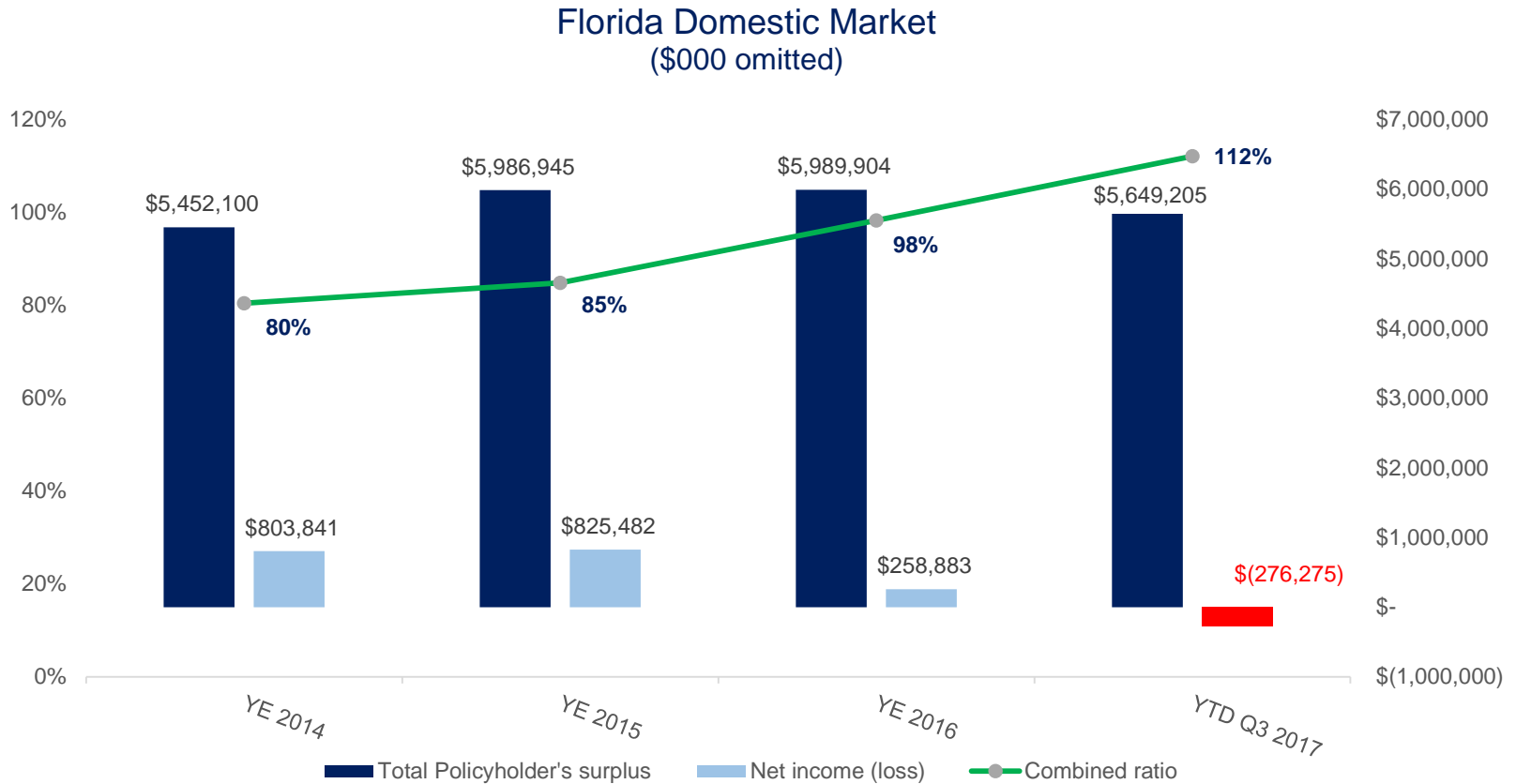


# President's Report

December 13, 2017

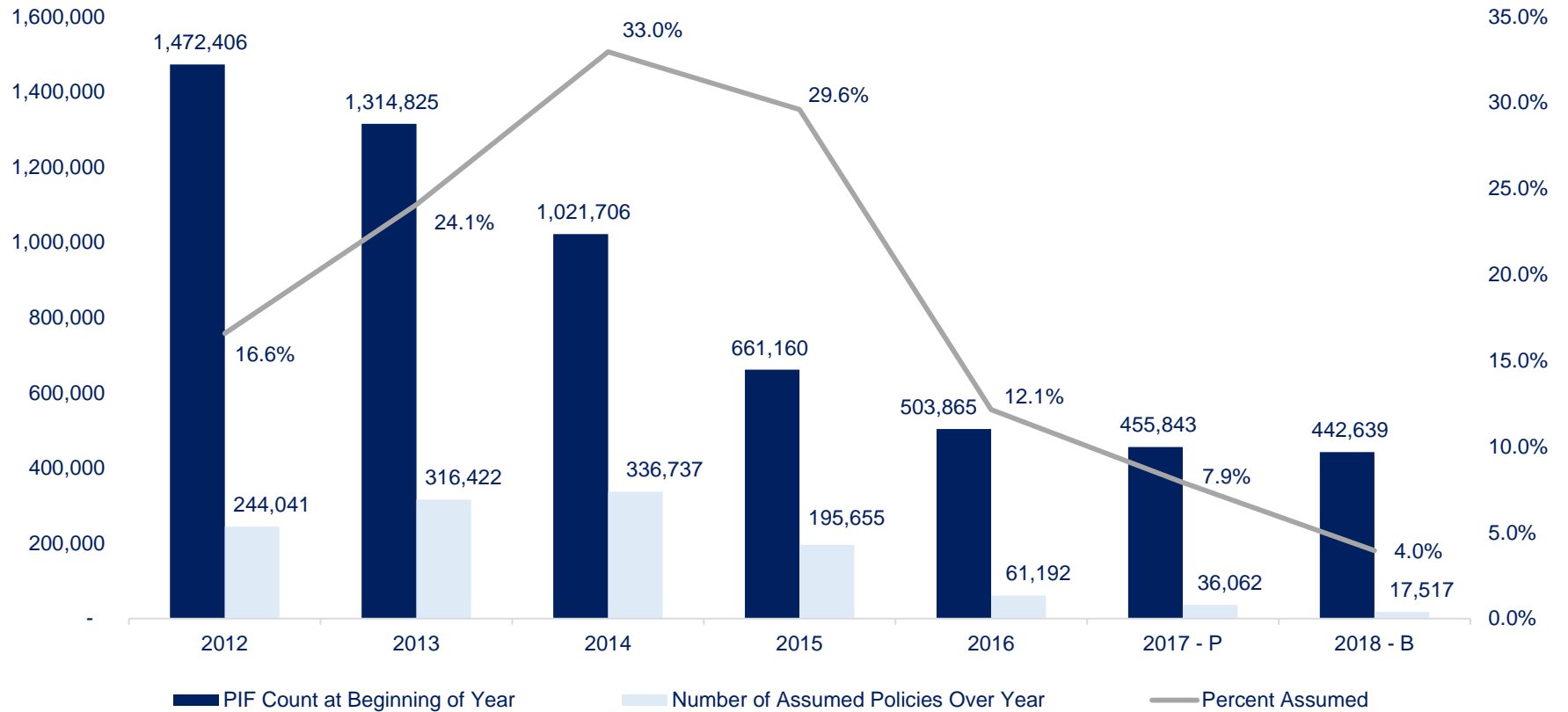


# Industry Overview

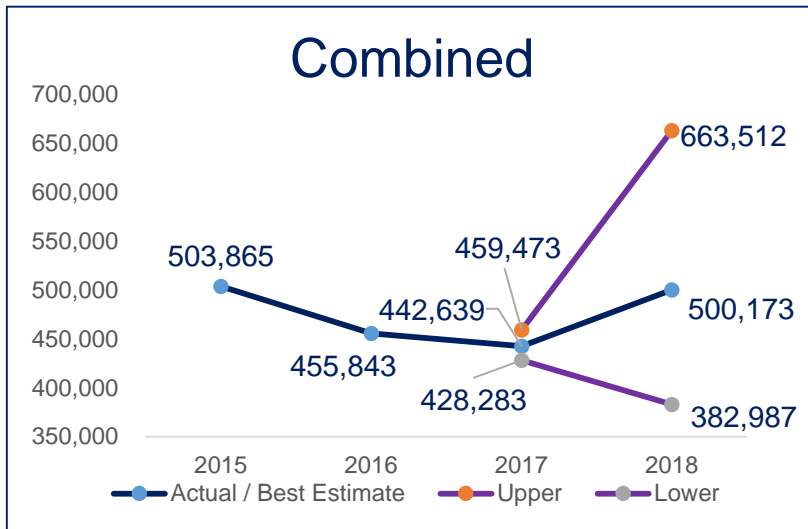


Source: Florida Domestic Insurance Market – Primary Personal Property Writers (excluding Citizens), Willis Towers Watson

