PRESIDENT’S REPORT – SEPTEMBER 2021

Good morning Mr. Chairman and Board Members.

This morning I will focus on what is occurring in the Florida Residential Marketplace. Quoting from a recent S&P Market Intelligence article the Florida Homeowners Market, excluding National Carriers, reported aggregate net income losses of $285.5 million in the second quarter of 2021. This marks the fifth straight quarter of triple digit aggregate losses for the insurers operating in the Florida market. When combined with the total reported losses of $244 million in the first three months of the year, as I reported in the July report, this group has lost over half a billion dollars so far in 2021. Of the 51 insurers covered by this analysis 36 reported net losses so far at this point mid-way through the Hurricane season. This is not just negative underwriting income it is negative net income.

These results continue to have a negative impact on the availability of coverage from private insurers in this market. Many companies continue to withdraw from geographic territories and restrict certain classifications of business. Despite severe restrictions in the marketplace there are signs that some capacity remains in the market. I reported previously that OIR had issued consent orders allowing several insurance companies to issue midterm cancellations in order to protect the financial condition of these companies. If there is any good news it is that out of 29,800 policies impacted Citizens picked up 6,280 or 21% of these policies and of the 1,700 American Capital, primarily commercial policies, involved in the AmCap liquidation Citizens only wrote 19. This is only good news in that our initial estimates, given current financial issues in the market, were significantly higher. Another positive sign is that our commercial business has not been impacted by the Champlain Towers collapse to the extent we thought possible - in fact we now only write 708 commercial policies which is down from the prior month and well below Citizens high point when we wrote almost 13,000 commercial policies. However, since we last met, when I reported that Gulfstream Insurance Company was under financial review by OIR, a liquidation order was issued resulting in the cancellation of just over 32,000 policies. Again, given the private market had only 30 days to replace coverage we were pleasantly surprised that only 14.9 % of the policies came to Citizens. It does reconfirm that there continues to be some capacity in the market and Citizens is only being used as a market of last resort.

Given the marketplace restrictions that exist Citizen’s policy counts continue to grow at the rate of 5,000 to 6,000 net per week, we are issuing over 30,000 policies per month. The concern of course is exposure growth which has increased from a low of $108 Billion to over $200 Billion with a year end estimate exceeding $230 Billion. Last week we had already reached 700,000 customers and our year end forecast of 760,000 appears to be a solid estimate assuming no major additional storm activity or marketplace disruptions. The growth is of course impacting both staffing requirements and vendor costs given that we will have almost doubled in size over the past two years. Call Center calls have increased in the last year from 54,000 per month to over 86,000 and Underwriting Calls have increased from 11,000 per month to over 22,000 per month during that same period.

As you are aware many companies are implementing double digit increases in rates and we are hopeful that considering that reinsurers have been hit extremely hard this past several months by Hurricane Ida, Western Wildfires, European Floods and additional tropical storms, it does not significantly impact reinsurance pricing for the upcoming renewal cycle. The range of estimated total Insured losses from Ida alone have ranged from $30 Billion to $40 Billion. (RMS had a $44 Billion Insured estimate and AIR was between $30 Billion and $40 Billion) Fortunately, only a very small number of Florida Insurers have exposure in Louisiana, Alabama and Mississippi making the direct impact on Florida Insurer Financials from Ida very limited.

So, is there any good news given market conditions? In my last report I provided documents showing that the litigation for the industry in the first half had increased by 51%. The most recent *Case Glide* reports that track litigation results for 17 of Florida's largest insurers, show that litigation has dropped by 35% from July to August and this has been a consistent pattern for all the major insurers. We are tracking these results closely to determine if SB76 is impacting these results and if the results are short term or if it is a long-term trend.

Meanwhile Citizens is considering all ideas to reduce exposure, as was reported in the Exposure Reduction Committee, and to operate as efficiently as possible during this unprecedented growth period.

Can I answer any questions?