

President's Report

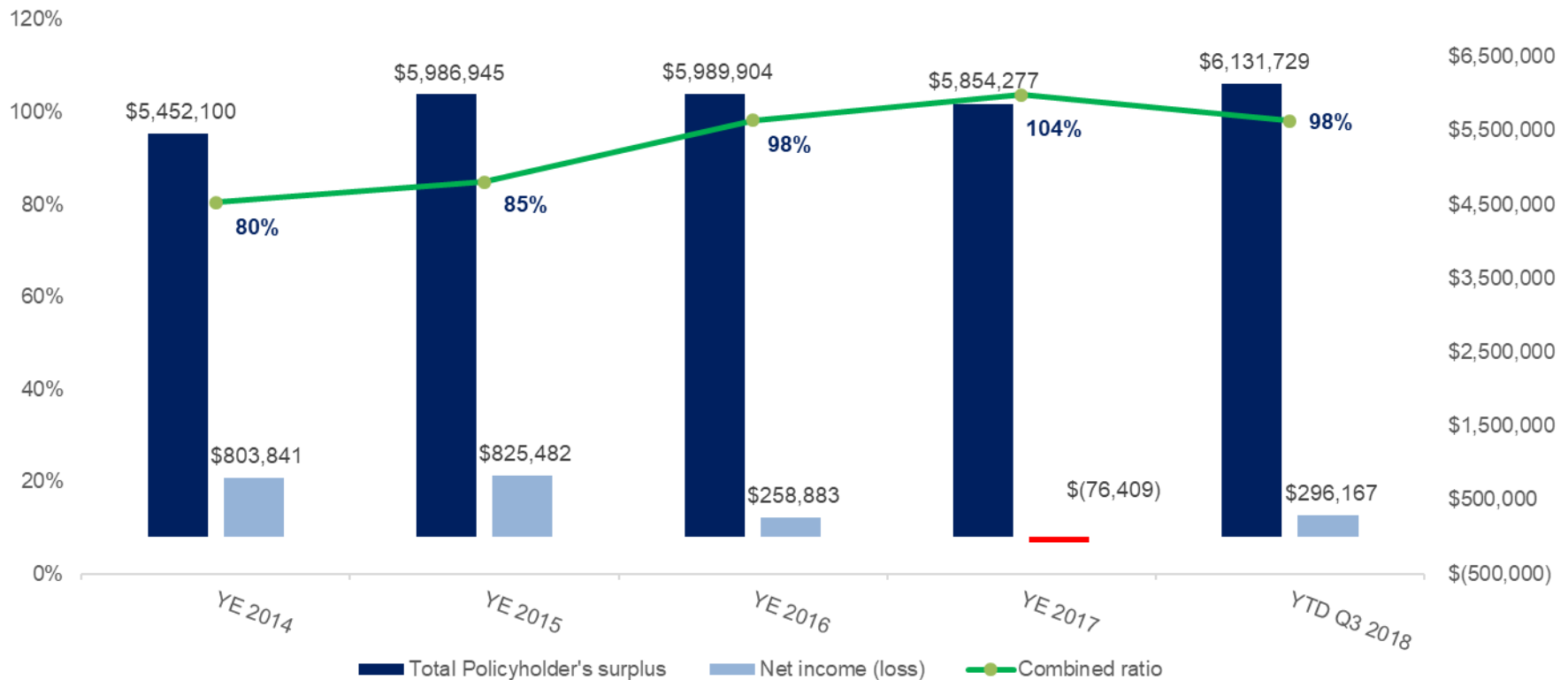
Board of Governors

December 12, 2018



Industry Overview

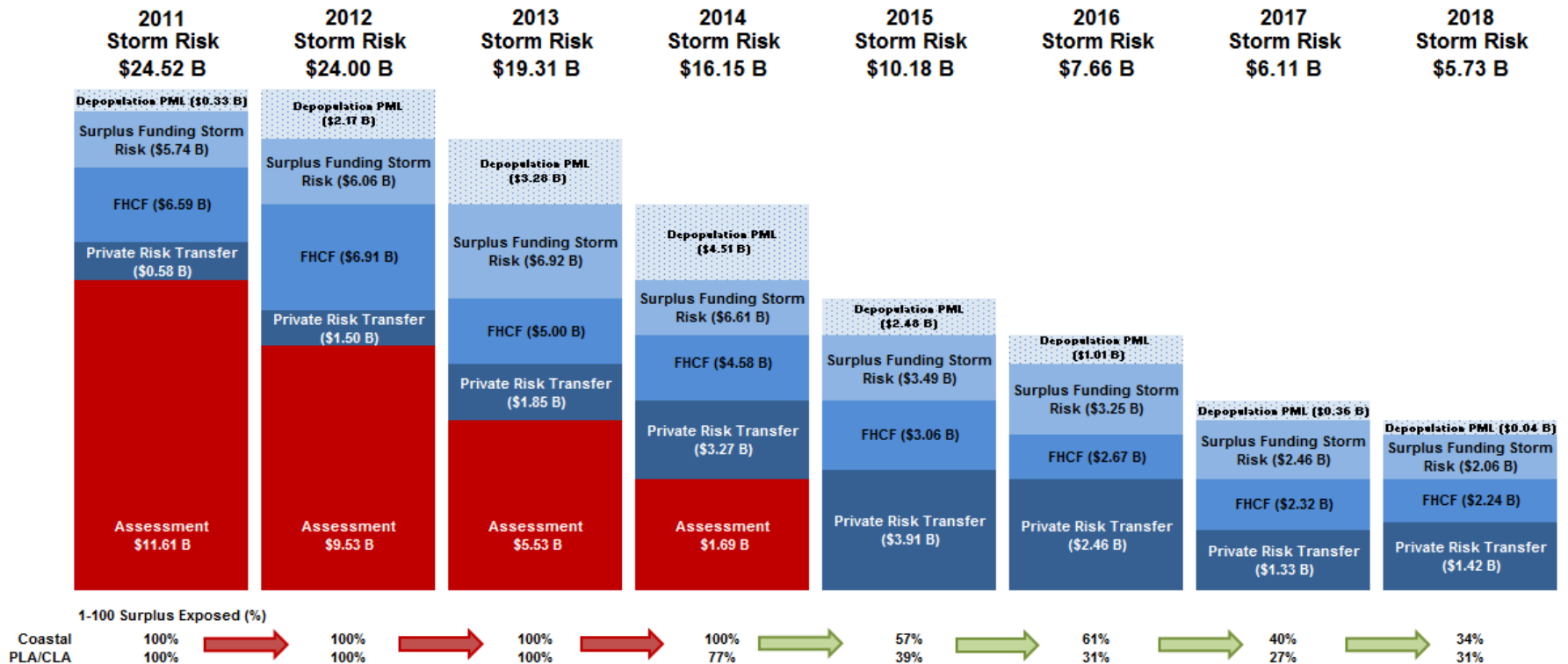
Florida Domestic Market
(\$000 omitted)



