

Commercial Underwriting Update

A&U Committee Meeting

July 13, 2021

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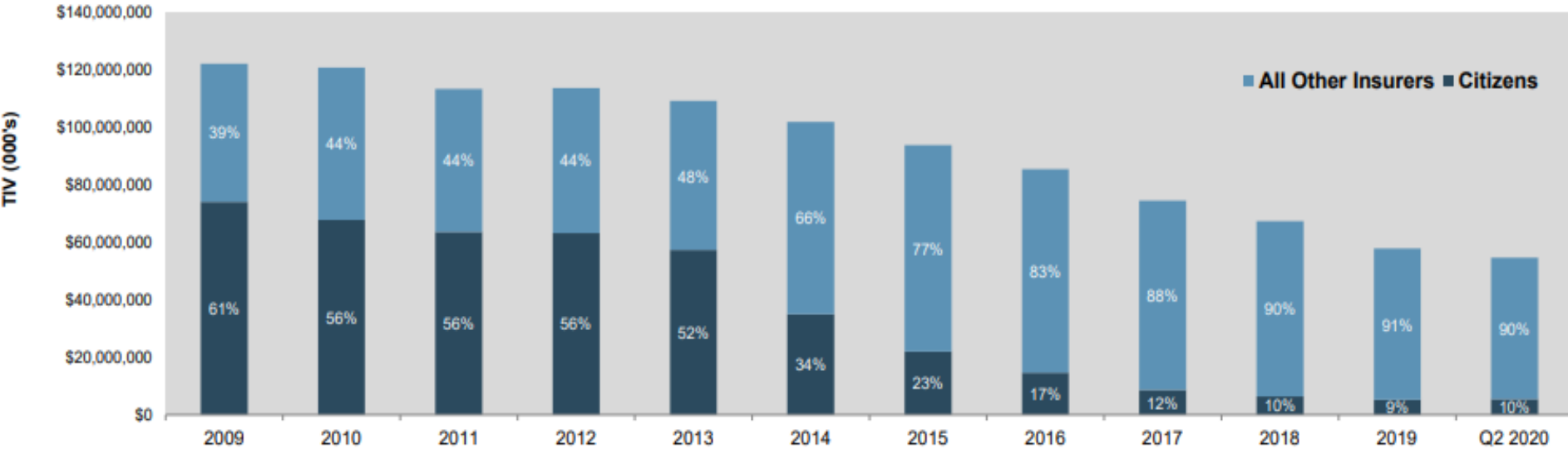
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BACKGROUND

As of June 25, 2021, there are 5,071 commercial policies in force with a total exposure of \$11.8 billion. The table below provides a breakdown of the commercial policies by product type, policies in force, total exposure and premium with surcharges:

Account	Product Line		Policies In-Force	Total Exposure	Premium
Coastal	Commercial Residential Multiperil	CRM	121	\$636,667,483	\$2,971,414
Coastal	Commercial Residential Wind	CRW	1813	\$5,225,765,607	\$30,036,357
Coastal	Commercial Nonresidential Multiperil	CNRM	28	\$23,721,500	\$221,296
Coastal	Commercial Nonresidential Wind	CNRW	2,393	\$1,958,776,020	\$23,945,318
CLA	Commercial Residential Multiperil	CRM	580	\$3,851,882,210	\$15,211,041
CLA	Commercial Nonresidential Multiperil	CNRM	136	\$139,232,700	\$868,957
	Totals		5071	\$11,836,045,520	\$73,254,383

Palm Beach, Broward, & Miami-Dade Counties Historical Trends
Policies Inforce, Total Insured Value (TIV) & Premium
Florida Commercial Residential Property
Includes Trade Secret Insurers (TS)
QUASR Data as of June 30, 2020



