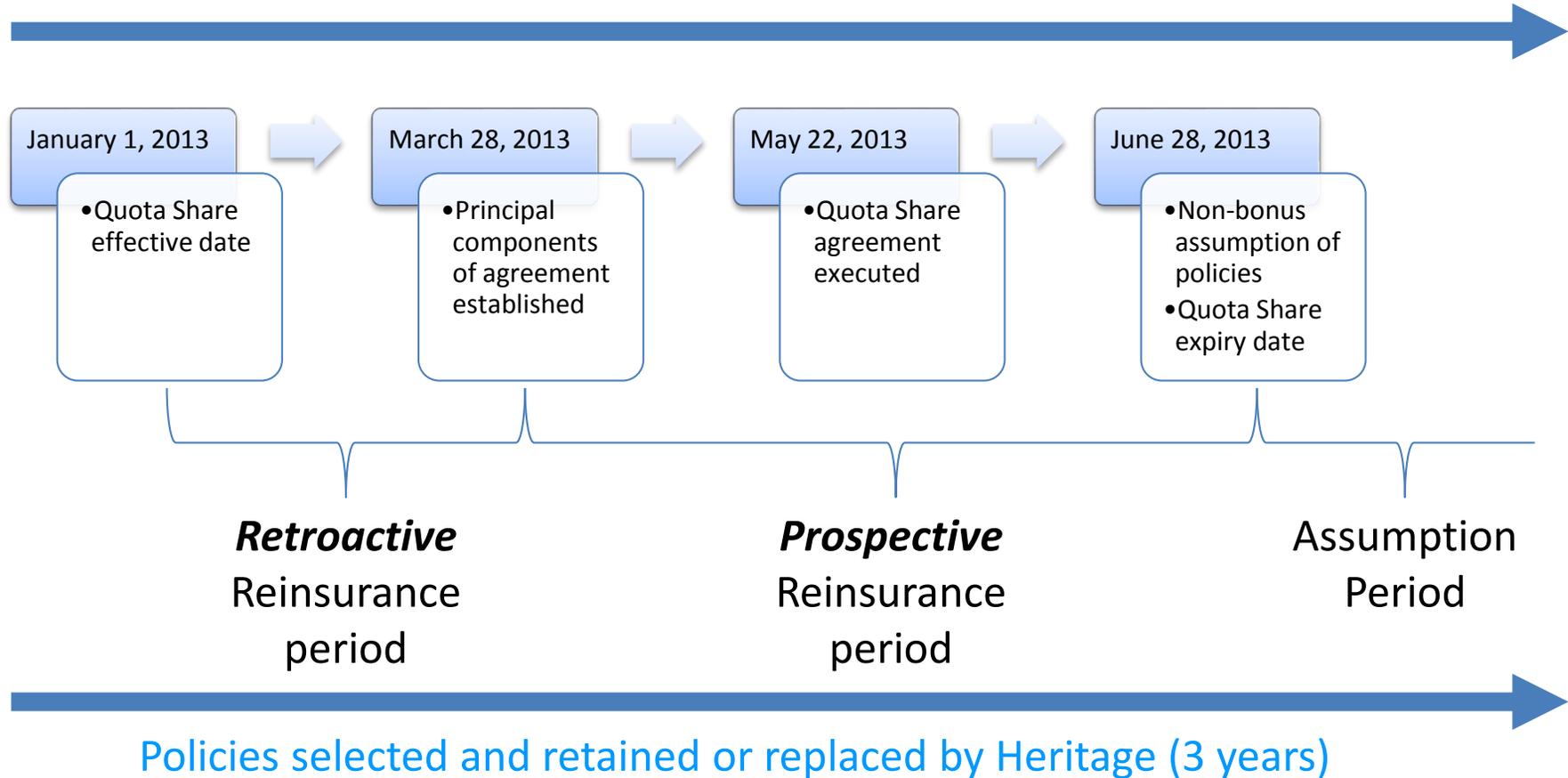
Transaction Structure – *Approval Timeline*

- Following is a timeline illustrating the key approval dates of the Heritage transaction



Transaction Structure – Risk Transfer Timeline

Citizens cedes 100% of losses occurring on or after January 1, 2013



Transaction Structure – *Financial Statement Impact*

- Amounts paid to Heritage represent the unearned (unexpired) portion of the policies Heritage assumed
- The payment of the unearned portion of assumed policies **does not** reduce Citizens' surplus
- In substance, the payment reduces Citizens' liability of unearned premium
- This transaction, including the quota share component, results in the same balance sheet and income statement impact as other policy assumption transactions

Quota Share premium: \$33.1 million

Assumed premium: \$43.8 million (unearned premium under traditional non-bonus assumption arrangement)

Total premium: \$76.9 million

- As of January 1, 2013, the total premium obligation of \$76.9 million consists entirely of the unearned premium on policies assumed and **does not** impact surplus

Transaction Considerations – *Heritage*

- Heritage was provided the ability to review claims data on policies selected for a period of approximately four months prior to the assumption date
- Heritage was also provided the ability to review historical claims data on policies selected, which is a benefit afforded to all assumption carriers
- Through the quota share arrangement, Heritage was able to earn premium in advance of hurricane season in order to support its claims paying capacity – this is predominantly why most assumption activity occurs in November and December of each calendar year, and why the quota share arrangement was effective January 1, 2013
- To further support the integrity of the transaction, Heritage agreed to the following provisions that are currently not established for traditional non-bonus assumption agreements:
 - Three year restriction on the payment of dividends, unless approved by the Florida OIR
 - Contribution of an additional \$10 million of capital to secure claims obligations
 - Rate increases on assumed policies cannot exceed Citizens' rate increases for three years
 - Replacement of policies (from either Citizens or private market) for policies that opt-out or otherwise cancel/non-renew with Heritage

