

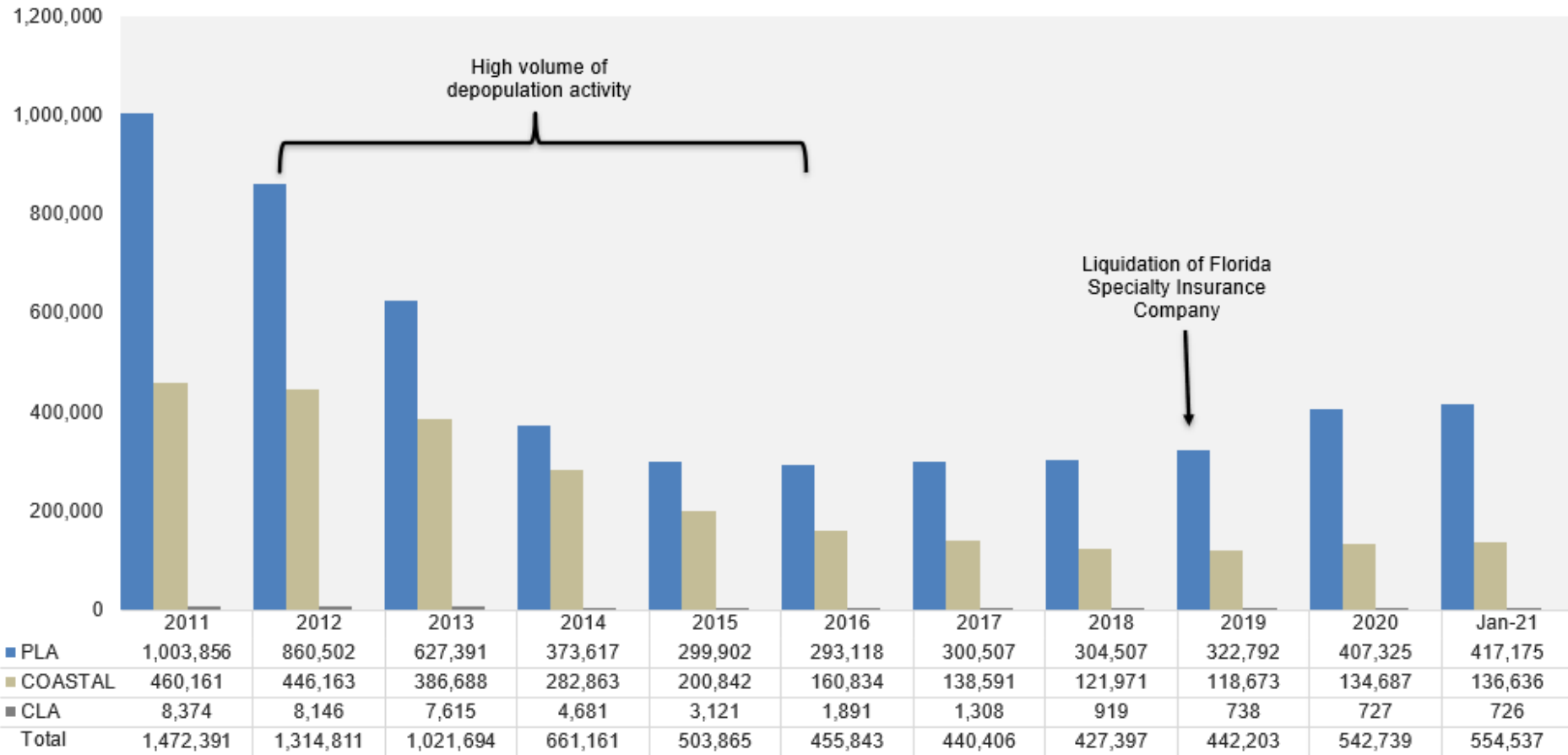
President's Report

Board of Governors Meeting

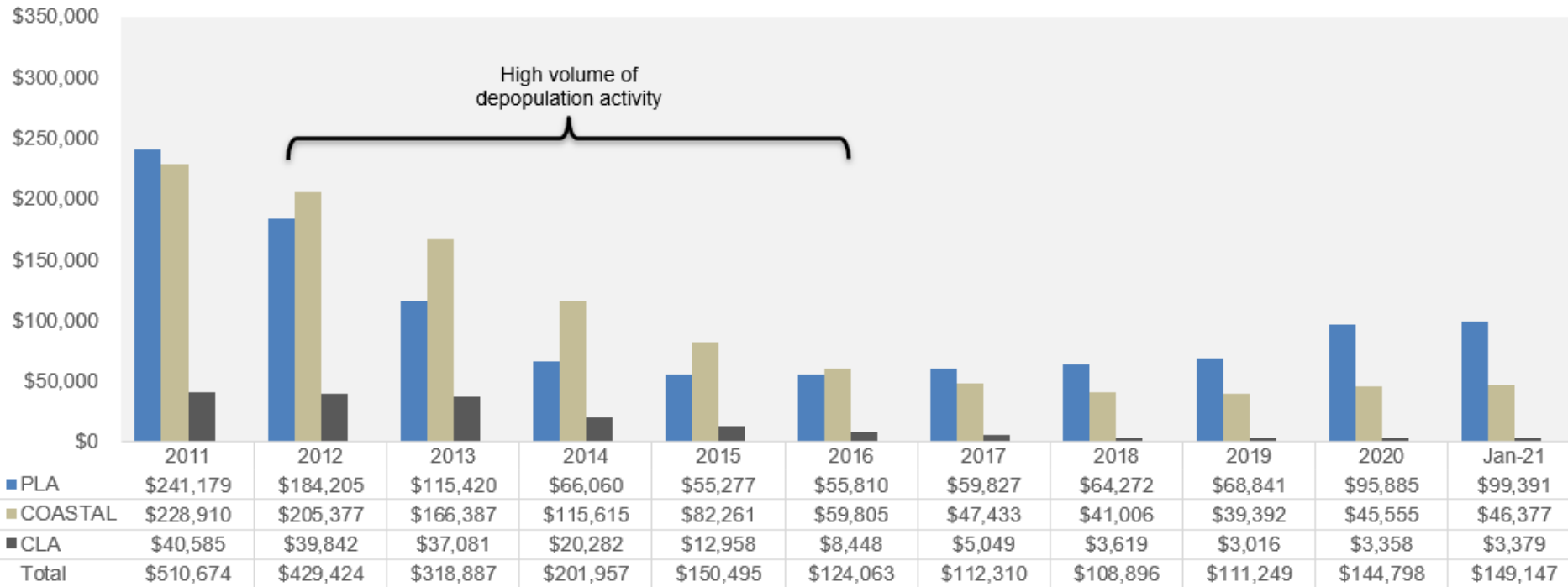
March 3, 2021



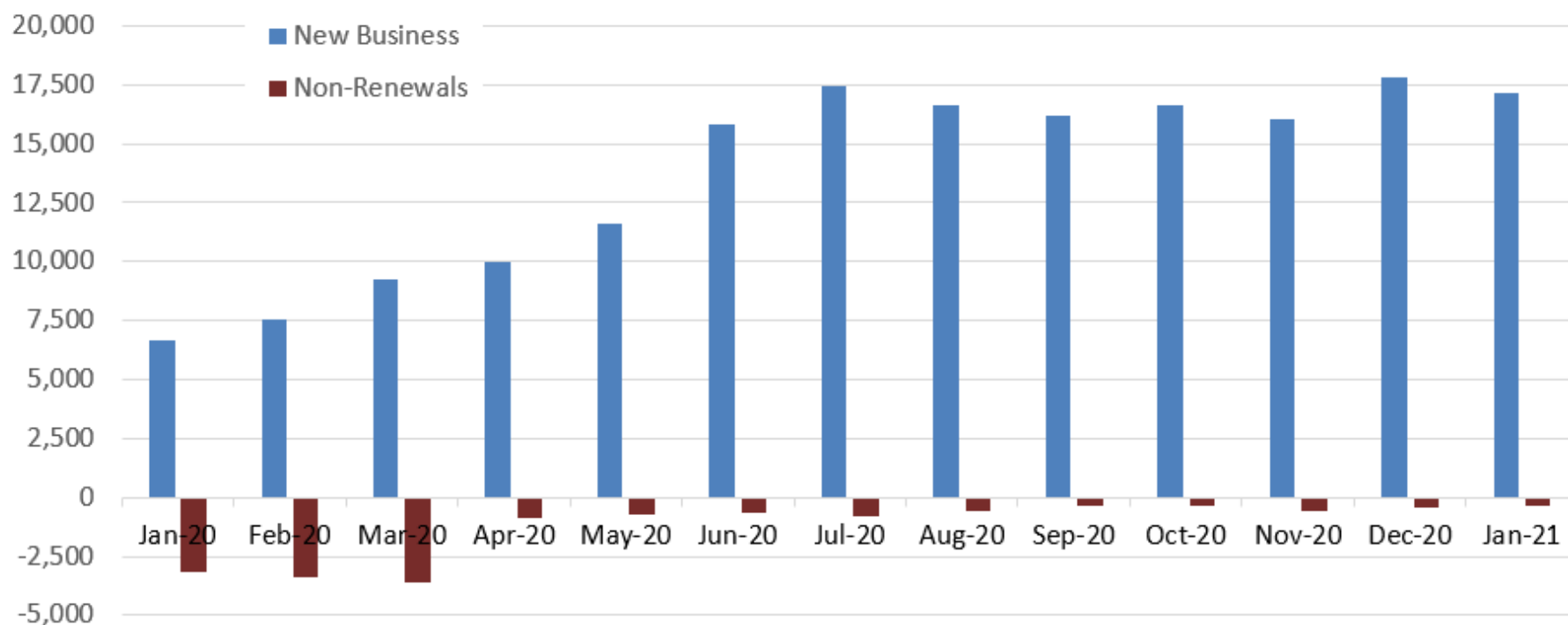
Policies in Force



Exposure



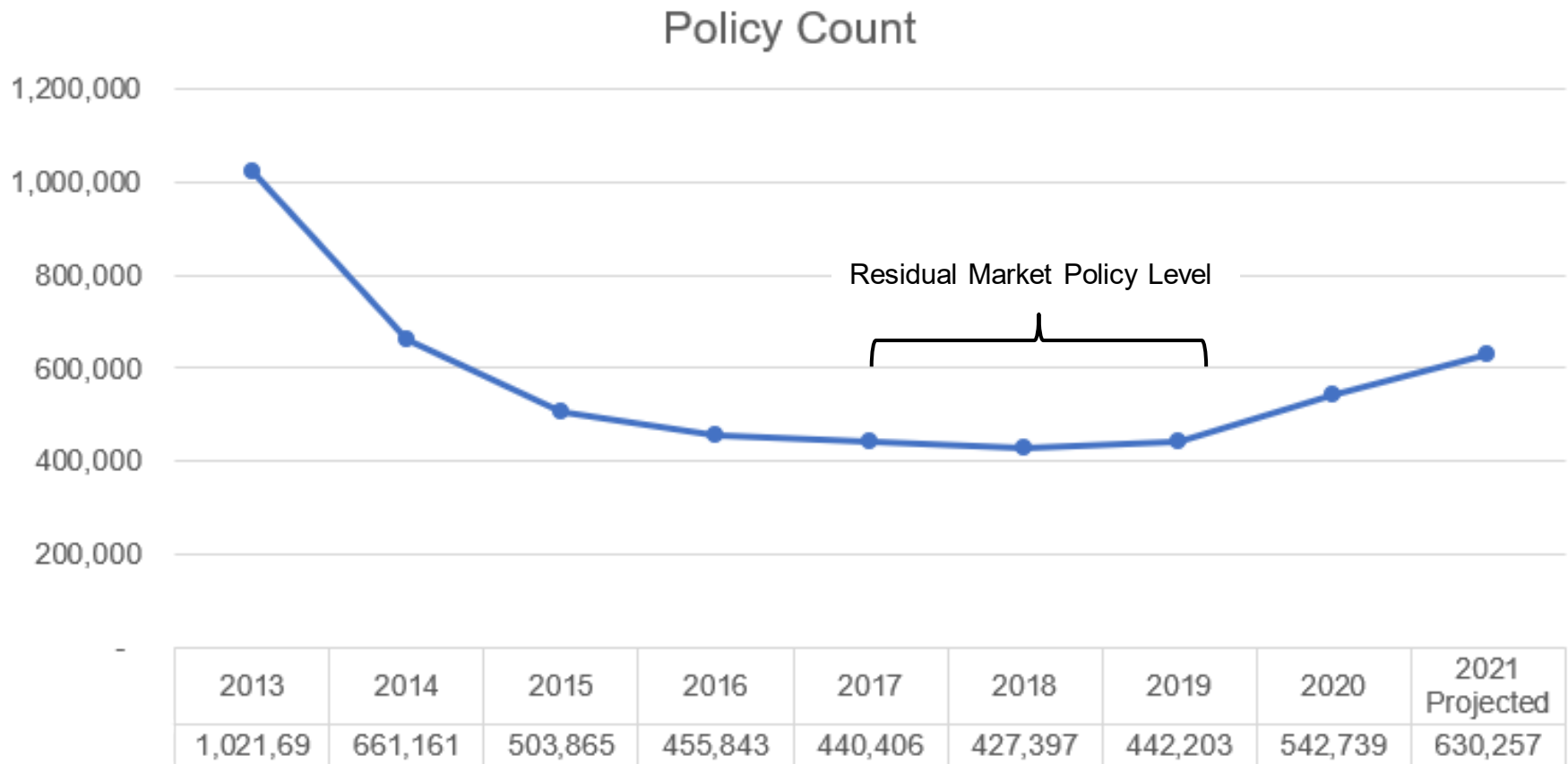
Changes to Policies in Force – All Lines of Business



Total PIF	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Change Counts													
New Business	6,658	7,560	9,254	10,009	11,618	15,856	17,464	16,661	16,167	16,646	16,023	17,799	17,167
Non-Renewals	-3,133	-3,351	-3,579	-860	-711	-688	-801	-598	-341	-330	-586	-396	-347

