

Executive Summary

Board of Governors Meeting, June 24, 2020

President's Report

The property market in Florida is being impacted by a number of factors that are causing dislocation for Florida consumers. Over the past eight years we have been able to reduce Citizens exposure from \$512 Billion to a low of \$108 Billion and our share of the residential market has dropped from 23% to 4% reducing assessment potential from \$11.6 Billion in the event of a 1-100 year storm to 0 today. Depopulation of Citizens was clearly driven by the exceptional profitability of the Florida Market from 2013-2016 that created a highly competitive private market. For the past four years our policy count has remained relatively stable in the 420,000 to 450,000 range as we returned to our role as a residual market.

Given the current issues in the marketplace this is now changing and once again Citizens is experiencing growth in the number of customers we serve. I will refer to a few data points in the PDF that is provided with this message. It is important to convey what is happening in the market, the impact on our customers, and the possible drivers behind this change in our growth pattern.

The first slide refers to the current growth that is occurring and forecasts our estimated customer count by year end. Our estimates are changing daily as new information emerges from the marketplace. Referring to slide 1 in the attached. It shows that we are renewing a higher percentage of policies compared with Budget and that the number of new policies written will also increase. The overall impact for 2020 is estimated to increase from the original budget of 431,000 policies to 517,000.

There are many factors that are driving the increased flow of business to Citizens. The financial results for the Industry over the past three years, as reviewed in the March 25th Board meeting, showed Negative Net Income for the Florida Domestic companies. Increased Risk Transfer pricing both in the Traditional and Catastrophe Bond markets have had a significant impact on availability of affordable reinsurance for domestic companies and affordable coverage for consumers. The market has not yet seen the additional impact these increased reinsurance costs will have on rates. It is fortunate that up to this point Demotech has only downgraded one company but the requirement that companies change their business models and/or add to surplus order to maintain their Demotech rating, in an environment where affordable capital is limited, clearly impacts the private company appetite for growth and even their ability to maintain their current portfolio. The competitive position of Citizens in a market that is increasing pricing dramatically is an issue that we will be addressing at some length in the September board meeting.

Many companies are attempting to address their profitability problems through Product/Pricing actions or taking Marketing Actions as outlined in slide 2. The major limitations on capacity, however, are the actions that companies are taking to restrict writings geographically either through OIR orders, in the case of the Capital Preferred order to cancel 27,000 policies effective 6/29, or decreasing their business in areas with deteriorating results such as the SOLO (Seminole, Orange, Lake and Osceola) counties. This is being accomplished through either placing limitations on new business and renewal writings in select counties or by cancelling

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agency partnerships when agents have a high concentration of their business in these unprofitable territories forcing agencies to remarket their customers in a market with limited capacity.

My final discussion is to try and answer the question of why such a dramatic shift in business plans for so many companies in an area that was so recently considered a target market for many companies. The actions are not restricted to SOLO counties, but these counties serve as a good example of what is taking place. SOLO counties have been so profitable historically that Citizens market share is less than .5% with less than 8,000 policies in force. Jay Adams did an exceptional job of reviewing litigation trends for Citizens so the exhibits that I have included for reference focus primarily on Industry results.

Slide 3 shows the overall litigation results for all companies. This is not new information that I am providing - it is the State LSOP I have previously shared, updated to show the continuation of the overall trend-slowing down - but still shows the overall growth of property lawsuits from 27,416 in 2013 to 84,000 through 2019. Through the first five months of 2020 there have been 30,164 lawsuits - on a straight-line track to reach over 70,000 by year end 2020.

Slide 4 shows the increase in litigation by county and while Dade for example has increased from 10,759 to over 20,000 cases, a 100% increase during this period and Tri-County combined from 17,258 to 40,645, Orange County alone has increased from 1,578 to almost 7,000, a 430% increase and the combined SOLO counties by 518% from 2,162 to 11,214 year end 2019.

Slide 5 compares SOLO County with Tri-County litigation experience clearly showing that SOLO counties are now responsible for 14% of all lawsuits in the State compared to 8% in 2013. Companies are finding it difficult to keep up with the increased cost of this litigation despite the significant rate increases.