Year	Citizens						All Other Insurers						Total		
	Policies Inforce	% of Total	TIV (\$000)	% of Total	Premiums Written (\$000)	% of Total	Policies Inforce	% of Total	TIV (\$000)	% of Total	Premiums Written (\$000)	% of Total	Policies Inforce	TIV (\$000)	Premiums Written (\$000)
2009	12,852	46%	\$73,981,152	61%	\$336,820	61%	15,026	54%	\$48,077,839	39%	\$216,373	39%	27,878	\$122,058,991	\$553,193
2010	12,857	51%	\$67,748,418	56%	\$337,781	57%	12,418	49%	\$52,918,385	44%	\$250,296	43%	25,275	\$120,666,803	\$588,077
2011	12,335	59%	\$63,610,597	56%	\$320,491	56%	8,723	41%	\$49,598,799	44%	\$251,877	44%	21,058	\$113,209,396	\$572,368
2012	11,821	60%	\$63,141,580	56%	\$334,689	56%	7,746	40%	\$50,441,121	44%	\$258,064	44%	19,567	\$113,582,702	\$592,752
2013	10,630	61%	\$57,226,730	52%	\$315,204	52%	6,931	39%	\$51,899,050	48%	\$291,850	48%	17,561	\$109,125,780	\$607,054
2014	8,088	51%	\$34,980,997	34%	\$180,112	32%	7,724	49%	\$66,816,474	66%	\$377,310	68%	15,812	\$101,797,471	\$557,421
2015	6,037	42%	\$21,998,057	23%	\$103,547	22%	8,390	58%	\$71,761,140	77%	\$366,370	78%	14,427	\$93,759,196	\$469,918
2016	4,483	34%	\$14,579,505	17%	\$67,756	17%	8,634	66%	\$70,730,326	83%	\$326,054	83%	13,117	\$85,309,831	\$393,809
2017	3,267	28%	\$8,587,581	12%	\$41,145	9%	8,211	72%	\$65,773,514	88%	\$424,446	91%	11,478	\$74,361,095	\$465,591
2018	2,466	24%	\$6,402,088	10%	\$30,513	7%	7,932	76%	\$60,844,417	90%	\$427,625	93%	10,398	\$67,246,505	\$458,137
2019	2,028	23%	\$5,220,222	9%	\$24,872	5%	6,714	77%	\$52,536,446	91%	\$429,000	95%	8,742	\$57,756,668	\$453,872
Q2 2020	1,992	21%	\$5,440,683	10%	\$26,872	5%	7,315	79%	\$49,166,656	90%	\$486,280	95%	9,307	\$54,607,339	\$513,152

Notes:

- 1) Includes admitted insurers (and Citizens) writing commercial residential property statewide
- 2) For 2014-18, estimates for insurers submitting data under "Trade Secret" protection are detailed in the Data Sources section of the Corporate Analytics Market Share Report. For 2019 and later, Actual Total Market data is used.