Citizens' Growth

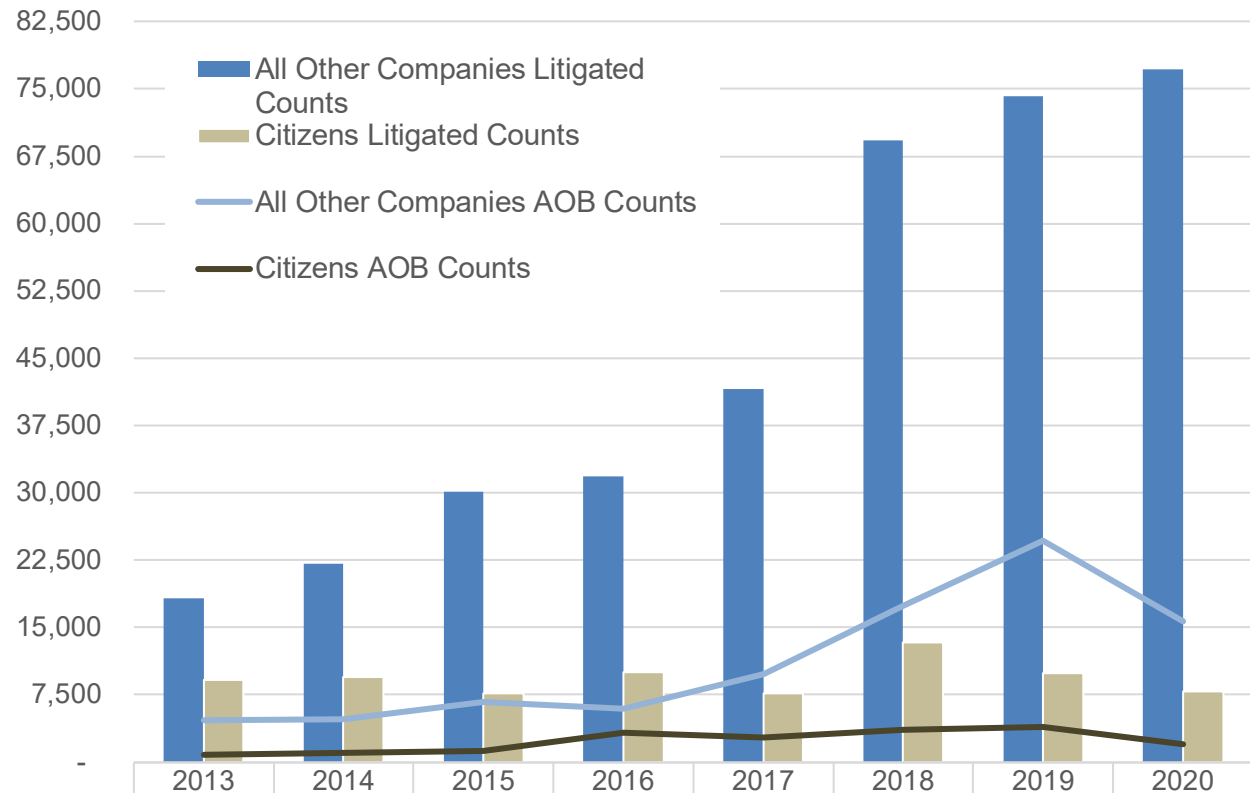
91% of Citizens' HO-3 policies are charged **LESS** than the average competitor's rate



Citizens' and the Industry's Litigation

Litigated and Assignment of Benefit (AOB) Cat & Non-Cat Claim Counts

- 2017 Hurricane Irma
- 2018 Hurricane Michael
- 2019 AOB Reform



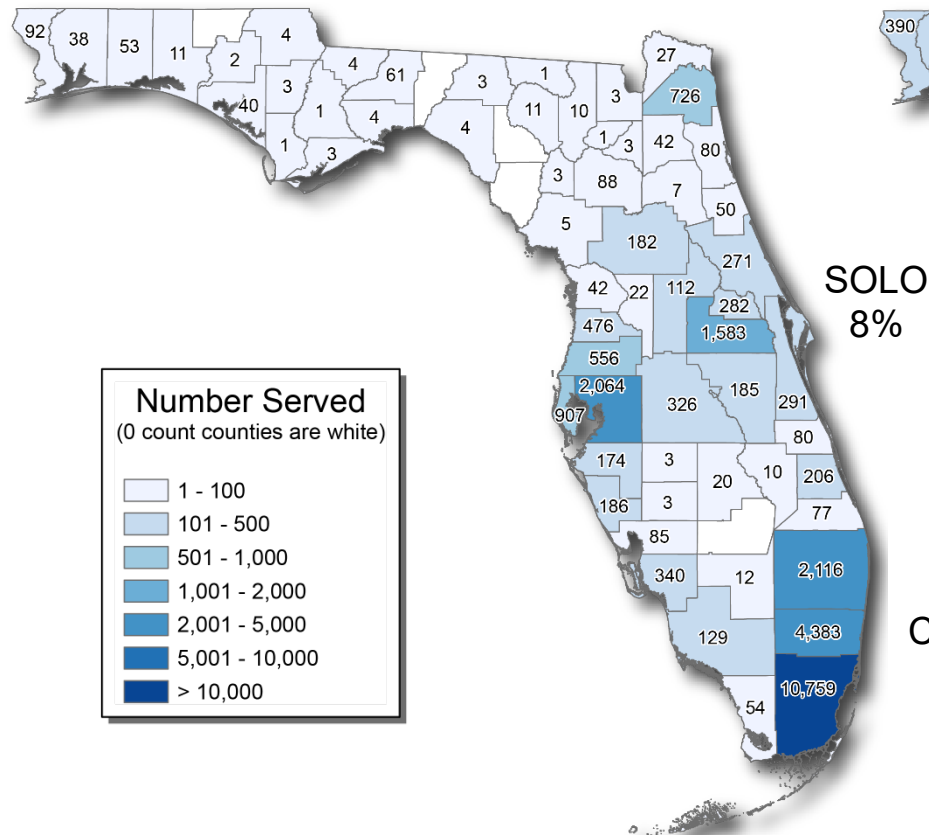
Source: "Service of Process Reports" (LSOP Reports), Florida Department of Financial Services, 31 December 2013 - 31 December 2020