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

Assessment Risk

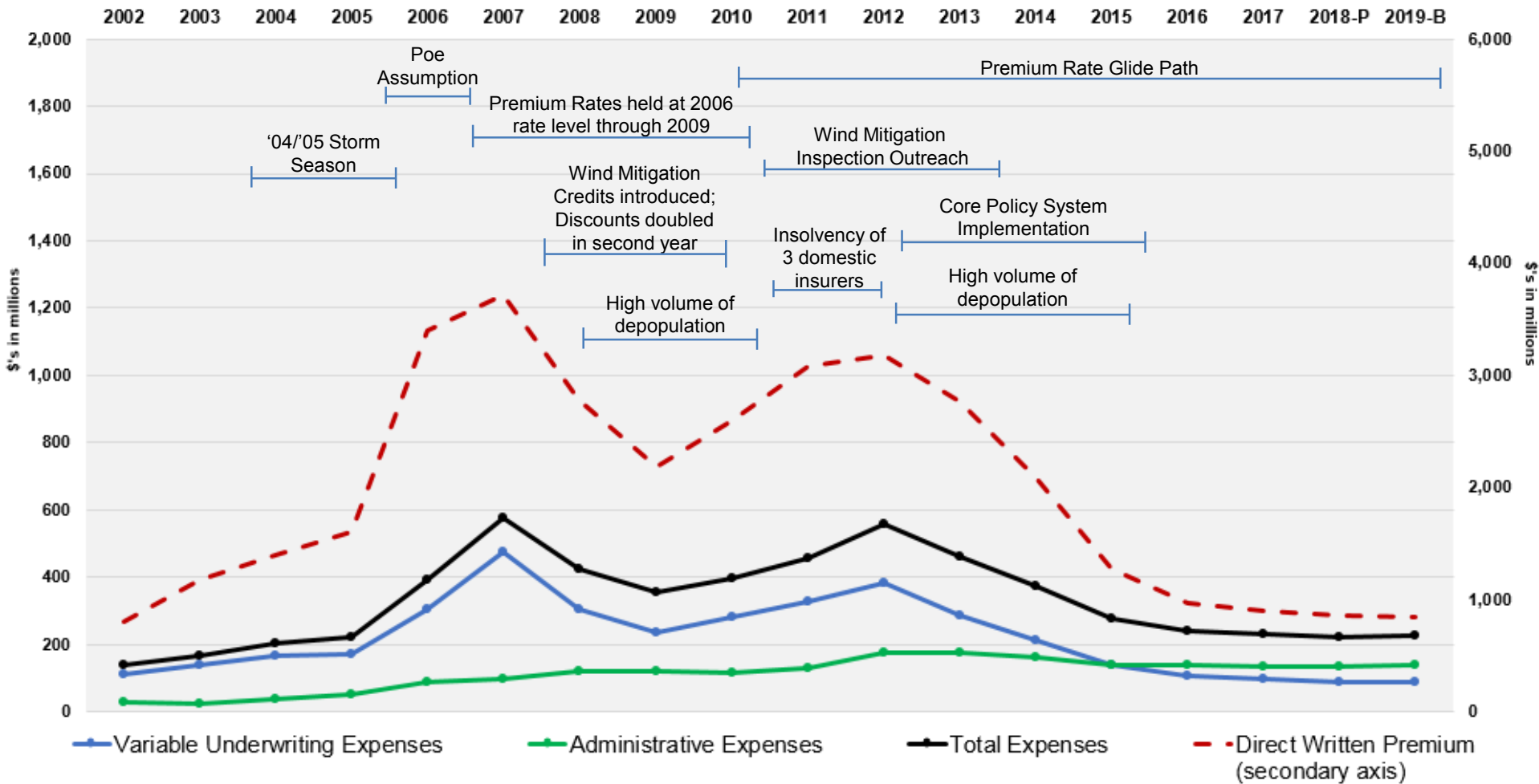
Public Summary of Citizens Assessment Reduction Efforts Over Time



Notes:

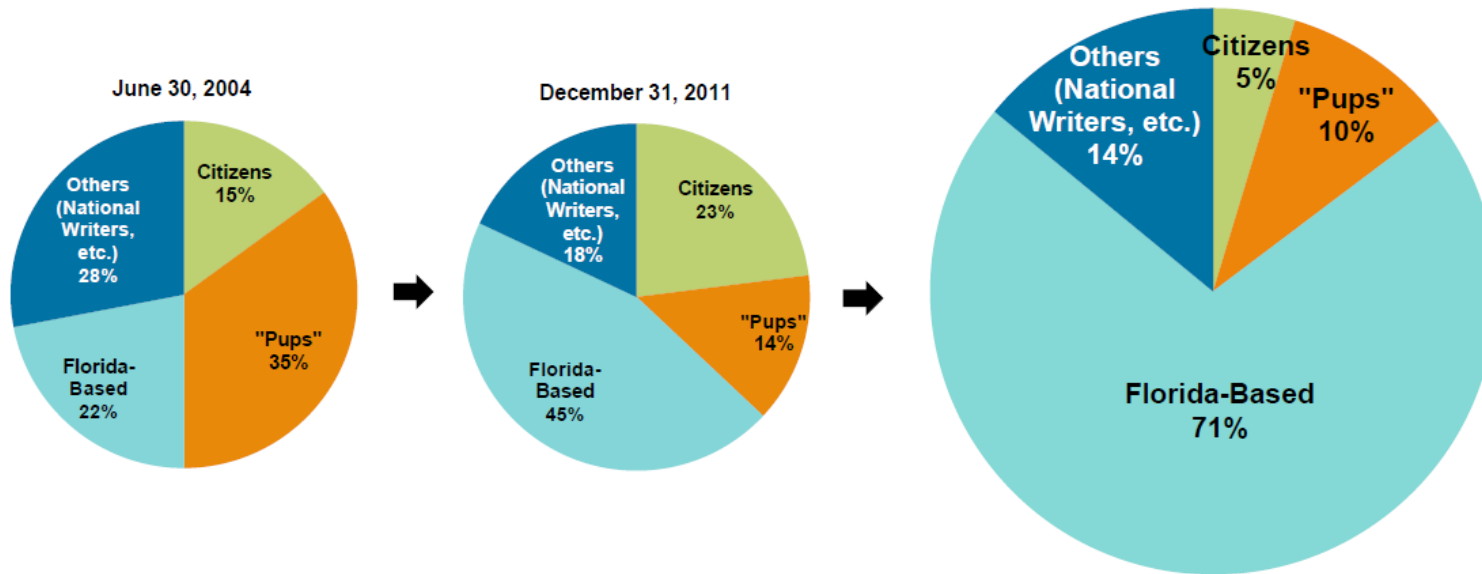
- Storm Risk is as measured by 1-in-100 year probable maximum loss (PML) plus estimated loss adjustment expenses using the Florida Hurricane Catastrophe Fund (FHCF) account allocation where PLA and CLA are combined. PLA/CLA combined PMLs are added to the Coastal PMLs to be consistent for surplus distribution. In general, the PMLs presented are as projected at the beginning of storm season; with the exception of 2017 which is as of August 31, 2017.
- Surplus and Assessments are as projected at beginning of storm season. Not all PLA/CLA surplus is needed to fund storm risk in 2014. In 2015 - 2018, not all surplus in PLA/CLA and the Coastal Account is needed to fund storm risk. Remaining surplus is available to fund a second event.
- Florida Hurricane Catastrophe Fund (FHCF) is as projected at beginning of storm season; with the exception of 2017 and 2018 which are Citizens' initial data submission to the FHCF.
- Depopulation PMLs are not included in storm risk totals and are presented as year end totals; with the exception of 2018, which is as of May 31, 2018. PMLs from 2011-2014 use a weighted average of 1/3 Standard Sea Surface Temperature (SSST) and 2/3 Warm Sea Surface Temperature (WSST). 2015 - 2018 PMLs reflect only SSST event catalog.

Historical Expense and Premium Comparison



Market Share Based on Total Insured Value

For Policies that Include Wind Coverage
 Florida Residential Property Insurance Market
 Includes State Farm Florida
 QUASR data as of June 30, 2018



Insurer Category	Total Insured Value
Citizens	\$106,284,553,696
"Pups"	\$233,041,758,285
Florida-Based	\$1,612,889,890,922
Others	\$319,869,629,249
Total	\$2,272,085,832,151

The Florida Residential Property Insurance Admitted Market is divided into 4 major parts: (i) Citizens; (ii) Florida only subsidiaries "pups" of major national writers; (iii) Florida-based domestic companies; and (iv) non-domestic nationwide property writers, such as USAA, etc.