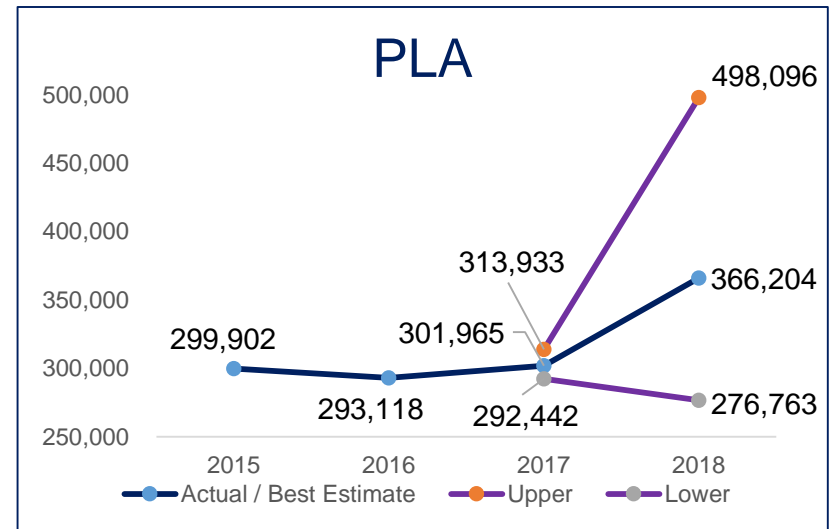
# Trends in Depopulation



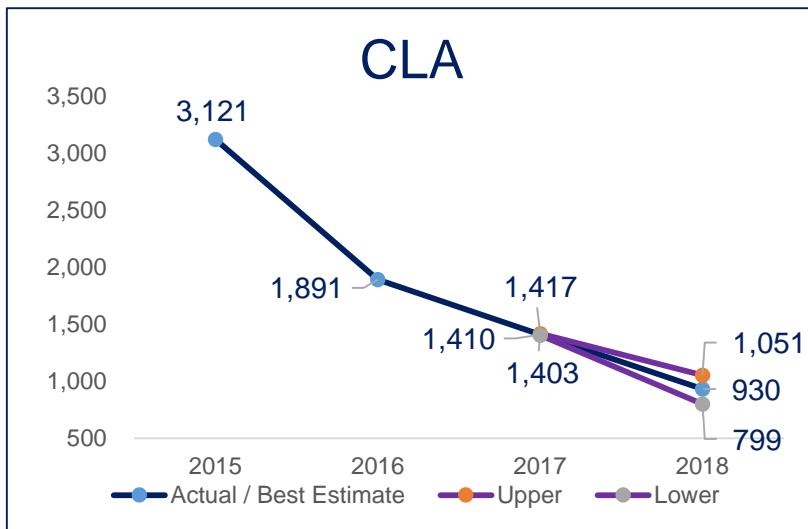
# Policies Inforce (PIF) – Recent and Projected Trends



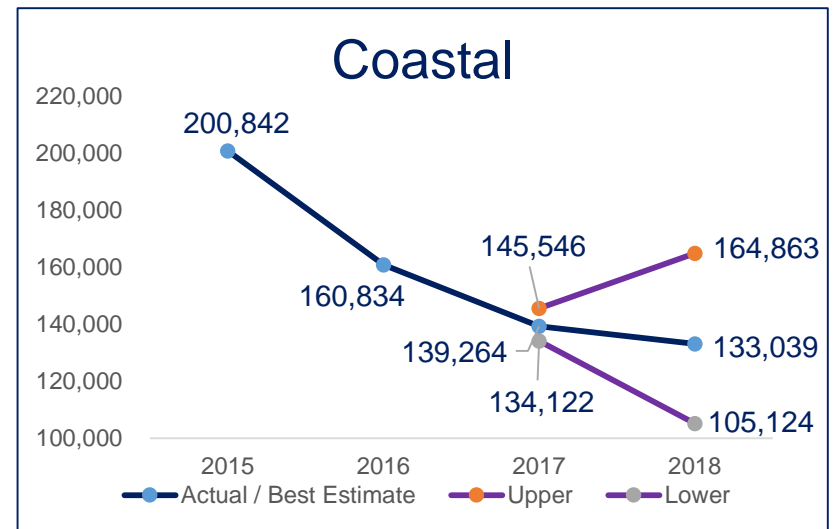
2019: Best Estimate (514,432); Upper (742,303); Lower (340,573)



2019: Best Estimate (391,664); Upper (577,797); Lower (254,248)



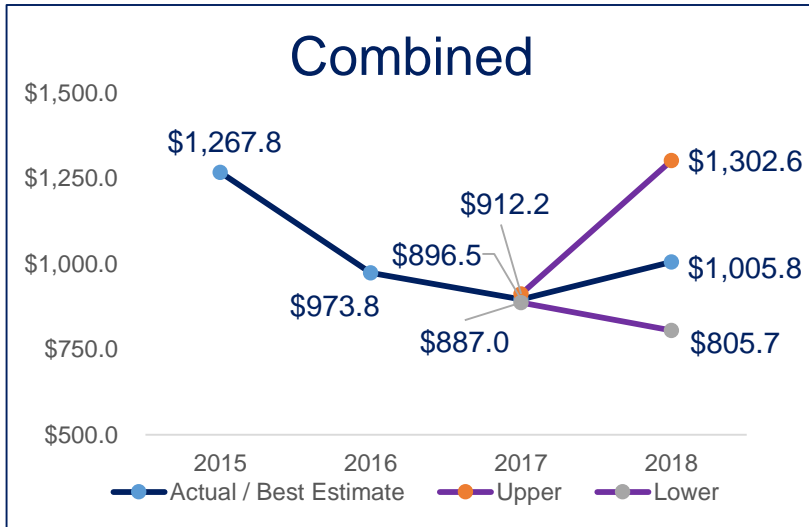
2019: Best Estimate (687); Upper (822); Lower (556)



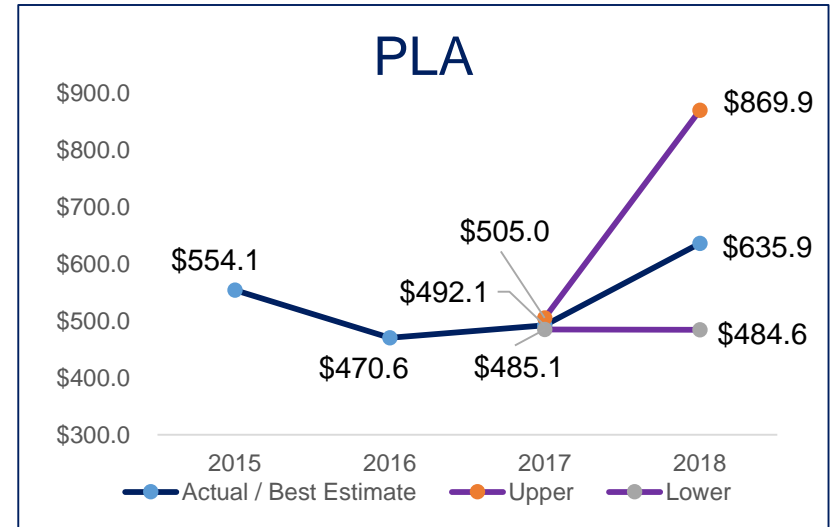
2019: Best Estimate (122,080); Upper (165,493); Lower (83,863)