Citizens' and the Industry's Litigation

2013 Lawsuits

All Insurance Companies Including Citizens

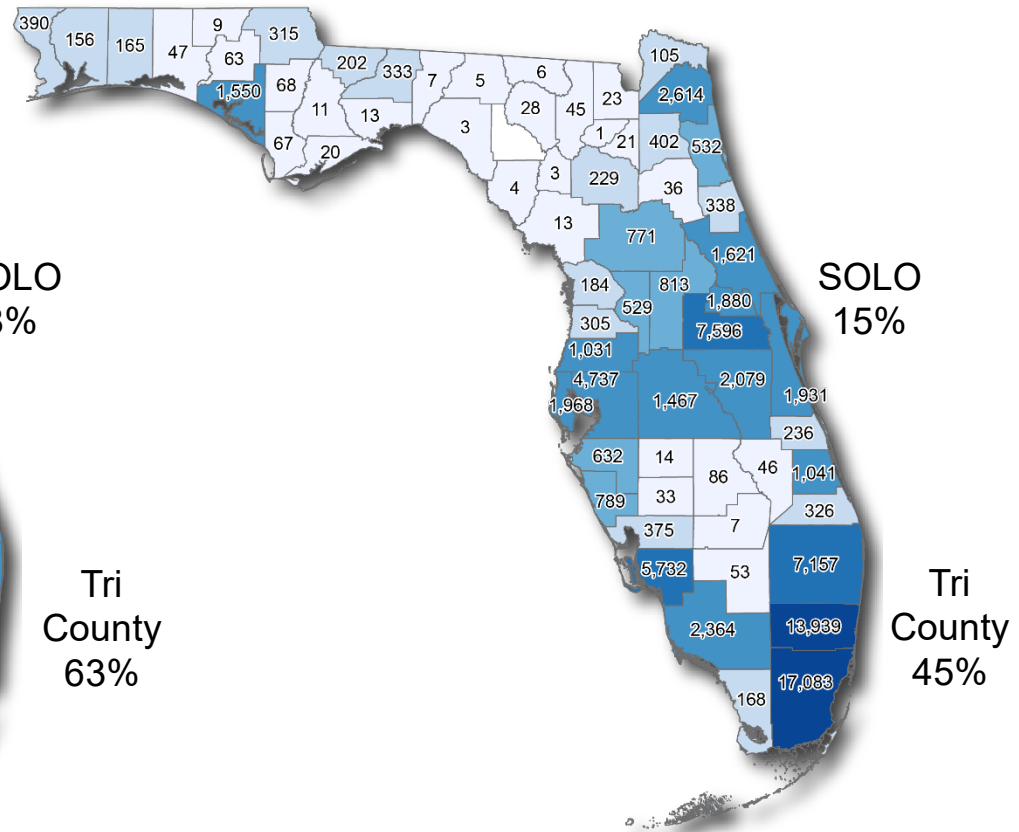
27,416 Lawsuits
20% AOB Lawsuits



2020 Lawsuits

All Insurance Companies Including Citizens

85,007 Lawsuits
21% AOB Lawsuits



Source: "Service of Process Reports" (LSOP Reports), Florida Department of Financial Services, December 31, 2013 - 2020

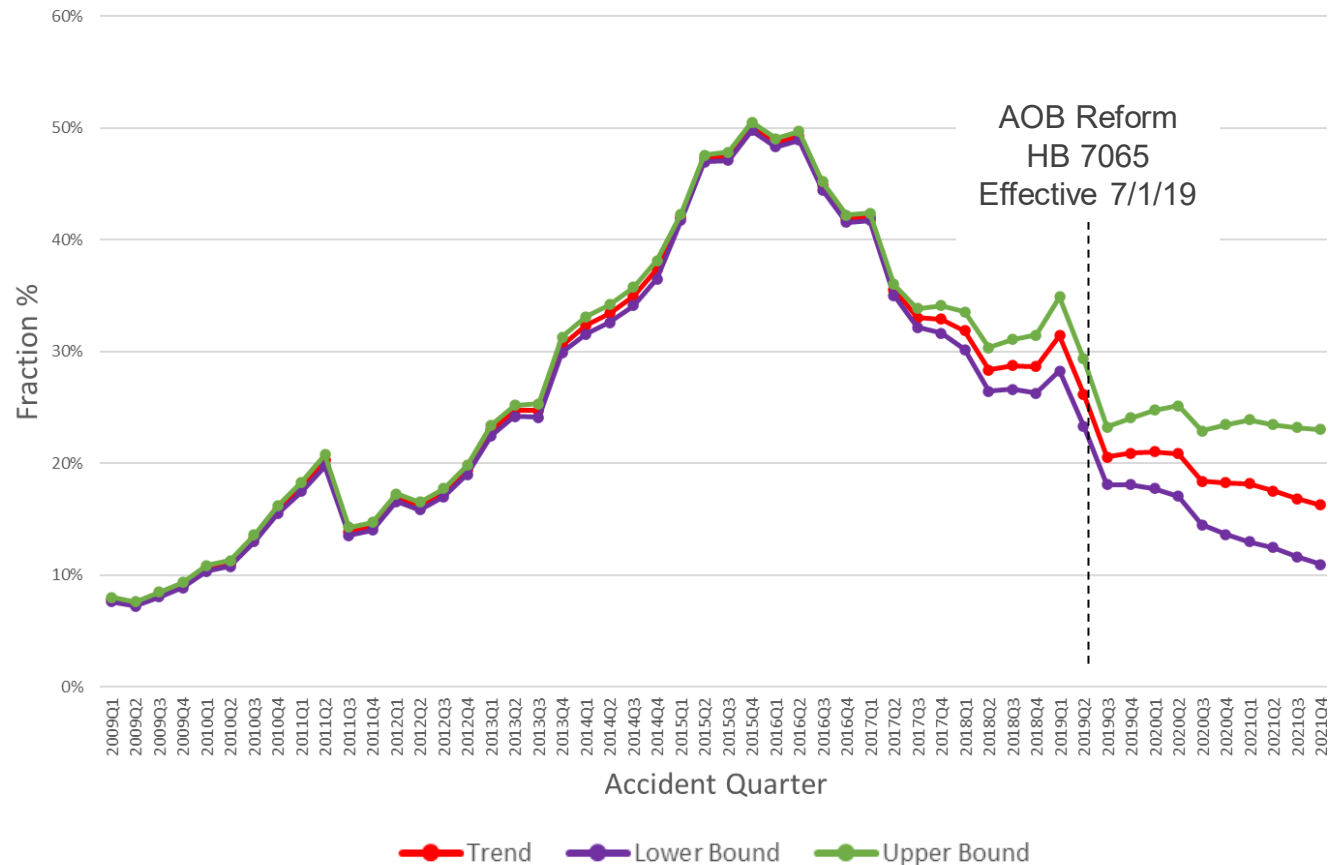
Litigation Avoidance

Currently trending in a very positive direction in terms of new claims entering litigation.

Decreased from 50% to 20% and continuing at this rate.

