

**DFS CF RFP 15/16-12**  
**Actuarial Consulting Services**  
**Questions and Answers**

**Addendum #2**

1. Q. Would you please indicate whether Attachment G (Client Reference Questionnaire) is to be completed and returned?  
  
A. Yes, Attachment G should be completed and returned.
  - a) If so, by who (Respondent or Respondent's clients)?  
Attachment G should be completed by the Respondent's clients.
  - b) If not, please confirm that Attachment B should be part of list of Attachments For Reference listed on page 4 of the solicitation document?  
N/A
  
2. Q. Attachment L - Page 69 - Is this questionnaire the one to be used for the Volume II. of the proposal or is this a separate submission? This attachment seems to have not been mentioned in the submission instructions.  
  
A. Attachment L is a separate submission from Volume II.
  
3. Q. Attachment G - Page 59 - This should be filled out by the references in Attachment H?  
  
A. Yes, Attachment G should be filled out by the references in Attachment H.
  
4. Q. 3.6.3. Financial Documentation - Page 13 - AMI is an S Corporation and doesn't have audited financial statements. Is the Corporate Income Tax Return Filing of an AMI acceptable to the Department?  
  
A. Pursuant to Section 3.6.3 of the RFP, if audited financial statements are not available, please provide the alternative documents listed in Section 3.6.3 A through D, which includes A) Income Statement(s) or Revenue and Expense Statement(s), B) Balance Sheet(s), C) Cash Flow Statement(s), and D) Notes to the Financial Statements.
  
5. Q. Who was the last consulting firm that performed the work? Martin M. Simons Public  
  
A. Actuarial Consultant was the last firm the ICA contracted with. The contract with Martin M. Simons Public Actuarial Consultant was for one specific project, whereas this RFP is based on a much broader range of projects.

6. Q. How long have the current actuaries been providing their service?
  - A. The ICA does not currently have a contract in place for actuarial services.
7. Q. What were the annual fees charged and the terms of the contract?
  - A. There were not any annual fees associated with the agreement with Martin M. Simons Public Actuarial Consultant. However, all services, including testimony, were compensated at \$225 per hour; provided that all services and expenses, including travel, contemplated in the agreement did not exceed \$20,000. The term of the agreement was based upon the execution and upon the completion of the Statement of Work and accomplishment of the Deliverables or in one year, whichever first occurred.
8. Q. Has the scope of the work changed since the work was done?
  - A. Up until 2015, the ICA had an in-house actuary that provided actuarial services. This RFP anticipates the same scope of services provided the prior in-house actuary.
9. Q. Can we get a copy of the most recent actuarial report?
  - A. Two prior reports prepared by the in-house actuary in 2010 and in 2011 are attached.
10. Q. Can we get a copy of the proposal of the last successful bidder?
  - A. The last contract was not a formal solicitation and did not include proposals. A copy of the contract is attached, though.
11. Q. Is the \$25,000 fee cap for the one-year contract period inclusive of all services, or might the ad hoc services result in fees in excess of \$25,000?
  - A. Depending on available funds, services may exceed \$25,000 during the contract period.
12. Q. Which actuarial consulting firm/firms are currently providing these services, or have provided these services in the past, and for how long have they been doing so?
  - A. The ICA is not currently receiving actuarial services. Previously, the ICA had an in-house actuary and received actuarial services from Martin M. Simons Public Actuarial Consultant in 2011.



**SEAN MICHAEL SHAW, ESQ.**  
INSURANCE CONSUMER ADVOCATE

VIA ELECTRONIC TRANSMISSION

February 26, 2010

Mr. Michael Milnes, Deputy Director  
Property and Casualty Product Review  
Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, FL 32399-4206

RE: In the Matter of First Professionals Insurance Company  
OIR Filing No.: 10-01380  
Actuarial Review

Dear Mr. Milnes:

I respectfully submit the attached actuarial report related to the above referenced matter authored by Mr. Stephen A. Alexander, FCAS, MAAA, MBA actuary for the Office of the Insurance Consumer Advocate.

Sincerely,

A handwritten signature in blue ink, appearing to read "hsh", is positioned above the typed name of the sender.

Sean Michael Shaw, Esq.  
Insurance Consumer Advocate

cc w/ attachments: Kevin McCarty, Insurance Commissioner  
Steve Parton, Deputy Commissioner  
Belinda Miller, Deputy Commissioner  
Richard Koon, Director, Property & Casualty Product Review  
Joseph Boor, Actuary, Office of Insurance Regulation

February 26, 2010

**Actuarial Analysis of  
Office of Insurance Regulation  
Filing Number 10-01380**

**Medical Malpractice Insurance  
First Professionals Insurance Company**

**Office of the Insurance Consumer Advocate  
State of Florida**

Prepared by:  
Stephen A. Alexander, FCAS, MAAA, MBA



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## INDICATED RATE CHANGE

The Insurance Consumer Advocate's (ICA) indicated rate change for the subject filing is -.6% and the ICA's selected rate change is 0%. In comparison First Professionals Insurance Company's (FPIC) indicated rate change is +12.4% and FPIC's selected rate change is +5.0%.

The difference between the two indications is due to differences in loss development techniques and trend rate selections. In consequence of these differences, the ICA projects for the prospective rate period an average loss and ALAE ratio of 64.8% compared to FPIC's 75.2%.

## LOSS DEVELOPMENT

The differences in loss development between the ICA and FPIC result in substantially different projected ultimate losses and ALAE for the most immature 2008 and 2009 report years:

Office of the Insurance Consumer Advocate  
Review of OIR Filing Number 10-01380  
First Professionals Insurance Company

Report Year Estimated Ultimate Loss & ALAE

Report Year	FPIC	ICA	Difference
2008	60,233,007	58,301,118	1,931,889
2009	62,005,312	55,840,301	6,165,011
Total	122,238,319	114,141,419	8,096,900

The ICA's projected ultimate losses and ALAE for these report years are based upon the use of five generally accepted actuarial loss development techniques: paid development, incurred development, Bornhuetter-Ferguson paid development, Bornhuetter-Ferguson incurred development and Backward Recursive Method. The data provided in the subject filing was insufficient to use any other generally accepted actuarial techniques.

FPIC used just three loss development techniques (paid development, incurred development and the Berquist-Sherman Method). The use of only three loss development techniques in the subject filing is noteworthy, because FPIC used at least eight loss development techniques to set its 2008 loss reserves while acknowledging to the Securities and Exchange Commission that each of the eight techniques it used had "inherent benefits and shortcomings (e.g. biases)".

Furthermore, FPIC selected the average of only two methods (the Berquist-Sherman Method and the incurred loss development method) for the two most immature years (2008 and 2009), even though a major shortcoming of the Berquist-Sherman Method is that it is very sensitive to the selected trend rate, and it requires the exercise of substantial actuarial judgment.

It is also noteworthy that FPIC did not use the Bornhuetter-Ferguson methods even though it acknowledged in its report to the Securities and Exchange Commission that these methods are “more relevant to immature accident years” such as 2008 and 2009.

It is the position of the ICA that FPIC should be consistent in its use of loss development techniques for both rates and reserves, because both rates and reserves require estimation of ultimate losses for historical report years.

FPIC describes on pages 23 and 24 of its 2008 annual report to the Securities and Exchange Commission the multiple methods that it uses to set its loss reserves:

*“Actuarial techniques and primary factors that impact our reserve estimates – We establish loss and LAE reserves taking into account the results of multiple actuarial techniques applied as well as other assumptions and factors regarding our business. The actuarial techniques we use that are material to our evaluation of loss and LAE reserves include the following:*

- Loss Development Methods (Incurred and Paid Development);
- Berquist-Sherman Case Reserve Adjustment Method
- Frequency/Severity Methods;
- Allocated Loss Adjustment Expense (ALAE”) development Methods (Incurred and Paid Development);
- Bornhuetter-Ferguson Expected Loss Projection Methods; and
- Backward Recursive Method

Each technique has inherent benefits and shortcomings (i.e., biases), particularly when applied to company-specific characteristics and trends. For example, certain methods (e.g., the Bornhuetter-Ferguson methods) are more relevant to immature accident years, and other methods (e.g., the loss development methods) provide more meaningful information for years with a greater level of maturity. Because each method has its own set of attributes, we do not rely exclusively upon a single method. Rather, we evaluate each of the methods for the different perspectives that they provide. Each method is applied in a consistent manner from period to period and the methods encompass a review of selected claims data, including claim and incident counts, average indemnity payments and loss adjustment costs.”

## **TREND RATES**

The ICA's selected annual loss ratio trend rate is 4.8% compared to FPIC's 6.0%. It is believed that the 1.2% difference in selections is due to FPIC's higher selected ultimate losses and ALAE for the most immature 2008 and 2009 report years as discussed above.

## **EXHIBITS**

Exhibits 1 through 5



Office of the Consumer Advocate  
 Review of OIR Filing Number 10-01380  
 First Professionals Insurance Company

Indicated Rate Change

	(1)	(2)
	FPIC	ICA
(3) Selected Loss & ALAE Ratio	75.2%	64.8%
(4) DD&R	1.027	1.027
(5) ULAE	1.055	1.055
(6) General & Other Acquisition	16.0%	16.0%
(7) Variable Expenses	13.3%	13.3%
(8) Indicated Overall Rate Level Change	12.4%	-0.6%
(9) Selected Overall Rate Level Change	5.0%	0.0%

Notes:

- (1) FPIC Exhibit 1
- (3) Exhibit 2, Row (18)
- (8)  $((3) \times (4) \times (5) + (6)) / (1 - (7))$
- (9) based on actuarial judgment

Office of the Insurance Consumer Advocate  
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First Professionals Insurance Company

Selected Ultimate Losses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Earned Premium @ Current Rate Level	Incurred BF	Paid BF	Developed Incurred	Developed Paid	Backward Recursive	Selected	Selected Loss & ALAE Ratio	Fitted Loss & ALAE Ratio
(10) 2004	134,827,989						58,896,099	43.7%	46.5%
(11) 2005	132,377,412						74,041,026	55.9%	48.7%
(12) 2006	121,151,422						56,747,165	46.8%	51.1%
(13) 2007	106,174,966						55,941,233	52.7%	53.5%
(14) 2008	99,163,235	56,487,543	64,534,418	56,940,493	105,477,454	55,242,017	58,301,118	58.8%	56.1%
(15) 2009	97,093,881	55,998,826	56,707,280	56,943,501	104,283,983	53,711,598	55,840,301	57.5%	58.8%
(16) 2010									61.6%
(17) 2011									64.6%
(18) 8/1/2011									64.8%
(19)							Selected Annual Trend Rate		4.8%

