



Citizens – A Residual Market

September 25, 2019

Citizens' Role in the Market

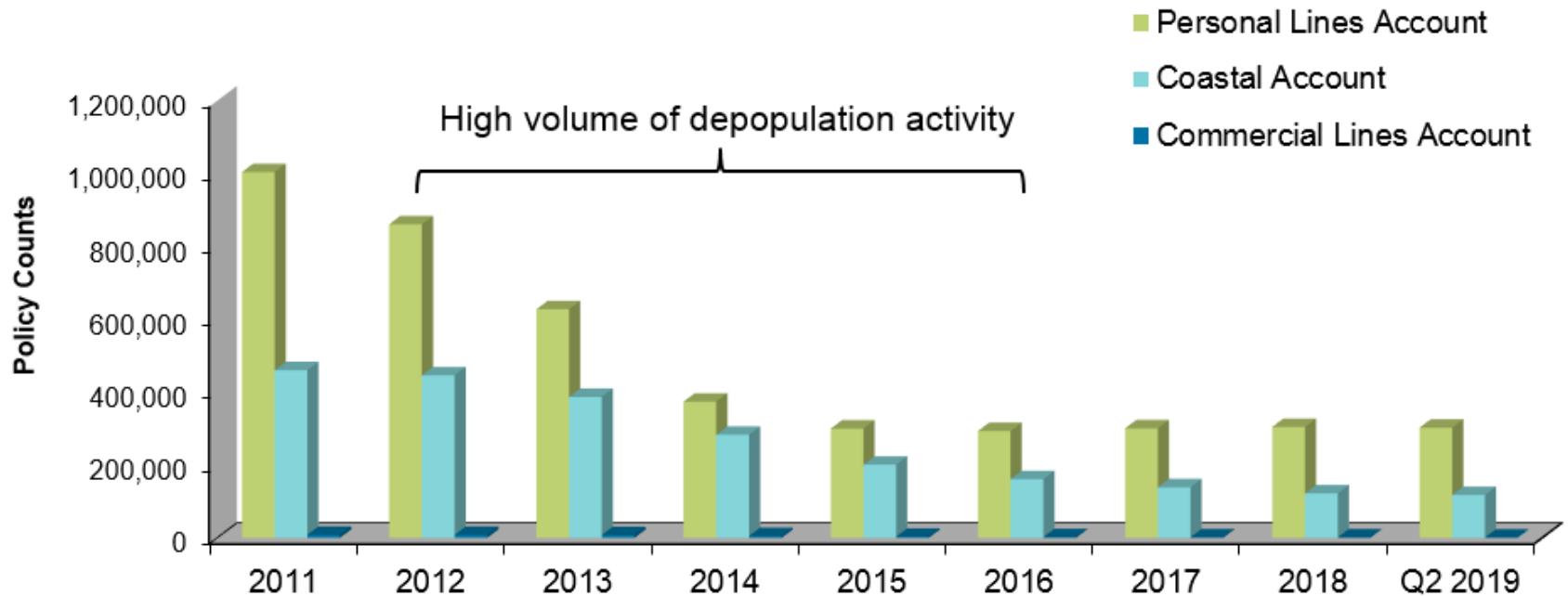
Citizens is the residual market of Florida, but also acts as a market stabilizer to ensure the economic health of the state.

Section 627.351(6), Florida Statutes

*The Legislature finds that private insurers are unwilling or unable to provide affordable property insurance coverage in this state to the extent sought and needed. **The absence of affordable property insurance threatens the public health, safety, and welfare and likewise threatens the economic health of the state.** The state therefore has a compelling public interest and a public purpose to assist in assuring that property in the state is insured and that it is insured at affordable rates so as to facilitate the remediation, reconstruction, and replacement of damaged or destroyed property in order to reduce or avoid the negative effects otherwise resulting to the public health, safety, and welfare, to the economy of the state, and to the revenues of the state and local governments which are needed to provide for the public welfare. It is necessary, therefore, to provide **affordable** property insurance to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so.*

Citizens' Volume Reached Height in 2011

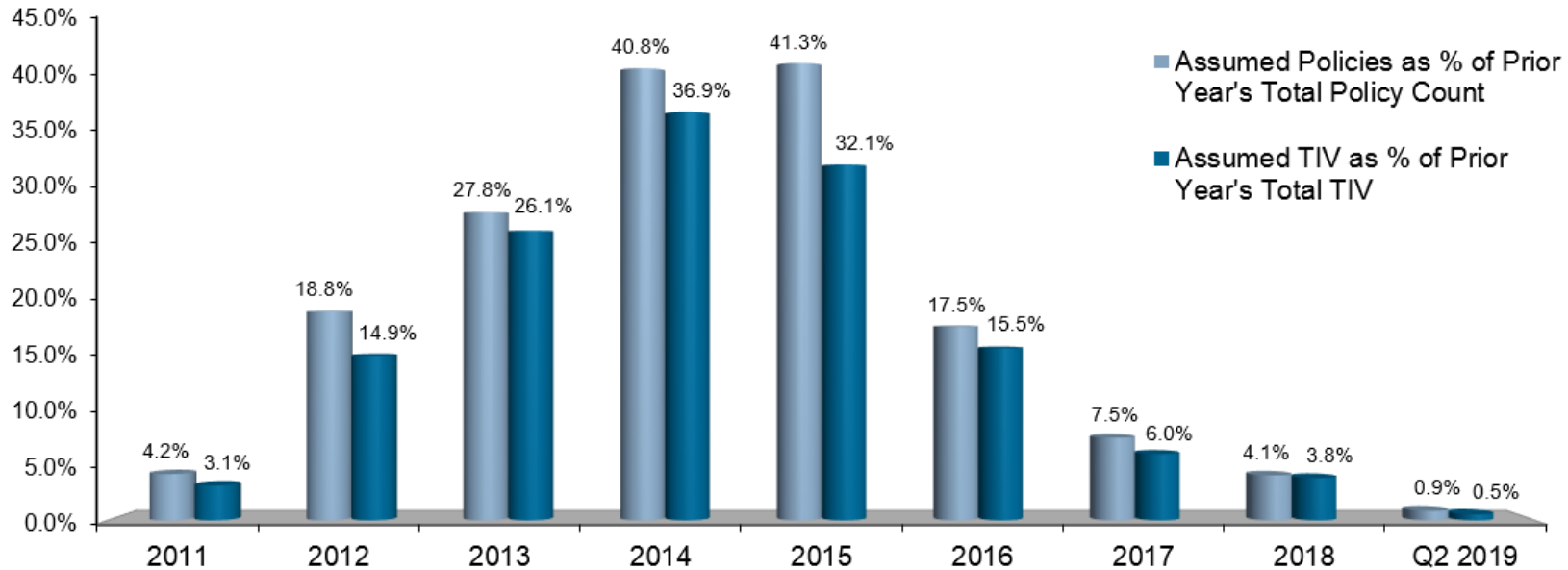
Policy Counts by Account and Year
Data as of June 30, 2019