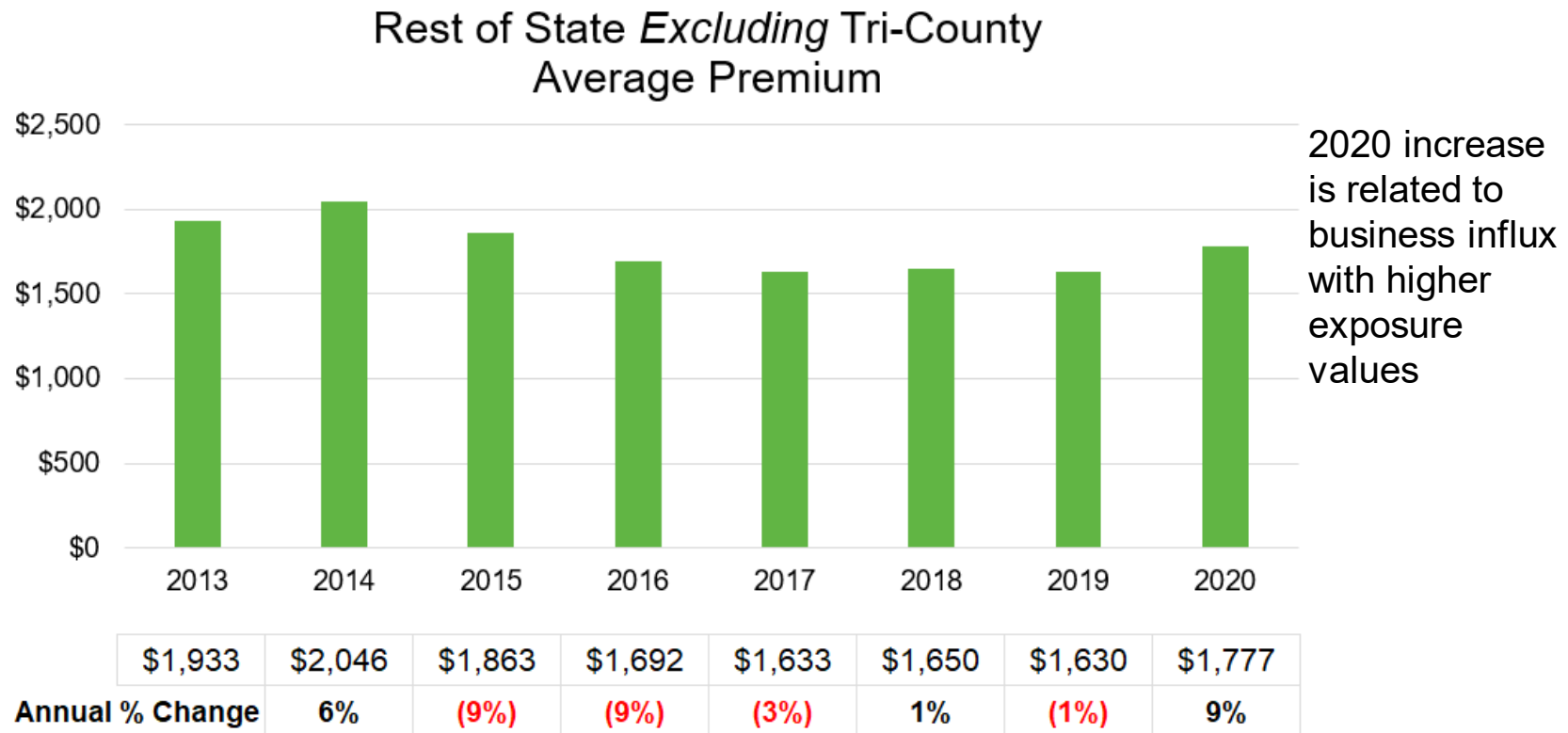
Managed Repair Program
Relaunched
August 1, 2018

Statewide Accident Year Trends through
12/31/2020 Fraction Litigated
HO-3 & DP-3 Non-Catastrophe Water Claims



Stable Homeowners Average Premium

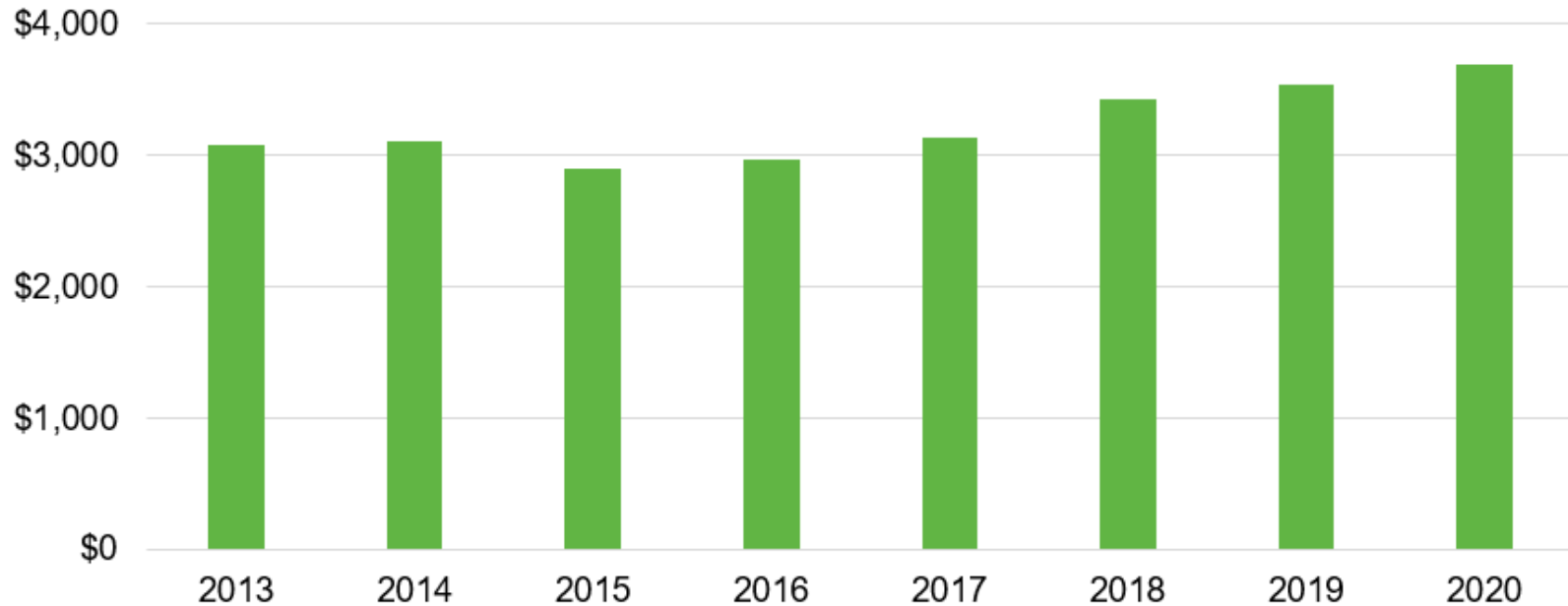
- In 2020, **105** rate filings for increases of **10% or more** have been made with the Office of Insurance Regulation (OIR)¹
- In 2016, only 6 OIR rate filings had increases¹



Source: ¹ O'Connor, Amy, "Florida's Property Insurance Market Is 'Spiraling Towards Collapse' Due to Litigation Report", Insurance Journal, Web January 20, 2021. <<https://www.insurancejournal.com/news/southeast/2021/01/20/598034.htm>>

Stable Homeowners Average Premium

Tri County
Average Premium



Annual % Change

% of Citizens' Business

\$3,077	\$3,113	\$2,897	\$2,975	\$3,141	\$3,425	\$3,538	\$3,700
	1%	(7%)	3%	6%	9%	3%	5%
45%	47%	50%	51%	50%	51%	50%	54%

