PRESIDENT'S REPORT – DECEMBER 2022

Good morning, Mr. Chairman and Board of Governors. Later in this presentation we will request your support for the 2023 Operational Budget, and I thank all of you for the time spent in our one-on-one pre-calls to review the budget in detail.

However, there are several areas that we will touch on before we get to the budget discussion. I will kick it off by providing you with a brief overview of the condition of the Florida domestic property marketplace that will provide some explanation around Citizen's growth. Kelly Booten, Citizens Chief Operating Officer, who is currently Vice Chair of the PIPSO Board, (Personal Insurance Plan Service Office) will provide an overview of how Citizens compares to other residual market plans. This will be followed with a brief presentation by Jay Adams, our Chief Claims Officer, with a final update on Hurricanes Ian and Nicole. I will then be joined by Citizens Chief Financial Officer, Jennifer Montero, to review the 2023 Budget.

Market Overview

I am only going to use one slide to highlight some key Industry results. I believe this is all that is necessary to explain why more and more companies are becoming insolvent, why others have restricted writings (either due to lack of profitability or reinsurance costs), and why several have simply shut down and are no longer writing in the state. *The critical point is* this: Following a review of the 3rd Quarter private market financials, it is very clear that an already troubled market is now even markedly worse. The impact of Hurricanes Ian and Nicole have obviously taken their toll on many companies.

This one slide not only focuses on the growing underwriting loss and negative net Income for the private market but adds additional information that clearly shows the impact that market losses are having on the capital and surplus position of companies impacting their ability to continue to renew business and write new business.

Selected Florida Insurers Monitored ($000)

	YTD 3Q 2022	2021	2020	2019	2018
Underwriting Gain/(Loss)	($1,110,766)	($1,094,530)	($1,035,719)	($482,451)	($314,717)
Net Income	($875,760)	($777,466)	($498,411)	($198,926)	($94,007)
Surplus	$3,718,848	$3,712,731	$3,534,027	$3,661,441	$3,609,079
Direct Premium Written	$11,796,542	$13,394,496	$11,752,579	$10,282,390	$9,457,158
Contributed Capital & Surplus	$980,710	$836,152	$424,597	$213,254	$346,419

Selected Florida Insurers Monitored Including Insolvent Carriers ($000)

	YTD 3Q 2022	2021	2020	2019	2018
Underwriting Gain/(Loss)	($1,216,262)	($1,502,715)	($1,439,908)	($629,827)	($358,788)
Net Income	($1,031,241)	($1,164,759)	($786,624)	($306,071)	($114,582)
Surplus	$3,718,848	$3,854,545	$3,838,940	$3,983,940	$3,987,178
Direct Premium Written	$11,796,542	$14,525,726	$13,625,036	$11,907,789	$10,929,346
Contributed Capital & Surplus	$980,710	$1,093,270	$621,164	$264,436	$358,387

Net underwriting loss for all companies, including those that are now insolvent, increased from negative $359 million in 2018 to negative $1.2 billion through just the 3rd Quarter of 2022 and negative net income increased from negative $115 million in 2018 to over a negative $1 billion through the 3rd Quarter 2022.

Direct written premium (DWP) for the private market has increased from $10.9 billion year end 2018 to an estimate that will likely exceed $15 billion by year end 2022. (It stands at $11.8 billion through three quarters.) While DWP will increase by close to 37% ($15B/$11) - 1.0 = 37%) over this five-year period, private market surplus has dropped slightly from $4 billion to $3.7 billion. To maintain this relatively static level of surplus there has been an average surplus contribution of over $664 million per year over the past five years and in the last two years alone there has been an average of over $1 billion per year in surplus contribution. The issue that many companies will face is raising enough capital, given prior year results, to support current writings.

My next comment relates to reinsurance pricing for the upcoming renewal. Several of the major reinsurers have announced publicly that they will reduce capacity for the Florida market for the upcoming placement year. Capacity for coverage below the CAT Fund retention layer is going to be nonexistent or if available extremely costly. Pricing projections for the reinsurance that can be obtained above the Cat Fund range from 30% to 70%. While the ILS (Insurance linked Security) market for some of the larger players, including Citizens, has represented a competitive alternative to traditional reinsurance in the past, that market currently is pricing at exceedingly high rates given the actual exposure. These high reinsurance rates will need to be passed on to the consumer so higher rate increases are expected to continue. This will continue to impact Citizens.

The Homeowners Rate Analysis just completed in November 2022 compares Citizens rates to those of nine companies with information available show that Citizens statewide average premium for HO-3 policies was $3,227, which is 44% below the competitor's average premium of $5,788.

Finally, the number one culprit for the condition of the market today, in my opinion, is excessive litigation. The number of litigated cases has grown from 27,000 in 2023 to well more than 100,000 today. If NOI's are included, the estimate for year-end 2022 is over 116,000. If this issue is not addressed in full, the market will not change, and reinsurance costs will continue upward with additional reinsurers withdrawing capacity from this market.

The questions to be answered by the private market for next year are:

1) Can they obtain the capital they need to continue in business?
2) Will reinsurance capital be available at reasonable rates to allow the companies to meet their required first event and second event coverage?

There are high expectations for the upcoming special session that the Legislature will pass some major tort reform. If strong legislation is not passed, Florida's property insurance market is likely to continue to deteriorate. If strong legislation is passed, it is my opinion that new capital will enter the state in mid to late 2023 as new companies can enter and leave the Irma, Ian, and Nicole development behind and charge sound rates. In our budget discussion you will see that we do not expect the environment to significantly improve in 2023. But the right legislation will improve the market going forward for Citizens and attract new investors into the market.

I threw a lot of numbers at you today but am pleased to answer any questions that you have before turning this over to Kelly Booten.