

2023 Operating Budget

Board of Governors
December 2022



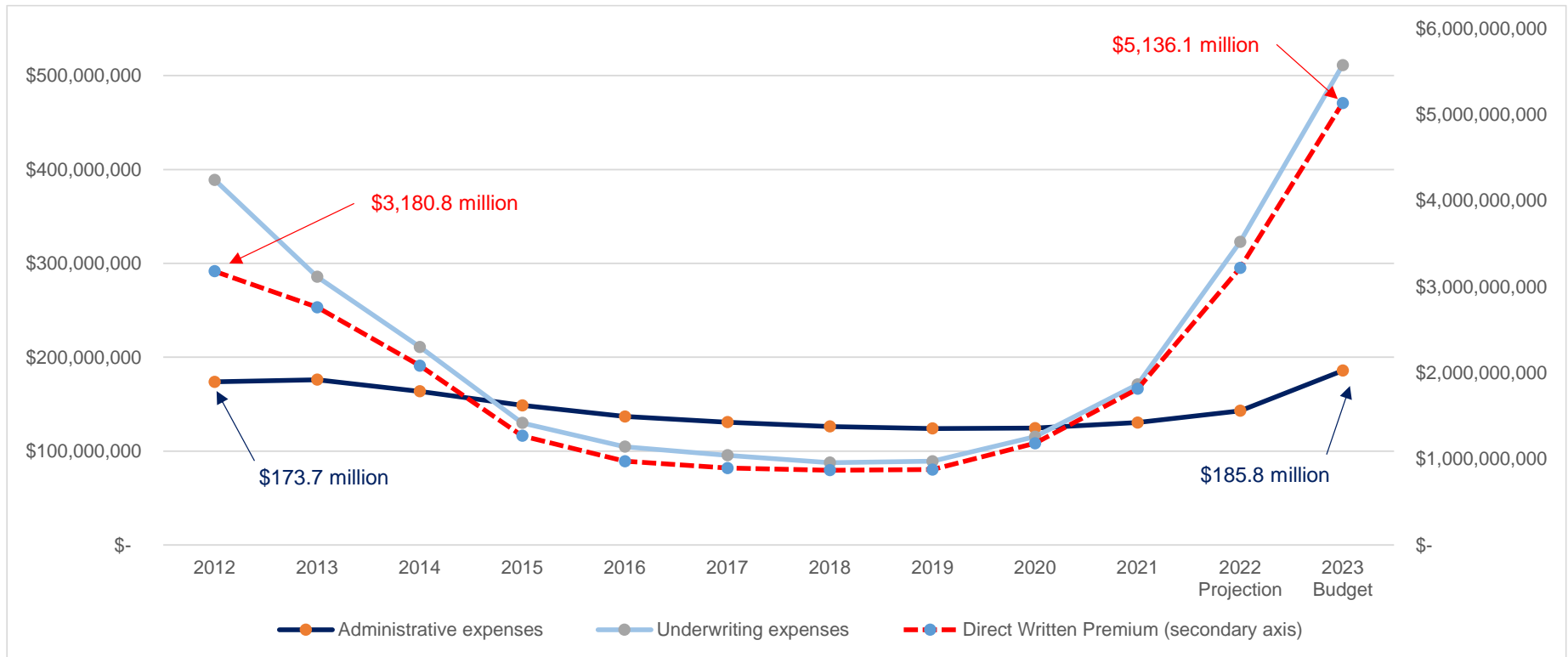
Fiscal Year Comparison – 2019 vs. 2023

(\$ in millions)	2019	2020	2021	2022 (Projected)	2023 Budget	Increase from 2019
Policies inforce	447,400	531,200	759,300	1,153,200	1,681,000	→ 276%
Direct written premium	\$ 876.6	\$ 1,182.1	\$ 1,814.1	\$ 3,219.0	\$ 5,136.1	→ 486%
Administrative expenses	\$ 124.0	\$ 124.5	\$ 130.4	\$ 143.0	\$ 185.8	
Employee count	1,065	1,081	1,154	1,401	1,577	
Contingent employees (ex-Claims)	23	27	40	45	51	
Contingent employees (Claims)	361	360	421	845	706	
Expense ratio	24.3%	20.3%	16.6%	14.5%	13.5%	
Exposure	\$ 111,248.6	\$ 144,798.3	\$ 232,502.3	\$ 421,738.0	\$ 654,262.1	→ 488%

