THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

CITIZENS PROPERTY INSURANCE CORPORATION

February 1, 2009
(amended July 14, 2009)

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EXAMINER IN CHARGE:
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TABLE OF CONTENTS

PURPOSE AND SCOPE OF EXAMINATION 1
OPERATIONS REVIEW 2
GENERAL OPERATIONS 3
CLAIMS REVIEW 3
AGENT PRACTICES 8
COMPLAINTS REVIEW 10
UNDERWRITING AND RATING REVIEW 11
DEPOPULATION 15
INVESTMENTS 16
INFORMATION SYSTEMS 17
REINSURANCE 19
PENDING LITIGATION 20
EXAMINATION REPORT SUBMISSION 20

PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 624.3161 Florida Statutes, a market conduct examination of Citizens Property Insurance Corporation (Citizens) was performed by Examination Resources, LLC and the Office. The scope period of this examination was May 1, 2005 through June 30, 2008. The examination began July 21, 2008 and ended October 9, 2008.

The purpose of this market conduct examination was to determine Citizens' compliance with Florida Statutes, the Florida Administrative Code, its plan of operation, and its internal operations procedures. Pursuant to Section 627.351(6)(k), Florida Statutes, this report is being prepared for submission to the President of the Senate and the Speaker of the House of Representatives of the Florida Legislature.

An operational review of current systems and controls was performed including evaluation of the Citizens' processes for complaint handling, agency appointments, general operations, reinsurance, corporate records, depopulation, claims handling, premiums, investments, underwriting, rates, information systems, and pending litigation involving the company. Emphasis was placed on identifying processes with material weaknesses.

During the planning and review phases of this examination, Citizens provided numerous audit reports testing its system of internal controls. Among those was a report from the independent CPA firm Carr, Riggs & Ingram, LLC. That firm performed extensive testing of controls as part of its 2007 Financial Audit, and found no significant problems. Additionally, Citizens' Internal Audit Department performed testing of internal controls, once again without observing any significant issues.

Due to the extensive testing of internal controls performed by Citizens and by Carr, Riggs & Ingram, LLC with similar findings of no significant problems, this examination confirmed the accuracy of those findings and focused primarily on other service and compliance issues.

Citizens records were examined at its home office, located at 101 N. Monroe Street, Suite 1000, Tallahassee, Florida. In reviewing materials for this report, the examiner relied on documents provided by Citizens.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company. The files examined were selected systematically from data files provided by the Company using Microsoft Excel's "random sample" selection process. Procedures and conduct of the examination were in accordance with the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners.

OPERATIONS REVIEW

Corporate Records

Citizens was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes, as amended in 2002 by Senate Bill 1418 and House Bill 385 (the Act), to provide certain residential property and casualty insurance coverage to qualified risks in the State of Florida. The intent of the legislation was that property insurance be provided through Citizens to applicants who are unable to procure insurance through the voluntary market. Citizens was formed from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) and the Florida Windstorm Underwriting Association (FWUA). The FRPCJUA was renamed Citizens Property Insurance Corporation and the FWUA rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Citizens is not required to have a certificate of authority issued by the Office.

Citizens operates under the supervision of an 8 member Board of Governors (Board) pursuant to a Plan of Operation. Florida's Governor, Chief Financial Officer, Speaker of the House and President of the Senate each appoint 2 individuals as members of the Board for 3 year terms. Each Board member serves at the pleasure of his or her appointing officer.

The examination testing procedures included:

- Reviewing the Plan of Operation;
- Reviewing Board and Committee Meeting Minutes;
- Verifying Citizens has a procedure in place to ensure that management is filing financial interest statements;
- Reviewing reports of both external and internal audits that have been performed;
- Reviewing detailed Information Services and Planning Questionnaires completed by Citizens at the request of the examiners;
- Reviewing Citizens' Organizational Chart; and,
- Determining compliance with the Office's prior examination recommendations.

Examination Finding

1. At the time of the examination, Citizens could not document that financial interest disclosure statements of six (6) governors and three (3) senior managers were filed in 2008 as required by Section(s) 112.3145 and 627.351(6)(d)3, Florida Statutes.

   Recommendation: Citizens should establish and enforce procedures to ensure financial interest disclosure statements are filed by everyone required to file.

   Citizens' Response: Citizens subsequently furnished statements of all required financial disclosure forms for 2008.

GENERAL OPERATIONS

This section addresses General Expense Payment Guidelines, Controls over Borrowed Money, and Compliance with the recommendations made in the prior examination report completed by the Office. No exceptions were noted in any of these areas. The recommendation from the Office's prior examination, regarding lack of segregation of duties, was retested by examiners and found to have been addressed and corrected.

