

MARKET ACCOUNTABILITY ADVISORY COMMITTEE EXPOSURE REDUCTION STUDY UPDATE

SEPTEMBER 17, 2020



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.***



BACKGROUND: CITIZENS' MARKET SHARE HISTORY

CITIZENS GROWS, 2004 – 2011

- POLICY COUNT PEAKED IN 2011 AT ~1.5M POLICIES
- DRIVEN BY CHALLENGES TO PRIVATE MARKET PROFITABILITY
- 2004/2005 HURRICANE SEASONS
- SINKHOLE CRISIS
- UNFAVORABLE LITIGATION ENVIRONMENT
- INCREASED COST OF REINSURANCE
- NATIONAL/REGIONAL CARRIERS EXITED REDUCING THEIR MARKET SHARE FROM 63% IN 2004 TO 32% 2011

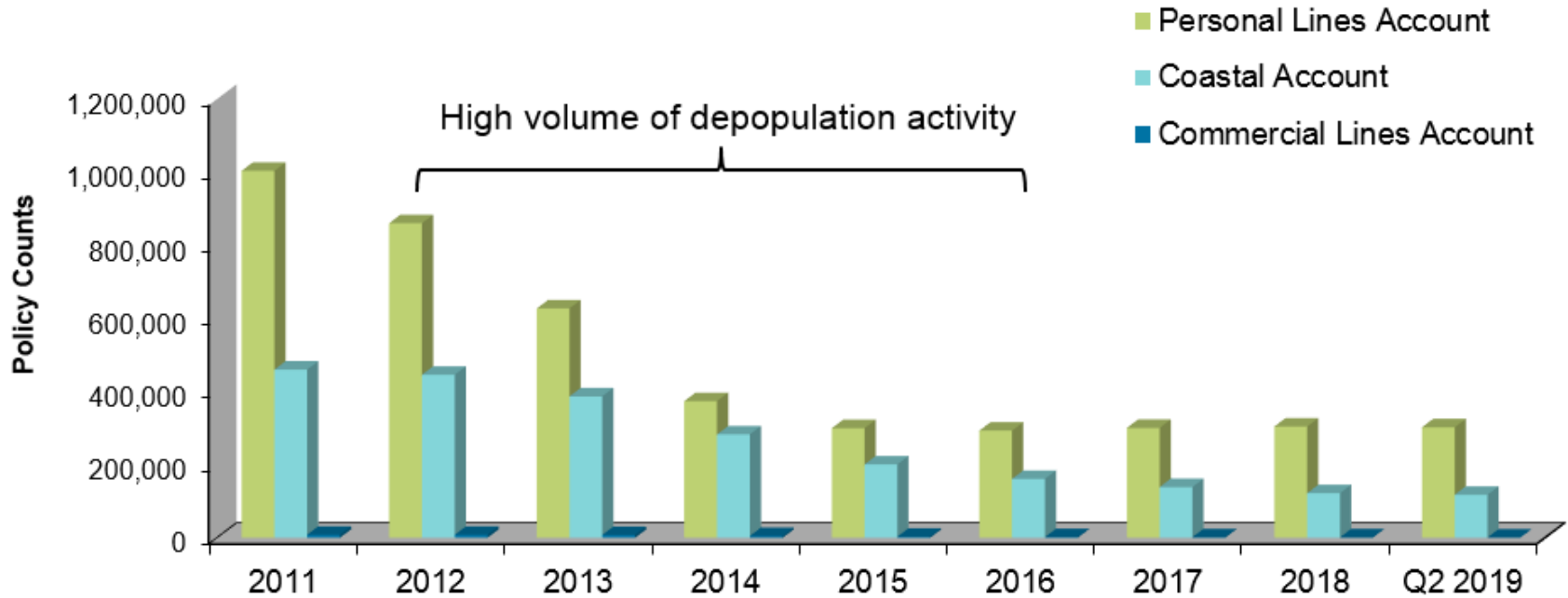
CITIZENS SHRINKS, 2011-2019

- POLICY REDUCED FROM ~1.5M POLICIES IN 2011 TO ~420K POLICIES IN 2019
- DRIVEN BY:
 - LOW REINSURANCE RATES
 - NEW FL DOMESTICS ENTERING THE MARKET, ENCOURAGED BY ELIMINATION OF CEDING COMMISSIONS
 - ROBUST DEPOPULATION OF CITIZENS' POLICIES
 - 10 YEARS WITHOUT SIGNIFICANT HURRICANE ACTIVITY, 2006-2015
 - SIGNIFICANT MARKET SHARE GROWTH FOR FL DOMESTIC CARRIERS (INCREASING FROM 45% IN 2011 TO 72% IN 2019)

