Executive Summary

Board of Governors Meeting, January 26, 2021

2021 Rate Filings

As required by statute, Citizens has completed the annual analysis of recommended rates for 2021. The Office of Insurance Regulation uses this information as it establishes Citizens rates to be implemented for policy effective dates beginning August 2021. The analysis developed rate indications that:

- Comply with the requirement in Florida law that Citizens recommend actuarially sound rates. The indications developed are designed to generate the premium needed to cover Citizens' projected losses and expenses during the effective period of the rates.
- Are not excessive, inadequate or unfairly discriminatory, and meet the requirements of U.S. Actuarial Standards of Practice except where Florida law supersedes such standards.
- Comply with the statutory "glide path" that limits Citizens annual rate increases to no more than 10% for any single policy issued. This is an exception to the requirement for actuarially sound rates. It applies to non-sinkhole perils and excludes coverage changes and surcharges.
- Considers the Florida Public Hurricane Model (FPM) results in wind rate recommendations, as required by law. Law changes in 2016 removed the requirement that the FPM results be the "minimum benchmark" for those rates.
- Include an appropriate charge to pass through the Florida Hurricane Catastrophe Fund (FHCF) Rapid Cash Build-Up Factor, as required by law.

Major cost factors in the rate analysis include:

i) Non-catastrophic losses and loss adjustment expenses (LAE)
ii) Modeled catastrophic hurricane losses and estimated LAE
iii) Administrative expenses
iv) Risk transfer costs
v) Pre-event liquidity costs

In December, we presented our initial proposed rate to the Actuarial and Underwriting Committee and discussed the results at the Board Meeting. At that time, the average statewide indicated rate change over all personal lines of business was +14.3%. The premium impact after the application of the glide path cap was 3.7%. For commercial lines, the average statewide indicated rate change over all commercial lines of business was +57.1%. The premium impact after the application of the glide path cap was +7.8%. For all lines combined, the uncapped indication was 17.1% with a proposed rate change of 4.0% after the application of the glide path cap.

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Based on direction from Citizens' Board of Governors, due to the large gap between the uncapped indication of 17.1% and the proposed after capping increase of 4.0%, and also due to the threat posed to Citizens' surplus by its growth in policy count, Citizens staff was instructed to revisit the proposed rate changes brought to the board in December.

Three changes to the recommended rates were adopted:

1. A risk factor that considers the cost of risk to Citizens' surplus, and ultimately saves additional premium to help prevent the risk of future assessments, which would otherwise increase with Citizens' policy count.

2. A hurricane selection that more fully considers the potential adverse development created by Citizens' growth, and also the impact of increased litigation on hurricane losses.

3. Per-policy rate changes between 0% and 10%, which both limits any policyholder's rate change to 10% as required by the statutory glide path, but also gives more weight to the requirement for Citizens' overall actuarial soundness.

These three changes increased the wind indication, and the overall after-capping rate change.

With these changes, the average statewide indicated rate change over all personal lines of business is now +25.9%. The premium impact after the application of the glide path cap is 7.2%.

The average statewide indicated rate change over all commercial lines of business is +84.3%. The premium impact after the application of the glide path cap is +8.3%.

Note that each Citizens policyholder pays a premium for an individual policy line that is based on their risk classification; nobody pays exactly the average. The indications vary by account and by product line. See Exhibit 1 for more detail.

The dominant policy forms for personal lines are HO3/HW2, which comprise over 65% of all personal lines premium. Most HO3/HW2 premium pays for wind or water losses. For the peril of water, there continues to be improvement in the litigation rate for non-weather water losses. Because of this, we are recommending a decrease in the water base rates for Dade and Broward Counties. However, despite the improvement in litigation rate for non-weather losses, it is important to note that these losses remain expensive. Currently, close to half of all HO3 premium pays for water losses. In Dade, even with the decrease in water base rates, 55% of the proposed capped premium is for water, while only 36% is for wind. Outside of South Florida, water costs are lower overall, but they show signs of increasing.

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Other items of note that will be discussed in more detail below are reinsurance costs, which have decreased slightly, and sinkhole rates, which we are recommending should decrease for the first time in Citizens' history.

Exhibit 1- Summary of Statewide Rate Indications for each product line. The Uncapped Indication is the selected statewide indication adjusted for the FHCF pass-through. The Proposed Change columns represent the actual premium impact to consumers after the application of the glide path cap to each single policy. At the policy level, all premium changes are limited to 0% to 10% (with the exception of sinkhole). After the application of the cap, the impact of the FHCF pass-through is added.