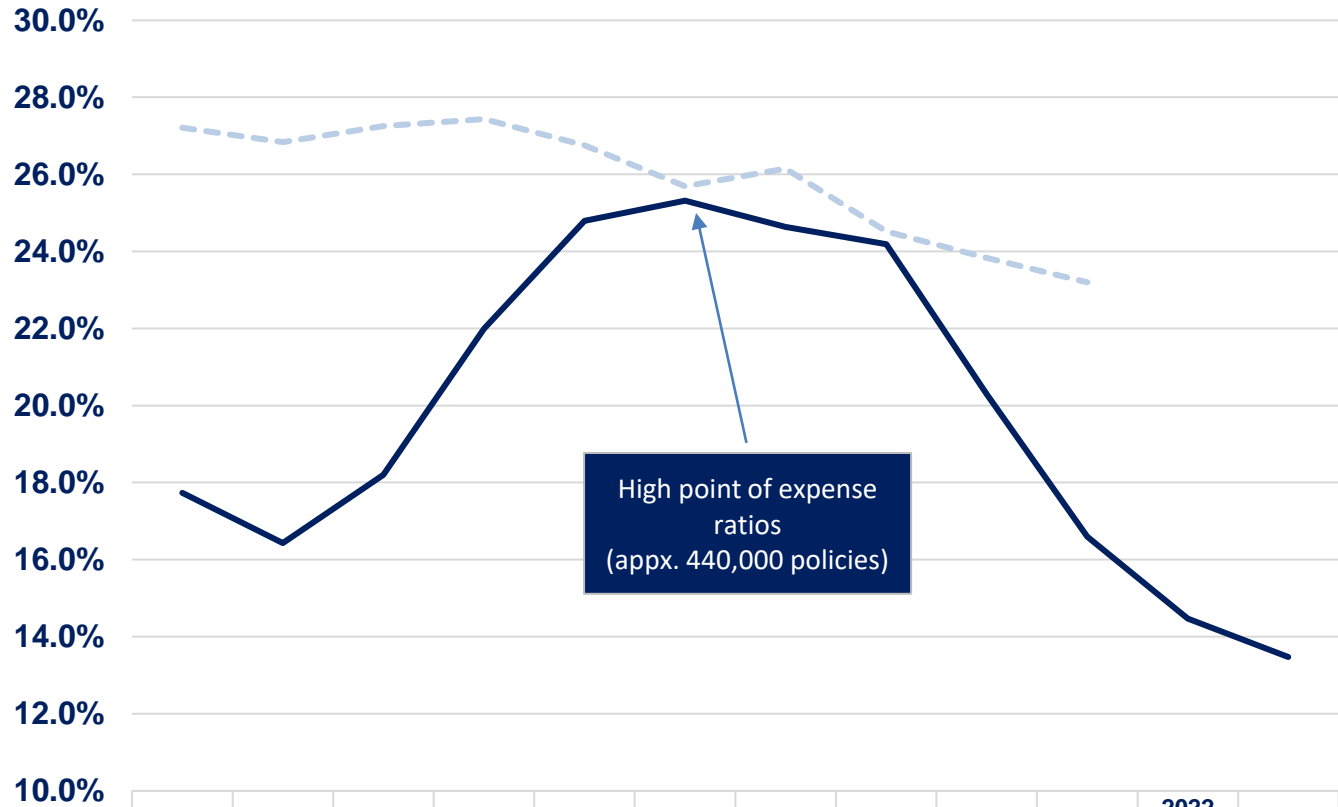
2023 Budget Highlights

- Citizens continues to observe sizeable growth in its book of business, placing pressure on existing employees and business partners to meet customer service needs
- An increase in employee count, specifically in those areas most affected by the growth in policy count, is necessary to meet customer service level standards
- Likewise, an increase in the usage of contingent staffing and business process outsource functions is needed to maintain a balanced staffing approach and allowing flexibility in Citizens' staffing model if growth projections fall short of or exceed estimates
- While Hurricanes Ian and Nicole made landfall in 2022, claims costs will persist and must be contemplated in the 2023 operating budget and beyond
- Budgeted 2023 operating ratios, in particular the expense ratio, are considerably below industry averages and near historical low points

Growth Affects Variable Expenses



Comparison of Expense Ratio Results



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 Projecti ons	2023 Budget
Florida carriers (mid-point)	27.2%	26.8%	27.2%	27.4%	26.7%	25.7%	26.2%	24.5%	23.8%	23.2%		
Citizens	17.7%	16.4%	18.2%	22.0%	24.8%	25.3%	24.6%	24.2%	20.3%	16.6%	14.5%	13.5%