Litigation Rate, Severity and Frequency

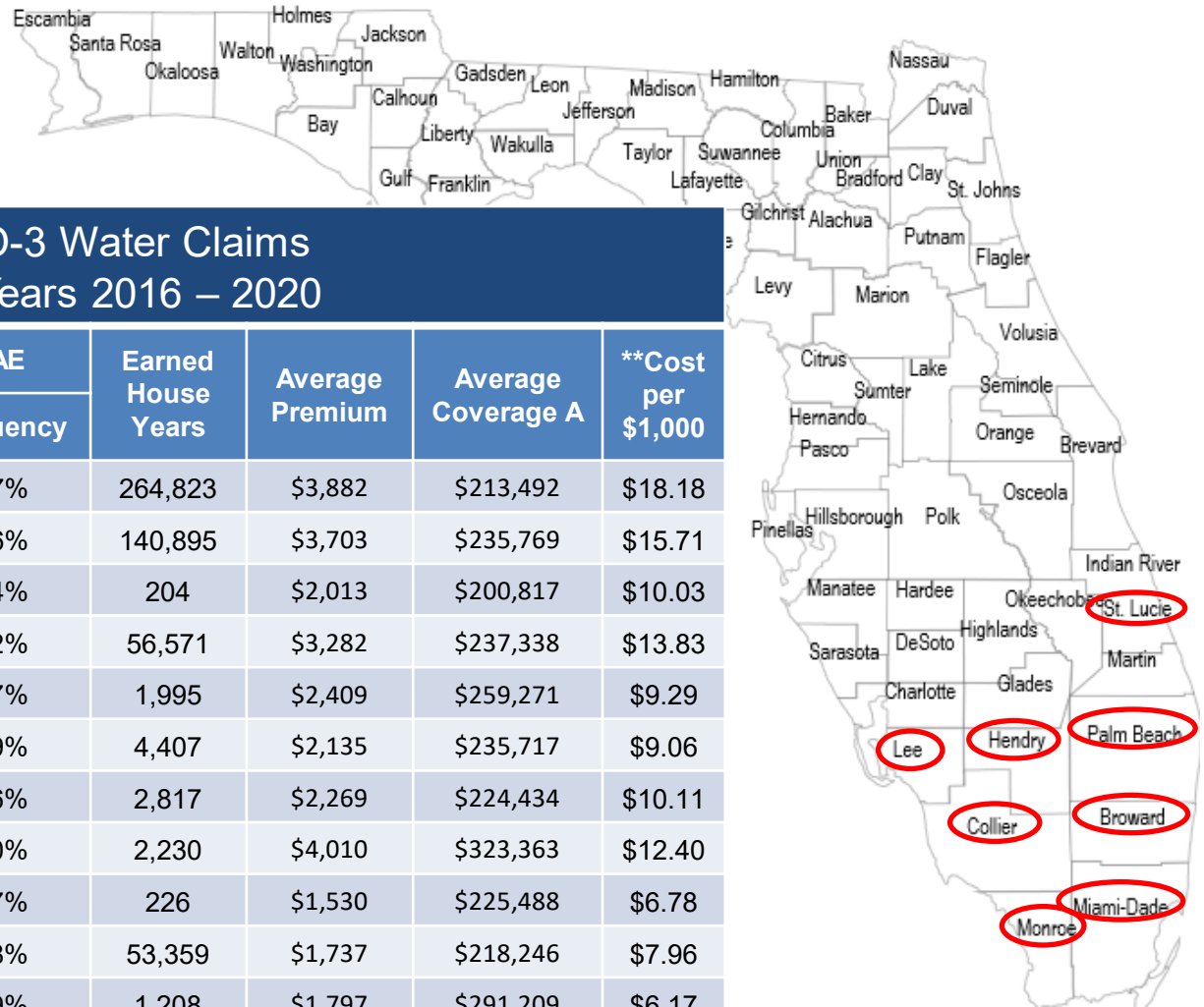
Non-Catastrophe water damage represents **78%** of annual claims count

Closed HO-3 Water Claims Calendar Years 2016-2020

County	Litigation Rate	*Losses + ALAE		2020 Average Coverage A Premium	
		Severity	Frequency	\$200K-\$300K	> \$500K
Dade	53.3%	\$29,235	6.7%	\$3,972	\$10,615
Broward	42.3%	\$24,425	6.6%	\$3,506	\$7,296
Hillsborough	15.2%	\$14,717	3.8%	\$1,660	\$4,013
Orange	5.7%	\$11,230	3.4%	\$1,519	\$3,272
Duval	5.8%	\$7,380	1.6%	\$1,305	\$3,120

*All Losses + Allocated Loss Adjustment Expenses (ALAE)

Highest Counties Litigation Rate



Closed HO-3 Water Claims Calendar Years 2016 – 2020

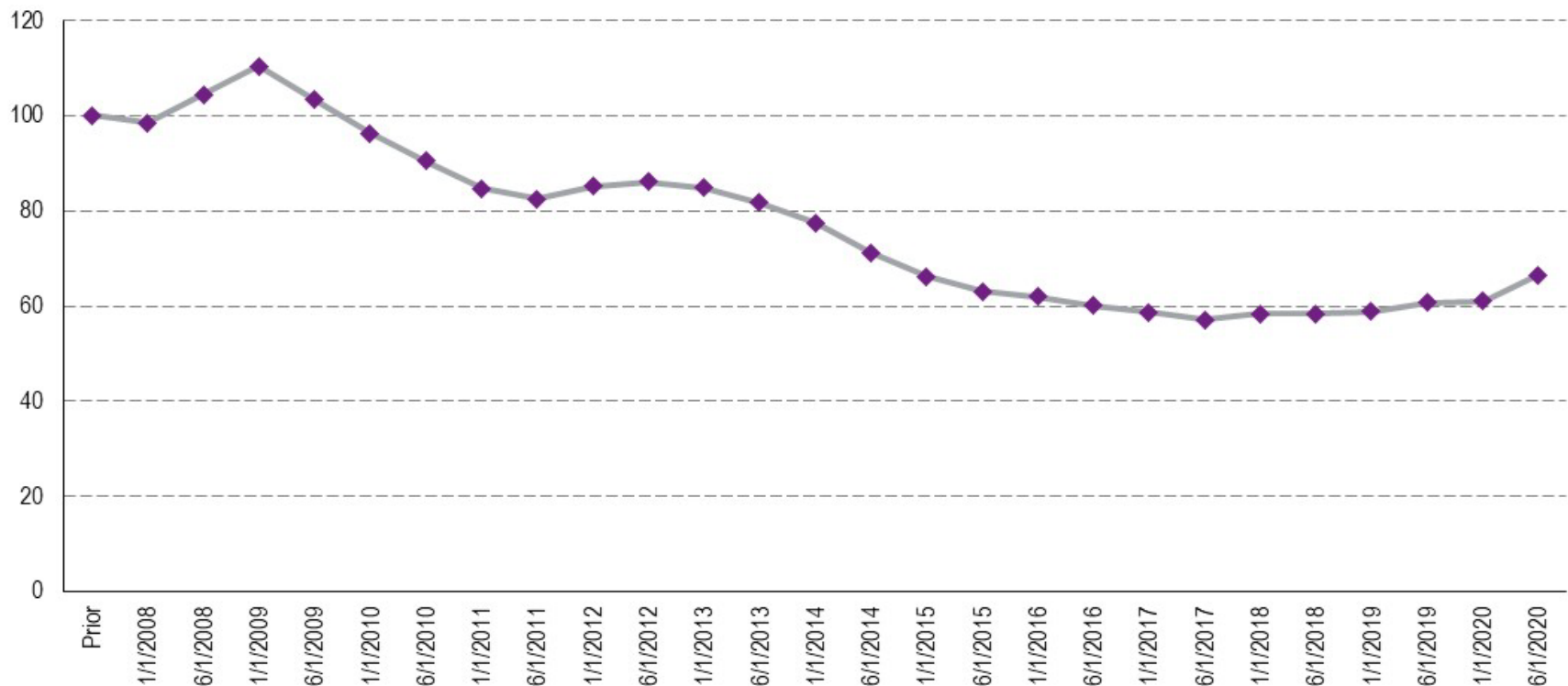
County	Litigation Rate	*Losses + ALAE		Earned House Years	Average Premium	Average Coverage A	**Cost per \$1,000
		Severity	Frequency				
Miami-Dade	53.3%	\$29,235	6.7%	264,823	\$3,882	\$213,492	\$18.18
Broward	42.3%	\$24,425	6.6%	140,895	\$3,703	\$235,769	\$15.71
Hendry	40.0%	\$21,940	2.4%	204	\$2,013	\$200,817	\$10.03
Palm Beach	35.2%	\$20,135	4.2%	56,571	\$3,282	\$237,338	\$13.83
Collier	30.2%	\$21,460	2.7%	1,995	\$2,409	\$259,271	\$9.29
Lee	21.5%	\$19,251	2.9%	4,407	\$2,135	\$235,717	\$9.06
Saint Lucie	19.8%	\$17,281	3.6%	2,817	\$2,269	\$224,434	\$10.11
Monroe	17.4%	\$27,554	1.0%	2,230	\$4,010	\$323,363	\$12.40
Jackson	16.7%	\$5,936	2.7%	226	\$1,530	\$225,488	\$6.78
Hillsborough	15.0%	\$14,717	3.8%	53,359	\$1,737	\$218,246	\$7.96
Saint Johns	13.0%	\$7,279	1.9%	1,208	\$1,797	\$291,209	\$6.17