CITIZENS GROWTH TREND RESUMES, 2019-2020

- LOSS DEVELOPMENT CONTINUES FROM HURRICANES IRMA AND MICHAEL
- THE REINSURANCE MARKET PRICING HAS INCREASED
- UNCERTAINTY RE: COMPANIES' FINANCIAL IMPACT OF RECENT AOB LEGISLATION
- EXTREMELY HIGH FIRST PARTY LITIGATION RATES OVERALL BUT ESPECIALLY IN SOUTHEAST FLORIDA
- PRIVATE MARKET RATE INCREASES, 55% BEING DOUBLE DIGIT INCREASES

BACKGROUND: CITIZENS' SHRINKING TREND



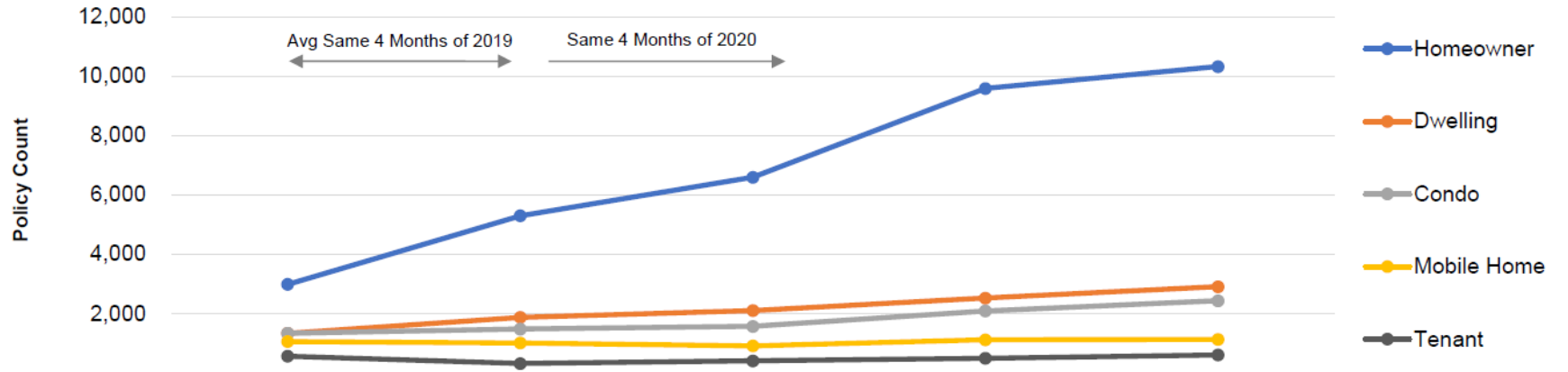
	2011	2012	2013	2014	2015	2016	2017	2018	Q2 2019
Personal Lines Account	1,003,856	860,502	627,391	373,617	299,902	293,118	300,507	304,507	302,218
Coastal Account	460,161	446,163	386,688	282,863	200,842	160,834	138,591	121,971	117,603
Commercial Lines Account	8,374	8,146	7,615	4,681	3,121	1,891	1,308	919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



BACKGROUND: CITIZENS' RECENT GROWTH TREND

Citizens Property Insurance Corporation New Business Trend April to July 2019 Average vs. 2020 Personal Residential Policy Types

New Business Policy Count by Policy Type



Policy Type	Avg Same Months in '19	Apr '20	May '20	Jun '20	Jul '20	% Change 4 Mo Avg 2019 to 4 Mo Avg 2020
Homeowner	2,990	5,299	6,598	9,593	10,329	127%
Dwelling	1,340	1,876	2,108	2,527	2,909	66%
Condo	1,339	1,483	1,573	2,093	2,435	99%
Mobile Home	1,061	1,013	915	1,122	1,131	-11%
Tenant	566	319	411	496	609	-13%
Total	7,296	9,990	11,605	15,831	17,413	82%



HOW DID THE STUDY EVOLVE?

