

## **Demotech, Inc.**

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Comparative Expense Study  
of  
Citizens Property Insurance Corporation

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# Table of Contents

Introduction.....	1
Citizens Property Insurance Corporation.....	1
Carriers Focused in Florida (Peer Group 1).....	1
Carriers Focused in State Other than Florida (Peer Group 2).....	2
Financial Statement Analysis.....	2
Conclusions.....	3
Ceded Premium Written .....	3
Reinsurance Ceded Commission and Brokerage.....	4
Salaries.....	4
Overall Impact to Expenses .....	5
Exhibit 1 – Citizens Property Insurance Corporation Expenses 2006-2010.....	6
Exhibit 2 – Composite of 47 Carriers* Writing Predominately Property in Florida - Expenses 2006-2010 (Peer Group 1) .....	7
Exhibit 3A – Composite of 77 State Specialists Writing Predominately Property in a State Other Than Florida - Expenses 2006-2010 (Peer Group 2).....	8
Exhibit 3B – List of 77 State Specialists Writing Predominately Allied, Fire and Homeowners in a State Other Than Florida (Peer Group 2).....	9
Exhibit 4 – Comparison of Actual Expenses 2006-2010 Combined.....	10
Exhibit 5 – Comparison of Actual Expenses .....	11
to Net Premium Written 2006-2010 Combined Underwriting and Investment Exhibit.....	11
Exhibit 6 – Citizens Expenses 2006-2010 Combined – Actual and Adjusted for Peer Group Expense Ratios and Ceding Percentages .....	12
Exhibit 7 – Peer Groups 1 and 2 Expenses 2006-2010 Combined - Adjusted for Citizens’ Expense Ratios and Ceding Percentage.....	13
About the Authors.....	14
About Demotech, Inc.....	14



## Introduction

Demotech, Inc. has completed an analysis of the relative historical expense levels reported by Citizens Property Insurance Corporation, 47 carriers dedicated to Florida's property insurance marketplace as well as 77 private, single state insurers focused on the property insurance marketplace in states other than Florida. It is our observation that the expense levels of Citizens compare favorably to other property writers focused in a single state due to its unique corporate structure, as approved by the Florida Financial Services Commission.

Please note that even though Demotech obtained the information that we reviewed from a third party vendor of data from the National Association of Insurance Commissioners (NAIC), neither the NAIC or its authorized vendor, SNL, endorse any analysis or conclusion based upon the use of the NAIC's data.

### *Citizens Property Insurance Corporation*

Citizens Property Insurance Corporation (Citizens) is a not-for-profit, tax-exempt government corporation whose public purpose is to provide insurance protection to Florida property owners throughout the state. Citizens operates according to the statutory requirements created by the Florida Legislature and a Plan of Operation approved by the Florida Financial Services Commission. Citizens is governed by a Board of Governors that administers its Plan of Operation. The Governor of Florida, the President of the Florida Senate, the Speaker of the Florida House of Representatives and the Chief Financial Officer of Florida each appoint two members to the Board of Governors.

Citizens has offices in Tallahassee, Jacksonville and Tampa. Its headquarters is located in Tallahassee and the Jacksonville and Tampa offices provide policy services and underwriting, claims and customer support.<sup>1</sup>

### *Carriers Focused in Florida (Peer Group 1)*

For comparative purposes, we created a peer group of carriers focused in Florida that specialize in property insurance.<sup>2</sup> To be included in this peer group, the carrier had to write at least 75 percent of its direct premium written in Florida and the majority of its premium in the homeowners multi-peril line of business at year-end 2010. There are 47 companies included in this group. Peer Group 1 averages over 98 percent of their direct premium written in Florida and nearly 96 percent of their direct premium written in the property insurance lines of business.

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1 – Source of information [www.citizensfla.com/about/generalinfo.cfm](http://www.citizensfla.com/about/generalinfo.cfm), excerpted on 11/19/2011.

2 – Citizens reported its direct premiums written on page 8 in the Fire, Allied and Homeowner Multi-peril lines of business.



## ***Carriers Focused in State Other than Florida (Peer Group 2)***

For comparative purposes, we created a peer group of carriers focused in states other than Florida that specialize in property insurance. To be included in this peer group, the carrier had to be classified as a State Specialist<sup>3</sup> and write the majority of its premium in the homeowners multi-peril line of business at year-end 2010. There are 77 companies included in this group. Peer Group 2 averages over 86 percent of their direct premium written in the property insurance lines of business.

## **Financial Statement Analysis**

The information underlying the relative expense levels was obtained from financial statements completed by the carriers and submitted to their respective regulatory bodies. The principles underlying the expense data are statutory in nature. The information was summarized from *Underwriting and Investment Expenses, Part 3 - Expenses* of the NAIC Property and Casualty annual statement format. Premium data is also statutory in nature and obtained from *Underwriting and Investment Expenses, Part 1B – Premiums Written*.

Please note that Demotech made no assumptions or adjustments to the underlying data. The data was compiled as reported by the carriers.

A review and comparison of the expense information reported for the period encompassing calendar years 2006 through 2010 inclusive was prepared. Based on this review and comparison of the expense and premium information, Demotech concluded that Citizens' expense ratio advantages, while favorable on an overall basis, are heavily influenced by factors that relate to the corporate structure bestowed by statute as opposed to competitive advantages associated with procedures and practices implemented within the organization.

Recognizing that the financial information underlying our analysis may have limitations that are not fully disclosed or otherwise unavailable from the financial statements prepared by the insurer, we enumerate three areas that led us to our conclusion and discuss the nature of the advantages:

- Ceded premium written (Annual Statement Page 8, Lines 1, 3 and 4, Columns 4 and 5)
- Reinsurance ceded commission and brokerage (Annual Statement Page 11, Line 2.3)
- Salaries (Annual Statement Page 11, Line 8.1).

Keep in mind that these items are influenced by the business model of Citizens, as approved by the Florida Financial Services Commission. This approved business plan is significantly different than the business plans available to private insurers with a similar business focus, whether within the State of Florida or other states.

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<sup>3</sup> – To be categorized as a State Specialist, a carrier must be an individual, active company reporting data to the NAIC using the P&C annual statement format at 12/31/2010. It must write at least \$1,000,000 at 12/31/2010 with 90 percent or more in one state. Further, it cannot be a surplus lines company, risk retention group or reinsurance company.



The exhibits created for the purpose of analysis are as follows:

- **Exhibit 1** contains the information for Citizens as reported for 2006-2010.
- **Exhibit 2** contains the information for the Florida property writers as reported for 2006-2010, i.e. Peer Group 1.
- **Exhibit 3** contains the information for the property writers focused in a state other than Florida as reported for 2006-2010, i.e. Peer Group 2.
- **Exhibit 4** contains the composite financial information for Citizens and the peer groups as reported for the years ending 2006-2010.
- **Exhibit 5** contains the expense ratios for the line items reported on *Underwriting and Investment Exhibit, Part 3 - Expenses* to net premium written for 2006-2010 for Citizens and the peer groups.
- **Exhibit 6** contains the financial information for Citizens as reported for 2006-2010 adjusted for the expense ratios and ceding percentages of the peer groups.
- **Exhibit 7** contains the financial information for the peer groups as reported for 2006-2010 adjusted for the expense ratios and ceding percentage of Citizens.

## Conclusions

The conclusions made from our review and comparison of financial statements are detailed below.

### *Ceded Premium Written*

Citizens' ceded an average of 21 percent of direct premium written from 2006 through 2010. Over the identical periods, the private sector insurers competing for property insurance business in Florida ceded an average of 65 percent of direct premium written. In the other 49 states, insurers competing for property insurance business ceded an average of 45 percent of direct premium written. These ceding percentages are found at the bottom of Exhibit 5, on page 11 of this study.

The impact of Citizens' corporate structure and business plan can be seen upon examination of the net premium written levels. If Citizens would have ceded premium at a similar rate as the private sector Florida insurers and written the same amount of direct business, it would have ceded approximately \$9.5 billion of premium instead of \$3.1 billion. If Citizens would have written the same amount of direct business and ceded premium at a similar rate as the private sector insurers in states other than Florida, it would have ceded approximately \$6.6 billion of premium. In either scenario, the reduction to Citizens' net premium written would have been significant, as shown at the bottom of Exhibit 6, on page 12 of this study.

