

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
SPECIAL BOARD OF GOVERNORS MEETING
Wednesday, June 19, 2024

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened via Zoom on Wednesday, June 19, 2024, at 9:00 a.m. (EDT).

The following members of the Board were present:

Carlos Beruff, Chair
Scott Thomas, Vice Chair
Joshua Becksmith
Jason Butts
Erin Knight
Charles Lydecker
LeAnna Cumber
Robert Spottswood
Jaime Shelton

The following Citizens staff members were present:

Tim Cerio
Jennifer Montero
Barbara Walker
Bonnie Gilliland
Raina Harrison
Jay Adams
Joe Martins
Christine Ashburn
Jeremy Pope
Brian Newman
Ravi Tadiparthi
Brian Donovan

Call Meeting to Order

Barbara Walker: Good morning, and welcome to Citizens' June 19, 2024, Special Board of Governors meeting that is publicly noticed in the Florida Administrative Register to convene at 9 a.m. and is recorded with transcribed minutes available on our website. For those attending today's session through the public link, you're automatically in listen only mode. Chair Beruff, we have no requests for speakers today. I'll proceed with official roll call.

Chairman Carlos Beruff: Thank you. Please proceed.

Chair Carlos Beruff, Vice Chair Scott Thomas, Josh Becksmith, Jason Butts, LeAnna Cumber, Erin Knight, Charles Lydecker, Governor Shelton, Robert Spottswood. Chairman, you have a quorum.

Brian Donovan: Guess, that's me. Good morning, Chairman, board members, I'm Brian Donovan, Chief Actuary at Citizens. This morning we're going to discuss the proposed rates for 2025.

Brian Donovan: Next slide please. So the overall uncapped indication across all lines of business is 27.8%, which means that for Citizens' rates to be accurate and sound, the rates on average would have to be increased by 27.8%. After application of the guide path, the recommended rate change is 13.5%. The uncapped indications do include explicit adjustments to account for the anticipated savings we need elimination of AOB's, or one way of attorney fees, as well as an expense provision for the cost of reinsurance to cover one- and 100-year storm, even though Citizens does not purchase that much reinsurance. Primary and commercial risks will be capped at 14% and non-primary risks will be capped at 50%. Citizens competitive position is considered when applying the capping and these rates will be affected from 1/1/2025 to 12/31/2025

Brian Donovan: Next slide, please. So you know, we have seen some drastic improvements from last year, just as a reminder last year, you know if you look at the HO3 and HW2 line of business, which is by far Citizens' largest line of business, last year, prior to any consideration of SB 2A, which eliminated the AOB, the one-way attorney fees, the unadjusted indication was 91.5%.

After we took into account SB 2A that indication became 55.1%, and then what was ultimately approved after capping was 12.6%. Now, one year later, we update our indications with the newest information and the unadjusted indication, so before any consideration of SB 2A, the unadjusted indication was 40.9%. And then once we adjusted for SB 2A, it's 25.2%. So that's a drastic improvement in one year, going from 91.5% and 25.2%. And we know exactly what's causing that and what drives that improvement, it has to do with the litigation rate. As you can see here, we're looking at the HO3 litigation rate.

Litigation rate means the percent of claims that are reported that end up in litigation. And that's important, because the litigated claim costs about 4 times as much to settle due to the attorney fees, so a large litigation rate is going to equate to large litigations and the lower the limit and litigation rate, the better your indication. So we can in 2015, almost 1 in 2 claims was litigated. Then fast forward to 2023, it was 1 in 10, that's a drastic improvement, and that is, with what's going on.

Brian Donovan: Next slide, please. So, I do want to talk about competitive analysis. Our statute does require Citizens' rates to be non-competitive as best we can, and while also considering the path. So what we did this year is, we took Citizens' in force book of business as of 12/31/2023 and we rated it with competitor rates. So, we were able to identify 18 companies that are actively writing in Florida. These 18 companies provide about 43% of the policies in force and Citizens comprises another 21%. So, we were able to take Citizens policies, we know what our premium is, and then we compare to what everyone else charges. For example, each one of those rectangles represents one single individual policy.

The black line represents what Citizens' premium is for that particular policy. And then you can see the other colors and symbols represent the other company's premium. So, what the other company would have charged for that exact same risk that Citizens has in its book of business. We did that for every policy, and then we rolled it up. But one thing the statute does not do is define, what does it mean for Citizens to be non-competitive? It just says, be non-competitive. In past years way back in 2006, that basically meant that Citizens had to be the most expensive premium. But we softened that a little bit, and we deem Citizens' policy premium to be non-competitive if it's greater than 7 out of the 10 competitive premiums.