Transaction Considerations – *Heritage*

(continued)

Claims Information on Selected Assumptions (January 1, 2010 – June 30, 2013)

Company	Assumption Date	Assumed Policy Count	Assumed Policy Claim Count	Claim Frequency	Historical Reported Losses
Homeowner's Choice	11/6/2012	54,210	1,627	3.0%	\$ 13,768,718
Southern Fidelity	11/6/2012	25,436	470	1.8%	4,276,047
Heritage P&C (Non Quota Share)	12/4/2012	37,106	3,517	9.5%	38,423,336
Florida Peninsula	1/8/2013	7,581	236	3.1%	1,850,546
Heritage P&C (Non Quota Share)	1/8/2013	4,770	211	4.4%	1,920,885
United P&C	1/8/2013	12,973	1,705	13.1%	16,713,606
Weston (Commercial)	5/2/2013	1,973	49	2.5%	225,646
Southern Oak	5/7/2013	3,511	32	0.9%	244,483
Weston (Commercial)	5/16/2013	67	3	4.5%	1,650
Weston (Personal)	5/17/2013	10,626	165	1.6%	467,611
Weston (Personal)	5/31/2013	2,035	37	1.8%	158,717
Tower Hill Select	6/4/2013	15,185	1,753	11.5%	17,090,793
Heritage P&C (Quota Share)	6/28/2013	39,656	3,226	8.1%	43,729,164
Southern Oak	7/9/2013	2,111	9	0.4%	156,433

Data Notes:

1. *Assumed Policy Count* refers to policies that have not opted out of assumption as of 7/31/2013. If a policy has opted out of assumption, then no claims are included for that policy.
2. Only claims reported on or after 1/1/2010 are included in this report.
3. Salvage and Subrogation Recoveries have been removed from reported *Historical Reported Losses*.
4. *Historical Reported Losses* is the sum of all paid losses and LAE as well as the current loss and LAE reserves. It represents all expenses incurred and reported on the claims since their report date.

Transaction Considerations – *Citizens*

As a result of the transaction with Heritage, Citizens and its stakeholders enjoy the following benefits:

- Removal of 45,709 policies
- Reduction in exposure (TIV) of \$12,250,146,252
- Reduction in PML of \$363,264,939 (2%)
- Savings of approximately \$10 million in premiums paid to the FHCF

NOTE: The TIV, PML and FHCF premium savings were calculated based upon the 45,709 policies removed as of the date of assumption - June 28, 2013. A previous slide (Slide 29) shows assumed policy count of 39,656 which includes post assumption opt-outs through July 31, 2013.

Looking Forward

To address any future concerns involving the submission, evaluation, and execution of future non-traditional assumption arrangements, Citizens has established the following process:

1. All proposals are first submitted to and vetted by Citizens' Depopulation Committee
2. Citizens' Depopulation Committee may direct staff to evaluate the proposals
3. Staff presents its recommendations to Citizens' Depopulation Committee
4. Citizens' Depopulation Committee will determine if the proposal should move forward to Citizens' Board of Governors for consideration and approval.

Appendix

Appendix 1 – Accounting Considerations

- Retroactive Reinsurance accounting treatment is required since the effective date of the quota share arrangement (January 1, 2013) precedes the date when the principal components of the transaction were established (March 28, 2013)
- This method of accounting is required by accounting principles (SSAP No. 62(R))
- The net impact to Citizens’ balance sheet, surplus, and net income as respects retroactive reinsurance accounting is neutral
- The accounting treatment reflected in Citizens’ financial statements has been confirmed with Citizens’ Independent Auditors
- Provided below is an illustration of prospective and retroactive methods as they relate to Citizens financial statements

	<i>Prospective Method</i>	<i>Retroactive Method</i>
Ceded earned premiums	Reduction in net earned premium	Ceded earned premiums and ceded incurred losses/LAE are netted and reported in other income (loss)
Ceded incurred losses/LAE	Reduction in net incurred losses	
Ceded loss/LAE reserves	Reduction in net loss/LAE reserves	Recorded as “retroactive reinsurance reserves ceded”



Richard C. Koon
Deputy Commissioner for Property & Casualty

As Deputy Commissioner for Property and Casualty, Richard Koon has oversight responsibility for the Product Review and Financial Oversight units for property and casualty insurance. Mr. Koon has over 20 years of insurance regulatory and management experience.

Prior to being appointed Deputy Commissioner, Mr. Koon served as Director of Property & Casualty Product Review. As Director, he managed the review of property and casualty insurance policy forms and rates through the supervision of contract and actuarial staff. Mr. Koon's service as Director was during a period of unprecedented change in the property insurance markets and subsequent regulations governing those products. Under his leadership, the business unit reviewed a historic volume of insurance products as required by changes to statutes.

Mr. Koon held the position of Policy Forms Manager of Property & Casualty Product Review for five years prior to his role as Director. He spent over ten years in various insurance analyst positions, becoming an expert in several lines of property and casualty insurance. He has taught courses in homeowners' and private passenger automobile insurance for employees of the Office of Insurance Regulation, the Department of Financial Services, and the Collins Center for Public Policy.

Mr. Koon received his Bachelor of Science Degree in Risk Management and Insurance from Florida State University's College of Business.