Conversely, if the private sector Florida insurers had ceded premium at a similar rate as Citizens and written the same amount of direct business, they would have ceded approximately \$5.5 billion of premium (bottom of Exhibit 7) instead of over \$16.7 billion (bottom of Exhibit 2). The beneficial impact to net premium written would have been significant for these carriers.



### ***Reinsurance Ceded Commission and Brokerage***

The level of commission and brokerage that Citizens incurred on reinsurance ceded has been less than 1 percent of net premium written over the reporting periods. Over the identical periods, the private sector insurers competing for property insurance business in Florida averaged 20 percent of net premium written. In the other 49 states, insurers competing for property insurance business averaged 10 percent of net premium written. These commission and brokerage percentages are found in Exhibit 5, Line 2.3.

The impact of Citizens' business plan is apparent upon examination of the reinsurance ceded commission and brokerage expenses as a portion of net premium written. If Citizens had incurred commission and brokerage on reinsurance ceded at a similar rate and ceded premium at the same percentage as the private sector Florida insurers, it would have incurred over \$1.2 billion in reinsurance ceded commission and brokerage expenses instead of \$82 million. If Citizens had incurred commission and brokerage on reinsurance ceded at a similar rate and ceded premium at the same percentage as the private sector insurers in states other than Florida, it would have incurred over \$955 million in reinsurance ceded commission and brokerage expenses. In either scenario, the impact to total expenses would have been significant, as shown in Exhibit 6, Line 2.3.

Conversely, if the private sector Florida insurers had incurred reinsurance ceded commission and brokerage at the same rate and ceded premium at the same percentage as Citizens, they would have incurred approximately \$144 million (Exhibit 7) instead of approximately \$2.2 billion (Exhibit 2) in reinsurance ceded commission and brokerage expenses. The impact to total expenses would have been significant.

### ***Salaries***

As seen on Line 8.1 in Exhibit 5, over the reporting periods Citizens incurred salaries at an average of 2.4 percent of net written premium from 2006 through 2010. Over the identical periods, the private sector insurers competing for property insurance business in Florida incurred salaries of an average of 10 percent. In the other 49 states, insurers competing for property insurance business averaged salaries expenses of 10 percent of net premium written.

If Citizens had incurred salaries at a similar rate and ceded premium at the same percentage as the private sector Florida insurers, salary expense would have totaled approximately \$645 million instead of the nearly \$280 million actually incurred over the reporting period. If Citizens had incurred salaries at a similar rate and ceded premium at the same percentage as the private sector insurers in states other than Florida, its salary expense would have been nearly \$928 million. In either scenario, the impact to total expenses would have been significant, as shown in Exhibit 6, Line 30.

Conversely, if the private sector Florida insurers had incurred salaries at a similar percentage of net premium written and ceded premium at the same percentage as Citizens, they would have incurred over \$490 million of salaries (Exhibit 7, Line 8.1) instead of over \$1.1 billion (Exhibit 2, Line 8.1). Similar to the scenario stated above, the impact to total expenses would have been significant.



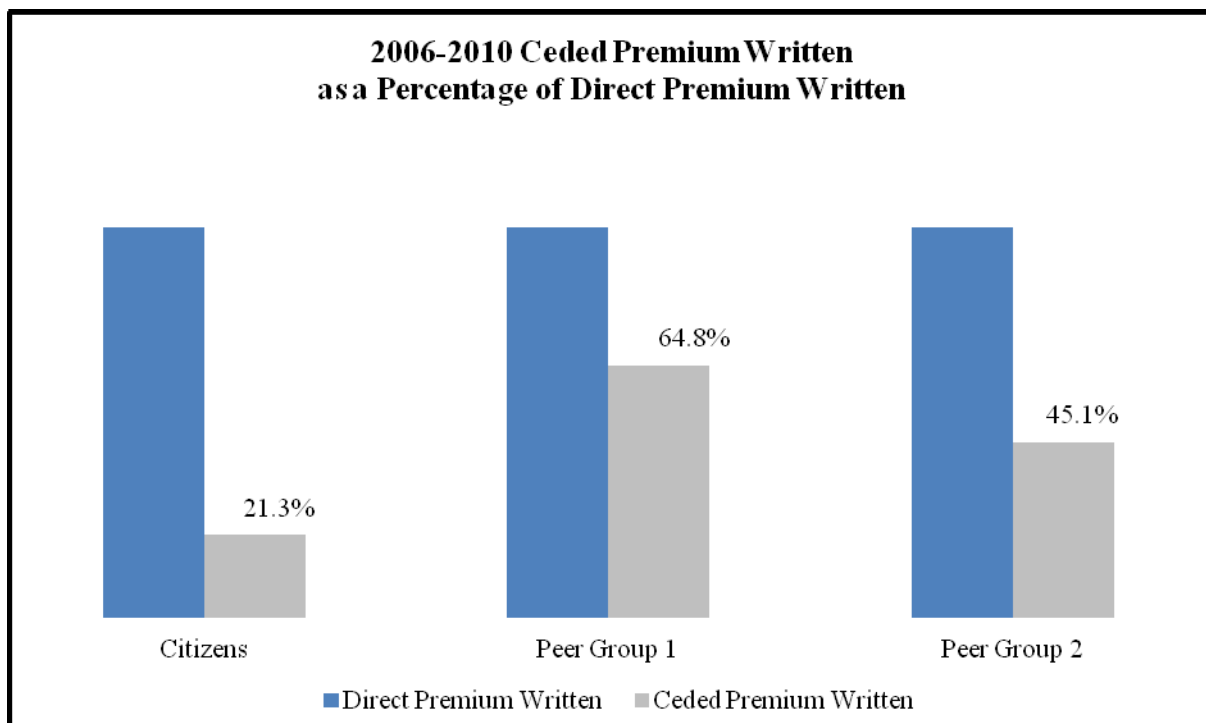
### ***Overall Impact to Expenses***

The total expenses paid for Citizens averaged 24 percent of net premium written from 2006 through 2010. Over the identical period, the total expenses paid by private sector insurers competing for property insurance business in Florida averaged 56 percent of net premium written. In the other 49 states, expenses for insurers competing for property insurance business averaged 41 percent of net premium written. This information is located in Exhibit 5, Line 30.

Based on our review of the expense and premium information, Demotech confirmed that Citizens has specific expense advantages, influenced by factors that relate to the corporate structure bestowed by statute. Citizens' unique structure and business plan greatly affects its expenses. If Citizens had paid total expenses at a similar rate and ceded premium at the same percentage as the private sector Florida insurers, it would have paid approximately \$3.6 billion in total expenses instead of \$2.7 billion.

If Citizens had paid total expenses at a similar rate and ceded premium at the same percentage as the private sector insurers in states other than Florida, it would have paid over \$3.9 billion in total expenses, as shown in Exhibit 6, Line 30. In either scenario, the impact to underwriting income would be significant.

Moreover, if the private sector Florida insurers had paid expenses and ceded premium at similar rates as Citizens, they would have paid over \$4.8 billion (Exhibit 7, Line 30) instead of over \$6.3 billion in total expenses (Exhibit 2, Line 30). The overall impact to underwriting income would have been highly significant.





