

JUNE 2019 PRESIDENT'S MESSAGE

The primary focus of today's President's Report is **AOB Reform Legislation** and the **impact** we believe it will have on Citizens when effectively implemented. I requested both Christine Ashburn, Chief of Communications, Legislative and External Affairs, and Jay Adams, Chief of Claims, to take the lead and describe AOB legislation, and to review the actions we plan to implement to ensure we take full advantage of this legislation to benefit Citizens' policyholders.

Before I turn this over to them, I have a few opening comments. As you are aware, Citizens has had excellent success in reducing, in fact eliminating, the potential for assessments by reducing our policies from 1.5 million to an all-time low today of 420,000 and exposure from \$512 billion to \$106 billion. IN a presentation Ben Watkins from the SBA made to the Cabinet last August he clearly demonstrated the extent to which Citizens and the CAT Fund positively contributed to Florida becoming the only state with a AAA Bond Rating. This was entirely due to the reduced assessment load and exposure. The opportunity to further reduce our footprint is dependent on the health of the private market and the appetite of Florida companies to assume more of Citizens business. At the end of the first quarter, the Florida market was still healthy but combined ratio had increased year over year by 8.9%, net loss and loss adjustment (LAE) increased by 12.6%, and net income had decreased by \$65 million. Without question AOB litigation played a major role in these results. At the same time, catastrophe reinsurance rates are moving higher after many years of favorable rates.

Today Citizens looks far more like a residual market with 90% of our properties over 20 years old, and 61% 50 years and older. We also insure the lower valued homes, for example 46% have building coverage less than \$200,000. In addition, 51% of policies and 55% of exposure is located in the highest litigated counties responsible for 90% of all Citizens litigation and where litigation rates are eight times higher than the rest of the state. Policyholders in the Tri-County area also submit a

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higher percentage of claims - 38% of all Tri-County policyholders have submitted a claim compared with 23% of the *Rest of State* and looking at these numbers **excluding WIND**, 20% of our customers have had a claim compared with just 13% *Rest of State*.

The number one reason that Citizens' business may still be considered unattractive is the rate inadequacy of its book. However while private companies can respond to virtually all risk characteristics in their rating strategy historically the largest drawback to further depopulation has been rate inadequacy which they cannot address. Prior to AOB reform Citizens' previous 9/01 filing reflected a 46.9% rate inadequacy for Broward County and 26.5% inadequacy for Dade County. This is why AOB reform was so key for all Florida companies but even more critical for Citizens and other companies with high southeast Florida market share, because it directly impacts litigation rates in our most concentrated counties. As you will hear from Brian Donovan later this morning, the customer that will benefit the most from this reform will be those located in the highest litigated counties.

As we take full advantage of AOB reform it will reduce rate inadequacy, lower rates for our policyholders, and it should eventually make Citizens business more attractive to the private market.

I will now turn this over to Christine.