

2021 Rate Indications



Citizens' Rate Recommendation Highlights

Overall Litigation Rates – Litigation rates continue to decline from their 2015 peak leading to a recommended decreased for water rates in Dade and Broward County.

Managed Repair Program and HB 7065 – Promising early results show contributions to the decline in overall litigation rate.

Reinsurance Provision – Citizens provision for reinsurance is much lower than the private market, thus leading to a lower rate need for Citizens. If Citizens needed the same level of reinsurance as a typical private insurer then its HO3/HW2 indication would nearly triple.

Rating Factor Change - Recommending updating all rating factors related to HO3 and HW2 rating plans. Biggest impact is the change in wind mitigation credits, which will reflect updated building codes.

Sinkhole Rates – Recommending a rate decrease for the first time in Citizens' history

Indicated and Proposed Rate Change – Companywide, uncapped indicated rate change is 17.1% with a proposed capped rate change of 4.0%

Florida Statute Requires that Citizens Recommends Rates to Florida Office of Insurance Regulation (OIR)

627.351(6)(n)

1. Rates for coverage provided by the corporation must be actuarially sound and subject to s. 627.062, except as otherwise provided in this paragraph. The corporation shall file its recommended rates with the office at least annually. The corporation shall provide any additional information regarding the rates which the office requires. The office shall consider the recommendations of the board and issue a final order establishing the rates for the corporation within 45 days after the recommended rates are filed. The corporation may not pursue an administrative challenge or judicial review of the final order of the office.

The statutory “glide path” limits Citizens’ annual rate increases to no more than 10% for any single policy issued, and keeps many policyholders from paying the full, actuarially sound rate

Citizens rate filing will include information on both the uncapped rate indications and the recommended capped rates. OIR will use Citizens’ filing to establish Citizens’ rates that are effective starting in August 2021

HO3 Multi-Peril Water Litigation Rate

End of Accident Period	HO3 Litigation Rates		
	<u>Statewide</u>	<u>South East</u>	<u>Rest of State</u>
3/31/2012	17.3%	21.0%	2.7%
3/31/2013	19.4%	24.5%	3.0%
3/31/2014	29.0%	35.9%	4.1%
3/31/2015	38.2%	46.0%	6.9%
3/31/2016	52.2%	61.6%	12.4%
3/31/2017	47.9%	56.7%	16.3%
3/31/2018	35.7%	42.1%	11.3%
3/31/2019	29.8%	36.9%	12.2%
3/31/2020	21.4%	25.8%	15.1%

The continued reduction in water litigation rate in the South East from 2016 to 2020 has led to water rate decreases in Dade and Broward.

While still lower than the South East, the litigation rate in the Rest of State has remained steady with appearances of trending upward the last three years.

Declining AOB Litigation

	<u>Total Litigation</u>	<u>AOB Litigation</u>	<u>Non-AOB Litigation</u>	<u>AOB and Non-AOB Litigation</u>
3/31/2016	52.2%	6.0%	13.5%	32.0%
3/31/2017	47.9%	9.0%	10.8%	28.1%
3/31/2018	35.7%	7.1%	10.2%	18.4%
3/31/2019	29.8%	6.0%	8.8%	15.0%
3/31/2020	21.4%	1.8%	10.8%	8.9%

The overall litigation rate can be decomposed into AOB suit only, a Non-AOB suit only, and both AOB and Non-AOB suit

A significant driver of the lower overall litigation rate is the reduction in the AOB litigation rate

At least part of the reason for the declining AOB litigation rate is the fact that less claims are reported with an AOB

For 2017, over 46% of HO3 water claims were reported with an AOB. The number has been declining in recent years, reaching a low of 23% for the most recent accident period in the indication

Managed Repair Program Impact

Water Mitigation Services		AOB Litigation Rate*		Total Litigation Rate*	
Accident Year	% Accepted	Accepted	Not Accepted	Accepted	Not Accepted
2019	28.4%	2.1%	10.1%	9.6%	25.9%
<u>2020</u>	29.2%	0.5%	1.1%	3.1%	5.9%

* undeveloped as of 9-30-2020

Permanent Repair		AOB Litigation Rate*		Total Litigation Rate*	
Accident Year	% Accepted	Accepted	Not Accepted	Accepted	Not Accepted
2019	20.1%	2.9%	11.3%	8.6%	29.7%
<u>2020</u>	12.4%	0.4%	1.2%	2.0%	5.9%

* undeveloped as of 9-30-2020

Early results of the Managed Repair Program show strong signs of decreasing the litigation rate

As of 9-30-2020, there is a clear indication that those who enter the program are, at this point, less likely to litigate

Reinsurance Impact

Despite an increase in the overall rate online, the provision for reinsurance decreased slightly from last year due to purchasing less reinsurance.

