

LOUISIANA CITIZENS PROPERTY
INSURANCE CORPORATION
2008 RATE-FILING



PERFORMANCE AUDIT
ISSUED MAY 13, 2009

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

May 13, 2009

The Honorable Joel T. Chaisson, II,
President of the Senate
The Honorable Jim Tucker,
Speaker of the House of Representatives

Dear Senator Chaisson and Representative Tucker:

This report provides the results of the performance audit on Louisiana Citizens Property Insurance Corporation's (Citizens') December 2008 rate-filing.

The report contains our findings, conclusions, and recommendations. Appendix B contains Citizens' response to this report. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of Citizens for their assistance during this audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Steve J. Theriot".

Steve J. Theriot, CPA
Legislative Auditor

SJT/dl

CPICRF09

Office of Legislative Auditor

Steve J. Theriot, CPA, Legislative Auditor

Louisiana Citizens Property Insurance Corporation 2008 Rate-Setting

May 2009



Audit Control # 40080015

Executive Summary

In October 2008, the Louisiana Citizens Property Insurance Corporation (Citizens) submitted a rate-filing to the Commissioner of Insurance requesting an overall average rate increase of 13.7 percent for Citizens' residential policyholders. In December 2008, the commissioner notified Citizens that he did not approve the actuarially indicated rates identified in the rate-filing. Then, without approval from its governing board, Citizens staff submitted a revised rate-filing requesting an overall average rate increase of 7 percent. The Commissioner of Insurance approved this rate-filing on January 6, 2009. Then, on January 8, 2009, Citizens' governing board ratified the rates that had been approved by the commissioner. These rate changes were scheduled to go into effect on May 1, 2009.

Our audit objective was to determine if Citizens' December 2008 rate-filing complied with state law. The results of our audit show that Citizens' December 2008 rate-filing did not comply with all aspects of state law. We explain the circumstances affecting compliance in further detail in the body of this report.

Citizens' governing board did not adopt all rate-setting formulas before determining rates as required by law. These formulas establish the calculations to be used for setting the rates.

Citizens cannot evaluate whether the market survey used for the rate-filing produced the highest rates charged among the 10 insurers with the greatest direct written premium in each parish for each line of business. The reason why Citizens cannot evaluate accuracy of the market survey is that the Department of Insurance (DOI) performed the survey and provided Citizens a summary of the results but not the supporting documents (i.e., survey responses).

Citizens cannot ensure that its December 2008 rate-filing is actuarially justified as required by law. Citizens hired an actuarial consulting firm to conduct the actuarial analysis for the October 2008 rate-filing and paid this firm approximately \$104,000 for its services. However, the Commissioner of Insurance rejected the actuarially justified rates derived by the actuarial consulting firm. Citizens then used the market survey rates for its December 2008 rate-filing. Since Citizens cannot evaluate the accuracy of the market survey and did not use the rates derived from the actuarial analysis, Citizens cannot ensure that its December 2008 rate-filing is actuarially justified.

During the 2008 Regular Legislative Session, the legislature changed some requirements for Citizens' rate-making process by giving Citizens' Chief Executive Officer (CEO) the authority and responsibility to perform the market survey. It also added the requirement that new

rate-filings must go into effect within 12 months of the effective date of the previous rate change. Both of these provisions went into effect on August 15, 2008. Citizens is not yet in compliance with these new requirements. According to Citizens' management, Citizens will perform the market survey for the 2010 rate-filing. In addition, Citizens has developed a timeline for the rate-making process that shows its next rate-filing going into effect within 12 months of the effective date of the 2008 rate-filing.

Audit Initiation, Scope, and Methodology

We conducted this performance audit as follow-up to our May 2007 performance audit on Citizens' rate-making process. We focused our audit efforts on determining whether Citizens' December 2008 rate-filing complied with state law.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To answer the audit objective, we performed the following audit procedures:

- Examined state law
- Examined previous Citizens audits
- Interviewed Citizens' CEO and Chief Actuary
- Interviewed staff at Oliver Wyman, the actuarial consulting firm that Citizens hired to perform the actuarial analysis for its 2008 rate-filings, and examined relevant documents
- Examined and analyzed rate-filing documents, including the narrative section of the actuarial analysis, actuarially indicated rates, summary results of the market survey, and rate determination tables
- Attended the January 2009 meeting of Citizens' governing board and examined the resulting transcript

Overview of Louisiana Citizens Property Insurance Corporation and Rate-Setting Process

Creation of Citizens

The Louisiana Legislature created Citizens as a nonprofit corporation by Act 1133 of the 2003 Regular Legislative Session. A 15-member governing board oversees and directs Citizens' operations. Under Louisiana Revised Statute (R.S.) 22:2306, Citizens is subject to examination by the Legislative Auditor.