# Direct Written Premium – *Recent and Projected Trends*

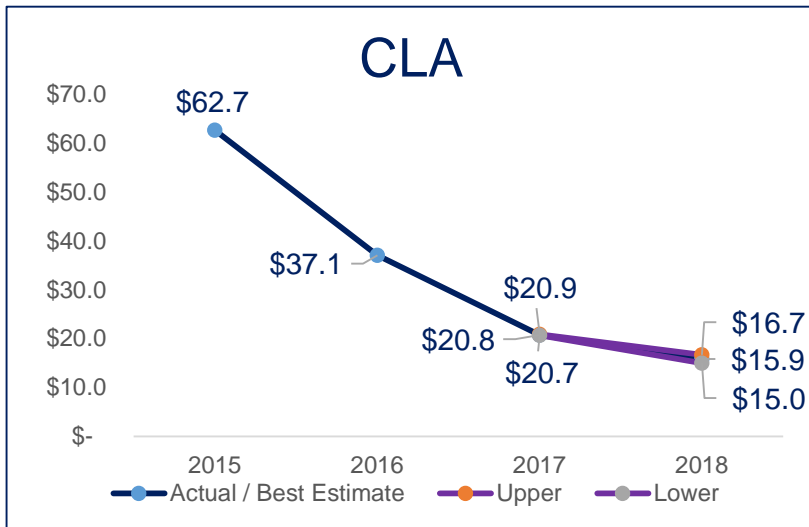
(\$ millions)



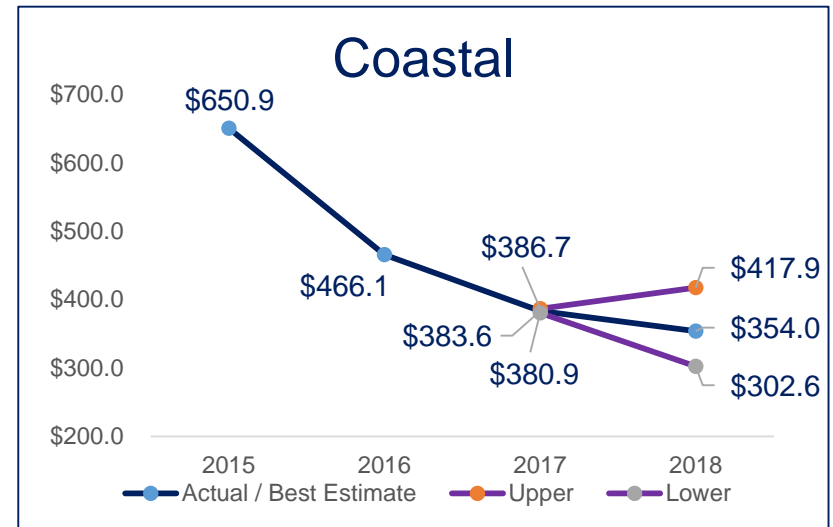
2019: Best Estimate (\$1,078.0); Upper (\$1,527.8); Lower (\$741.2)



2019: Best Estimate (\$736.1); Upper (\$1,089.9); Lower (\$482.4)



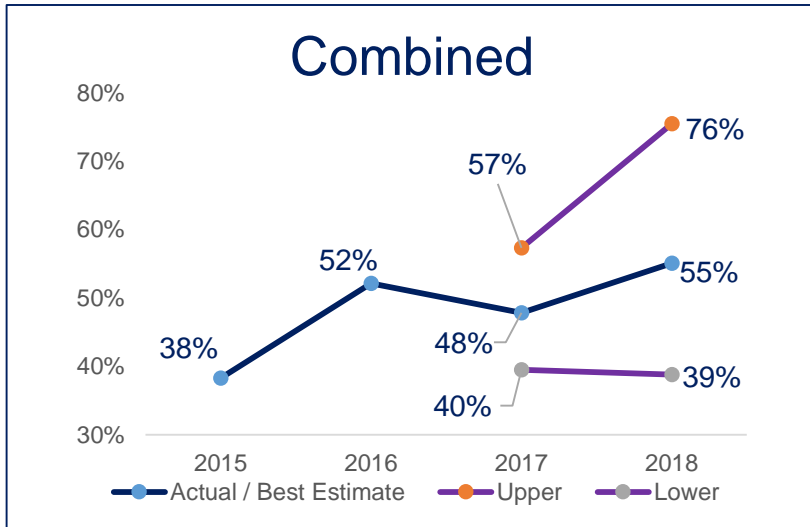
2019: Best Estimate (\$12.2); Upper (\$13.6); Lower (\$10.9)



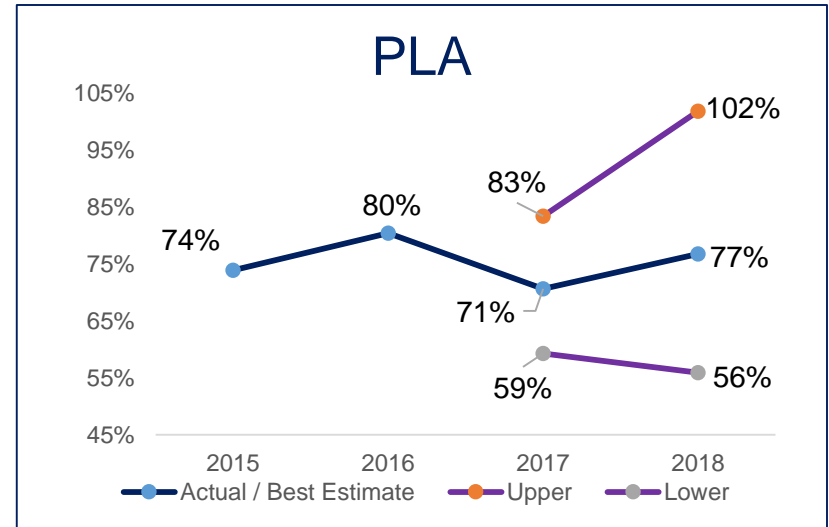
2019: Best Estimate (\$329.6); Upper (\$428.4); Lower (\$243.7)

# Loss / LAE Ratio – Recent and Projected Trends

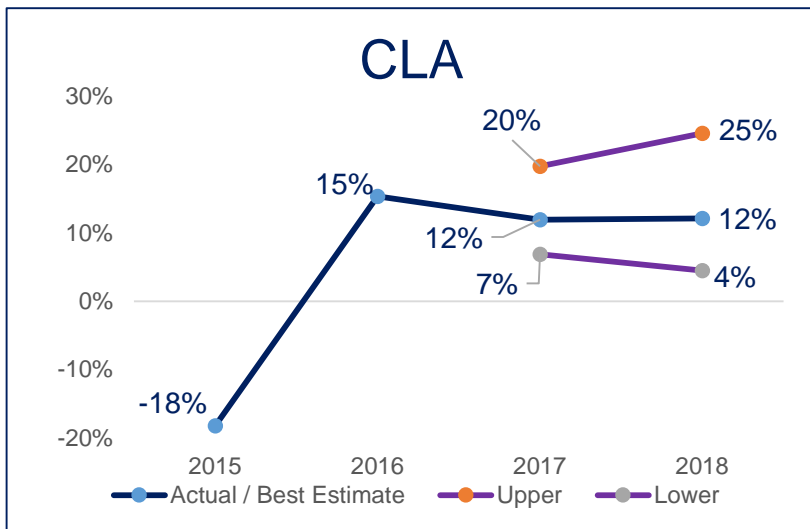
excludes Hurricane Irma



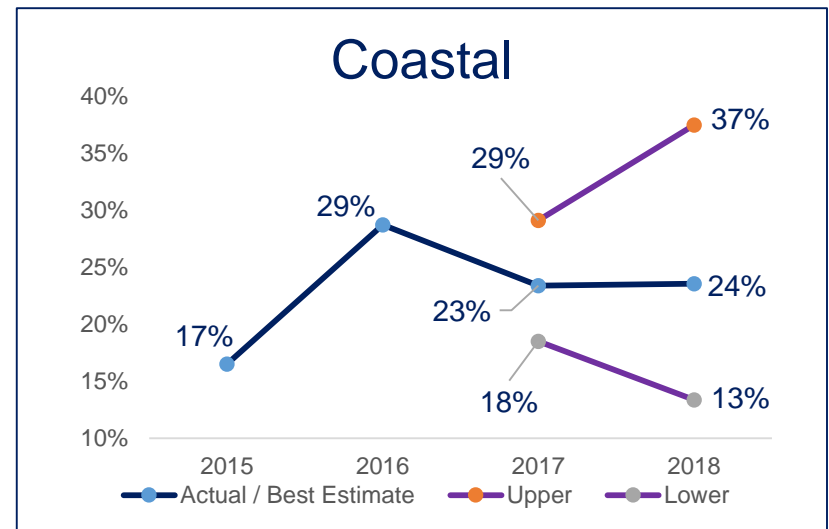
2019: Best Estimate (59%); Upper (83%); Lower (41%)