For HO3/HW2, the cost of private reinsurance in the indication is 5.1%, as compared to 5.7% from last year's indication.

In 2019, 28% of the Coastal Surplus was exposed in the event of a 1-in-100 year storm. For 2020, 48% of the Coastal Surplus is exposure in the event of a 1-in-100 year storm.

In 2019, 58% of the PLA Surplus was exposed in the event of a 1-in-year storm. For 2020, 62% of the PLA Surplus is exposure in the event of a 1-in-100 year storm.

In total, Citizens transferred \$1.021B of risk to the private reinsurance and capital markets for a net cost of \$55M.

Citizens provision for reinsurance is much lower than the private market, thus leading to a lower rate need for Citizens. If Citizens needed the same level of reinsurance as a typical private insurer then its HO3/HW2 indication would nearly triple.

Updated HO3/HW2 Rating Factors

In addition to updating territorial base rate changes, with this rate filing we are recommending an update to all rating factors for the HO3 and HW2 lines of business.

This includes rating factors related to wind mitigation credits, coverage amounts, year built, age of home, protection class, etc.

Over time these rating factors have become misaligned and need to be recalibrated.

The current mitigation credits are based on a 2002 study by Applied Research Associates that was commissioned by the OIR. They have become outdated for Citizens policies, and do not recognize 2010 building code changes. OIR allows Citizens to file a detailed study of updated wind mitigation credits tailored to Citizens' policies using the FCHLM approved AIR hurricane loss model. Other aspects of the wind premium calculation are updated as well.

Rating factors for non-wind premiums are updated using Citizens historical loss information from 2010 through 2018, evaluated as of 6/30/2020.

The change in WMCs has the biggest impact to the individually charged premiums.

Impact to Capped Premium by Wind Mitigation Credit and Year Build

The current credits only distinguish between homes built before and after 2002

The updated credits distinguish between homes built before 2002, between 2002 and 2011, and 2012 newer

The differences below represent the change in the capped premium with the new rating factors versus the current rating factors.

Difference in Capped Average Premium Change with New Mitigation Credit by Year Built				
Current Mitigation Credit	Pre 2002	2002-2011	2012 and Newer	Grand Total
0.00	-9.1%			-9.1%
0.10	-11.4%			-11.4%
0.20	-12.4%			-12.4%
0.30	-9.3%			-9.3%
0.40	-5.6%			-5.6%
0.50	-3.1%			-3.1%
0.60	-0.2%			-0.2%
0.70	2.0%	0.1%	-9.4%	1.8%
0.80	4.7%	2.3%	-5.6%	4.1%
0.90	6.2%	0.8%	-10.9%	1.4%
Grand Total	-2.0%	1.6%	-7.0%	-1.8%

HO3 Sinkhole

<u>County</u>	Average Sinkhole Premium		
	<u>Current</u>	<u>Proposed</u>	<u>Reduction</u>
Hernanado	\$2,263	\$1,955	-\$308
Hillsborough	\$647	\$589	-\$57
Pasco	\$2,482	\$2,176	-\$306
<u>Pinellas</u>	<u>\$238</u>	<u>\$205</u>	<u>-\$32</u>
Statewide	\$147	\$130	-\$17

Sinkhole reached its peak in 2011 with over 4,500 claims reported and total costs close to \$600M in loss and ALAE for that accident year alone

It has been over eight years since SB went into effect. The number of reported claims declined each year since. In 2018 and 2019 there were 50 and 35 claims reported, respectively

The recommendation is to take the overall -11.7% rate change for sinkhole. This has the biggest impact in Central West Florida, especially Hernando and Pasco, where the average sinkhole premium charged will be decreased by \$307