	2011	2012	2013	2014	2015	2016	2017	2018	Q2 2019
Personal Lines Account	1,003,856	860,502	627,391	373,617	299,902	293,118	300,507	304,507	302,218
Coastal Account	460,161	446,163	386,688	282,863	200,842	160,834	138,591	121,971	117,603
Commercial Lines Account	8,374	8,146	7,615	4,681	3,121	1,891	1,308	919	794
Total	1,472,391	1,314,811	1,021,694	661,161	503,865	455,843	440,406	427,397	420,615

Declining Depopulation is Indicative of a Residual Market

Policies Taken Out Relative to Citizens' Inforce Policies



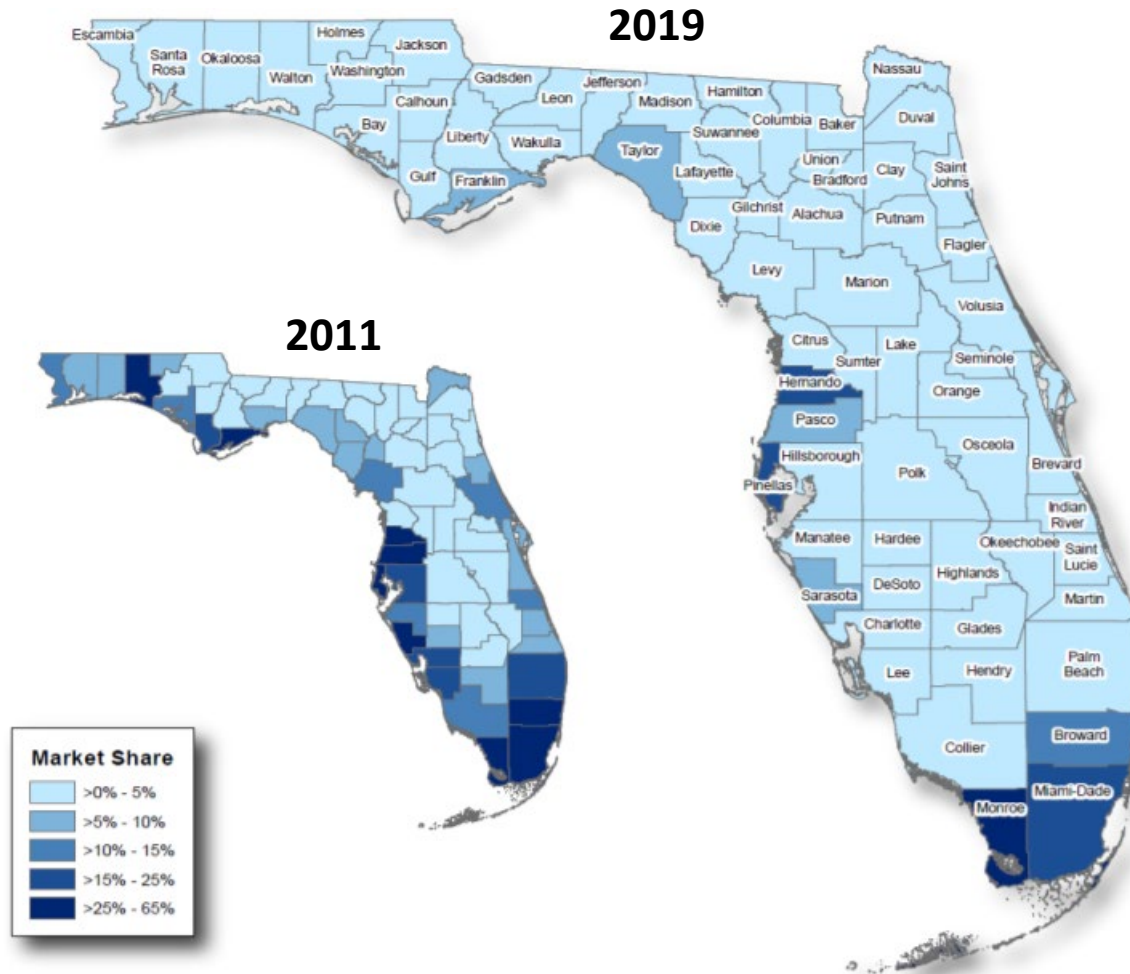
Year	Total Participating Companies	Total Policies Assumed	Citizens Inforce Policies	Assumed Policies as % of Prior Year's Total Policy Count	Total Insured Value (TIV) Assumed	Citizens Inforce Total Insured Value	Assumed TIV as % of Prior Year's Total TIV
2011	3	53,577	1,472,391	4.2%	\$14,473,700,490	\$510,675,120,913	3.1%
2012	7	277,002	1,314,811	18.8%	\$75,927,165,347	\$429,424,399,130	14.9%
2013	18	365,767	1,021,694	27.8%	\$112,265,410,122	\$318,887,485,544	26.1%
2014	21	416,623	661,161	40.8%	\$117,530,082,371	\$201,957,396,325	36.9%
2015	14	272,785	503,865	41.3%	\$64,830,051,559	\$150,495,190,065	32.1%
2016	11	88,000	455,843	17.5%	\$23,362,914,453	\$124,063,055,743	15.5%
2017	7	34,008	440,406	7.5%	\$7,435,411,434	\$112,309,524,847	6.0%
2018	4	17,905	427,397	4.1%	\$4,307,930,768	\$108,896,296,069	3.8%
Q2 2019	2	3,664	420,615	0.9%	\$590,259,277	\$107,115,372,245	0.5%

Note: The number of assumed policies does not account for any opt-out policies reported after the assumption date