## Notes:

- (1) FPIC Exhibit 5, Sheet 2, Column (2)
- (2) Exhibit 3, Column (10)
- (3) Exhibit 4, Column (10)
- (4) FPIC Exhibit 6, Sheet 1, Column (4)
- (5) FPIC Exhibit 6, Sheet 1, Column (3)
- (6) Exhibit 5, Sheet 1
- (7) FPIC Exhibit 6, Sheet 1, Column (6) or the average of (2), (3), (4) and (6) for 2008 and 2009 based on actuarial judgment
- (8) (7) / (1)
- (9) exponential fit on (8)
- (18) (17) x ((17) / (16))^(1/12)
- (19) (17) / (16) - 1

Office of the Insurance Consumer Advocate  
 Review of OIR Filing Number 10-01380  
 First Professionals Insurance Company

Bornheutter-Ferguson Method  
 Estimated Ultimate Reported Loss & ALAE

Report Year	(1) Earned Premium @ Current Rate Level	(2) FPIC Selected Losses	(3) FPIC Selected Loss & ALAE Ratio	(4) ICA Fitted Loss & ALAE Ratio	(5) ICA Expected Loss & ALAE Ratio	(6) ICA Expected Ultimate Loss & ALAE	(7) Reported Loss & ALAE @12/31/2009	(8) Reported LDF	(9) Unreported Loss & ALAE	(10) ICA Estimated Ultimate Reported Loss & ALAE
2004	134,827,989	58,896,099	43.7%	46.8%						
2005	132,377,412	74,041,026	55.9%	48.6%						
2006	121,151,422	56,747,165	46.8%	50.5%						
2007	106,174,966	55,941,233	52.7%	52.5%						
2008	99,163,235			54.6%	54.6%	54,102,232	48,002,707	1.186	0.157	56,487,543
2009	97,093,881			56.7%	56.7%	55,051,999	28,583,373	1.992	0.498	55,998,826

Notes:

- (1) FPIC Exhibit 5, Sheet 2, Column (2)
- (2) FPIC Exhibit 2, Column (2)
- (3) (2) / (3)
- (4) Exponential fit on (3)
- (5) (4)
- (6) (4) x (1)
- (7) FPIC Exhibit 6, Sheet 3, Column (2)
- (8) FPIC Exhibit 6, Sheet 3, Column (1)
- (9) 1 - 1/(8)
- (10) (9) x (6) + (7)

Office of the Insurance Consumer Advocate  
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First Professionals Insurance Company

Bornheutter-Ferguson Method  
Estimated Ultimate Paid Loss & ALAE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Report Year	Earned Premium @ Current Rate Level	FPIC Selected Losses	FPIC Selected Loss & ALAE Ratio	ICA Fitted Loss & ALAE Ratio	ICA Expected Loss & ALAE Ratio	ICA Expected Ultimate Loss & ALAE	Paid Loss & ALAE @12/31/09	Paid LDF	Unpaid Loss & ALAE	ICA Estimated Ultimate Paid Loss & ALAE
2004	134,827,989	58,896,099	43.7%	46.8%						
2005	132,377,412	74,041,026	55.9%	48.6%						
2006	121,151,422	56,747,165	46.8%	50.5%						
2007	106,174,966	55,941,233	52.7%	52.5%						
2008	99,163,235			54.6%	54.6%	54,102,232	21,419,642	4.924	0.797	64,534,418
2009	97,093,881			56.7%	56.7%	55,051,999	3,506,266	29.742	0.966	56,707,280

## Notes:

- (1) FPIC Exhibit 5, Sheet 2, Column (2)
- (2) FPIC Exhibit 2, Column (2)
- (3) (2) / (3)
- (4) Exponential fit on (3)
- (5) (4)
- (6) (4) x (1)
- (7) FPIC Exhibit 6, Sheet 2, Column (2)
- (8) FPIC Exhibit 6, Sheet 2, Column (1)
- (9) 1 - 1/(8)
- (10) (9) x (6) + (7)

Office of the Insurance Consumer Advocate  
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First Professionals Insurance Company

Backward Recursive Method

Projected Ultimate Loss & ALAE

Report Year	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
(1) Case Reserves	25,077,107	26,583,065	23,020,747	14,216,584	9,230,840	7,665,550	10,293,363	5,603,419	2,135,115	1,718,486	642,917	1,449,133	749,876
(2) D Ratio	2.00	1.27	1.20	1.24	1.39	1.49	1.76	1.74	1.58	2.54	3.03	2.38	2.00
(3) Developed Reserves	50,205,332	33,822,375	27,585,152	17,597,886	12,852,199	11,425,864	18,166,850	9,734,105	3,373,560	4,364,292	1,949,259	3,453,827	1,499,752
(4) Cumulative Paid	3,506,266	21,419,642	24,997,089	36,048,505	57,465,431	47,898,989	96,569,042	114,307,131	88,705,808	76,762,540	63,814,488	72,810,822	82,800,910
(5) Ultimate	53,711,598	55,242,017	52,582,241	53,646,391	70,317,630	59,324,853	114,735,892	124,041,236	92,079,368	81,126,832	65,763,747	76,264,649	84,300,662

Notes:

- (1) Exhibit 5, Sheet 3
- (2) Exhibit 5, Sheet 2
- (3) (1) x (2)
- (4) Exhibit 5, Sheet 4
- (5) (3) + (4)

Office of the Insurance Consumer Advocate  
Review of OIR Filing Number 10-01380  
First Professionals Insurance Company

Backward Recursive Method

Selected R, P & D Ratios

R Ratio

Year	24/12	36/24	48/36	60/48	72/60	84/72	96/84	108/96	120/108	132/120	144/132	156/144	Ult./156
1997	1.08	0.70	0.52	0.58	0.59	0.59	1.02	0.56	0.96	0.86	0.34	1.10	
1998	1.28	0.60	0.58	0.78	0.62	0.83	0.71	0.79	0.47	0.71	0.99		
1999	1.19	0.65	0.65	0.63	0.65	0.76	0.31	1.15	0.46	0.60			
2000	1.34	0.77	0.62	0.72	0.78	0.35	0.81	0.60	0.67				
2001	1.34	0.72	0.70	0.61	0.44	0.76	0.78	0.44					
2002	1.14	0.92	0.65	0.57	0.62	0.60	0.63						
2003	1.50	0.80	0.66	0.66	0.68	0.62							
2004	1.50	0.82	0.71	0.67	0.53								
2005	1.56	0.78	0.63	0.47									
2006	1.29	0.65	0.61										
2007	1.33	0.70											
2008	1.00												
Latest Diagonal	1.00	0.70	0.61	0.47	0.53	0.62	0.63	0.44	0.67	0.60	0.99	1.10	
2 Year Average	1.17	0.68	0.62	0.57	0.60	0.61	0.70	0.52	0.56	0.66	0.66	1.10	
3 Year Average	1.21	0.71	0.65	0.60	0.61	0.66	0.74	0.73	0.53	0.72	0.66	1.10	
5 Year Average	1.34	0.75	0.65	0.60	0.61	0.62	0.65	0.71	0.64	0.72	0.66	1.10	
5 Year ex High/Low	1.37	0.76	0.65	0.61	0.61	0.66	0.70	0.65	0.57	0.71	0.66	1.10	
All Year Average	1.30	0.74	0.63	0.63	0.61	0.64	0.71	0.71	0.64	0.72	0.66	1.10	
Selected	1.21	0.71	0.65	0.60	0.61	0.66	0.74	0.73	0.53	0.72	0.66	1.10	0.00

P Ratio

Year	24/12	36/24	48/36	60/48	72/60	84/72	96/84	108/96	120/108	132/120	144/132	156/144	Ult./156
1997	0.37	0.33	0.37	0.33	0.32	0.36	0.07	0.47	0.30	0.13	2.67	0.19	
1998	0.29	0.38	0.43	0.27	0.39	0.17	0.23	0.48	0.17	0.70	0.24		
1999	0.42	0.36	0.37	0.24	0.24	0.23	0.26	0.17	0.41	0.21			
2000	0.36	0.43	0.29	0.51	0.14	0.32	0.10	0.20	0.10				
2001	0.27	0.33	0.62	0.33	0.24	0.14	0.51	1.39					
2002	0.27	0.33	0.36	0.46	0.52	0.51	0.83						
2003	0.41	0.37	0.29	0.40	0.47	0.32							
2004	0.50	0.26	0.36	0.32	0.47								
2005	0.56	0.40	0.50	0.48									
2006	0.36	0.43	0.31										
2007	0.35	0.44											
2008	0.68												
Latest Diagonal	0.68	0.44	0.31	0.48	0.47	0.32	0.83	1.39	0.10	0.21	0.24	0.19	
2 Year Average	0.52	0.43	0.41	0.40	0.47	0.42	0.67	0.79	0.26	0.45	1.45	0.19	
3 Year Average	0.46	0.42	0.39	0.40	0.49	0.32	0.48	0.58	0.23	0.35	1.45	0.19	
5 Year Average	0.49	0.38	0.37	0.40	0.37	0.30	0.39	0.54	0.24	0.35	1.45	0.19	
5 Year ex High/Low	0.47	0.40	0.34	0.40	0.39	0.29	0.33	0.38	0.23	0.21	1.45	0.19	
All Year Average	0.40	0.37	0.39	0.37	0.35	0.29	0.33	0.54	0.24	0.35	1.45	0.19	
Selected	0.46	0.42	0.39	0.40	0.49	0.32	0.48	0.58	0.23	0.35	1.45	0.19	2.00
D Ratio	2.00	1.27	1.20	1.24	1.39	1.49	1.76	1.74	1.58	2.54	3.03	2.38	2.00

Notes:

P Ratio = Incremental Paid Loss and ALAE / Prior Year Ending Case and ALAE Reserves  
R Ratio = Year Ending Case and ALAE Reserves / Prior Year Ending Case and ALAE Reserves  
D Ratio = R Ratio x Prior Year D Ratio + P Ratio