Exhibit 1 - Summary of Statewide Indications

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Personal Lines Multi-Peril			Coastal Multi-peril			Wind-Only			Total		
Product Line - Personal	In-Force Premium	Uncapped Indication	Proposed Change	In-Force Premium	Uncapped Indication	Proposed Change	In-Force Premium	Uncapped Indication	Proposed Change	In-Force Premium	Uncapped Indication	Proposed Change
Homeowners	403,351,379	9.3%	1.6%	82,879,610	15.0%	3.8%	99,096,605	24.7%	3.3%	585,327,594	12.7%	2.2%
Renters	729,633	-17.5%	-11.6%	814,042	-9.5%	-7.8%	123,105	-0.6%	0.1%	1,666,781	-12.3%	-8.9%
Condo Units	16,645,198	21.0%	6.0%	15,185,332	20.3%	6.8%	9,167,860	27.8%	5.8%	40,998,390	22.2%	6.3%
Dwelling -DP3	102,741,563	16.8%	7.3%	34,970,610	27.3%	7.7%	24,003,010	23.5%	6.3%	161,715,183	20.0%	7.2%
Dwelling - DP1	23,157,728	13.5%	7.3%	8,175,714	20.1%	7.2%	n/a	n/a	n/a	31,333,442	15.2%	7.3%
Mobile Homeowners	38,271,198	11.7%	8.0%	4,036,321	9.3%	2.9%	3,292,027	17.3%	8.0%	45,599,546	11.9%	7.5%
Dwelling Mobile Home	14,547,603	-1.3%	-0.7%	1,408,228	14.5%	5.6%	359,630	20.1%	9.4%	16,315,461	0.6%	0.1%
Total Personal Lines	599,444,302	10.9%	3.3%	147,469,858	18.5%	5.1%	136,042,237	24.4%	4.1%	882,956,397	14.3%	3.7%

	(1)	(2)	(3)	(7)	(8)	(9)	(10)	(11)	(12)
	Multi-Peril			Wind-Only			Total		
Product Line - Commercial	In-Force Premium	Uncapped Indication	Proposed Change	In-Force Premium	Uncapped Indication	Proposed Change	In-Force Premium	Uncapped Indication	Proposed Change
Commercial Residential	13,710,213	64.6%	4.5%	22,873,118	85.8%	9.0%	36,583,331	77.8%	7.3%
Commercial Non-Residential	968,174	18.0%	10.0%	23,757,469	26.7%	8.4%	24,725,643	26.4%	8.4%
Total Commercial Lines	14,678,387	61.6%	4.9%	46,630,587	55.7%	8.7%	61,308,974	57.1%	7.8%

	(1)	(2)	(3)	(7)	(8)	(9)	(10)	(11)	(12)
	Multi-Peril			Wind-Only			Total		
Product Line	In-Force Premium	Uncapped Indication	Proposed Change	In-Force Premium	Uncapped Indication	Proposed Change	In-Force Premium	Uncapped Indication	Proposed Change
Personal	746,914,160	12.4%	3.6%	136,042,237	24.4%	4.1%	882,956,397	14.3%	3.7%
Commercial	14,678,387	61.6%	4.9%	46,630,587	55.7%	8.7%	61,308,974	57.1%	7.8%
Total	761,592,547	13.4%	3.7%	182,672,824	32.4%	5.3%	944,265,371	17.1%	4.0%

Impact of Capping

All Personal Lines Combined - Includes sinkhole and Buildup premium

Rate Change Range	Indicated	Capped	# of Policies	Indicated Premium Need	Realized Premium after capping
Below -10%	-20.0%	-10.5%	49,537	(\$24,890,499)	(\$13,075,176)
-10% to 0%	-4.5%	-4.2%	60,588	(\$5,599,775)	(\$5,227,472)
0% to 10%	5.1%	5.2%	112,447	\$10,445,594	\$10,731,412
<u>Above 10%</u>	<u>34.1%</u>	<u>9.4%</u>	<u>231,063</u>	<u>\$146,116,765</u>	<u>\$40,397,655</u>
All Combined	14.3%	3.7%	453,635	\$126,072,085	\$32,826,419