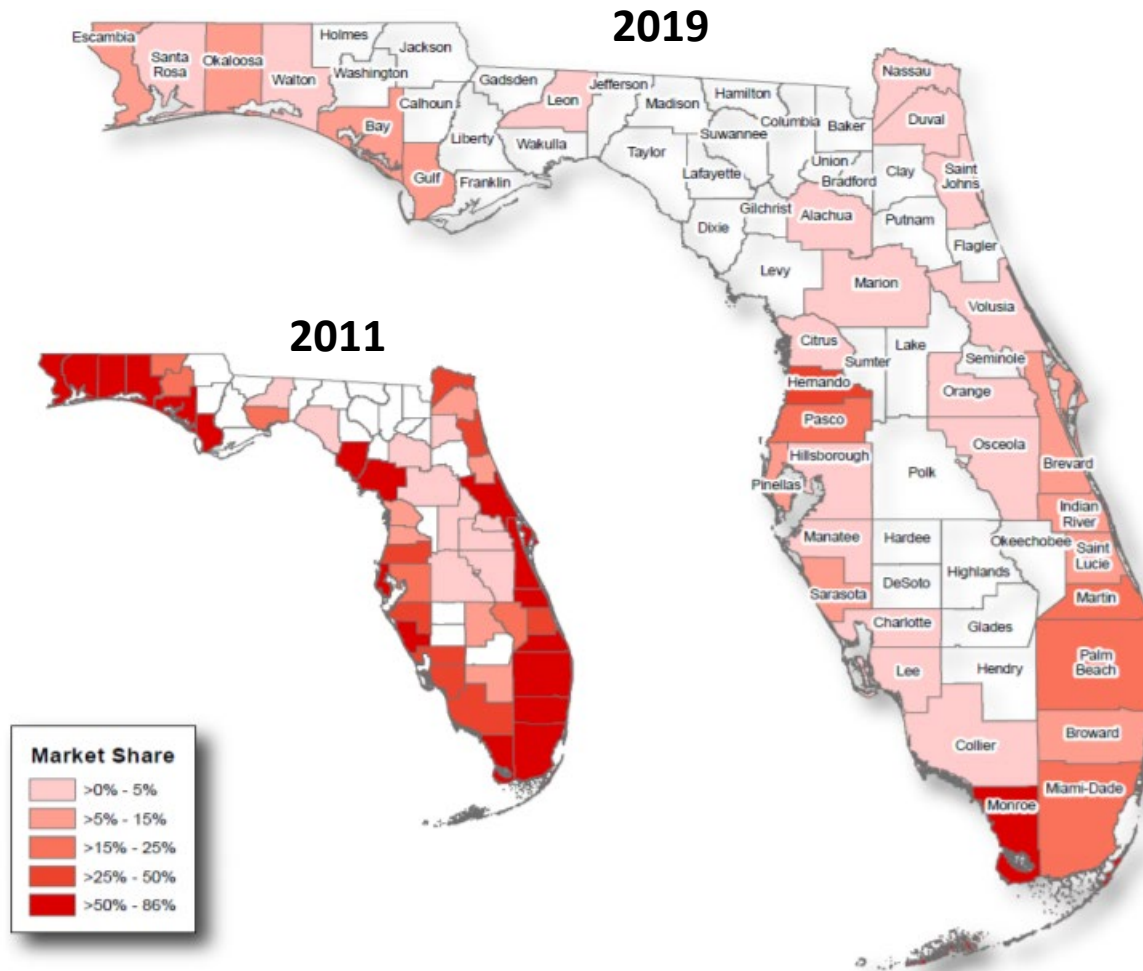
Citizens' PR Market Share 2011 Compared to 2019

Citizens' Personal Residential Market Share



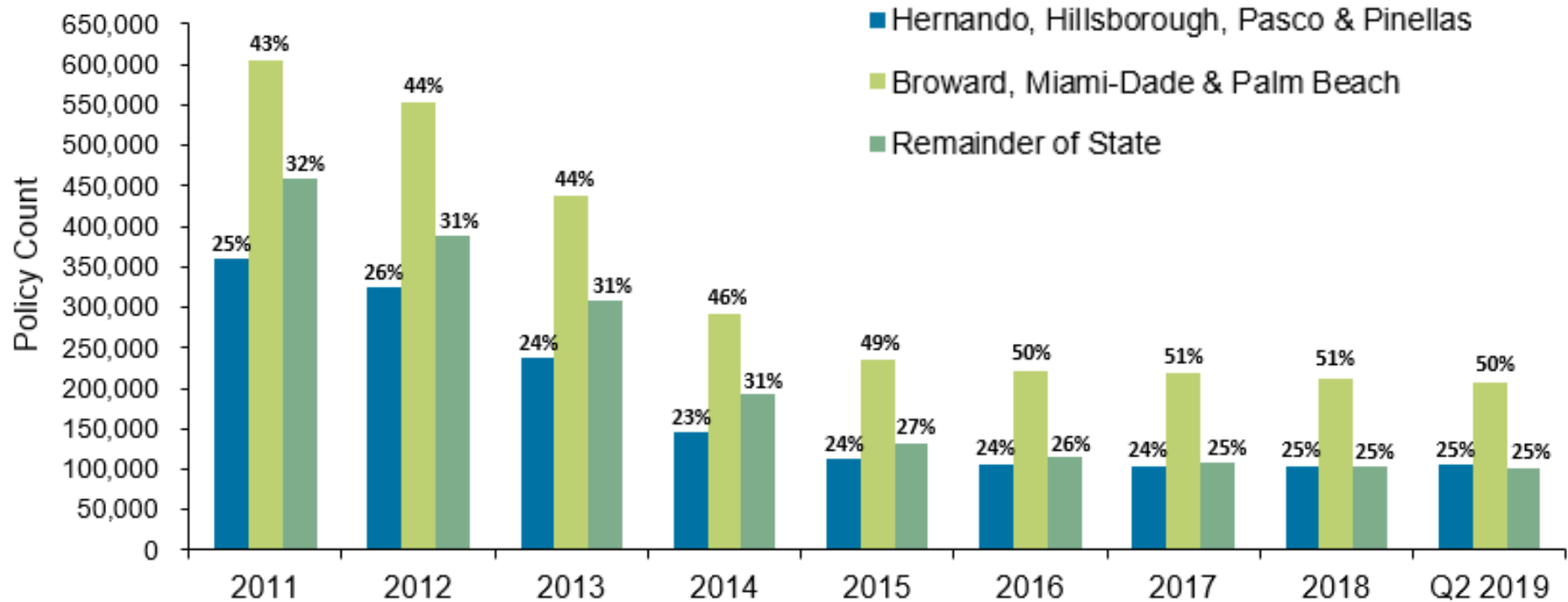
Citizens' CR Market Share 2011 Compared to 2019