Challenges in 2019



Carrier Litigation Expense

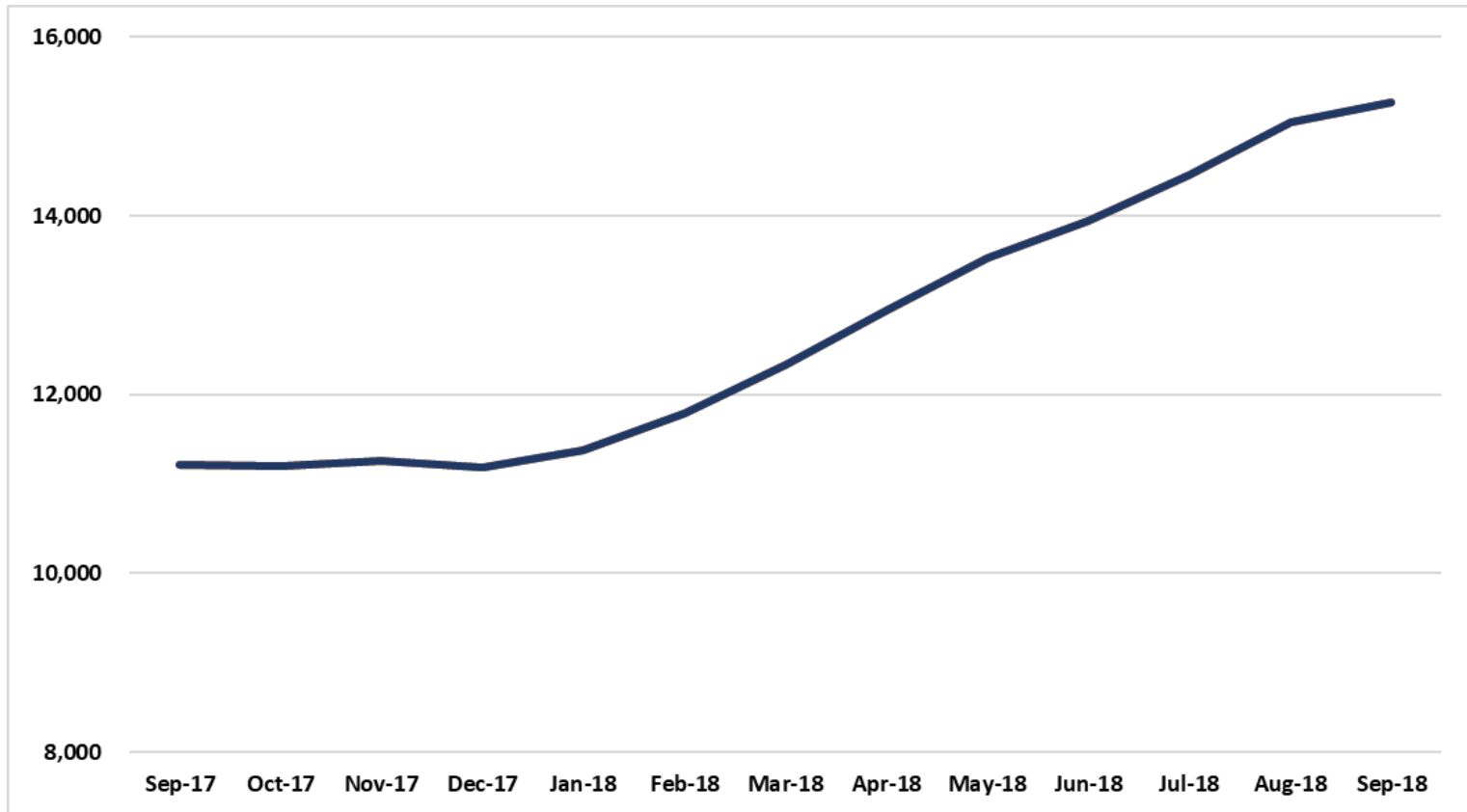
Litigation has been increasing steadily for all carriers.

	2013	2014	2015	2016	2017	2018 Q3
Citizens Property Insurance Company						
All	9,146	9,525	7,653	10,061	7,624	10,357
AOB	860	1,062	1,250	3,242	2,718	2,617
AOB %	9%	11%	16%	32%	36%	25%
All Other Carriers						
All	18,270	22,122	30,167	31,790	41,524	53,160
AOB	4,613	4,820	6,645	5,968	9,772	12,843
AOB %	25%	22%	22%	19%	24%	24%
Total All	27,416	31,647	37,820	41,851	49,148	63,517
Total AOB	5,473	5,882	7,895	9,210	12,490	15,460
Total AOB %	20%	19%	21%	22%	25%	24%

Data source – DFS LSOP 2013-2018 Q3

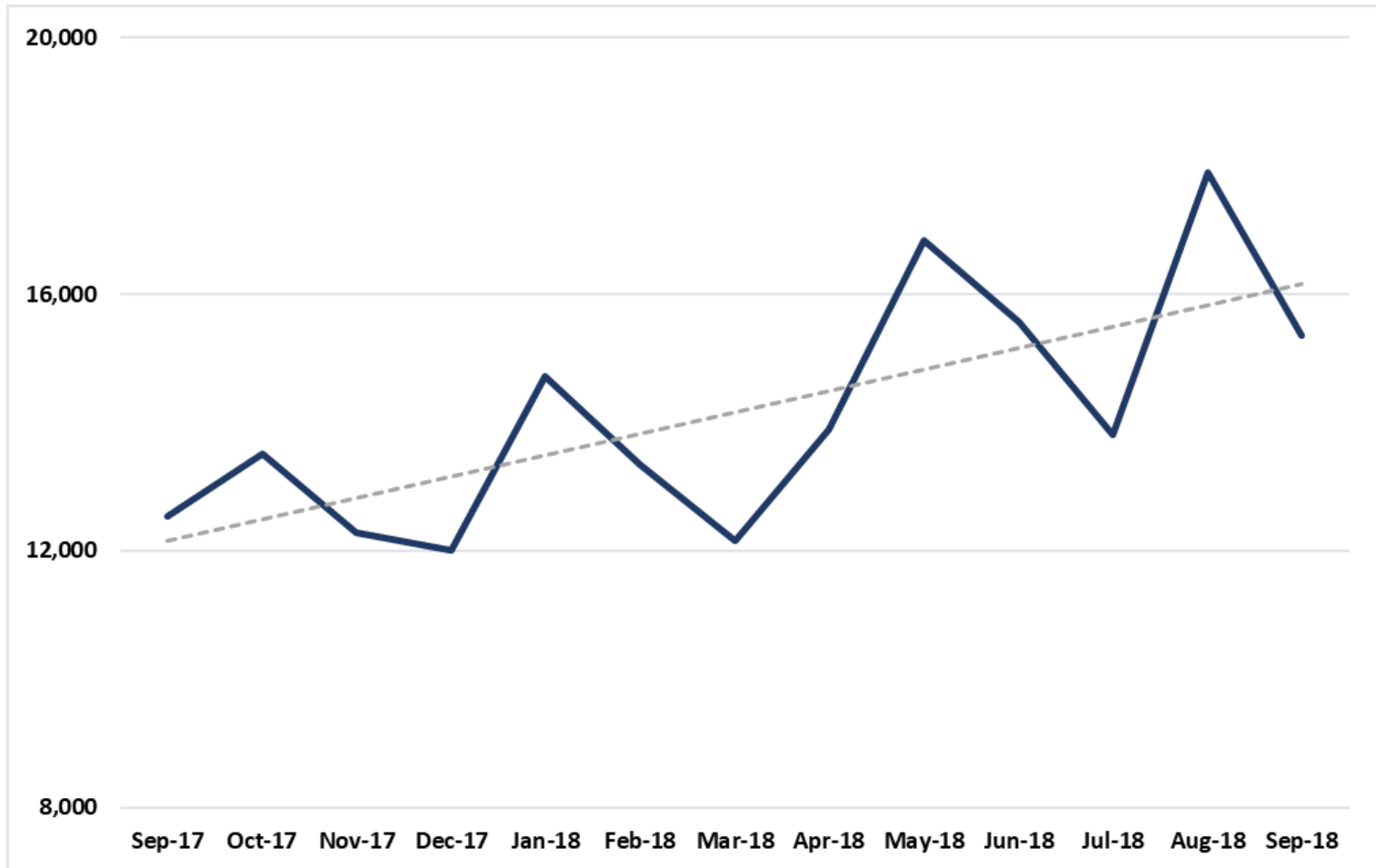
Note: 2018 Q3 data includes Hurricane Irma which represents around 60% of all new Litigation for Citizens Property Insurance in 2018.

Claims Litigation – Total Pending Matters



Over the twelve months ended September 2018 Citizens closed 9,420 matters while receiving a total of 13,282, for a net add of approximately 4,000 pending litigated cases. Of the new matters received, 6,654 or 50% were related to catastrophe claims, primarily as a result of Hurricane Irma.

Claims Litigation – Monthly Legal Bills Received



Over the twelve months ended September 2018 Citizens received 183,937 legal bills with a review rate of approximately 92.2%. Appeals processed following review total approximately 13,000 over the twelve month period ended 9/30/2018.

Litigated Indemnity Decreases while ALAE Increases

PLAHO Non-Sinkhole/Non-Cat

<u>Accident</u> <u>Year</u>	Litigated Severity		Non-Litigated Severity	
	<u>Loss</u>	<u>ALAE</u>	<u>Loss</u>	<u>ALAE</u>
2008	\$ 35,068	\$ 8,727	\$ 9,831	\$ 732
2009	28,289	7,806	8,208	661
2010	23,770	8,038	7,838	616
2011	23,843	8,213	7,659	731
2012	24,373	8,499	6,869	809
2013	26,250	7,001	6,653	809
2014	25,594	6,322	6,844	845
2015	26,837	8,926	5,913	708
2016	24,372	10,662	4,897	813
2017	22,584	10,063	6,206	1,279

Note: 85% of the claims volume is Non-Weather Water.

- Indemnity loss dollars are decreasing over time indicating that the non-litigated claims handling has improved along with effectiveness in the overall litigation strategy.
- ALAE expenses are increasing indicating that more litigated claims are identified as trial candidates leading to additional expenses to prepare those claims for trial.

