



**COMMERCIAL INSURANCE
NEWS & COMMENTARY**

CITIZENS TO GIVE COMMERCIAL WINDSTORM POLICIES TO BRAND NEW INSURER, **WESTON INSURANCE COMPANY**

In one of the more creative attempts to reduce its exposures to loss, the State of Florida's windstorm insurer of last resort, Citizens Property Insurance Corporation has agreed to renew thousands of commercial windstorm policies into a brand new insurer, Weston Insurance Company. The plan, which will play out during the next few months, will lead to Weston Insurance Company taking over wind-only policies from Citizens-including a first-of-its-kind removal of policies for condominium buildings in coastal areas. While Citizens has had success during the past year in getting insurers to take other types of policies, wind-only coverage has been trickier because of the financial risks involved.

"We have the opportunity to get this hurricane risk off the books,"

Sharon Binnun, Citizens Chief Financial Officer

Citizens, now with nearly 1,500,000 policies on its books, has long tried to move policies into the private sector through a process known as "**depopulation**", often by what are called '**take out companies**', nearly always new, untested, insurers. On December 21, 2012, the Florida Office of Insurance Regulation approved a certificate of authority for Weston and based on that news Weston was approved to depopulate approximately 23,000 wind-only homeowners' policies, 3,000 condominium-complex policies, and 5,000 commercial non-residential wind policies.

The estimated exposure that Weston will insure and Citizens will reduce is \$30 billion, which reduces Citizens 1-in-100 Year probable maximum loss from wind claims by an estimated \$840 million. Of the total exposure, \$22 billion is for commercial residential policies such as written for condo associations. This is the very first ever commercial residential wind only policy depopulation by Citizens.

WHO IS WESTON INSURANCE COMPANY?

Weston was created in March 2011 and received its Consent to operate order from the Florida Insurance Department on December 2012. Weston will operate as a Florida based, admitted insurer, and has \$35 million in capital and another \$15 million raised by Citizens premium contributions for a total of \$50 million in surplus. Weston's reinsurance for the 2013 storm season should be completed by April 17th. Weston's pro-forma reinsurance program has been 'stress tested' by the Florida Insurance Department and two rating agencies.

On February 22nd A. M. Best & Company assigned Weston its very first ever financial strength rating of "B" (fair) and an issuer credit rating of "B". In a Press Release Best commented about the Weston in some detail by saying:

The assigned ratings of Weston reflect its start-up status as a Florida wind-only writer of both personal and commercial property lines of business and corresponding risk concentration. In addition, the ratings recognize the company's high dependence on reinsurance, resulting as an elevated credit risk exposure.

Given the structure of Weston's initial take-out of policies from Citizens Property Insurance Corporation, during its initial five months of operation, 100% of the business written will be reinsured via a quota-share agreement. While subsequently Weston will migrate toward an extensive catastrophe reinsurance program; overall, reinsurance dependence is expected to remain elevated in future years given the company's considerable exposure to potential catastrophic events.

In addition, Weston faces certain execution risks, including the effectiveness of its highly automated underwriting selection process, the future availability, and affordability of its planned reinsurance program. Along with the implementation of adequate rate levels for the exposures being written.

Partially offsetting these negative rating factors are Weston's underwriting guidelines that target a specific market and its sophisticated rating segmentation process. In addition, the allocation of the company's invested assets is highly conservative, which reduces its investment risk. Furthermore, the company's current and projected risk-adjusted capitalization is adequate for its current rating level.

Negative rating actions would occur if Weston's planned financial results materially deviate from its projections. The reinsurance protection outlined does not materialize and/or the risk-adjusted capitalization were to decline below an acceptable level required by A.M. Best. In addition, material changes in the capital structure or management of the company also could result in negative rating actions.

More About Weston On Page Two...



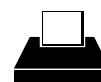
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FREQUENTLY ASKED QUESTIONS ABOUT WESTON

Q: What coverage will Weston offer? A: Weston will offer wind-only coverage for personal residential, commercial residential, and commercial non-residential properties.

Q: Will Weston offer All Other Perils (AOP) coverage now or in the future? A: No.

Q: Is Weston admitted in Florida, and therefore are Weston policyholders eligible for FIGA? A: Yes.

Q: What are the lines of business for which Weston is licensed to offer coverage? A: Effective December 21, 2012, Weston is licensed to underwrite Allied Lines, Fire, Homeowners Multi-Peril, and Commercial Multi-Peril in Florida.

Q: Does Weston have a rating acceptable in the secondary mortgage market? A: Yes. Weston's rating from Demotech, Inc. is "A" (Exceptional), is acceptable to Fannie Mae and Freddie Mac. Weston has also received a preliminary rating indication from A.M. Best, which is also acceptable.

Q: What is Weston's initial statutory policyholder surplus? A: \$50,000,000.00.

Q: What are Weston's rates relative to Citizens' rates? A: Weston's rates are a "me too" filing of Citizens' coastal account wind-only rates, meaning for wind-only risks, Weston will offer the same coverage at the same rate level.

Q: What about rates at renewal? Will there be future rate increases? A: Weston and the Florida Office of Insurance Regulation agreed to include in Weston's consent order that for at least the next 3 years Weston will follow Citizens on the rate "glide path" to actuarially sound rates. Weston's rate increases will match Citizens' increase (10% rate cap set forth in the "glide path" legislation).

Q: What about after 3 years? Why not make any representations about rates after 3 years? A: The legislation is designed to increase Citizens' rates until they reach the actuarially indicated rate level by 2016. Presumably, after 3 years, rates will be actuarially sound.

Q: What about commercial residential risks deemed to have greater than 25% transient occupancy? Will Weston write these, and if so, at what rate? A: For total insured value (TIV) below \$1 million, Weston will write coverage in the same

manner as Citizens. For coverage above \$1 million, Weston will apply one of 2 actuarial loads to the base rate; an actuarial factor plus added reinsurance costs for properties with transient occupancy of 50.0% or more. Weston has different factors based on whether the property is eligible or not for reinsurance coverage from the Florida Hurricane Catastrophe Fund.

THE DEPOPULATION PROCESS?

In February 2013 the Citizens board approved a key first step in the unique Weston plan. That step, which Citizens officials described as a "bridge," involves Citizens paying premiums to Weston for reinsurance coverage through May 31. During that period, Weston will provide coverage for claims stemming from the wind-only policies that it is taking out of Citizens.

PHASE ONE: Citizens and Weston agreed to enter into what is called a quota share reinsurance agreement from December 21st, 2012 thru May 31, 2013. Based on this agreement Citizens will pay Weston a reinsurance premium at a time when hurricanes are not present, allowing Citizens to reduce its Probable Maximum Loss exposure while Weston collects premium before the 2013 hurricane season.

PHASE TWO: In Phase Two Citizens will pay Weston to assume additional wind only policies over several future assumptions. After each assumption the wind only policy will no longer be covered under the quota share reinsurance agreement and fall under the terms of the assumption agreement. Under the plan, Weston would agree to retain the policies for at least three years and also continue the limits placed on Citizens' premium increases. Those limits, by law, allow rates to increase 10% a year.

About depopulation, Locke Burt, Chairman of Security First Insurance Co., told a senate committee last week that;

"Citizens should stop writing wind-only policies as a way to increase depopulation opportunities. Private insurers would be more likely to take over policies that are multi-peril, including not only wind but more profitable types of coverage such as burglary and fire."

Locke Burt, CEO, Security First Insurance Company

Please contact us at **305.238.1000** or at www.morrisandreynolds.com with any questions you might have about Weston or any other topics as we are happy to help.