

Executive Summary

Board of Governors Meeting, March 25, 2020

President's Report

I will first comment briefly on the overall Florida Insurance Market and then on Citizens results specifically.

I have reported previously on the profitability problems experienced by Florida Domestic Market Insurance Companies in 2017 and 2018. Unfortunately, the unprofitable results indicated by the 2019 year-end industry financials not only continued but worsened. The Florida Domestic ended 2019 with a net underwriting loss of \$684 million and negative net income of \$340 million which is more than double the net income loss in the prior two years.

This has understandably resulted in 80% of company rate filings, between June and December of last year, submitting requests for increases (with 55% of these being double digit increase requests). In addition, decisions are being implemented to introduce more restrictive form filings and tighter underwriting criteria. While Demotech, the primary Florida rating agency, has taken action on three companies this year, solutions have been found that limit the impact on policyholders and therefore have had no impact on Citizens in the short term. Despite many companies announcing more restrictive actions regarding policy form and coverage, and taking significant rate increases, the number of customers we support has remained at the 440,000 level, or 4% of the market for the past 4 years. New business has continued at the 6,000 to 7,000 per month level, offset by cancellations and non-renewals. This is about to change as Demotech announced late last week that while they will be reaffirming the financial ratings of 33 of the 46 Florida domestic companies that they rate. Demotech advised 13 companies of a downgrade to an "S" rating which would make them ineligible to write any new or renewal policies with a federally backed mortgage. Our initial analysis indicated that if Demotech followed through with these downgrades this would have impacted companies representing just under one million insureds. However, we anticipate Demotech will affirm the Financial Stability Rating (FSR) of the vast majority of these companies which will substantially reduce the number of customers impacted. While most of the customers that may be impacted will be written by companies with acceptable ratings, a combination of any Demotech actions and the challenges already faced by all companies, as a result of the Coronavirus, may change the marketplace. These events are expected to have a significant impact on Citizens new business over the next 18 months. Citizens is prepared both operationally and financially for any impact caused by these events.

As reported during the March Claims Committee Meeting, our litigation trends show significant improvement with new lawsuits last year, averaging 797 per month reflecting a decrease of 27% compared with 2018 when we averaged 1004 new lawsuits per month. The improved litigation numbers result from a reduction in CAT lawsuits, down 10% from last year. Despite an increase in AOB lawsuits in 2019 from 3,678 to 3,959 the monthly trend was very positive with a reduction monthly from 565 in June, prior to 7065, to 148 in December 2019 and the favorable trend (of 166 per month) continued in January and February. We continue to respond to the trend in new non-weather water losses that are currently averaging over 850 per month.

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The bottom line is that despite profitability issues with the Florida Property Market overall Citizens results continue to be stable relative both to policy count and profitability. With that Mr. Chairman I open it up for any questions.