

Citizens' Loss Reserving

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Loss Reserving

- Purpose of Loss Reserving
- Citizens' current loss reserving trends
- How these trends impact to Citizens' financials

What are Loss Reserves?

At any given point in time, insurance companies are required to make a reasonably accurate evaluation of its financial position.

This includes setting aside assets for future payments on events that have already happened.

Since the ultimate liability of pending and unreported claims is not known, estimates of these future payments are needed.

These estimates of the future payments on current liabilities are the loss reserves.

Loss reserves are charged against surplus, resulting in a direct reduction of surplus.

Two Types of Loss Reserves

Case Reserves

- The provision set aside by the Claims Adjuster at a claim level.
- It is based on known information for the individual claim
- Case reserves can not fully account for all current liabilities

IBNR Reserves (Incurred **B**ut **N**ot **R**eported)

- Bulk reserve set by the actuary
- Calculated at a Account/Line of Business level
- Accounts for future payments on current liabilities not considered in case reserve

IBNR Reserves

- Reserves for closed claims that will be reopened
- Development on pending claims
- Claims that have been **Incurred But Not Reported** (True IBNR)
- Claims in Transit

Impact of Reopened Claims

HO-3 Water Claims closed as of 12-31-2015

Accident Year	Incurred as of 12-31-2015	Incurred as of 12-31-2016	Development in 2016
2010	164,923,464	165,036,050	112,586
2011	267,943,296	268,971,678	1,028,383
2012	306,152,553	307,529,440	1,376,886
2013	217,871,456	219,886,247	2,014,791
2014	141,876,523	145,776,154	3,899,631
2015	46,229,507	75,680,542	29,451,035
Grand Total	1,144,996,799	1,182,880,111	37,883,312

Impact of Development on Pending Claims

HO-3 Water Claims reported and pending as of 12-31-2015

Accident Year	Incurred as of 12-31-2015	Incurred as of 12-31-2016	Development in 2016
2009	336,140	359,640	23,500
2010	1,292,377	1,366,265	73,888
2011	4,256,563	4,382,646	126,083
2012	11,873,854	12,549,614	675,761
2013	22,640,269	24,652,978	2,012,709
2014	35,175,577	38,135,645	2,960,068
2015	50,745,627	73,660,632	22,915,005
Grand Total	126,340,520	155,127,534	28,787,014

Impact of True IBNR

HO-3 Water Claims Reported in 2016 for prior accident years

Accident Year	Number of Claims	Incurred Loss
2011	5	15,000
2012	6	20,000
2013	9	25,000
2014	34	73,500
2015	499	4,116,469
Grand Total	553	4,249,969

Loss Reserving Methods

Separate analysis is done for hurricane, sinkhole & non-sinkhole/non-hurricane

Ultimate Losses are projected for each accident for the following segments:

PLA-HO => HO3, HO4, HO6, HO8, & MHO policy forms written in PLA

PLA-FA => DP1, DP3, & MDP policy forms written in the PLA

CLA-CR-M => All CRM condo and non-condo written in CLA

CLA-CNR-M => All CRM condo and non-condo written in CLA

COASTAL-FA => HW2, HW4, HW6, MHW, DW2, CRW, & CNRW

COASTAL-MP-HO => HO3, HO4, HO6, HO8, & MHO policy forms written in Coastal

COASTAL-MP-FA => DP1, DP3, & MDP policy forms written in the Coastal

COASTAL-CRM-FA => All CRM condo and non-condo written in Coastal

COASTAL-CNRM-FA => All CRM condo and non-condo written in Coastal

Citizens considers up to five different methods to project ultimate losses, depending on segment of business

Accident Year Versus Calendar Year

Accident Year Data

Includes loss events that occur within a twelve month period. For example, Accident Year 2016 would include all losses that occurred between 1/1/16 and 12/31/16.

All loss recording and payment activity is mapped back to the accident date, even if that activity takes place in subsequent calendar years. Loss activity in subsequent calendar years is “development” on that accident year.

Calendar Year Data

Includes all loss payment and reserve activity that occurs within a twelve month period. The date of the loss event is irrelevant. There will be transactions from many accident years in any given calendar year.

All loss financial activity is mapped to the date of the transaction, even if that transaction is due to prior accident years. Financial statements are reported on a calendar year basis. There is no “development” on calendar year results.