There were no material problems found by Carr, Riggs & Ingram, LLC with Citizens' system of controls in the extensive control testing that was performed as a part of the 2007 annual audit. A modest review was conducted to verify the findings of the independent auditors with a minimal amount of additional re-testing. Our findings were consistent with those of the previous auditors. There were no material control problems and the system of controls in place appears to be functioning properly. Controls tested include:

- Segregation of duties in Accounts Payable;
- Implementation of a check approval hierarchy based on the check amounts;
- Manual processing of checks in excess of $10,000; and,
- Rejection of duplicate invoices submitted for payment.

Citizens has implemented a Quality Assurance Program and conducts Compliance Unit Audits in order to improve its operations and customer service. The reviews include claim, underwriting, and customer service functions as well as agent compliance and complaint handling. Citizens has implemented extensive educational and training programs for its staff and agency force. These programs have had a positive effect in improving workflow and service levels, contributing to a trend toward fewer consumer complaints and improved consumer contact times.

CLAIMS REVIEW

While the claims handling process involves many factors which could be evaluated, the primary focus of the review by the Office was on Citizens' effort to promptly handle claims by either paying all that is owed to the claimant (without overpayment of the claim) or by promptly declining payment for a valid reason.

Open and Closed Claims Statistics

The following table is a breakdown of claims by type as of July 1, 2008.

Type of Claim	Number of Claims	Claims Open	Claims Closed	Closed with Payment	Closed without Payment
Hurricane Charley	9,144	26	9,118	3,245	5,873
Hurricane Frances	22,308	17	22,291	6,179	16,112
Hurricane Ivan	5,978	12	5,966	3,353	2,613
Hurricane Jeanne	11,497	27	11,470	4,100	7,370
Hurricane Katrina	24,633	340	24,293	15,386	8,907
Hurricane Wilma	157,440	2,771	154,669	120,405	34,264
All other claims	122,283	9,334	112,949	73,673	39,276
Totals	353,283	12,527	340,756	226,341	114,415

The following tables are breakdowns of the number of days open and the number of days to close for claims as of July 1, 2008.

Days Open				
Type of Claim	**0 - 30**	**31 -60**	**61 - 90**	**Over 90**
Hurricane Charley	3	2	1	20
Hurricane Frances	2	0	0	15
Hurricane Ivan	2	1	0	9
Hurricane Jeanne	1	3	0	23
Hurricane Katrina	1	1	1	337
Hurricane Wilma	115	54	53	2,549
All other claims	3,000	1,316	720	4,298

Days to Close				
Type of Claim	**0 - 30**	**31 -60**	**61 - 90**	**Over 90**
Hurricane Charley	364	185	95	5,990
Hurricane Frances	556	219	178	16,321
Hurricane Ivan	348	143	80	2,815
Hurricane Jeanne	442	275	176	7,446
Hurricane Katrina	9,680	6,128	985	1,609
Hurricane Wilma	31,129	42,112	25,414	10,346
All other claims	41,929	19,219	9,267	25,608

The following table shows a breakdown of reopened claims as of July 1, 2008.

Type of Claim	Number of Reopened Claims	Reopened claims with additional Payment	Average amount of additional Payment
Hurricane Charley	2,484	1,533	$39,801
Hurricane Frances	5,017	2,777	$40,825
Hurricane Ivan	2,581	1,597	$98,702
Hurricane Jeanne	3,003	1,551	$25,992
Hurricane Katrina	5,891	4,028	$16,300
Hurricane Wilma	45,669	35,271	$23,698
All other claims	23,231	13,469	$19,225
Totals	87,876	60,226	$264,543

In 2005 Citizens implemented the Claims Tracking System (CTS) to organize and consolidate the multiple databases acquired when Citizens was established. This significantly improved the claims handling process by placing most of the documentation in a single data base. Claims that were handled prior to the implementation of CTS incurred handling delays due to the need to review multiple databases. Claims handled during the process of converting to CTS required scanning and pasting data into the CTS with continued handling inefficiencies. However, at present the claim documentation passes directly and efficiently into the CTS system, eliminating previous handling delays caused by inefficiencies.

Citizens has contracts with multiple independent claims handling vendors. A review process is performed on each claim by the Company's internal claims examiners to confirm the appropriateness of the recommendations made by the independent claims adjusters. Because a significant amount of claims handling is performed by numerous contracted parties at multiple locations rather than by Company employees, there are some inconsistencies in the process and how the results are reported. Those inconsistencies are minimized via Citizens' efforts in providing training and claims handling guidance to its vendors. The Claims Tracking System is utilized by the authorized independent vendors to expedite the claims handling process and to obtain timely issuance of claim payments.

The examination testing procedures included:

- Reviewing Citizens' claim handling procedures;
- Obtaining a list of the population of all claims reported during the scope period;
- Making random selections from the overall population for each of the 4 groups of claims reviewed;
- Reviewing policy records for each claim selected to confirm that coverage was applicable; and,
- Reviewing the entire claim file for each selected claim to confirm that claims handling met all statutory requirements and complied with Citizens' internal procedures.

