

Good morning Chairman Rivard and members of the Board. The primary focus of my report today is an overview of the 2020 planning process delivered by Kelly Booten, Chief of Systems and Operations, that provides insight into the development of our operating plan and the identification of the primary areas of focus supported in the 2020 budget. This will be followed by a presentation of the budget itself, delivered by Jennifer Montero, Chief Financial Officer. Jennifer and I sincerely appreciate all of the time that you spent with us individually to review all aspects of the budget and the input you provided.

Before we review the budget, in the September Board meeting we committed to provide a recommended approach to determine if any exposure reduction and depopulation opportunities can be identified for Citizens to further reduce its exposure—thereby reducing the financial impact on the State of Florida. There have been many studies conducted previously that were very comprehensive that addressed this area.

- Lasting Reforms for Florida Property Insurance Market: published by The James Madison Institute in 2015.
- A Public Policy Evaluation of Florida Citizens Property Insurance Corporation: published by the NAIC in 2015.
- Residual Market Property Plans: From Markets of Last Resort to Markets of First Choice: published by The Insurance Information Institute in 2014.
- Two prior studies were conducted by Florida State University's "Florida Catastrophic Storm Risk Management Center" initially published in 2011 with a follow up report published in 2013 on behalf of the Florida Legislature.

While these studies were very comprehensive, they were all focused on reducing Citizens size from the 23% market share, 1.5 million policyholders, and \$512 billion in exposure that Citizens represented at the time the studies were conducted. While today, as Steve Bitar presented in the September Board meeting, we look more like a real Residual Market with only 4% market share and less than \$107 Billion in exposure. We still believe it is appropriate to examine what might be necessary to get Citizens exposure to an even lower level. In Section 3 of your Board Book we have outlined a proposed scope of services that we believe could result in identifying additional opportunities conducted by an independent party. Given Florida State University's excellent track record in this space and their prior studies, our next step will be to reach out to FSU to determine their level of interest.

Budget Discussion:

Let me provide just a few comments before asking Kelly to take over. Citizens is operating in a difficult market environment today. Virtually all companies continue to be impacted by excessive litigation that is clearly resulting in major financial issues in the market and more

recently by increased reinsurance pricing. As Jay Adams reported in the Claims Committee meeting, Citizens is showing the positive impact of AOB legislation, the MRP Program, and new policy language but continue to experience very negative results in the Personal Lines Account driven by First Party Litigation. In order to analyze First Party Litigation Cost, Chairman Rivard suggested that I provide the Board with a breakdown of the \$456 Million Losses and Loss Adjusted Expense number that shows up in the budget. You all received that breakdown last week. When determining where litigation costs are heading, the exhibits provided show that only 10% of the Defense spend of \$86 million relates to 2020 costs and the balance relates to litigation from prior Accident Years. This number has dropped from \$105 million in 2018 to a projected \$86 million in the budget. The third quarter results for the Industry continued their negative trend with Florida Domestic Insurers showing a \$378 million Underwriting loss and negative net Income of \$137 million. This follows 2018 year end results showing an UW loss of \$406 million and Negative Net Income of \$150 million, and 2017 Year End Results of \$434 million in negative Underwriting Loss and \$146 million in Negative Net Income. I have focused on the Florida Domestic results as these companies represent 79% of the market and are the companies most likely to participate in Citizens Exposure Reduction Programs.

The Market impact is a continuation of increased rate filings by private insurers necessary to offset the poor industry results and an increase in the number of restrictive policy form changes to address specific issues such as Non-Weather Water losses. This clearly shows up in our annual rate analysis that compares Citizens rates with companies writing in our key territories. Given our limited rate increases it is impacting our competitive position in the market.

Having said that, you will see in our budget discussion that we still will be relatively flat from a policy count and premium standpoint clearly showing the resiliency of the Florida Domestic Market. The Clearinghouse and Depopulation programs still have the intended impact of assuring that only the insureds that cannot find coverage in the private market are eligible for Citizens.

I will open this up to questions before turning this over to Kelly Booten.