2023 Corporate Initiatives

Total budgeted cost: \$48.9 million

Hurricane Ian: \$16.9 million

Identity and Access Mgmt: 1.5 million

Exposure Reduction: 0.5 million

Citizens Reimagined: 2.3 million

Holistic Inspections Program: 17.8 million

Enterprise projects: 7.0 million

Other/ongoing projects: \$ 3.0 million

BOG directed

Premium

(\$ in millions)

	Combined		PLA		CLA		Coastal	
	2022	2023	2022	2023	2022	2023	2022	2023
Direct Written Premium	\$ 3,218.9	\$ 5,136.1	\$ 2,300.3	\$ 3,765.9	\$ 61.0	\$ 131.0	\$ 857.6	\$ 1,239.2
Depopulation	\$ 32.1	\$ 31.5	\$ 30.0	\$ 29.3	\$ -	\$ -	\$ 2.1	\$ 2.2
Policies in-force	1,153,162	1,680,967	921,293	1,378,114	1,057	1,595	230,812	301,259

- Current projections show that at current trends, 2023 will have more new business policies than 2022, which will be the most since 2011
- The number of new policies projected to be written in 2023 is 765,000 or nearly 200,000 more new policies than is projected in 2022
- In addition to the growth in new business policies, rate changes and increases in per policy exposure also contribute to the 2023 budgeted direct written premium of \$5.1 billion

Losses and LAE (Excludes Catastrophes)

	Combined		PLA		CLA		Coastal	
	2022	2023	2022	2023	2022	2023	2022	2023
Loss & LAE Ratio	50.7%	49.1%	61.0%	58.4%	18.0%	15.0%	25.5%	25.5%

- The PLA loss and LAE continues to improve as the number of water claims that enter litigation trend lower and severity of litigated claims declines
- Given its size, the loss and LAE within the CLA can be volatile from year-to-year due to the impact of a small number of large claims
- Similar to the PLA, the Coastal Account loss and LAE are expected to remain steady as a result of positive trends in the non-catastrophe litigation rate and declining litigated severity

Reinsurance and Net Investment Income

- Placeholders of \$400 million (PLA) and \$325 million (Coastal) for private risk transfer (including Everglades Re carrying over) are included in the 2023 Operating Budget
- Estimated \$506 million of ceded premium for coverage from the FHCF which Citizens is required to purchase
- Budgeted 2023 yield of 2.5% on invested assets:
 - Based on taxable and tax-exempt portfolio income yields as of September 2022 and impacts to portfolio balances as a result of an increase in premium levels and Hurricane Ian claims payments
 - Assumes no significant movement in overall rates in 2023
 - 2023 budgeted yield does not contemplate any potential realized gains
- Budgeted 2023 interest expense considers:
 - Interest expense on the remaining outstanding balance of \$275 million of Coastal 2015A-1 bonds
 - No scheduled payments for bond maturities in 2023
 - No additional debt issuances or early redemptions planned in 2023

Administrative Expenses

	2022		2023		
	Budget	Projections	Budget	Lower Limit	Upper Limit
Policy count	1,064,220	1,153,162	1,680,967	1,464,780	1,960,268
Direct written premium (\$ millions)	\$ 3,001.8	\$ 3,219.0	\$ 5,136.1	\$ 4,365.9	\$ 6,095.0
Administrative and underwriting expenses (\$ millions)	\$ 442.2	\$ 465.7	\$ 697.0	\$ 629.8	\$ 781.6
Expense ratio	14.7%	14.5%	13.6%	14.4%	12.8%

- Excluding ULAE, major components of 2023 budget administrative and other underwriting expenses are:
 - Employee costs - \$198.6 million (30% increase)
 - Contingent staffing - \$137.5 million (26% increase)
 - Professional services - \$21.4 million (77% increase)
 - Software, maintenance and licensing - \$25.0 million (26% increase)
 - Other underwriting expenses and servicing carrier fees - \$59.9 million (54% increase)