2019: Best Estimate (78%); Upper (105%); Lower (56%)



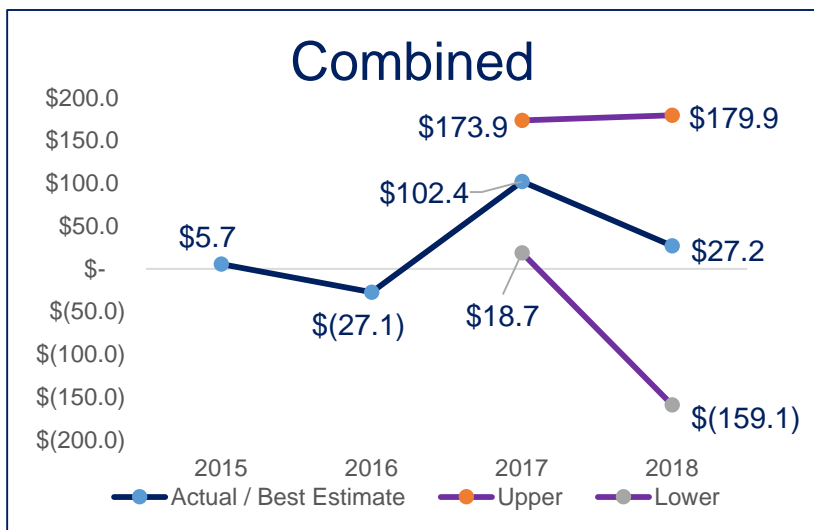
2019: Best Estimate (13%); Upper (29%); Lower (4%)



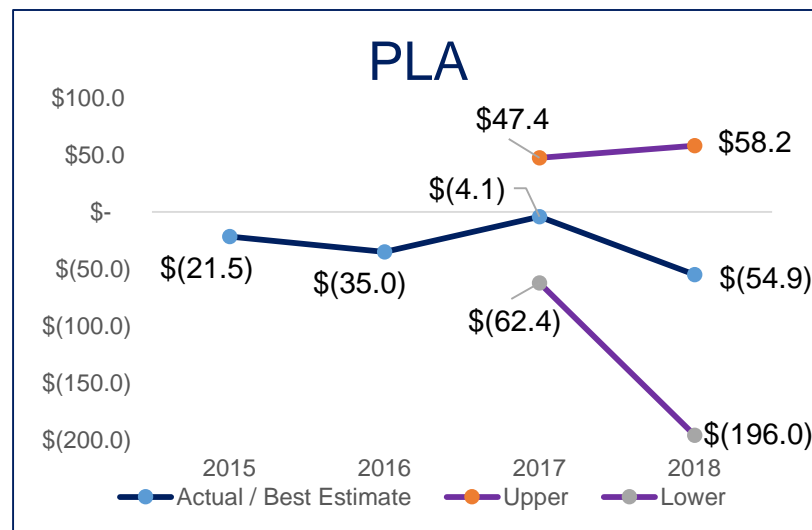
2019: Best Estimate (24%); Upper (40%); Lower (13%)

# Net Income (Loss) – Recent and Projected Trends

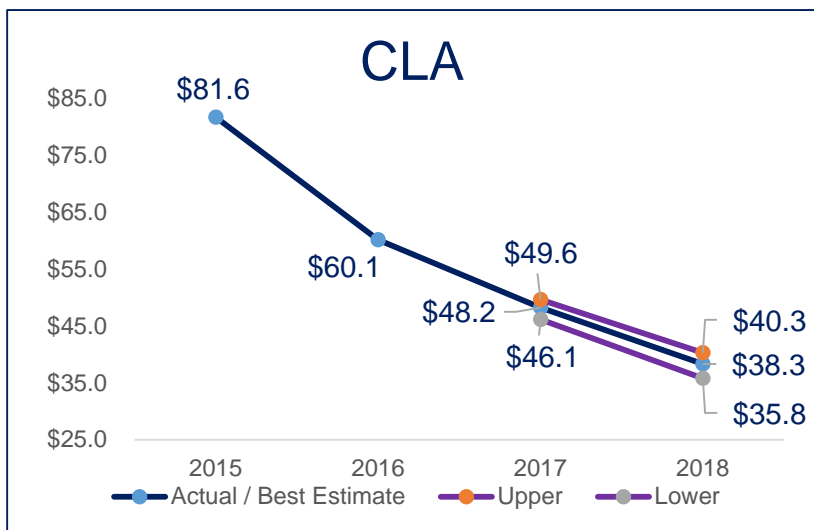
(\$ millions) **excludes Hurricane Irma**



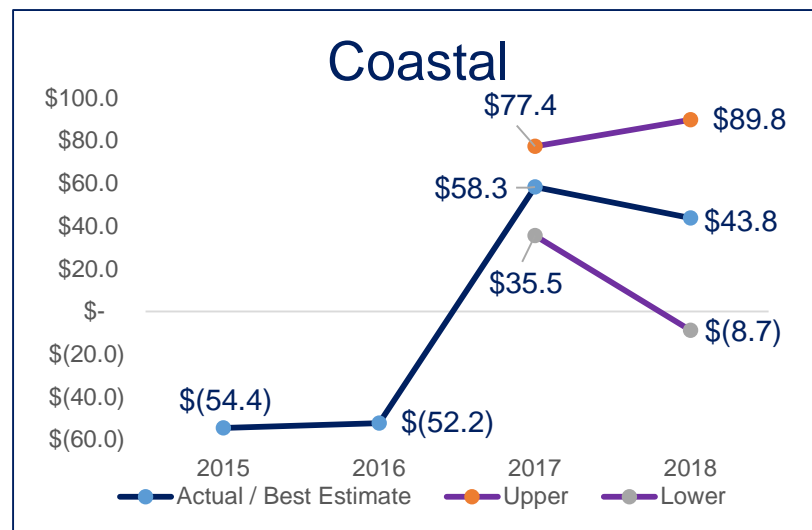
2019: Best Estimate (\$35.4); Upper (\$253.9); Lower (-\$199.3)



2019: Best Estimate (-\$57.2); Upper (\$97.5); Lower (-\$247.8)

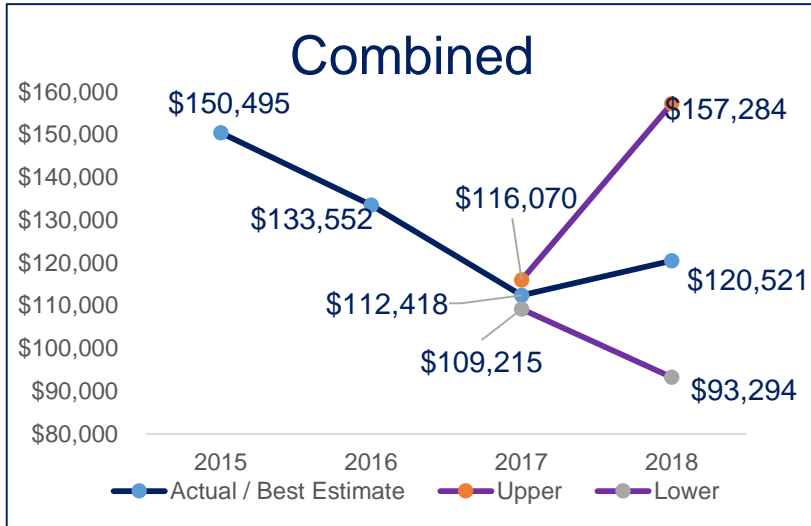


2019: Best Estimate (\$37.9); Upper (\$40.0); Lower (\$35.4)