Citizens' Commercial Residential Market Share



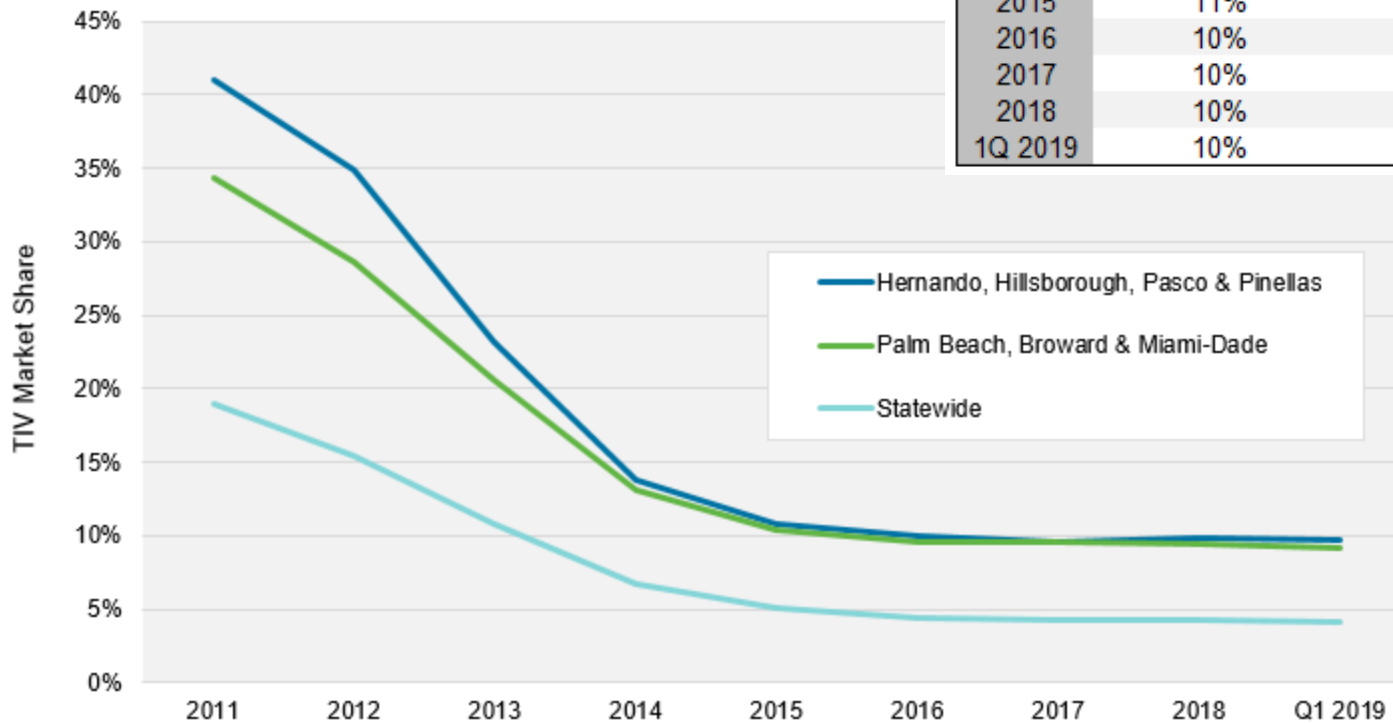
Personal Residential Concentration

Citizens' personal residential policies relative to total policies in higher risk areas has remained at a consistent level



Citizens' Market Share has Stabilized

Personal Residential Market Share by Total Insured Value

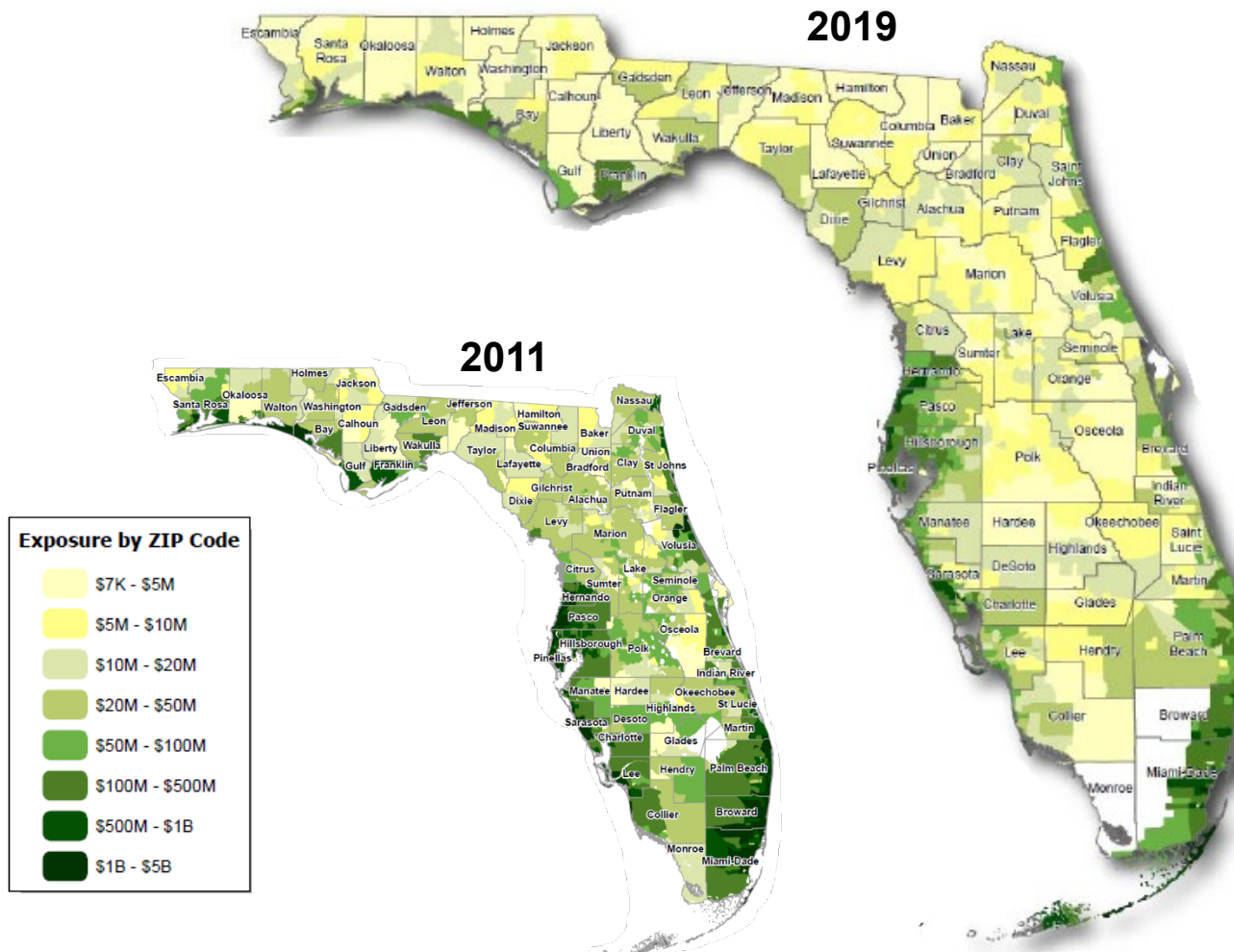


Year	Hernando, Hillsborough, Pasco & Pinellas	Palm Beach, Broward & Miami-Dade	Statewide
2011	41%	34%	19%
2012	35%	29%	15%
2013	23%	21%	11%
2014	14%	13%	7%
2015	11%	10%	5%
2016	10%	10%	4%
2017	10%	10%	4%
2018	10%	9%	4%
1Q 2019	10%	9%	4%