Accident Year Versus Calendar Year

<u>Accident Year</u>	<u>Calendar Year</u>					
	<u>12</u>	<u>24</u>	<u>36</u>	<u>48</u>	<u>60</u>	<u>72</u>
2011	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
2012	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	
2013	12/31/2013	12/31/2014	12/31/2015	12/31/2016		
2014	12/31/2014	12/31/2015	12/31/2016			
2015	12/31/2015	12/31/2016				
2016	12/31/2016					

The highlighted cell in yellow shows losses for accident year 2013 as of calendar year 2014.

Incurred Loss Triangles

Non-Sinkhole/Non-Hurricane Incurred Loss

AY	12	24	36	48	60	72	84	96	108	120
2007	250,978,156	298,091,841	303,198,529	304,706,684	305,082,198	305,248,098	305,400,209	306,522,624	306,610,156	306,757,265
2008	236,115,085	272,106,861	276,349,853	278,574,179	279,494,563	279,557,791	279,838,917	279,751,917	279,764,192	
2009	180,939,874	206,906,519	210,414,101	211,127,660	211,254,984	212,076,043	212,657,617	212,838,406		
2010	205,449,587	251,477,204	257,602,308	259,102,107	261,249,148	261,672,253	262,170,612			
2011	321,533,105	376,124,035	386,197,615	395,474,172	399,665,901	401,058,234				
2012	320,256,970	387,098,426	408,828,661	419,944,226	422,399,133					
2013	206,570,099	266,640,769	284,854,308	288,547,178						
2014	141,409,947	195,272,270	201,560,805							
2015	109,068,706	162,268,493								
2016	80,027,652									

Incurring Loss Triangles

	Development of Incurred Loss								
AY	<u>12:24</u>	<u>24:36</u>	<u>36:48</u>	<u>48:60</u>	<u>60:72</u>	<u>72:84</u>	<u>84:96</u>	<u>96:108</u>	<u>108:120</u>
2007	18.77%	1.71%	0.50%	0.12%	0.05%	0.05%	0.37%	0.03%	0.05%
2008	15.24%	1.56%	0.80%	0.33%	0.02%	0.10%	-0.03%	0.00%	
2009	14.35%	1.70%	0.34%	0.06%	0.39%	0.27%	0.09%		
2010	22.40%	2.44%	0.58%	0.83%	0.16%	0.19%			
2011	16.98%	2.68%	2.40%	1.06%	0.35%				
2012	20.87%	5.61%	2.72%	0.58%					
2013	29.08%	6.83%	1.30%						
2014	38.09%	3.22%							
2015	48.78%								

Litigated PLA HO Claims

HO PLA Non-Sinkhole	Non-Sinkhole/Non-Hurricane - % of Claims Litigated									
<u>AY</u>	<u>12</u>	<u>24</u>	<u>36</u>	<u>48</u>	<u>60</u>	<u>72</u>	<u>84</u>	<u>96</u>	<u>108</u>	<u>120</u>
2007				2.2%	2.5%	2.6%	2.6%	2.6%	2.6%	2.7%
2008			2.8%	3.2%	3.4%	3.4%	3.5%	3.5%	3.5%	
2009		4.5%	5.6%	5.9%	6.0%	6.1%	6.2%	6.2%		
2010	2.1%	8.3%	9.3%	9.7%	10.0%	10.1%	10.2%			
2011	5.3%	10.5%	11.8%	12.3%	12.6%	12.8%				
2012	3.7%	10.0%	11.7%	12.2%	12.4%					
2013	7.2%	16.7%	18.1%	18.5%						
2014	14.2%	24.5%	25.8%							
2015	17.0%	37.1%								
2016	20.7%									