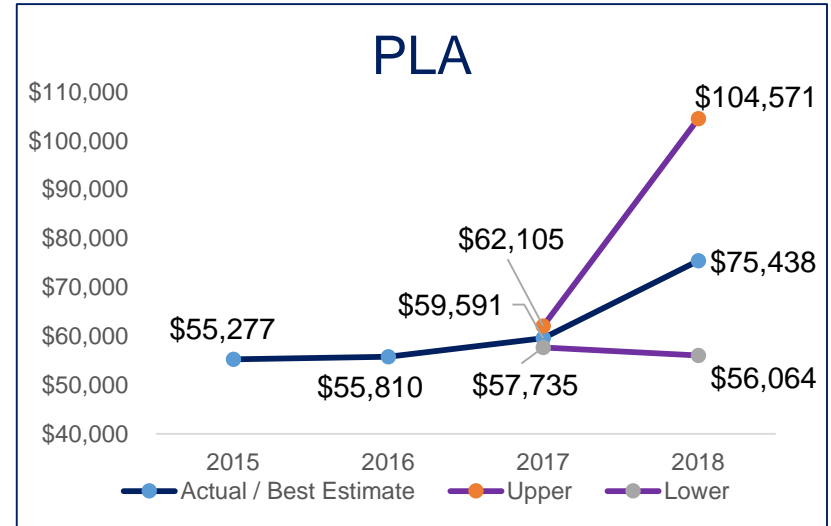


2019: Best Estimate (\$54.6); Upper (\$126.9); Lower (-\$8.2)

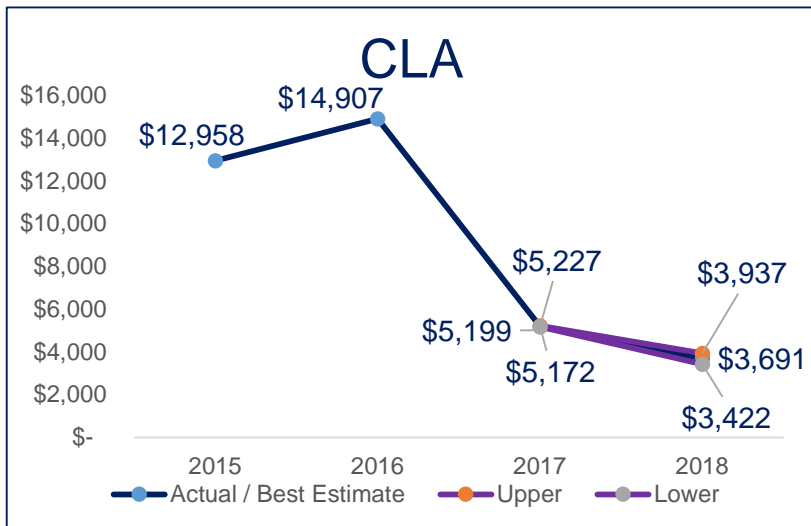
# Exposure – Recent and Projected Trends (\$ millions)



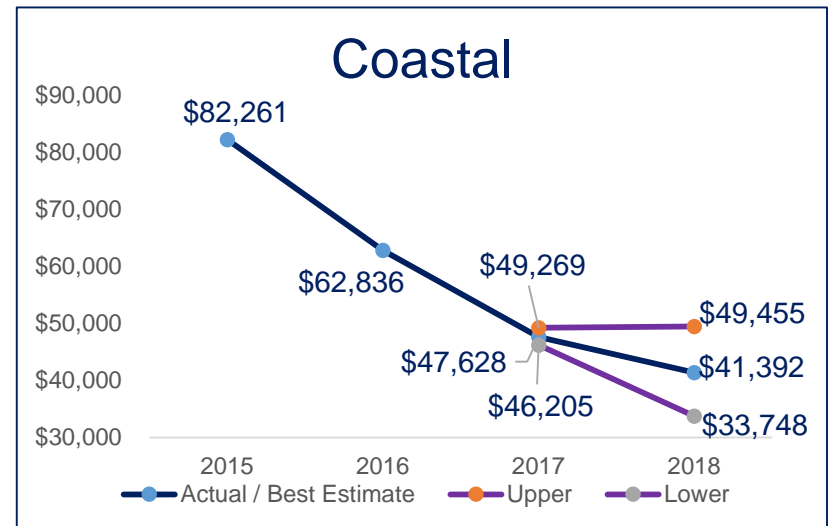
2019: Best Estimate (\$120,784); Upper (\$172,958); Lower (\$80,680)



2019: Best Estimate (\$82,589); Upper (\$123,980); Lower (\$52,589)



2019: Best Estimate (\$2,741); Upper (\$3,066); Lower (\$2,424)



2019: Best Estimate (\$35,454); Upper (\$46,253); Lower (\$25,314)



# Corporate Initiatives

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Corporate initiatives identified within the 2018 Operating Budget total **\$6.7 million** and include the following:

## Centerpoint Enterprise Resource Planning (ERP) Solution:

- back-office accounting and procurement successfully implemented April 2017
- Human Capital Management (HCM) including base human resources and payroll to be delivered December 2017
- modules pending delivery in 2018 include; Advanced Procurement and Vendor Management, Budgeting, and Advanced HCM
- total budgeted costs in 2018 **\$3.7 million (\$8.6 million in 2017 budget)**

## Guidewire V9 Upgrade:

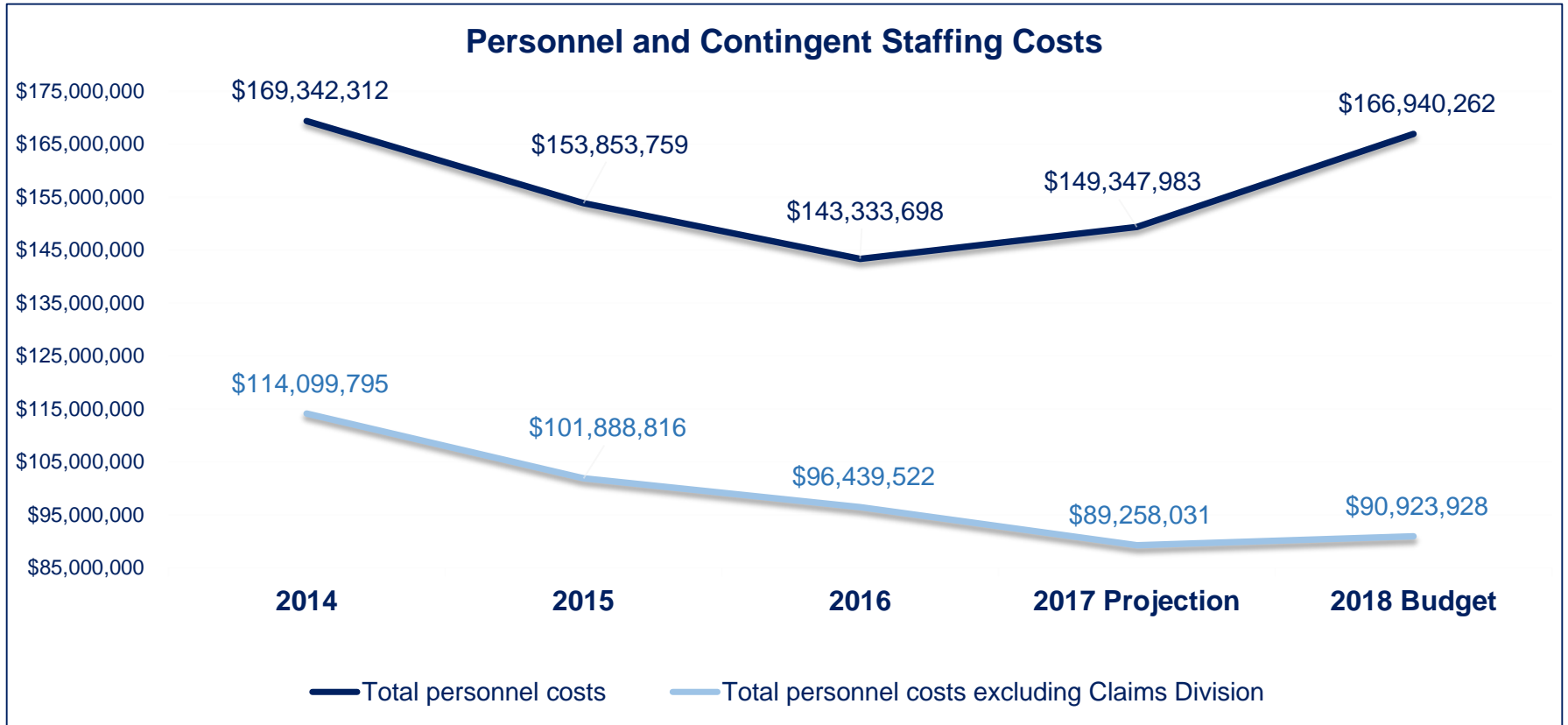
- software supporting core insurance business functions (Policy, Billing and Claims)
- will continue into 2019 as Citizens upgrades from version 7.0 (more than 5 years old) to take advantage of improved performance and features
- total budgeted costs in 2018 **\$2.2 million**