Examination Findings

The general claims handling review by the Office consisted of a review of 25 sinkhole claims and 100 non-specific claims selected randomly from the entire population of claims for homeowners, mobile homeowners, condominiums and condominium associations which were opened or reopened during the scope of the review.

There were 13 instances where deviations from written procedures were identified. They are as follows:

1. There were 2 deviations from procedure related to the incorrect application of deductibles; one resulted in an overpayment of $5,000 and the other was an incorrect indication of the deductible amount in the claim paperwork. However, the correct claim payment was made.

   Recommendation: Citizens should ensure that the correct deductible is applied in all claims.

   Citizens' Response: Citizens currently has in place required Adjuster training that addresses proper deductible application. Additionally, a standardized file review process is now in place to ensure compliance with the policy requirements and Citizens' claim handling guidelines for correct deductible application.

2. There were 3 deviations from procedure related to Citizens' failure to provide notices of the Right to Mediation.

   Recommendation: The mediation process was established to provide an informal forum for assisting parties electing this method of resolving their claim disputes. At any point, if an insured expresses concern regarding a claim settlement, Citizens should provide a notice of Right to Mediation in compliance with Section 627.7015, Florida Statutes.

   Citizens' Response: Citizens currently has in place required Adjuster training that addresses Florida Statute 627.7015, which deals with mediation as an alternative procedure for resolution of disputed property insurance claims. This training includes the requirement to notify the insured of their right to participate in the mediation program at any point when the insured expresses dissatisfaction with a claim settlement in an amount over $500. Additionally, a standardized file review process is now in place to ensure compliance with the Statute and Citizens' claim handling guidelines for notification of an insured's right to mediate.

3. There were 6 instances of deviations from procedure due to the use of an unlicensed adjuster. These instances occurred during the 2004 and 2005 storm

seasons, when claims were frequently being handled by out of state adjusters with emergency licenses, making confirmation of licensure difficult.

Recommendation: The Department of Financial Services (DFS) has an on-line database to verify the license status of an adjuster. Procedures should be established to ensure that Citizens is using licensed insurance adjusters in compliance with Section 626.112, Florida Statutes.

Citizens' Response: A process is currently in place whereby license status is checked via the DFS website database for all independent adjusters as they are brought in to do work for Citizens to ensure they are in statutory compliance

4. There were 2 instances noted involving mobile home claims in which the settlement was on a total loss basis, but the policy was not cancelled and the unearned premium was not returned to the insured. There appears to be no set procedure established by Citizens for this situation.

   Recommendation: Citizens should review the policies involved for possible refund of the unearned premium. Citizens should establish and implement a procedure to ensure that whenever a mobile home is determined to be a total loss that the policy is reviewed for cancellation.

   Citizens' Response: A process is currently in place to forward notification from Claims to Underwriting in the event of a total loss on a mobile home so the policy can be reviewed by Underwriting.

Claims Acknowledgement

One hundred randomly selected non-specific claim files were reviewed to determine compliance with Citizens' claim acknowledgement requirements.

Examination Findings:

1. Citizens' claim handling procedures require contact with the insured or claimant within 2 days acknowledging the report of a claim. There were 69 deviations from procedure found in the general claims review of the 100 claim files. However, only 24 of those deviations were for acknowledgements that exceeded the 14 day period permitted in Rule 69O-166.024, Florida Administrative Code. The majority of these deviations occurred during the 2004 and 2005 storm seasons, when an extremely high influx of claims was experienced. In many of the files reviewed there was no documentation to identify when the initial contact was made. This may have inadvertently resulted in timely acknowledgements being identified as tardy. Our review indicated there has been a great improvement in contact times since that earlier period.

Recommendation: Citizens relies on the assigned independent adjuster to make first contact with the insured. Documenting direct contact by Citizens with the insured and claimant rather than relying solely on the independent adjuster may facilitate consistency in bringing the contact times within the desired timeframe. Procedures should be enforced to ensure that all claims are acknowledged within 2 days and the file properly documented regarding the contact as specified in Citizens' procedures.

Citizens' Response: Citizens currently has in place required Adjuster training that addresses all aspects of Rule 69O-166.024 of the Florida Administrative Code, which requires insurers to promptly respond to communications with respect to claims and to implement standards for the prompt investigation of claims, as well as Citizens' requirement of initial contact within 2 days. Additionally, a standardized file review process is now in place to ensure compliance with the Rule and Citizens' claim handling guidelines.

The following table shows the specific results:

Days to Acknowledge				
0 - 2	**3 – 14**	**15 - 45**	**46 – 90**	**Over 90**
24	52	20	3	1

Hurricane Wilma Claims

A review was made of 100 Hurricane Wilma claims, 50 randomly selected claims which were not subject to recovery from the Florida Hurricane Catastrophe Fund (FHCF) and 50 randomly selected claims which were subject to recovery. The purpose of this review was to identify if there were any discernable differences in Citizens' handling of claims before and after eligibility for FHCF reimbursement. While deviations from Citizens' procedures were sometimes noted in the review, they generally appeared to occur on an individual, unrelated basis rather than as the result of systemic difference in handling related to the two groups. There was no discernable difference between how the two groups were handled.