Overview of Citizens Depopulation Program

Senate Banking & Insurance

September 24, 2013

Richard Koon,
Deputy Commissioner of Property & Casualty

Today's Discussion Topics:

- Overview of the OIR Review Process
- Review of the impact of depopulation
- Outlook on future depopulation efforts



Depopulation Framework

- Citizens develops a depopulation program which allows for private market carriers to assume policies
- OIR has developed a review process which companies undergo in order to participate in an assumption



Components of a Depopulation Application

- Depopulation plan
- Catastrophe modeling
- Reinsurance information
- Financial Projections
- Geographical distribution of policies
- Summary of management experience
- Any additional information requested by the OIR



The Review Process

- Review of depopulation application is coordinated by the OIR Takeout Analyst & Chief Analyst

- Information and input is solicited from:
 - Market Conduct Unit
 - Financial Analyst
 - Forms Analyst
 - Rate Actuary
 - Company Admissions Unit



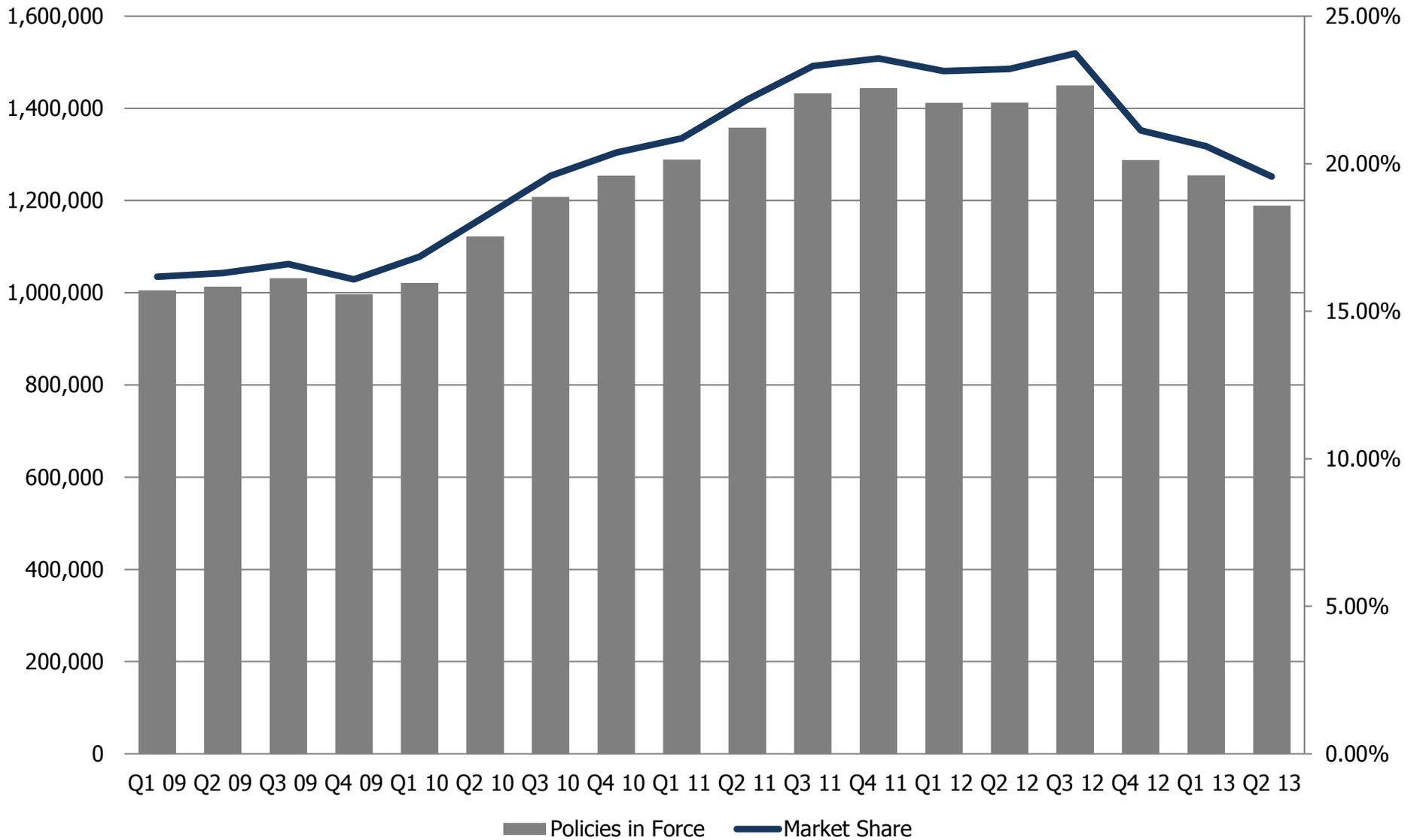
Approval of a Depopulation Application

- Completed via consent order - one for each assumption date

- Common consent order provisions:
 - Opt out window (30 days before, 30 days after)
 - Communication with consumers
 - Adherence to Citizens depopulation calendar
 - Maintenance of reinsurance
 - Continue to provide similar coverage
 - Provide coverage comparison chart
 - 14-day review period for agents