Purpose of Citizens

The legislature created Citizens to serve Louisiana residents who are entitled to, but are unable to, procure property and casualty insurance coverage through the voluntary (i.e., private) market. The legislature designed Citizens to be an insurer of last resort with the intent that Citizens would ultimately depopulate and be dissolved.

Rate-Setting Process

Board's Role in Rate-Setting. R.S. 22:2303(A)(1) gives the Citizens governing board the duty of setting rates, stating that the rates of Citizens' policies shall be set by the governing board. The board must adopt all rate-setting formulas before determining rates. In addition, state law requires the board to set forth a methodology to determine the rates charged among the largest insurers in each parish for the market survey as a part of the annual rate-filing. The "Noncompetitive Rates" section below provides more information on the market survey.

Commissioner of Insurance's Role in Rate-Setting. R.S. 22:2303(C) requires Citizens' rates to be approved by the Commissioner of Insurance before going into effect. R.S. 22:1451 gives the commissioner the authority to accept, review, and approve rate-filings. In addition, this statute says that the commissioner can disapprove rate-filings within 45 days of submission.

Frequency of Rate Changes. R.S. 22:2303(C) provides that Citizens must adjust its rates annually. Specifically, Citizens must submit a rate-filing at least once a year with rates to be effective within 12 months of the previous rate-filing's effective date.

Noncompetitive Rates. R.S. 22:2303(A)(1) also mandates that Citizens' rates are not intended to compete with private insurance company rates. To achieve noncompetitive rates, the law requires Citizens to perform a market analysis as a part of the rate-setting process. State law requires Citizens' chief executive officer or his designee to survey insurers to collect information to use for the market analysis, including information to determine the 10 largest insurers in each parish. The largest insurers are defined as the insurance companies with the greatest total direct written premium in each parish for each line of business in the preceding year. Citizens' rates must be at least 10 percent higher than those of the largest insurers, with certain exemptions. Specific provisions of the law are as follows:

- For mobile home insurance, the average Citizens rates must be at least 10 percent above the rates among the five largest private mobile home insurers in each parish.
- Rates charged by Citizens for other lines of business, except wind and hail coverage, must be at least 10 percent higher than the rates charged among the 10 largest insurers in each parish for each individual line of business. This provision does not apply to the rates Citizens charges in Cameron, Calcasieu, Iberia, Jefferson, Lafourche, Orleans, Plaquemines, St. Bernard, St. Mary, St. Tammany, Terrebonne, and Vermilion Parishes.
- The rates Citizens charges in a particular parish must be at least 10 percent above the rates of any insurer that has a minimum of 3 percent of the total premium for the parish.
- The statute excludes Citizens' wind and hail coverage rates from these comparisons until after January 1, 2009.
- The statute gives the Citizens governing board responsibility for developing a methodology to determine the rates charged among the largest insurers in each parish.

Actuarially Justified Rates. R.S. 22:2303(A)(1) requires Citizens' rates to be actuarially justified, meaning that they must be adequate to pay Citizens' expenses. This determination is made by conducting an actuarial analysis.

Rate Determination. Citizens' rate determination process is to compare the rates derived from the market analysis to those derived from the actuarial analysis. Citizens is to then select the higher rate for each line of business in each parish. By selecting the higher of the two types of rates, Citizens should meet both legal requirements (i.e., actuarial justification and noncompetitive requirement).

Did Citizens' December 2008 Rate-Filing Comply With State Law?

The results of our audit show that Citizens' December 2008 rate-filing did not comply with all requirements in state law. The following sections evaluate whether Citizens complied with each statutory requirement and explain the circumstances affecting compliance.