Determination of Overall Rate Indications by Line of Business

Water Peril

As discussed in the past, increased litigation of non-weather water claims has been a prime driver of Citizens' rate indication, specifically for HO3 policies. While this is still true, we are seeing a reduction in the overall litigation rate for the most current years. This reduction can be at least partially attributed to new policy language that went into effect 8/1/2018 and to the impact of HB 7065, which became effective 7/1/2019. Prior to the implementation of these items, we projected a statewide water litigation rate of 50% which led to an overall HO3/HW2 rate indication of 25.6%. With the current rate indication, we are now projecting a statewide water litigation of 21.4%. Below are the projected litigation rates by accident periods.

End of Accident Period	HO3 Litigation Rates Statewide	 South East	 Rest of State
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%

CITIZENS
PROPERTY INSURANCE CORPORATION

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Impact of the Managed Repair Program (MRP) and Emergency Water Repair Service (EWRS)

Beginning with policies effective July 1, 2018, Citizens' implemented new policy language related to the repair of damage due to a non-weather water loss. The claimant can either participate in Citizens' MRP with full coverage limits, or select their own vendor and be subject to a $10K limit for permanent repairs. Similarly, the claimant can participate in the EWRS program for water mitigation, or select their own vender with a $3K limit on water mitigation services. The goal of this policy language change was to address the litigation rate. From data through 9/30/2020, early indications are that claims that enter either MRP or EWRS are showing signs of a lower likelihood of litigation. While it will take another year or two to have definitive data on the long-term impact, these early results are very promising.

Emergency Wate Repair 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%
2020	29.2%	0.5%	1.1%	3.1%	5.9%

* undeveloped as of 9-30-2020

MRP - 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%
2020	12.4%	0.4%	1.2%	2.0%	5.9%

* undeveloped as of 9-30-2020

Impact of HB 7065

There is an overlap between the impact of HB 7065 and the offering of the EWRS. HB 7065 was meant to curb the abuse of the assignment of benefits (AOB) while EWRS was meant to provide a vendor directly to the insured to eliminate the need of an AOB. This makes it difficult to quantify their separate impacts on the reduction of claims with an AOB and subsequent litigation of those claims. But we can analyze their combined impact.

	Total Litigation	AOB Litigation	Non-AOB Litigation	AOB and Non-AOB Litigation
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 number of AOB suits has experience a substantial reduction in the most recent accident period included in the indication. So similar to MRP and EWRS, the early results are very promising, but it will be several years before the long-term impact can be known for certain.

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Hurricane Peril

Hurricane peril rates drive the overall Citizens premium for many policyholders, particularly in coastal territories. As Florida law requires, projected hurricane losses from accepted scientific simulation models were considered. Citizens used four models accepted by the Florida Commission on Hurricane Loss Projection Methodology: AIR (v17.0.1, Touchstone 7.3.0), RMS (Risklink v18.1), CoreLogic RQE (Florida Hurricane Model v2019a), and the FPM (v7.0). No model results were modified or adjusted. The four distinct models underpinned a range of rate indications for each line of business. These ranges varied by line of business, as models may disagree widely in some territories and products.

As described above we included a risk factor that considers the cost of risk to Citizens' surplus, and ultimately saves additional premium to help prevent the risk of future assessments, which increases with Citizens' policy count. Because the risk factor reflects costs to Citizens and Floridians of supplying insurance, it is an appropriate component of an actuarially sound rate. Our approach is standard and actuarially appropriate. It estimates the cost of the risk to Citizens surplus using the market rate of reinsurance. Note that this is not a provision for reinsurance, which includes the cost of reinsurance that Citizens actually buys. In particular, even after including this risk factor, Citizens expenses will still be smaller than a typical private insurer, which must buy much more reinsurance than Citizens does.

In the past, when determining the statewide and individual territory wind rate indications, we selected the median of the four models. As discussed above, we have now adopted a new approach on the statewide level. We selected between the third and fourth highest hurricane model. This reflected two new realities. The first is that Citizens is now growing, and that this growth potentially brings adverse selection that is not reflected in current data but will worsen the hurricane indication during the effective period of the rates. The second is that increased litigation will tend to make hurricane losses significantly more severe than is expected in the models; this is what happened with Hurricane Irma. Note that we still selected indications closer to the median for mobile home. This is because those indications were nevertheless high and increasing them further did not increase the after-capping rate impact anyway. Like prior indications, we allocate the statewide indication to each territory according to the medial model result in each territory.

Also changed this year is how the RMS model will be presented in the rate filings. RMS is now requiring Citizens to designate their model results as trade secret. This has no bearing on how the RMS results are incorporated into the rate indication. But in the rate filing itself the RMS results will be viewable to the OIR but will not be available to the public.