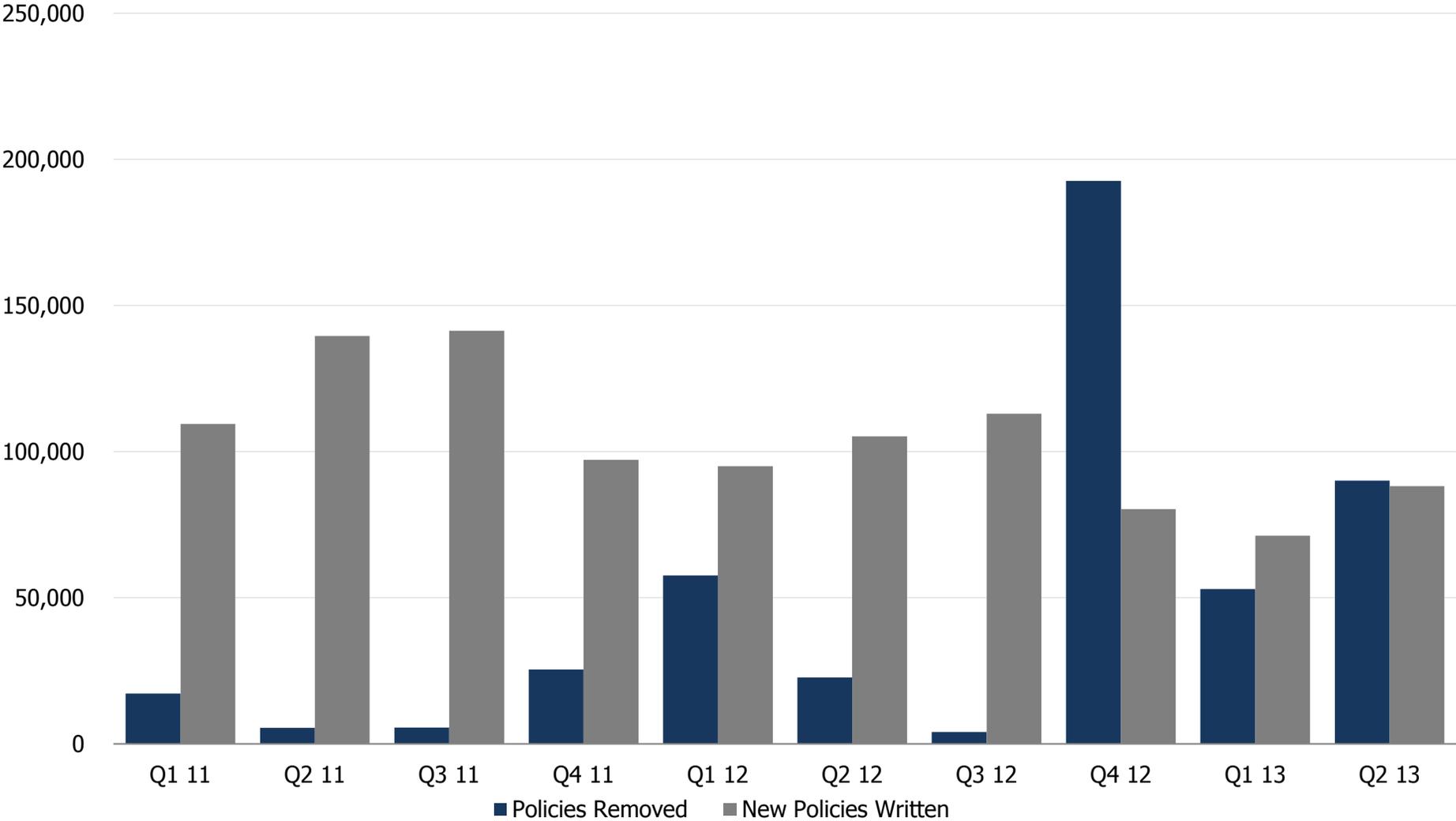
- Post application monitoring

Citizens Size in the Marketplace



Source: OIR Quarterly & Supplemental Reporting System – Next Generation (QUASR-ng)

Policies Removed vs. New Policies Written



Source: OIR Quarterly & Supplemental Reporting System – Next Generation (QUASR-ng) & Citizens Website

Questions?

Contact Information:

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Bruce Lucas-Heritage Insurance

Mr. Lucas is the Chairman and Chief Investment Officer of Heritage Insurance. He is a dynamic business leader with a wealth of experience in the legal and financial industries. Bruce co-founded Infinity Investment Funds, a multinational hedge fund, where he served as CEO. During his career, he has been involved in billions of dollars of financial management transactions with many of the top fortune 50 companies.

Bruce also enjoyed a successful legal career, most recently with Weil, Gotshal & Manges, one of the world's top law firms. As an attorney, he represented many of the world's largest corporations in a variety of domestic and international transactions. He has a Doctorate of Jurisprudence from Indiana University-Bloomington, where he graduated cum laude, Order of the Barristers, and was the Sig Beck scholar. He is active in local charities and resides in Palm Harbor, FL with his wife and son.



HERITAGE

I n s u r a n c e

Pillars of Strength and Character.

Prepared for Senate Insurance & Banking Committee

September 24, 2013

Senior Management

250 Years Combined Experience

Richard A. Widdicombe, CPCU **CEO/President**

Mr. Widdicombe is an experienced, results-oriented senior insurance executive with excellent administrative and quantitative skills especially focused on property and casualty management. Mr. Widdicombe has a strong background with growing insurers and has served as President of three Florida Insurance carriers, Federated National Insurance Company, American Vehicle Insurance Company and People's Trust Insurance Company. Most recently, he served as Risk Manager/Reinsurance Purchaser for Homeowners Choice Property and Casualty Insurance Company. Mr. Widdicombe also served as Executive Vice President and Chief Operating Officer for Cypress Property Casualty Insurance Company in Jacksonville, Florida.

Mr. Widdicombe was the Chief Executive Officer of 21st Century Holding Company, Inc., a Florida based, multi-state, NASDAQ-listed insurance organization consisting of two insurers, an insurance agency, a premium finance company and claims processing company. Prior to his service with 21st Century, Mr. Widdicombe was employed by Jardine-MacNeill/ISAC, Miami, Florida in various Management positions. Mr. Widdicombe further served on the Florida Office of Insurance Regulation's Initial Disaster Assessment Team.

Bruce Lucas **Chairman and Chief Investment Officer**

Mr. Lucas is the Chairman and Chief Investment Officer of Heritage Insurance. He is a dynamic business leader with a wealth of experience in the legal and financial industries. Bruce co-founded Infinity Investment Funds, a multinational hedge fund, where he served as CEO. During his career, he has been involved in billions of dollars of financial management transactions with many of the top fortune 50 companies.