## Self-Service Strategy:

- expansion of self-service offerings to policyholders for transacting business with Citizens
- Includes Alert and Notification Services, Customer Portal, Customer Relationship Management, Dynamic Document Interaction, Electronic Disbursement, Electronic Policy Document Distribution and the Voice of the Customer Program
- heightened importance and need identified following initial response to Hurricane Irma
- total budgeted costs in 2018 **\$900 thousand**

The 2018 budget for identified Corporate Initiatives reflects a continuance of Citizens prudence in expense management while continuing disciplined investments in corporate projects with a positive ROI that are aligned with its corporate purpose, protecting the policyholders and taxpayers within the state of Florida.

# Personnel Costs – Recent and Projected Trends

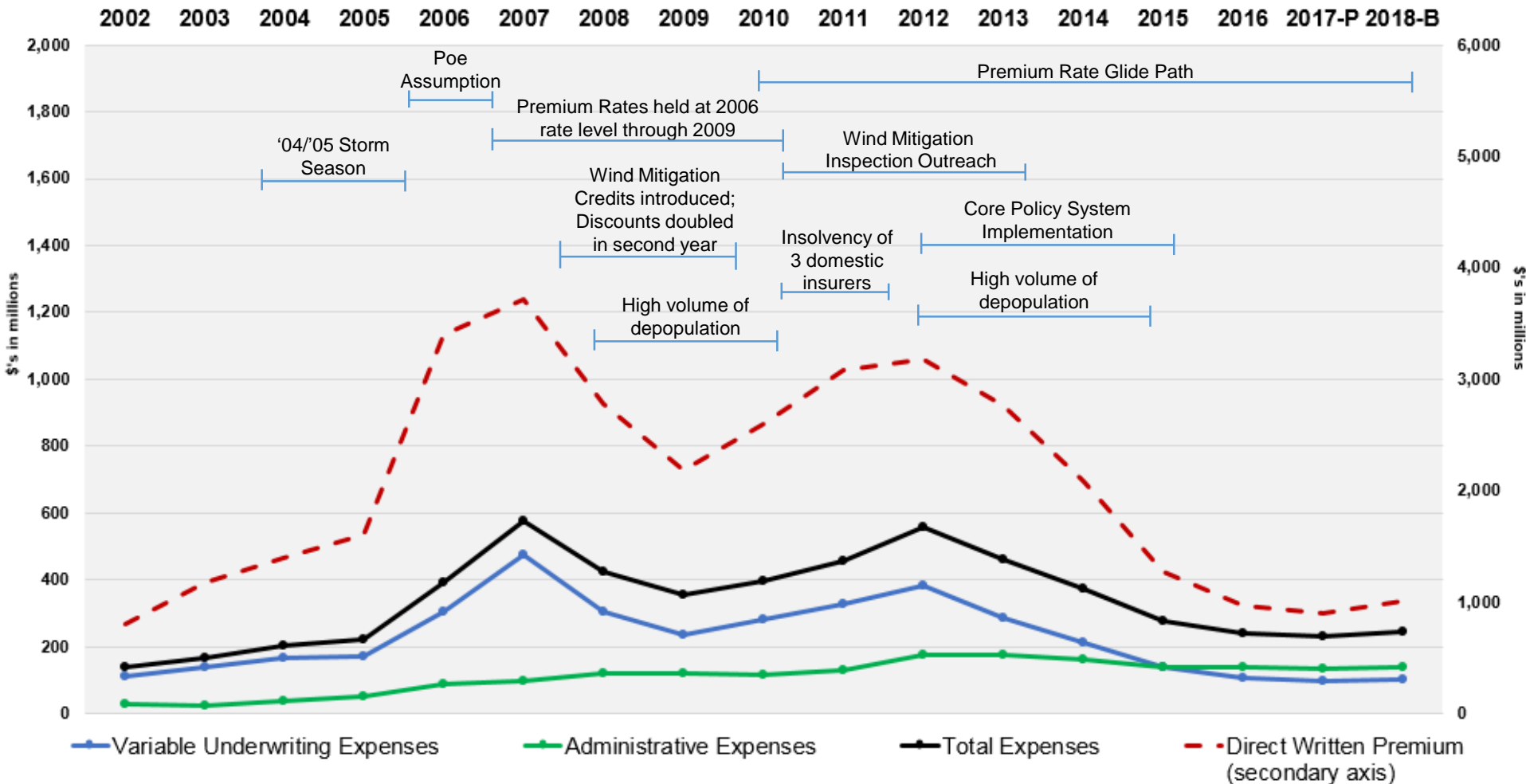


Contingent Staffing costs for Hurricane Irma (excluded from above):