Residual Market Characteristics to Consider

- Location
- Age of Home
- Value of Home
- Prior Loss History
- Rate adequacy

Combined Accounts Total Insured Value (TIV) by Zip Code

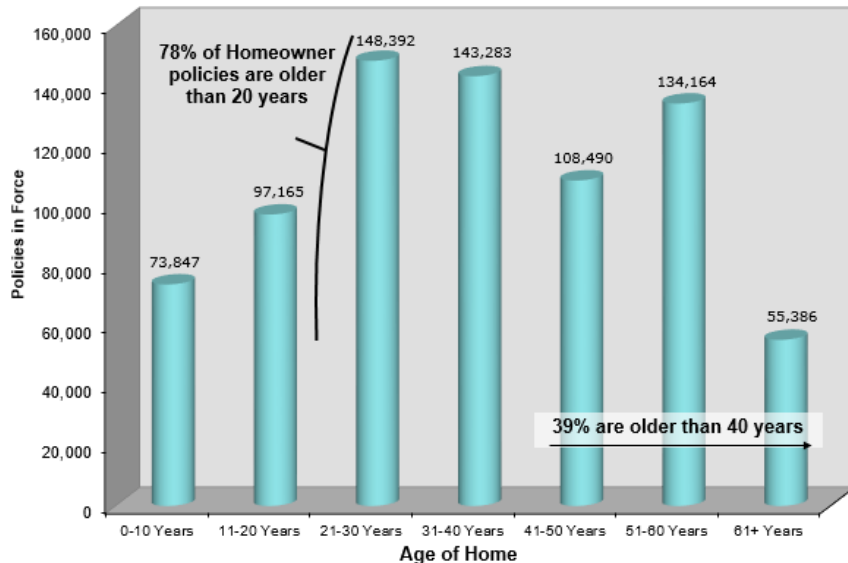


Darker shaded areas tend to be higher risk locations

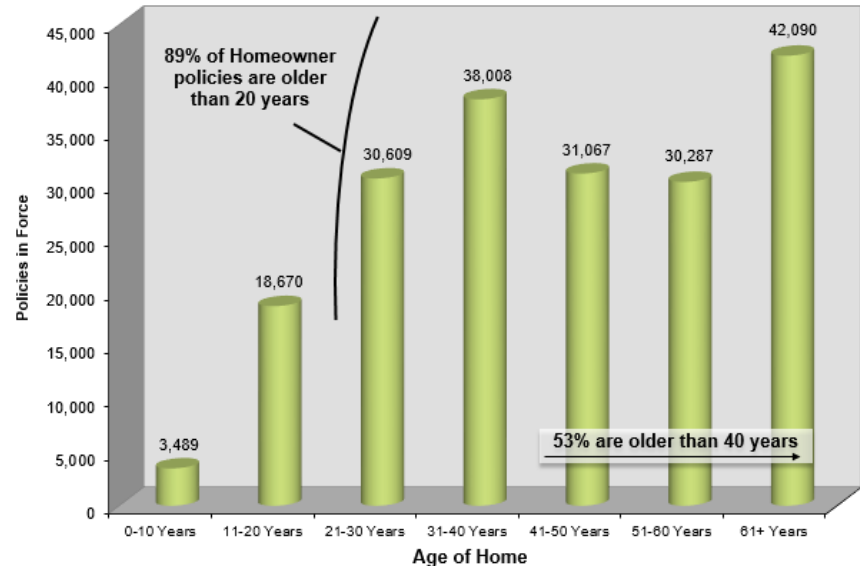
Age of Home

In 2011, approximately 171K or **22%** of Citizens' homes were 20 years or newer

Policy Characteristics - Age of Home (HO-3/HW-2)
Data as of December 31, 2011



Policy Characteristics - Age of Home (HO-3/HW-2)
Data as of June 30, 2019

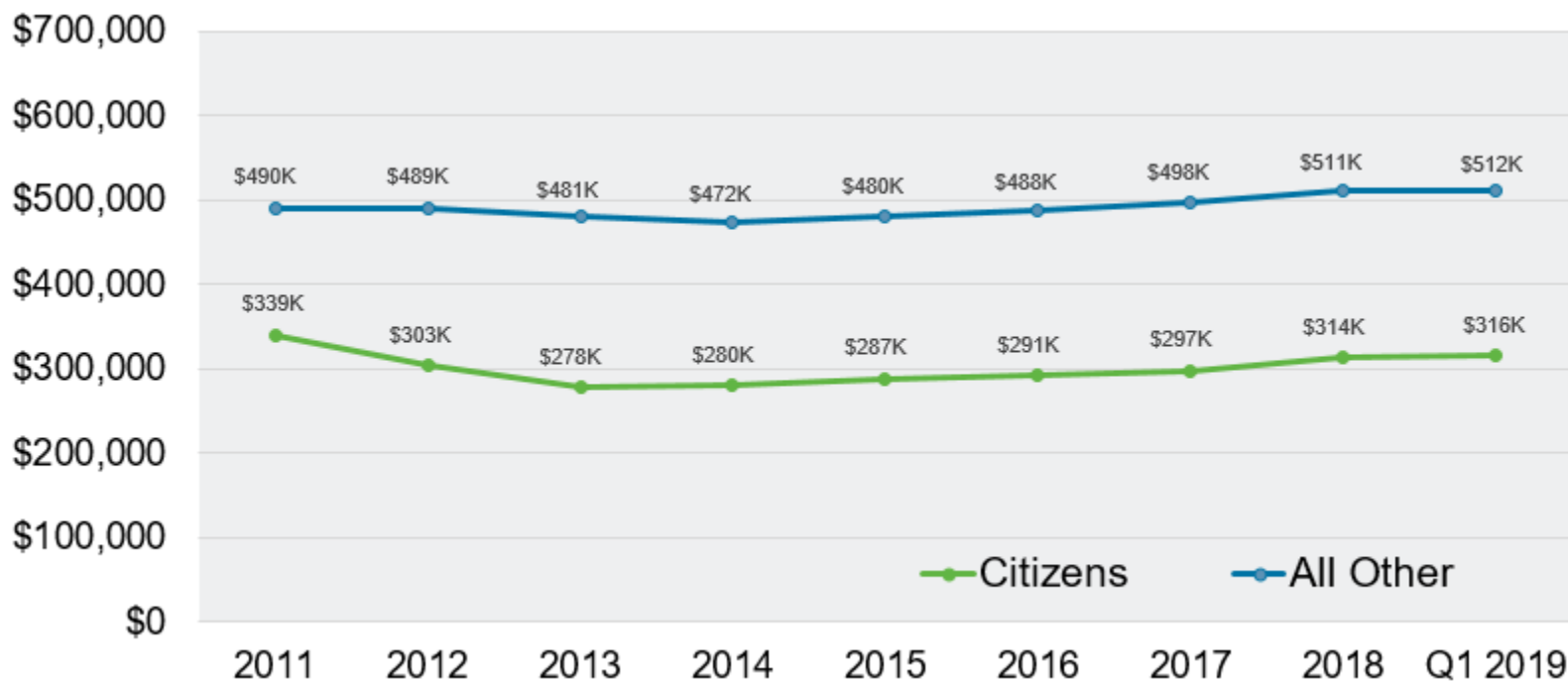


In 2019, only 22K or **11%** of Citizens' homes are 20 years or newer

Value of Home

Citizens policies have lower coverage amounts on average compared to the remainder of Florida's homeowners market