Tri-County Market Share Increasing



Citizens has Largest Concentration of Policies in the Tri-County Region

Insurer Name	Concentration of Policies in Tri-County Region for Policy Types Prone to Litigation					
	2Q 2018	2017	2016	2015	2014	Average
Citizens Property Ins Corp.	57%	57%	56%	55%	53%	56%
Allstate (Castle Key Insurance)	14%	14%	14%	14%	14%	14%
American Integrity Ins Co. of FL	4%	5%	6%	7%	8%	6%
American Security Insurance Co.	34%	36%	45%	29%	29%	35%
Anchor Insurance Co.	27%	32%	46%	63%	N/A	42%
Federated National Insurance Co.	26%	26%	27%	27%	26%	26%
Florida Peninsula Insurance Co.	24%	27%	34%	33%	38%	31%
Heritage P&C Insurance Co.	23%	25%	34%	37%	31%	30%
Homeowners Choice P&C Ins Co.	37%	37%	38%	37%	37%	37%
Liberty Mutual Insurance Co.	10%	10%	10%	10%	10%	10%
Olympus Insurance Co.	19%	17%	15%	17%	19%	17%
People's Trust Insurance Co.	45%	45%	46%	42%	46%	45%
Safepoint Insurance Co.	50%	52%	49%	46%	45%	49%
Security First Insurance Co.	3%	4%	4%	5%	7%	5%
Southern Fidelity Insurance Co.	16%	15%	15%	15%	16%	15%
Southern Oak Insurance Co.	36%	34%	30%	31%	34%	33%
St. Johns Insurance Co.	11%	10%	9%	9%	10%	10%
State Farm Florida Ins Co. ⁽³⁾	16%	16%	16%	16%	16%	16%
Tower Hill Insurance Co.	19%	20%	21%	24%	24%	22%
United P&C Insurance Co.	18%	20%	21%	22%	22%	20%
Universal P&C Insurance Co.	47%	46%	43%	39%	35%	42%
USAA Insurance Co.	15%	15%	15%	15%	15%	15%

Notes:

(1) Homeowners insurance companies from LSOP (Lawsuits) list, Florida Office of Insurance Regulation website

(2) Concentration of policies is calculated as the tri county (Miami-Dade, Broward and Palm Beach counties) total insured value relative to statewide total insured value for multi-peril homeowners and dwelling fire policies using QUASR data

(3) State Farm Florida filed QUASR data as "trade secret" with the FL Office of Insurance Regulation beginning first quarter 2014. This exhibit reflects values for State Farm Florida as reported at 12/31/13.

Concentration of Tri-County Policies Increases Litigation on Average 6 Times

Insurer Name	Percent of Business in Tri-County Area		Percent of Policies Litigated		Increased Litigation Factor
	as of 9/30/2015	as of 12/31/2017	Tri-County Area	Rest of State	
Citizens Property Insurance Corporation	59%	61%	1.9%	0.2%	7.9
Florida Family Insurance Company	31%	32%	0.0%	0.0%	2.9
Florida Peninsula Insurance Company	37%	29%	0.8%	0.1%	8.7
Heritage Property & Casualty Insurance Company	35%	27%	0.6%	0.1%	7.9
Homeowners Choice Property & Casualty Insurance Company, Inc	38%	37%	0.6%	0.1%	7.8
People's Trust Insurance Company	39%	38%	0.3%	0.1%	4.3
Tower Hill Insurance Company	24%	18%	0.4%	0.1%	6.5
United Property & Casualty Insurance Company	24%	22%	0.4%	0.1%	4.9
Universal Insurance Company	36%	42%	0.5%	0.1%	5.2

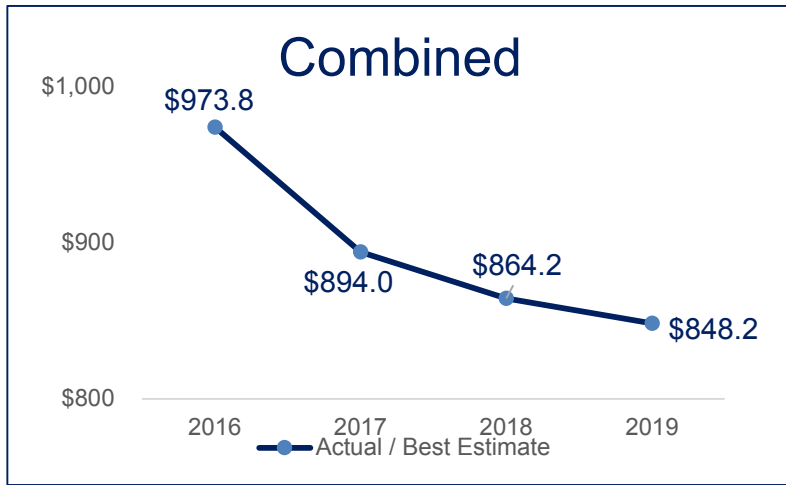
Notes:

- 1) The above data reflects the following multi-peril policies: "Personal Residential - Homeowners (Excl Tenant and Condo) - Owner Occupied" and "Personal Residential - Condominium Unit Owners" (for Citizens data that means HO3/HO8/HO6).
- 2) Litigation data is based on the Florida State Lawsuits Service of Process (LSOP) report which includes all insurance based lawsuits regardless of product type from 2015 Q3 through 2017 Q4. Number of suits from a quarter is divided by the PIF count at the end of that quarter.
- 3) PIF data comes from QUASR. We assumed there is a 6 month delay from LSOP date served and QUASR report quarter. So PIF data ranges from 2015 Q3 through 2017 Q4.
- 4) The percent of policies litigated shown is a weighted average of the percent of policies litigated by PIF over 2015 Q3 through 2017 Q4.
- 5) Increased Litigation Factor is the percent of policies litigated in Tri-County area divided by the percent of policies litigated in the Rest of State.

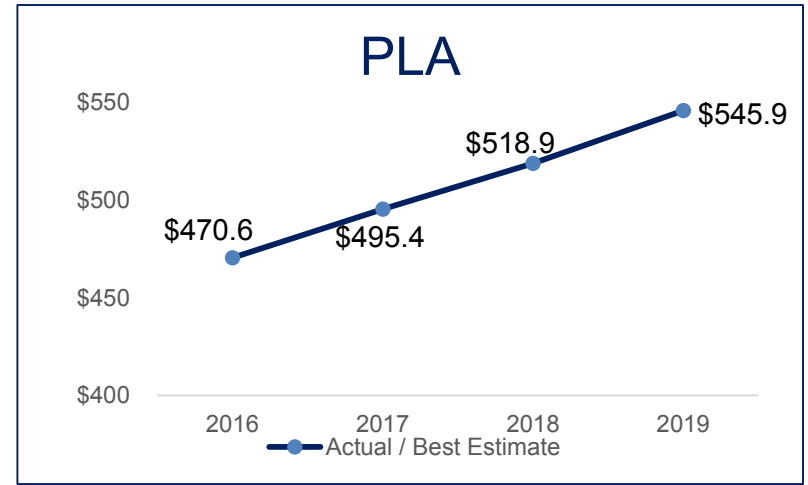
Impacts Resulting from Book of Business Changes



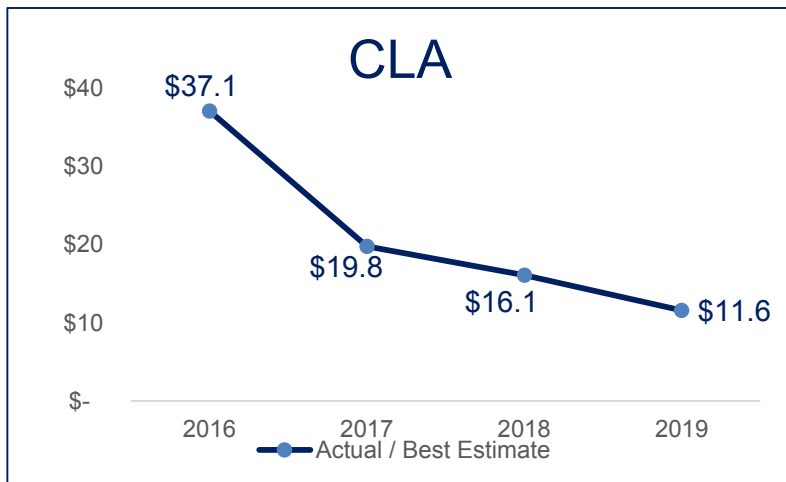
Direct Written Premium – Recent and Projected Trends (\$ millions)