## Exhibit 1 – Citizens Property Insurance Corporation Expenses 2006-2010

### Underwriting and Investment Exhibit Part 3 – Expenses

	2006	2007	2008	2009	2010	Total	Average
1. Claim adjustment services:							
1.1 Direct	16,657,122	180,006,568	92,711,701	58,870,580	140,449,885	488,695,856	97,739,171
1.2 Reinsurance assumed	0	0	0	0	0	0	0
1.3 Reinsurance ceded	-36,719,630	29,177,057	-222,279	-390,394	3,785,687	-4,369,559	-873,912
1.4 Net claim adjustment services (1.1+1.2-1.3)	53,376,752	150,829,511	92,933,979	59,260,974	136,664,198	493,065,414	98,613,083
2. Commission and brokerage:							
2.1 Direct, excluding contingent	259,710,403	324,705,736	246,769,075	187,558,043	220,126,103	1,238,869,360	247,773,872
2.2 Reinsurance assumed, excluding contingent	0	0	0	0	0	0	0
2.3 Reinsurance ceded, excluding contingent	7,544,268	30,444,191	25,614,242	16,026,432	2,591,615	82,220,748	16,444,150
2.4 Contingent - direct	0	0	0	0	0	0	0
2.5 Contingent - reinsurance assumed	0	0	0	0	0	0	0
2.6 Contingent - reinsurance ceded	0	0	0	0	0	0	0
2.7 Policy and membership fees	0	0	0	0	0	0	0
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	252,166,135	294,261,545	221,154,833	171,531,611	217,537,488	1,156,651,612	231,330,322
3. Allowances to managers and agents	14,069,472	17,466,014	9,871,044	9,722,443	10,212,567	61,341,540	12,268,308
4. Advertising	-213,021	103,629	100,883	42,562	59,385	93,438	18,688
5. Boards, bureaus and associations	2,205,835	2,921,860	3,684,373	5,783,864	4,721,671	19,317,603	3,863,521
6. Surveys and underwriting reports	1,539,838	2,190,193	1,888,417	1,217,817	4,795,582	11,631,847	2,326,369
7. Audit of assureds' records	0	0	0	0	0	0	0
8. Salary and related items:							
8.1 Salaries	36,519,830	49,224,108	59,002,118	66,055,296	68,414,179	279,215,531	55,843,106
8.2 Payroll taxes	2,484,462	3,368,211	4,157,334	4,867,584	5,045,022	19,922,613	3,984,523
9. Employee relations and welfare	8,012,233	11,891,361	15,767,816	16,467,604	16,349,332	68,488,346	13,697,669
10. Insurance	112,596	458,451	514,213	347,774	573,993	2,007,027	401,405
11. Directors' fees	40,569	50,299	45,269	26,558	15,809	178,504	35,701
12. Travel and travel items	1,646,482	1,715,962	2,142,205	1,617,296	1,517,783	8,639,728	1,727,946
13. Rent and rent items	3,332,170	5,972,090	6,909,205	7,207,862	7,149,881	30,571,208	6,114,242
14. Equipment	7,365,602	14,821,155	9,888,032	10,443,230	7,825,141	50,343,160	10,068,632
15. Cost or depreciation of EDP equipment and software	5,104,423	2,883,112	10,441,450	9,968,826	7,185,209	35,583,020	7,116,604
16. Printing and stationery	1,886,515	1,352,716	2,171,551	1,282,623	370,001	7,063,406	1,412,681
17. Postage, telephone and telegraph, exchange and express	4,160,516	10,085,016	10,563,231	9,737,133	9,316,286	43,862,182	8,772,436
18. Legal and auditing	19,714,264	2,201,466	3,663,097	-751,158	1,671,571	26,499,240	5,299,848
19. Totals (Lines 3 to 18)	107,981,786	126,705,643	140,810,238	144,037,314	145,226,412	664,761,393	132,952,279
20. Taxes, licenses and fees:							
20.1 State & Local Taxes	28,776,834	128,847,130	43,477,176	31,948,027	40,204,244	273,253,411	54,650,682
20.2 Insurance Taxes, Lic, Fees	0	0	0	0	0	0	0
20.3 Gross Guaranty Assoc Assess	0	0	0	0	0	0	0
20.4 All Other Taxes	0	0	0	0	0	0	0
20.5 Aggregate Taxes	28,776,834	128,847,130	43,477,176	31,948,027	40,204,244	273,253,411	54,650,682
21. Real estate expenses	0	0	0	0	0	0	0
22. Real estate taxes	0	0	0	0	0	0	0
23. Reimbursements by uninsured plans	0	0	0	0	0	0	0
24. Aggregate write-ins for miscellaneous expenses	17,116,558	17,255,797	17,059,799	17,118,300	18,091,041	86,641,495	17,328,299
25. Total expenses incurred	459,418,065	717,899,626	515,436,025	423,896,226	557,720,383	2,674,370,325	534,874,065
26. Less unpaid incurred - current year	140,644,176	210,185,052	212,410,852	175,263,677	217,207,944	955,711,701	191,142,340
27. Add unpaid expenses - prior year	296,349,140	140,644,176	210,185,052	212,410,852	175,263,677	1,034,852,897	206,970,579
28. Amounts receivable relating to uninsured plans - prior year	0	0	0	0	0	0	0
29. Amounts receivable relating to uninsured plans - current year	0	0	0	0	0	0	0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	615,123,029	648,358,750	513,210,225	461,043,401	515,776,116	2,753,511,521	550,702,304

### Part 1B - Premiums Written

	2006	2007	2008	2009	2010	Total	Average
Direct Premiums Written	3,400,399,570	3,717,970,890	2,771,846,097	2,181,282,994	2,604,265,281	14,675,764,832	2,935,152,966
Assumed Premium Written	0	0	0	0	0	0	0
Ceded Premium Written	449,730,915	757,645,863	915,175,856	609,999,803	389,832,983	3,122,385,420	624,477,084
Net Premium Written	2,950,668,655	2,960,325,027	1,856,670,241	1,571,283,191	2,214,432,298	11,553,379,412	2,310,675,882