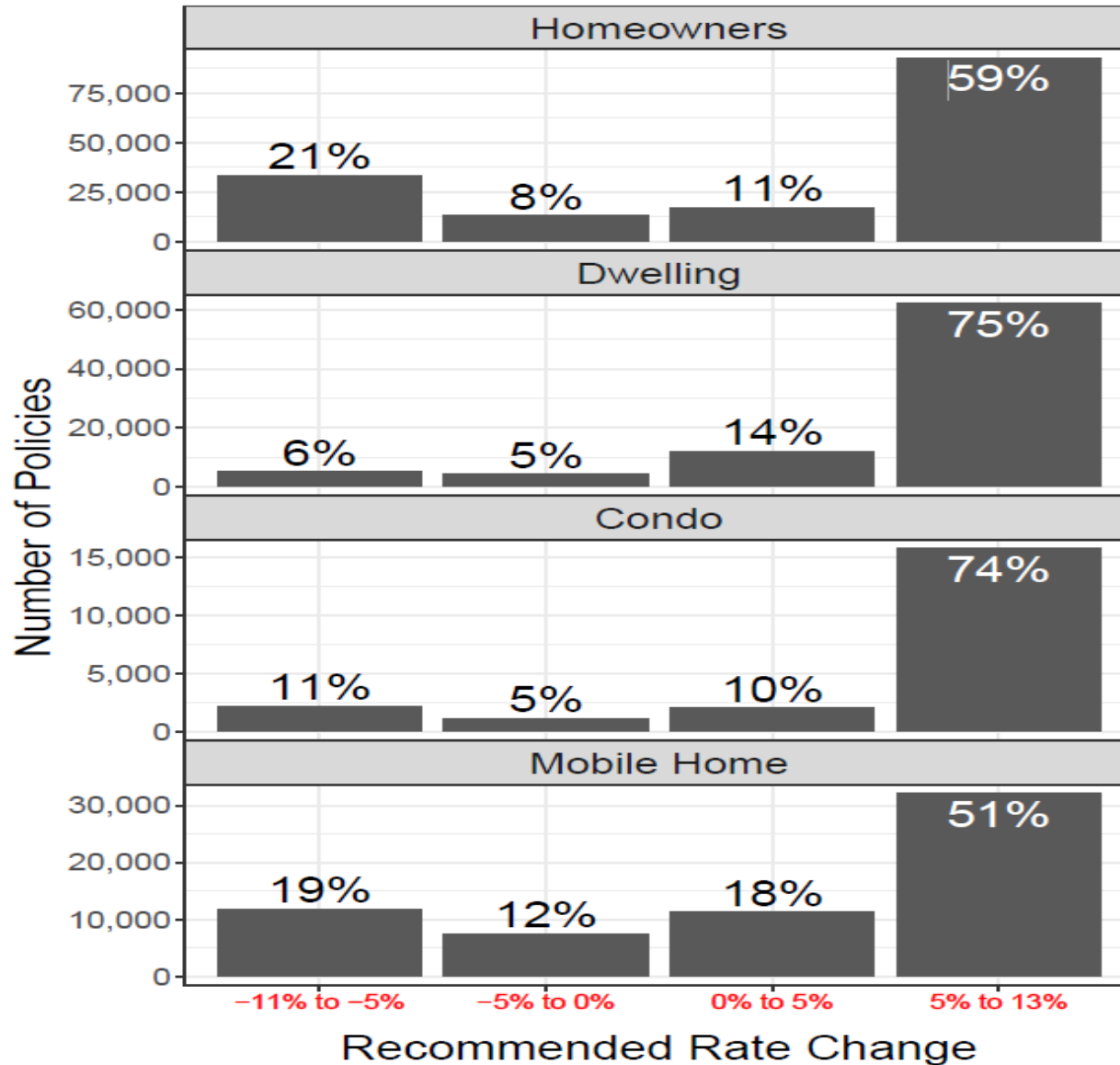
All Commercial Lines Combined - Includes Sinkhole and Buildup premium

Rate Change Range	Indicated	Capped	# of Policies	Indicated Premium Need	Realized Premium after capping
Below -10%	0.0%	0.0%	0	\$0	\$0
-10% to 0%	41.5%	-2.7%	156	\$692,232	(\$45,918)
0% to 10%	53.4%	7.1%	3,181	\$20,074,806	\$2,648,215
<u>Above 10%</u>	<u>64.4%</u>	<u>9.8%</u>	<u>1,966</u>	<u>\$14,226,288</u>	<u>\$2,163,501</u>
All Combined	57.1%	7.8%	5,303	\$34,993,327	\$4,765,797