Bruce also enjoyed a successful legal career, most recently with Weil, Gotshal & Manges, one of the world's top law firms. As an attorney, he represented many of the world's largest corporations in a variety of domestic and international transactions. He has a Doctorate of Jurisprudence from Indiana University-Bloomington, where he graduated cum laude, Order of the Barristers, and was the Sig Beck scholar.



Pillars of Strength and Character.

Senior Management

250 Years Combined Experience

Stephen Rohde **Chief Financial Officer**

Stephen Rohde, Heritage's Chief Financial Officer, has 39 years of experience in the insurance industry. Prior to joining Heritage, Stephen was the CFO of People's Trust Insurance Company, Boca Raton, FL, for four years and the CFO of the Mutual Service Insurance Group (MSI), St. Paul, MN, for 13 years of his 20 year employment at MSI. Stephen started his career at IDS Financial Services, Minneapolis, MN, in 1973. Mr. Rohde has also served as an outside director and Audit Committee Chairman of Direct General Corporation, Nashville, TN and Lion Insurance Company, Holiday, FL. Stephen received his Bachelor's degree from the University of Wisconsin-Eau Claire.

Joseph R. Peiso, CPA, CPCU, ARe **Controller**

Mr. Peiso brings a wealth of insurance experience as former CFO of Sunz Insurance Holdings, LLC., CFO of United Insurance Holdings, and senior manager of Dixon Odom PLLC in North Carolina. Joe began his professional career with Coopers & Lybrand, CPA after graduating from the University of Florida. Soon he went to work in the industry with American Bankers Insurance Company in Miami, Florida and later as Vice President of Finance for Transportation Casualty Insurance Company of Ft. Lauderdale, Florida. Mr. Peiso obtained his CPA early in career and has owned and operated his own company, in addition to roles at various companies in Florida and North Carolina. Joe was the Chief Financial Examiner for the North Carolina Department of Insurance where he managed a team of 20 accounting professionals that conducted statutory financial examinations of carriers with interests in North Carolina. Additionally, Mr. Peiso recently earned his ARM designation and has regulatory experience assisting Special Deputy Supervisor in several cases working with the Florida Office of Insurance Regulation.

Senior Management

250 Years Combined Experience

Paul G. Neilson

Vice President of Claim Operations

Paul began his insurance career after graduating from Western Michigan University, spending 16 years with Aetna Life & Casualty and serving in positions of increasing responsibility in Michigan, California and Florida. From 1996 through 2010, Paul led the property claim department for Travelers of Florida where he was responsible for directing the personal and commercial lines property operations, auto/property physical damage quality assurance programs, and catastrophe planning & response.

Paul served as the Director of Claims Management for Homeowners Choice Property & Casualty Insurance Company. In that capacity, he led the liability and litigation teams, managed personnel and financial resources, and assisted in the development of the corporate catastrophe response plan. Prior to joining Heritage, Paul was the Claims Quality Assurance Manager for Citizens Property Insurance Corporation where his department conducted claim file audits and adjuster field reinspections. He was responsible for providing time-sensitive data analysis and trending to the business units as well as reporting actionable feedback with recommendations for process improvements.

Paul serves on the Florida Division of Emergency Management's Insurance Damage Assessment Team, is a member and past presenter of the Florida Advisory Committee on Arson Prevention, Property Loss Research Bureau and the Windstorm Conference. Mr. Neilson is a voting member of the Florida Department of Financial Services, Division of Insurance Fraud, Property & Casualty Fraud Task Force.



Pillars of Strength and Character.

Senior Management

250 Years Combined Experience

Kent Linder **Chief Operating Officer**

After serving in the United States Marine Corps Reserves and graduating from the University of South Florida, Kent began his insurance career in 1993 by opening his first retail agency in Orlando, Florida. He grew his company to 23 insurance agencies in seven Florida counties, employing over 90 insurance professionals. Kent developed innovative insurance products and introduced tax preparation services utilizing electronic filing.

Kent sold his agencies in 1998 to 21st Century Holding Company (NASDAQ: FNHC) and became President of Federated Agency Group. He grew the agency business to 38 retail locations and rebranded it into FedUSA and directed the sale of the franchises, providing additional revenues to the parent company. Kent became the Chief Operating Officer of 21st Century Holding Company in 2002, and was responsible for all operations including two Florida domiciled property and casualty insurance companies. Kent expanded the organization into several states and worked to develop a successful Florida property program.

Ernie J. Garateix, CPCU **Executive Vice President**

Mr. Garateix's well-rounded insurance career includes claims, underwriting, operations, systems analyst, and Vice President of Operations. After graduating from Florida State, Ernie joined USF&G in the claim department, and managed their call center operation. Mr. Garateix worked with USF&G from 1993- 2000, obtained his MBA from University of Tampa in Management Information Technology, and immediately began work as AVP of Information Technology at FCCI in Sarasota, Florida (2000-2007). He managed a team of developers, oversaw a number of software implementations, and assisted in numerous multi-state projects. Ernie has spent the past five years as Vice President of Operations at American Integrity Insurance Group responsible for all backroom operations of the carrier. In his current role, he co-ordinates all rate and form implementations, and works with the CEO on special projects. Mr. Garateix managed the Citizens assumption process from all sides, agent, claims and consumer. Ernie also developed a management information tool for internal users to the streamline reporting process.