## Exhibit 2 – Composite of 47 Carriers\* Writing Predominately Property in Florida - Expenses 2006-2010 (Peer Group 1)

### Underwriting and Investment Exhibit

#### Part 3 – Expenses

	2006	2007	2008	2009	2010	Total	Average
1. Claim adjustment services:							
1.1 Direct	165,097,621	161,950,078	207,342,355	258,723,080	319,406,200	1,112,519,334	222,503,867
1.2 Reinsurance assumed	22,534,292	14,900,520	17,506,030	23,323,631	19,859,599	98,124,072	19,624,814
1.3 Reinsurance ceded	101,948,944	66,476,975	73,674,049	101,750,195	105,240,922	449,091,085	89,818,217
1.4 Net claim adjustment services (1.1+1.2-1.3)	85,682,968	110,373,626	151,174,334	180,296,516	234,024,879	761,552,323	152,310,465
2. Commission and brokerage:							
2.1 Direct, excluding contingent	688,781,592	766,431,476	724,500,502	726,675,085	795,047,235	3,701,435,890	740,287,178
2.2 Reinsurance assumed, excluding contingent	46,203,450	62,185,675	43,381,866	76,322,507	65,153,114	293,246,612	58,649,322
2.3 Reinsurance ceded, excluding contingent	334,038,019	402,986,404	474,923,597	444,401,974	540,547,645	2,196,897,639	439,379,528
2.4 Contingent - direct	10,930,345	43,345,622	8,728,662	6,545,652	10,893,660	80,443,941	16,088,788
2.5 Contingent - reinsurance assumed	2,650,987	1,147,780	836,026	960,080	3,872,149	9,467,022	1,893,404
2.6 Contingent - reinsurance ceded	24,444,669	32,076,639	39,754,409	7,066,024	13,653,684	116,995,425	23,399,085
2.7 Policy and membership fees	12,507,250	20,879,698	21,440,665	24,009,962	24,967,008	103,804,583	20,760,917
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	402,590,939	458,927,208	284,209,715	383,045,285	345,731,834	1,874,504,981	374,900,996
3. Allowances to managers and agents	59,131,623	55,185,197	39,550,256	99,458,354	55,197,897	308,523,327	61,704,665
4. Advertising	23,957,762	35,331,060	37,511,965	20,384,835	13,026,845	130,212,467	26,042,493
5. Boards, bureaus and associations	3,695,164	5,838,041	7,290,250	11,593,970	10,547,168	38,964,593	7,792,919
6. Surveys and underwriting reports	18,142,217	24,879,399	25,241,245	27,340,285	25,665,994	121,269,140	24,253,828
7. Audit of assureds' records	818,799	2,282,210	3,225,914	1,432,360	2,525,865	10,285,148	2,057,030
8. Salary and related items:							
8.1 Salaries	212,982,967	232,380,668	245,631,732	233,817,095	207,793,942	1,132,606,404	226,521,281
8.2 Payroll taxes	14,472,905	14,024,375	15,977,505	15,711,335	14,425,508	74,611,628	14,922,326
9. Employee relations and welfare	45,625,660	50,231,188	48,012,022	43,578,714	44,251,846	231,699,430	46,339,886
10. Insurance	7,154,512	7,220,302	7,341,169	5,338,618	4,426,532	31,481,133	6,296,227
11. Directors' fees	997,750	1,879,456	1,860,684	4,022,103	2,753,737	11,513,730	2,302,746
12. Travel and travel items	27,937,170	19,700,741	21,831,294	17,000,845	14,557,926	101,027,976	20,205,595
13. Rent and rent items	21,594,428	22,114,152	21,598,872	22,220,903	19,780,109	107,308,464	21,461,693
14. Equipment	15,028,275	13,843,512	14,904,635	13,916,061	13,256,239	70,948,722	14,189,744
15. Cost or depreciation of EDP equipment and software	24,715,632	26,880,380	25,400,453	21,197,053	20,590,197	118,783,715	23,756,743
16. Printing and stationery	8,714,031	8,891,132	7,749,234	6,105,331	5,676,532	37,136,260	7,427,252
17. Postage, telephone and telegraph, exchange and express	24,182,710	26,574,257	27,497,380	22,679,197	21,013,007	121,946,551	24,389,310
18. Legal and auditing	34,271,904	45,240,180	58,492,009	59,779,308	54,931,752	252,715,153	50,543,031
19. Totals (Lines 3 to 18)	543,423,506	592,496,248	609,116,616	625,576,367	530,421,094	2,901,033,831	580,206,766
20. Taxes, licenses and fees:							
20. State & Local Taxes	72,956,063	98,093,237	87,607,936	81,663,037	92,144,709	432,464,982	86,492,996
20. Insurance Taxes, Lic. Fees	1,043,057	2,621,315	3,725,006	3,290,868	2,927,888	13,608,134	2,721,627
20. Gross Guaranty Assoc Assess	13,067,567	7,858,130	10,192,040	4,286,847	3,442,691	38,847,275	7,769,455
20. All Other Taxes	-14,035,328	9,149,519	5,589,707	-366,653	1,406,473	1,743,718	348,744
20. Aggregate Taxes	73,031,357	117,722,199	107,114,689	88,874,102	99,921,762	486,664,109	97,332,822
21. Real estate expenses	401,834	232,092	469,852	683,646	350,056	2,137,480	427,496
22. Real estate taxes	324,668	297,277	313,218	300,730	292,217	1,528,110	305,622
23. Reimbursements by uninsured plans	0	0	0	0	0	0	0
24. Aggregate write-ins for miscellaneous expenses	60,024,023	119,705,961	79,358,355	76,785,026	43,478,412	379,351,777	75,870,355
25. Total expenses incurred	1,165,479,295	1,399,754,610	1,231,756,775	1,355,561,674	1,254,220,254	6,406,772,608	1,281,354,522
26. Less unpaid incurred - current year	434,163,418	432,256,545	421,006,407	492,482,281	575,246,712	2,355,155,363	471,031,073
27. Add unpaid expenses - prior year	0	0	0	0	0	0	0
28. Amounts receivable relating to uninsured plans - prior year	0	0	0	0	0	0	0
29. Amounts receivable relating to uninsured plans - current year	0	0	0	801,133	0	801,133	160,227
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	1,241,832,799	1,402,359,701	1,244,885,129	1,285,136,775	1,172,899,482	6,347,113,886	1,269,422,777

#47 Carriers Writing Predominately Property in FL	
11072	ACA Home Insurance Corp.
26417	ACE Insurance Company of the Midwest
12841	American Integrity Insurance Company of Florida
12314	American Modern Insurance Company of Florida, Inc.
12359	American Traditions Insurance Company
12023	Argus Fire & Casualty Insurance Company
13038	Ark Royal Insurance Company
12196	ASI Assurance Corp.
13142	ASI Preferred Insurance Corp.
13139	Avatar Property & Casualty Insurance Company
10908	Capitol Preferred Insurance Company, Inc.
10835	Castle Key Indemnity Company
30511	Castle Key Insurance Company
10953	Cypress Property & Casualty Insurance Company
12482	Edison Insurance Company
10186	Fidelity Fire & Casualty Company
10897	First Protective Insurance Company
10688	Florida Family Insurance Company
31216	Florida Farm Bureau Casualty Insurance Company
10132	Florida Peninsula Insurance Company
12237	Gulfstream Property and Casualty Insurance Company
12944	Homeowners Choice P&C Insurance Company, Inc.
11156	Homestead Insurance Company of Florida
10149	HomeWise Insurance Company
12582	HomeWise Preferred Insurance Company
12957	Modern USA Insurance Company
10948	Nationwide Insurance Company of Florida
12954	Olympus Insurance Company
38644	Omega Insurance Company
13125	People's Trust Insurance Company
13687	Prepared Insurance Company
12563	Safe Harbor Insurance Company
17248	Safeway Property Insurance Company
13619	Sawgrass Mutual Insurance Company
10117	Security First Insurance Company
10136	Southern Fidelity Insurance Company, Inc.
12247	Southern Oak Insurance Company
11844	St. Johns Insurance Company, Inc.
10739	State Farm Florida Insurance Company
10860	Sunshine State Insurance Company
29050	Tower Hill Preferred Insurance Company
11027	Tower Hill Prime Insurance Company
12011	Tower Hill Select Insurance Company
12538	Tower Hill Signature Insurance Company
10969	United Property & Casualty Insurance Company
11986	Universal Insurance Company of North America
10861	Universal Property & Casualty Insurance Company

#### Part 1B - Premiums Written

	2006	2007	2008	2009	2010	Total	Average
Direct Premiums Written	4,916,751,331	5,479,207,198	5,023,405,317	4,996,353,325	5,369,291,344	25,785,008,515	5,157,001,703
Assumed Premium Written	431,801,211	442,910,959	430,049,638	603,196,881	251,692,461	2,159,651,150	431,930,230
Ceded Premium Written	2,829,102,169	3,718,480,854	3,295,449,893	3,559,400,159	3,301,080,592	16,703,513,667	3,340,702,733
Net Premium Written	2,519,450,374	2,203,637,306	2,158,005,061	2,040,150,048	2,319,903,214	11,241,146,003	2,248,229,201



## Exhibit 3A – Composite of 77 State Specialists Writing Predominately Property in a State Other Than Florida - Expenses 2006-2010 (Peer Group 2)

