

Audit Committee Enterprise Risk Management Update

Jennifer Montero

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Ability to Adapt to Changing Revenue

Risk Owner: Jennifer Montero

Risk Champion: Andrew Woodward

Risk Description
Ability to recalibrate and reprioritize administrative expenses to adjust to premium fluctuations, while maintaining required capabilities .
Mitigation Update
<ul style="list-style-type: none">• Improved forecasting capabilities and enhancements to ensure appropriate budgeting and periodic projections to administrative expenses• Monthly evaluation of budget variances by Cost Centers• Weekly cash management• Cash balance forecasting• Monthly liquidity analysis and long-term cash management• Continuously evaluate investment policies to ensure the most effective management of assets
Potential Gaps / Concerns
<ul style="list-style-type: none">• Changes to economic and/or regulatory environments• Internal and external talent retention and development to ensure skills / resource availability• Budget constraints

Market Dependence on Reinsurance

Risk Owner: Jennifer Montero

Risk Champion: March Fisher

Risk Description
The financial model of the Florida domestic property insurance market has a high dependence on the pricing and capacity available in the reinsurance market.
Mitigation Update
<ul style="list-style-type: none">• Conduct cost analysis of reinsurance vs. Insurance Linked Securities (ILS)• If ILS market is advantageous, pursue exposure diversification/shift from reinsurance market• Continue data quality review and improvements to reduce pricing• Use of multiple vendors to achieve best value and pricing• Continue participation in the Florida Hurricane Catastrophe Fund (FHCF)• Continue transparent partnerships with reinsurers, particularly with reserving practices• Ability to assess insurers and policyholders if there is a deficit
Potential Gaps / Concerns
<ul style="list-style-type: none">• Support from the Board of Governors• Budget constraints• Internal and external talent retention and development to ensure skills / resource availability, i.e. Corporate Analytics, Claims, Accounting, financial advisors• Legislative changes to the FHCF that could effect coverage/pricing• Legislative changes to the Citizens' assessment provisions• Regulatory revisions to the reinsurance requirements for the industry – if increased could cause reduction in capacity

Rate Differential

Risk Owner: Jenifer Montero

Risk Champion: Brian Donovan

Risk Description
The statutory rate glide path of 10%, combined with both increasing litigation, and approved rate increases for other Florida insurers, is impacting the availability of private market coverage and could lead to re-population of Citizens.
Mitigation Update
<ul style="list-style-type: none">• Rate comparisons with the industry at least once a year to understand where rates are relative to the market and report results to the Board• Monitor insurance companies quarterly financials to be better prepared in the event of a company insolvency• Continue monitoring and evaluating the insurance industry's available products• Continue efforts with lawmakers and other political figures to educate possible impacts to the industry
Potential Gaps / Concerns
<ul style="list-style-type: none">• Legislative changes to the glide path or similar provisions• Lack of legislative changes to address litigation issues• Significant changes in the political and/or Office of Insurance Regulation leadership

Reinsurance Program

Risk Owner: Jennifer Montero

Risk Champion: March Fisher

Risk Description
Failure of Citizens reinsurance strategy and associated program to provide adequate risk transfer and the expected protection of Citizens' surplus at an acceptable cost.
Mitigation Update
<ul style="list-style-type: none">• Continue efforts with building relationships with reinsurance partners – stability with partners and the relationships, transparency and collaboration• Conduct cost analysis of reinsurance vs. Insurance Linked Securities (ILS)• Continue data quality review and improvements• Use of multiple vendors to achieve best value and pricing• Contract analysis and evaluation to understand benefit or impact to pricing for various contractual options• Contract evaluation after agreements are in place to ensure accuracy of policy volume impact• Internal and external reviews and evaluations are conducted, i.e. financial advisors, reinsurance brokers• Ability to assess insurers and policyholders if there is a deficit
Potential Gaps / Concerns
<ul style="list-style-type: none">• Internal and external talent retention and development to ensure skills / resource availability, i.e. Corporate Analytics, Claims, Accounting, financial advisors• Support from the Board of Governors• Political and/or reputational criticism due to the lack of understanding of the program(s) purpose• Budget constraints• International travel concerns