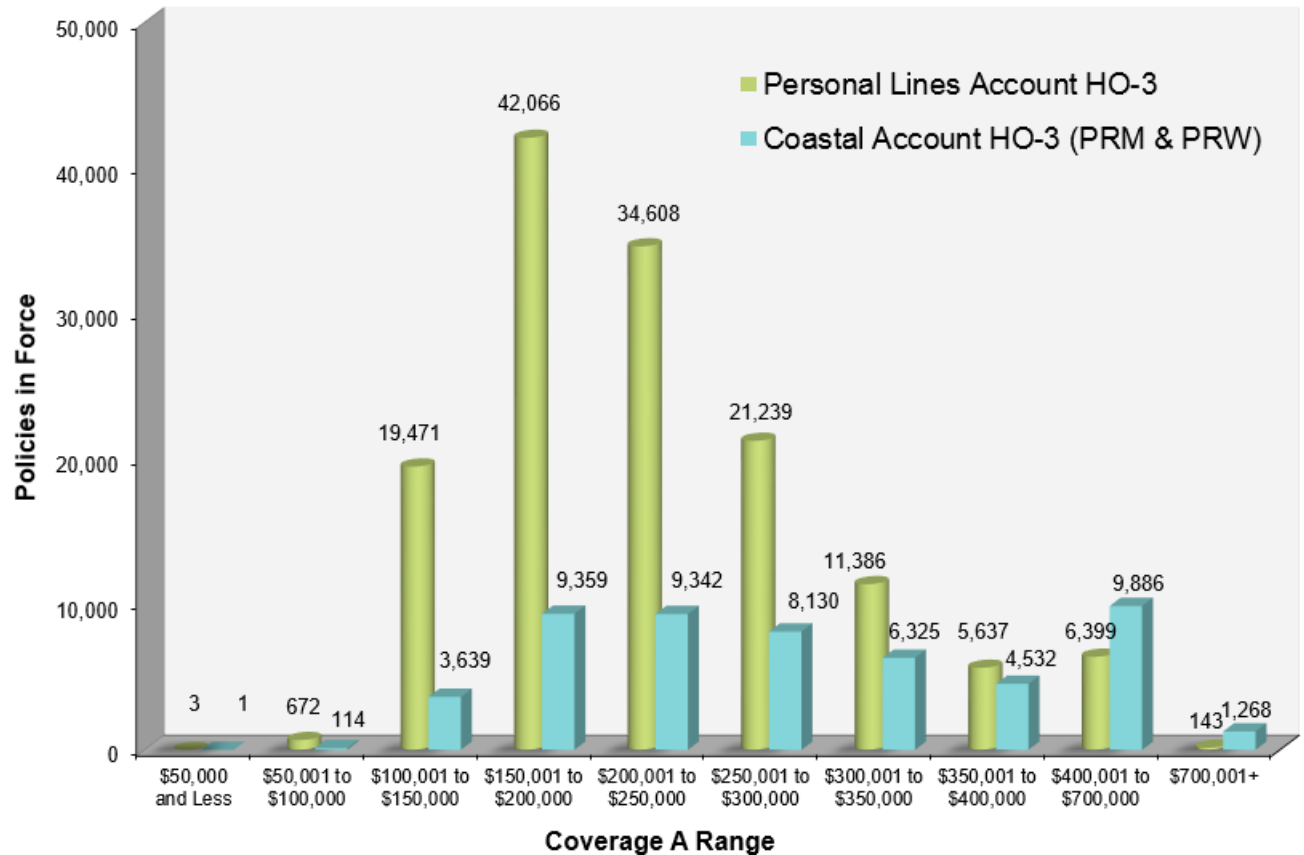
Homeowner Multi-Peril Average Total Insured Value



Value of Home

39% of Citizens' homeowner policies have building coverage (Coverage A) of \$200,000 or less

Personal Residential
Policy Characteristics - Coverage Ranges (HO-3/HW-2)
Data as of June 30, 2019



Note: In 2012, Citizens began non-renewing homes with limits exceeding \$1 million and in following years began implementing step downs in coverage limits mandated by 2013 FL SB 1770. Miami-Dade and Monroe counties are excluded from current maximum of \$700K; limit remains at \$1 million due to statutory exception.



Prior Loss History

Tri-County Region		
Claim Type	Percentage of HO-3 Policies with a Prior Claim	
	12/31/2011	6/30/2019
All Other Perils (Includes Water)	1.88%	27.19%
Wind (Excluding Hurricanes and Other Catastrophes)	0.06%	1.47%
Sinkhole	0.02%	0.14%
Any Kind of Claim	3.17%	27.79%

All Other Florida Counties		
Claim Type	Percentage of HO-3 Policies with a Prior Claim	
	12/31/2011	6/30/2019
All Other Perils (Includes Water)	0.32%	14.62%
Wind (Excluding Hurricanes and Other Catastrophes)	0.02%	3.15%
Sinkhole	1.63%	4.27%
Any Kind of Claim	2.64%	19.47%

Notes:

- 1) 12/31/2011 data is based on policies inforce on 12/31/2011 with a reported claim on or before 12/31/2011
- 2) 6/30/2019 data is based on policies inforce on 6/30/2019 with a reported claim on or before 6/30/2019
- 3) Wind Claim Type includes policies which exclude wind coverage
- 4) Sinkhole Claim Type includes policies which exclude sinkhole coverage
- 5) HO-3 multi-peril policies were not offered in Coastal territories before 2007



Rate Adequacy

Year Proposed to Board	Year Effective	Percentage of Policies with Recommended Rate Increases	
		All Personal Lines	Multi-peril Homeowners
2014	2015	32%	14%
2015	2016	55%	45%
2016	2017	77%	84%
2017	2018	64%	68%
Dec. 2018: Before AOB Reform	Not Implemented	90%	97%
2019	Dec. 2019	80%	72%

Reasons for changes in number of rate increases:

- Policyholders with adequate rates finding coverage in private market
- Worsening of AOB and Litigation Costs, and Citizens' response to it
- Legislature passing AOB reform

Comparison to Other Residual Markets

Residual Market Penetration Percentage (All Property Lines)					
State	2014	2015	2016	2017	2018
Florida	8.51	5.00	4.28	4.35	4.18
Louisiana	3.71	3.25	2.55	1.84	1.42
Massachusetts	6.50	6.48	6.71	6.63	6.49
North Carolina FAIR Plan	1.67	2.16	2.42	2.60	2.74
North Carolina Beach Plan	6.34	7.03	7.23	7.59	7.44
Rhode Island	3.46	3.57	3.65	3.67	3.47
Texas Windstorm	4.41	4.44	4.25	3.91	3.59

Considerations for Florida:

- Trending downward toward other residual markets
- 1,350 miles of coastline
- Notable Hurricane Activity: Matthew, Irma, Michael
- Unique litigation landscape
- Statutorily-required glidepath
- Reinsurance costs



What Caused Citizens' growth?

By 2011, Citizens peaked at ~ 1.5 million policies.

Challenges to private market profitability:

- 2004/2005 hurricane seasons
- Sinkhole crisis
- Unfavorable litigation environment
- Generally low profit margin in Florida
- Increased cost of reinsurance

National/regional carriers exited or restricted writing.

- Market share reduced from 63% in 2004 to 32% in 2011.

What changed?

From 2011 to 2019, Citizens' policy count reduced from an all-time high of ~1.5M policies to ~420k policies.