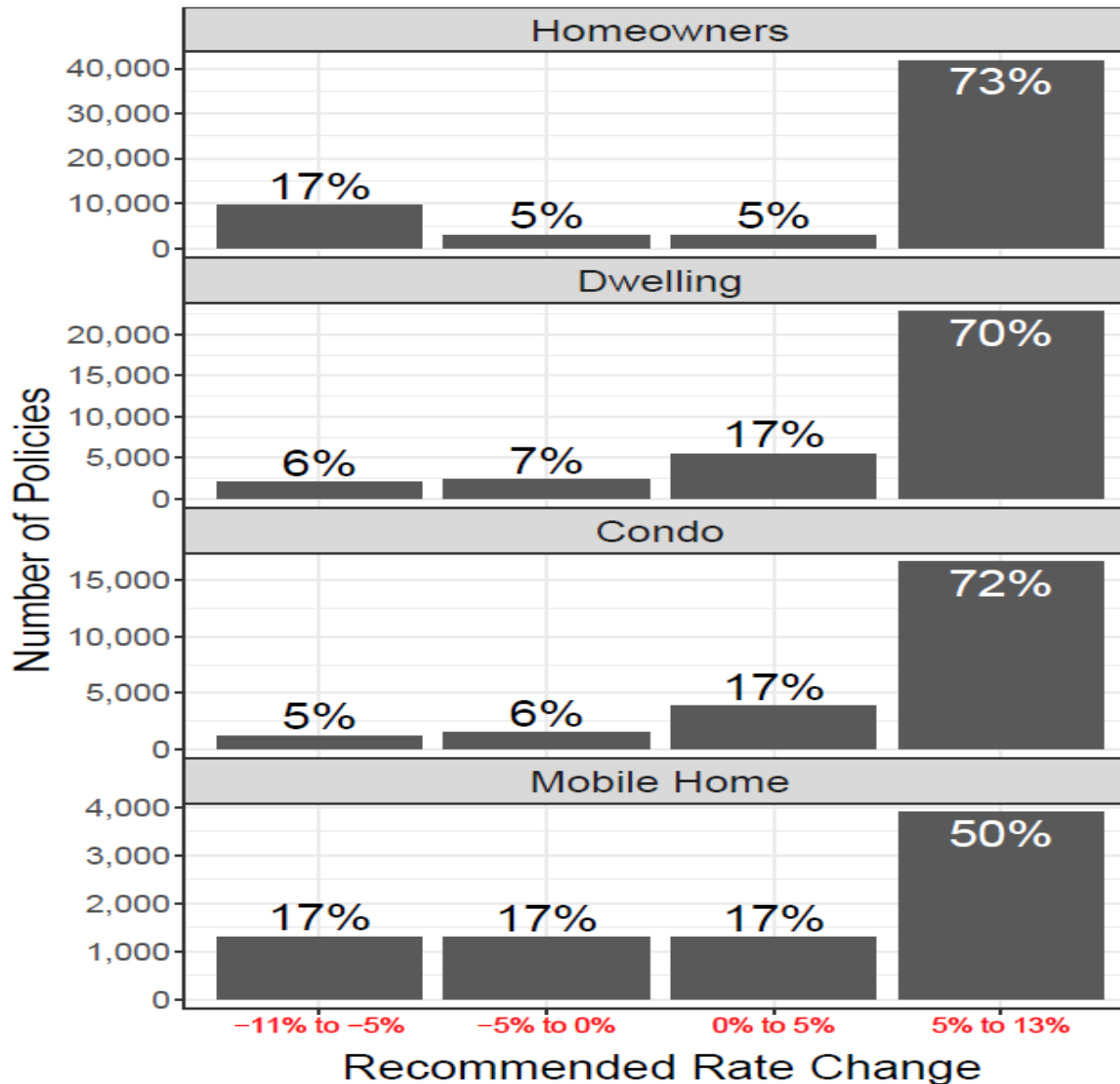
All Lines Combined - Includes sinkhole and Buildup premium

Rate Change Range	Indicated	Capped	# of Policies	Indicated Premium Need	Realized Premium after capping
Below -10%	-20.0%	-10.5%	49,537	(\$24,890,499)	(\$13,075,176)
-10% to 0%	-3.9%	-4.2%	60,744	(\$4,907,543)	(\$5,273,390)
0% to 10%	12.6%	5.5%	115,628	\$30,520,400	\$13,379,627
<u>Above 10%</u>	<u>35.6%</u>	<u>9.4%</u>	<u>233,029</u>	<u>\$160,343,053</u>	<u>\$42,561,155</u>
All Combined	17.1%	4.0%	458,938	\$161,065,411	\$37,592,216

Distribution of Recommended Rate Changes by Policy for the Personal Lines Account