Board Approval of Rate-Setting Formulas

The Citizens governing board did not approve all rate-setting formulas as required by law. The board did not adopt the changes to the formulas used to determine the Coastal Plan¹ rates used in the market analysis before determining the rates. Citizens' staff used a formula to

¹Citizens' policies are comprised of those for the Coastal Plan and the FAIR Plan.

develop these rates because, according to Citizens, the market survey did not provide good information in this area.

According to Citizens' management, before the board's approval of the rates, Citizens' staff presented, explained, and discussed with the board the process, procedures, and methods (i.e., formulas) used in the rate-setting process. They further stated that the staff did not present the actual algorithms used in the process as those mathematical calculations would not have provided meaningful explanation for the board members. According to Citizens' management, they believe that, subject to such presentation of the formulas, the approval of the resulting rates encompassed an approval of those formulas used in setting the 2008 rates.

We attended the January 2008 board meeting at which Citizens' board approved the rate-filing. We also examined the meeting's transcripts. The transcripts do not reflect a discussion of the formulas that Citizens' staff used in the rate-setting process, nor do they reflect a discussion of how the formulas were different from the October 2008 rate-filing. Furthermore, during the meeting, the motion passed by the board to set the rates made no mention of the formulas.

Since the board did not approve the formulas used in the rate-setting, the board did not fulfill its statutory duty of adopting rate-setting formulas before determining rates. The board can ensure compliance by evaluating and approving the formulas² used in rate-setting before Citizens' staff submits them to the Commissioner of Insurance for approval.

Recommendation 1: Citizens' board should vote to adopt rate-setting formulas before determining rates.

Summary of Management's Response: Citizens' management partially agrees with this recommendation. Management says that Citizens' board needs to review and approve rates and the rating formulas prior to the effective date of the rates.

Market Analysis for Noncompetitive Rates

Citizens did not conduct the survey of private insurers' rates for the market analysis for the October 2008 rate filing. Instead, DOI's staff conducted the survey and provided Citizens with a summary of the survey results. Citizens used this information to conduct the market analysis. DOI did not provide Citizens with the private insurers' responses to DOI's market survey. Although Citizens did not review this supporting documentation, its in-house actuary stated that he reviewed the reasonableness of the summary information DOI gave Citizens. Because he did not review the source documentation, however, he cannot verify that the results of DOI's market survey as presented in the summary information are accurate.

Citizens used the market analysis from the October 2008 rate-filing for the December 2008 rate-filing. According to Citizens' staff, Citizens re-used DOI's market survey information

²The board can evaluate the concepts behind the formulas, not the actual algorithms.

in the December 2008 rate-filing in an effort to meet the frequency requirements for rate changes.³

Because Citizens does not know if the survey information used in the market analysis is accurate, it cannot evaluate whether the market survey produced the highest rates charged among the ten insurers with the greatest direct written premium in each parish for each line of business. As a result, Citizens was not able to determine whether the rates in its December 2008 rate-filing are noncompetitive.

Citizens could not determine whether the information used in the market survey is correct as DOI is the sole entity with a full understanding of how the market analysis was conducted. Citizens' use of DOI's market survey information resulted in the regulator (i.e., the Commissioner of Insurance) reviewing and approving his own staff's work. Ideally, there should be a separation of powers between the entity that conducts the analysis (Citizens) and the individual with the responsibility to review and approve it.

Furthermore, if the results are inaccurately low, Citizens' rates could become competitive with the private market. If the rates are competitive, Citizens could attract new policyholders, contradicting the intent of the law to depopulate.

Recommendation 2: Citizens management should perform the market survey for future rate-filings. If Citizens obtains the market survey information for future rate-filings from DOI, Citizens' staff should obtain supporting documentation (i.e., survey responses) and verify the accuracy of the market survey results.

Summary of Management's Response: Citizens' management agrees with this recommendation.

Actuarially Justified Rates

Citizens hired an actuarial consulting firm to conduct the actuarial analysis for the October 2008 rate filing. Citizens provided the firm with the necessary data to conduct the actuarial analysis, then the firm provided Citizens with a report showing the actuarial-indicated rates. Citizens paid this consultant approximately \$104,000 for actuarial services related to this rate-filing. Citizens' in-house actuary reviewed the firm's actuarial analysis. Citizens' staff then submitted the rate-filing including these actuarially-indicated rates to the board and ultimately the Commissioner of Insurance for approval.