Brian Donovan: next slide, please. So, we took that information by rerating and looking at the competitors, then we rolled it up and we're looking at it by region and county. The important number here is the percent change needed to be non-competitive. So that means that is how much we would have to raise Citizen's average premium in a particular area, so that it would be more expensive 7 out of the 10 times as compared to the competitors. So, you can see those are some pretty big numbers, for example, with Broward, it's saying we would need 74.1% to make it so that Citizens was more expensive; more than 7 at the same time. So those are some very big numbers. So how do we use this information? We're going to use this information and how we select our capping within the constraints of the law.

Brian Donovan: Next slide, please. So here we're looking at the HO-3 by location, and the column called Actuarial is the actual indication and the column, Competitive, is the number we were just looking at. That's how much we would have to raise rates to make Citizens' rates uncompetitive. So, for example, with Dade, the actual indication is minus 4, seems surprising, but it's really not if you think about it. They had the highest litigation rate for years. They were getting the highest rate increases with that when that litigation drops so much, they're going to be the first to really benefit from it. So, the actual indication is minus 4. If there were no other considerations, and we were just charging actuarially sound rates, that is what the recommendation would be, minus 4 for Dade. However, when we take the competitive amounts into consideration, Citizens is cheaper than that by a lot, so in that situation, we're going to recommend 14% increase for everyone in Dade, and you can see a similar situation in Broward where it's close to zero; pretty flat indication, but we're still competitive, so we're recommending 14%.

Brian Donovan: Next slide, please. And then same idea for wind only except with wind only policies, we don't have any competitors to compare ourselves to because there's really not anyone writing wind only, but you can see the indication items themselves are very large and we're getting to the max. You know the indication by itself, knocks out within the glide path. Anytime, you see a number greater than 14%, that's due to the primary that has a path greater, up to 50%. So, you can see for wind only, there's 77.6% overall, with the 15.4% recommended.

Brian Donovan: Next slide, please. So, primary versus non-primary, you can see that overall, well non-primary makes up about 6.7%, so it's not a big portion, but it's something, and we'll see on the next slide, it does vary by line of business. For the primary, the uncapped indication is 28.7%. After our proposed change is 13.4%, and then for the non-primary, the indications 14.9%. But when we take into account the competitive position, we're proposing a 22.8% increase.

Brian Donovan: Next slide, please. This is more detailed primary versus non-primary. Like I said, you can see column 8 comprises 6.7% of the total policy, but it does vary by line of business, and you see, for the mobile homes and the condo units, it does make up 20 to 25% or so of the business, so that's where most of the nonprimary resides.

So that is the presentation. That's what I wanted to talk about, but I'll stop for discussions or questions before I read the action item.

Governor Lydecker: I'll ask a question, can you just expand a little bit more on the primary versus non-primary, and make sure we're thinking about it the correct way; secondary homes. Actually, I would have thought non-primary was a bigger number. Non-primary just sounds to me like it's more wind exposed and more along the water.

Brian Donovan: Right. Okay, could you please go back to the last slide? Well, we'll go back one more side, I think that would be a good starting point. So, I think your first question or part of your question was, why does non-primary have a lower indication than primary? Was that part of your question?

Governor Lydecker: Yes.

Brian Donovan: Okay, so the reason now, if you remember last year, the opposite is true. Non-primary has had a much, higher indication, but next year we applied a 50% to non-primary, so that's why primary still last year had a 13% cap. So that's one reason non-primary has gone a full year, the 50% cap instead of 14%. So that lowered the indication. So that that's the reason why, when we look at non- primary versus primary, the non-primary indication is lower this year because we collected it. We're collecting more money for it, because there's a much higher cap.

Brian Donovan: Could you go to the next slide, please? And so, then I think your second question was, you thought there would be more non-primary; and just as a reminder, everyone, as you said, it's a secondary home, and it's a home where it's not occupied for more than 9 months out of the year. So, there's 2 criteria. And you can see in column 8, for homeowners, it's less than 4%, the closer to 3% of the policies are deemed to be non-primary. The large sections that have the non-primary are the condo units and the mobile homes. Did that address your question?

Governor Lydecker: Yes, thank you.

Governor Spottswood: I've got a question, Brian. So when you, when you look at that chart and you go through the various proposed percentage changes for the various categories, and they range from 13 and change to 22 and change, but then you put that at the bottom at 14, does that mean that even though you have some indications or some proposed changes in excess of 14, that you're going to limit the change of 14? Or is that 14, and intended to be an average across that portfolio? Or what is that 14%?

Brian Donovan: Let's go back to the slide that showed HO-3.

Brian Donovan: And so I mean, the idea is 14%. Let's talk about primary first. So, we go and look at every territory like we're kind of looking up here. It's kind of rolled up here, but we do this on a much, you know, much more granular level like for date, I think there's like 4 Territories or something. So, for every individual territory, you look at it, and we say, if the competitive analysis is very high, like, greater than 20, 30, 40, 50, usually 50, 60, we say for primary, it doesn't matter what the actual indication is, everybody in that territory is getting 14% period.

