

# Expense Ratio Overview

September 23, 2018





# Challenges and Accomplishments 2012 – present

**Note: comparisons to private market carriers and related analyses were developed in conjunction with advisory services performed by Citizens' Office of Internal Audit and independent third-party consultants**

- Modernized our accounting, HR and procurement systems (CenterPoint)
  - Modernized our insurance suite (Guidewire)
  - Implemented, maintained and subsidized cost of Clearinghouse
  - Insourced several large processes by replacing Contingent Staff with salaried employees
  - Responded to significant and disruptive industry trends (i.e. sinkhole and AOB)
  - Significantly expanded and enhanced our catastrophe response and operations
  - Implemented new external website, customer portal and internal intranet
  - Completed real estate strategy downsizing to 2 primary locations
  - Completed disaster recovery relocation and technology refresh
  - Upgraded numerous technology solutions across the organization
  - Statutory mandates (OIG, Purchasing, segments of OIA)
- Precipitous 6-year decline in premium - \$2.3 billion (72%) averaging 19% per year
  - Stabilized core infrastructural costs (no significant change since 2012)

# Components of Expense Ratio

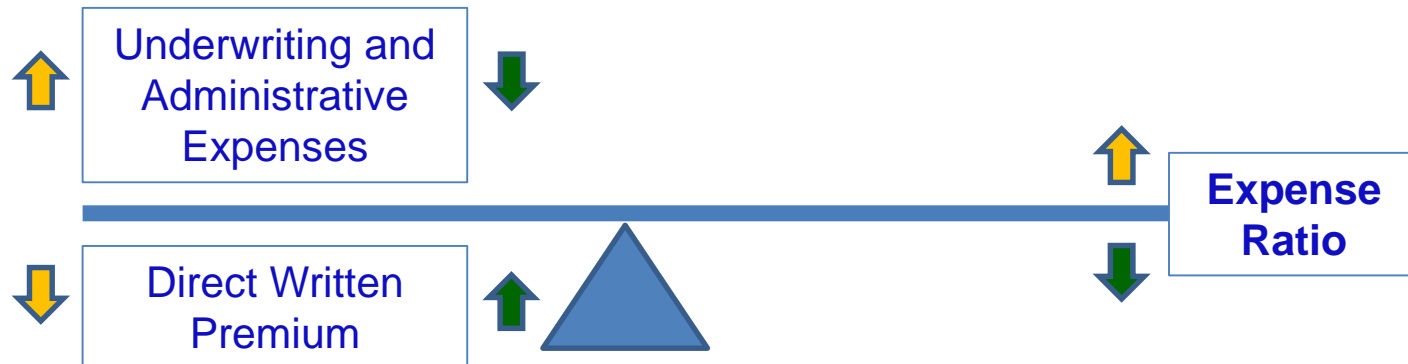
## Underwriting and Administrative Expenses:

- Personnel costs
- Contingent staffing
- Professional services
- Rent
- Depreciation
- Agent commissions
- Premium taxes
- Reduced by ULAE allocation

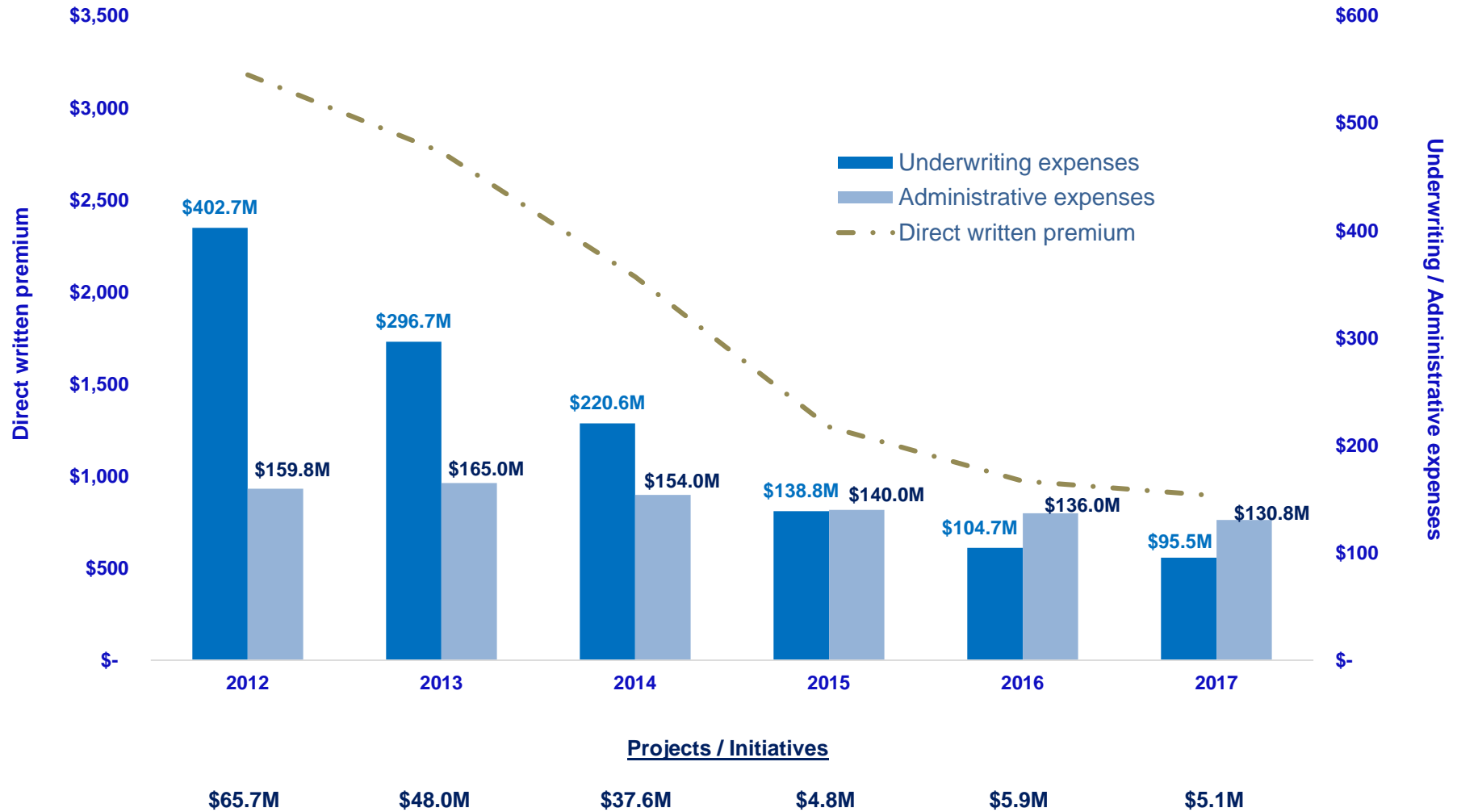
## Direct Written Premium:

- Premiums received directly from policyholders
- Not reduced for depopulation
- Not reduced for reinsurance

$$\text{Underwriting and Administrative Expenses} \div \text{Direct Written Premium} = \text{Expense Ratio}$$

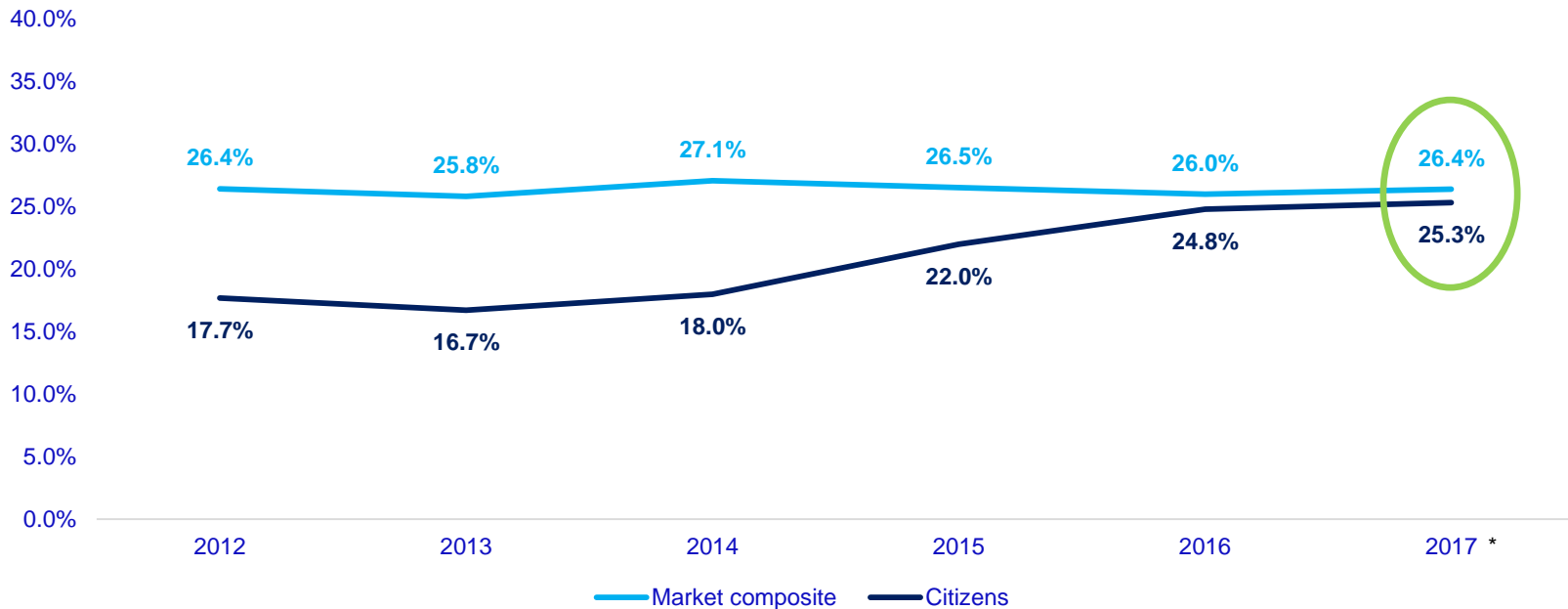


# Premium and Expenses





# How does Citizens' Expense Ratio compare to the private market



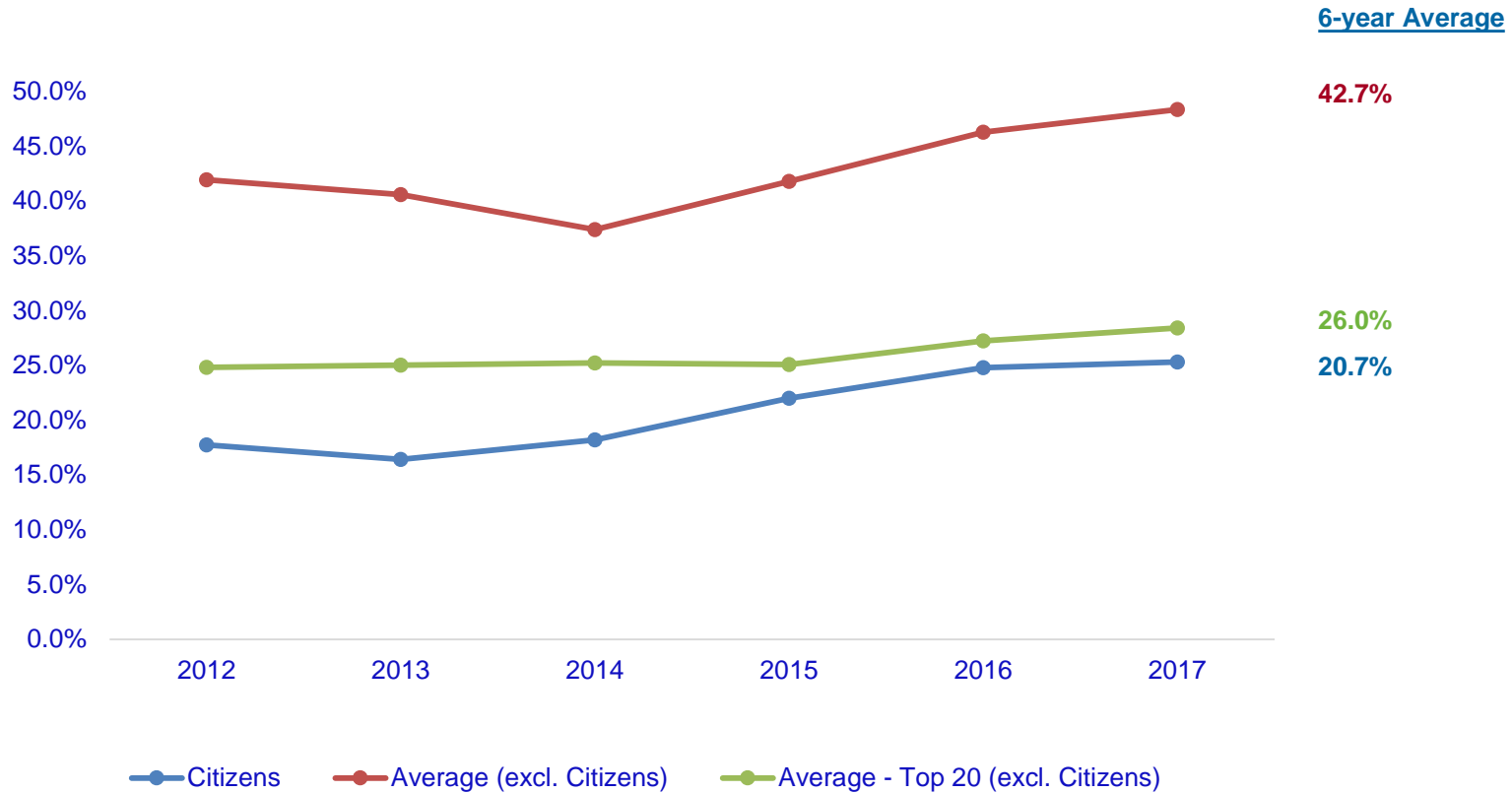
Market composite consists of companies with:

- greater than \$100 million in written premium in 2017
- at least 55% of total premium in Homeowners and Allied lines of business
- premium written in Florida of at least 70% of total premium written

\* certain carriers' results for 2017 have been omitted to exclude distortive ratios that may arise as a result of Hurricane Irma



# How does Citizens' Expense Ratio compare to other residual markets



Source: 2018 Property Insurance Plans Compilation of Expenses and Associated Ratios, PIPSO

# Considerations when comparing expense ratios

## Factors affecting premium

- Citizens has more rate need relative to private carriers in Florida
- Citizens has a different cost of capital
- Citizens buys less reinsurance relative to its storm risk
- Citizens has less influence over its exposure, geographic concentration and loss costs
- Citizens cannot control how many or how few policies it retains

## Factors affecting expenses

- Citizens is subject to certain statutory provisions that are specific to Citizens and/or governmental entities
- Citizens' infrastructure must be able to accommodate material swings in policy count and nimble responsiveness to legislative mandates
- Citizens' commission structure and commissionable premium are different