Finally, I have included two slides that show Citizens only information on both the difference in the cost of litigated claims vs non-litigated Water Claims and the increase in severity over time. Historically our results have been consistent with Industry information. Slide 6 shows that the Loss/LAE for litigated claims has increased from \$23,845 in 2012 to \$48,814 as of 3/31/2020 and compares the Litigated costs to the Non-Litigated water claims that have increased from \$7,876 to \$10,097 that shows some improvement from prior year of \$12,102. Bottom line though is that a litigated claim costs four times that of a non-litigated claim and that is why our claims team is so focused on reducing the number of litigated claims through innovative programs such as MRP and the introduction of the appraisal program.

I felt it was necessary to take you through these examples to show that when you have a deteriorating litigation environment and you couple that with significant increases in severity it presents an almost impossible scenario for private companies to keep up with the required pricing/rates in order to remain profitable and continue to do business in impacted Counties. We are seeing that this is exactly what is happening and contributing to Citizens growth. Reinsurers in turn are experiencing this deterioration through the loss development patterns that they are responding to in their pricing models.

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I do want to point out that I am not suggesting this is the only driver of deteriorating results, it is not, and of course the purpose of the FSU study that you approved, and is well under way, is to identify other additional opportunities to potentially adjust the Citizens Model and of course identify additional opportunities to improve the competitive environment within the overall marketplace. It is our hope that the FSU Study will provide insight as to why litigation is increasing, why severity is increasing, the role of public adjusters and loss consultants, and so much more. There will likely be legislative recommendations along with potential changes in the Citizens Plan of Operations further defining our role in the marketplace.

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June 2020



Citizens is expected to grow through the end of 2020

Year	Number New Policies Written	% Policies Renewing	Number of Policies Renewing	Number Policies Assumed	Number Insured on 12/31
2012	346,650	83%	1,247,257	244,041	1,314,825
2013	257,290	82%	1,084,610	316,422	1,021,707
2014	176,538	80%	818,107	336,737	661,160
2015	129,577	82%	536,006	195,656	503,865
2016	97,731	83%	434,425	61,186	455,843
2017	91,775	83%	403,453	33,002	440,405
2018	83,711	82%	384,650	17,437	427,392
2019	103,676	83%	373,504	8,560	442,196
2020 Budget	87,200	82%	378,705	9,052	430,704
2020 Updated Estimate	123,061	90%	425,003	5,478	516,983

Note: Percent of policies renewing does not include policies that were taken by private companies through the assumption process.

Market Trends Summary

Company Marketing Actions

- Complete shutdown of entire Seminole, Osceola, Lake, Orange, Palm Beach, Dade, and Broward counties
- Non-Renewals in coastal areas and selected counties
- Mandatory exclusion of Wind Coverage for some counties or within 2-5 miles of the coast
- Raising Minimum Values to \$500,000
- Lowering Minimum Age of home to 5 years or newer
- Cancellation of Agent Appointments resulting in non-renewal of policyholders associated with that agent

Product Pricing Actions

- Actual Cash Value Roof Endorsements
- Water exclusions on older homes
- General upward trend in rates due to reinsurance costs
- Price Increases on older roofs/discounting for newer roofs
- Revising “Age of Home” factors, increasing pricing on older homes

Specific Examples of Market Restrictions

- Federated National/Monarch – Effective June 22, 2020 closes new business for Monroe, Broward, Palm Beach, Miami-Dade, Orange, Osceola, Seminole, and Lake counties
- Universal North America: Effective June 15, 2020 closes new business for Broward, Charlotte, Collier, Hillsborough, Lake, Lee, Manatee, Miami-Dade, Orange, Osceola, Palm Beach, Pinellas, Sarasota, and Seminole counties

Carrier Litigation Experience 2013 - May 2020

Year	Citizens Lawsuits	Citizens AOB	Citizens AOB %	Lawsuits All Others	AOB All Others	All Other AOB %	Total Lawsuits	Total AOB	Total AOB %
2013	9,146	860	9.4%	18,270	4,613	25.2%	27,416	5,473	20.0%
2014	9,525	1,062	11.1%	22,122	4,820	21.8%	31,647	5,882	18.6%
2015	7,653	1,250	16.3%	30,167	6,645	22.0%	37,820	7,895	20.9%
2016	10,061	3,242	32.2%	31,790	5,968	18.8%	41,851	9,210	22.0%
2017	7,624	2,718	35.7%	41,524	9,772	23.5%	49,148	12,490	25.4%
2018	13,363	3,631	27.2%	69,300	17,421	25.1%	82,663	21,052	25.5%
2019	9,877	3,886	39.3%	74,210	24,694	33.3%	84,087	28,580	34.0%
2020	2,933	721	24.6%	27,231	5,711	21.0%	30,164	6,432	21.3%
Total	70,182	17,370	24.7%	314,614	79,644	25.3%	384,796	97,014	25.2%