Of the 50 reviewed Hurricane Wilma claims that were subject to possible recovery from FHCF, 26 were found to have been reopened following the involvement of a Public Adjuster.

AGENT PRACTICES

Citizens is a residual market and does not employ a system to actively seek business. It focuses on communications, training and compliance to facilitate its agents customer service efforts. Citizens uses independent agents for its sales force and currently has approximately 9,000 appointed agents in over 6,000 locations. Agents must hold an active 0220 or 2044 Florida Resident Agent's License or an active 0920 or 9044 Non-

Resident Agent's License. Agents must be in good standing with the Department of Financial Services (DFS), and at the time of appointment have an affiliation with at least one authorized insurer writing new personal residential, commercial residential or commercial non-residential property coverage in Florida pursuant to Section 627.351 (6) (c) (14), Florida Statutes. Prior to appointment with Citizens an agent must achieve a passing score on 3 technical testing modules and a Compliance and General Rules testing module that are unique to Citizens.

The examination testing procedure included:

- Reviewing the program for the utilization of agents, including the appointment and approval process;
- Reviewing the flow of operations for weaknesses in controls;
- Reviewing a sample of agent appointment agreements;
- Reviewing and documenting that agents in the underwriting policy review sample were both licensed and appointed by Citizens; and,
- Reviewing and documenting the procedures for commission payments.

Examination Finding

1. Citizens provided detailed commission processing information and documentation of its commission tracking. Commission records are written to the database whenever a transaction occurs on a risk. Prior to the disbursement of commission checks, the Commission Statement Register is reconciled with the Written Premium Register and Fees Detail report. In the event these records do not reconcile, an inquiry is initiated in Citizens' Team Track information technology system. The commission checks are not disbursed until these two records reconcile. Once reconciled, clerical personnel in the accounting department initiate the process of batch printing the checks. This process is accomplished strictly through system generated activity and no manual intervention is permitted. When that is accomplished, there is no documented approval by management indicating oversight of the decision to print and disburse the checks.

   Recommendation: Where appropriate Citizens should establish procedures requiring managerial level approval for the authority to initiate the printing and distribution of commission checks and the authorization should be clearly documented.

   Citizens' Response: Commission disbursements are accounted for in the General Ledger which is reviewed by the General Ledger Manager, the Assistant Controller and the Controller. Citizens believes there are extensive and sufficient security and tracking controls within their system and processes.

COMPLAINTS REVIEW

Complaints originate from different sources: Florida Regulatory, Legislative and Executive offices as well as directly from consumers via mail or Citizens' website. Incoming complaints are recorded in the complaint log by an assistant and are then referred to a service specialist. If the specialist cannot resolve the issue, the specialist consults with a subject matter expert for handling (claims adjuster, underwriter, etc.). A written response is prepared by the Consumer Services Department and sent to the party making the inquiry. Complaint handling is documented in the complaint log and the appropriate policy administration system(s). Plans to implement a new tracking system are being finalized with the vendor with the system to be implemented early in the 1st quarter of 2009 in order to further improve Citizens' complaint resolution process,

The following table shows the number of complaints received by Citizens by year during the scope of the examination:

Year	Number of Complaints
5/1/05 to 12/31/05	1,485
2006	2,377
2007	2,131
2008	1,165
Totals	7,158

The examination testing procedure included:

- Reviewing Citizens' complaint handling procedures;
- Reviewing the complaint log of all complaints received during the scope of the examination; and,
- Reviewing a randomly selected sample of 100 complaints from the total population of complaints during the scope of the examination.

Examination Findings

1. Citizens failed to provide a response to 3 of 100 inquiries by the Department of Financial Services, Division of Consumer Services within 21 days as required by Rule 69O-166.025, Florida Administrative Code.

   Recommendation: Citizens should implement controls to ensure responses to Department of Financial Services, Division of Consumer Services inquiries are timely.

   Citizens Response: Citizens has implemented controls to ensure that responses to the Department of Financial Services, Division of Consumer Services, are timely by adopting a corporation-wide Consumer Complaints Policy and Procedure.

2. Citizens did not provide premium refunds within 15 working days following cancellation as required by Rule 69O-167.001, Florida Administrative Code, in 2 of 100 complaints reviewed.

   Recommendation: Citizens should implement controls to ensure that refunds are made in a timely manner.

   Citizens Response: The reviewed files that led to this recommendation were handled in 2006 and 2007. Citizens has since re-examined workflows and procedures related to cancellations across the Corporation. Procedures and controls have been revised and reinforced to ensure that cancellations are handled by staff within timeframes that comply with Rule 69O-167.001, Florida Administrative Code, requiring refunds be made within 15 working days of the effective date of cancellation.