Office of the Insurance Consumer Advocate  
Review of OIR Filing Number 10-01380  
First Professionals Insurance Company

Backward Recursive Method

Incremental Paid and Year Ending Case Reserves

Incremental Paid Loss and ALAE

Year	24/12	36/24	48/36	60/48	72/60	84/72	96/84	108/96	120/108	132/120	144/132	156/144
1997	19,899,761	19,173,159	15,263,087	6,932,277	4,034,020	2,638,606	288,877	2,092,509	735,136	311,785	5,414,337	131,942
1998	12,772,327	21,826,487	14,559,247	5,399,095	6,013,315	1,618,079	1,804,004	2,663,566	717,614	1,443,408	349,583	
1999	17,915,477	18,116,615	12,110,863	5,130,826	3,246,306	1,988,179	1,704,477	339,078	960,708	221,999		
2000	14,985,126	23,981,215	12,470,131	13,630,349	2,675,925	4,887,905	545,001	843,837	262,443			
2001	12,060,499	20,091,375	26,794,551	10,026,083	4,445,895	1,146,916	3,194,984	6,705,807				
2002	16,630,733	23,386,023	23,287,180	19,642,411	12,471,170	7,584,511	7,420,835					
2003	19,257,739	26,217,271	16,491,301	14,827,738	11,616,386	5,405,401						
2004	12,381,851	9,554,636	10,987,608	6,999,124	6,758,122							
2005	14,341,144	15,803,896	15,413,348	9,359,602								
2006	10,096,325	15,574,799	7,361,564									
2007	8,653,440	14,318,858										
2008	18,052,786											

Year Ending Case Loss and ALAE Reserves

Year	12	24	36	48	60	72	84	96	108	120	132	144	156
1997	54,358,767	58,454,284	41,066,730	21,259,809	12,434,873	7,392,249	4,352,171	4,445,986	2,476,877	2,367,648	2,029,664	684,615	749,876
1998	44,260,796	56,866,769	33,891,762	19,731,166	15,336,014	9,458,819	7,838,219	5,526,270	4,344,996	2,054,964	1,467,211	1,449,133	
1999	42,428,031	50,650,925	32,733,381	21,332,099	13,388,203	8,751,336	6,620,669	2,031,007	2,341,960	1,074,381	642,917		
2000	41,502,388	55,817,632	42,952,540	26,826,766	19,324,322	15,162,821	5,317,721	4,313,259	2,572,451	1,718,486			
2001	44,750,529	60,063,894	43,155,694	30,187,702	18,383,767	8,139,840	6,225,531	4,835,061	2,135,115				
2002	61,911,306	70,693,179	65,136,567	42,393,327	24,199,733	14,927,446	8,931,056	5,603,419					
2003	46,628,797	70,130,810	56,206,960	37,031,610	24,548,785	16,636,900	10,293,363						
2004	24,661,148	36,899,772	30,300,246	21,591,576	14,445,447	7,665,550							
2005	25,520,451	39,689,600	30,875,822	19,578,909	9,230,840								
2006	28,059,083	36,120,879	23,414,486	14,216,584									
2007	24,555,365	32,771,219	23,020,747										
2008	26,494,361	26,583,065											
2009	25,077,107												

Note:

Exhibit 5, Sheet 4

Office of the Insurance Consumer Advocate  
Review of OIR Filing Number 10-01380  
First Professionals Insurance Company

Backward Recursive Method

Paid and Incurred Loss and ALAE

Paid Loss and ALAE

Year	12	24	36	48	60	72	84	96	108	120	132	144	156
1997	5,885,414	25,785,175	44,958,334	60,221,421	67,153,698	71,187,718	73,826,324	74,115,201	76,207,710	76,942,846	77,254,631	82,668,968	82,800,910
1998	3,644,097	16,416,424	38,242,911	52,802,158	58,201,253	64,214,568	65,832,647	67,636,651	70,300,217	71,017,831	72,461,239	72,810,822	
1999	2,079,960	19,995,437	38,112,052	50,222,915	55,353,741	58,600,047	60,588,226	62,292,703	62,631,781	63,592,489	63,814,488		
2000	2,480,608	17,465,734	41,446,949	53,917,080	67,547,429	70,223,354	75,111,259	75,656,260	76,500,097	76,762,540			
2001	4,239,698	16,300,197	36,391,572	63,186,123	73,212,206	77,658,101	78,805,017	82,000,001	88,705,808				
2002	3,884,268	20,515,001	43,901,024	67,188,204	86,830,615	99,301,785	106,886,296	114,307,131					
2003	2,753,206	22,010,945	48,228,216	64,719,517	79,547,255	91,163,641	96,569,042						
2004	1,217,648	13,599,499	23,154,135	34,141,743	41,140,867	47,898,989							
2005	2,547,441	16,888,585	32,692,481	48,105,829	57,465,431								
2006	3,015,817	13,112,142	28,686,941	36,048,505									
2007	2,024,791	10,678,231	24,997,089										
2008	3,366,856	21,419,642											
2009	3,506,266												

Incurred Loss and ALAE

Year	12	24	36	48	60	72	84	96	108	120	132	144	156
1997	60,244,181	84,239,459	86,025,064	81,481,230	79,588,571	78,579,967	78,178,495	78,561,187	78,684,587	79,310,494	79,284,295	83,353,583	83,550,786
1998	47,904,893	73,283,193	72,134,673	72,533,324	73,537,267	73,673,387	73,670,866	73,162,921	74,645,213	73,072,795	73,928,450	74,259,955	
1999	44,507,991	70,646,362	70,845,433	71,555,014	68,741,944	67,351,383	67,208,895	64,323,710	64,973,741	64,666,870	64,457,405		
2000	43,982,996	73,283,366	84,399,489	80,743,846	86,871,751	85,386,175	80,428,980	79,969,519	79,072,548	78,481,026			
2001	48,990,227	76,364,091	79,547,266	93,373,825	91,595,973	85,797,941	85,030,548	86,835,062	90,840,923				
2002	65,795,574	91,208,180	109,037,591	109,581,531	111,030,348	114,229,231	115,817,352	119,910,550					
2003	49,382,003	92,141,755	104,435,176	101,751,127	104,096,040	107,800,541	106,862,405						
2004	25,878,796	50,499,271	53,454,381	55,733,319	55,586,314	55,564,539							
2005	28,067,892	56,578,185	63,568,303	67,684,738	66,696,271								
2006	31,074,900	49,233,021	52,101,427	50,265,089									
2007	26,580,156	43,449,450	48,017,836										
2008	29,861,217	48,002,707											
2009	28,583,373												

Note:

FPIC Appendix B, Sheets 1 and 2





**Hurricane Loss Mitigation Study**  
**for**  
**Citizens Property Insurance Corporation**  
**High Risk Account**

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**Stephen A. Alexander, FCAS, MAAA**  
**6/6/2011**

The greatest risk to the financial solvency of Citizens Property Insurance Corporation (Citizens) is the large number of coastal residences in its High Risk Account (HRA) that have not been hardened against hurricanes. Seventy-five percent of the homes in the HRA do not have hurricane impact opening protection. Citizens could significantly reduce HRA losses by implementing a mandatory mitigation program funded by modest policyholder surcharges and premiums paid into the HRA. Furthermore, the Florida Hurricane Catastrophe Fund, HRA policyholders and Florida individuals and businesses would also benefit from reduced losses and assessments.

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## Executive Summary

Hurricane loss mitigation programs in Florida currently focus on providing substantial premium discounts. However, despite the availability of these discounts, only 25.0% of the homes insured in the Citizens Property Insurance Corporation (Citizens) High Risk Account (HRA) have hurricane impact opening protection. The other 75.0% of unprotected homes (228,423) are smaller, older and lower valued, and the home owners may be unwilling or unable to afford to mitigate them.

It is proposed that a mandatory hurricane loss mitigation program, funded out of annual policyholder surcharges of \$150 and HRA premiums, be adopted to mitigate these homes. No mitigation discounts would be granted under this proposed program. It is believed that this program could be implemented as an amendment to Citizens' Plan of Operation with the approval of the Financial Services Commission.

In addition to Citizens, the Florida Hurricane Catastrophe Fund (FHCF) would benefit from reduced reinsured losses under this program. Furthermore, Florida taxpayers would also benefit from reduced assessments; and HRA policyholders would benefit from reduced retained losses below their deductibles.

Assuming a seven-year implementation period and a useful life of the recommended mitigation measures of fifteen years, Citizens' expected internal rate of return is estimated to be 27.0%, and the internal rate of return to HRA policyholders is estimated to be 11.0% through savings in retained hurricane losses below deductibles.

Because of the 22-year time horizon for this program, it is possible that Citizens estimated 27.0% internal rate of return may be reduced by the private market "cherry picking" mitigated homes. However, this risk comes with the benefit of shrinking Citizens and transferring more risk to the private market.

If the average cost to mitigate each home is 25.0% greater than estimated, then Citizens' estimated internal rate of return is expected to be reduced to 17.0% and the estimated internal rate of return for HRA policyholders would be unchanged.

Adding hurricane impact opening protection to these homes and bracing gable ends is expected to reduce Citizens' average annual insured hurricane losses by \$419 per home and is expected to reduce HRA policyholders' average annual retained hurricane losses by \$132 per home.

The cost to provide steel braced steel garage doors, engineered plywood hurricane impact shutters and gable end bracing is estimated to be \$2,986 per home. If each HRA policyholder paid a surcharge of \$150 per year for seven years to help fund this program, the net cost to Citizens would be \$1,936 (\$2,986 - \$1,050), and the estimated payback period would be 4.6 years (\$1,936 / \$419).

Because of limited resources available to the Insurance Consumer Advocate, there is still some uncertainty about the average cost to mitigate each home. Therefore, it is recommended that further research, such as a pilot mitigation cost study, be conducted by Citizens before proceeding with the implementation of this program.

## Sensitivity Analysis

A sensitivity analysis was conducted of the impact of variations in annual policyholder surcharges and mitigation costs upon Citizens expected internal rate of return. The following table summarizes the results of this sensitivity analysis:

### Citizens Internal Rate of Return Sensitivity Analysis

Increase in Mitigation Costs	Surcharge		
	\$100	\$150	\$200
0.0%	21%	27%	35%
10.0%	18%	21%	28%
15.0%	16%	20%	25%
20.0%	15%	18%	22%
25.0%	13%	17%	20%

Citizens estimated internal rates of return decline with increases in mitigation costs, and they increase with increases in surcharges. The above table shows how an increase in the surcharge can be used to offset an increase in mitigation costs.