KEY EVENTS

- **SEPTEMBER 2019 BOG UPDATE**
 - BASED ON GOVERNING INTERESTS, PRESIDENT GILWAY'S BOG MESSAGE FOCUSED ON AN ANALYSIS ENTITLED "CITIZENS – A RESIDUAL MARKET"
 - AT THE BOARD'S REQUEST, PRESIDENT GILWAY COMMITTED TO PROVIDE A RECOMMENDED APPROACH TO DETERMINE IF ADDITIONAL EXPOSURE REDUCTION AND DEPOPULATION OPPORTUNITIES COULD BE IDENTIFIED
- **DECEMBER 2019 BOG UPDATE**
 - PRESIDENT GILWAY PRESENTED A PROPOSED SCOPE OF SERVICES FOR AN INDEPENDENT ANALYSIS TO BE CONDUCTED BY AN INDEPENDENT 3RD PARTY TO IDENTIFY POSSIBLE OPPORTUNITIES FOR FURTHER REDUCING CITIZENS' EXPOSURE TO FULFILL ITS MISSION AS A RESIDUAL MARKET INSURER
 - GIVEN FSU'S CITED TRACK RECORD IN THIS SPACE AND THEIR PRIOR STUDIES, THE BOARD AUTHORIZED PURSUIT OF AN INDEPENDENT STUDY
- **MARCH 2020 BOG ACTION ITEM APPROVAL**
 - CONTRACT AWARDED TO FLORIDA STATE UNIVERSITY (FSU), CONTRACT NUMBER: 20-20-3001-00
 - THE *EXPOSURE REDUCTION STUDY* IS AN ENGAGEMENT FROM APRIL 2020 THRU DECEMBER 2020, \$266K
 - THERE ARE 4 BUILDING-BLOCK DELIVERABLES, EACH EXPOUNDING ON THE PREVIOUS ONE, CULMINATING IN THE FINAL REPORT TO THE BOG IN DECEMBER 2020

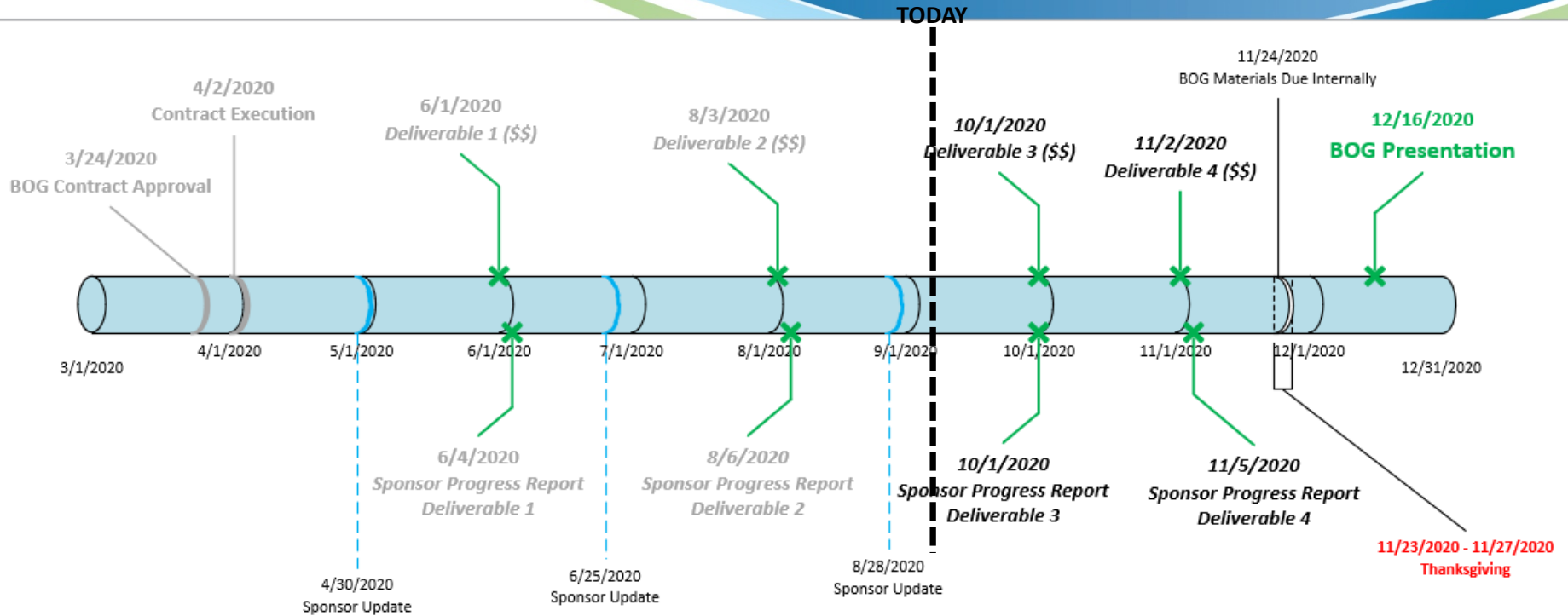
- ***THE STUDY'S STATED OBJECTIVES ARE TO :***