As discussed in the previous section, DOI's staff conducted the market survey for Citizens, which Citizens used in its October 2008 rate filing. The Commissioner of Insurance subsequently approved the market survey part of the rate-filing but did not approve the actuarially indicated rates developed by Citizens and its actuarial consulting firm. In a letter to

³See pages 7-8 for an explanation of the delays related to this rate-filing.

Citizens' CEO, the commissioner cited pervasive data integrity issues and other deficiencies in the actuarial analysis as the basis for not approving the actuarially indicated rates.⁴

Citizens' staff then submitted a new rate-filing to the Commissioner of Insurance in December 2008. In the December 2008 rate-filing, Citizens' Chief Actuary assigned zero percent credibility to the previous rate-filing's actuarially indicated rates and assigned 100 percent credibility to the market analysis values. In other words, this new rating filing used the results of the market survey derived by DOI rather than the actuarially indicated rates developed by Citizens' actuarial consulting firm. Citizens' staff said that they used this approach because they did not have verifiable data (i.e., audited financial statements) to use for the actuarial analysis.

Citizens' use of the rates from the market analysis means that the rates were derived from work performed by DOI's staff. Again, this situation resulted in the regulator reviewing and approving his own staff's work.

Furthermore, Citizens cannot ensure that its December 2008 rate-filing is actuarially justified as required by law because, as explained in the previous section, it does not know if the market survey data is accurate. When Citizens' rates are not actuarially justified, Citizens increases its risk of incurring a deficit. If Citizens incurs a deficit, both Citizens' and private insurers' policyholders throughout the state could ultimately bear the cost because of the assessments that could be imposed.

New State Laws Affecting Citizens

During the 2008 Regular Legislative Session, the legislature changed some requirements for Citizens' rate-making process. We discuss these changes in the following sections.

Annual Adjustment of Rates

During the 2008 Regular Legislative Session, the legislature amended the section of law requiring Citizens' rates to be adjusted annually. The amended law retained the requirement that rates be adjusted annually and added a provision to require that new rates be effective within 12 months of the previous rate-filing's effective date.

Citizens' current rates went into effect on June 1, 2007, for new policies and on August 1, 2007, for renewal policies. Therefore, as of February 1, 2009, it had been 20 months since the rates for new policies went into effect and 18 months since the rates for renewal policies went into effect. When the change to the law went into effect on August 15, 2008, Citizens was in the process of preparing its 2008 rate-filing. According to Citizens' management, the board could not take formal action on the rate-filing until September 2008 because some members resigned because of changes in the state ethics law and the board did not have enough members for a

⁴ We did not evaluate whether these issues are present or whether they are valid reasons for DOI to reject the rate-filing.

quorum. When the board met in September 2008, it voted to defer the vote for a month until the October 2008 meeting, which is when it approved the first 2008 rate-filing. As previously stated, the commissioner did not approve this rate-filing, so Citizens' staff submitted an amended rate-filing in December 2008.

Citizens' staff has developed a rate-setting process timeline for 2009 and 2010 that outlines when Citizens will complete each step of the process to meet the legal requirements concerning the frequency of rate-filing. Therefore, Citizens' management has taken steps to address this issue.

Market Survey Process

Before August 2008, state law did not explicitly give Citizens the authority to collect data from private insurers to perform the market comparison. During the 2008 Regular Legislative Session, however, the legislature amended R.S. 22:1430.12(A)(2) to give Citizens' CEO or his designee the authority and responsibility to collect this information.

According to Citizens' management, because the requirement that Citizens' CEO perform the market survey was not in effect when DOI's staff performed the market survey for the 2008 rate-setting process, this requirement does not apply to the December 2008 rate-filing. However, the statute does not provide a transition time for this requirement. In addition, the timeline of the 2009 and 2010 rate-setting processes developed by Citizens' management shows that DOI will provide Citizens with the data for the 2009 rate-filing and that Citizens' staff will not collect the information until the 2010 rate-filing.

Board Oversight

The Citizens governing board did not vote to set the rates for the December 2008 rate-filing until after Citizens' staff had submitted the rate-filing to the Commissioner of Insurance and obtained the commissioner's approval. Citizens' staff did not present the rate-filing to the board for approval before obtaining the commissioner's approval. The Commissioner of Insurance approved the rate-filing on January 6, 2009. On January 8, 2009, the board then ratified the rates approved by the commissioner.