### Underwriting and Investment Exhibit Part 3 – Expenses

	2006	2007	2008	2009	2010	Total	Average
1. Claim adjustment services:							
1.1 Direct	166,859,407	171,959,782	354,093,600	274,333,242	231,061,810	1,198,307,841	239,661,568
1.2 Reinsurance assumed	23,534,559	27,974,153	29,137,911	27,080,924	33,070,251	140,797,798	28,159,560
1.3 Reinsurance ceded	55,875,610	59,357,092	208,099,835	165,574,596	128,595,632	617,502,765	123,500,553
1.4 Net claim adjustment services (1.1+1.2-1.3)	134,518,357	140,576,844	175,131,677	135,839,568	135,536,429	721,602,875	144,320,575
2. Commission and brokerage:							
2.1 Direct, excluding contingent	893,962,727	912,133,402	916,972,733	933,596,270	929,989,911	4,586,655,043	917,331,009
2.2 Reinsurance assumed, excluding contingent	90,611,994	102,450,908	107,360,004	107,256,178	127,041,746	534,720,830	106,944,166
2.3 Reinsurance ceded, excluding contingent	447,385,564	461,846,419	455,375,204	480,463,606	476,425,299	2,321,496,092	464,299,218
2.4 Contingent - direct	54,155,320	33,012,328	27,575,245	26,823,798	24,934,853	166,501,544	33,300,309
2.5 Contingent - reinsurance assumed	15,554,521	12,744,039	8,225,114	4,499,707	2,430,570	43,453,951	8,690,790
2.6 Contingent - reinsurance ceded	43,292,939	24,696,134	17,365,635	16,985,083	17,387,701	119,727,492	23,945,498
2.7 Policy and membership fees	39,190	2,650,637	2,803,226	2,854,484	2,543,904	10,891,441	2,178,288
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	563,645,252	576,448,760	590,195,481	577,581,749	593,127,986	2,900,999,228	580,199,846
3. Allowances to managers and agents	92,919,992	76,071,738	110,886,503	106,756,855	110,561,387	497,196,475	99,439,295
4. Advertising	34,343,460	54,945,035	63,676,297	61,608,132	80,645,528	295,218,452	59,043,690
5. Boards, bureaus and associations	9,466	8,173,727	54,358,283	-5,126,351	8,087,426	65,502,551	13,100,510
6. Surveys and underwriting reports	8,605,015	9,594,360	9,013,357	13,335,767	14,584,142	55,132,641	11,026,528
7. Audit of assureds' records	160,825	251,002	88,677	306,416	567,562	1,374,482	274,896
8. Salary and related items:							
8.1 Salaries	395,674,421	428,078,539	482,624,779	477,494,195	471,281,537	2,255,153,471	451,030,694
8.2 Payroll taxes	29,949,725	31,431,149	34,568,546	33,121,411	33,587,071	162,657,902	32,531,580
9. Employee relations and welfare	94,082,359	107,492,309	109,150,119	113,866,093	113,136,310	537,727,190	107,545,438
1. Insurance	3,577,226	3,308,544	3,740,705	3,963,370	3,651,720	18,241,565	3,648,313
1. Directors' fees	1,992,905	2,056,190	2,309,014	2,345,238	2,432,593	11,135,940	2,227,188
1. Travel and travel items	26,041,162	32,032,046	48,577,011	32,894,411	25,629,089	165,173,719	33,034,744
1. Rent and rent items	40,507,742	42,741,543	46,367,705	49,341,216	44,483,157	223,441,363	44,688,273
1. Equipment	27,525,706	28,558,949	32,944,194	30,792,348	26,774,982	146,596,179	29,319,236
1. Cost or depreciation of EDP equipment and software	55,179,161	61,629,260	61,378,959	51,497,585	54,526,276	284,211,241	56,842,248
1. Printing and stationery	10,589,389	10,187,323	10,002,519	10,449,884	10,337,321	51,566,436	10,313,287
1. Postage, telephone and telegraph, exchange and express	42,661,121	39,114,425	42,242,325	42,092,642	41,466,336	207,576,849	41,515,370
1. Legal and auditing	14,692,695	15,007,646	21,391,121	13,689,732	13,790,423	78,571,617	15,714,323
1. Totals (Lines 3 to 18)	878,512,372	950,673,784	1,133,320,114	1,038,428,939	1,055,542,858	5,056,478,067	1,011,295,613
2. Taxes, licenses and fees:							
20. State & Local Taxes	99,447,644	112,283,461	69,517,181	113,315,711	124,255,578	518,819,575	103,763,915
20. Insurance Taxes, Lic. Fees	3,543,706	3,396,230	5,567,618	4,926,622	5,551,402	22,985,578	4,597,116
20. Gross Guaranty Assoc Assess	8,042,196	588,634	666,234	487,484	-4,713,514	5,071,034	1,014,207
20. All Other Taxes	3,687,731	6,066,697	6,272,734	6,950,050	7,506,931	30,484,143	6,096,829
20. Aggregate Taxes	114,721,276	122,335,018	82,023,769	125,679,865	132,600,396	577,360,324	115,472,065
2. Real estate expenses	647,381	674,035	675,639	901,556	704,586	3,603,197	720,639
2. Real estate taxes	281,934	311,052	330,472	333,387	353,151	1,609,996	321,999
2. Reimbursements by uninsured plans	0	0	0	0	0	0	0
2. Aggregate write-ins for miscellaneous expenses	76,546,055	105,353,310	119,592,716	92,735,133	95,090,101	489,317,315	97,863,463
2. Total expenses incurred	1,768,872,628	1,896,372,807	2,101,269,867	1,971,500,198	2,012,955,507	9,750,971,007	1,950,194,201
2. Less unpaid incurred - current year	1,244,441,280	1,304,119,119	1,332,222,180	1,385,800,909	1,377,678,062	6,644,261,550	1,328,852,310
2. Add unpaid expenses - prior year	0	0	0	0	0	0	0
2. Amounts receivable relating to uninsured plans - prior year	0	0	0	0	0	0	0
2. Amounts receivable relating to uninsured plans - current year	0	0	0	0	0	0	0
3. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	1,743,072,867	1,835,031,081	2,074,561,763	1,917,564,647	2,014,918,264	9,585,148,622	1,917,029,724

### Part 1B - Premiums Written

	2006	2007	2008	2009	2010	Total	Average
Direct Premiums Written	7,051,892,376	7,087,832,737	7,075,827,356	7,200,288,236	7,248,331,319	35,664,172,024	7,132,834,405
Assumed Premium Written	654,984,222	744,890,158	823,836,232	803,333,386	788,610,979	3,815,654,977	763,130,995
Ceded Premium Written	2,935,271,771	3,298,524,813	3,465,557,440	3,190,226,250	3,202,459,816	16,092,040,090	3,218,408,018
Net Premium Written	4,771,604,826	4,534,198,079	4,434,106,148	4,813,395,371	4,834,543,645	23,387,848,069	4,677,569,614



### Exhibit 3B – List of 77 State Specialists Writing Predominately Property in a State Other Than Florida (Peer Group 2)

	NAIC #	Company Name	State of Specialty
1.	18236	Agents Mutual Insurance Company	AR
2.	32743	Alliance Mutual Insurance Company	NC
3.	26530	Allstate Texas Lloyd's	TX
4.	10043	American National Lloyds Insurance Company	TX
5.	12898	American Risk Insurance Company, Inc.	TX
6.	30023	American Standard Lloyd's Insurance Company	TX
7.	27898	Americas Insurance Company	LA
8.	10896	Amica Lloyd's of Texas	TX
9.	38490	Arizona Home Insurance Company	AZ
10.	11008	Auto Club Indemnity Company	TX
11.	13041	Bankers Specialty Insurance Company	LA
12.	41955	Barnstable County Insurance Company	MA
13.	13463	Barnstable County Mutual Insurance Company	MA
14.	11284	Beacon Lloyds Insurance Company	TX
15.	27340	Centre County Mutual Fire Insurance Company	PA
16.	27774	Chubb Lloyds Insurance Company of Texas	TX
17.	40274	Citation Insurance Company	MA
18.	40673	Colonial Lloyds	TX
19.	16985	Conemaugh Valley Mutual Insurance Company	PA
20.	18961	Crestbrook Insurance Company	CA
21.	11578	Cypress Texas Lloyds	TX
22.	15458	Delta Lloyds Insurance Company of Houston Texas	TX
23.	13706	Dorchester Mutual Insurance Company	MA
24.	12345	Farm Bureau New Horizons Insurance Company of Missouri	MO
25.	31259	Farmers & Mechanics Mutual Insurance Association of Cecil County, Inc.	MD
26.	17086	Farmers' and Mechanics' Mutual Insurance Company	PA
27.	30341	Farmers and Merchants Mutual Fire Insurance Company	MI
28.	33448	Farmers Mutual Fire Insurance Company of Branch County	MI
29.	30651	Farmers Mutual of Tennessee	TN
30.	15750	Fidelity Mohawk Insurance Company	NJ
31.	34525	First American Specialty Insurance Company	CA
32.	37699	FMI Insurance Company	NJ
33.	41688	Foremost Lloyds of Texas	TX
34.	17175	Friends Cove Mutual Insurance Company	PA
35.	18457	Gem State Insurance Company	ID
36.	12767	Hawaiian Insurance and Guaranty Company, Limited	HI
37.	28959	High Point Preferred Insurance Company	NJ
38.	12536	Homeowners of America Insurance Company	TX
39.	11005	Homesite Insurance Company of California	CA