PLA HO Non-Sinkhole/Non-Hurricane

Citizens Property Insurance Corporation							
Personal Lines Account - Homeowners (All Excluding Sinkhole and Hurricane Losses)							
PLA HO Ultimate Loss /ALAE and Reserve Summary							
December 31, 2016 - Reserve Review							
						Reserve Position	
AY	Non-SH Earned Premium	Projected Ultimate Loss/ALAE As of 12/31/2015	Projected Ultimate Loss/ALAE As of 12/31/2016	Adv / (Fav) Development	Loss/ALAE Case Reserve	Loss/ALAE IBNR Reserve	Loss/ALAE Ratio
2007	1,255,735,111	337,034,837	336,722,777	(312,060)	176,003	19,444	26.8%
2008	831,874,467	306,356,705	306,350,213	(6,492)	63,774	209,633	36.8%
2009	556,541,668	237,957,650	238,185,504	227,854	227,552	487,510	42.8%
2010	713,294,074	300,916,020	302,441,041	1,525,021	764,274	2,126,313	42.4%
2011	1,070,620,715	472,646,654	476,036,744	3,390,090	3,094,183	5,192,158	44.5%
2012	1,194,805,654	510,986,325	510,678,536	(307,790)	6,400,521	4,957,909	42.7%
2013	920,531,275	352,803,608	350,836,559	(1,967,049)	7,629,900	7,775,669	38.1%
2014	552,735,152	254,238,839	251,078,837	(3,160,002)	12,527,930	11,711,948	45.4%
2015	352,964,081	176,277,731	231,348,589	55,070,858	49,704,385	27,835,133	65.5%
2016	310,979,655	N/A	195,813,979	N/A	48,543,581	89,509,824	63.0%
Total	7,760,081,852	2,949,218,371	3,199,492,779	54,460,430	129,132,102	149,825,540	41.2%
				2016 Accident Year Loss/ALAE Ratio	63.0%		
				Development on Prior Accident Years	17.5%		
				2016 Calendar Year Loss/ALAE Ratio	80.5%		

Total Non-Hurricane Loss/ALAE

Citizens Property Insurance Corporation							
All Accounts and All Lines							
Non-Catastrophe Ultimate Loss/ALAE and Reserve Summary							
December 31, 2016 - Reserve Review							
							Reserve Position
AY	Total Earned Premium	<i>Projected Ultimate Loss/ALAE As of 12/31/2015</i>	<i>Projected Ultimate Loss/ALAE As of 12/31/2016</i>	<i>Adv / (Fav) Development</i>	<i>Loss/ALAE Case Reserve</i>	<i>Loss/ALAE IBNR Reserve</i>	<i>Loss/ALAE Ratio</i>
2007	3,563,057,374	692,023,967	691,298,135	(725,832)	6,018,502	109,055	19.4%
2008	2,802,094,477	681,746,769	681,871,736	124,966	2,548,003	687,188	24.3%
2009	2,220,604,024	606,104,160	609,801,295	3,697,135	15,695,194	1,515,291	27.5%
2010	2,339,673,553	933,840,623	924,970,811	(8,869,812)	13,970,690	22,773,864	39.5%
2011	2,818,438,093	1,325,381,807	1,333,912,133	8,530,326	28,382,687	34,499,282	47.3%
2012	2,998,624,397	997,778,428	993,921,222	(3,857,206)	23,645,534	23,801,012	33.1%
2013	2,611,371,879	609,459,122	607,246,533	(2,212,589)	17,249,635	22,729,540	23.3%
2014	2,026,798,209	490,661,780	484,455,313	(6,206,467)	27,373,576	34,748,705	23.9%
2015	1,269,794,297	315,723,320	395,668,862	79,945,542	79,617,745	50,652,288	31.2%
2016	983,330,894	N/A	343,919,197	N/A	81,560,449	150,529,595	35.0%
Total	23,633,787,197	6,652,719,976	7,067,065,236	70,426,063	296,062,016	342,045,821	29.9%
				2016 Accident Year Loss/ALAE Ratio			35.0%
				Development on Prior Accident Years			7.2%
				2016 Calendar Year Loss/ALAE Ratio			42.1%

Total Non-Hurricane Loss/ALAE

Citizens Property Insurance Corporation

All Accounts and All Lines

Non-Catastrophe Ultimate Loss/ALAE and Reserve Summary

December 31, 2016 - Reserve Review

AY	<i>Non-Hurricane Loss/ALAE Ratio</i>	<i>Water Loss/ALAE Ratio</i>	<i>Sinkhole Loss/ALAE Ratio</i>	<i>All Other Loss/ALAE Ratio</i>
2007	19.4%	5.8%	5.5%	8.1%
2008	24.3%	7.7%	4.8%	11.9%
2009	27.5%	8.8%	7.5%	11.2%
2010	39.5%	10.8%	16.9%	11.8%
2011	47.3%	14.3%	20.3%	12.8%
2012	33.1%	15.7%	6.7%	10.8%
2013	23.3%	14.4%	0.7%	8.1%
2014	23.9%	15.2%	0.5%	8.2%
2015	31.2%	22.7%	0.4%	8.1%
2016	35.0%	25.9%	0.3%	8.8%