3. Citizens did not make a settlement payment within 20 days as required by Section 627.4265, Florida Statutes, on 3 of the 100 complaints reviewed.

   Recommendation: Citizens should implement controls to ensure settlement payments are made in a timely manner.

   Citizens Response: Citizens currently has a manual process in place to track these settlement payments but is in the process of creating a system generated tracking process in its Claims Tracking System.

4. Citizens did not act promptly as to communications with respect to claims on 1 out of the 100 complaints reviewed as required by Rule 69O-166.024, Florida Administrative Code.

   Recommendation: Citizens should implement controls to ensure they act promptly as to communications with respect to claims.

   Citizens Response: Citizens currently has a manual tracking system in place but is in the process of implementing an electronic tracking system to ensure all communications are timely and in compliance with the Rule and Citizens' claim handling guidelines.

UNDERWRITING AND RATING REVIEW

As a residual market program, new applications to Citizens must include an agent certification acknowledging that any policy may be taken out, assumed or removed from Citizens, and may be replaced with a policy from an authorized insurer that may not offer identical coverage. New applications also include applicant affirmation acknowledging that the application may be selected and coverage issued by an authorized insurer other

than Citizens, unless the premium for coverage from the authorized insurer is more than 15% greater than the premium for comparable coverage from Citizens. Existing policyholders have the option of remaining with Citizens regardless of the premium differential with an authorized insurer. This is consistent with Florida Statutes as well as Citizens' Plan of Operation and Underwriting Rules and Procedures. In the sample reviewed, Citizens has been following its procedures to determine eligibility for coverage. Citizens has implemented takeout procedures that are described in the depopulation section of this report.

One hundred and ten (110) randomly selected files were reviewed. These files included 97 personal lines residential property insurance policies, 3 commercial property insurance policies and 10 individually rated commercial property insurance policies.

The examination testing procedure included:

- Reviewing Citizens' underwriting rules, practices and rates utilized during the scope period;
- Reviewing Citizens' Plans of Operation during the scope period;
- Reviewing randomly selected files to determine eligibility, compliance with Citizens' rule and rate filings, Florida Statutes, and Citizens' Plan of Operation; and,
- Reviewing randomly selected files to verify compliance with prior examination and audit underwriting recommendations.

Examination Findings:

Fifty-six (56) deviations involving 36 policy files were noted as follows:

1. Thirty-two (32) deviations were noted for failing to use the form prescribed by the Office to notify applicants and policyholders of personal lines residential property insurance policies of the discounts related to wind loss mitigation efforts.

   Recommendation: Citizens should implement use of the form prescribed by the Office to notify the applicant or policyholder of any personal lines residential policy at the time of issuance of the policy and at each renewal, of the availability and the range of premium discounts for hurricane loss mitigation.

   Citizens' Response: Citizens believes these 32 deviations were beyond its control and indicates that Class C opening protection is not included in the Office's promulgated wind mitigation credit tables and therefore not contemplated in the required form prescribed by the Office. Citizens further indicates it has taken appropriate action on this issue, in light of the statutory rate freeze and its more expansive wind mitigation credit table.

2. Six (6) deviations were noted for failing to follow underwriting rules relating to the eligibility and issuance of personal lines residential policies. These included 4

instances where Citizens either failed to obtain a flood insurance waiver and failed to verify flood insurance, 1 instance where a replacement cost policy was issued for less than 90% of replacement cost, and 1 instance in which a policy was issued on a dwelling over 50 years old without updates. This does not comply with Section 627.0651(13), Florida Statutes.

Recommendation: Citizens' underwriters should follow all underwriting rules and guidelines.

Citizens' Response: In three of four errors for failure to verify flood insurance the only missing information was the flood insurance policy number. This occurred during a time period when Citizens was processing an extremely high number of applications and had temporarily relaxed its processing requirements.
Regarding a policy being issued at less than 90% of replacement cost, Citizens now uses an automated cost estimator during the application process to ensure coverage values are in compliance with underwriting requirements.
Regarding the dwelling age 50 or over, without updates, the underwriter incorrectly set the policy up to nonrenew instead of canceling. Citizens subsequently received confirmation of updates and the nonrenewal was rescinded.

3. Four (4) deviations were noted for failing to follow underwriting rates or rules as required by Section 627.062 Florida Statutes. In these 4 instances the Building Code Effectiveness Grading (BCEG) credit was not correctly applied.

   Recommendation: Citizens should review its process for the application of BCEG credits.

   Citizens' Response: Citizens has automated the BCEG credit for its multiperil policies and will have implemented the implementation of the credit for wind-only policies in February 2009.

4. Two (2) deviations related to the cancellation of a policy. Neither Citizens nor the premium finance company provided timely notice of cancellation to the insured and mortgagee, resulting in Citizens also failing to timely return the unearned premium. This does not comply with Section 627.848(1) Florida Statutes.