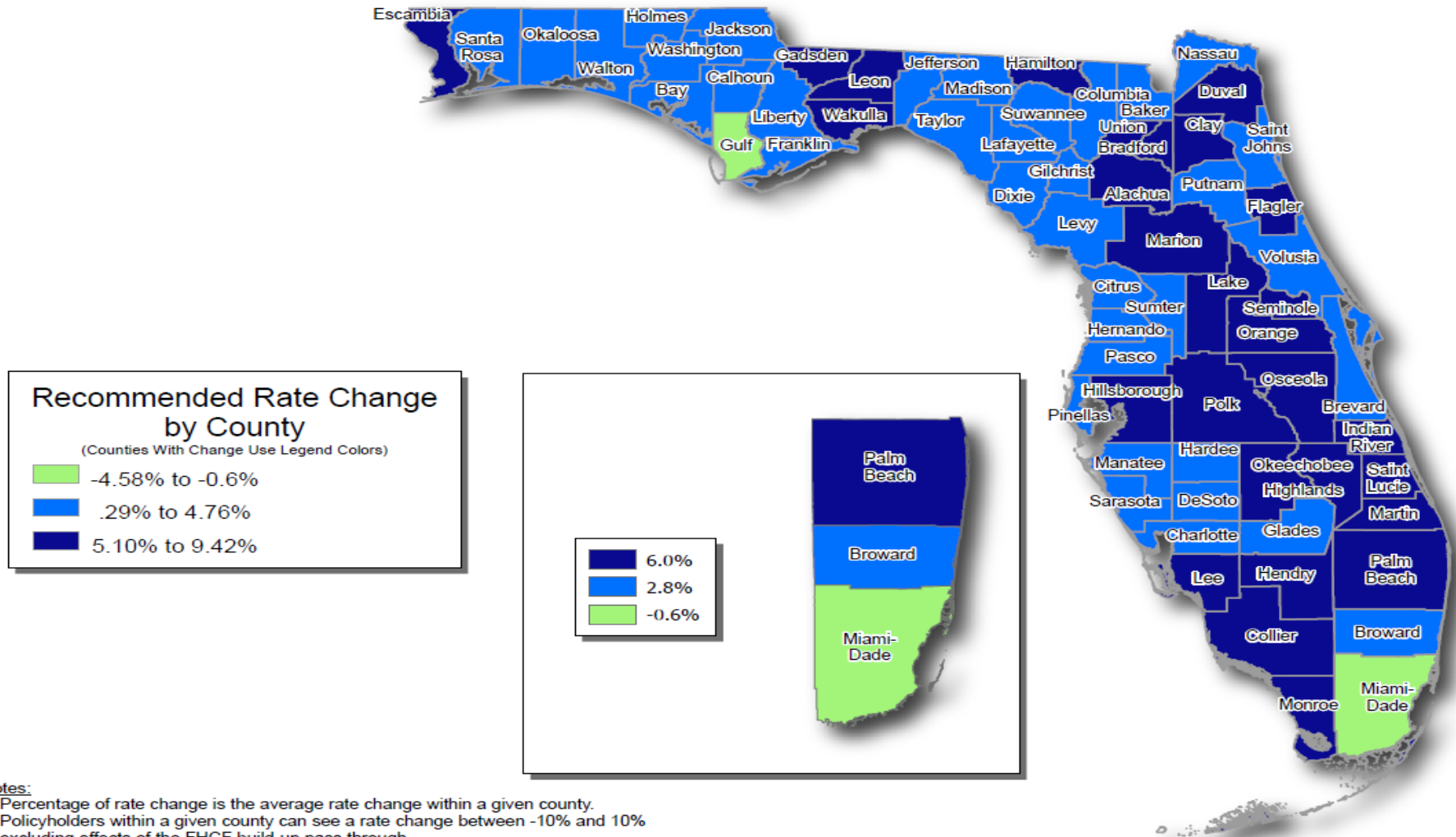


Distribution of Recommended Rate Changes by Policy for the Personal Lines in the Coastal Account