- IDENTIFY OPPORTUNITIES FOR CITIZENS TO FURTHER REDUCE ITS EXPOSURE WHILE CONTINUING TO FULFILL ITS MISSION AS A RESIDUAL MARKET INSURER.
- IDENTIFY INHIBITORS TO CITIZENS' FURTHER DEPOPULATION AND IDENTIFY STRATEGIES TO EXPAND CITIZENS' DEPOPULATION.
- IDENTIFY MECHANISMS TO ELIMINATE OR REDUCE THE RE-POPULATION OF RISKS BY CITIZENS TRACKING THE RISKS SPECIFICALLY DEPOPULATED.

- ***THE FOLLOWING ARE REQUIRED CONSIDERATIONS OF THE STUDY:***

- REDUCING CITIZENS' ACTUAL EXPOSURE;
- PROMOTING THE PRIVATE MARKET'S RETENTION OF RISK DEPOPULATED BY CITIZENS;
- MAINTAINING CITIZENS' TAX-EXEMPT STATUS;
- PROTECTING THE FAVORABLE STATUS OF CITIZENS' OUTSTANDING BONDS;
- MAINTAINING CITIZENS' ABILITY TO PROVIDE LEVELS OF CUSTOMER SERVICE THAT ARE COMPARABLE TO THE STANDARDS OF THE PRIVATE MARKET;
- MAINTAINING ADEQUATE ORGANIZATIONAL CAPACITY AND CAPABILITY THAT ENABLES CITIZENS TO RESPOND TO SIGNIFICANT MARKET FLUCTUATIONS.

TIMELINE AND DELIVERABLES



COMMENTARY:

- **GRAY** MILESTONES ARE COMPLETE; THE ENGAGEMENT IS ~50% COMPLETE
- FOUR (4) BUILDING BLOCK DELIVERABLES, CULMINATING IN THE FINAL REPORT AND RECOMMENDATION
- DELIVERABLE 1 (JUNE): BACKGROUND AND HISTORICAL RESEARCH
- DELIVERABLE 2 (AUGUST): INITIAL IDEAS/APPROACH BASED ON RESEARCH & INFORMATIONAL INTERVIEWS
- DELIVERABLE 3 (OCTOBER) WILL BE THE REVISED IDEAS/APPROACH BASED ADDITIONAL ANALYSIS
- DELIVERABLE 4 (DECEMBER) WILL BE THE CULMINATION OF CITIZENS' HISTORICAL RESEARCH
- FINAL REPORT IS SLATED FOR PRESENTATION AT DECEMBER 2020 BOG MEETING

Deliverable 1:

- Task 1: Background Research
- Task 2: Core Research Questions

Deliverable 2:

- Task 3: Initial Formulation of Ideas/Approaches
- Task 4: Discussion with Interested Parties & Stakeholders

Deliverable 3:

- Task 5: Data Collection & Analysis
- Task 6: Revised Formulation of Ideas/Approaches

Deliverable 4:

- Task 7: Final Report and Board Presentation

