

Executive Summary

Board of Governors Meeting, September 23, 2020

President's Report

The Financial Team at Citizens has just launched the 2021 Annual Operating Budget process. The conditions in the Florida Property Market are changing rapidly and this will make the budget process more challenging this year. Relying on past benchmarks and trends may no longer be as relevant in the process as the environment changes. Some expense categories will grow as they directly relate to growing policy count and the growth in claims count and litigation that follows. Some expense categories may be reduced as we rely on more virtual meetings requiring less travel and lodging expense.

The budget process always begins by revisiting Citizens Strategic themes and objectives to make sure our priorities in investments, people process, and technology align with the priorities of the business. The strategic themes for 2021 are:

1. Identify and implement strategies that reduce Citizens exposure.

We will have to be more aggressive than ever in considering new ideas. Obviously, this is the reason for commissioning the FSU study and we should consider recommendations from legislators that may have promise.

2. Ensure scalability, flexibility, and resiliency in operations to optimally serve our customers.

Our history shows that we are constantly subject to the impact of market conditions. Growing dramatically overnight due to the POE liquidation then going through a strong period of depopulation as market conditions improved, then of course peaking at 1.5 million customers before dropping down to 420,000. This means our business model must be responsive to a wide range of market conditions.

3. Proactively manage risk and improve loss ratios.

It is important to note that this has to happen within the framework of a residual market. Framework that includes both underwriting and pricing constraints that the private market does not have to deal with.

4. Invest in and leverage Citizens' greatest resource - our employees.

By statute we owe our policyholders the same level of service that they are entitled to in the private market. That means that we have to attract the same level of talent that the private insurance market attracts, from Loss Adjusters to IT professionals to Call Center Talent, we actually compete for this talent. We focus on employee training; we acknowledge the importance of retention and we accept our customer's expectation of

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quality service. As Florida's residual market, we endeavor to deliver quality service equal to the private insurance market.

We are constantly improving our operations. As you are aware our Enterprise Portfolio Planning Index currently has over 60 priority initiatives that will further strengthen the company. We routinely evaluate the priority of these initiatives along with internal and external costs to make sure they are in alignment with our established strategic direction.

Since our growth depends on the health of the Private Market let's review market conditions and the impact on the number of customers that we service. We are currently growing by 2,500-3,000 new customers per week on a net basis. New business has increased from 7,770 per month to 17,691 over the past twelve months. The increase in new business combined with a significantly higher renewal rate that has risen from 83% last year to 90% this year results in an estimated policy count of 540,000 for year end 2020 to well over 625,000 next year.

We have discussed the primary drivers of the market changes in prior board meetings but let me restate a couple of major points.

- The financials for private market companies continue to be stressed with the first half results for Florida Domestic companies showing a net underwriting loss of \$502 million and \$227 million in negative net income. Decreased reinsurance capacity has forced many companies to restructure their portfolios with over 6 major companies publicly announcing the shutting down of all new business in Tri-County, Central Western Counties, and more recently, as discussed in the June Board Meeting, the SOLO Counties (Seminole, Orange Lake and Osceola).
- Rate increases are occurring on an across the board basis to not only cover increased litigation cost and social inflation but more recently the increase in reinsurance pricing that has occurred over the past two years. Rate increases have been more frequent and higher. The largest five companies representing 1.5 million policyholders have had a cumulative rate effect from 12.4% to 28.3%. Other companies have raised rates by as high as 33.5%. This of course is making Citizens even more competitive. Last year's Industry rate analysis showed that Citizens was the most competitive company 85% of the time. A study will be completed using August 2020 Industry numbers and it is expected that the results will increase significantly into the 90% range given the number of increases being approved for companies. This study will be discussed in detail at the December Board of Governors meeting.

We do not anticipate market conditions to improve significantly until at least the middle of 2021 when reinsurance capacity will be reevaluated, and the current rate increases will have had an opportunity to show up in industry financials. (I have to put on my marketing hat for a minute though as I do believe that there is potentially profitable business on the Citizens' books today for those companies that have the capacity or can raise the capital.) But we do not anticipate that the market will deteriorate further unless action is taken by either OIR or Demotech based on company financials or if the industry needs to respond to a major Catastrophic Event.

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Meanwhile we continue to improve Citizens as an organization. Individual committees have already been advised of the many areas of success in Claims and Litigation, Managed Repair Program (MRP) improvements, SIU success, and the launch of the New Agency Platform to serve our 7,000 agents. In addition, the reorganization announced recently is already paying dividends as Kelly Booten launches new efficiency initiatives across the scope of her new responsibilities and Violet Bloom responds to a new remote operating environment for our employees. The bottom line is we are building in the flexibility into our operations that will respond to the growth efficiently in the short term and then allow us to consider all options to return Citizens Property Insurance to an appropriate size for a residual market carrier over the next few years.