Citizens Commercial Buildings 40+ Years Old – Broward & Dade

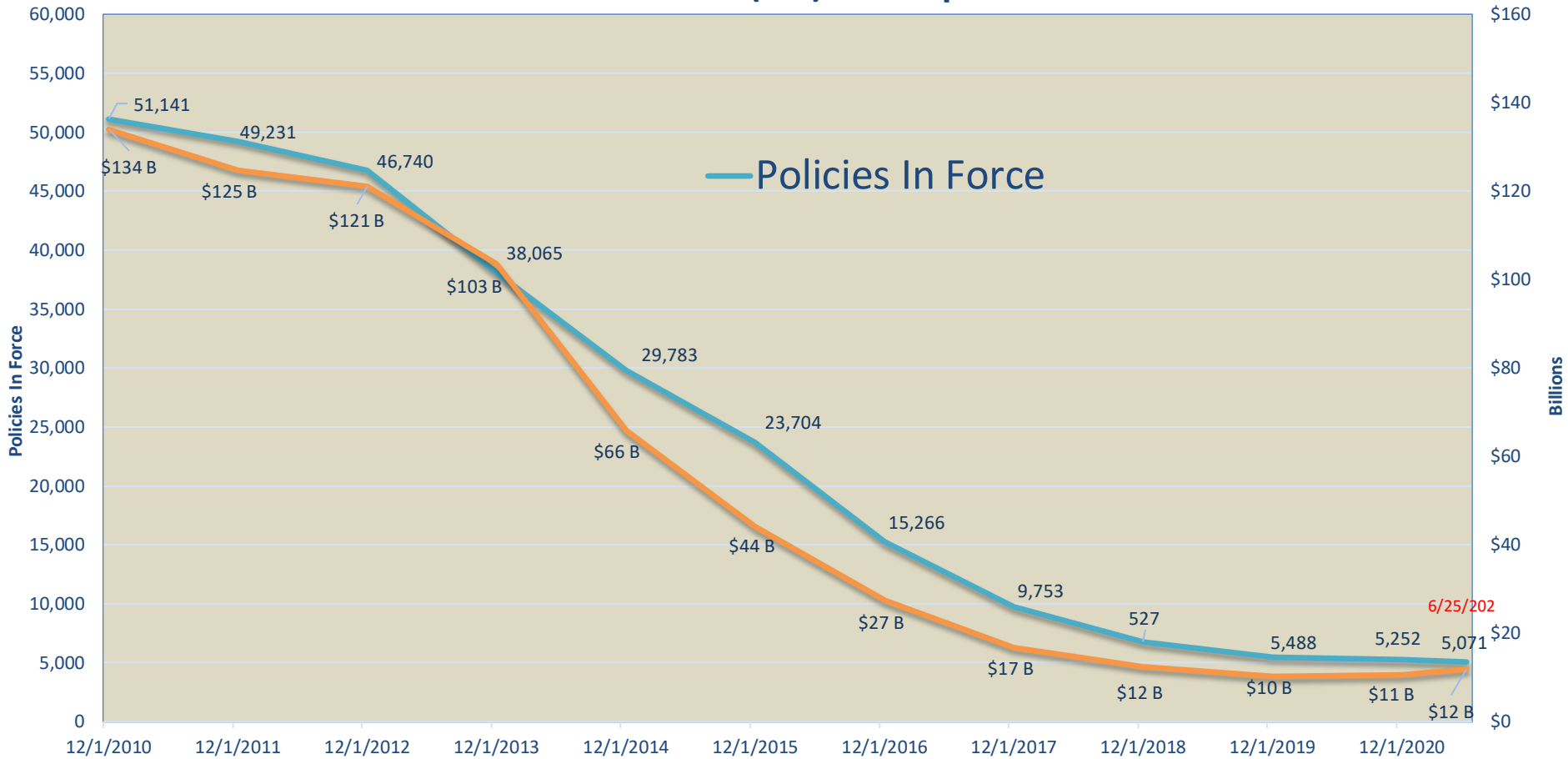
- Policy Types

	Total			Buildings 40+ Years Old			% 40+ Years Old	
	Building Count	Building Coverage	Average Building Coverage	Building Count	Building Coverage	Average Building Coverage	Building Count	Building Coverage
CR-W	1,861	\$2,456,891,000	\$1,320,199	1,492	\$1,750,605,000	\$1,173,328	80%	71%
CNR-W	792	\$515,955,890	\$651,459	679	\$436,915,890	\$643,470	86%	85%
CR-M	1,060	\$2,106,974,600	\$1,987,712	846	\$1,565,406,200	\$1,850,362	80%	74%
CNR-M	24	\$24,888,600	\$1,037,025	19	\$17,347,000	\$913,000	79%	70%
Total	3,737	\$5,104,710,090	\$1,365,991	3,036	\$3,770,274,090	\$1,241,856	81%	74%

- Wind-Only vs. Multi-Peril

	Total			Buildings 40+ Years Old			% 40+ Years Old	
	Building Count	Building Coverage	Average Building Coverage	Building Count	Building Coverage	Average Building Coverage	Building Count	Building Coverage
Wind-Only	2,653	\$2,972,846,890	\$1,120,560	2,171	\$2,187,520,890	\$1,007,610	82%	74%
Multi-Peril	1,084	\$2,131,863,200	\$1,966,663	865	\$1,582,753,200	\$1,829,772	80%	74%
Total	3,737	\$5,104,710,090	\$1,365,991	3,036	\$3,770,274,090	\$1,241,856	81%	74%

Commercial Policies In Force (PIF) and Exposure: 2010 - June 2021



Commercial is starting at a place of already being the "insurer of last resort" as evidenced by the drastic reduction in PIF and exposure since 2010.