Governor Spottswood: So, stop right there then. So, look at Monroe, which is 17% proposed, but the total at the bottom is 14%, so what is the actual proposed increase for Monroe County? Is it at 14 or 17%?

Brian Donovan: That would be 17% for HO-3. You'll notice this is multi-peril where Monroe doesn't have a lot of HO-3 multi-peril.

Governor Spottswood: So again, then, when you go to the other charts that you presented in your handout, I don't think you went through them today, but when you go county by county, and you have some increases that are far greater than 14%, is it being limited to 14% because of the glide path?

Brian Donovan: Yeah, if it's primary, it's limited to 14% period. But if it's non-primary it can go as high as 50%.

Governor Spottswood: Commercial or wind only?

Brian Donovan: For commercial, there's no consideration of competitive analysis. It doesn't exist. When you get the indication, you know, the indicated rate as is, and nobody will get more than 14%. The wind only, the primary there's no competitive piece of it. But the indications are so high, basically, everyone's going to get the 14% anyway, just based on the indication alone.

Governor Spottswood: So, even though those proposed rates that were proposing here are higher than 14% that are capped at 14% because of the glide path?

Brian Donovan: For a primary yes, or cap at 14%, but for the non- primary it could be greater. That's why, when you look at Monroe, you see 17%, but in this case, almost half or just a little less than half those 1,400 policies are non-primary....

Governor Spottswood: So just focus on commercial and wind only, those 2 categories are subject to a glide path and capped at 14% as well?

Brian Donovan: Exactly. Yes, that is 100% true.

Governor Thomas: Hey, Brian, just a quick comment. If I assume the Board were to adopt this, I'm sure then news will be about the proposed rate increase. But to me the real story here was your second slide, which showed the substantial, really incredible reduction in our in the uncapped indication from year to year, based on Senate Bill 2A. I mean to me the uncapped

indication sort of as a measurement of whatever the long-term additional risk to assessments and so forth, is by reason of having artificially low rates, and if we're looking at almost cutting that in half one year to year for Senate Bill 2A, that's a phenomenal change to me, and very significant in terms of the long-term risk we face here from that standpoint. So, I just wanted to comment on that. I know nobody else outside of here we'll want to focus on, but that that's just a dramatic change from year to year in the uncapped indication, so I appreciate you getting that info in front of us.

Governor Lydecker: I would echo.

Governor Spottswood: Yes, it's certainly a positive and success. Can you tell me what the effective date of that change was?

Brian Donovan: The effective date of the change for Citizens, well, I think, okay, in case of Citizens, there were policy language changes that had to happen, and so people had to renew onto the new policy. So, it took effect 6/1/2023. So, any Citizen's policy written 6/1/2023, and later will have the new language on it that eliminates AOB.

Governor Spottswood: So, we've barely gone through one policy year with that change in place. And you've already seen this dramatic change.

Brian Donovan: Absolutely, like when we compare, you're right. So, the most recent year in our indication is 2023. So like I just said it, it's not going to have, the only part of that has the change, but we can put side by side what we're seeing, and it's very early on, but we can see what's happening and compare, and we see that and then we project it further, like we did last year, and it is we're definitely seeing improvement on that.

Governor Lydecker: I would echo Governor Thomas' comment, too. I'm happy that the uncapped indication is, you know, what we're the proposed change is half of the uncapped indication on the personal lines book, and also the unadjusted rates that you talked about earlier from 91.5% to 25.2%. I think you know, these are very positive indications that we're creating an environment where there's a potentially more stable insurance marketplace inside of the State of Florida and encouraging competition, so that each year we can get to a place where there's not only stability, but you know our real dream is depopulation and reduced rates.

Brian Donovan: Any other questions or comments?

Chairman Carlos Beruff: Hearing none. If someone, either Barbara or Brian will read the action item for a vote, I think we can proceed, but I'm happy to listen to any other comments. I learned long time ago that there's no sense in taking and extending a meeting when I agree with everything that's been said. So, let's move forward with the action item, I think, but if there's any board member who hasn't had a chance to make comment or ask a question, please do so now.

Governor Lydecker: Mr. Chair. I'll just ask one more question. This might be for Tim. Is there an update relative to depopulation? I know at the last meeting; I think the trajectory was really positive between then and the end of the year.

Tim Cerio: Well, Governor Lydecker, I've got Jennifer next to me. I think that we have readjusted our forecast. We thought we might end the year with around 1.2 million policies. I think there's a very good chance we could be below, and I'm looking at Jennifer; below a million now? Yes, we've increased the depop number from 360,000-ish to over 400,000. So hopefully, October, November, and December will be very active. That's the expectation. And that's all because of the success of the reforms.