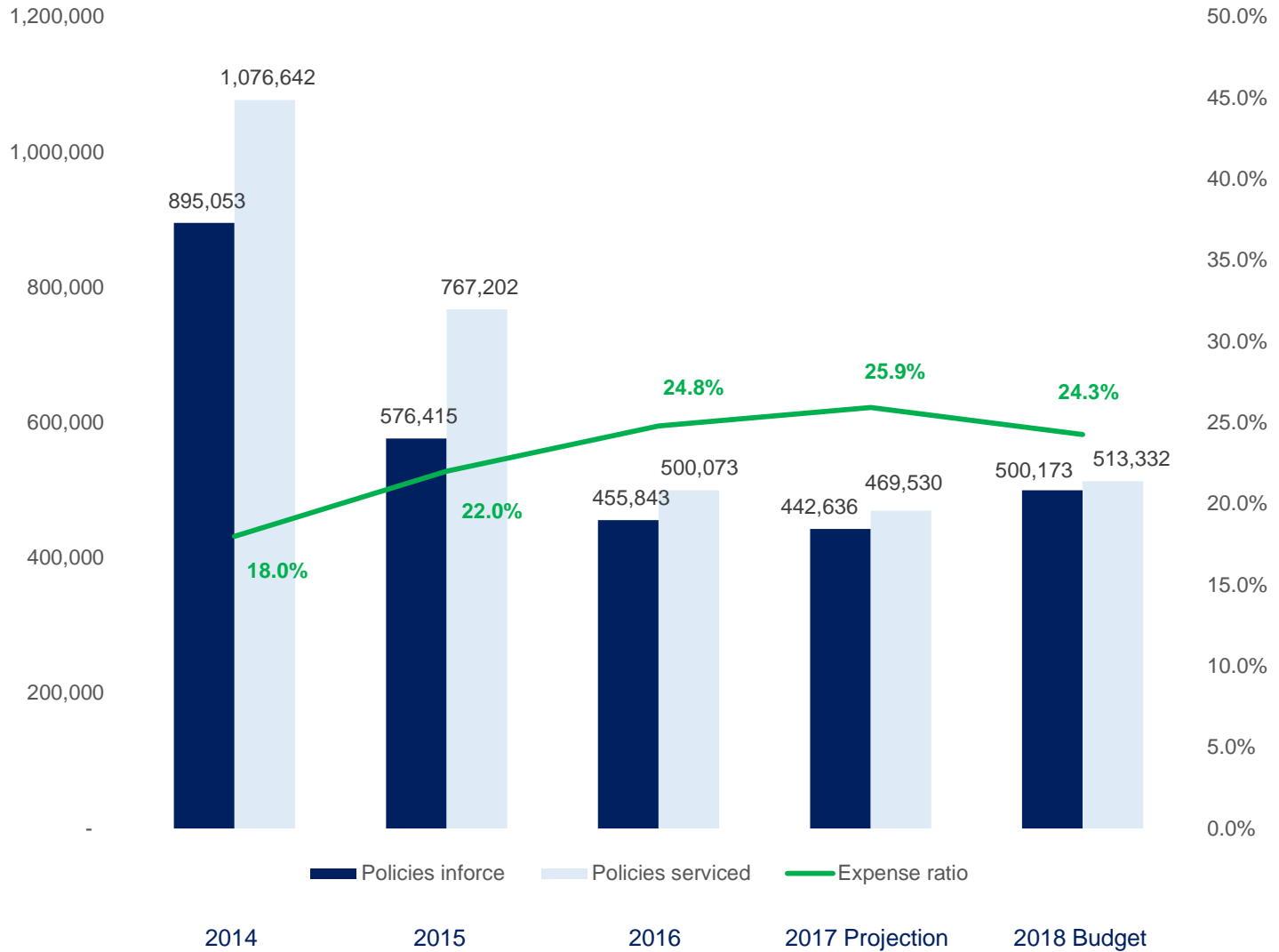
\$30,000,000  
**2017 Projection**

\$118,098,412  
**2018 Budget**

# Historical Expense and Premium Comparison



# Expense Ratio Stabilization



# Litigated Claims and Assignment of Benefits

The impact of continuing issues surrounding Litigated Claims and Assignment of Benefits (AOB) has tempered the expense management practices employed by Citizens for 2018 as compared to 2017. Values below omit expenses associated with Hurricane Irma, corporate initiatives and the ULAE allocation for both periods. The following exhibits display the financial impact on the 2018 and 2017 operating budgets as a result of these two market challenges.

	2018 Budget			2017 Budget			Variances	
	(A) Operating Expenses	(B) Litigated Claim/AOB Response	(C) = (B) / (A) % of Total	(D) Operating Expenses	(E) Litigated Claim/AOB Response	(F) = (E) / (D) % of Total	(G) = (B) - (E) \$ Variance	(G) / (E) % Variance
Personnel costs	\$ 123,407,637	\$ 12,126,396	9.83%	\$ 123,118,370	\$ 8,269,366	6.72%	\$ 3,857,030	46.64%
Contingent staffing	43,124,004	38,046,210	88.23%	31,480,286	25,221,768	80.12%	12,824,442	50.85%
Other expenses	55,670,030	1,063,190	1.91%	53,076,966	69,861	0.13%	993,329	1421.86%
<b>Total operating expenses</b>	<b>\$ 222,201,671</b>	<b>\$ 51,235,795</b>	<b>23.06%</b>	<b>\$ 207,675,621</b>	<b>\$ 33,560,995</b>	<b>16.16%</b>	<b>\$ 17,674,801</b>	<b>52.66%</b>

The following exhibit removes the impact of Litigated Claims and AOB costs from operating expense totals for 2018 and 2017, providing evidence that absent the impact of these critical issues in the market, overall operating expenses as budgeted in 2018 reflect a \$3 million or 1.8% decrease as compared to the prior year budget.

	Operating Expenses (excl. Litigated Claims and AOB)			
	2018	2017	\$ Variance	% Variance
Personnel costs	\$ 111,281,242	\$ 114,849,004	\$ (3,567,762)	-3.11%
Contingent staffing	5,077,794	6,258,518	(1,180,725)	-18.87%
Other expenses	54,606,840	53,007,104	1,599,736	3.02%
<b>Total operating expenses</b>	<b>\$ 170,965,876</b>	<b>\$ 174,114,627</b>	<b>\$ (3,148,751)</b>	<b>-1.81%</b>

# Litigated Water Claims

## Driver of loss costs in the PLA continues to be litigated water claims

### Approximate Claim Cost:

Non-litigated	<b>\$ 5,000 - \$ 8,000</b>
Litigated	<b>\$27,000 - \$30,000</b>

- An increasing number of claims are entering litigation
- AOB increases litigation rates, but so do other factors such as representation at first notice of loss
- Entering litigation increases the average claims cost by about \$20,000 per claim, driving up overall costs.