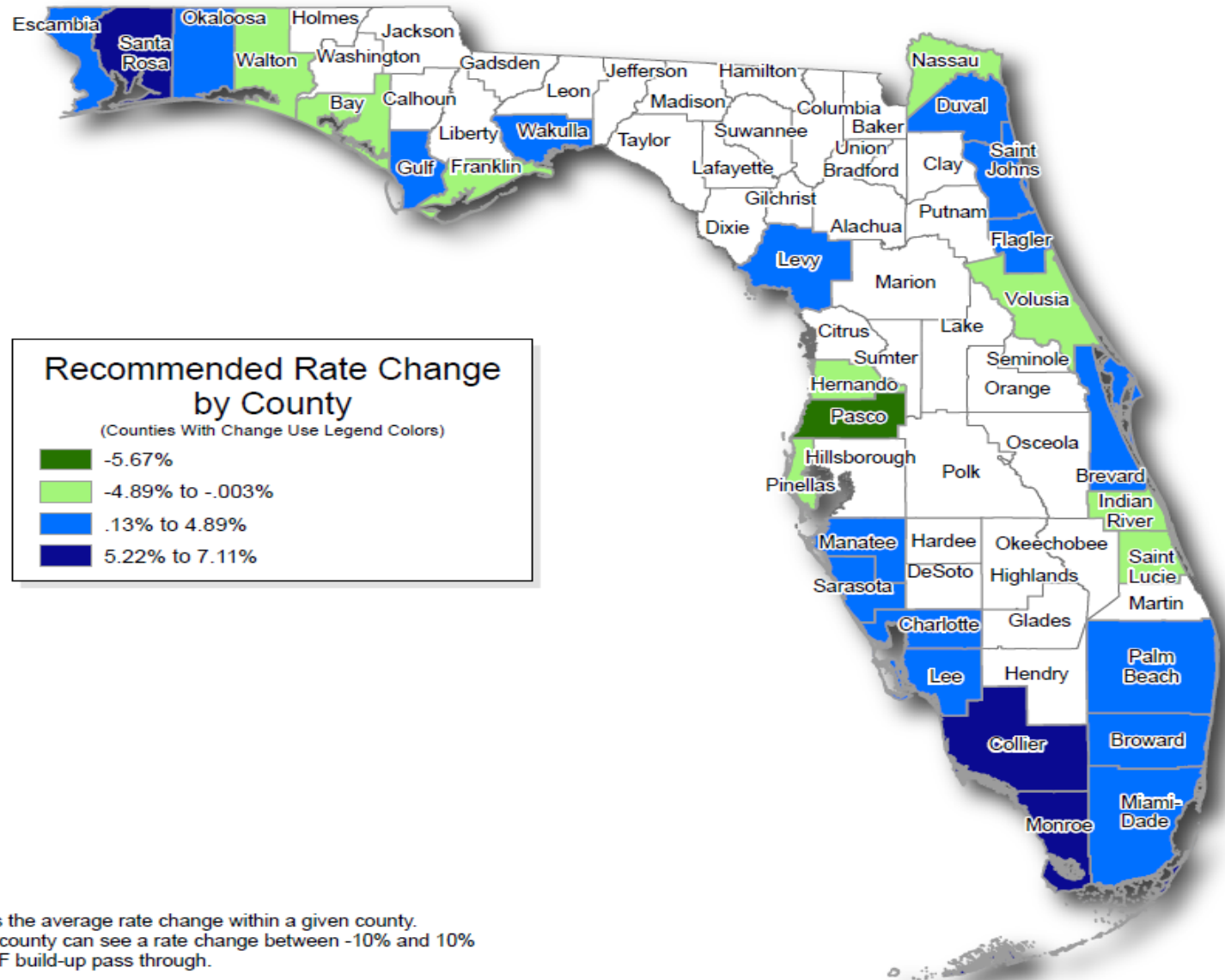
Percent of Recommended Rate Changes by County