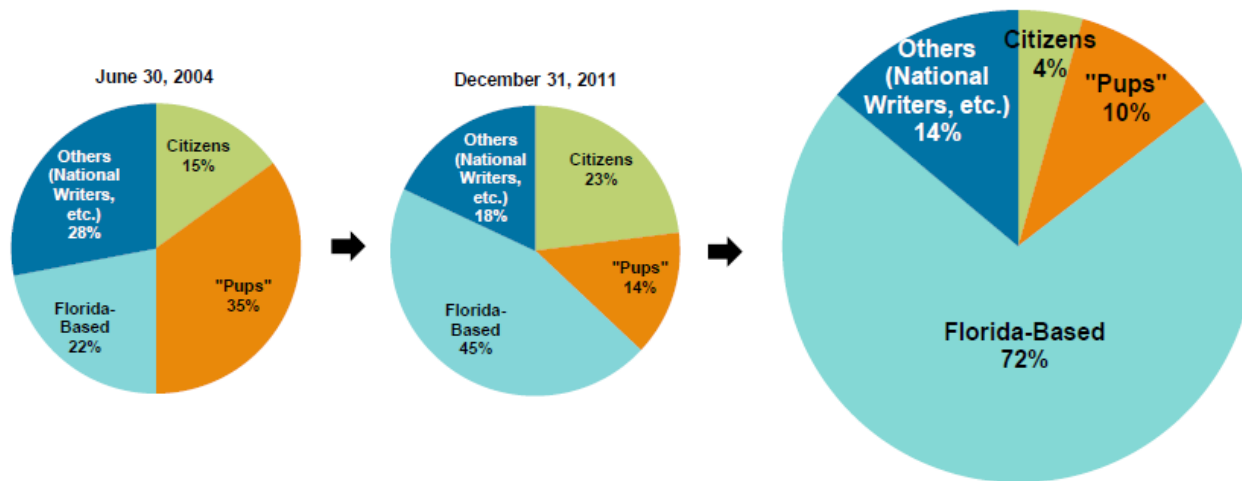
- Low reinsurance rates
- New Florida domestic carriers/programs entering the market
 - Elimination of ceding commissions encouraged domestic carriers
- Robust depopulation of Citizens policies
- Increased competition and several years of rate decreases
- 10 years without significant hurricane activity (2006-2015)

Florida domestic carriers experienced significant growth.

- Market share increased from 45% in 2011 to 72% in 2019.

Citizens' Position in the Market

Market Share Based on Total Insured Value For Policies that Include Wind Coverage Florida Residential Property Insurance Market Includes Trade Secret Insurers QUASR Data as of March 31, 2019



Insurer Category	Total Insured Value
Citizens	\$101,793,657,175
"Pups"	\$233,717,913,073
Florida-Based	\$1,650,074,339,052
Others	\$309,172,319,098
Total	\$2,294,758,228,398

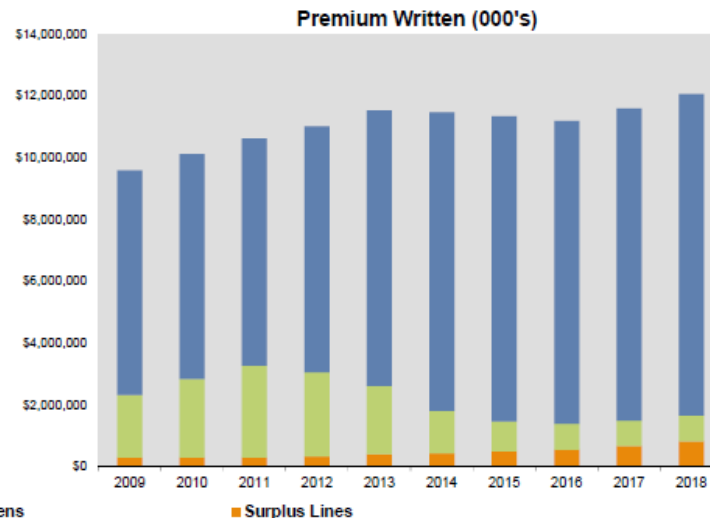
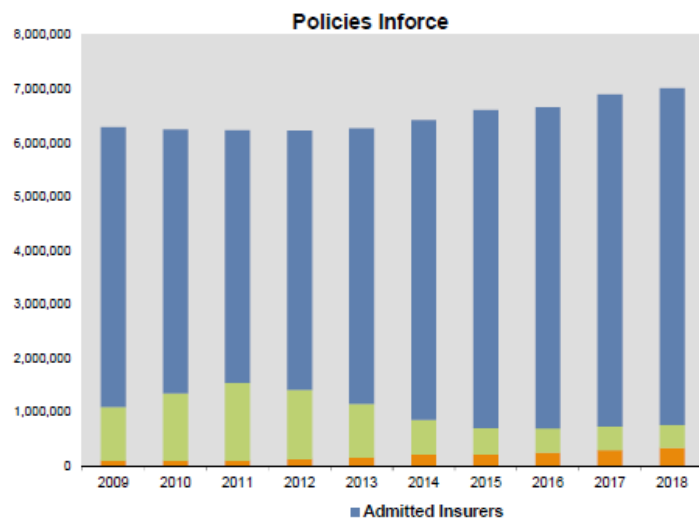
The Florida Residential Property Insurance Admitted Market is divided into 4 major parts: (i) Citizens; (ii) Florida only subsidiaries "pups" of major national writers; (iii) Florida-based domestic companies; and (iv) non-domestic nationwide property writers, such as USAA, etc.

Notes:

- 1) Includes admitted insurers only
- 2) Estimates for insurers submitting data under "Trade Secret" protection are detailed in the Data Sources section of the Corporate Analytics Market Share Report
- 3) Surplus lines companies are not included in the market share calculation
- 4) Based on total insured value for policies with wind coverage

Citizens' Position in the Market

Annual Total Market - Historical Trend
Policies Inforce and Premium Historical Trends
Florida Personal and Commercial Residential Property
Includes Trade Secret Insurers
 2009 through 2018



Year	Admitted Insurers		Citizens		Surplus Lines		Total Market	
	Policies Inforce	Premiums Written (000's)	Policies Inforce	Premiums Written (000's)	Policies Inforce	Premiums Written (000's)	Policies Inforce	Premiums Written (000's)
2009	5,193,188	\$7,261,933	996,869	\$2,037,250	100,321	\$267,546	6,290,378	\$9,586,729
2010	4,895,045	\$7,277,626	1,254,160	\$2,547,607	98,803	\$287,569	6,248,008	\$10,112,801
2011	4,683,457	\$7,357,689	1,443,936	\$2,977,454	102,266	\$288,288	6,229,659	\$10,623,431
2012	4,808,294	\$7,957,524	1,287,812	\$2,723,596	128,398	\$337,003	6,224,504	\$11,018,123
2013	5,110,177	\$8,916,445	1,000,249	\$2,198,956	155,440	\$409,659	6,265,866	\$11,525,060
2014	5,555,725	\$9,664,656	643,004	\$1,367,240	216,566	\$434,097	6,415,295	\$11,465,993
2015	5,900,339	\$9,871,846	488,476	\$971,002	214,616	\$497,624	6,603,431	\$11,340,472
2016	5,956,673	\$9,805,856	446,506	\$841,645	253,651	\$546,199	6,656,830	\$11,193,700
2017	6,161,485	\$10,106,918	434,919	\$823,072	299,745	\$668,614	6,896,149	\$11,598,604
2018	6,247,452	\$10,404,759	423,833	\$827,067	341,871	\$821,923	7,013,156	\$12,053,770

