

Holistic Inspection Approach

Market Accountability Advisory Committee

December 8, 2021



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Our Underwriting Manual and Application include wording supporting Citizens' right to inspect:

- Underwriting Manual: *Rule 210, Inspections: An inspection requiring interior and exterior access may be conducted on any property insured by Citizens. Inspection information can verify wind-resistive features, risk characteristics, and/or general eligibility for coverage.*
- Application: *Citizens Property Insurance Corporation (Citizens) may conduct an inspection of your property as part of the underwriting process. The purpose of the inspection will be to verify eligibility and validate certain building characteristics, including construction, replacement value, occupancy and wind-resistive features.*

The private market approach to inspections is consistent with Citizens' Holistic Inspection Approach (HIA):

- New Business
 - Most carriers require 4-Point Inspections on older homes for eligibility
 - Many order full interior/exterior or exterior only inspections on all new business submissions regardless of age of home

- Renewal Business
 - Inspect every 3-5 years
 - Inspect homes becoming 30 years old
 - Re-inspect after a loss

Inspection information from PIPSO (Property Insurance Plans Services Office, Inc.) for other residual property insurers:

State	2020 Earned Premium	New Business	Renewal
California	\$182,460,000	<ul style="list-style-type: none"> • 25+ Years – All • Less than 25 years - 1 out of every 10 • ACV – 1 out of every 10 • Dwelling – Owner occupied 2-4 Unit – All • Dwelling – Tenant occupied <ul style="list-style-type: none"> ○ Less than 35 years old – exterior only ○ 35+ years – Full • Commercial – All 	<ul style="list-style-type: none"> • Dwelling owner occupied – No set criteria • Dwelling tenant occupied - No set criteria • Commercial – Every 4 years
Florida	\$761,576,000	<ul style="list-style-type: none"> • For 2022, ~13% of new business will be inspected based on: <ul style="list-style-type: none"> ○ Age of structure ○ Prior loss experience ○ Policy Type ○ Roof age ○ Coverage A amount 	<ul style="list-style-type: none"> • For 2022, ~7% of existing business will be inspected based on: <ul style="list-style-type: none"> ○ Age of structure ○ Prior loss experience ○ Policy Type ○ Roof age ○ Coverage A amount • Insolvent or consent order policies
Louisiana	\$36,166,000	<ul style="list-style-type: none"> • All new business in inspected 	<ul style="list-style-type: none"> • Inspect a % of existing business based on set criteria. Approximately 3,500 total/year
Massachusetts	\$237,981,000	<ul style="list-style-type: none"> • All HO, Dwelling & Commercial 	<ul style="list-style-type: none"> • All every 3-5 years
North Carolina	\$95,888,000	<ul style="list-style-type: none"> • An inspection may be ordered – No set criteria 	<ul style="list-style-type: none"> • May reinspect per request from the insured or after a claim – No set criteria
Texas	\$53,093,000	<ul style="list-style-type: none"> • 13+ Years – Exterior only • 14-29 Years – Virtual • 30+ Years – Full physical 	<ul style="list-style-type: none"> • As needed basis, generally 5-10 years

- 2016-2020: Citizens inspected ~1% of policies-in-force (PIF) annually
- 2021: Increasing to 2-3% of PIF
- Primarily interior/exterior or exterior-only inspections for this criteria:
 - Policy forms: HO-3 & DP
 - Older homes: built in 1990 and older
 - Coverage A < \$300,000
 - Prior non-weather water loss
 - Mobile/manufactured homes: 30 years and older
 - Roof age: 20-25 years old

Board of Governors-Approved Inspection Plan					
Year	% of NB	NB Inspection Volume	% of PIF	PIF Inspection Volume	Total Volume
2022	13.30%	39,330	6.89%	60,915	100,245
2023	20.58%	64,399	10.50%	109,258	173,657
2024	41.07%	123,551	12.88%	121,088	244,639
2025	62.47%	185,855	20.21%	171,780	357,634
4-Year Total:					876,176

Note: Volumes are based on NB and PIF forecasts made in March 2021

This HIA involves:

- Accelerating the use of predictive modeling for both new business and renewal inspections
- Exploring virtual inspection options and leveraging aerial imagery and 3rd party data such as tax records, building permit data, and other resources
- Using technology to reduce or eliminate current manual workflow steps related to inspections

We expect to achieve the following critical business results via our HIA:

- Reduce Loss Frequency – Inspections allow Citizens to guard against adverse selection. We expect to see a 10–20% improvement in the overall impact on loss frequency for inspected policies.
- Improve Premium Accuracy – Inspections provide observed validation of rating characteristics, directly impacting premium accuracy. In addition to identifying undervaluation concerns, this is going to assist in improving premium accuracy on policies Citizens acquires via OIR Consent Orders.
- Reduce Exposure
 - Declinations and Nonrenewals – of new and renewal business that is uninsurable
 - Assumptions by Private Market Insurers – Current inspections are expected to increase assumption ratios by 10-20% for risks inspected. This could equate to an additional \$358M-\$716M in total insured value (TIV) being assumed annually.

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