PRESIDENT'S REPORT – DECEMBER 2021

Today's discussion will focus primarily on our 2022 Operating Budget. However, before we spend time discussing the financial projections and how we respond to the extraordinary growth in customers, while maintaining acceptable service standards, it is worthwhile updating you on why we believe that, in the short term, continued growth is inevitable.

Let's begin with *industry profitability*. To say the least "disturbing" is an obvious understatement. Following several years of profitable performance, the 52 companies representing over 79% of the Florida Property premiums began to experience severe profitability problems (starting in 2017). Each subsequent year the negative net income has grown from $88 million negative in 2017 to $816 million negative in 2020. Despite Florida not experiencing a major Hurricane Landfall in 2020 the 3rd quarter Negative Net Income of $847 million in 2021 for the private market has already exceeded the full year's loss for 2020. Net Underwriting Loss for the same companies as of the 3rd Quarter was $1.145 Billion.

When companies are profitable, they want to write more business and when they are unprofitable, they want to write less and of course that is exactly what is happening.

> Most companies want to write less, and they are being successful. Many companies are non-renewing business that would have been considered highly profitable just a year ago. The $13.8 Billion in premium in the Domestic Market is supported by less than $4 Billion in surplus.

At the current level of profitability, the Domestic Market is losing more than 25% of their surplus every year. This lost surplus must be replenished to support not only the current writings but the premium growth resulting from the rate increases that are occurring to assure that companies meet the required premium to surplus levels.

Base rates are increasing for virtually all of the companies in the market. In fact, over the past 12 months, 22 of the 52 companies we refer to as the private market had approved rate increases over 10% with a high of 50% and an average closer to 14%. This of course is not the whole story in that companies are typically applying inflation factors each year as a result of increased building costs resulting in higher replacement cost values for homes at renewal which also increase premiums. While these increases are critical to keeping the customer fully insured it hits the pocketbook hard when they occur in a period of high inflation, and they are combined with base rate increases.

A second issue faced by Citizens, that is unique to the Florida Market, is that the recent competitive analysis, completed in November 2021, shows that the average premium for 97% of our competitors was at least 15% or greater than Citizens compared to 69% last year. Stated another way 99% of Citizens HO-3 Policies are charged less than the competitors' premium, compared to 91% last year.

> Customers are likely to be buying a less comprehensive policy from us and the fact that Citizens Policyholders are subject to assessments in the event of a series of catastrophic events, or event, is not always considered when customers are subject to large premium increases at renewal.

In addition, the application of tighter risk selection criteria for companies to improve profitability and overcome litigation trends all have an impact on the increased flow of business to Citizens.

These continuing restrictions in writings by private companies, of course, increases Citizens' market share which now stands at 10% overall. However, we are far more predominant in the Southeast with a market share already at 25% trending to 33% writing close to 400,000 of the 1.5 million residential property policies in the Tri-County.

SB76 was a serious step forward for Citizens by increasing the glide path over 5 years from 10% to 15% and allowing Citizens to charge appropriately for reinsurance in our rates. But the impact of these actions will take time to take effect and meanwhile the rate disparity is widening.

I will not spend time on the detailed litigation analysis for the Florida Industry, but we are all aware of the impact that abusive and sometimes fraudulent litigation practices are having on Insurer Financials. The entire Industry took notice last year when Commissioner Altmaier stated that

> "Based on the most recent MCAS data available, in 2019, Florida accounted for 8.16% of all homeowners' claims opened by insurance companies in the U.S. However, in 2019, Florida accounted for 76.45% of all homeowners' suits opened against insurance companies in the U.S. This is a mind-boggling number and serves to emphasize the extent of the problems we are dealing with. I have included the Litigation Exhibit I normally provide as an addendum in the Board Book, but the bottom line is that litigation has increased for the industry by 29% year-over-year January-September with an expectation that the number of litigated property cases will exceed 100,000 by year end compared to just over 27,000 for 2013."[1]

Again, we believe that SB76, while not a complete solution, will have a positive impact on litigation and combined with increased focus on fighting fraud it will make a major difference. That impact is not likely to show up soon enough to slow the influx of close to 5,000 net new customers per week to Citizens in 2022. Therefore, our budget assumptions contemplate continued growth in the short term, and we must depend on additional traditional reinsurance and Insurance Linked Security (ILS) placements in 2022 to protect the Citizens' financial security.

Before we move into a budget presentation that will focus on the actions that are necessary to maintain our service standards in this period of incredible growth, I do want to share with you some good news. We received the results of our Engagement Survey just last Friday – You are already aware that for the second straight year, Citizens was named one of Florida's 2021 Bet Places to Work. This award was just reinforced with the Engagement Survey results. The Final survey, with over 82% of employees participating shows a 93% engagement rate with 94% of employees indicating they intend to stay more than one year. To say these results are remarkable is an understatement and they come at a time when we are reaching further afield to attract the talent necessary in critical areas like claims, IT and Underwriting to support the growth in policies and claims. In 2022, we are moving to more office presence when there is a benefit to face-to-

[1] April 2, 2012, Letter: OIR Commissioner David Altmaier to Chairman Blaise Ingoglia

face discussions, staff meetings, training sessions, one-on-one discussions and more personal interaction. Our distributed workforce program has allowed us the flexibility to keep up with the increased demand for talent and maintain the culture that is reinforced by these recent survey results. We committed to continuing the high employee productivity and performance that has allowed us to face the current growth effectively.