Impact of Private Reinsurance Costs

The component of Citizens' rates due to reinsurance costs has decreased slightly since 2019 even though the overall cost of reinsurance (rates-on-line) has generally increased for the insurance industry. This is because in 2020 Citizens decided not to replace its expiring CAT

Bond (2017-1 Aggregate) after pricing on the new bond was deemed irrational. The result is that while Citizens' rate-on-line increased, its overall reinsurance costs decreased slightly. For example, the 2019 provision for reinsurance in the HO3/HW2 rate indication was 5.7%, which means 5.7 cents out of every premium dollar was intended to pay for reinsurance. The 2020 provision is only 5.1%. The downside is that Citizens does not have as much reinsurance coverage going into the 2020 storm season. In 2019, 28% of Citizens' surplus in the Coastal Account was exposed in the event of a 1-in-100 year storm. For 2020, 48% of Citizens' Coastal surplus will be exposed in the event of a 1-in-100 year event. While Citizens did issue a 2020 CAT Bond for the PLA, the PLA's surplus is still more exposed in 2020 than in 2019. In 2019, 58% of the surplus was exposed in a 1-in-100 year event, while in 2020, 62% of the PLA surplus is exposed.

In terms of dollars, for 2020, Citizens transferred $1.021B of risk to the private reinsurers and capital markets for a net cost of $55M. "Net cost" refers to the gross expenditure on risk transfer less the expected hurricane losses that would be subject to the agreements. In addition to the transfer of $1.021B to the private reinsurance market, Citizens transferred an additional 1.88B to the FHCF.

<u>Impact of Pre-Event Liquidity</u>

Pre-event liquidity (debt financing) provides a funding bridge to the point in time and loss levels at which the FHCF begins to pay hurricane reimbursements. It also ensures quick claims-paying capacity for subsequent storms in a season and augments other Citizens claims-paying resources that are not readily available in cash after a storm. This allows for timely payment of claims as well as flexibility in the timing and cost of issuance of post-event debt.

Pre-event debt does impact the cost structure of Citizens, and therefore the rate indications. The impact in Homeowners to the statewide uncapped rate indication is +1.8%.

<u>Impact of Policy Level Capping</u>

Due to the interaction of all actuarial considerations, rate indications vary greatly from policy to policy within Citizens. Large increases as well as large decreases are indicated for various consumers. The glide path established in 2010 requires Citizens to ensure no single policyholder shall be subject to a (non-sinkhole) rate increase greater than 10%.

Typically, in the past, to balance the statutory requirements of actuarial soundness and the glide path, we had recommended that all rate increases be capped at +10%, and all rate decreases at -10%, except for HO-4 forms, which had decreases capped at -15%. With the proposal, as noted above, we are recommending all rate decreases be capped at 0%. In other words, any policy that has an indicated decrease will experience no premium change (except for sinkhole coverage and FHCF premium). This gives greater weight to Citizens' overall actuarial soundness by closing the gap between the uncapped indication and after capping rate increase. This recognizes the increased risk to Citizens' surplus due to growth.

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Per-policy rate changes between 0% and 10% (excluding FHCF BU and sinkhole), which both limits any policyholder's rate change to 10% as required by the statutory glide path, but also considers the requirement for Citizens' overall actuarial soundness.

The difference between the uncapped indicated premium and the proposed rate change is summarized below.

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%	-18.5%	-0.7%	25,369	($13,922,797)	($538,611)
-10% to 0%	-4.6%	-0.3%	32,199	($3,694,540)	($208,425)
0% to 10%	5.4%	5.4%	51,185	$6,520,453	$6,567,553
Above 10%	39.6%	9.5%	344,882	$238,920,307	$57,582,231
All Combined	25.9%	7.2%	453,635	$227,823,422	$63,402,748

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%	55.8%	-0.3%	89	$398,412	($1,816)
0% to 10%	80.5%	7.6%	3,195	$30,503,962	$2,870,536
Above 10%	91.3%	9.8%	2,019	$20,755,605	$2,219,859
All Combined	84.3%	8.3%	5,303	$51,657,979	$5,088,579

All Lines Combined - Includes sinkhole and Buildup premium					
Rate Change Range	Indicated	Capped	# of Policies	Indicated Premium Need	Realized Premium after capping
Below -10%	-18.5%	-0.7%	25,369	($13,922,797)	($538,611)
-10% to 0%	-4.1%	-0.3%	32,288	($3,296,128)	($210,241)
0% to 10%	23.2%	5.9%	54,380	$37,024,415	$9,438,088
Above 10%	41.5%	9.6%	346,901	$259,675,912	$59,802,091
All Combined	29.7%	7.3%	458,938	$279,481,402	$68,491,327

Impact of FHCF Buildup Premium

The FHCF is required by law to include a "rapid cash buildup factor" of 25% in its premium. Citizens, in turn, is required by law to pass this cost to the policyholder, outside the 10% glide path cap. This results in higher rate indications and affects the statewide premium impacts as well, raising some lines slightly below 0% and above 10%.