Senior Management

250 Years Combined Experience

Mel Russell

Executive VP, Chief Underwriting Officer, and Director of Sales

Mel has 36 years' experience in the property and casualty business, and has been in the Florida insurance market since 1989. He began his career in Boston as a Senior Commercial Lines Underwriter with Fireman's Fund Insurance Company. He spent his first 12 years in the New England market, initially with Fireman's Fund and subsequently with General Accident Insurance Company. He moved to the General Accident branch office in Orlando in 1989, where he ran the personal and commercial underwriting, loss control, and premium audit departments. In 1999 Mel was a founding employee at United Property & Casualty Insurance Company (UPC Insurance), where he served as Chief Underwriting Officer, Corporate Secretary, head of Marketing, and eventually as President. Mel holds the Certified Insurance Counselor (CIC) designation. Mel has a B.A. in English Literature from Gordon College in Wenham, Massachusetts. He is married with four sons and three grandchildren.

Rachael Waguespack

Underwriting Manager

Rachael Waguespack has over 30 years of experience in the Insurance Industry, with the past 20 years in Florida. Rachael has worked in both captive and independent agencies at the CSR and Agent level. Rachael began her insurance career in Louisiana working as a CSR for a State Farm Agent in 1981. She worked as a captive agent for Aetna Casualty & Surety from 1988 until 1990, when they moved their branch office to Florida. She then worked as an Agent in an Independent Agency until 1992, when Aetna lured her to Florida to become an Underwriter. Rachael worked as an Underwriter for Aetna and following the sale of their Property & Casualty business to Travelers, she continued to work for Travelers/First Floridian as an Underwriter and Project Underwriter.

Rachael has also worked in claims and was a Claim Representative and Team Lead with Travelers/First Floridian from 2000 through 2003. She was as an Independent Adjuster for Cunningham Lindsay from 2003 through 2006. Rachael's claims experience has given her an appreciation of how important it is to properly insure risks in order to adequately protect the insured and have a profitable, stable book of business for the agency and company.

Rachael returned to underwriting in 2006 as an Underwriting Supervisor, working for CGI in a Third party environment. She was hired by a former client, Universal North America in 2010 as an Underwriting Manager. Rachael has managed a department of Underwriters in several locations handling multiple states.

250 Years Insurance Experience

TRAVELERS 



Fireman's Fund[®]

UNIVERSAL[™]

Universal North America[®]

UPC 
INSURANCE

 **American Vehicle Insurance Company**

 **HERITAGE**
Insurance

Pillars of Strength and Character.

State Farm[™]



FCCI INSURANCE GROUP

HCI

HOMEOWNERS CHOICE

USF&G[®]
INSURANCE

 **Aetna**[®]

BANKERS
INSURANCE GROUP

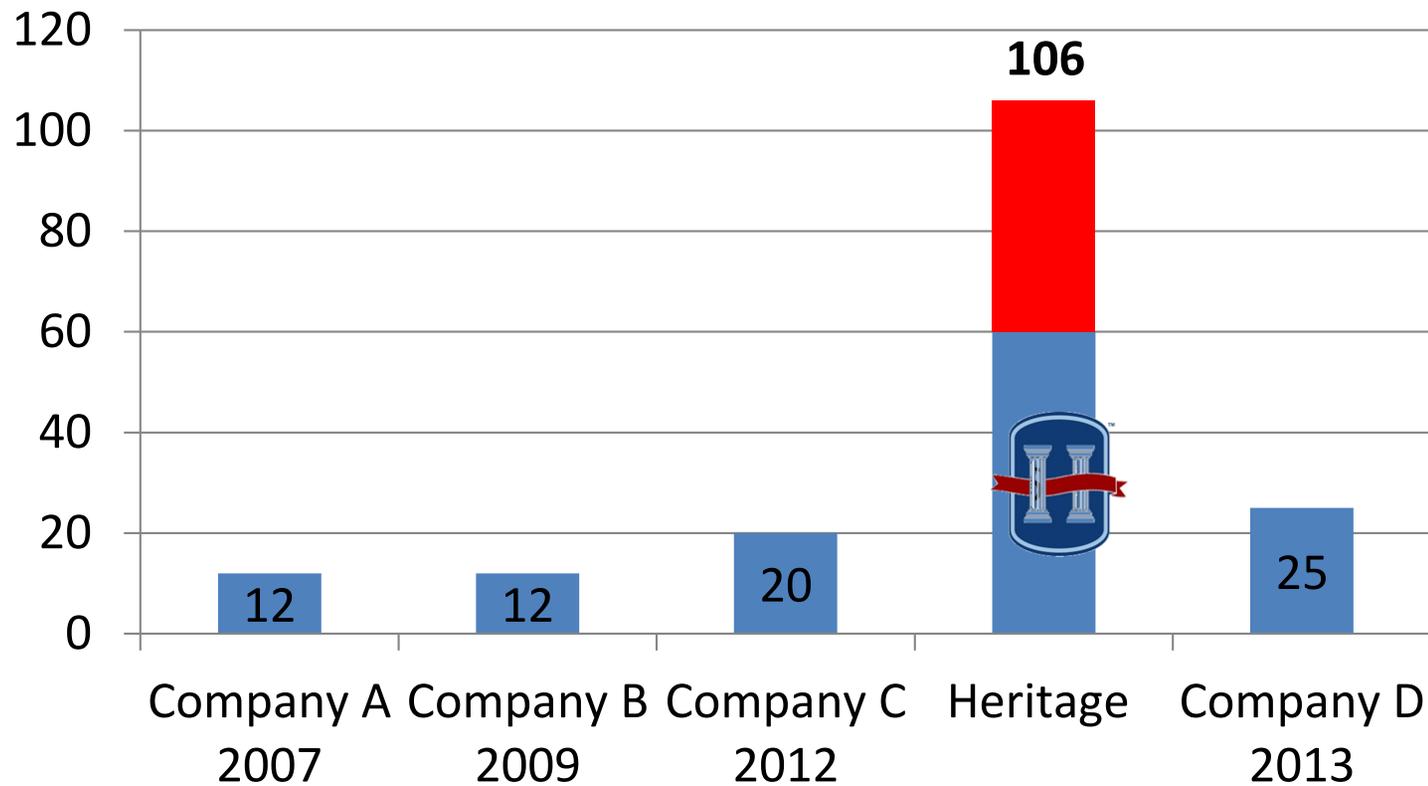


Allstate[®]
You're in good hands.