2019 May YTD vs 2020 May YTD Notes:

1. Citizens AOB Litigation decreased by 59% (1,765 to 721)
2. Citizens Overall Litigation decreased by 34% (4,435 to 2,933)
3. All Other Carriers AOB Litigation decreased by 47% (10,683 to 5,711)
4. All Other Carriers Overall Litigation decreased by 12% (30,986 to 27,231)

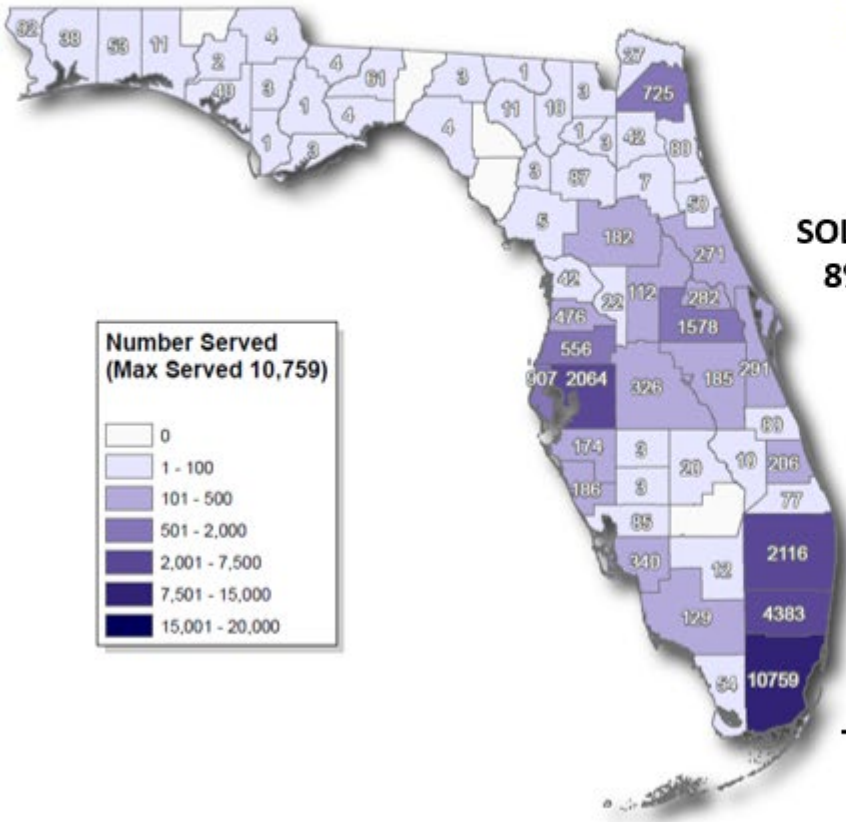
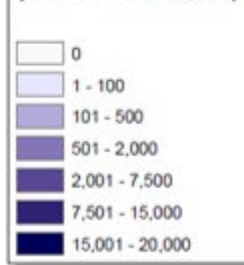
Data source – DFS LSOP 2013 – May 2020