For example, if the policyholder surcharge is initially set at \$150 and mitigation costs are 10% more than expected, the expected internal rate of return declines from 27.0% to 21.0%. Citizens could offset this decline by raising the annual surcharge to \$200, which would raise its estimated internal rate of return to 28.0%. However, under such a scenario, the estimated internal rate of return to HRA policyholders would be reduced from 11.0% (Exhibit 4, Sheet 2, Row (24)) to 5.0%.

## Methods and Assumptions

### Pay-Back Period

Exhibit 1, Sheet 1 derives the estimated pay-back period of 4.6 years based on estimated average annual hurricane loss savings per home of \$419 and the estimated average one-time cost per home of \$2,986 to install engineered plywood shutters, steel braced steel garage doors and braced gable ends.

### Internal Rate of Return

Exhibit 4, Sheet 1 shows that the proposed program will provide Citizens with an estimated internal rate of return of 27.0%. It is assumed that the program would be implemented over a seven year period and that only the High Risk Account policyholders whose homes will be mitigated will be surcharged. It is also assumed that there will be no change in material and labor costs over the seven year implementation period. However, if labor and material costs increase by 2.0% annually; then the internal rate of return is expected to be reduced to 24.0%.

Exhibit 4, Sheet 2 shows that the proposed program will provide HRA policyholders with an estimated average internal rate of return of 11.0%. This return is based on an investment (surcharge) of \$150 per year for seven years and an estimated savings of \$132 per year (Exhibit 9, Row (18)) for 15 years for each policyholder. The \$132 estimated average savings per year, per policy is based on reduced estimated retained hurricane losses under the average HRA deductible of 2.6% (\$6,136) of the average Coverage A amount (\$240,086) (Exhibit 9, Rows (9) & (10)).

### Mitigation Costs

It is recommended that the following estimated average mitigation costs for windows, doors, garage doors and gable end bracing be confirmed through further research or a pilot study in which a representative sample of homes are mitigated. The average cost to mitigate is the single greatest unknown in this proposed program, and it is believed that this risk can be minimized through further research or a pilot mitigation cost study.

### Windows and Doors Mitigation Costs

The homes in the High Risk Account without hurricane impact opening protection average 1,733 square feet (Exhibit 5, Sheet1, Row (3)). Estimated average exterior door count is 4 per home and the estimated average number of windows is 21.

Square footage was taken from Citizens policy file data, but the door and window counts (Exhibit 5, Sheet1, Rows (1) and (2)) were estimated based on judgment and data from homes listed for sale on realtor.com of the approximate same square footage during the time period 4/29/2011 to 5/2/2011 for the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas.

To minimize costs, engineered “deployable” plywood shutters are selected as the least expensive option to protect windows and doors. The average cost for such shutters is estimated to be \$1,843 per home. This average estimated cost assumes that Citizens will negotiate volume discounts for materials at least equal to sales tax and shipping charges, and that overhead and profit margins will be minimal on large contracts to mitigate multiple homes. Material costs are based on Home Depot prices as of May 15, 2011 and judgment.

“Deployable” means that the homeowner will be required to store the shutters and mount them ahead of an approaching hurricane. It is assumed that the shutters will be coated with three coats of acrylic sealer to protect them from warping.

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### **Garage Door Mitigation Costs**

It is estimated that only 59.5% of the unmitigated homes in the HRA Account have garages (Exhibit 6, Sheet 1, Column (6)), based on homes listed for sale on realtor.com during the time period 4/29/2011 to 5/2/2011 for the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas. Furthermore, it is estimated that the homes with garages average 1.83 car capacity per home. It is assumed that all of these garage doors will require replacement with hurricane impact resistant steel garage doors and that these doors will be braced with one deployable vertical steel brace per car capacity.

Total cost for a one car hurricane impact steel garage door and vertical steel brace including installation is estimated to be \$1,075, and the total cost for a two car door is estimated to be \$1,830. Costs are based on internet published prices and assume that Citizens will be able to negotiate volume discounts at least equal to sales tax and shipping charges.

The average cost to mitigate garage doors (\$1,052) is a very significant portion of the total estimated average mitigation cost (\$2,986), and therefore, it is recommended that Citizens investigate less expensive ways to mitigate them, such as bracing existing garage doors with deployable 2x4 or 2x12 horizontal and vertical wood supports attachable to the interior of the doors.

### **Gable End Bracing Mitigation Costs**

According to Citizens' policy file data, 60.3% of homes needing opening protection mitigation have gable roofs (Exhibit 7, Column (4)). However, a review of homes listed for sale on realtor.com during the time period 4/29/2011 to 5/2/2011 for the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas suggests that approximately 75% of gable roofs in these areas are low pitch roofs (below 3 inches of rise for each 12 inches of span – 3/12 pitch) that would not benefit materially from bracing.

Therefore, it is assumed in this study that only 25.0% of gable roofed homes need bracing. The assumption that most of these gable roofs are 3/12 pitch or less should be confirmed via the proposed additional research or pilot study. Assuming that the average cost to brace two gable ends on a roof with greater than 3/12 pitch is \$600, the average cost to brace gable ends across all HRA Account homes needing mitigation is estimated to be \$90 (Exhibit 1, Sheet 1, Row (10)).



## Hurricane Model Simulations

Estimated average annual aggregate hurricane losses for the High Risk Account were supplied by Citizens using the AIR CLASIC/2 version 12.0.4, standard sea surface temp (long-term) event catalogue, including demand surge, but excluding storm surge. Citizens policy file data used for the computer modeling was valued as of December 31, 2010.

Two simulations were conducted, the first simulation assumed the current level of mitigation, and the second simulation assumed that all homes not having hurricane impact opening protection were upgraded to such level of protection and that all gable ends were braced (Exhibit 3). The difference in estimated average annual losses between the first and second simulations is assumed in this report to be the savings resulting from mitigation. It is assumed in this analysis that gable ends with less than a 3/12 pitch could not be easily braced from inside the home and moreover would not benefit materially from bracing.

Furthermore, it is assumed in this analysis that mobile-homes, apartments (tenants) and condo owners will not participate in this program. Consequently, only homes insured under the following policy forms were assumed to benefit from this program: HW2, DW2, DP1, DP3 and HO3. These policy forms represent 91.8% of the exposure in the High Risk Account without hurricane impact opening protection (Exhibit 1, Sheet 2, Row (9)).

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## HRA Policy Profile

The following table summarizes some risk characteristics of the HW2, DW2, DP1, DP3, & HO3 policies written in the HRA Account. This table shows that the homes without hurricane impact protection tend to be smaller, older and lower valued than the homes with opening protection.

Hurricane Impact Protection	Number of Homes	Percent of Homes	Insured Values	Percent Insured Values	Average Insured Value	Average Square Feet	Average Year Built	Average Premium
No	228,423	75.0%	82,961,635,989	63.4%	363,193	1,733	1971	1,993
Yes	76,225	25.0%	47,930,700,007	36.6%	628,806	2,279	1976	2,570
<b>Tot/Avg</b>	<b>304,648</b>	<b>100.0%</b>	<b>130,892,335,996</b>	<b>100.0%</b>	<b>429,651</b>	<b>1,870</b>	<b>1972</b>	<b>2,138</b>

The following table provides a more detailed breakdown by type of opening protection. This table shows that 13.8% of homes have lower levels of opening protection below hurricane impact, while 61.1% of homes have no opening protection.

Opening Protection	Total	%
Hurricane Impact	76,225	25.0%
Basic Impact	7,993	2.6%
Non-Impact	34,243	11.2%
None / Other	186,187	61.1%
<b>Total</b>	<b>304,648</b>	<b>100.0%</b>

## Conclusions and Recommendations

The economic viability of the proposed mitigation program depends upon its costs and benefits. The costs must be incurred initially and the benefits are expected to be accrued over a twenty two year period (seven year implementation period plus fifteen year useful life). Consequently, the loss of investment earnings due to the timing mismatch is an important consideration.

Citizens' estimated internal rate of return of 27.0% takes this mismatch into account and demonstrates that the proposed mitigation program is a sound investment opportunity, provided the estimated mitigation costs are reasonably accurate. Therefore, it is recommended that Citizens conduct further research, such as a pilot mitigation cost study, before proceeding with program implementation.

Since the average cost to replace and brace garage doors is considerable, it is recommended that Citizens investigate less expensive alternatives, such as bracing existing garage doors with deployable 2x4 or 2x12 horizontal and vertical wood supports on the interior of the doors. Furthermore, it is recommended that Citizens consider testing alternative mitigation measures at facilities such as the Institute for Business and Home Safety testing laboratory in Richburg, South Carolina.

If the decision is made to implement this program, then it is recommended that alternative implementation strategies be evaluated using hurricane loss modeling. For example, savings in assessments and reinsurance costs will probably be realized faster, if highly concentrated exposure areas such as Miami-Dade, Broward and Palm Beach counties are mitigated first.

Also, some consideration should be given to the timing of mitigation of homes requiring maximum mitigation (two car garages and gable roofs greater than 3/12 pitch) versus homes requiring minimum mitigation (no garages and flat roofs). Since Citizens does not currently collect the more detailed information on garages, garage doors, roof pitch and other information that would be relevant to the implementation of the proposed program, it is recommended that Citizens conduct a field survey of all of its HRA insured homes to gather this additional information.

Finally, it is recommended that more consideration be given to proper long-term storage and deployment of plywood shutters. Because of the considerable work involved in deploying heavy plywood shutters, consideration should be given to programs to assist those who would have difficulty deploying them, such as the elderly.

If no hurricanes occur, then Citizens will have expended a relatively small percentage of its premiums on this program while building considerable policyholder surplus. Alternatively, if hurricanes do occur, then this program is expected to materially reduce: 1) Citizens losses, 2) FHCF losses, 3) HRA Account policyholders retained losses and, 4) assessments on Florida taxpayers.