According to state law, Citizens' board is required to set rates, and the Commissioner of Insurance must approve the rates before they go into effect. According to our general counsel, Citizens' board must select appropriate rate changes for each parish before the commissioner can determine whether those rates fulfill the statutory requirements. State law does not give Citizens' staff the authority to set rates. Therefore, without rates set by the board, there are no authorized rates for the commissioner to review and determine whether to approve.

Citizens' management maintains that the statute does not say that the board must set the rates before the Commissioner of Insurance approves them. They also say the law only requires that the rates must be both set by the board and approved by the commissioner and that it does

not specify an order. Furthermore, Citizens' management states that, had the board not approved the rates in January, they would have withdrawn the approved filing and developed another rate-filing.

Results of Rate-Filing

The December rate-filing that the Commissioner of Insurance approved resulted in a total of 296 rate changes for residential lines of business throughout the state. Seventy-two percent (214 of 296) of these rate changes were increases, and 28 percent (82 of 296) were rate decreases. Exhibit 1 shows the number and percentage of rate increases and decreases by line of business. Appendix A shows the complete results of Citizens' rate changes by line and parish.

Exhibit 1 Citizens' December 2008 Rate-Filing Rate Increases and Decreases						
		Dwelling - Fire and Extended Coverage	Homeowners	Renters	Mobile Home	Total
Rate Increase	Number	43	51	52	68	214
	Percent	58%	69%	70%	92%	72%
Rate Decrease	Number	31	23	22	6	82
	Percent	42%	31%	30%	8%	28%
<p>Note: Because of rounding in Appendix A, it appears that some rates did not change. However, all rates either increased or decreased.</p> <p>Source: Developed by legislative auditor's staff using information gathered from Citizens.</p>						

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Appendix A Louisiana Citizens Property Insurance Corporation Results of December 2008 Rate Determination by Line and Parish								
Parish	Dwelling - Fire and Extended Coverage		Homeowners		Renters		Mobile Homes	
	Type of Rate	Rate Change	Type of Rate	Rate Change	Type of Rate	Rate Change	Type of Rate	Rate Change
Acadia	MA+10%	23%	MA+10%	27%	MA+10%	18%	MA+10%	7%
Allen	MA+10%	19%	MA+10%	-9%	MA+10%	-18%	MA+10%	-11%
Ascension	MA+10%	-7%	MA+10%	-6%	MA+10%	6%	MA+10%	25%
Assumption	MA+10%	54%	MA+10%	54%	MA+10%	5%	MA+10%	0%
Avoyelles	MA+10%	-14%	MA+10%	8%	MA+10%	-32%	MA+10%	8%
Beauregard	MA+10%	40%	MA+10%	1%	MA+10%	-2%	MA+10%	8%
Bienville	MA+10%	4%	MA+10%	-12%	MA+10%	-29%	MA+10%	5%
Bossier	MA+10%	-7%	MA+10%	1%	MA+10%	10%	MA+10%	9%
Caddo	MA+10%	33%	MA+10%	2%	MA+10%	17%	MA+10%	9%
Calcasieu	MA	55%	MA	22%	MA	23%	MA	6%
Caldwell	MA+10%	-19%	MA+10%	-14%	MA+10%	5%	MA+10%	14%
Cameron	MA	-39%	MA	-24%	MA	58%	MA	26%
Coastal Cameron	MA	24%	MA	12%	MA	24%	MA	69%
Catahoula	MA+10%	7%	MA+10%	2%	MA+10%	-43%	MA+10%	28%
Claiborne	MA+10%	-18%	MA+10%	-12%	MA+10%	-17%	MA+10%	6%
Concordia	MA+10%	-18%	MA+10%	12%	MA+10%	4%	MA+10%	28%
DeSoto	MA+10%	-6%	MA+10%	27%	MA+10%	22%	MA+10%	10%
East Baton Rouge	MA+10%	-20%	MA+10%	-7%	MA+10%	3%	MA+10%	13%
East Carroll	MA+10%	4%	MA+10%	10%	MA+10%	16%	MA+10%	22%
East Feliciana	MA+10%	8%	MA+10%	4%	MA+10%	5%	MA+10%	8%
Evangeline	MA+10%	-6%	MA+10%	35%	MA+10%	-21%	MA+10%	22%
Franklin	MA+10%	7%	MA+10%	2%	MA+10%	5%	MA+10%	7%
Grant	MA+10%	7%	MA+10%	-14%	MA+10%	-34%	MA+10%	11%
Iberia	MA	43%	MA	43%	MA	27%	MA	43%
Coastal Iberia	MA	113%	MA	18%	MA	8%	MA	92%
Iberville	MA+10%	14%	MA+10%	8%	MA+10%	5%	MA+10%	139%
Jackson	MA+10%	18%	MA+10%	-23%	MA+10%	-19%	MA+10%	7%
Jefferson	MA	-22%	MA	35%	MA	17%	MA	10%
Coastal Jefferson	MA	-29%	MA	34%	MA	75%	MA	69%