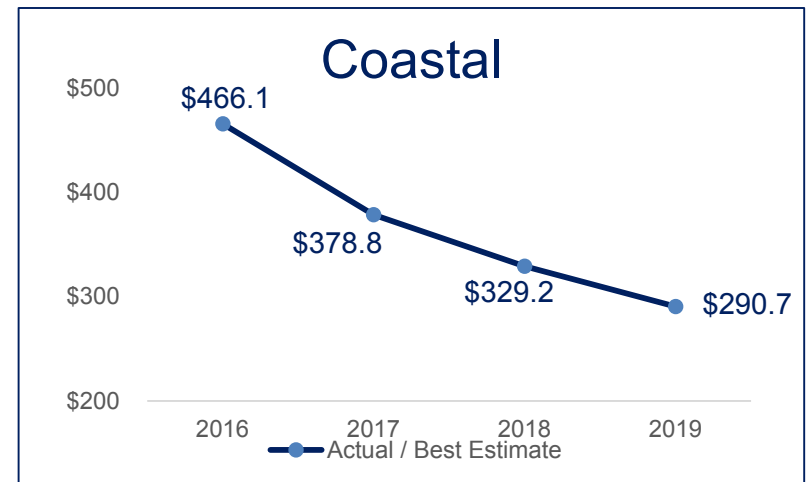
2018: Upper (871.2); Lower (855.0)
2019: Upper (878.8); Lower (762.5)



2018: Upper (523.2); Lower (513.0)
2019: Upper (560.9); Lower (486.4)



2018: Upper (16.3); Lower (16.0)
2019: Upper (12.3); Lower (10.8)

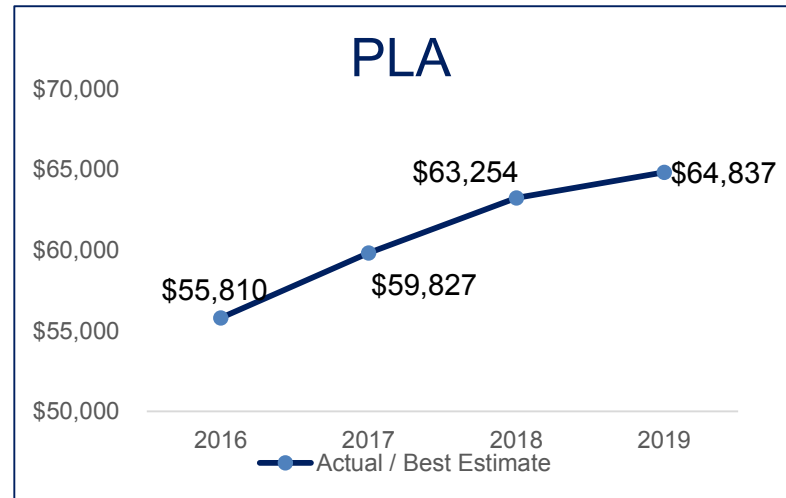


2018: Upper (331.8); Lower (326.1)
2019: Upper (305.6); Lower (264.2)

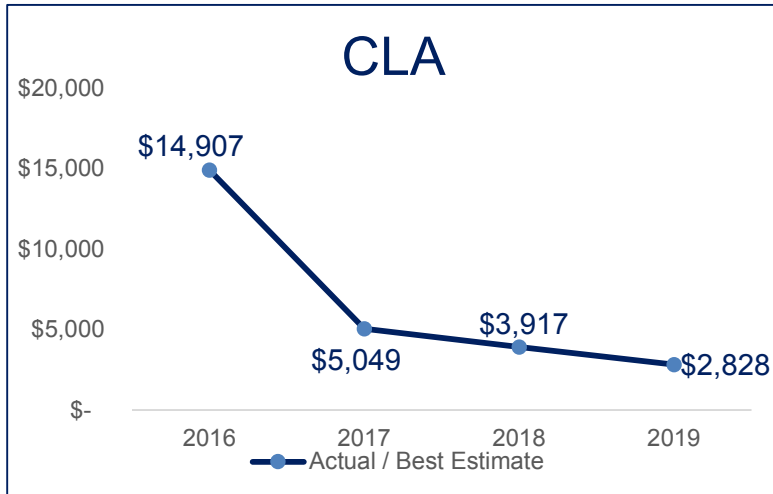
Exposure – Recent and Projected Trends (\$ millions)



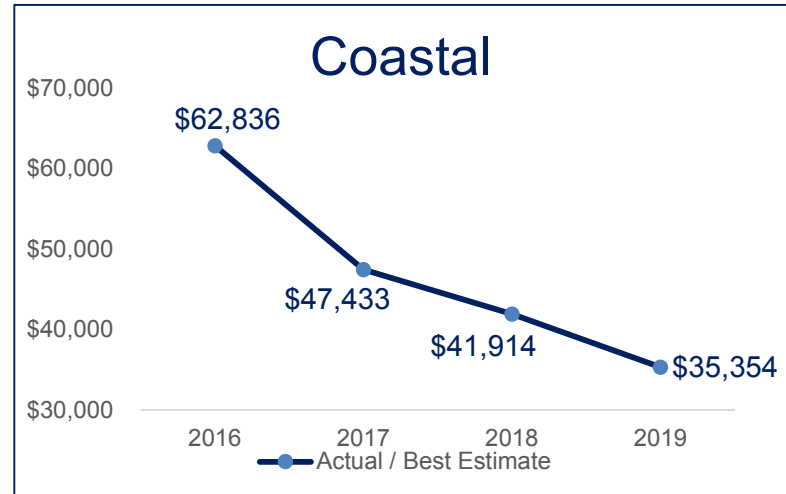
2018: Upper (110,124); Lower (107,408)
2019: Upper (106,699); Lower (92,147)



2018: Upper (63,838); Lower (62,134)
2019: Upper (66,585); Lower (57,574)

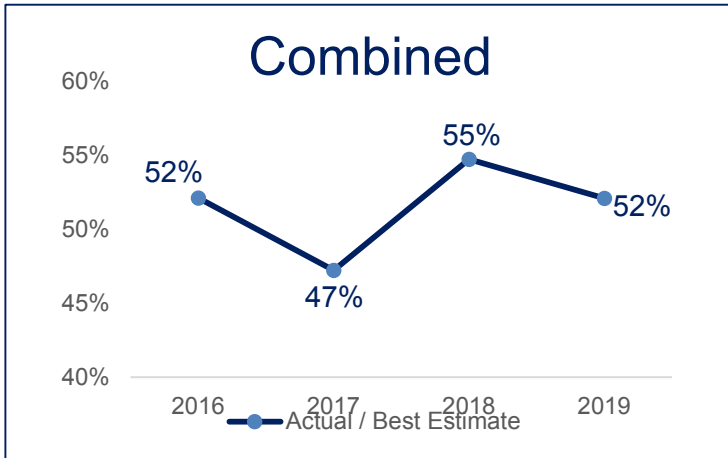


2018: Upper (3,953); Lower (3,880)
2019: Upper (3,016); Lower (2,635)

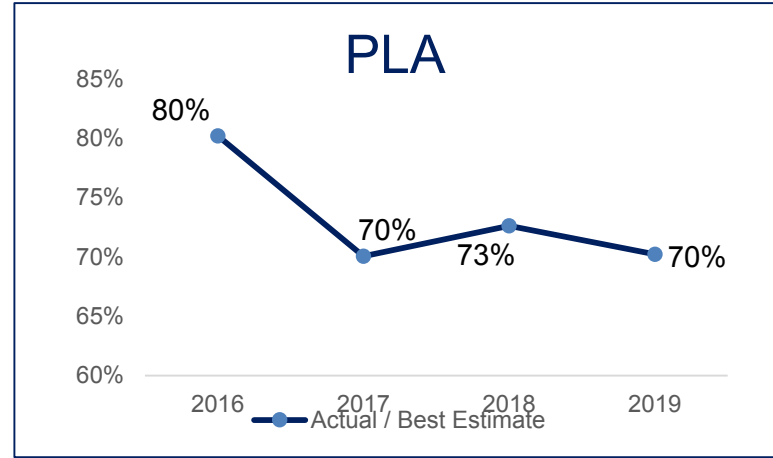


2018: Upper (42,447); Lower (41,231)
2019: Upper (37,505); Lower (31,860)