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Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 Policies

Average Payback Period

	Total	Average per Policy
(1) Number of HW2, DW2, DP1, DP3, & HO3 Policies without Hurricane Impact Opening Protection	228,423	
(2) Annual Hurricane Loss Savings for HW2, DW2, DP1, DP3, & HO3 Policies due to Mitigation	\$95,717,641	\$419
(3) Percent of HW2, DW2, DP1, DP3, & HO3 with Garages		59.5%
(4) Average Number of Doors per Garage		1.83
(5) Average Cost of a Braced Hurricane Impact Steel Garage Door		\$967
(6) Cost to Mitigate Garage Doors	\$240,365,444	\$1,052
(7) Percent without Hurricane Impact Opening Protection with Gable Roofs		60.3%
(8) Percent of Gable Roofs more than 3 / 12 Pitch		25.0%
(9) Cost to Brace Two Gable Ends		\$600
(10) Cost to Brace All Gable Ends	\$20,651,400	\$90
(11) Cost of Hurricane Impact Plywood Shutters	\$421,060,682	\$1,843
(12) Total Cost to Mitigate HW2, DW2, DP1, DP3, & HO3 Policies	\$682,077,526	\$2,986
(13) Annual Surcharge		\$150
(14) Number of Years to Surcharge		7.00
(15) Surcharge Revenue	\$239,844,150	\$1,050
(16) Net Cost to Mitigate HW2, DW2, DP1, DP3, & HO3 Policies	\$442,233,376	\$1,936
(17) Average Payback Period Including Surcharge (Years)	4.6	4.6

Notes:

- (1) Exhibit 1, Sheet 2, Row (3)
- (2) Exhibit 1, Sheet 2, Row (10)
- (3) Exhibit 6, Sheet 1, Row (6)
- (4) Exhibit 6, Sheet 1, Row (7)
- (5) Exhibit 6, Sheet 1, Column (5) Total
- (6) (3) x (4) x (5)
- (7) Exhibit 7, Column (4)
- (8) Based on judgment and data from homes listed for sale on realtor.com during time period 4/29/2011 to 5/2/2011 for the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas.
- (9) Based on judgment
- (10) (7) x (8) x (9)
- (11) Exhibit 5, Sheet 1, Row (19)
- (12) (6) + (10) + (11)
- (13) Based on judgment
- (14) Based on judgment
- (15) (13) x (14)
- (16) (12) - (15)
- (17) (16) / (2)

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 Policies

Annual Hurricane Loss Savings due to Mitigation

	PRW	PRM	Total	Average per Policy
(1) Number of all Policy Forms Personal Residential HRA Policies	248,328	155,534	403,862	
(2) Number of HW2, DW2, DP1, DP3, & HO3 Policies <u>with</u> Hurricane Impact Opening Protection	56,239	19,986	76,225	
(3) Number of HW2, DW2, DP1, DP3, & HO3 Policies <u>without</u> Hurricane Impact Opening Protection	135,388	93,035	228,423	
(4) Average Annual Hurricane Losses <u>without</u> Opening Protection and Gable End Bracing			\$874,292,882	
(5) Average Annual Hurricane Losses <u>with</u> Opening Protection and Gable End Bracing			\$769,978,100	
(6) Average Annual Hurricane Loss Savings from Mitigation			\$104,314,782	
(7) Exposure of All Personal Residential Policy Types without Hurricane Impact Opening Protection	62,315,097,275	28,097,964,639	90,413,061,914	
(8) Exposure of HW2, DW2, DP1, DP3, & HO3 without Hurricane Impact Opening Protection	57,073,561,755	25,888,074,234	82,961,635,989	\$363,193
(9) Percentage of Exposure of HW2, DW2, DP1, DP3, & HO3 Policies			91.8%	
(10) Annual Hurricane Loss Savings for HW2, DW2, DP1, DP3, & HO3 Policies due to Mitigation			\$95,717,641	\$419

Notes:

- (1) - HRA policy files as of 12/31/10
- (3)
- (4) - Exhibit 3, Row (5)
- (5)
- (6) (4) - (5)
- (7) - HRA policy files as of 12/31/10
- (8)
- (9) (8) / (7)
- (10) (6) x (9)

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 Policies

Citizens Internal Rate of Return Sensitivity Analysis

Increase in Mitigation Costs	Surcharge		
	\$100	\$150	\$200
0.0%	21%	27%	35%
10.0%	18%	21%	28%
15.0%	16%	20%	25%
20.0%	15%	18%	22%
25.0%	13%	17%	20%

Notes:

Based on varying mitigation cost and surcharge assumptions in Exhibit 4, Sheet 1

Office of the Insurance Consumer AdvocateCitizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation StudyModeled Annual Aggregate Hurricane Losses

(1)	(2)	(3)	(4)
Return Time	Current Level of Mitigation	Hurricane Impact Mitigated Openings and Gable Ends	Percent Change
10,000	\$66,238,675,029	\$61,996,888,686	-6.4%
5,000	55,402,262,742	51,389,505,186	-7.2%
1,000	38,505,700,983	35,093,664,150	-8.9%
500	31,669,328,773	29,033,294,737	-8.3%
250	23,602,348,386	21,478,793,692	-9.0%
100	14,434,048,544	12,757,376,830	-11.6%
50	9,310,693,241	8,168,210,293	-12.3%
25	5,175,131,488	4,519,762,453	-12.7%
20	4,163,695,473	3,619,331,103	-13.1%
10	1,969,708,223	1,690,410,687	-14.2%
(5) Average Annual Loss	\$874,292,882	\$769,978,100	-11.9%

## Notes:

High Risk Account, modeled average annual aggregate hurricane losses (includes possibility of multiple storms occurring in any one year), including both commercial and residential, AIR CLASIC/2 version 12.0.4, standard sea surface temp (long-term) event catalogue, including demand surge, but excluding storm surge, data as of December 31, 2010, provided by Citizens.

- (1) Expected average return time in years
- (2) No change in current level of mitigation
- (3) Upgrade all personal residential openings with less than hurricane impact protection to hurricane impact protection and brace gable ends on homes with gable ends with greater than 3/12 pitch. It is assumed that homes with less than 3/12 pitch would not benefit materially from bracing.



**Citizens Property Insurance Corporation**  
**High Risk Account Hurricane Loss Mitigation Study**  
**HW2, DW2, DP1, DP3, & HO3 Policies**

**Citizens Expected Internal Rate of Return**

(1) Surcharge / Policy	\$150																						
(2) Annual Savings (\$000,000s)	95.72																						
(3) Initial Investment (\$000,000s)	(682.08)																						
(4)	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	Total
(5) Savings	1	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67						205.11
(6)	2		13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67						205.11
(7)	3			13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67					205.11
(8)	4				13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67				205.11
(9)	5					13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67			205.11
(10)	6						13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67		205.11
(11)	7							13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	13.67	205.11
(12)	Total	13.67	27.35	41.02	54.70	68.37	82.04	95.72	95.72	95.72	95.72	95.72	95.72	95.72	95.72	95.72	82.04	68.37	54.70	41.02	27.35	13.67	1,435.76
(13) Surcharge Revenue		34.26	34.26	34.26	34.26	34.26	34.26	34.26															239.84
(14)																							1,675.61
(15) Investment	1	(97.44)																					(97.44)
(16)	2		(97.44)																				(97.44)
(17)	3			(97.44)																			(97.44)
(18)	4				(97.44)																		(97.44)
(19)	5					(97.44)																	(97.44)
(20)	6						(97.44)																(97.44)
(21)	7							(97.44)															(97.44)
(22)	Total	(97.44)	(97.44)	(97.44)	(97.44)	(97.44)	(97.44)	(97.44)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(682.08)
(23) Net Savings		(49.50)	(35.83)	(22.15)	(8.48)	5.19	18.87	32.54	95.72	95.72	95.72	95.72	95.72	95.72	95.72	95.72	82.04	68.37	54.70	41.02	27.35	13.67	993.53
(24) Internal Rate of Return		27.0%																					

Notes:

- (1) Exhibit 1, Sheet 1, Row (13)
- (2) Exhibit 1, Sheet 2, Row (10)
- (3) Exhibit 1, Sheet 1, Row (12)
- (5) - (2) / 7. Assumes mitigation program is implemented over seven year period and useful life of mitigation measures is 15 years
- (11)
- (13) (1) x Exhibit 1, Sheet 2, Row (3) Total
- (15) - (3) / 7. Assumes mitigation program is implemented over seven year period and useful life of mitigation measures is 15 years
- (21)
- (23) (12) + (13) + (22)
- (24) Based on cash flows in (23)

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 Policies

HRA Policyholders Expected Internal Rate of Return

(1) Surcharge / Policy	\$150																						
(2) Annual Savings (\$000,000s)	30.13																						
(3) Initial Investment (\$000,000s)	(239.84)																						
(4)	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	Total
(5) Savings	1	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30							64.57
(6)	2		4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30						64.57
(7)	3			4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30				64.57
(8)	4				4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30			64.57
(9)	5					4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30		64.57
(10)	6						4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	64.57
(11)	7							4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	64.57
(12)	Total	4.30	8.61	12.91	17.22	21.52	25.83	30.13	30.13	30.13	30.13	30.13	30.13	30.13	30.13	30.13	25.83	21.52	17.22	12.91	8.61	4.30	452.00
(13) Surcharge Revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(14)																							452.00
(15) Investment	1	(34.26)																					(34.26)
(16)	2		(34.26)																				(34.26)
(17)	3			(34.26)																			(34.26)
(18)	4				(34.26)																		(34.26)
(19)	5					(34.26)																	(34.26)
(20)	6						(34.26)																(34.26)
(21)	7							(34.26)															(34.26)
(22)	Total	(34.26)	(34.26)	(34.26)	(34.26)	(34.26)	(34.26)	(34.26)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(239.84)
(23) Net Savings		(29.96)	(25.65)	(21.35)	(17.04)	(12.74)	(8.43)	(4.13)	30.13	30.13	30.13	30.13	30.13	30.13	30.13	30.13	25.83	21.52	17.22	12.91	8.61	4.30	212.16
(24) Internal Rate of Return		11.0%																					

Notes:

- (1) Exhibit 1, Sheet 1, Row (13)
- (2) Exhibit 9, Row (19)
- (3) - 7 x (1) x Exhibit 9, Row (7)
- (5) - (2) / 7. Assumes mitigation program is implemented over seven year period and useful life of mitigation measures is 15 years
- (11) - (3) / 7. Assumes mitigation program is implemented over seven year period and useful life of mitigation measures is 15 years
- (21)
- (23) (12) + (22)
- (24) Based on cash flows in (23)

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study

Windows and Doors Average Plywood Shutter Costs

(1) Average Exterior Door Count				4
(2) Average Window Count				21
(3) Average Square Feet Living Space				1,733
(4) Material Description		Unit		
		Cost	Quantity	Extended
(5) 15/32 inch x 4 x 8 Foot Pressure Treated Plywood		\$24.00	10	\$ 240
(6) 19/32 inch x 4 x 8 Foot Pressure Treated Plywood		31.00	10	310
(7) Three Coats Acrylic Sealer, Gallons		25.00	8	200
(8) Sleeve Anchor Zinc Plated Steel Hex Nut Head 1/2 x 3 inch		1.50	135	203
(9) Plylox Clips		\$0.75	123	92
(10) Subtotal				1,045
(11) Overhead and Profit @ 15.0%				157
(12) Material Total				\$ 1,201
(13) Labor Description		Hours Estimated		
		Rate	Per	Hours
(14) Windows		\$25	0.75	16
(15) Doors		\$25	1.00	4
(16) Subtotal				494
(17) Overhead and Profit @ 30%				148
(18) Labor Total				642
(19) Total Windows and Doors				\$ 1,843

Notes:

- (1) - Based on judgment and data from homes listed for sale on realtor.com during time period 4/29/2011 to 5/2/2011 for the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas.
- (2) the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas.
- (3) Based on HRA policy files as of 12/31/10A for HW2, DW2, DP1, DP3, & HO3 policies without hurricane impact opening protection
- (4) - Based on Home Depot prices as of May 15, 2011. Assumes Citizens will be able to negotiate volume discounts at least equal to sales tax and delivery charges. Plylox clips are only designed for 15/32 inch plywood. Assumes 50% of windows and doors are recessed suitable for Plylox clips and 15/32 plywood; and 50% of windows and doors are flush mounted requiring sleeve anchors and 19/32 plywood.
- (9)
- (11) & Overhead and profit margins based on judgment assuming volume discounts based on contractors being awarded large contracts.
- (17)

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study

Windows and Doors Average Counts

	(1)	(2)	(3)	(4)	(5)	(6)
	Count	Width	Length	Sleeves	Clips	Plywood Sheets
Bedroom	2	15	70	12	12	1
	1	33	70	6	6	1
Bedroom	1	36	58	5	5	1
Bedroom	1	36	58	5	5	1
Master Bedroom	4	36	58	20	20	4
Master Bath	1	48	48	4	4	1
	1	46	12	4		0
Living Room	2	29	58	10	10	2
	2	32	70	12	12	2
	1	10	36	3	3	0
	1	48	12	4		0
Kitchen	1	44	70	6	6	1
Garage	2	36	70	12	12	2
Bath	1	46	12	4		0
<b>(6) Windows</b>	<b>21</b>					<b>16</b>
<b>(7) Doors</b>	<b>4</b>	<b>36</b>	<b>82</b>	<b>28</b>	<b>28</b>	<b>4</b>
<b>(8) Openings</b>	<b>25</b>			<b>135</b>	<b>123</b>	<b>20</b>

Notes:

- (1) Number of windows and doors based on judgment and data from homes listed for sale on realtor.com during time period 4/29/2011 to 5/2/2011 for the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas.
- (4) - 50% x (1) x (3) x 2 / 12. Assumes: 50% of openings require clips, 50% require sleeves, 12 inch spacing on length only. Short length, long width windows all require sleeves.

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study

Garage Door Assumptions

	(1)	(2)	(3)	(4)	(5)
	Number of		Car	Number of	
Garage Size	Homes	Homes with Garage	Capacity	Cars	Cost/Car
None	2,656	-	0	-	-
Carport	3,144	-	0	-	-
1 Car	2,741	2,741	1	2,741	\$1,075
2 Car	4,578	4,578	2	9,156	915
3+ Cars	1,186	1,186	3.1	3,677	915
<b>Total/Average</b>	<b>14,305</b>	<b>8,505</b>		<b>15,574</b>	<b>\$967</b>

(6) Percent of Homes with Garages	59.5%
(7) Average Car Capacity per Garage	1.83

Notes:

- (1) Data from homes listed for sale on realtor.com during time period 4/29/2011 to 5/2/2011 for the Miami, Fort Lauderdale, St. Petersburg and Palm Beach metro areas.
- (2) (1) for homes with 1 or more car garage doors
- (4) (1) x (3)
- (5) Exhibit 6, Sheet 2, Column (7)
- (6) (2) Total / (1) Total
- (7) (4) Total / (2) Total

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study

Garage Door Average Mitigation Costs

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Garage Size	Door	Door Installation	Vertical Support	Vertical Support Installation Cost	Average Cost	Cost per Door
One Car	\$635	250	140	50	\$1,075	\$1,075
Two Car	\$1,050	400	280	100	\$1,830	\$915

Notes:

Assumes Citizens will be able to negotiate volume discounts at least equal to sales tax and shipping charges. Assumes 1 vertical support per car. Door type CHI 2240, 24 gauge steel hollow, 9'x 6'6" and 16' x 7'6", from the following internet site:  
<http://ddmgaragedoors.com/installation-repairs/door-prices.php>

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 Policies

Homes with Gable Roofs

	(1)	(2)	(3)	(4)
Opening Protection	Other Roof Types	Gable Roofs	Total	Percent with Gable Roofs
Hurricane Impact	37,052	39,173	76,225	51.4%
Other	90,747	137,676	228,423	60.3%
<b>Total</b>	<b>127,799</b>	<b>176,849</b>	<b>304,648</b>	<b>58.1%</b>

Notes:

HRA policy files as of 12/31/10

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Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 Policies

Risk Characteristics

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Hurricane Impact Protection	Number of Homes	Percent of Homes	Insured Values	Percent Insured Values	Average Insured Value	Average Square Feet	Average Year Built	Average Multi-Peril Premium
No	228,423	75.0%	82,961,635,989	63.4%	363,193	1,733	1971	1,993
Yes	76,225	25.0%	47,930,700,007	36.6%	628,806	2,279	1976	2,570
Tot/Avg	304,648	100.0%	130,892,335,996	100.0%	429,651	1,870	1972	2,138

Notes:

HRA policy files as of 12/31/10



Office of the Insurance Consumer AdvocateCitizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 PoliciesAnnual Savings in Policyholder Retained Losses due to Mitigation

	Without Hurricane Impact Protection	With Hurricane Impact Protection	Total
(1) Insured Values	\$82,961,635,989	\$47,930,700,007	\$130,892,335,996
(2) Annual Hurricane Losses Before Hurricane Impact Protection	\$508,470,969	\$293,766,742	\$802,237,711
(3) Annual Hurricane Losses After Hurricane Impact Protection	\$412,753,329	\$293,766,742	\$706,520,070
(4) Savings from Mitigation	\$95,717,641	-	\$95,717,641
(5) Percent Savings in all Layers	18.8%	0.0%	11.9%
(6) Percent Savings in Lowest Layer	22.4%	0.0%	14.2%
(7) Number of Homes	228,423	76,225	304,648
(8) Coverage A Average Amount	\$240,086		
(9) Hurricane Deductible Average Amount	\$6,136		
(10) Hurricane Deductible Average Percent	2.6%		
(11) Annual Hurricane Losses without Hurricane Impact Protection	\$2,226		
(12) Zone III \$500 Deductible Factor	1.120		
(13a) Zone III 2% Deductible Factor	1.000		
(13b) Zone III estimated 2.6% Deductible Factor	0.964		
(14) Zone III 3% Deductible Factor	0.940		
(15) Annual Hurricane Losses per Home @ \$500 Deductible	\$2,586		
(16) Annual Hurricane Losses per Home @ \$0 Deductible	\$2,816		
(17) Annual Average Policyholder Retained Losses per Home	\$590		
(18) Annual Savings per Home in Policyholder Retained Losses due to Mitigation	\$132		
(19) Total Annual Savings in Policyholder Retained Losses due to Mitigation	\$30,133,305		

## Notes:

- (1) Exhibit 8, Column (4)  
(2) Total equals Exhibit 1, Sheet 2, Row (4) x Exhibit 1, Sheet 2, Row (9).  
(3) Total equals Exhibit 1, Sheet 2, Row (5) x Exhibit 1, Sheet 2, Row (9).  
(4) (2) - (3)  
(5) (4) / (2)  
(6) Exhibit 3, Column (4) for 10 year return time  
(7) Exhibit 8, Column (2)  
(8) - HRA policy files as of 12/31/10  
(9)  
(10) (9) / (8)  
(11) @ 2.6% deductible: (2) / (7)  
(12) - Citizens Wind Only Homeowners and Dwelling Underwriting Manuals, Rule 302 E. 2.6% deductible factor linearly interpolated.  
(14)  
(15) (11) x (12) / (13b)  
(16) (15) x (9) / ((9) - 500)  
(17) (16) - (11)  
(18) (6) x (17)  
(19) (7) x (18)

Office of the Insurance Consumer Advocate

Citizens Property Insurance Corporation  
High Risk Account Hurricane Loss Mitigation Study  
HW2, DW2, DP1, DP3, & HO3 Policies

Opening Protection

Opening Protection	Personal Residential Multi-Peril		Personal Residential Wind		Total	%
		%		%		
Hurricane Impact	19,986	17.7%	56,239	29.3%	76,225	25.0%
Basic Impact	2,278	11.4%	5,715	3.0%	7,993	2.6%
Non-Impact	11,438	10.1%	22,805	11.9%	34,243	11.2%
None / Other	79,319	70.2%	106,868	55.8%	186,187	61.1%
<b>Total</b>	<b>113,021</b>	<b>100.0%</b>	<b>191,627</b>	<b>100.0%</b>	<b>304,648</b>	<b>100.0%</b>

Notes:  
HRA policy files as of 12/31/10



**PROFESSIONAL SERVICES AGREEMENT BETWEEN THE STATE OF FLORIDA  
INSURANCE CONSUMER ADVOCATE  
AND  
MARTY SIMONS**

This Agreement ("Agreement") is entered into by and between the State of Florida Insurance Consumer Advocate ("ICA") and Martin M. Simons Public Actuarial Consultant located at [REDACTED] South Carolina 29260 ("Provider"),

**WHEREAS**, pursuant to section 627.0613, Florida Statutes, the ICA has a responsibility to represent consumers in rate filings for insurance matters; and

**WHEREAS**, the ICA has specific statutory authority to contract for consulting services; and

**WHEREAS**, the ICA has determined that it is in need of actuarial services and testimony on behalf of the ICA as described herein; and

**WHEREAS**, the Provider, as an independent contractor, has been selected to perform such services.

**NOW, THEREFORE**, the parties agree as follows:

**1. SERVICES AND DELIVERABLES.** The Provider shall, as requested by the ICA, provide services identified on the Statement of Work and Deliverables, attached as Exhibit

1. The Provider agrees to:

- (a) Provide timely consultation, analysis, and assist with testimony as assigned by the ICA.
- (b) Provide miscellaneous analysis, testimony, and other tasks within the scope of the Provider's expertise to respond to information as requested by the ICA.
- (c) Prepare for and assist ICA with testimony, as necessary.