2023 Budgeted Income Statement (by account)

	<u>Combined</u>	<u>PLA</u>	<u>CLA</u>	<u>Coastal</u>
Direct Written Premium	\$ 5,136,078,361	\$ 3,765,880,886	\$ 131,020,750	\$ 1,239,176,725
Ceded Written Premium				
Takeout	(31,522,276)	(29,326,400)	-	(2,195,876)
FHCF	(506,199,218)	(317,021,035)	(11,679,798)	(177,498,385)
Private risk transfer	(725,000,000)	(400,000,000)	-	(325,000,000)
Earned Premiums, Net	<u>\$ 2,881,912,039</u>	<u>\$ 2,259,022,930</u>	<u>\$ 81,464,567</u>	<u>\$ 541,424,542</u>
Underwriting Expenses				
Losses incurred	1,500,097,836	1,280,493,535	12,969,877	206,634,425
Loss adjustment expense incurred	519,553,870	458,561,787	1,036,297	59,955,786
Administrative expense	185,784,654	135,832,952	4,650,557	45,301,146
Underwriting expense	511,178,380	364,304,758	18,215,497	128,658,124
	<u>2,716,614,740</u>	<u>2,239,193,033</u>	<u>36,872,228</u>	<u>440,549,480</u>
Net underwriting income / (loss)	<u>\$ 165,297,298</u>	<u>\$ 19,829,897</u>	<u>\$ 44,592,339</u>	<u>\$ 100,875,062</u>
Other Income (expense)				
Investments Income	241,979,133	76,439,510	60,616,850	104,922,773
Interest expense	(9,314,424)	-	-	(9,314,424)
Other income (expense)	9,444,886	7,450,295	593,123	1,401,468
	<u>\$ 242,109,596</u>	<u>\$ 83,889,806</u>	<u>\$ 61,209,973</u>	<u>\$ 97,009,817</u>
Net income / (loss)	<u><u>\$ 407,406,894</u></u>	<u><u>\$ 103,719,703</u></u>	<u><u>\$ 105,802,312</u></u>	<u><u>\$ 197,884,879</u></u>
Policies In Force as of 12/31	1,680,967	1,378,114	1,595	301,259

Multi-year Comparison

	<u>2021</u>	<u>2022 (Projection)</u>	<u>2023 Budget</u>
Direct Written Premium	\$ 1,814,135,214	\$ 3,218,945,197	\$ 5,136,078,361
Ceded Written Premium			
Takeout	(4,219,625)	(31,980,044)	(31,522,276)
FHCF	(199,826,693)	(324,555,452)	(506,199,218)
Private risk transfer	(251,646,707)	(216,342,909)	(725,000,000)
Earned Premiums, Net	<u>\$ 1,009,119,771</u>	<u>\$ 1,885,227,816</u>	<u>\$ 2,881,912,039</u>
Underwriting Expenses			
Losses incurred	530,792,041	2,982,097,545	1,500,097,836
Loss adjustment expense incurred	343,353,894	674,514,108	519,553,870
Administrative expense	130,369,158	142,984,344	185,784,654
Underwriting expense	171,120,201	322,732,115	511,178,380
	<u>1,175,635,294</u>	<u>4,122,328,112</u>	<u>2,716,614,740</u>
Net underwriting income / (loss)	<u>\$ (166,515,523)</u>	<u>\$ (2,237,100,296)</u>	<u>\$ 165,297,298</u>
Other Income (expense)			
Investments Income	262,813,330	213,445,634	241,979,133
Interest expense	(24,056,359)	(11,983,112)	(9,314,424)
Other income (expense)	7,886,572	4,987,041	9,444,886
	<u>\$ 246,643,543</u>	<u>\$ 206,449,563</u>	<u>\$ 242,109,596</u>
Net income / (loss)	<u>\$ 80,128,019</u>	<u>\$ (2,030,650,734)</u>	<u>\$ 407,406,894</u>
Policies In Force as of 12/31	759,305	1,153,162	1,680,967