   Recommendation: Citizens should review with its personnel the correct cancellation and premium refund procedures when premium finance companies are involved in the transaction.

   Citizens' Response: Citizens will review its current cancellation and premium refund procedures applicable to premium finance companies and will reinforce those procedures with affected personnel to ensure compliance with statutory requirements.

5. Ten (10) instances in which Citizens did not maintain justification for the development of the individual rate used in calculating the premium for a commercial property insurance policy. In 2006 Citizens developed and filed a guideline with the Office for individually rating commercial residential risks. The guideline provides that individual rating applies to any scheduled building with a replacement cost over $10 million or any risk in which, due to construction, condition, or location, Citizens chooses to determine a rate adequate for the exposure.

   The following information is relevant to our review of Citizens' commercial underwriting program for individually rated risks:

   - Policies are rated on an objective basis using an automated program that does not require subjective judgment on the part of the underwriter entering the data.
   - Citizens is required to make actuarially sound rate filings.

   Recommendation: Citizens should develop a comprehensive approach for rate development and justification of individually rated risks.

   Citizens' Response: Citizens will review its individual risk rating methodology to determine if improvements can be made consistent with the rating of policies on an objective basis.

6. Two deviations were noted for failure of Citizens' underwriting rules to follow its plan of operation. Section 11, Paragraph (D) of the Plan of Operation requires Citizens to limit coverage on mobile homes or manufactured homes built prior to 1994 to actual cash value of the dwelling rather than replacement cost. This limitation is not noted in Citizens' underwriting manuals applicable to mobile homes written on a multi-peril basis in the homeowners program or the dwelling program. Mobile homes written in the wind only program are covered on an actual cash value basis. In 2 instances, replacement cost coverage up to a stated amount was applied to mobile homes built in 1991 and 1983 respectively.

   Recommendation: Citizens' Plan of Operation and underwriting manuals should be amended to be in concert with one another and to coincide with the requirements of Section 627.702 Florida Statutes, Valued Policy Law.

   Citizens' Response: Since January 2006 Citizens has, in such instances, regarded the stated value amount as equivalent to the actual cash value as submitted on the required cost estimator form. Citizens communicated this change to its agents on November 10, 2005 to be effective on January 1, 2006.

7. A procedural deviation was noted relating to the failure to properly apply wind mitigation credits required by Section 627.0629, Florida Statutes and is being addressed separately in an industry-wide review of the issue.

DEPOPULATION

The guidelines for depopulation were established by the Florida Legislature and are contained in Section 627.3511, Florida Statutes. The intent of this legislation was to reduce the number of property owners who have insurance coverage through Citizens by encouraging new or existing insurance companies to take out policies from Citizens. Citizens is required to develop programs to reduce the number of new and renewal policies it has in force. As a result, Citizens has developed, and the Office has approved, a variety of programs to facilitate the removal of policies from Citizens.

The following table shows the number of policies and amount of exposure removed from Citizens between January 1, 2003 and October 6, 2008:

Years	Policies Removed	Exposure Removed
2003	28,219	$8,140,681,906
2004	158,416	$30,663,076,480
2005	293,684	$53,658,840,059
2006	67,853	$15,637,589,369
2007	247,887	$31,622,844,790
2008*	236,480	$65,592,052,827**

*Through October 6, 2008

**The significant increase in the exposure assumed by takeout insurers through October 6, 2008 is, in part, due to the assumption of a number of large risks as-well-as automatic coverage limit increases in individual policy coverage amounts for most policies in the book of business.

The examination testing procedure included:

- Reviewing depopulation guidelines;
- Documenting a walkthrough of the depopulation process;
- Reviewing procedures for depopulation;
- Reviewing lists of takeout companies;
- Reviewing Company records relating to a sample of takeout companies to verify compliance with depopulation guidelines, procedures and Florida Statutes; and
- Verifying compliance with prior examination recommendations.

Examination Findings:

The testing results from our sample review of the Consent Orders and assumption records of 5 takeout insurers indicated that they have generally come close to assuming the number of policies permitted in their respective Orders and in some instances have been approved for the assumption of additional policies. When an assuming insurer did not assume the number of policies permitted in their order, the insurers own underwriting

criteria may have been a significant contributing factor since Citizens does not screen policies made available to takeout insurers.

The preceding table, reflecting Citizens' depopulation records, indicates that the program is making progress toward its intended purpose wherein authorized insurance companies are assuming many of company's policies and exposure.

INVESTMENTS

The examination testing procedure included:

- Reviewing Citizens' investment guidelines;
- Comparing its investment guidelines to its plan of operation;
- Documenting a walkthrough of Citizens' processing of security transactions;
- Reviewing the CPA's work papers relative to cash and cash handling procedures; and,
- Reviewing the Long-Term Bond inventory as reported in the 2007 Annual Statement and comparing it to the Custodial Statements.