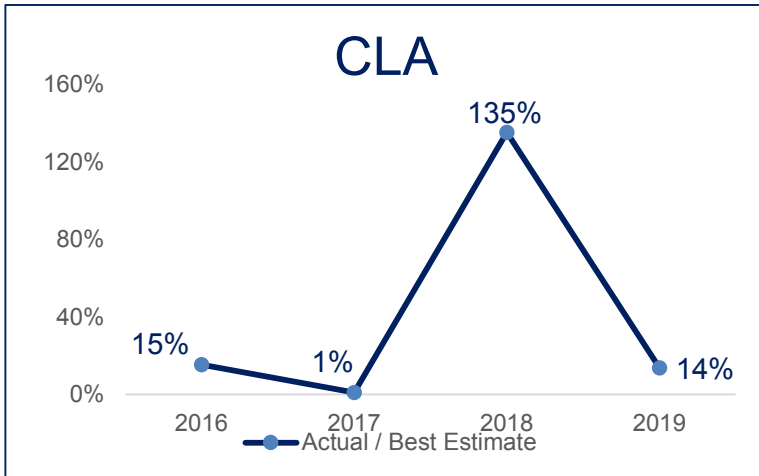
Loss / LAE Ratio – Recent and Projected Trends (excludes catastrophe)



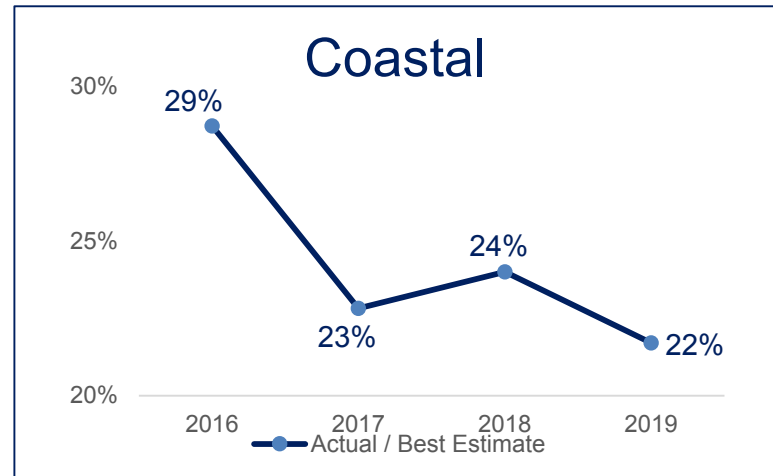
2018: Upper (65%); Lower (46%)
2019: Upper (71%); Lower (37%)



2018: Upper (84%); Lower (62%)
2019: Upper (93%); Lower (52%)



2018: Upper (162%); Lower (112%)
2019: Upper (28%); Lower (5%)



2018: Upper (33%); Lower (17%)
2019: Upper (35%); Lower (12%)

Hurricane Update

Hurricane Irma

68,997 Claims Received (*as of December 3, 2018*)

\$1.810 billion combined losses and LAE incurred (gross)

\$1.150 billion combined losses and LAE incurred (net)

Hurricane Michael

3,261 Claims Received (*as of December 3, 2018*)

4,000 Forecasted Claims

\$142 million projected losses and LAE (modeled results)

Net Income (Loss) – Recent and Projected Trends

(\$ millions) – excluding Catastrophes



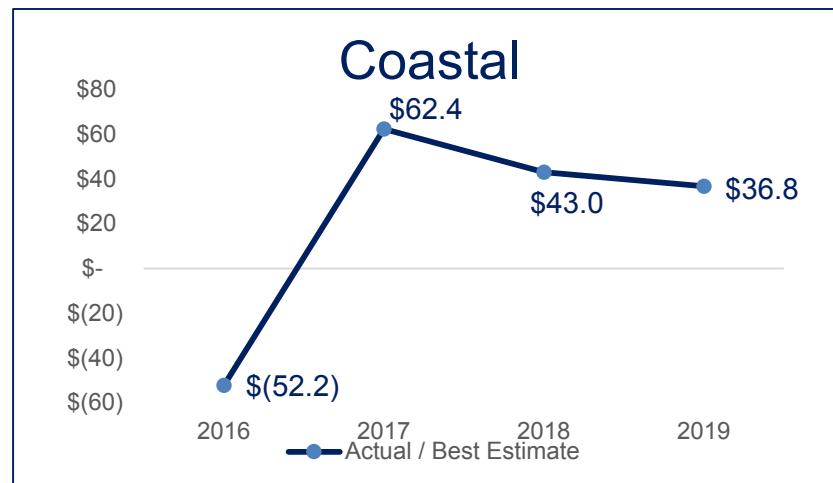
2018: Upper (100.2); Lower (-66.8)
 2019: Upper (183.9); Lower (-97.9)



2018: Upper (19.9); Lower (-89.2)
 2019: Upper (82.9); Lower (-133.2)

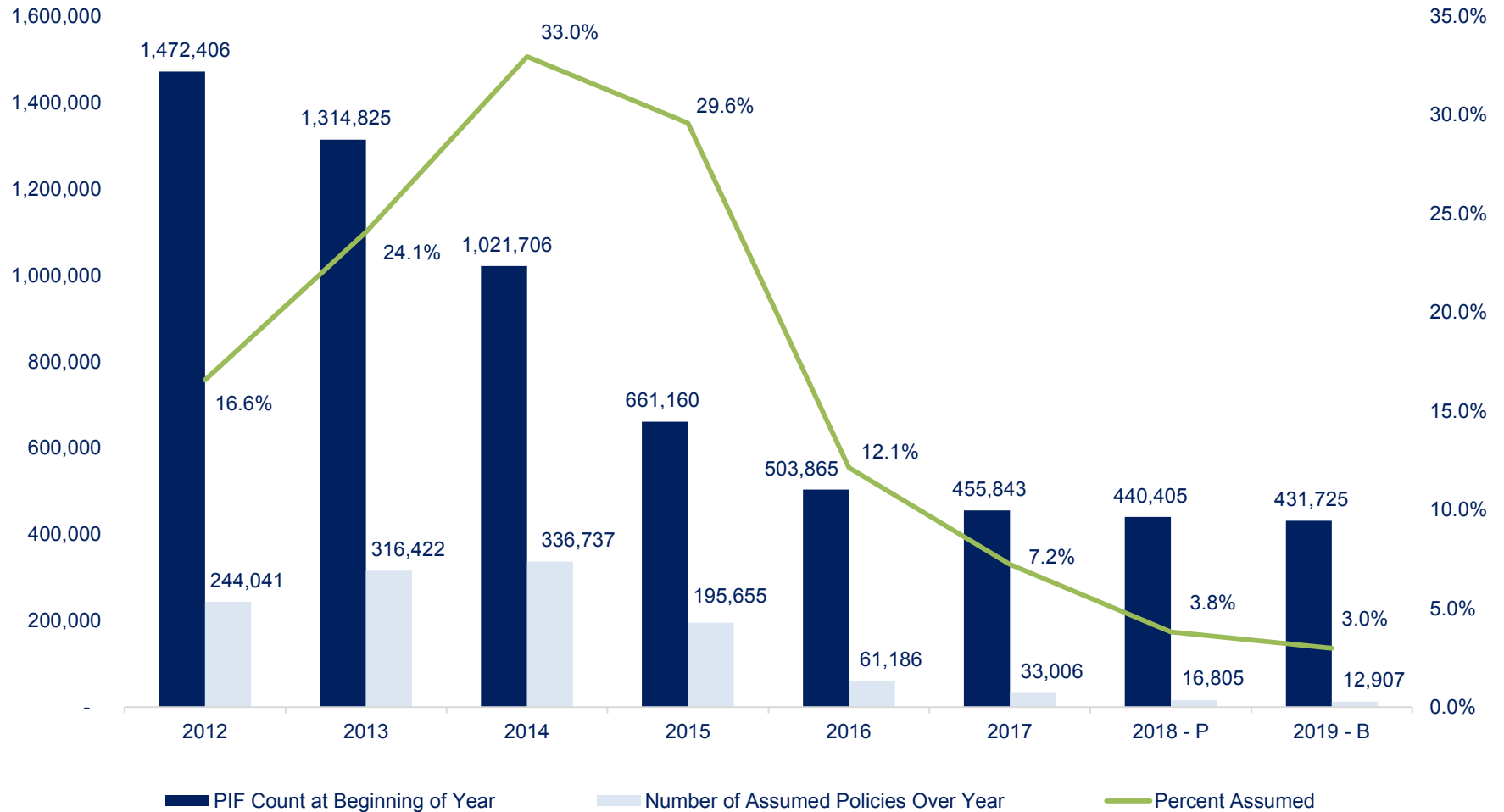


2018: Upper (17.2); Lower (8.2)
 2019: Upper (38.6); Lower (35.3)



2018: Upper (67.0); Lower (12.1)
 2019: Upper (63.8); Lower (-4.9)