* All Losses + Allocated Loss Adjustment Expenses (ALAE)

** Cost per \$1,000 is the average premium per \$1,000

Reinsurance Pricing

- Multiple years of losses, continued reserve increases, and limited retro and contraction of collateralized capacity leads to biggest rate increase since at least 2008
- Rates are now back to 1/1/2015 pricing level



Source: WillisRe, *Property Cat Market Recap*, June 1, 2020

Public Adjuster and Attorney Solicitations

“Have you noticed homes in your area getting their roofs replaced? Insurance companies are paying for roofs with insurance claims checks. Did you get your settlement check yet? Do you want a new roof now?”

“Florida records indicate that you may be entitled to \$50,000 to \$100,000 for cast iron pipe replacement.”

“You could be stuck paying \$50,000 to \$100,000 for a new roof if you do not contact us before September 10, 2020.”

“After Tropical Storm Eta we have been helping many homeowners get brand new roofs without any out-of-pocket costs.”

You May Be Entitled To A New Roof



1 Broken Shingle or Tile may equal 1 New Roof — Here's How!

Source: “You May Be Entitled To A New Roof.” *Total Home Roofing*, 8 Feb. 2018, <<https://www.throofing.com/think-not-entitled-full-roof-replacement-think/>>

Roofing and Restoration Contractor Solicitation

YOUR ROOF MAY HAVE DAMAGE FROM TROPICAL STORM ETA!

Our certified team of experts is currently working in Saint Petersburg replacing damaged roofs from Tropical Storm Eta. Your roof may have damage that may warrant full replacement paid for by insurance; in which case, the only cost to you would likely be your deductible.

Did You Know?

- The vast majority of our customers who file a claim get approved for FULL roof replacement by their insurance.
- Roof leaks or issues later on will typically not be covered by roofing warranties after deadline.
- **Even if you received a repair or have been turned down by your insurance, you still have options to qualify for a full roof replacement.**
- Roof tile damage is rarely visible from the ground, or to an untrained eye. Therefore, most homeowners are **NOT** aware of the extent of their damages. Lifted tile **WILL** cause future leaking, and hinder the future performance, value and insurability of your roof.



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Double G Construction Corp. is a leading roofing and restoration contractor in Saint Petersburg, Florida. We are a family owned, 16+ year LOCAL Florida company that is rated A+ with the BBB. We have been given the highest accreditation by certain vendors and suppliers, which allows us to offer the most competitive warranties in the industry. We have helped thousands of homeowners repair and replace their roof!



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General Contractor License #CGC1509157 | Roofing Contractor License #CCC1328818

COVID-19 Precautions. We take your health seriously. Please know that you can have your roof inspection without meeting us in person. All aspects of our operations can be handled digitally for your convenience and safety.

*Dinner certificate awarded to homeowners who respond to this offer and engage Double G Construction Corp. in restoration services. Double G Construction Corp. is not a public adjuster, and cannot make any representations regarding the likelihood of insurance coverage for repairs.

The vast majority of our customers who file a claim get approved for FULL roof replacement by their insurance.



Financial Trends for Florida Insurers

Financial Trends for Selected Florida Insurers

(\$000's Omitted)



Source: Guy Carpenter, *Florida Domestic Property Insurance Summary of 2020 Third Quarter Financial Results*, Updated November 19, 2020

Companies Halting Business in Florida

At least 4 companies closed for new business

At least 12 companies that have strict underwriting restrictions such as:

- Limits on new business/renewals based on location
- Age of home
- Age of roof
- Required minimum Coverage A limit
- Targeted cancellations

Good Morning Chairman and Board Members:

Chairman Beruff has made the implications of Citizens continuing its current growth levels very clear. We can never allow the company to get back to 2012 exposure levels when we had over \$500 billion in exposure and were 23% of the total residential market in Florida. A major CAT 5 storm or a series of storms, at that point, would have resulted in an assessment of \$11.6 Billion on Floridians. Total Industry premium for this market is just \$12 Billion.

Today Chairman Beruff has focused on Citizens Economics so I would like to share a few slides that attempt to ask the question why?

Why is Citizens experiencing an ongoing loss from operations and why is the Industry showing the same operating Loss experience?

As usual we have completed a very comprehensive analysis, but I will only have time today to share highlights and point out a few interesting relationships that are clearly driving the underwriting profitability by county.

Slide 1. You have seen various versions of this slide previously and it is included in the Metrics Report package that we forward to all of you monthly. The reality is that when the Industry is Healthy and Profitable, as it was from 2013-2015, capital was plentiful, and companies not only competed with one other aggressively for new business but lined up to participate in both our Clearinghouse and the Depopulation Programs. But the profitability of the industry changed in 2016 and from 2017-2020 began experiencing severe profitability issues getting worse each year while at least until last year premiums for the entire Industry including Citizens remained static. More on that later.

We are growing at the net rate of 3,000 plus policyholders per week and that appears to be increasing to a level in excess of 4,000 per week, offset only by the impact of the withdrawal of the Moratorium Program that was put in place to protect policyholders during the extremely difficult economic downturn. We are formally projecting around 650,000 policies at the end of 2021 and well over 700,000 for 2022 and the caution is that this does not contemplate potential rating downgrades from any domestic companies. According to a report issued by Commissioner Altmaier late last week the surplus of Florida's domestic property insurers decreased by almost \$585 million from 2019 to the third quarter of 2020 leaving many companies searching for additional capital to support their current writings. It would be naïve to believe that at the very least we will not see at least further restrictions in the market as a result.

Slide 2. I have included this slide that addresses exposure growth. The reason that it is important in addition to policies in force is that for the first time we are seeing that the market is impacting Commercial Lines and of course the exposure/TIV for Commercial and Commercial Residential far outweighs Residential. One major company last week announced the cancellation of over 500 policies and market intelligence indicates that another 200-300 will be terminated at the next renewal prior to storm season. The drive to accomplish this is clearly to restructure the book of business to reduce reinsurance costs. Point being that exposure growth will likely exceed policy count growth.