Multi-year Comparison – PLA

	<u>2021</u>	<u>2022 (Projection)</u>	<u>2023 Budget</u>
Direct Written Premium	\$ 1,280,549,312	\$ 2,300,287,293	\$ 3,765,880,886
Ceded Written Premium			
Takeout	(3,345,956)	(29,898,367)	(29,326,400)
FHCF	(199,826,693)	(195,369,932)	(317,021,035)
Private risk transfer	(251,646,707)	(89,861,015)	(400,000,000)
Earned Premiums, Net	<u>\$ 783,742,531</u>	<u>\$ 1,442,256,285</u>	<u>\$ 2,259,022,930</u>
Underwriting Expenses			
Losses incurred	446,577,927	2,004,618,029	1,280,493,535
Loss adjustment expense incurred	296,130,992	496,406,973	458,561,787
Administrative expense	91,422,183	101,453,619	135,832,952
Underwriting expense	117,834,379	224,434,793	364,304,758
	<u>951,965,481</u>	<u>2,826,913,415</u>	<u>2,239,193,033</u>
Net underwriting income / (loss)	<u>\$ (168,222,950)</u>	<u>\$ (1,384,657,130)</u>	<u>\$ 19,829,897</u>
Other Income (expense)			
Investments Income	80,765,695	71,621,823	76,439,510
Interest expense	(7,373,668)	(2,181,230)	-
Other income (expense)	5,689,643	3,794,897	7,450,295
	<u>\$ 79,081,670</u>	<u>\$ 73,235,489</u>	<u>\$ 83,889,806</u>
Net income / (loss)	<u><u>\$ (89,141,279)</u></u>	<u><u>\$ (1,311,421,641)</u></u>	<u><u>\$ 103,719,703</u></u>
Policies In Force as of 12/31	589,028	921,293	1,378,114

Multi-year Comparison – CLA

	<u>2021</u>	<u>2022 (Projection)</u>	<u>2023 Budget</u>
Direct Written Premium	\$ 17,986,096	\$ 61,018,105	\$ 131,020,750
Ceded Written Premium			
Takeout	-	-	-
FHCF	(2,501,487)	(6,429,941)	(11,679,798)
Private risk transfer	-	-	-
Earned Premiums, Net	<u>\$ 12,127,669</u>	<u>\$ 28,998,796</u>	<u>\$ 81,464,567</u>
Underwriting Expenses			
Losses incurred	2,772,690	50,241,775	12,969,877
Loss adjustment expense incurred	341,640	8,170,708	1,036,297
Administrative expense	1,328,623	2,849,067	4,650,557
Underwriting expense	<u>2,376,181</u>	<u>8,305,558</u>	<u>18,215,497</u>
	6,819,134	69,567,108	36,872,228
Net underwriting income / (loss)	<u>\$ 5,308,535</u>	<u>\$ (40,568,312)</u>	<u>\$ 44,592,339</u>
Other Income (expense)			
Investments Income	70,268,375	50,975,431	60,616,850
Interest expense	(1,164,623)	(344,511)	-
Other income (expense)	<u>57,473</u>	<u>151,678</u>	<u>593,123</u>
	<u>\$ 69,161,225</u>	<u>\$ 50,782,599</u>	<u>\$ 61,209,973</u>
Net income / (loss)	<u><u>\$ 74,469,761</u></u>	<u><u>\$ 10,214,286</u></u>	<u><u>\$ 105,802,312</u></u>
Policies In Force as of 12/31	719	1,057	1,595

Multi-year Comparison – Coastal

	<u>2021</u>	<u>2022 (Projection)</u>	<u>2023 Budget</u>
Direct Written Premium	\$ 515,599,806	\$ 857,639,799	\$ 1,239,176,725
Ceded Written Premium			
Takeout	(873,669)	(2,081,677)	(2,195,876)
FHCF	(84,843,525)	(122,755,579)	(177,498,385)
Private risk transfer	(139,273,279)	(126,481,894)	(325,000,000)
Earned Premiums, Net	<u>\$ 213,249,571</u>	<u>\$ 413,972,735</u>	<u>\$ 541,424,542</u>
Underwriting Expenses			
Losses incurred	81,441,424	927,237,742	206,634,425
Loss adjustment expense incurred	46,881,262	169,936,426	59,955,786
Administrative expense	37,618,353	38,681,657	45,301,146
Underwriting expense	50,909,641	89,991,764	128,658,124
	<u>216,850,679</u>	<u>1,225,847,589</u>	<u>440,549,480</u>
Net underwriting income / (loss)	<u>\$ (3,601,109)</u>	<u>\$ (811,874,854)</u>	<u>\$ 100,875,062</u>
Other Income (expense)			
Investments Income	111,779,260	90,848,379	104,922,773
Interest expense	(15,518,069)	(9,457,370)	(9,314,424)
Other income (expense)	2,139,456	1,040,466	1,401,468
	<u>\$ 98,400,647</u>	<u>\$ 82,431,475</u>	<u>\$ 97,009,817</u>
Net income / (loss)	<u>\$ 94,799,538</u>	<u>\$ (729,443,379)</u>	<u>\$ 197,884,879</u>
Policies In Force as of 12/31	169,558	230,812	301,259