### Chance of Litigation:

Without representation at FNOL	<b>30%</b>
With representation at FNOL	<b>83%</b>

### Representation at First Notice of Loss:

AY 2015	<b>67.1%</b>
AY 2016	<b>45.5%</b>

**PLA Non-Sinkhole, Non-Hurricane Loss/LAE Ratio**

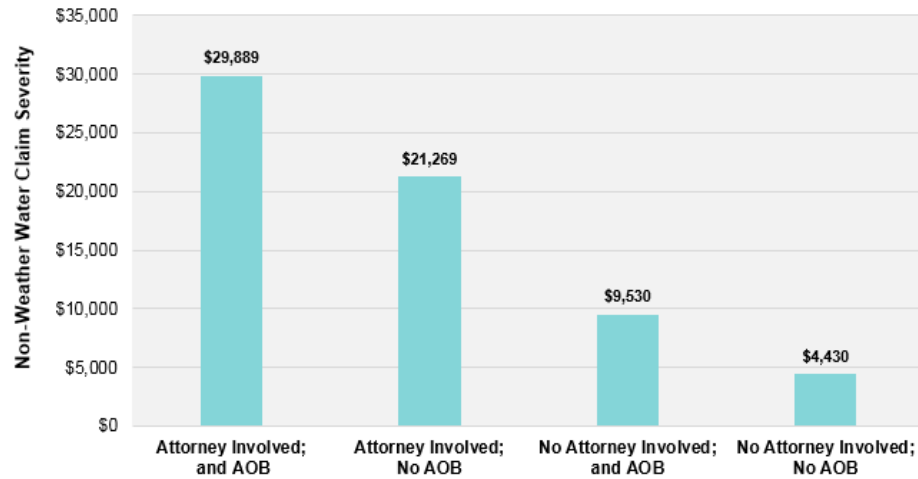


**Projected % of Claims in Litigation**



# Litigated Water Claims – *continued*

## Closed Claims



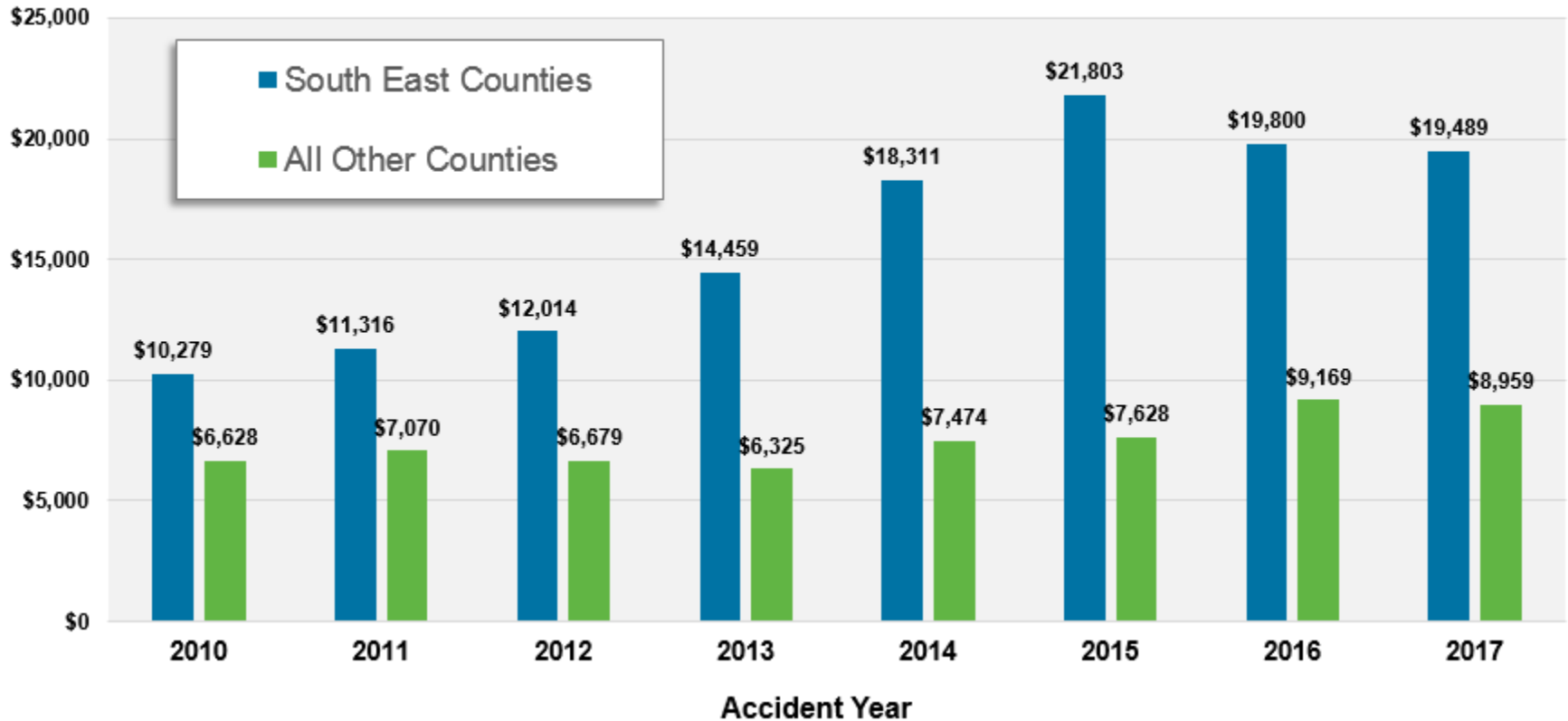
	Severity	# of Claims	% of Total
Attorney Involved; and AOB	\$29,889	5,042	31.2%
Attorney Involved; No AOB	\$21,269	4,644	28.8%
No Attorney Involved; and AOB	\$9,530	636	3.9%
No Attorney Involved; No AOB	\$4,430	5,828	36.1%
<b>Average Non-Weather Water Claim</b>	<b>\$17,421</b>	<b>16,150</b>	<b>100.0%</b>

### NOTES:

- 1) Closed claim information is based on HO-3 water claims closed between 1/1/2016 thru 6/30/2017
- 2) Attorney involvement is defined as a claim that was reported with representation and/or ended up in litigation

# Litigated Water Claims – *continued*

## Average Severity per Claim

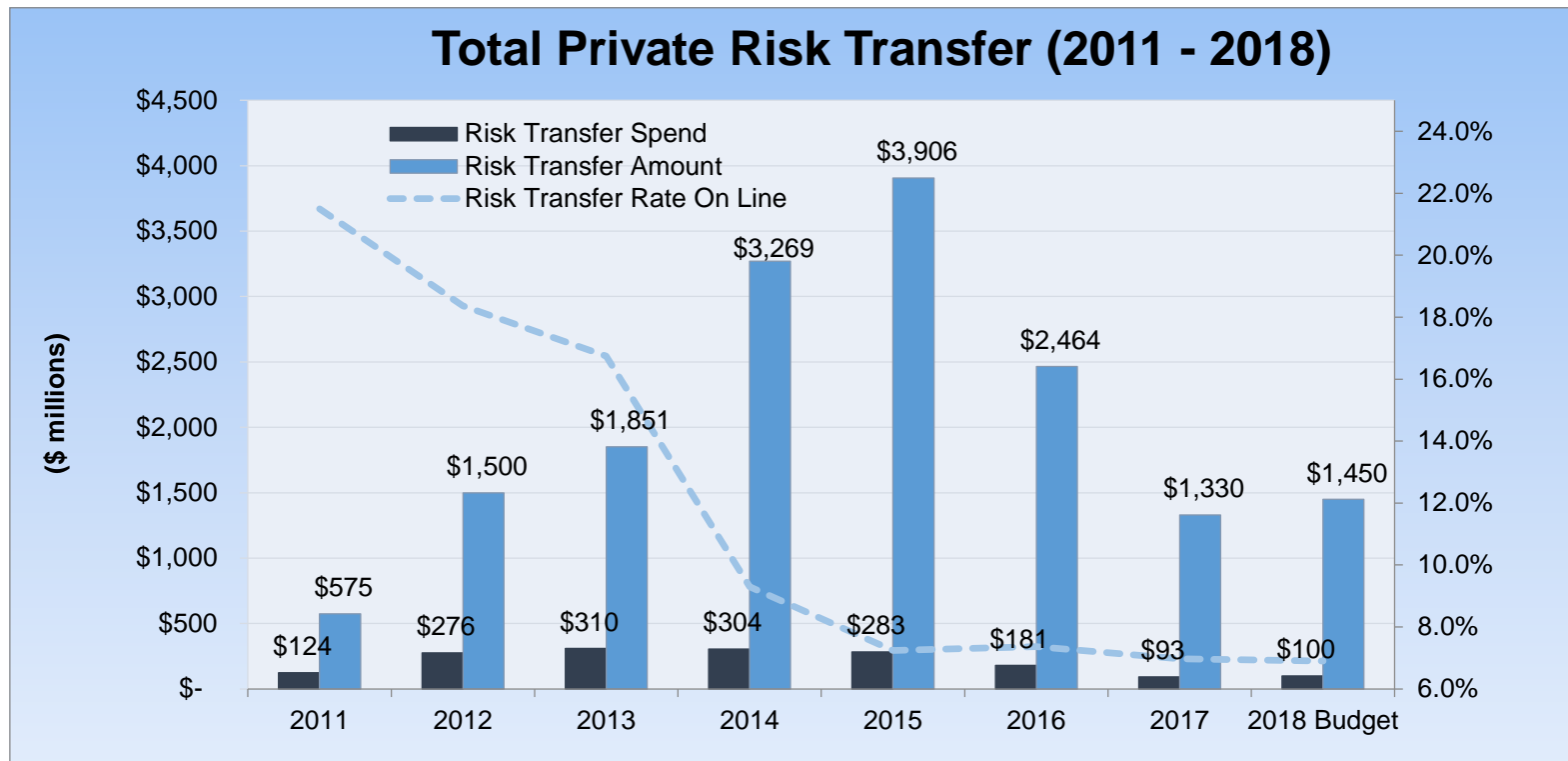


### NOTES:

- 1) Figure above shows accident year trends based on water losses and water claims for Homeowners policies
- 2) South East Counties include Palm Beach, Broward, and Miami-Dade



# Private Risk Transfer (2011 – 2018)



# Hurricane Irma by the Numbers (Dec 11, 2017)

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Gross estimated losses/LAE:	<b>\$1.229 billion</b>	(as of Sep 30, 2017)
PLA/CLA:	\$337.7 million	
Coastal:	\$891.6 million	
Net estimated losses/LAE:	<b>\$1.045 billion</b>	(recoveries from FHCF of \$184.3 in Coastal Account only)
Net loss/LAE ratio contribution:	<b>179.0%</b>	(2017 projection)
PLA:	87.8%	
CLA:	151.1%	
Coastal:	354.9%	
Number of reported claims:	<b>63,516</b>	
Estimated number of total claims:	<b>70,000</b>	
Percent of claims closed:	<b>79.1%</b>	
Paid loss and LAE:	<b>\$521.4 million</b>	
Claims with AOB attached:	<b>1,476</b>	(2.3% of total reported claims)
Claims with representation:	<b>6,312</b>	(9.9% of total reported claims)
Percent of claims in tri-county:	<b>58.4%</b>	