 **Federated National Insurance COMPANY**

Well Capitalized...

New Capital (in millions)



Truly a Florida Company...

- **Heritage is a community-owned company**
- No single investor owns more than 8% of the company
- Most investors are Florida small business owners and professionals
- Investor base has a long-term investment horizon—not looking for a quick return
- Investors also invested in other Florida insurers and understand the market
- Creates a stable, well capitalized company that truly understands the Florida market

Operating Depth...

- Approximately 100 employees/independent contractors service Heritage
- We are a full service company
 - Complete claims department manages claims in-house
 - Directly employ customer service reps and underwriters
 - Use independent contractors to handle overflow
 - Provides better customer service while creating new jobs
- Three former Florida CFO's and two Florida Presidents
- One of the deepest operating teams in the state

CAT Operations

- 4 Florida based CAT Adjusters
- 180 committed field adjusters and 18 inside examiners
- Can efficiently handle a 30,000 claim event
- Can operate virtually, or at our secure/hardened facility in Lakeland
- All of our business (underwriting & claim) systems are cloud based and can be accessed from anywhere via an internet.
- Phone system is Voice Over Internet Protocol (VOIP) and is expandable to meet increased CAT volume.
- FNOL call center is located in Jacksonville, FL with overflow capacity and redundancies in New York and other centers if necessary.
- All key claim employees have the ability to access our systems from multiple sources. (Home internet, Wi-Fi Hot Spots & cellular connection)

We Understand the Citizens Market...

- Management team has experience assuming 100k's policies
- Heritage assumed policies in December 2012, Jan. 2013, April 2013, June 2013, and approved for Nov. 2013
- Cumulative retention is approximately 85%
- Assumptions were well executed and virtually no complaints
- First Florida carrier to tell consumers their renewal premium
 - Several companies are now following our lead on consumer disclosure
 - Highly praised by FAIA, agents, and consumers
- Our rates are very competitive and follow Citizens' 10% glide path
- Thousands of customers are saving up to 20% with Heritage
- We offer better coverage than Citizens

What Are The Citizens Risks?

- **Underwriting**
 - Many policies have underwriting errors
 - Many errors materially impact reinsurance rates
 - Age of roof, roof type, block vs. frame, wind mitigation factors
 - Houses were not inspected and in poor condition
 - Underwriting has significantly improved in recent years
 - Homes are inspected to verify data
 - Wind Mitigation inspections verified eligibility
 - Improvements in underwriting are attracting the private market
- **Rates**
 - Many rates are below actuarially sound rates
 - Glide Path increases are closing the gap and attracting the private market
 - Large discrepancy between renewal and new rates
 - Heritage is following Glide Path to provide benefits to insureds

What Are The Citizens Risks?

- **Risk Concentration**
 - Vast majority of policies are in 5 counties
 - Miami-Dade, Broward, Palm Beach, Hillsborough, Pinellas
 - Concentration creates exponential reinsurance costs
 - Limits private market ability to assume policies b/c they buy reinsurance
- **Loss Ratios**
 - Citizens loss ratios are the highest in the industry
 - Massive sinkhole exposure, getting much better with SB 408
 - Loss ratio is a reflection of inadequate premium
- **Older Homes**
 - Building codes are not as good on older homes
 - Significantly more plumbing and roof leaks, and fire losses
 - Policies do not model well for reinsurance

Why November & December?

- CAT Season is 6/1—11/30
- CAT Reinsurance is the largest expense
- Timing is crucial
 - Citizens risks—low premium, etc.
 - Assume policies in Nov./Dec. there is no reinsurance costs for first 6 months
 - Timing of takeout makes it possible to assume policies, pay AOP and reinsurance, and remain profitable
 - Late season assumptions are usually small and are very good policies
- Normally, carriers would not make assumptions in CAT Season

Why June 28th...?

- Weston Insurance and Citizens entered into a Quota Share Reinsurance Contract in Feb. 2013
- QS contracts are very common and prevalent in Florida
- Weston QS was retrocession—risks and premium are assumed from a prior date
 - Transaction placed Weston in the same position they would have been had they did the assumption several months earlier
 - This allowed Weston to assume policies in 2013, build capital during non-CAT season, which allowed them to purchase reinsurance
 - Weston assumed liability for wind-only claims during non-wind season
- Weston had a maximum payment of \$63 million, 20% larger than Heritage's transaction
- Without the QS, Weston could not have removed policies from Citizens
- Weston assumed substantial amount of risk during CAT season and significantly decreased Citizens' PML
- Weston QS was passed by Citizens Board without objection
- To date, have not seen any negative commentary on Weston

Why June 28th...?

- When Weston deal was announced, Heritage had recently raised additional \$35 million in equity
- Like Weston, it would have been impossible to remove meaningful amount of policies before CAT season
- Heritage saw Weston transaction as a viable solution
 - It placed Heritage in the same position as if the transaction took place on Jan. 1st.
 - Allowed Heritage to assume policies early in non-CAT season, which allowed us to purchase reinsurance
- Heritage approached Citizens in late March about structuring a Weston transaction

Transaction Metrics...