Four Factors Contributing To Reduction In Commercial Policies [1 of 2]

1. Market Condition

- For more than 10 years, there has been ample market capacity for commercial policies. This was recently reinforced in April and May 2021 when approximately 2,091 commercial policies were canceled by two insurers and only 7% of these canceled policies applied to Citizens for coverage.
- Depopulation activity for commercial policies was significant between 2013 and 2019. Over 22,000 commercial policies were depopulated from Citizens during that time.

2. Product Offering

- Citizens commercial residential policies offer Wind coverage or **Basic Form coverage**, which provides coverage for only a limited number of specifically named perils.
- The private insurance market typically provides coverage on a Broad Form or Special Form, which provides much more extensive coverage than Citizens. Writing a single policy with broad or special form coverage likely is easier than writing a policy with Citizens in addition to another policy to fill the gap.

Four Factors Contributing To Reduction In Commercial Policies [2 of 2]

3. Renewal Underwriting Initiatives

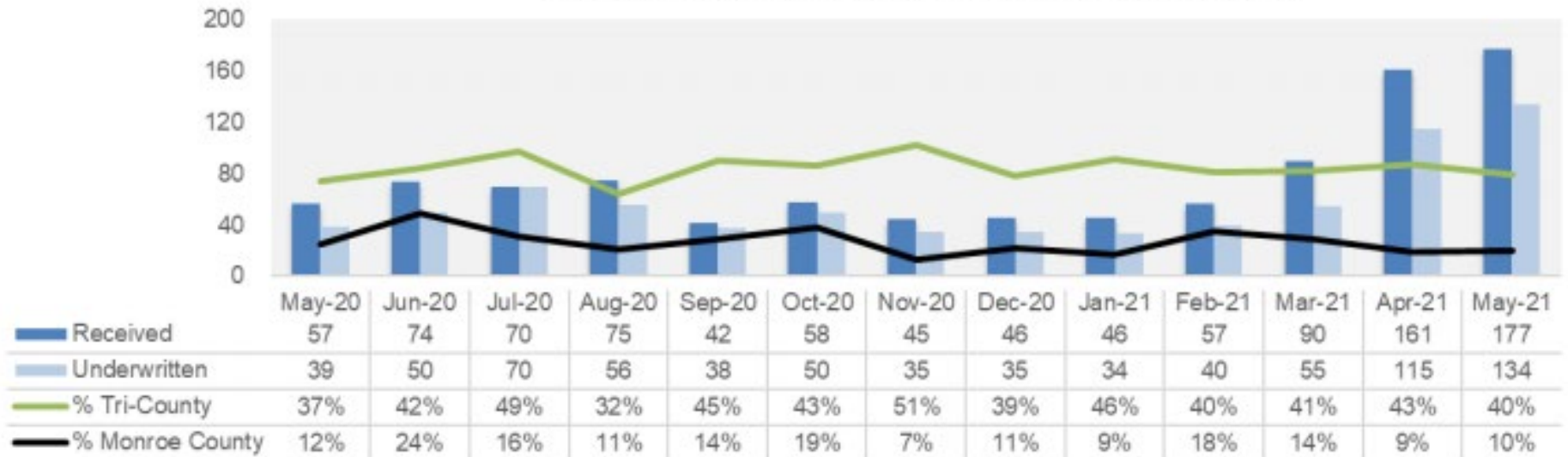
- Between 2013 and 2017, company underwriters reviewed each individual commercial policy with the intent of updating policy information to ensure the policy remains eligible and correctly priced based on filed underwriting rules.
- Beginning in 2018, underwriting implemented a renewal underwriting process named Standard Policy Review (SPR) to review and update each commercial policy at least every three years.