Governor Lydecker: Thank you.

Chairman Carlos Beruff: Good question. Thank you, Governor Lydecker.

Governor Spottswood: Chairman, can I just follow up on that?

Chairman Carlos Beruff: Please, of course.

Governor Spottswood: Is there any consideration on our part to dropping or getting out of the multi-peril business and getting more focus on the wind only portion of our mission. If you look at the total exposure on multi-peril, it really dwarfs other we have, and what we get paid in premiums for are far less, but 20% of our...

Tim Cerio: Governor Spottswood, there was a proposal this past year, and we were asked to present some data, and the idea being in this particular proposal was that we would basically become the insurer of 1st resort for wind only and that would probably free up much of the market to absorb the multi-peril. And again, I don't have those statistics in front of me, but I know that we ran the numbers. If we were the only, if we were wind only statewide, our total exposure would have been, I believe it was over 3 trillion dollars and our reinsurance, and I'm looking at Jennifer and Christine, and I want to make sure I don't... It was over 3 trillion dollars, and our reinsurance by would have to go; we would have to purchase/spend over 5.5 billion dollars on reinsurance. So, I think these proposals may still get floated, and there may be various ways to skin the cat, but at least what we were looking at, what was proposed last year would have been completely cost prohibitive.

Brian Donovan: Yeah, can I add a comment to that? I just realized, I think it's important to note that when we do these indications like for multi-peril indications, we look at wind separately, from water separately, from sinkhole separately, you know everything else. The non-wind perils have negative double digit negative indication where the wind has, you know, very, very high, so basically, the non-wind peril is subsidizing the wind at this point. I think that's an important consideration when you're thinking about that.

Governor Lydecker: That's what the case was on our last analysis, and so that therefore, wasn't possible. But one thing that you know my observation in the marketplace is that it's changing pretty rapidly. It's, you know, as pointed out here, there are improvements that are occurring as a result of the legislature's response last year. That's already been referenced. There's a lot

of changes occurring in the marketplace, and so, Governor Spottswood, your comment, I think, is something that we just have to keep regularly bringing up. I don't think this conversation we're having right now could be different 6 months from now, and a year from now.

Governor Spottswood: I mean, if you look at the chart, Brian, that you presented on policies, exposure, premium enforced by policy form. I'm not sure I understand the analysis that you just suggested. If I add up the numbers, it looks like our wind only represents about 20% of our total portfolio?

Brian Donovan: Well, keep in mind, when we say multi-peril, it includes wind as well. That multi-peril policy is mostly wind, and then it has the other stuff as well. That wind only is just wind without anything else. So, there's a whole lot of wind exposure in that multi-peril.

Governor Spottswood: So, you're saying, if we went to wind only we'd have the categories that you have listed as wind only plus an additional amount from the multi-peril which would be the wind portion.

Brian Donovan: Yes.

Governor Spottswood: That's why this chart doesn't tell the story. If you look at what we have classified as wind only is only 20% of our total exposure and if you look at the premium in force that's attached to that, it suggests that the multi-peril is a much greater exposure and cost. It's not making us as much money. But you got over 20% of the exposure there, and less than 10% of the premiums in force. You know I wasn't involved in your last discussion about this, so I didn't really understand that portion of it, but I get the point that you're making now. As I said, this subject is pretty complicated to figure out.

Chairman Carlos Beruff: Any other comments, questions? Brian, do you want to read the action item?

Brian Donovan: Staff proposes that the Board of Governors for new and for existing business approved the discussed proposals of 14% and 10.3% for personal commercialize respectively for new business, explore the possibility to be actively sound and the amount of competitive and authorize staff to take any appropriate or necessary action persisted with the filing of the proposed rate, which includes filing with the Office of Insurance Regulations, system change implementations and other relevant activities.

Chairman Carlos Beruff: Do we have motion?

Governor Knight: I'll make a motion.

Chairman Carlos Beruff: Governor Knight makes a motion. Is there a second?

Governor Becksmith: Second.

Governor Shelton: Second.

Chairman Carlos Beruff: Governor Becksmith, with seconded the motion. All those in favor signify by saying, Aye. Aye.

Governor Thomas: Aye.

Governor Shelton: Aye.

Chairman Carlos Beruff: Mrs. Walker, do we need to do a voice thing, or we are we good, I think it's unanimous?

Barbara Walker: Yes, Chairman, it is unanimous, but I can do a vote for voice if you would like for me to?

Chairman Carlos Beruff: No, I think we're good as long as there's no board member that disagrees with the fact that we think it's unanimous. So, with that, let's move forward, somebody make a motion to adjourn, and we'll see each other in a couple of weeks in Orlando.

Governor Shelton: So moved.

Chairman Carlos Beruff: Second, and thank you, folks. Everybody have a great day.

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