Slide 3. Is another slide you have previously seen and it shows that compared to January 20 when we were writing 6,658 policies per month in New Business and non-renewing 3,133 we are now exceeding 17,000 policies each month and these are not being offset by the loss of renewals due to the lack of market capacity. The response from our teams in Kelly Brooten's and Jeremy Pope's areas has been extraordinary in making sure our service levels remain excellent even with this surge in submissions.

Slide 4: Before I switch gears and discuss the litigation trends it is important to realize the impact on consumers. We have spent a lot of time on Citizens competitive position in the market that shows we are the most competitive carrier 91% of the time but I want to quote again from OIR's Report. OIR saw a dramatic increase in the number of rate filings approved with a rate increase of more than 10%. Specifically of the 105 homeowners multi-peril rate filings the OIR approved, 55 were ultimately approved for an increase greater than 10%. In 2016, out of 64 approved filings, only six were for an increase greater than 10%. This is compelling but it does not tell the whole story because the outliers, those companies with rates significantly higher range from 26% to 35%, and in some cases multiple rate filing increases in one year obviously making Citizens even more competitive in select territories. A couple of examples.

- One company with 6 rate increases in 24 months with a cumulative increase of 48.67%,
- Another with 4 rate increases in 10 months with a cumulative increase of 50.3%, and
- Two companies with 3 increases in less than two years with cumulative increases of 29.1% and 26.96% respectively.

Slide 5: The key driver of course that we have been focused on is truly out of control litigation. I do have a few exhibits to focus on this issue and will try not to steal Jay Adams and Elaina's thunder. This slide simply shows the Litigation and Assignment of Benefit (AOB) Cat and Non-Cat litigated claims count. Citizens has been able to stabilize the litigation up to this point driven primarily by a significant drop in AOB (that I contribute to our Claims implementation of 7065). It clearly shows that while Citizens litigation is stable and dropping slightly the Industry number continue to climb.

Slide 6: This slide is not easy to read as it compares the lawsuit volume by county. The concern of course is that, as I will show later, the Tri-County volume continues to increase dramatically, with even counties like Hillsborough, growth from 2,064 to 4,737 and Orange, growth from 1,583 to 7,566, and Duval, growth from 726 to 2,614. In fact, nearly all counties are showing an increase as the predominant Plaintiff Attorneys increase their reach.

Slide 7: Brian Donovan has focused on this in a significant way in the 2021 Rate discussions so I will not spend a lot of time on it but the numbers are somewhat mindboggling in this litigation environment. It shows that new claims entering litigation has dropped from over 50% to just under 20% projection for 2021. As Jay, Elaina and Brian have explained this is due to AOB Reform (HB 7065), Citizens Appraisal Program and strict evaluation of Claims, and as Governor Horton contended in the last meeting implementation of the most customer oriented Managed Repair Program in the Industry.

Slide 8: In researching the “Why” as to Citizens underwriting losses and the underwriting losses for the Industry, we looked at the “What” has happened to premiums over time and the impact on our customers. The bottom line is that they have not changed UNTIL LAST YEAR. **Slide 7** shows that Citizens average premiums excluding Tri-County were actually lower over this period, and for 2020 were still below 2013 levels.

Slide 9: However when you look at Tri-County you will see that there has been a steady increase in premiums and you are seeing that impact in Brian’s rate filing recommendation with lower increases needed in the South-East but soon you will see why. I will comment on this later, but we are seeing much higher growth in the Tri-County area. In 2013 these counties represented 45% of our business and today they represent 54% of our business and that is growing.

Slide 10: I do want to point out that while this appears to be good news you have to take a look at the premiums in place for Tri-County compared with other areas of the state. We conducted analysis of the correlation between Litigation Rate, Loss Severity, Loss Frequency, and the Average premium. We compared Citizens typical home with a Coverage A of \$200K to \$330K and also Citizens average home over \$550k to that of other counties. The correlation between these factors is very clear. The higher the litigation rate (That is the percentage of closed claims that were handled during a four year period compared with the percentage litigated) show that for a home that averages a little less than \$250,000 you will pay \$3,972 if you live in Dade and you will pay \$10,615 for a home that averages just over \$500,000 and we are the most competitive on the street. The litigation rate drives up severity and the frequency (The number of homes that put in a claim each year) just intensifies the problem. This is saying that 6.7 homes have a claim in Dade annually compared to just 1.6 home with a claim using Duval as an example. If there is any question as to why the premiums in Tri-County are so outlandish this presents the answer, ***Litigation Rates, Severity, and Frequency differences by County***.

Slide 11: This pulls together the overall concern. The litigation rates and therefore the average premiums for customers are expanding North and West from Tri-County. We have a detailed analysis for each legislative district and Christine Ashburn and March Fischer will be sharing the individual district information with all of the key legislators and of course we have whatever level of detail that might be of interest to any Board member.

Slide 12: This is simply restating what we all know and that the loss development from IRMA and Michael is running at levels the Industry has not seen and it is driving up reinsurance costs. Quoting from Commissioner Altmaier’s report and taken from OIR’s Annual Reinsurance Data Call (ARDC) “Based on findings from the ARDC for the 2020-2021 year, the amount of 2020 reinsurance coverage purchased by insurers has increased an average of 15% from 2019. However, the cost of that reinsurance has increased dramatically by 54% from 2019 figures. Continuing this reference the Commissioner described the dramatic increase in two-year loss development from IRMA and MICHAEL. To quantify, when carriers looked back one year later on their claims in 2018, (Meaning when they compared their loss estimates to the ORIGINAL loss estimates) the claims were about \$481 Million more expensive, and the two year look back was another \$241 Million higher than that number and had increased \$682 Million at the two-year mark. This is expected to continue in 2020 and even Citizens who actually had no development on the Reinsured Coastal Program is beginning to see very slight development. How can a reinsurer be expected to be competitive if they have no idea how to price their product and what the ultimate exposure will be? The result will be less capacity and higher cost.

Slide 13: So, the question is where is this “*social inflation*” coming from and what is driving it. While the final two slides do not answer the entire question the number of Public Adjuster, Contractors and Attorney Solicitations that we see come over our desks seems to be increasing exponentially. We likely have hundreds of examples of Facebook, YouTube, door hangers, billboard ads, all asking the insured to sign up for an inspection and guess what you end up getting a new roof, frankly whether you need one or not. I have included two of the recent more egregious ones. First a broken shingle or tile may equal a whole new roof - here is how. And finally,

Slide 14: Schedule your FREE Roof inspection today and get a free Ruth’s Chris Dinner on us. Just how glaring does this get?

Slide 15: This all contributes to the results of the Industry where Chairman Beruff started today. Slightly different numbers and as previously used a different composite of companies but the same trend.

Slide 16: The result. Companies closing completely for new business and underwriting requirements from companies that are more restrictive every day as companies search for the capital to support their writings let alone write new business. I will leave the discussion on potential legislative fixes up to Christine. Chairman Beruff has been highly engaged with legislative leadership communicating the sense of urgency and possible solutions, but I believe Christine and the Chairman would agree that we have a tough legislative agenda ahead of us if we are to make any difference in these trends.

Thank you for your patience and I welcome any questions.