	NAIC #	Company Name	State of Specialty
40.	10745	Homesite Insurance Company of Georgia	GA
41.	11016	Homesite Insurance Company of Illinois	IL
42.	10986	Homesite Insurance Company of New York	NY
43.	10996	Horace Mann Lloyds	TX
44.	14311	Interboro Insurance Company	NY
45.	11041	Liberty Lloyds of Texas Insurance Company	TX
46.	12317	Lincoln Mutual Insurance Company	NC
47.	14427	Louisiana Farm Bureau Mutual Insurance Company	LA
48.	15768	Merced Mutual Insurance Company	CA
49.	34410	Mercury Insurance Company of Georgia	GA
50.	14524	Middle Georgia Mutual Insurance Company	GA
51.	42110	Nationwide Lloyds	TX
52.	17493	Nazareth Mutual Ins Co	PA
53.	16683	NC Grange Mutual Insurance Co	NC
54.	11047	New Century Insurance Company	TX
55.	14915	Otsego Mutual Fire Insurance Company	NY
56.	11168	Pacific Specialty Property and Casualty Company	TX
57.	10100	Palisades Property & Casualty Insurance Company	NJ
58.	42393	Palmetto Casualty Insurance Company	SC
59.	10904	Pan Handle Farmers Mutual Insurance Company of West Virginia	WV
60.	15776	Residence Mutual Insurance Company	CA
61.	33618	Safety Indemnity Insurance Company	MA
62.	12808	Safety Property and Casualty Insurance Company	MA
63.	15113	Security Mutual Insurance Company	NY
64.	25151	State Farm General Insurance Company	CA
65.	43419	State Farm Lloyds	TX
66.	16020	State Mutual Insurance Company	ME
67.	15210	Sterling Insurance Company	NY
68.	11497	Stonington Lloyds Insurance Company	TX
69.	28479	Sunapee Mutual Fire Insurance Company	NH
70.	21695	Texas Farmers Insurance Company	TX
71.	37354	Thames Insurance Company, Inc.	MA
72.	41564	Travelers Lloyds of Texas Insurance Company	TX
73.	23868	UFB Casualty Insurance Company	IN
74.	11120	USAA Texas Lloyd's Company	TX
75.	22390	Wellington Insurance Company	TX
76.	11003	West Virginia Insurance Co.	WV
77.	11026	Zephyr Insurance Company, Inc.	HI



## Exhibit 4 – Comparison of Actual Expenses 2006-2010 Combined

Underwriting and Investment Exhibit  
Part 3 – Expenses

	Citizens	Peer Group 1	Peer Group 2
1. Claim adjustment services:			
1.1 Direct	488,695,856	1,112,519,334	1,198,307,841
1.2 Reinsurance assumed	0	98,124,072	140,797,798
1.3 Reinsurance ceded	-4,369,559	449,091,085	617,502,765
1.4 Net claim adjustment services (1.1+1.2-1.3)	493,065,414	761,552,323	721,602,875
2. Commission and brokerage:			
2.1 Direct, excluding contingent	1,238,869,360	3,701,435,890	4,586,655,043
2.2 Reinsurance assumed, excluding contingent	0	293,246,612	534,720,830
2.3 Reinsurance ceded, excluding contingent	82,220,748	2,196,897,639	2,321,496,092
2.4 Contingent - direct	0	80,443,941	166,501,544
2.5 Contingent - reinsurance assumed	0	9,467,022	43,453,951
2.6 Contingent - reinsurance ceded	0	116,995,425	119,727,492
2.7 Policy and membership fees	0	103,804,583	10,891,441
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	1,156,651,612	1,874,504,981	2,900,999,228
3. Allowances to managers and agents	61,341,540	308,523,327	497,196,475
4. Advertising	93,438	130,212,467	295,218,452
5. Boards, bureaus and associations	19,317,603	38,964,593	65,502,551
6. Surveys and underwriting reports	11,631,847	121,269,140	55,132,641
7. Audit of assureds' records	0	10,285,148	1,374,482
8. Salary and related items:			
8.1 Salaries	279,215,531	1,132,606,404	2,255,153,471
8.2 Payroll taxes	19,922,613	74,611,628	162,657,902
9. Employee relations and welfare	68,488,346	231,699,430	537,727,190
10. Insurance	2,007,027	31,481,133	18,241,565
11. Directors' fees	178,504	11,513,730	11,135,940
12. Travel and travel items	8,639,728	101,027,976	165,173,719
13. Rent and rent items	30,571,208	107,308,464	223,441,363
14. Equipment	50,343,160	70,948,722	146,596,179
15. Cost or depreciation of EDP equipment and software	35,583,020	118,783,715	284,211,241
16. Printing and stationery	7,063,406	37,136,260	51,566,436
17. Postage, telephone and telegraph, exchange and express	43,862,182	121,946,551	207,576,849
18. Legal and auditing	26,499,240	252,715,153	78,571,617
19. Totals (Lines 3 to 18)	664,761,393	2,901,033,831	5,056,478,067
20. Taxes, licenses and fees:			
20.1 State & Local Taxes	273,253,411	432,464,982	518,819,575
20.2 Insurance Taxes, Lic, Fees	0	13,608,134	22,985,578
20.3 Gross Guaranty Assoc Assess	0	38,847,275	5,071,034
20.4 All Other Taxes	0	1,743,718	30,484,143
20.5 Aggregate Taxes	273,253,411	486,664,109	577,360,324
21. Real estate expenses	0	2,137,480	3,603,197
22. Real estate taxes	0	1,528,110	1,609,996
23. Reimbursements by uninsured plans	0	0	0
24. Aggregate write-ins for miscellaneous expenses	86,641,495	379,351,777	489,317,315
25. Total expenses incurred	2,674,370,325	6,406,772,608	9,750,971,007
26. Less unpaid incurred - current year	955,711,701	2,355,155,363	6,644,261,550
27. Add unpaid expenses - prior year	1,034,852,897	0	0
28. Amounts receivable relating to uninsured plans - prior year	0	0	0
29. Amounts receivable relating to uninsured plans - current year	0	801,133	0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	2,753,511,521	6,347,113,886	9,585,148,622

**Part 1B - Premiums Written**

	Citizens	Peer Group 1	Peer Group 2
Direct Premiums Written	14,675,764,832	25,785,008,515	35,664,172,024
Assumed Premium Written	0	2,159,651,150	3,815,654,977
Ceded Premium Written	3,122,385,420	16,703,513,667	16,092,040,090
Net Premium Written	11,553,379,412	11,241,146,003	23,387,848,069