**2. TERM OF AGREEMENT:** This Agreement shall begin upon execution and upon completion of the Statement of Work and accomplishment of the Deliverables or in one year, whichever first occurs. This Agreement may be renewed for a maximum of three years or up to a period equal to the term of the original Agreement, whichever is longer, at the option of the ICA. The renewal price is set forth in Consideration, Section 3. No other costs for the renewal may be charged. Any renewal is subject to the same terms and conditions as the original agreement and shall be contingent upon satisfactory performance evaluations by the ICA and subject to the availability of funds.

**3. CONSIDERATION:**

- a) All services, including testimony, shall be compensated at \$225 (two hundred twenty-five dollars) per hour; provided that all services and expenses, including travel, contemplated in this Agreement shall not exceed \$20,000 (twenty thousand dollars). The Provider shall invoice the ICA at the conclusion and

acceptance of the Deliverables by the ICA. In the event the \$20,000 threshold is reached and the parties elect to continue with the services described herein, the parties shall, in writing, execute an amendment to this Agreement.

- b) Billable hours shall be measured in 15 minute increments. Hourly compensation will be for actual time spent providing services to the ICA. Premium rates will not be paid for overtime work. Time while traveling to an alternate location will be compensated at 50 percent of the hourly rate in subsection a) above.
- c) Vendor Rights. Providers providing goods and services to an agency should be aware of the following time frames. Upon receipt, an agency has five (5) working days to inspect and approve the goods and services, unless the bid specifications, purchase orders or Contract specifies otherwise. An agency has 20 days to deliver a request for payment (voucher) to the Department of Financial Services. The 20 days are measured from the latter of the date the invoice is received or the goods or services are received, inspected and approved.
- d) If a payment is not available within 40 days, a separate interest penalty, computed at the rate determined by the State of Florida Chief Financial Officer pursuant to section 215.422, Florida Statutes, will be due and payable, in addition to the invoice amount, to the Provider. To obtain the applicable interest rate, please refer to <http://www.fldfs.com/aadir/interest.htm>. Interest penalties of less than one (1) dollar will not be enforced unless the vendor requests payment. Invoices which have to be returned to a vendor because of vendor preparation errors will result in a delay in the payment. The invoice payment requirements do not start until a properly completed invoice is received by the agency.
- e) A Vendor Ombudsman has been established with the Department of Financial Services. The duties of this individual include acting as an advocate for vendors who may be experiencing problems in obtaining timely payment(s) from a state agency. The Vendor Ombudsman may be reached at [REDACTED]
- f) Taxes. The ICA is exempted from payment of Florida state sales and use taxes and Federal Excise Tax. The Provider, however, shall not be exempted from paying Florida state sales and use taxes to the appropriate governmental agencies or for payment by the Provider to suppliers for taxes on materials used to fulfill its contractual obligations with the ICA. The Provider shall not use the ICA's exemption number in securing such materials. The Provider shall be responsible and liable for the payment of all its FICA/Social Security and other taxes resulting from this Contract.
- g) Expenses. Any expense incurred by the Provider for travel must be authorized by the ICA in advance. Travel expenses will be reimbursed to the Provider at a rate not to exceed that which is payable to State employees for travel and per diem as prescribed by section 112.061, Florida Statutes, and shall be submitted in accordance with said section. All other expenses, including expenses for the

gathering and presentation of exhibits, must be authorized by the ICA in advance and shall be paid in accordance with Attachment A.

- h) Payment Processing. All charges for services rendered or for reimbursement of expenses authorized by the ICA shall be submitted to the ICA in sufficient detail for a proper pre-audit and post-audit to be performed. All payments for professional services and authorized expenses, including travel expenses, will be paid to the Provider only upon the timely and satisfactory completion of all services and other units of deliverables and upon the written acceptance of said services and units of deliverables by the ICA's designated contract manager.
- i) Contingency. If the terms of this Agreement extend beyond the current fiscal year, the State of Florida's performance and obligation to pay under this Agreement is contingent upon an annual appropriation by the Legislature.

4. **Acceptance**. The ICA reserves the right to reject deliverables as outlined in the Scope of Work as incomplete, inadequate or unacceptable due in whole or in part to the Provider's lack of satisfactory performance under the terms of this Agreement. The ICA, at its option, may allow additional time within which Provider may remedy the objections noted by the ICA and the ICA may, after having given Provider a reasonable opportunity to complete or make acceptable said deliverables, declare this Agreement to be in default. All status reports must be submitted timely showing tasks or activities worked on, attesting to the level of services provided, hours spent on each task/activity, and upcoming major tasks or activities.

5. **Public Records**. All documents prepared pursuant to this Agreement are subject to Florida's Public Records Law. Refusal of the Provider to allow public access to such records as required by such law shall constitute grounds for unilateral cancellation of this Agreement.

6. **Agreement Modification**. This Agreement may be amended only by a written agreement between both parties subject to the provisions of chapter 287, Florida Statutes.

7. **Information and Data Security and Confidentiality**.

- a) Provider, its employees, subcontractors and agents shall comply with all security procedures of the Department of Financial Resources in performance of this Agreement. The Provider shall provide immediate notice to the ICA in the event it becomes aware of any security breach and any unauthorized transmission of State data or of any allegation or suspected violation of security procedures of the Department of Financial Resources. Except as required by law or legal process and after notice to the ICA, Provider shall not divulge to third parties any confidential information obtained by Provider or its employees, subcontractors or agents in the course of performing the services. Provider shall not be required to keep confidential information that is publicly available through no fault of Provider, material that Provider developed independently without relying on the State's confidential information, or information that is otherwise obtainable under state law as a public record.

- b) In the event of loss of any State data or record where such loss is due to the negligence of Provider or any of its subcontractors or agents, Provider shall be responsible for re-creating such lost data in the manner and on the schedule set by the ICA at Provider's sole expense.
- c) No ICA data or information will be transferred or stored offshore or out of the United States of America.
- d) Access to ICA data shall only be available to approved and authorized staff, including remote/offshore personnel, that have a legitimate business need. If that need changes, then access shall be removed promptly.
- e) Provider shall encrypt all data transmissions. Remote data access must be provided via a trusted method such as SSL, TLS, SSH, VPN, IPSec or a comparable protocol approved by the ICA.

**8. Termination.**

- a) The ICA or Provider may cancel this Agreement at any time for any reason. If the ICA cancels the Agreement, the Provider shall be paid only the amount due for deliverables that have been received and accepted by the ICA. The Provider shall be entitled to no damages beyond what is provided in this paragraph.
- b) This Agreement shall terminate upon the Provider's satisfactory completion of the services and other units of deliverables described by the ICA and upon satisfactory performance evaluations of the Provider by the ICA.
- c) All services performed by the Provider prior to the termination date of this Agreement shall be professionally serviced to conclusion in accordance with the requirements of the Agreement.
- d) As provided in section 287.058, Florida Statutes, the ICA may terminate the Agreement immediately in the event that the ICA requests in writing that the Provider allow public access to all documents, papers, letters, or other material subject to the provisions of Chapter 119, Florida Statutes, which are made or received by the Provider in conjunction with the Agreement, and the Provider refuses to allow such access. However, nothing herein is intended to expand the scope or applicability of Chapter 119, Florida Statutes, to the Provider. The Provider shall not be required to disclose to the public any proprietary copyrighted trade secrets or other materials protected by law as pursuant to section 119.07, Florida Statutes.
- e) If at any time this Agreement is canceled, terminated, or expires, and a contract is subsequently executed with a firm other than the Provider, the Provider has the affirmative obligation to assist in the smooth transition of Agreement services to the subsequent Provider. The Provider agrees to provide, for up to three (3) months after termination or until the subsequent provider is fully operational,

whichever occurs first, all reasonable termination assistance requested by the ICA to facilitate the orderly transfer of such services to the ICA or its designees. If the termination is not based upon Provider default, payment shall be made as provided in Consideration, Section 3.

f) Events of Default. Provided such failure is not the fault of the ICA or outside the reasonable control of the Provider, the following events, acts, or omissions, shall include but are not limited to, events of default:

- 1) Failure to pay any and all entities, individuals, and the like furnishing labor or materials, or failure to make payment to any other entities as required herein in connection with the Agreement;
- 2) The commitment of any material breach of this Agreement by the Provider, failure to timely deliver a material deliverable, discontinuance of the performance of the work, failure to resume work that has been discontinued within a reasonable time after notice to do so, or abandonment of the Agreement;
- 3) Employment of an unauthorized alien in the performance of the work;
- 4) The Provider makes an intentional material misrepresentation or omission in any materials provided to the ICA.
- 5) One or more of the following circumstances, uncorrected for more than thirty (30) calendar days unless within the specified thirty (30) day period, the Provider (including its receiver or trustee in bankruptcy) provides to the ICA adequate assurances, reasonably acceptable to the ICA, of its continuing ability and willingness to fulfill its obligations under the Agreement:
  - a. Entry of an order for relief under Title 11 of the United States Code;
  - b. The making by the Provider of a general assignment for the benefit of creditors;
  - c. The appointment of a general receiver or trustee in bankruptcy of the Provider's business or property;
  - d. An action by the Provider under any state insolvency or similar law for the purpose of its bankruptcy, reorganization, or liquidation;
  - e. Entry of an order revoking the certificate of authority granted to the Provider by the State or other licensing authority.