The investment guidelines are conservative in nature. They specify that Citizens purchase high quality securities with short maturity dates (weighted average maturity shall not exceed 90 days). In addition, Citizens can only have 10% of its portfolio with maturity dates of one to two years. Limits were also placed on the percentage of the total investment that can be made in one issuer.

Section 21 of "The Plan of Operation" addresses Citizens' investments. There are two guidelines prescribed by the Plan of Operation. The first guideline provides that Citizens "shall adopt an investment policy and procedures that are consistent with Florida Statutes, prudent financial management, and restrictions found in applicable investment documents." The second guideline states that the assets of Citizens "may be invested and managed by the State Board of Administration."

Note 6 of the 2007 Annual Statement Notes to Financial Statements indicates that the company "has a conservative investment policy that requires all securities in the portfolio to be rated A3/A- or better by Moody's and S&P at the time of purchase." Citizens engages independent investment managers to invest bond proceeds and certain operating cash pursuant to the investment policy. During the industry-wide sub-prime mortgage and liquidity crisis of the fall and winter of 2007, some of Citizens' investments experienced distress and were subsequently downgraded. On December 31, 2007, Citizens' portfolio included par of approximately $584 million in assets that were downgraded below guideline requirements. In addition, a substantial portion of these downgraded assets were composed of Structured Investment Vehicles (SIV). Some of the SIV issuers, specifically Axon, KKR Atlantic, and Ottimo Funding defaulted on their obligations and the debt has either been restructured or is in the process of being restructured. While Citizens is monitoring the status of these securities, the outlook with

respect to ultimate realization of par is uncertain. Citizens recently wrote additional safeguards into its investment policy, not limited to a prohibition of partially and non-supported Asset-Backed Commercial Paper and SIV's. As of December 31, 2007, certain of these assets were impaired on an-other-than-temporary basis and Citizens recorded realized capital losses in the amount of $88,543,322.

The examiners also tested Citizens' reporting of long-term bonds, by tracing the reported balances from the 2007 Annual Statement to the statements of all custodians holding Citizens' securities. No material exceptions were noted.

Citizens is in conformance with the National Association of Insurance Commissioners (NAIC) guidelines with respect to its investment portfolio.

Citizens Response: While the financial markets have experienced significant volatility in the last eighteen months, Citizens has taken steps to mitigate risk in its investment portfolio.

Citizens added a provision to its Investment Policy that at least 25% of the overall portfolio must consist of Treasury or Agency securities or money market funds consisting of these assets. At November 30, 2008, 29% of Citizens portfolio, or $2.3 billion was invested in Treasury/Agency securities, an amount significantly higher than at year-end 2007.

Citizens' portfolio contains 8.5% or $662 million in debt issued by companies who have been strengthened by infusions from the TARP program created by the United States Government to help companies to secure liquidity in the current restrictive credit environment.

Approximately 28% or $2.2 billion of Citizens' portfolio is currently insured by the Money Market Guarantee Program, created by the United States Government for 2a7 Money Market Funds as of September 19, 2008 through April 2009 (with possible further extensions). All of Citizens' prime and tax-exempt money market funds purchased this government insurance.

In total, 65.5% of Citizens' assets currently enjoy either a direct or indirect guarantee or form of support from the federal government. In addition, with its Investment Policy-mandated high ratings requirements (A3, A- or better) and low issuer limits for securities purchased and held (2 to 3 percent, depending on the final maturity), coupled with relatively short duration, Citizens feels confident that it is well-equipped to weather the recent corporate credit volatility while maintaining safety, liquidity and diversification of its portfolio.

INFORMATION SYSTEMS

The examination testing procedure included:

- Reviewing the NAIC Information Systems Questionnaire responses from Citizens and following up on any issues;
- Reviewing and analyzing the major systems through which company data is processed;
- Reviewing and examining the controls in place in each system process and observing data flowing through the system;
- Reviewing the physical and system controls in place at the Tallahassee and Jacksonville computer facilities;
- Reviewing the Disaster Recovery Plan for all major system facilities and providers of information systems services;
- Reviewing changes to systems and procedures since the Office's last examination; and,
- Reviewing issues noted during the Office's last examination.

The system infrastructure and processes at Citizens have greatly improved since the last examination. There has been extensive financial expenditure to support that improvement as well as personnel changes and adjustments to the business model.

The Information Systems Specialist reviewed the list of applications that were included in Phase I of the replication Disaster Recovery (DR) plan, allowing the Tampa facility to conduct the business of Citizens in the case of a catastrophic event impairing the Jacksonville data center. There is no provision for replication of the wind only coverage data on the AS400 system as only one AS400 system is currently owned by Citizens. In the event of a failure of the AS400 system, Citizens has an agreement with IBM that a replacement would be delivered within 48 hours of the order. It would then be necessary to rebuild the system and restore data from backup which would take an additional approximately 72 hours. As these time frames are optimum, this may be too long a period for a mission critical application to be unavailable. The AS400 system was recognized as being mission critical but was not included in Phase I of the DR plan implementation.