## Exhibit 5 – Comparison of Actual Expenses to Net Premium Written 2006-2010 Combined

### Underwriting and Investment Exhibit Part 3 – Expenses

	Citizens	Peer Group 1	Peer Group 2
1. Claim adjustment services:			
1.1 Direct	4.23%	9.90%	5.12%
1.2 Reinsurance assumed	0.00%	0.87%	0.60%
1.3 Reinsurance ceded	-0.04%	4.00%	2.64%
1.4 Net claim adjustment services (1.1+1.2-1.3)	4.27%	6.77%	3.09%
2. Commission and brokerage:			
2.1 Direct, excluding contingent	10.72%	32.93%	19.61%
2.2 Reinsurance assumed, excluding contingent	0.00%	2.61%	2.29%
2.3 Reinsurance ceded, excluding contingent	0.71%	19.54%	9.93%
2.4 Contingent - direct	0.00%	0.72%	0.71%
2.5 Contingent - reinsurance assumed	0.00%	0.08%	0.19%
2.6 Contingent - reinsurance ceded	0.00%	1.04%	0.51%
2.7 Policy and membership fees	0.00%	0.92%	0.05%
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	10.01%	16.68%	12.40%
3. Allowances to managers and agents	0.53%	2.74%	2.13%
4. Advertising	0.00%	1.16%	1.26%
5. Boards, bureaus and associations	0.17%	0.35%	0.28%
6. Surveys and underwriting reports	0.10%	1.08%	0.24%
7. Audit of assureds' records	0.00%	0.09%	0.01%
8. Salary and related items:			
8.1 Salaries	2.42%	10.08%	9.64%
8.2 Payroll taxes	0.17%	0.66%	0.70%
9. Employee relations and welfare	0.59%	2.06%	2.30%
10. Insurance	0.02%	0.28%	0.08%
11. Directors' fees	0.00%	0.10%	0.05%
12. Travel and travel items	0.07%	0.90%	0.71%
13. Rent and rent items	0.26%	0.95%	0.96%
14. Equipment	0.44%	0.63%	0.63%
15. Cost or depreciation of EDP equipment and software	0.31%	1.06%	1.22%
16. Printing and stationery	0.06%	0.33%	0.22%
17. Postage, telephone and telegraph, exchange and express	0.38%	1.08%	0.89%
18. Legal and auditing	0.23%	2.25%	0.34%
19. Totals (Lines 3 to 18)	5.75%	25.81%	21.62%
20. Taxes, licenses and fees:			
20.1 State & Local Taxes	2.37%	3.85%	2.22%
20.2 Insurance Taxes, Lic, Fees	0.00%	0.12%	0.10%
20.3 Gross Guaranty Assoc Assess	0.00%	0.35%	0.02%
20.4 All Other Taxes	0.00%	0.02%	0.13%
20.5 Aggregate Taxes	2.37%	4.33%	2.47%
21. Real estate expenses	0.00%	0.02%	0.02%
22. Real estate taxes	0.00%	0.01%	0.01%
23. Reimbursements by uninsured plans	0.00%	0.00%	0.00%
24. Aggregate write-ins for miscellaneous expenses	0.75%	3.37%	2.09%
25. Total expenses incurred	23.15%	56.99%	41.69%
26. Less unpaid incurred - current year	8.27%	20.95%	28.41%
27. Add unpaid expenses - prior year	8.96%	0.00%	0.00%
28. Amounts receivable relating to uninsured plans - prior year	0.00%	0.00%	0.00%
29. Amounts receivable relating to uninsured plans - current year	0.00%	0.01%	0.00%
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	23.83%	56.46%	40.98%

### Comparison of Premiums to Direct Premium Written Part 1B - Premiums Written

	Citizens	Peer Group 1	Peer Group 2
Direct Premiums Written	100.00%	100.00%	100.00%
Assumed Premium Written	0.00%	8.38%	10.70%
Ceded Premium Written	21.28%	64.78%	45.12%
Net Premium Written	78.72%	43.60%	65.58%



## Exhibit 6 – Citizens Expenses 2006-2010 Combined – Actual and Adjusted for Peer Group Expense Ratios and Ceding Percentages

Underwriting and Investment Exhibit  
Part 3 – Expenses

	Citizens Actual	Citizens adj. for Peer Group 1	Citizens adj. for Peer Group 2
1. Claim adjustment services:			
1.1 Direct	488,695,856	633,200,183	493,100,977
1.2 Reinsurance assumed	0	55,848,180	57,937,977
1.3 Reinsurance ceded	-4,369,559	255,604,149	254,100,997
1.4 Net claim adjustment services (1.1+1.2-1.3)	493,065,414	433,444,216	296,937,958
2. Commission and brokerage:			
2.1 Direct, excluding contingent	1,238,869,360	2,106,704,856	1,887,398,219
2.2 Reinsurance assumed, excluding contingent	0	166,903,893	220,036,417
2.3 Reinsurance ceded, excluding contingent	82,220,748	1,250,383,651	955,290,413
2.4 Contingent - direct	0	45,785,378	68,515,010
2.5 Contingent - reinsurance assumed	0	5,388,239	17,881,203
2.6 Contingent - reinsurance ceded	0	66,588,977	49,267,593
2.7 Policy and membership fees	0	59,081,293	4,481,803
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	1,156,651,612	1,066,891,029	1,193,754,648
3. Allowances to managers and agents	61,341,540	175,598,770	204,595,230
4. Advertising	93,438	74,111,573	121,481,728
5. Boards, bureaus and associations	19,317,603	22,177,041	26,954,152
6. Surveys and underwriting reports	11,631,847	69,021,400	22,686,958
7. Audit of assureds' records	0	5,853,883	565,596
8. Salary and related items:			
8.1 Salaries	279,215,531	644,632,916	927,990,574
8.2 Payroll taxes	19,922,613	42,465,866	66,933,360
9. Employee relations and welfare	68,488,346	131,873,772	221,273,527
10. Insurance	2,007,027	17,917,764	7,506,363
11. Directors' fees	178,504	6,553,141	4,582,414
12. Travel and travel items	8,639,728	57,500,963	67,968,613
13. Rent and rent items	30,571,208	61,075,558	91,945,618
14. Equipment	50,343,160	40,381,090	60,323,997
15. Cost or depreciation of EDP equipment and software	35,583,020	67,606,798	116,952,285
16. Printing and stationery	7,063,406	21,136,430	21,219,472
17. Postage, telephone and telegraph, exchange and express	43,862,182	69,406,954	85,417,406
18. Legal and auditing	26,499,240	143,835,056	32,332,043
19. Totals (Lines 3 to 18)	664,761,393	1,651,148,970	2,080,729,335
20. Taxes, licenses and fees:			
20.1 State & Local Taxes	273,253,411	246,141,256	213,493,086
20.2 Insurance Taxes, Lic, Fees	0	7,745,189	9,458,514
20.3 Gross Guaranty Assoc Assess	0	22,110,269	2,086,719
20.4 All Other Taxes	0	992,452	12,544,156
20.5 Aggregate Taxes	273,253,411	276,989,166	237,582,473
21. Real estate expenses	0	1,216,566	1,482,707
22. Real estate taxes	0	869,737	662,510
23. Reimbursements by uninsured plans	0	0	0
24. Aggregate write-ins for miscellaneous expenses	86,641,495	215,911,407	201,352,973
25. Total expenses incurred	2,674,370,325	3,646,471,089	4,012,502,606
26. Less unpaid incurred - current year	955,711,701	1,340,457,430	2,734,098,662
27. Add unpaid expenses - prior year	1,034,852,897	0	0
28. Amounts receivable relating to uninsured plans - prior year	0	0	0
29. Amounts receivable relating to uninsured plans - current year	0	455,972	0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	2,753,511,521	3,612,515,802	3,944,267,068

Part 1B - Premiums Written

	Citizens Actual	Citizens adj. for Peer Group 1	Citizens adj. for Peer Group 2
Direct Premiums Written	14,675,764,832	14,675,764,832	14,675,764,832
Assumed Premium Written	0	1,229,184,484	1,570,137,534
Ceded Premium Written	3,122,385,420	9,506,952,007	6,621,855,566
Net Premium Written	11,553,379,412	6,397,997,310	9,624,046,800



## Exhibit 7 – Peer Groups 1 and 2 Expenses 2006-2010 Combined - Adjusted for Citizens' Expense Ratios and Ceding Percentage