(Continued)

Appendix A Louisiana Citizens Property Insurance Corporation Results of December 2008 Rate Determination by Line and Parish								
Parish	Dwelling - Fire and Extended Coverage		Homeowners		Renters		Mobile Homes	
	Jefferson Davis	MA+10%	33%	MA+10%	36%	MA+10%	7%	MA+10%
Lafayette	MA+10%	43%	MA+10%	38%	MA+10%	2%	MA+10%	-9%
Lafourche	MA	-6%	MA	-12%	MA	-19%	MA	42%
Coastal Lafourche	MA	69%	MA	-7%	MA	6%	MA	92%
LaSalle	MA+10%	7%	MA+10%	-14%	MA+10%	5%	MA+10%	39%
Lincoln	MA+10%	4%	MA+10%	7%	MA+10%	-18%	MA+10%	14%
Livingston	MA+10%	-12%	MA+10%	12%	MA+10%	37%	MA+10%	2%
Madison	MA+10%	2%	MA+10%	0%	MA+10%	12%	MA+10%	0%
Morehouse	MA+10%	4%	MA+10%	-14%	MA+10%	-25%	MA+10%	28%
Natchitoches	MA+10%	-25%	MA+10%	2%	MA+10%	11%	MA+10%	7%
Orleans	MA	-22%	MA	-9%	MA	3%	MA	-13%
Coastal Orleans	MA	53%	MA	2%	MA	88%	MA	4%
Ouachita	MA+10%	-15%	MA+10%	10%	MA+10%	-8%	MA+10%	7%
Plaquemines	MA	-8%	MA	-41%	MA	-12%	MA	-30%
Coastal Plaquemines	MA	-1%	MA	21%	MA	99%	MA	12%
Pointe Coupee	MA+10%	-4%	MA+10%	4%	MA+10%	-14%	MA+10%	8%
Rapides	MA+10%	7%	MA+10%	-12%	MA+10%	3%	MA+10%	11%
Red River	MA+10%	-12%	MA+10%	17%	MA+10%	-7%	MA+10%	-3%
Richland	MA+10%	-19%	MA+10%	-13%	MA+10%	-37%	MA+10%	11%
Sabine	MA+10%	-26%	MA+10%	2%	MA+10%	12%	MA+10%	11%
St. Bernard	MA	-1%	MA	-7%	MA	-3%	MA	16%
Coastal St. Bernard	MA	26%	MA	29%	MA	92%	MA	12%
St. Charles	MA+10%	4%	MA+10%	37%	MA+10%	16%	MA+10%	26%
St. Helena	MA+10%	19%	MA+10%	18%	MA+10%	15%	MA+10%	8%
St. James	MA+10%	54%	MA+10%	25%	MA+10%	20%	MA+10%	26%
St. John the Baptist	MA+10%	6%	MA+10%	41%	MA+10%	3%	MA+10%	26%
St. Landry	MA+10%	2%	MA+10%	17%	MA+10%	5%	MA+10%	16%
St. Martin	MA+10%	34%	MA+10%	26%	MA+10%	5%	MA+10%	57%
St. Mary	MA	32%	MA	9%	MA	5%	MA	30%
Coastal St. Mary	MA	64%	MA	-7%	MA	6%	MA	92%
St. Tammany	MA	15%	MA	4%	MA	7%	MA	15%

(Continued)

Appendix A
Louisiana Citizens Property Insurance Corporation
Results of December 2008 Rate Determination by Line and Parish