4. Building Update Requirements (BUR):

- As of July 2, 2021, approximately 979 commercial policies, encompassing 3,439 buildings, are out of BUR compliance and are being nonrenewed throughout the next 12 months. This has the potential to further reduce the number of commercial policies in-force.
- For these 979 policies, we have not received proof that the roof and/or electrical system are adequate and have been inspected, updated or replaced in compliance with OIR filed and approved underwriting rule. It is expected that a portion of these will be remedied prior to their nonrenewal date.

COMMERCIAL NEW BUSINESS PROCESSING

Commercial Lines New Business Applications



- Volume of new business applications received increased 211% from May-20.
- The increase in April-21 is a result of the liquidation of American Capital Assurance as well as the cancellation of Weston Insurance policies.
- The continued increase in May-21 includes some additional American Capital along with normal seasonality increases during this time.

General Steps in Underwriting Process

- Agent electronically submits a **NONBOUND** application to Citizens underwriting for consideration and no premium is collected at this point. Commercial does not utilize a clearinghouse mechanism but does use existing new business submission eligibility requirement manual procedures for commercial residential new business, which is in alignment with Section 627.3518 statute provisions.
- The underwriter then thoroughly reviews the submission, evaluating numerous factors including **proof of eligibility, property condition and policy elements driving the policy premium**. This involves working with the agent to obtain the proper documentation.
- Once all information is obtained, the underwriter decides to approve or decline the submission and notifies the agent of the final decision.
- If submission is approved, agents electronically receive notice of "underwriting approval" and must obtain policyholder's signature and premium payment to bind coverage.
- Additionally, once a submission is approved, a request for an underwriting field inspection is sent to one of the Citizens' field underwriters. These individuals physically visit and inspect the property to ensure underwriting requirements and risk characteristics are accurate.

Proof of Eligibility

- Commercial underwriters first determine if an applicant is truly eligible to be written by Citizens. They ensure that proper proof of eligibility documentation is provided. The steps in the process include:
- Agents must upload documentation confirming an attempt was made, but coverage could not be obtained in the admitted market. Acceptable documentation includes:
 - Declination notice
 - Cancellation or nonrenewal notice
 - Renewal quote excluding the perils of windstorm or hail (acceptable only when coverage for windstorm or hail is not available)
 - New-business or renewal quote demonstrating eligibility under the 15% comparable coverage rule. (Note: applicable only to commercial residential.)
- All proof of eligibility documentation should be issued by the authorized carrier (or entity authorized to write on the carrier's behalf), list the applicant's name, property address and the reason the risk is ineligible. Documentation from a surplus lines carrier cannot be accepted as proof of eligibility. Confirmation of a company's status as an authorized or surplus lines carrier can be obtained via <http://www.floir.com/CompanySearch/>.
- If proper documentation is not provided per the above, the agent does **not** receive binding authority from the underwriter.

Property Condition

- Commercial properties attempting to obtain coverage from Citizens must meet minimal standards regarding the condition of the property. Commercial underwriters closely look for characteristics that could possibly deem a property as an ineligible risk such as buildings exhibiting poor housekeeping, substandard condition, extra hazardous adjoining exposures, condemned, vacant, excessive debris around the exterior or unrepaired damage.
- Underwriters use numerous sources to evaluate the property condition including:
 - Information obtained in the insurance replacement cost appraisal
 - Photographs submitted with application
 - Roof inspection form and electrical inspection form
 - Wind mitigation forms
 - Various third-party sources
- If "existing damage" is acknowledged on the application, the underwriter requests documentation such as an engineering or construction report to assess the risk and take necessary actions.
- If an application is ultimately approved for issuance, a field inspection is ordered and conducted by a Citizens field underwriter, which may reveal property condition concerns not detected during the office underwriting process.