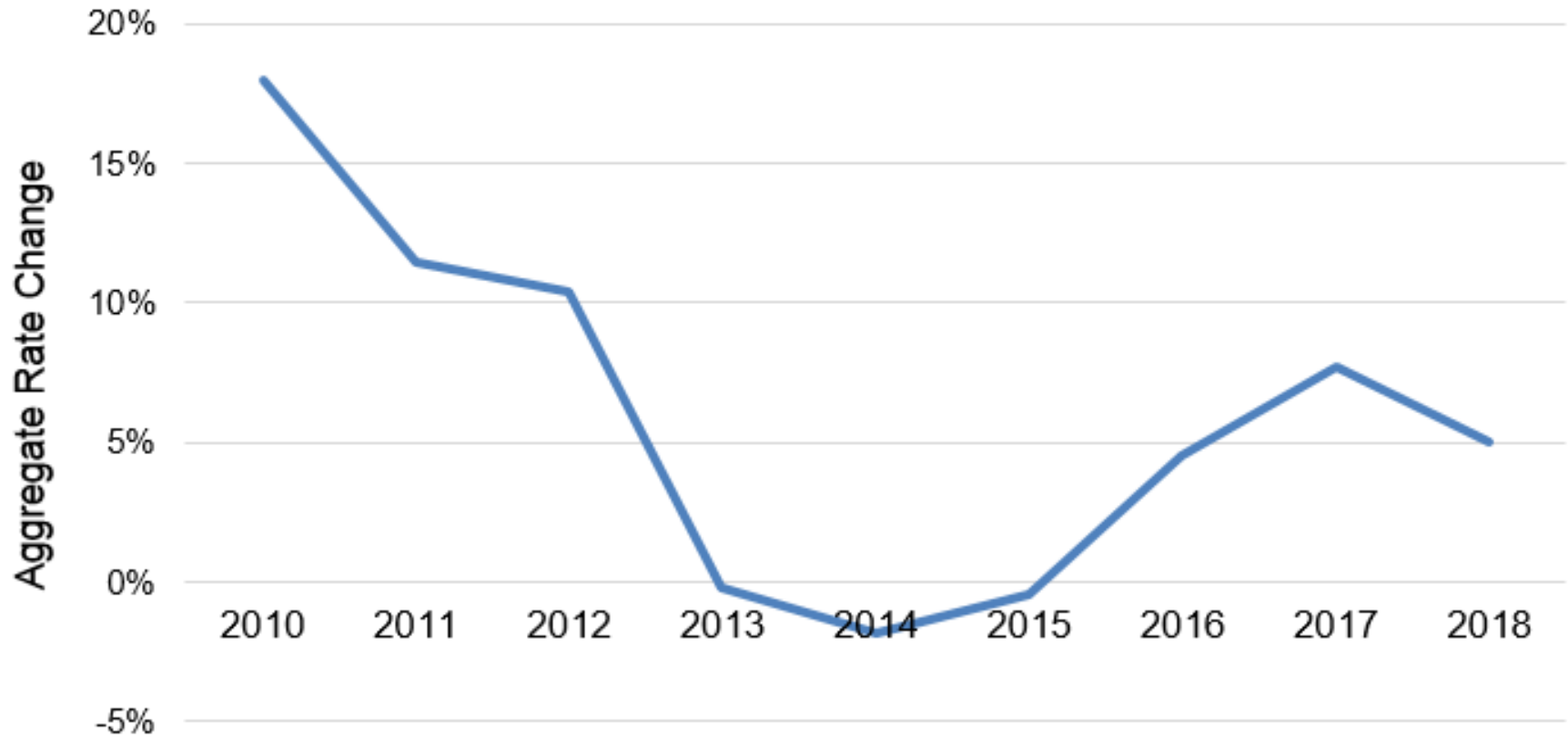
Notes:

- 1) Admitted insurer information is as reported to the Florida Office of Insurance Regulation (QUASR data) for the 4th quarter of each calendar year
- 2) Surplus Lines data reported to the FLSLSO; insured value data is not reported and thus is excluded from this analysis
- 3) Surplus Lines for personal residential include HO-3, HO-4, HO-6, HO-8 (starting in 2014), Dwelling, Dwelling Builders Risk, Mobile Home, and Windstorm
- 4) Surplus Lines policy growth in 2014 largely due to the inclusion of HO-8 (18,843) and increase in number of dwelling property policies (30,839 increase)
- 5) Surplus Lines for commercial residential includes only Apartment and Condominium coverage codes
- 6) Estimates for insurers submitting data under "Trade Secret" protection are detailed in the Data Sources section of the Corporate Analytics Market Share
- 7) Reports prior to 2Q 2010 included more surplus lines coverage types. This analysis reflects updated data for all periods.



Market – Rate Changes

Approved Annual Filings / Territorial & Base Rate Changes



Market – Eligibility and Coverage Changes

Many carriers have revised eligibility rules, coverages and limits, focusing on more preferred risks.

- Shifted to higher value homes (minimums and maximums)
- More stringent roof condition rules and water coverages
- Pricing more competitive on newer homes
- Expanded optional coverages (flood, equipment breakdown, etc.)
- Several carriers have restricted writings in tri-county

Note - some carriers are filing under Trade Secret, specific information is limited.

Market – Reinsurance







There has been an abundance of capital and reinsurance rates have been decreasing since 2012.

A sudden uptick began in mid-year 2019, with carriers citing increased rates for their June/July renewals.

- Many of the Florida domestic insurers rely heavily on reinsurance as cover for possible CAT events.
- Several limited reinsurance cost filings were submitted in August 2019, after several years of no activity.

Market Forces on Citizens

During a soft market, Citizens shrinks, while during a hard market, Citizens grows.

<u>Market Area</u>	<u>Characteristic</u>	<u>Result on Citizens</u>	<u>Trend</u>
Market Condition/UW cycle	Soft to Hard		↔
Rate Changes	Decreases to Increases		↔
Reinsurance Rates	Low to High		↗
UW Rules & Guidelines	Restrictive to Permissive		↔
Fraud and Litigation	Increase		↔
Depopulation	Increase		↘

Red indicates increased Citizens PIF; Green indicates decreased Citizens PIF.

What is next?

- Private Market consistently increasing rates
- Carriers are refining eligibility to focus on preferred risks
- Market capacity reduced in tri-county area due to water losses and AOB challenges.
- Impact to financial stability for some carriers
- Indications of reinsurance market hardening
 - Capacity reduced
 - Filings to address reinsurance cost increases