Trends in Depopulation



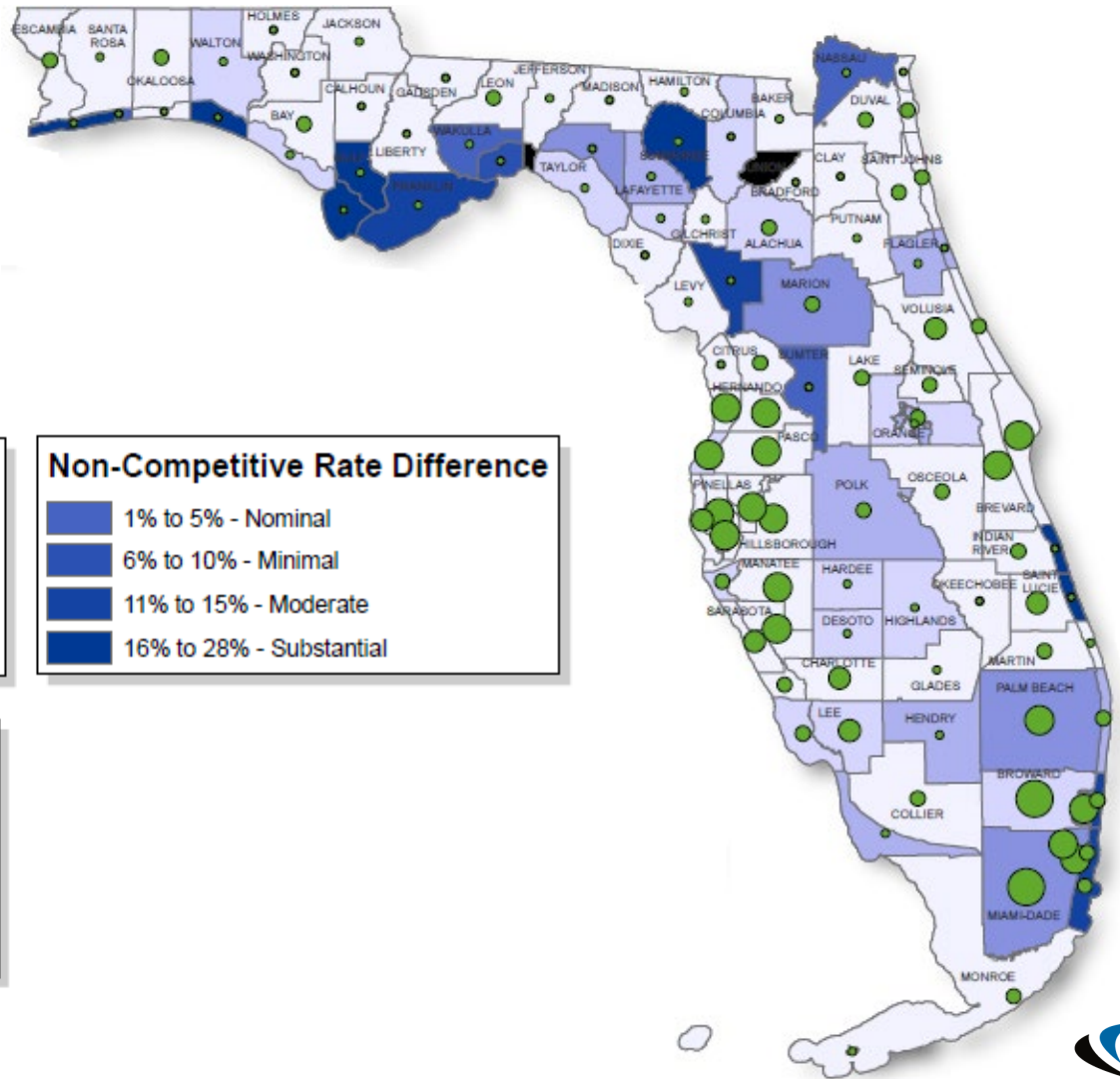
Rate Differential – Citizens and Private Market



Homeowners Rate Comparison

- Competitive rate comparison performed with 38 insurance companies
- **75%** of Citizens' HO-3 policies' premium is less than the average competitor's rate

Statewide Homeowners Rate Comparison



Competitive Rate Difference

- 46% to -16% - Substantial
- 15% to -10% - Moderate
- 9% to -5% - Minimal
- 4% to 0% - Nominal

Non-Competitive Rate Difference

- 1% to 5% - Nominal
- 6% to 10% - Minimal
- 11% to 15% - Moderate
- 16% to 28% - Substantial

Citizens' HO-3 Policies In-Force

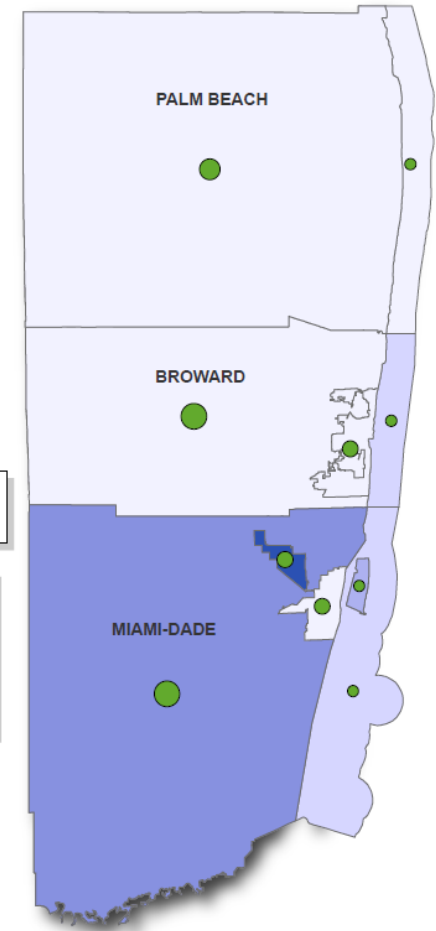
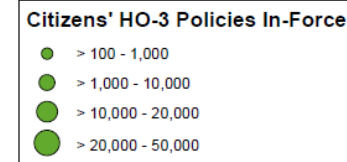
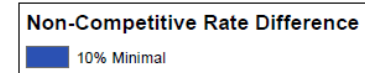
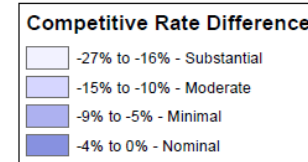
- ≤ 100
- > 100 - 500
- > 500 - 1,000
- > 1,000 - 20,000
- > 20,000 - 50,000

Tri-County Homeowners Rate Comparison

- Since the tri-county area homeowners insurance market is not as strong as the rest of the state, only companies committed to tri-county were used to effectively evaluate the comparison
- Citizens' average premium is **10%** less than the average competitors' premium in the tri-county area