Parish	Dwelling - Fire and Extended Coverage		Homeowners		Renters		Mobile Homes	
Tangipahoa	MA+10%	-3%	MA+10%	18%	MA+10%	5%	MA+10%	19%
Tensas	MA+10%	-17%	MA+10%	-14%	MA+10%	-23%	MA+10%	0%
Terrebonne	MA	-8%	MA	20%	MA	11%	MA	74%
Coastal Terrebonne	MA	65%	MA	-4%	MA	49%	MA	69%
Union	MA+10%	-20%	MA+10%	2%	MA+10%	4%	MA+10%	28%
Vermilion	MA	38%	MA	41%	MA	-2%	MA	93%
Coastal Vermilion	MA	179%	MA	20%	MA	84%	MA	69%
Vernon	MA+10%	7%	MA+10%	14%	MA+10%	-5%	MA+10%	11%
Washington	MA+10%	91%	MA+10%	13%	MA+10%	-6%	MA+10%	9%
Webster	MA+10%	-14%	MA+10%	1%	MA+10%	27%	MA+10%	5%
West Baton Rouge	MA+10%	-2%	MA+10%	25%	MA+10%	5%	MA+10%	33%
West Carroll	MA+10%	-26%	MA+10%	-19%	MA+10%	17%	MA+10%	28%
West Feliciana	MA+10%	11%	MA+10%	0%	MA+10%	5%	MA+10%	27%
Winn	MA+10%	9%	MA+10%	44%	MA+10%	94%	MA+10%	11%

Source: Developed by legislative auditor's staff using information gathered from Citizens.

Key	
MA	Market Analysis Rate
MA+10%	Market Analysis Plus 10% Rate
Highlighted Boxes	Parishes for which state law does not require Citizens' rates to be at least 10% higher than rates of 10 largest insurers in parish.

(Concluded)

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APPENDIX B: MANAGEMENT'S RESPONSE

Monday, April 27, 2009

Steve J. Theriot, CPA
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Draft Performance Audit on the 2008 Rate Filing

Dear Mr. Theriot:

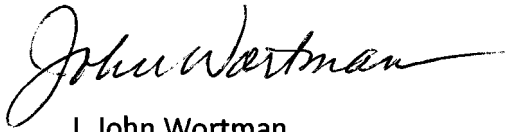
We have reviewed your April 2009 draft of the captioned Performance Audit and offer the following comments:

- On page one in the first paragraph, you state “without approval from its governing board” We believe the issue is the timing of the board approval. We continue to believe the Statute does not specify an order for approval. In this case, the approval came after Insurance Department approval; however, over three months prior to the effective date of the new rates. For the same reason, we disagree with your third paragraph on the first page.
- The issue relative to the actuarially sound calculation is based solely on the reliability of historical data. It was agreed that because of systems issues, the data could not be verified as accurate so the credibility factors were amended to conform to the data issue.
- Your checklist for Audit Recommendations is attached.
 - We “Partially Agree” with Recommendation 1 – We agree the Citizen’s Board needs to review and approve rates and the rating formulas prior to their effective date. Your report is critical of our process as the board approval took place after Insurance Department approval and specific formulas were not presented. While the board approval took place after Insurance Department approval, the approval took place at the January 2009 board meeting, over three months prior to the effective date of the rates, May 1, 2009.

- We agree with Recommendation 2 and as your report correctly states, we have taken steps to define the time lines for the 2009 and 2010 rate review process.

We appreciate your patience and understanding as we work to complete this audit.

Sincerely,

A handwritten signature in black ink that reads "John Wortman". The signature is written in a cursive style with a long, sweeping underline.

J. John Wortman



Louisiana Legislative Auditor
Performance Audit Division

Checklist for Audit Recommendations

Instructions to Audited Agency: Please check the appropriate box below for each recommendation. A summary of your response for each recommendation will be included in the body of the report. The entire text of your response will be included as an appendix to the audit report.

RECOMMENDATIONS	AGREE	PARTIALLY AGREE	DISAGREE
<p>Recommendation 1: Citizens board should vote to adopt rate-setting formulas prior to determining rates. (p. 6 of the report)</p>		X	
<p>Recommendation 2: Citizens management should perform the market survey for future rate-filings. If Citizens obtains the market survey information for future rate-filings from DOI, Citizens' staff should obtain supporting documentation (i.e., survey responses) and verify the accuracy of the market survey results. (p. 6 of the report)</p>	X		