**9. Special Conditions.**

- a) The Provider agrees to permanently refrain from using or mentioning its association with the ICA in advertisements, letterhead, business cards, or similar materials. The Provider's services to the ICA may be generally described in the Provider's professional resume. The Provider may not give the impression in any manner that the ICA recommends or endorses the Provider.
- b) All contacts with the news media pertaining to the subject of this Agreement shall be referred to the ICA.
- c) Anything that is produced by or developed in connection with this Agreement shall remain the exclusive property of the ICA and may not be copyrighted,

patented, or otherwise restricted as provided by law. Neither the Provider nor any other individual employed under this Agreement shall have any proprietary interest in any product(s) developed or produced under this Agreement.

- d) This Agreement, and any referenced or attached addendum, embody the entire agreement of the parties. There are no other provisions, terms, conditions, or obligations. This Agreement supersedes all previous oral or written communications, representations or agreements on this subject. In any conflict between this Agreement and any referenced or attached addendum, the terms and conditions of this Agreement shall take precedence and govern. Acceptance of service or processing of documentation on forms furnished by the Provider for approval or payment shall not constitute acceptance of any proposed modification to terms and conditions.
- e) The Provider agrees that no funds received by it under this Agreement will be expended for the purpose of lobbying the Legislature or a state agency pursuant to section 216.347, Florida Statutes, except that pursuant to the requirements of section 287.058(6), Florida Statutes, during the term of any executed Agreement between the Provider and the state, the Provider may lobby the executive or legislative branch concerning the scope of services, performance, term, or compensation regarding this Agreement.
- f) The Provider is an independent contractor, and is not an employee or agent of the ICA.
- g) All contracted services are to be performed solely by the Provider and may not be subcontracted or assigned without the prior written consent of the ICA. The ICA may refuse access to or require replacement of any Provider employee, subcontractor or agent for cause, including but not limited to technical or training qualifications, quality of work, change in security status, or non-compliance with an ICA policy or other requirement. Such action shall not relieve the Provider of its obligation to perform all work in compliance with the Agreement.
- h) The respective obligations of the parties, which by their nature would continue beyond the termination or expiration of this Agreement, including without limitation, the obligations regarding confidentiality, proprietary interests, and limitations of liability, shall survive termination, cancellation or expiration of this Agreement.
- i) If a court of competent jurisdiction deems any term or condition herein void or unenforceable, the other provisions are severable to that void provision, and shall remain in full force and effect.
- j) Statutory Notices. The ICA shall consider the employment by any Provider of unauthorized aliens a violation of section 274A(e) of the Immigration and Nationality Act. Such violation shall be cause for unilateral cancellation of this Agreement. An entity or affiliate who has been placed on the public entity crimes list or the discriminatory vendor list may not submit a bid on a contract to provide any goods or services to a public entity, may not be awarded or perform work as a Provider, supplier, subcontractor, or consultant under a contract with any public entity, and may not transact business with any public entity pursuant to limitations under chapter 287, Florida Statutes.



- k) Compliance with Federal, State and Local Laws. Provider and all its agents shall comply with all federal, state and local regulations, including, but not limited to, nondiscrimination, wages, social security, worker's compensation, licenses, and registration requirements.
- l) MyFloridaMarketPlace. Pursuant to Fla. Admin. Code Rule 60A-1.030-.032, the Department of Management Services has instituted MyFloridaMarketPlace, a statewide eProcurement System ("MFMP System"). Unless exempted under Rule 60A-1.030-.032, each vendor doing business with the State of Florida shall submit reports and be assessed a Transaction Fee of one percent (1.0%), on its payments under this Agreement, which the Provider shall pay to the State pursuant to Fla. Admin. Code Rule 60A-1.031(2), F.A.C. The Provider shall receive a credit for any Transaction Fee paid by the Provider for the purchase of any item(s) if such item(s) are returned to the Provider through no fault, act, or omission of the Provider.
- m) Electronic Accessibility. When the agency is to develop, procure, maintain, or use electronic and information technology, it shall ensure that the electronic and information technology allows employees and members of the public with disabilities to have access to and use of information and data that is comparable to the access to and use of information and data by employees who are not individuals with disabilities. These require, e.g., screen enlargement and voice output, a built-in screen reader or products supporting assistive technology; increases in volume and/or alteration of the tonal quality or increase of the signal-to-noise ratio; if speech input, one alternative input mode; and those not requiring fine motor control or simultaneous actions. See 36 CFR Part 1194 based on section 508 of the Rehabilitation Act Amendments, 29 USC Sec. 794.

**10. Administration:**

- a) The ICA contract manager is [REDACTED] Insurance Consumer Advocate, telephone number [REDACTED] email address: [REDACTED]
- b) The Provider contract manager is [REDACTED]
- c) All written and verbal approvals referenced in this Agreement must be obtained from the parties' contract managers or designated representatives. Notices required to be in writing must be delivered or sent to the intended recipient by hand delivery, certified mail, or receipted courier and shall be deemed received on the date received or the date of the certification or receipt.

**11. Liability:** The ICA shall not assume any liability for the acts, omissions to act or negligence of the Provider, its agents, servants, and employees, nor shall the Provider disclaim its own negligence to the ICA or any third party.

This Agreement may be executed in counterparts, each of which shall be an original and all of which shall constitute the same instrument. Each person signing this Agreement

warrants that he or she is duly authorized to do so and to bind the respective party to the Agreement.

IN WITNESS WHEREOF, the ICA and Provider, by their duly authorized representatives, have executed this Agreement.



Insurance Consumer Advocate

Date: 9-6-11



Provider

Date: August 29 2011

## ATTACHMENT A

### EXPENSES

1. Reimbursement of costs for such items as exhibits, transcripts and witness fees requires prior oral authorization by the ICA and shall be reimbursed based upon documented third party vendor charges. The ICA shall not pay for firm surcharges added to third party vendor charges.
2. Routine expenses such as local phone calls, local facsimile transmissions, scanning, routine copy work, local travel expenses, printed library materials and local courier, word processing, clerical or secretarial services are overhead and will not be separately compensated. All travel must be pre-approved and comply with the requirements of section 112.061, F.S.
3. Non-routine office overhead expenses such as long distance phone calls, long distance facsimile transmissions, long distance courier services, postage, bulk mailings, bulk third party copying, blueprints, x-rays, photographs and computer-assisted legal research services must be justified to the ICA and shall be reimbursed based on documented third party vendor charges. If these charges exceed \$500.00 per fiscal year, prior written approval from the ICA must be obtained. In-house bulk mailings and bulk copying expenses must be supported by usage logs or similar documentation. Firm surcharges are not reimbursable.
4. The Provider shall only bill the ICA for a proportionate share of the cost of legal research, attending hearings, or engaging in client representation of any type, which is applicable to other clients.

### FORMAT FOR INVOICES

Within 30 days of service provision, each statement for fees and costs shall be submitted in a format that includes, at a minimum, the following information:

- a. Case name and number, if applicable, or other legal matter reference
- b. Invoice number for the particular bill
- c. Provider taxpayer identification number
- d. Provider and ICA Contract Managers names
- e. Inclusive dates of the month covered by the invoice
- f. Itemization of the date; hours billed; a concise, meaningful description of the services rendered, with sufficient detail to enable the ICA to evaluate the services rendered and costs; the person(s) who performed the services for each day during which the Provider performed work; their hourly rate; and any billing rate that is for some reason different from the normal hourly rate; i.e., time while traveling.
- g. A listing of all invoiced costs to be accompanied by copies of actual receipts.
- h. The total of only the current bill. Prior balances or payment history should be shown separately, if at all.
- i. A certification statement, signed by the Provider's contract manager that reads, "I certify that all costs and fees claimed for payment are accurate and were performed in furtherance of the Agreement between this Provider and the Insurance Consumer Advocate."
- j. Any other information as may be requested by the ICA's Contract Manager.

## OTHER AVAILABLE SERVICES

Upon receiving approval from the ICA, the Provider shall use existing ICA agreements, when available and cost effective, to acquire services (e.g., computer-assisted legal research) and the assistance of professionals (e.g., court reporters, expert witnesses) at reduced rates.

## SPECIAL CONDITIONS

1. The Provider will make affirmative efforts to achieve cost effectiveness by limiting travel, streamlining processing, using printed forms, using the appropriate level of staff experience required by task, and taking other actions to improve efficiency.
2. Provider agrees that all documents shall be promptly returned at the termination of the Provider's involvement in the case or matter at hand.
3. The Provider will provide immediate notice by telephone regarding significant developments which will likely result in media inquiries.
5. Each Provider who is under contract to provide services for the state or a state agency shall, from the inception of the contractual relationship until at least 4 years after the contract expires or terminates, maintain detailed current records, including documentation of all expenses, disbursements, charges, credits, underlying receipts and invoices, and other financial transactions that concern the provision of such services. The Provider shall make all such records available for inspection and copying upon request in accordance with Chapter 119, Florida Statutes.
6. Pre-approved travel must comply with the requirements described below.

## TRAVEL INSTRUCTIONS

1. Provider shall complete and obtain Contract Manager approval of the **Authorization to Incur Travel Expense** before travel.
2. Prior to travel using an automobile, the Provider shall compare the state Rental Car rate (through the ICA's Contract Manager) to Provider's cost using a personal vehicle. Personal vehicle travel will be reimbursed at Rental Car rates if Rental Car rates are lower than the cost to the Provider associated with use of a personal vehicle.
3. Hotel rates over \$150 and rental car upgrades over Class B require prior Contract Manager approval.
4. Review section 112.061, F.S. to determine meal reimbursement rules and per diem allowances.
5. To expedite processing of reimbursement for travel for the State, carefully complete the **Voucher for Reimbursement of Travel Expenses**, obtainable from the Contract Manager, as follows:
  - a) Include the approved Authorization to Incur Travel form.
  - b) Attach copies of receipts for expenses.
  - c) Make sure that all receipts are itemized and clearly show the charges.
  - d) Make sure all required signatures are obtained and that names are clearly legible.
  - e) Provide a justification for Hotel Rates over \$150.00.
  - f) Provide a justification for Rental Car Upgrades over Class B.