Multi-Peril HO3 Policies



Percent of Recommended Rate Changes by County

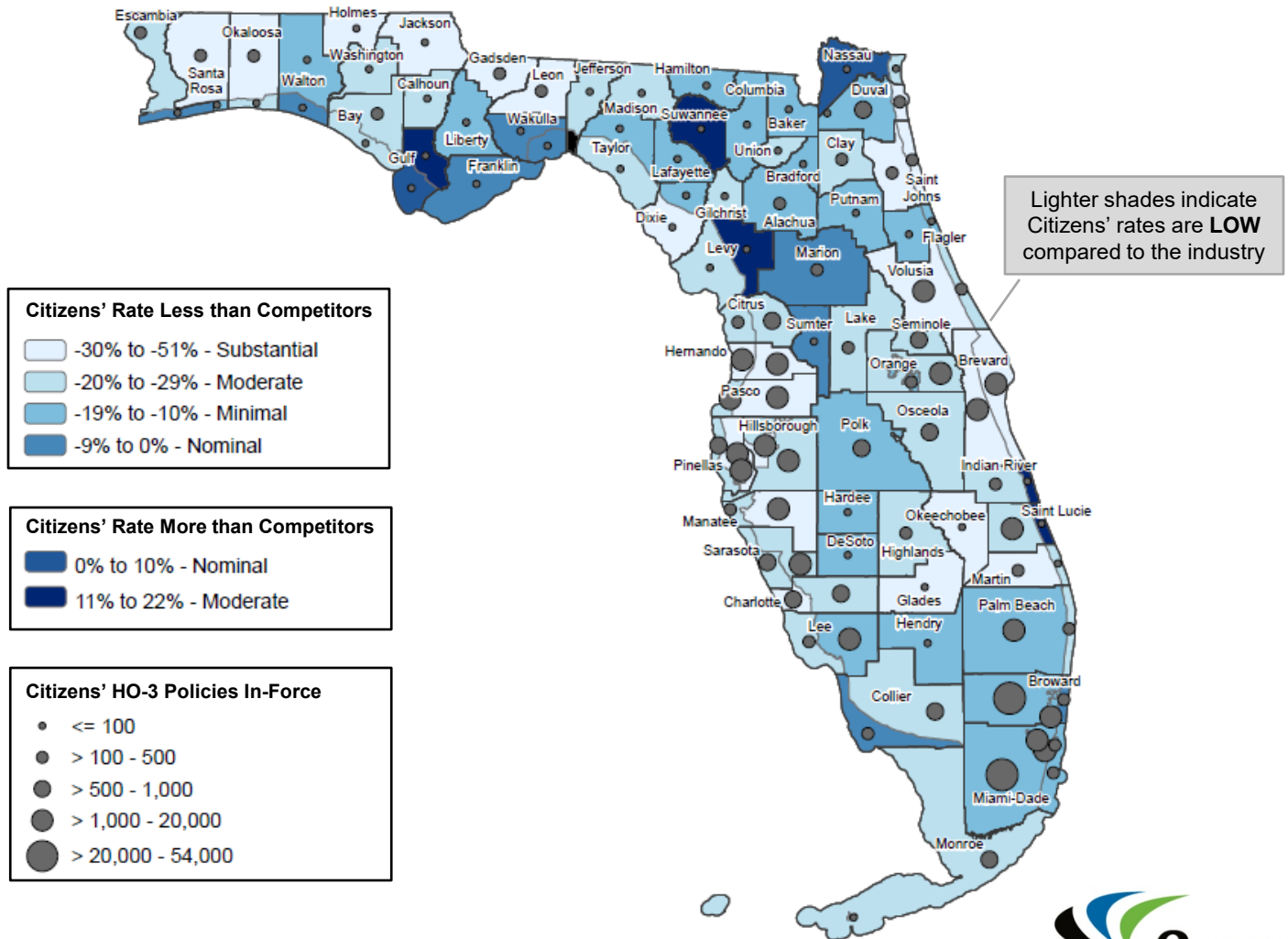
Wind-Only HW2 Policies



Notes:

1. Percentage of rate change is the average rate change within a given county.
2. Policyholders within a given county can see a rate change between -10% and 10% excluding effects of the FHCF build-up pass through.

Citizens HO3 Rates Compared to Industry



Note: Territories in black have no HO-3 policies

Citizens HO3 Rates Compared to Industry

Tri-County Percent Difference to HO-3 Average Premium by Citizens' Territories

	Palm Beach	Broward	Miami-Dade	Tri-County
Citizens' Policy Count	16,530	40,444	63,281	120,255
Citizens P&C	\$3,404	\$3,894	\$4,149	\$3,961
Company 1	\$4,298	\$4,508	\$4,747	\$4,605
Company 2	\$5,039	\$4,168	\$4,698	\$4,567
Company 3	\$5,008	\$5,317	\$5,592	\$5,419
Company 4	\$3,418	\$4,348	\$4,935	\$4,529
Company 5	\$2,698	\$3,636	\$4,427	\$3,924
Company 6	\$4,694	\$5,009	\$5,140	\$5,035
Company 7	\$4,123	\$4,234	\$5,015	\$4,630
Company 8	\$5,189	\$5,014	\$5,359	\$5,219
Company 9	\$5,134	\$8,200	\$7,969	\$7,657
Company 10	\$3,995	\$4,782	\$5,421	\$5,010
Company 11	\$3,474	\$4,969	\$5,058	\$4,810
Company 12	\$3,514	\$4,876	\$5,757	\$5,153
Company 13	\$2,977	\$3,505	\$3,684	\$3,526
Company 14	\$6,078	\$5,494	\$6,851	\$6,288
Competitor Average	\$4,260	\$4,861	\$5,332	\$5,027
% Difference	(20%)	(20%)	(22%)	(21%)

Competitive Rate Difference

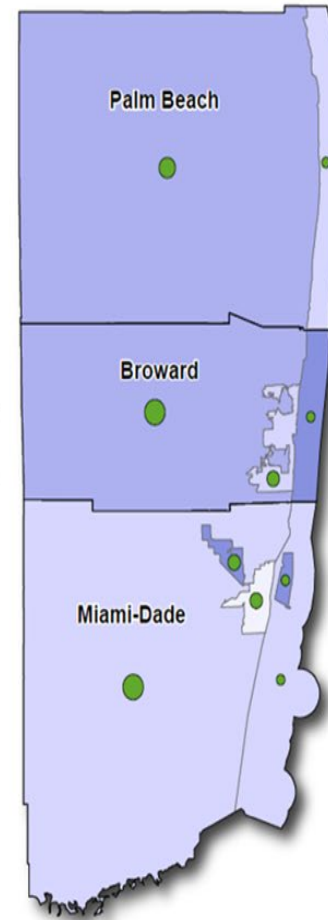
- 30% to -39% - Substantial
- 20% to -29% - Moderate
- 19% to -10% - Minimal
- 9% to 0% - Nominal

Non-Competitive Rate Difference

None

Citizens' HO-3 Policies In-Force

- > 100 - 1,000
- > 1,000 - 10,000
- > 10,000 - 20,000
- > 20,000 - 54,000



91% of Citizens' HO-3 policies are charged **LESS** than the average competitor's rate.

Where does my **premium dollar** go?

