

My report will be brief this morning but I have asked Jay Adams to join me to provide you with an overview of how the Managed Repair Program will operate when the new policy language becomes effective on 08/01/18. Before I move into today's discussion I would like to comment on how supportive OIR, and David Altmaier personally, has been in helping us develop the most consumer centric language possible that still can have an impact on water damage costs. He clearly has an incredibly difficult job in assuring the financial stability of companies doing business in this state and protecting consumers at the same time.

Let me first provide a few brief comments on industry performance because, as you are aware, the healthier the private market is, the more opportunity for us to reduce exposure. As you are aware, today we only represent 6.5% of the Florida residential market and 5 years ago we were 26% so our depopulation program and the healthy growth of the private market are still our top priorities. Even at that low market share, we still impact 442,000 customers. Through the first quarter, Florida based companies had increased written premium by 7.8% and national companies by 4% while Citizens has reduced W/P by 2%. Policyholder's surplus for the industry has increased by 2% for domestics and 4.3% for nationals and combined ratio improved by 2.6% for domestics and 14.1% for national companies year over year, So overall, the Florida market remains in slightly better financial shape that this time last year despite the impact of IRMA. Citizens' remains extremely

strong financially with almost \$6.5 billion in surplus and our expense ratio remains competitive with the overall industry. We are running an extremely efficient company given our responsibilities.

Our number one issue, of course, is increasing litigation costs. While this is a Citizens issue, it is one shared by all Florida companies. During 2017 the number of Citizen's lawsuits dropped from 10,061 to 7,624, a 24% reduction showing the positive impact of the extensive loss adjustment expense analysis and implementation of the recommendations that were shared with this Board previously. During this same 2016-2017 period, lawsuits for all other insurance carriers increased from 31,790 to 41,524, a 30% increase. During the first quarter of 2018, these trends continue, driven significantly by increased impact of IRMA litigation. For all other insurance carriers, combined lawsuits increased from 9,955 to 15,968 in the first quarter, a 60% increase, while Citizen's suits increased by 35% from 2,272 to 3,078. These DFS numbers continue to show industry deterioration at a greater rate than Citizens. Given our high tri-county market share, these numbers clearly show that the litigation expense issue is expanding well beyond tri-county for all companies doing business in the state. As reported in the Claims Committee meeting by Elaina Paskalakis, 60% of Citizens new suits are now IRMA related and the staggering number to me is that in 47% of the incoming residential property lawsuits, the insured did not dispute Citizens' position or

adjustment of the claim prior to the suit. We are optimistic that the implementation of the Managed Repair Program and new policy language, will improve results.

Defending this litigation will cost Citizens' over \$70 million this year and plaintiff costs will exceed the \$70 million number. The combination of defense and plaintiff costs is approximately 17% of the premium dollars and the answer, as indicated in the LAE study, is not to simply increase the payout on water damage claims as we have already increased the average payment from \$10,000 in 2011 to \$20,000 in 2017. These numbers on average payouts are consistent with the industry. My key message, of course, is that we do not bring suits but we are required to defend suits brought against us and the answer is not simply to continue to pay more and more; that actually promotes more litigation. The answer is to reduce litigation. The industry and Citizens can contribute to that reduction but the major impact has to come from legislative reform that limits 3rd party access to the one-way-attorney fee statute 627-428. We are anxious to work closely with OIR, the CFO's office, and all parties that can provide solutions that reduce rate need.

I was asked last week, in front of the Cabinet, what we are doing about reducing litigation costs. As indicated in the LAE study, we have refined our litigation strategies to make more effective use of the appraisal language and have implemented strategies to make sure that we are triaging every suit to assure that the most appropriate decision is

made to determine whether settlement is appropriate or we aggressively pursue defense to trial. These revised strategies are having a very positive impact on our results.

We are now taking another major step to reduce litigation with the implementation of the Managed Repair Program, complemented by the new policy language that will be effective 08/01/18. We believe that we have the most consumer-centric program in the market and I have asked Jay to join me to provide another overview of how Managed Repair will work in conjunction with new language. Do I have any questions before I turn the discussion over to Jay?