Tri-County Homeowners Rate Comparison

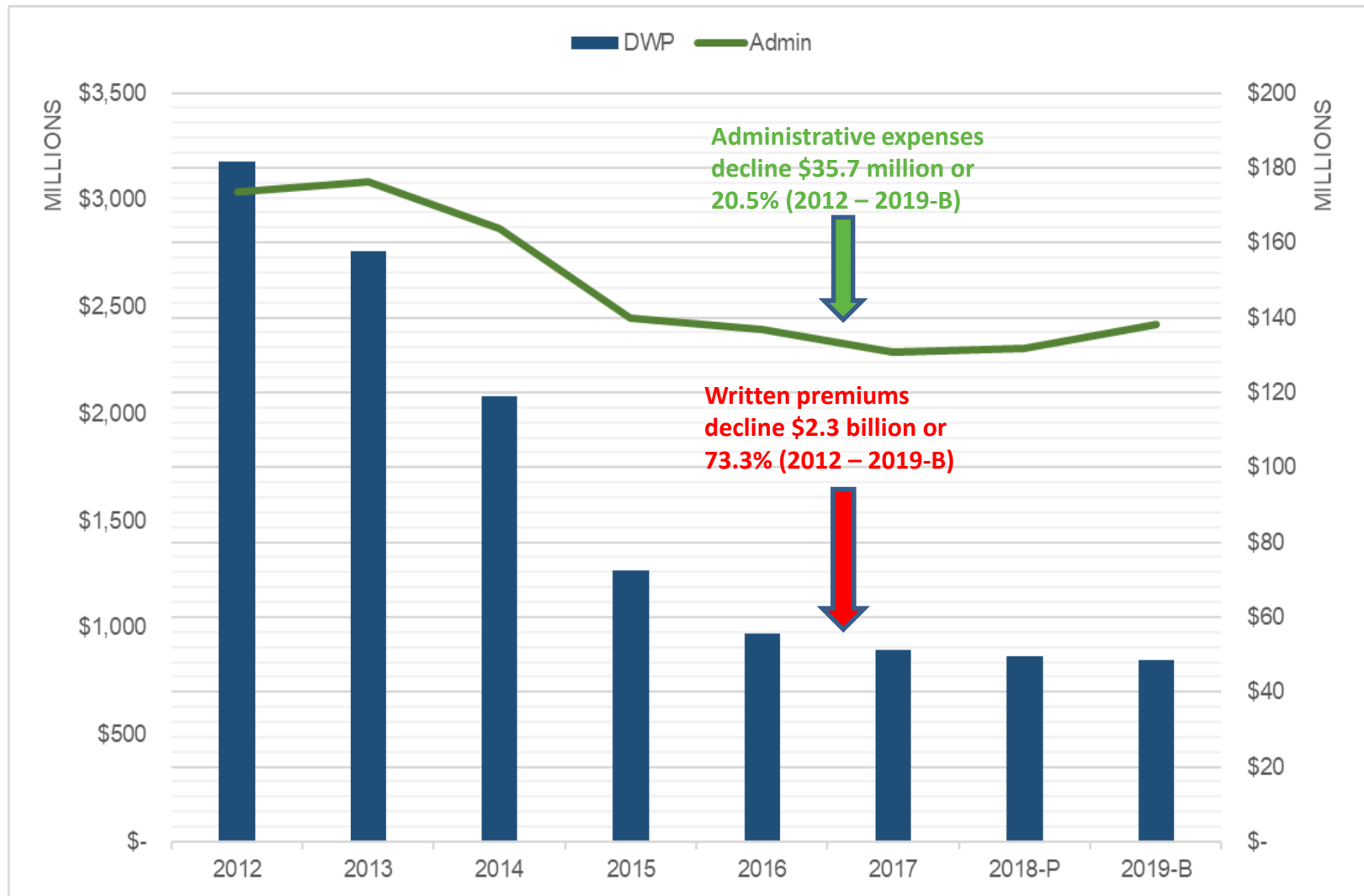
County	Broward	Miami-Dade	Palm Beach	South East
CPIC	\$ 3,808	\$ 4,841	\$ 3,581	\$ 4,372
Company 1	3,530	3,898	4,269	3,827
Company 2	3,883	4,202	3,468	4,017
Company 3	6,702	7,085	4,434	6,655
Company 4	4,057	4,488	5,355	4,456
Company 5	6,295	6,722	6,507	6,564
Company 6	4,031	4,949	3,544	4,499
Company 7	3,706	4,290	2,855	3,940
Competitor Average	\$ 4,600	\$ 5,090	\$ 4,348	\$ 4,851
Difference	-17%	-5%	-18%	-10%



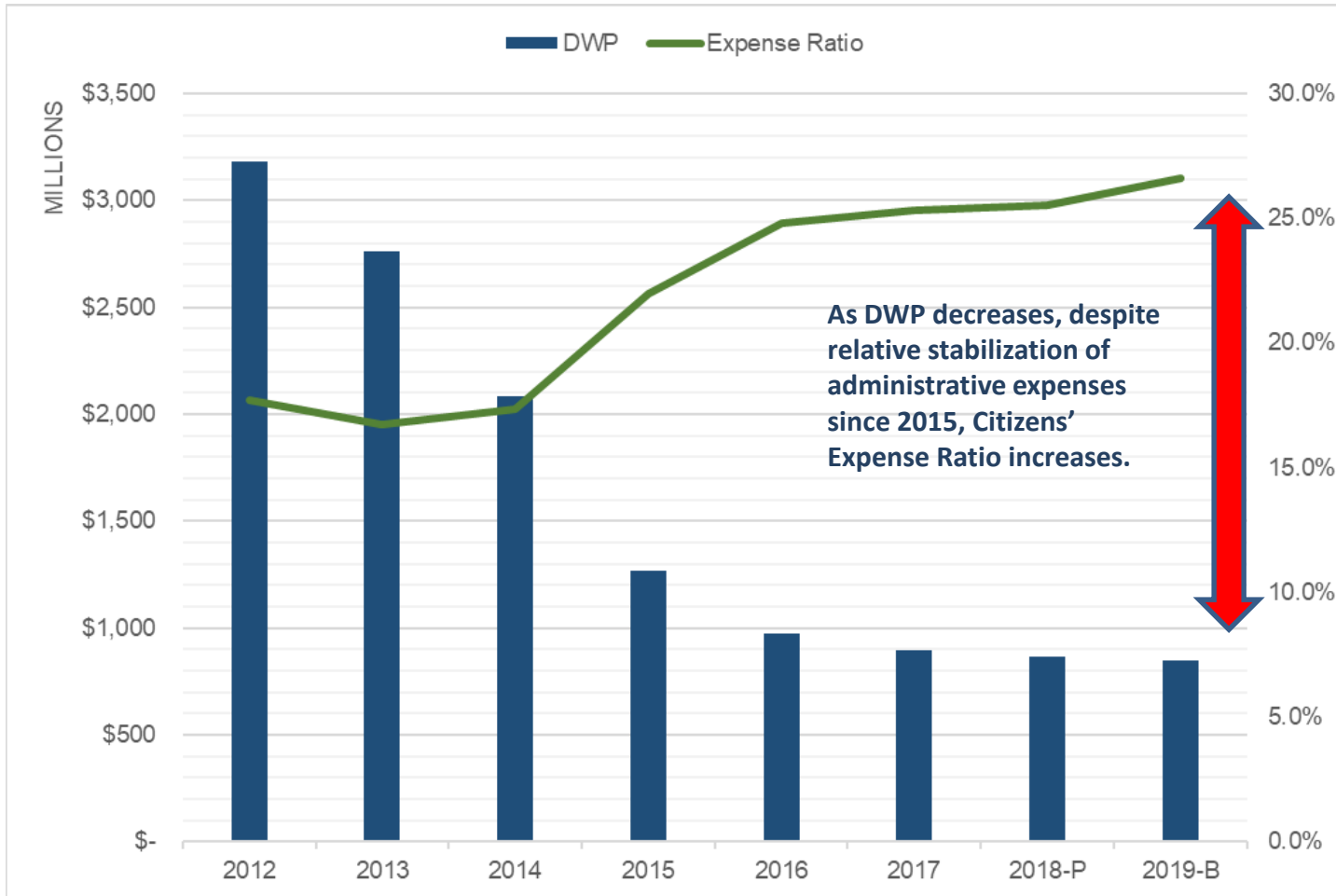
Administrative Expenses Given Revenue Reduction



Annual Trends – Administrative Expenses



Annual Trends – Expense Ratio



	YOY Chg	Exp Ratio
2012	2.9%	17.7%
2013	-1.0%	16.7%
2014	0.6%	17.3%
2015	4.7%	22.0%
2016	2.8%	24.8%
2017	0.5%	25.3%
2018-P	0.2%	25.5%
2019-B	1.1%	26.6%

Employee Costs – FTEs and Total Compensation

Full-Time Equivalents	2018 Budget	2018 Projection	2019 Budget	Chg to 2018-B	Chg to 2018-P
Enterprise Resources	35	34	35	-	1
Human Resources	56	52	51	(5)	(1)
Legal Services and Purchasing	68	66	71	3	5
Communications and Leg. Affairs	33	32	32	(1)	-
Financial Services	69	70	71	2	1
Claims	293	278	289	(4)	11
Underwriting & Agent Services	309	277	277	(32)	-
Systems & Operations	298	297	297	(1)	-
Total CPIC	1,161	1,106	1,123	(39)	17

Total Compensation (\$ in millions)	2018 Budget	2018 Projection	2019 Budget	Chg to 2018-B	Chg to 2018-P
Enterprise Resources	\$ 6.98	\$ 6.76	\$ 7.18	2.8%	6.2%
Human Resources	6.56	6.27	6.30	-4.0%	0.4%
Legal Services and Purchasing	7.46	6.99	8.23	10.4%	17.8%
Communications and Leg. Affairs	2.98	2.90	2.98	0.1%	2.6%
Financial Services	7.44	7.62	8.17	9.8%	7.2%
Claims	30.41	28.47	30.57	0.6%	7.4%
Underwriting & Agent Services	27.23	25.39	25.18	-7.5%	-0.8%
Systems & Operations	34.35	33.78	35.22	2.5%	4.2%
Total CPIC	\$ 123.41	\$ 118.19	\$ 123.84	0.3%	4.8%
% Total Admin Expense	87.9%	89.6%	89.7%	2.0%	0.1%

Total Compensation includes employee salaries, benefits and payroll tax obligations.

Solutions



Solutions

- One-way attorney fee revisions
- Alternative dispute resolution options
- Requirements prior to initiating litigation
- Policy language changes / Managed-Repair Program
- Licensing of all mitigation contractors
- Referral fee restrictions
- Fraud and abuse networks