Carrier Litigation Experience 2013vs 2019 by County

2013 Lawsuits by County
All Insurance Companies

27,416
20% AOB

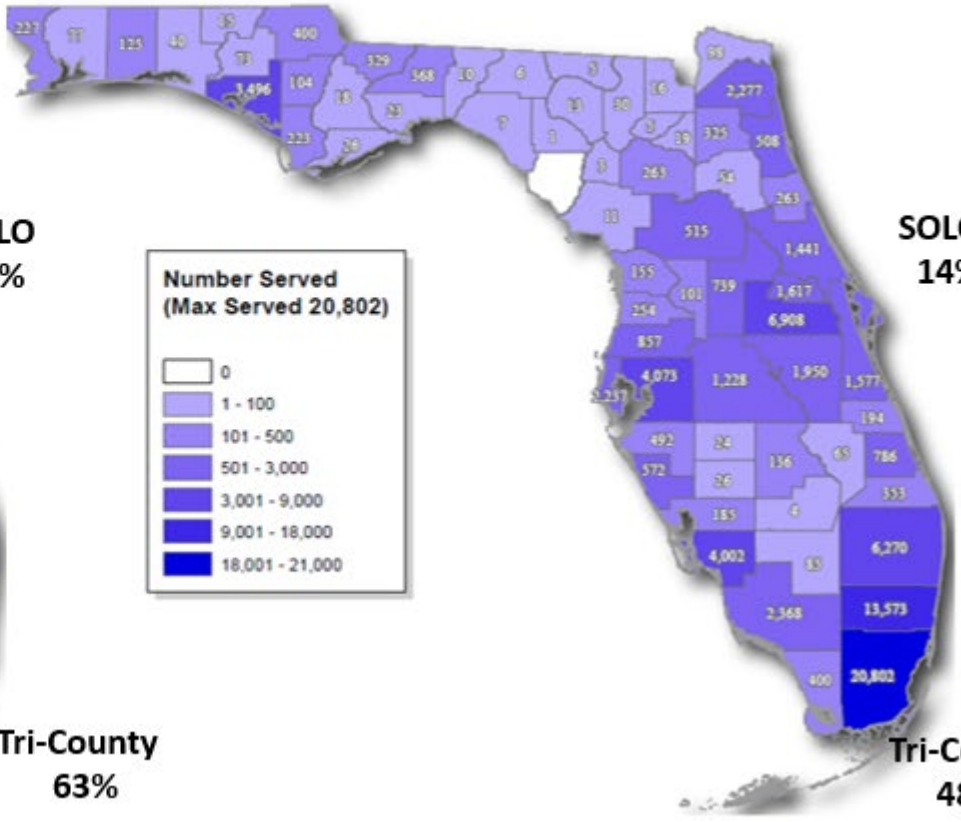
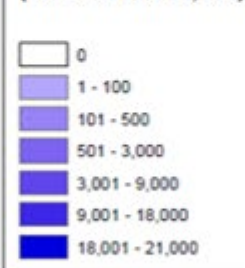
Number Served
(Max Served 10,759)



2019 Lawsuits by County
All Insurance Companies

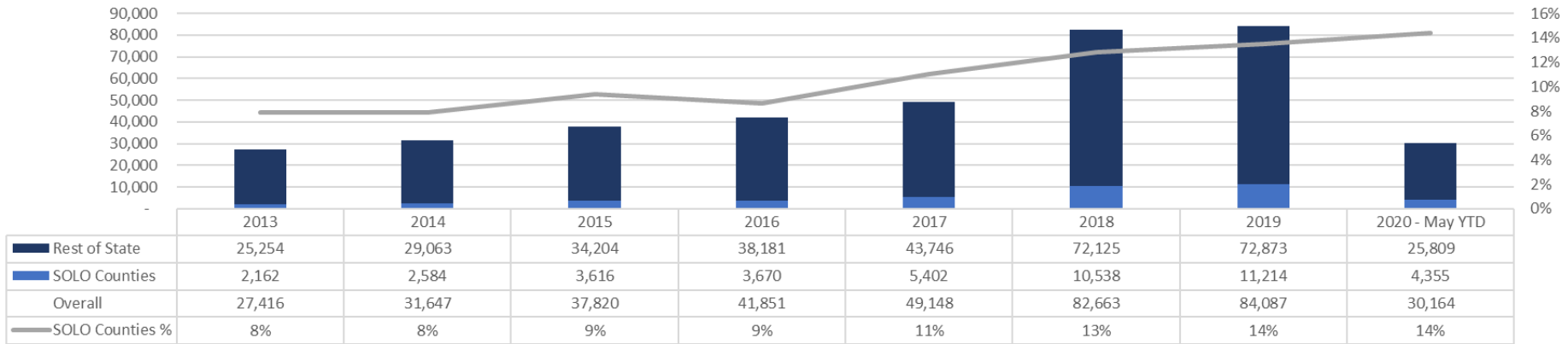
84,087
34% AOB

Number Served
(Max Served 20,802)