Underwriting and Investment Exhibit  
Part 3 – Expenses

	Adjusted Peer Group 1	Adjusted Peer Group 2
1. Claim adjustment services:		
1.1 Direct	858,628,286	1,187,599,643
1.2 Reinsurance assumed	0	0
1.3 Reinsurance ceded	-7,677,223	-10,618,643
1.4 Net claim adjustment services (1.1+1.2-1.3)	866,305,507	1,198,218,283
2. Commission and brokerage:		
2.1 Direct, excluding contingent	2,176,667,272	3,010,626,736
2.2 Reinsurance assumed, excluding contingent	0	0
2.3 Reinsurance ceded, excluding contingent	144,460,116	199,807,978
2.4 Contingent - direct	0	0
2.5 Contingent - reinsurance assumed	0	0
2.6 Contingent - reinsurance ceded	0	0
2.7 Policy and membership fees	0	0
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)	2,032,212,427	2,810,826,048
3. Allowances to managers and agents	107,775,789	149,068,567
4. Advertising	164,169	227,067
5. Boards, bureaus and associations	33,940,620	46,944,491
6. Surveys and underwriting reports	20,436,909	28,267,024
7. Audit of assureds' records	0	0
8. Salary and related items:		
8.1 Salaries	490,575,784	678,532,999
8.2 Payroll taxes	35,003,610	48,414,751
9. Employee relations and welfare	120,332,576	166,436,311
10. Insurance	3,526,304	4,877,358
11. Directors' fees	313,628	433,790
12. Travel and travel items	15,179,819	20,995,754
13. Rent and rent items	53,712,966	74,292,334
14. Equipment	88,451,868	122,340,957
15. Cost or depreciation of EDP equipment and software	62,518,614	86,471,742
16. Printing and stationery	12,410,255	17,165,070
17. Postage, telephone and telegraph, exchange and express	77,064,926	106,591,269
18. Legal and auditing	46,558,604	64,396,879
19. Totals (Lines 3 to 18)	1,167,971,712	1,615,463,654
20. Taxes, licenses and fees:		
20.1 State & Local Taxes	480,100,466	664,044,209
20.2 Insurance Taxes, Lic, Fees	0	0
20.3 Gross Guaranty Assoc Assess	0	0
20.4 All Other Taxes	0	0
20.5 Aggregate Taxes	480,100,466	664,044,209
21. Real estate expenses	0	0
22. Real estate taxes	0	0
23. Reimbursements by uninsured plans	0	0
24. Aggregate write-ins for miscellaneous expenses	152,227,275	210,551,015
25. Total expenses incurred	4,698,812,116	6,499,095,919
26. Less unpaid incurred - current year	1,679,165,252	2,322,513,811
27. Add unpaid expenses - prior year	1,818,214,660	2,514,838,045
28. Amounts receivable relating to uninsured plans - prior year	0	0
29. Amounts receivable relating to uninsured plans - current year	0	0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	4,837,861,524	6,691,420,153

**Part 1B - Premiums Written**

	Adjusted Peer Group 1	Adjusted Peer Group 2
Direct Premiums Written	25,785,008,515	35,664,172,024
Assumed Premium Written	0	0
Ceded Premium Written	5,485,965,165	7,587,835,593
Net Premium Written	20,299,043,350	28,076,336,431



## **About the Authors**

### ***Joseph L. Petrelli, ACAS, MAAA, FCA***

#### *President*

Mr. Petrelli has more than forty years of progressively responsible Property and Casualty actuarial and financial analysis experience. He has extensive experience with loss and loss adjustment expense reserve evaluation, product development, and pricing for virtually all Property and Casualty and Title insurance products as well as expertise with loss cost filings, Financial Stability Ratings<sup>®</sup> and merger and acquisition valuations. Mr. Petrelli has been employed in the Property and Casualty insurance industry since 1969. He has been actively engaged in the Title insurance industry since 1992. Prior to founding Demotech, Inc., he was employed by a large national Property and Casualty insurer, a regional Property and Casualty insurer, and the Insurance Services Office.

### ***Barry J. Koestler II, CFA***

#### *Chief Ratings Officer*

Mr. Koestler has nearly twenty years of progressively responsible Property and Casualty actuarial and financial analysis experience. He has worked extensively on loss and loss adjustment expense reserve evaluations, product development, and pricing assignments for Property and Casualty and Title insurance. Mr. Koestler has developed financial analysis expertise by coordinating Financial Stability Ratings<sup>®</sup> and insurance industry data analysis and research projects. He coordinates Property and Casualty and Title Financial Stability Ratings<sup>®</sup>. He has also been involved in hundreds of product development, rate filing, and loss reserving assignments.

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#### *Senior Financial Analyst*

Mr. Powell has more than seven years of progressively responsible Property and Casualty, Title and financial analysis experience. He has previous work experience as an accountant and auditor in the not-for-profit and government sectors. Mr. Powell has developed financial analysis expertise by coordinating Financial Stability Ratings<sup>®</sup> and insurance industry data analysis and research projects.

## **About Demotech, Inc.**

Demotech, Inc. is an independent financial analysis firm located in Columbus, Ohio. Since 1985, Demotech has been serving the insurance industry by providing accurate and proven Financial Stability Ratings<sup>®</sup> (FSRs) for Property & Casualty insurance companies and Title underwriters. FSRs are a leading indicator of the financial stability of a company. Our rating process provides an objective baseline and insight into the future solvency of a company.

Demotech has a proven track record of predicting financial stability in the insurance industry and has been leveling the playing field by offering FSRs to insurers of all sizes. Our ability to identify financially stable insurers has been demonstrated through comparisons to other rating services as well as through independent studies.





## ***Demotech, Inc. Milestones***

- 1985** Founded to offer services to regional and specialty insurers.
- 1986** First to issue Financial Stability Ratings® (FSRs) for health maintenance organizations (HMOs).
- 1987** First to issue FSRs for public entity liability self-insured pools through the development of our Management Audit Process.
- 1989** First to have Property and Casualty insurance company rating process formally reviewed and accepted by Fannie Mae. An FSR of A or better eliminates the need for property insurance cut-through endorsements.
- 1990** First to have Property and Casualty insurance company rating process formally reviewed and accepted by Freddie Mac.  
Began offering Property and Casualty insurance companies and Title underwriters loss cost analysis and rate, rule and form filing assistance.  
Responded to the National Association of Insurance Commissioners (NAIC) requirements for Property and Casualty insurers to submit Statements of Actuarial Opinion related to loss and loss adjustment expense reserves concurrent with the 1990 Property and Casualty annual statement.
- 1992** First to analyze the financial position of each Title underwriter.
- 1993** First to have Property and Casualty insurance company rating process formally reviewed and accepted by HUD.
- 1994** Fannie Mae issued Title underwriting guidelines, naming Demotech as an approved Title underwriter rating service.
- 1995** First to promulgate Commercial Real Estate Recommendations (CRERs) to provide additional financial due diligence of Title underwriters involved in larger real estate transactions.
- 1996** Contacted by the Florida Office of Insurance Regulation (OIR) when the property insurance market encountered newly established insurers that did not meet traditional rating requirements. Working with the Florida OIR, Demotech developed evaluation procedures for the assignment of FSRs to newly formed Property and Casualty companies.  
Coordinated the first seminar regarding the implementation of Statements of Actuarial Opinion for Title insurance companies on behalf of the Conference of Consulting Actuaries and in cooperation with the American Land Title Association (ALTA).
- 1999** Co-authored Commerce Clearing House publication describing the evolution of the Canadian Title insurance industry.
- 2001** Completed the initial loss and loss adjustment expense review of the Iowa Finance Authority – Title Guaranty Division.
- 2002** Revitalized the Ohio Title Insurance Rating Bureau.
- 2003** Assisted the North Carolina Title Insurance Rating Bureau with the development and filing of Closing Services insurance product.  
Assisted the OTIRB with its first rate revision since 1980.
- 2004** Published *Serious about Solvency – Financial Stability Rating® Survival Rates 1989 through 2004*. This document outlines our analysis process, the assignment of FSRs and the survival rates of insurers.
- 2005** HUD accepted Demotech’s rating process for professional liability insurance under Notice H04-15, Professional Liability Insurance for Section 232 and 223(f) Programs.
- 2007** Designated as the “Official Research Partner” of *Insurance Journal*.  
Expanded operations into a larger facility reflecting our increased capacity to serve our clients.
- 2008** Introduced Insurance Agents’ Errors and Omissions Insolvency Gap Legal Defense Coverage to assist insurance agents and other producers.
- 2009** Expanded the Insolvency Gap Coverage to include indemnity as well as legal defense.
- 2010** Demotech, Inc. celebrates its 25<sup>th</sup> Anniversary!  
Demotech, Inc. participates in independent studies of insurer ratings conducted by The Wharton School and Florida State University.
- 2011** Florida State University publishes its independent study *A Comprehensive Examination of Insurer Financial Strength Ratings*.



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