Accurate Rating and Pricing

- To support and maintain Citizens' financial stability, the underwriters focus on ensuring that premiums charged on issued commercial policies are based on the most accurate policy data and information in compliance with filed rates and underwriting rules.
- Three of the main drivers to determine the most accurate premium includes
 - The replacement cost valuation of the building/structure
 - The construction type of the building/structure
 - Wind mitigation credits
- In addition to the information provided by the agent in the application, the underwriters use other sources to determine the appropriate premium:
 - Insurance replacement cost-based appraisals
 - Wind Mitigation forms, which includes photographs
 - Declarations page from the prior carrier
 - Field inspection reports, etc.
- The underwriters work closely with agents to resolve discrepancies regarding the premium bearing factors.

FIELD UNDERWRITING TEAM

Citizens Field Underwriting Team

- Citizens has a team of highly trained and experienced commercial field underwriters, strategically located around the state, with a combined 141 years of experience.
- They serve as the “eyes in the field” for the company, which is critical considering the size and complexity of some of the commercial buildings we insure or are being asked to insure.
- In addition to accurate data and rating characteristics, their comprehensive reports focus on three key areas: eligibility, property condition, and pricing/building valuation.
- The placement of field underwriters throughout the state, along with their unique skills and abilities, has enabled them to provide valuable assistance to other company departments such as Personal Lines Underwriting, Claims and Special Investigative Unit (SIU).

Field Underwriter Locations



Primary Function of a Field Underwriter

- New Business Inspections – All newly issued buildings are inspected. Field inspections are completed by the field underwriters within the 90-day discovery period, allowing for adverse underwriting action, such as declination or cancellation, if needed.
- Existing Business Inspections – Field underwriters inspect risks as referred by our in-office underwriting staff. These risks are often identified for inspection through our commercial renewal underwriting program (SPR).
- Field underwriters thoroughly inspect the interior and exterior of each building. Particular attention is provided to structural deficiencies such as spalling concrete, exposed and rusted rebar, cracked foundations, pillars, etc. These items are documented, photographs are annotated, and all is reported to the in-office underwriting team.
- Depending on the severity of the damage reported, the field underwriters and the office underwriters collaborate to decide either to cancel the policy or require repairs be made for coverage to continue.
- For a variety of reasons, approximately 9% of all field inspections result in a recommendation for declination, cancellation or nonrenewal.

RECERTIFICATION INSPECTIONS

Buildings Under Evacuation Order

	Number & Type of CPIC Personal Lines Policies	Number and type of CPIC Commercial Lines Policies
Champlain Towers South 8777 Collins Avenue Surfside, FL	11 (2 DP-3 C, 6 HO-6, 2 HO-4, 1 HW-6)	None
Champlain Towers North 8877 Collins Avenue Surfside, FL	9 (6 HO-3, 3-DP-3 C)	None
Champlain Towers East 8855 Collins Avenue Surfside, FL	12 (6 HO-6, 2 HO-4, 3 DP-3C, 1 HW-6)	None
Crestview Towers Condo Association 2025 NE 164 th Street North Miami Beach, FL	23 (22 DP-3 C, 1 HO-4)	None
1619 Lenox Ave Miami Beach, FL	None	None

New business PL or CL applications for a unit-owner or tenant located in these properties are being submitted unbound to Citizens for underwriting review.

Dade and Broward Counties: Recertification Inspections

In accordance with the Miami-Dade County Code, Section 8-11 (f), as well as the Broward County Code, Section 110.15, various structures are required to obtain a Recertification Inspection when the structure reaches 40 years of age and at 10-year intervals thereafter. The inspections are conducted by a licensed engineer or architect and report on the condition of various items such as the foundation, roofing systems, masonry bearing walls, steel frames, flooring, concrete framing systems, windows, wood framing, loading, electrical service, branch circuits, conduit raceways, and emergency lighting.

Both Miami-Dade and Broward have similar requirements on the types of structures required to obtain this Recertification. No other counties in Florida that we are aware of have this requirement.

Personal Lines and Commercial Lines – Eligibility Requirement Updates

Update Personal and Commercial Lines eligibility rules to clarify that specific documentation regarding structural stability may be required. This documentation includes county-required inspections, engineering reports or other relevant documentation.

Questions