- Citizens required “substantial” depopulation—60,000 policies
- Heritage made significant concessions:
 - Requirement to backfill more policies to maintain 60,000 PIF
 - Assume all AOP losses and CAT losses
 - Follow 10% Citizens glide path for 3 years
 - No dividends to shareholders for 3 years

Comparison to Weston QS

Condition	Weston	Heritage
Maximum QS Payment	\$64 million	\$52 million
Amount of QS Payment	\$22.5 million	\$26 million net
Paid Losses QS Period	\$0	\$3 million
Assume Policies in CAT Season	No	Yes
Cover AOP Losses	No	Yes
Policies Assumed	22,000	39,000
QS Payment less Additional Reinsurance	Unknown	(\$11 million) [\$37m- \$26m]
Experience running P&C	Less than 25 years	250 years
Capital	\$35 million	\$60 million + \$46 million Warrants
Surplus at 6/30	\$50 million	\$63 million
QS and Debt	Yes	No
Takeout Experience	No	Yes
Waived MGA Fees	No	Yes

Transaction Timing...

- Transaction involved months of modeling and on and off discussions
- Unable to reach consensus until May
- Unable to get OIR approval until late May
- In order to assume policies before 6/30, required to mail tags within one week.
- Meeting was notified by Citizens on date of OIR approval.
- Heritage mailed policyholder notices a couple of days after Citizens Board approved the transaction

Transaction Results...

- 60,000 policy approval, 39,000 policies assumed
- Increased surplus from \$35 to \$63 million
- Approximately 1/3 of policies were Tri-County
- Purchased reinsurance to the 150 year PML
 - Andrew modeled to a 35 year PML
 - Covered 4 events with low retentions
- Many insureds will see up to 20% discount
- No policies will increase above 10% Glide Path

Questions...?

Thank you for your time....



HERITAGE
I n s u r a n c e

Pillars of Strength and Character.

THE FLORIDA SENATE
APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

9/24/13

Meeting Date

Topic Citizens TAKEOUTS

Bill Number _____
(if applicable)

Name Bruce Lucas

Amendment Barcode _____
(if applicable)

Job Title Chairman

Address 1151 Skye Lane

Phone _____

Street

Palm Harbor FL 34683

E-mail _____

City

State

Zip

Speaking: For Against Information

Representing _____

Appearing at request of Chair: Yes No

Lobbyist registered with Legislature: Yes No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

S-001 (10/20/11)

THE FLORIDA SENATE
APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

09/24/13

Meeting Date

Topic Citizens Property Insurance - Depop/ Clearing -

Bill Number N/A
(if applicable)

Name Barry Gilman huge/heritage

Amendment Barcode _____
(if applicable)

Job Title President/CEO

Address _____

Phone (850) 513-3757

Street _____
City Jacksonville State FL Zip _____

E-mail _____

Speaking: For Against Information

Representing Citizens

Appearing at request of Chair: Yes No

Lobbyist registered with Legislature: Yes No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

This form is part of the public record for this meeting.

THE FLORIDA SENATE
APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

1/24/13
Meeting Date

Topic _____

Bill Number _____
(if applicable)

Name David Altmeyer

Amendment Barcode _____
(if applicable)

Job Title Chief Analyst - OIR

Address 200 E. Gaines Street
Street

Phone 850-413-3849

Tallahassee, FL 32309
City State Zip

E-mail David.Altmeyer@Poir.com

Speaking: For Against Information

Representing OIR

Appearing at request of Chair: Yes No

Lobbyist registered with Legislature: Yes No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

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THE FLORIDA SENATE

APPEARANCE RECORD

(Deliver BOTH copies of this form to the Senator or Senate Professional Staff conducting the meeting)

9/24/13

Meeting Date

Topic Depop

Bill Number _____ (if applicable)

Name Rich Kwon

Amendment Barcode _____ (if applicable)

Job Title Deputy Comm. of P & C

Address 200 East Gaines St

Phone _____

Tallahassee FL 32301
City State Zip

E-mail _____

Speaking: For Against Information

Representing Off. of INS. Reg.

Appearing at request of Chair: Yes No

Lobbyist registered with Legislature: Yes No

While it is a Senate tradition to encourage public testimony, time may not permit all persons wishing to speak to be heard at this meeting. Those who do speak may be asked to limit their remarks so that as many persons as possible can be heard.

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THE FLORIDA SENATE

Tallahassee, Florida 32399-1100

COMMITTEES:
Commerce and Tourism, *Chair*
Appropriations Subcommittee on Education
Appropriations Subcommittee on General
Government
Banking and Insurance
Children, Families, and Elder Affairs
Regulated Industries

JOINT COMMITTEE:
Joint Administrative Procedures Committee

SENATOR NANCY C. DETERT
28th District

August 2, 2013

The Honorable Don Gaetz
President of The Florida Senate
Suite 409, The Capitol
404 S. Monroe Street
Tallahassee, FL 32399-1100

Approved

Dear Mr. President:

I respectfully request that I be excused from the September 23-27 Interim Committee Meetings. I previously committed to attend the Jobs Summit hosted by the National Conference of State Legislatures in Texas during that same week.

Thank you for your consideration of this request.

Sincerely,

A handwritten signature in cursive script that reads "Nancy C. Detert".

Nancy C. Detert

NCD/ca

REPLY TO:

- 417 Commercial Court, Suite D, Venice, Florida 34292 (941) 480-3547 FAX: (941) 480-3549
- 416 Senate Office Building, 404 South Monroe Street, Tallahassee, Florida 32399-1100 (850) 487-5028

Senate's Website: www.flsenate.gov

DON GAETZ
President of the Senate

GARRETT RICHTER
President Pro Tempore