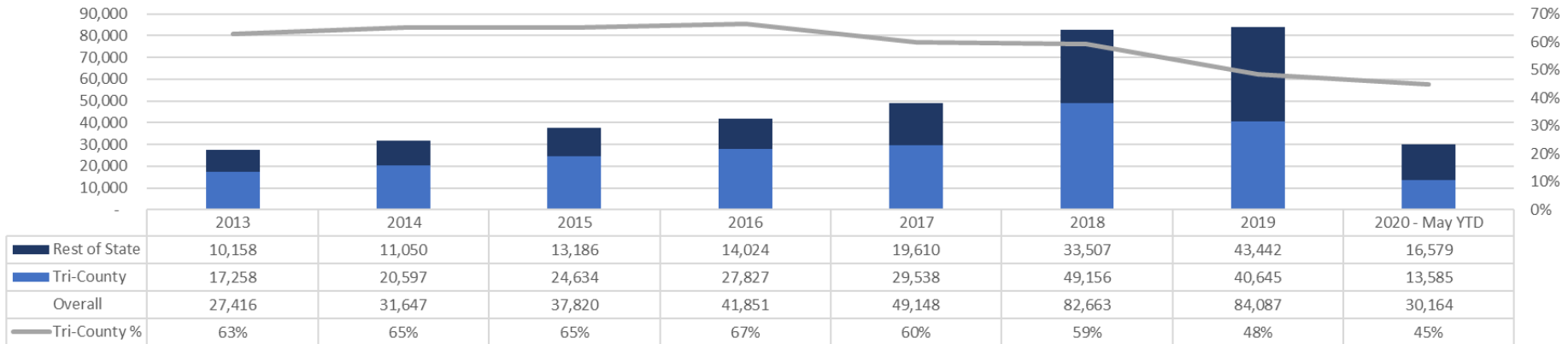


SOLO-Counties vs Tri-County Carrier Litigation Experience

SOLO-County Area Accounted for **8%** of All Lawsuits in 2013 to **14%** in 2019 and 2020 YTD



Tri-County Accounted for **63%** of All Lawsuits in 2013 to **45%** in 2020 Through May



Data source – DFS LSOP 2013 – May 2020



Litigated vs Non-Litigated

HO3 Closed Water Claims as of 3/31/2020 Litigated Claims				HO3 Closed Water Claims as of 3/31/2020 Non - Litigated Claims				HO3 Closed Water Claims as of 3/31/2020 Total - Litigated and Non-Litigated			
Close Year	Loss Severity	ALAE Severity	Loss/ALAE	Close Year	Loss Severity	ALAE Severity	Loss/ALAE	Close Year	Loss Severity	ALAE Severity	Loss/ALAE
2012	\$18,904	\$4,941	\$23,845	2012	\$7,016	\$860	\$7,876	2012	\$7,670	\$1,084	\$8,754
2013	\$20,174	\$6,787	\$26,961	2013	\$8,391	\$1,032	\$9,423	2013	\$10,270	\$1,950	\$12,220
2014	\$22,609	\$6,348	\$28,956	2014	\$8,684	\$1,087	\$9,771	2014	\$14,075	\$3,123	\$17,198
2015	\$25,892	\$6,182	\$32,073	2015	\$8,705	\$928	\$9,633	2015	\$16,538	\$3,322	\$19,860
2016	\$29,157	\$7,034	\$36,191	2016	\$5,143	\$866	\$6,009	2016	\$17,429	\$4,021	\$21,450
2017	\$27,547	\$9,439	\$36,986	2017	\$6,167	\$1,245	\$7,412	2017	\$14,024	\$4,256	\$18,280
2018	\$29,089	\$12,255	\$41,343	2018	\$7,504	\$1,640	\$9,144	2018	\$17,942	\$6,773	\$24,715
2019	\$31,653	\$14,338	\$45,990	2019	\$10,169	\$1,933	\$12,102	2019	\$17,872	\$6,381	\$24,254
<u>2020</u>	<u>\$33,591</u>	<u>\$15,223</u>	<u>\$48,814</u>	<u>2020</u>	<u>\$8,281</u>	<u>\$1,816</u>	<u>\$10,097</u>	<u>2020</u>	<u>\$15,540</u>	<u>\$5,662</u>	<u>\$21,202</u>
Grand Total	\$26,281	\$8,687	\$34,969	Grand Total	\$7,833	\$1,116	\$8,950	Grand Total	\$13,029	\$3,248	\$16,277