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Sinkhole Indications

It has been over eight years since the sinkhole reform from SB 408 went into effect. All signs indicate that SB 408 has "fixed" the sinkhole issue. The sinkhole indication for HO3 is -11.7%. For the first time in Citizens' history, staff's recommendation is to take the full indication and lower the sinkhole rates by -11.7%. Policyholders with sinkhole coverage in Central West Florida would experience the following average changes:

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

All Rating Factors for HO3/HW2

In addition to updating the territorial base rate changes, with this rate filing we are also 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. While all rating factors are being updated, the change in wind mitigation credits and year built have, by far, the largest impact.

The current mitigation credits are based on a 2002 study by Applied Research Associate that was commissioned by the OIR. These credits have become outdated for Citizens' policies as they 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.

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Rate Analysis Exhibits

Several Exhibits are included with this item. Note that scale differs on some maps, so review the legends carefully when comparing maps. Also, all premium totals are based on policies in-force as of 5/31/2020.

Exhibit 1: Summary of Statewide Indications

- Columns (1) through (3) display the statewide uncapped indication and the proposed capped rate impact for multi-peril lines of business in the Personal Lines Account.
- Columns (4) through (6) display the statewide uncapped indication and the proposed capped rate impact for multi-peril lines of business in the Coastal Account.
- Columns (7) through (9) display the statewide uncapped indication and the proposed capped rate impact for wind-only lines of business (written only in the Coastal Account).
- Columns (10) through (12) display the statewide uncapped indication and the proposed capped rate impact for combined multi-peril and wind-only lines of business.

Exhibit 2 – Multi-Peril HO-3 (Homeowners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

Exhibit 3 – Wind-Only HW-2 (Homeowners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

Exhibit 4 – Multi-Peril HO-6 (Condo Unit-Owners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

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Exhibit 5 – Wind-Only HW-6 (Condo Unit-Owners) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

Exhibit 6 – Multi-Peril DP-1 and DP-3 (Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

Exhibit 7 – Wind-Only DW-2 (Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

Exhibit 8 – Multi-Peril MHO-3 and MDP-1 (Mobile Homeowners and Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

Exhibit 9 – Wind-Only MW-2 and MD-1 (Mobile Homeowners and Dwelling Fire) County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.
- Note that the numbers in this exhibit show the average premium impact for the county.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

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Exhibit 10 - Multi-Peril Commercial Residential County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each of the "Group 2" perils territories (some of which cross several counties)
- Note that the numbers in this exhibit show the average premium impact for the territory.
- The actual premium impact can vary between 0% and +10% for individual policyholders within each county.

Exhibit 11 - Wind-Only Commercial Residential County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.

Exhibit 12 - Multi-Peril Commercial Non-Residential County Average Premium Impacts Map

- Displays the proposed premium impact after capping for each Group 2 territory.
- The numbers display the expected premium impact for each policyholder within a territory.

Exhibit 13 - Wind-Only Commercial Non-Residential County Average Premium Impacts Map

- Displays the average proposed premium impact after capping for each county.

Exhibit 14 - Distribution of Recommended Rate Impacts by Policy in PLA

- Tabulates the proposed capped premium impacts for personal lines into a histogram showing number and proportion of policyholders in each impact range.
- Includes all personal lines combined.
- Range maybe slightly less than 0% and slightly higher than 10%, due to the impact of the FHCF pass through and sinkhole premium which is not subject to capping.

Exhibit 15 - Distribution of Recommended Rate Impacts by Policy in Coastal Account

- Tabulates the proposed capped premium impact for personal lines into a histogram showing number and proportion of policyholders in each impact range.
- Includes all personal lines combined.
- Range maybe slightly less than 0% and slightly higher than 10%, due to the impact of the FHCF pass through and sinkhole premium which is not subject to capping.

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Exhibit 16 – Average Premium by County – HO-3

- Current and proposed average premium by county for multi-peril Homeowners policies.
- Based on in-force policies as of 5/31/2020

Exhibit 17 – Average Premium by County – HW-2

- Current and proposed average premium by county for wind-only Homeowners policies.
- Based on in-force policies as of 5/31/2020

Exhibit 18 – Average Premium by County – HO-6

- Current and proposed average premium by county for multi-peril Condo Unit policies
- Based on in-force policies as of 5/31/2020

Exhibit 19 – Average Premium by County – HW-6

- Current and proposed average premium by county for multi-peril Condo Unit policies
- Based on in-force policies as of 5/31/2020