Recommendation: Citizens should consider including support for the wind only coverage data on the AS400 system in Phase I of the Disaster Recovery Plan.

Citizens' Response: Citizens currently has a vendor supported disaster recovery plan for the wind-only AS400 system that does not include a hot site system or replicated data. Citizens concurs that the wind system disaster recovery plan requires validation to confirm recovery timeframes and will perform a full verification test to be completed by June 1, 2009. Subsequent assessment and formal risk plan analysis will be completed to determine adequacy of plans and to prudently revise as needed.

Claim Tracking System (CTS) disburses claims to the adjusters and collects information for all 3 policy administration systems for both daily and catastrophe claims. CTS is not included as a part of the DR plan-Phase I in the replication and therefore is not one of the first systems to be restored even though it is clearly a mission critical system.

Recommendation: Citizens should consider including CTS in Phase I of the DR plan.

Citizens' Response: Citizens agrees that CTS should be part of Phase I of the Disaster Recovery Plan that incorporates Mission Critical Applications. This has been Citizens plan but they have adjusted priorities to complete this activity by March 31, 2009.

One of the recommendations made in the previous examination by the Office was that Citizens investigate the feasibility of a "hot site" (an out-of-state site from which emergency operations might be conducted) with a provider to assure that a location outside of Florida will be available in the event that all Florida data centers are impacted by a catastrophic event. Consolidation and closure of the Tallahassee Monroe Street data center is underway and is expected to be completed by March 2010. All other data center locations, including the Tallahassee Maryland Circle location now have generators. However, this does not eliminate the possibility of all three data centers being concurrently inaccessible due to the same catastrophic event.

Recommendation: An alternative site outside of Florida should be considered in the event that all 3 Florida locations are rendered inoperable.

Citizens' Response: The location of our primary processing center is a critical consideration. Citizens currently has two data center locations that provide primary and disaster recovery capabilities, and two secondary locations that could provide primary or disaster recovery facilities. These facilities are separated from one another by approximately 200 miles and in significantly different geographic locations of the state. Citizens believes it is highly unlikely that all locations would be unavailable at the same time but is currently working on a long term data center strategy that will include appropriate risk assessments and evaluate geographic requirements. This assessment will be completed by December 31, 2009.

REINSURANCE

Citizens was covered by reinsurance through the Florida Hurricane Catastrophe Fund (FHCF) during the entire scope period. The FHCF was created by the Florida legislature and is governed under Section 215.555 Florida Statutes. Reinsurance coverage is provided for Florida residential property, including home owners, farm owners, condominium associations, condominium unit owners, tenants, or any policy covering a residential structure or its contents. Under the terms of the agreement, the FHCF will reimburse Citizens for 90% of its losses in excess of Citizens' retention which is determined in accordance with statutory provisions. In addition to the FHCF coverage, Citizens also purchased private Reinsurance in 2005 for its Personal and High-Risk Accounts and in 2008 for its High Risk Account. Citizens' reinsurance process was reviewed and found to have a high level of management oversight. No material exceptions were noted during the review of Reinsurance.

PENDING LITIGATION

Citizens is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of the resulting reserves will not have a material adverse effect on the financial condition of Citizen's operations.

Citizens is also involved in other potentially significant litigation as described below. Due to the preliminary nature of this litigation, Citizens has not determined the effect, if any, on the financial condition or operating results. A summary of potentially significant litigation follows:

Schlegel v. (Miami-Dade County 2007) [roof permit fees]. This putative (non-certified) class action lawsuit served in March 2007, seeks damages principally for 2005 Hurricane Wilma claims based on Citizens' alleged failure to pay non-incurred construction permitting fees. Citizens is defending on the basis that Plaintiffs have been fully compensated under the terms of the policy, and that this matter lacks the commonality among potential class members necessary to assert a class action as the underlying issue, roof permit fees, involves an individual factual determination for each claim. Discovery is proceeding, and the depositions of the putative class representatives are expected to take place in the near future. Citizens has not determined the potential financial impact, if any, of this lawsuit.

Poe & Associates, L.L.C. ("Associates") v. . This lawsuit relates to Citizens' June, 2006, termination of its agent appointment agreement with Associates which prevented Associates from being able to receive future commissions on policies that Citizens issued to former policyholders of insolvent insurance companies affiliated with Associates and owned by Poe Financial Group, Inc. Associates is seeking significant damages and its many claims include breach of contract, tortuous interference, equal protection violations, and regulatory taking. Citizens believes that it will ultimately prevail on all claims presented.

EXAMINATION REPORT SUBMISSION

The Office hereby issues this report as the Final Report, which is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by Citizens.