

PRESIDENT’S MESSAGE: JULY 2022

Good morning, Mr. Chairman and Governors. I will briefly update you on the overall Florida property marketplace then discuss the actions and strategies we are taking to efficiently respond to extraordinary growth.

Over the past several weeks the media, in virtually every major area of the State, have been reporting on company insolvencies, companies substantially reducing and/or limiting exposure and on the continued exit of major Florida private insurers. The reason is clear – it is the ongoing financial problems for most private insurance companies. The first quarter-2022, Negative Net Income was \$154 million. This was preceded by Full Year Negative Net Income of \$1.2 billion in 2021 and \$1.8 billion in 2020.

These results must be considered in relationship to the combined surplus of the Florida Domestic and Foreign Insurers that S&P reported at \$3.97 billion year end 2021. These numbers indicate that the market is losing 25%-35% of its surplus each year. Given these companies write \$14.8 billion in premium of the \$18.8 billion Direct Written Premium in the marketplace, you can understand the gravity and impact these companies have on the Florida insurance market.

These results are unsustainable. To maintain the financial ratios required companies have limited options:

Increase capital

Increase rates

Reduce exposure

Rate increases have ranged from 10% to 100% and more and Capital is hard to come by given the current operating environment which leaves the remaining option - exposure reduction.

Exhibit #1 is a list of the publicly announced actions taken by companies to bring their FSR (Financial Responsibility Ratios) results to the level required by Demotech and AM Best.

Carrier Report: 2021-2022

Insolvencies			New Business Closed (Statewide/Partial)		Tightened Rules on Age of Roof	
Carrier	Date	# Policies	Carrier		Carrier	
Florida Specialty	11/1/2019	90,059	Bankers		American Integrity	
Gulfstream	8/27/2021	32,324	Centauri		Cypress	
Avatar	4/13/2022	36,569	Florida Farm Bureau		Frontline	
Lighthouse	5/28/2022	27,244	Heritage		Safepoint	
FedNat	6/29/2022	65,442	Monarch			
Southern Fidelity	7/15/2022	78,000	Progressive Home			
			Universal Property and Casualty			

Information available as of 07/06/2022

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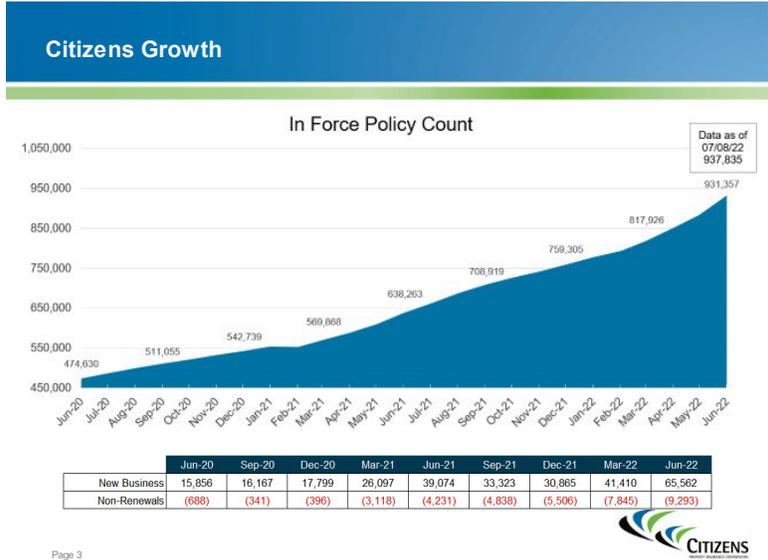


You can see from this list that, beginning with the Florida Specialty insolvency in November 2019, there have been seven companies that have gone into receivership and in several cases where the Office of Insurance Regulation (OIR) has filed consent orders allowing for substantial number of mid-term cancellations. In addition, more and more of those companies have either shut down for new business completely or restructured new business by geographic location or risk characteristics. An example is the limitation on the acceptability of any homes over 10 years of age. For the most part, companies have reached their available capacity that would still

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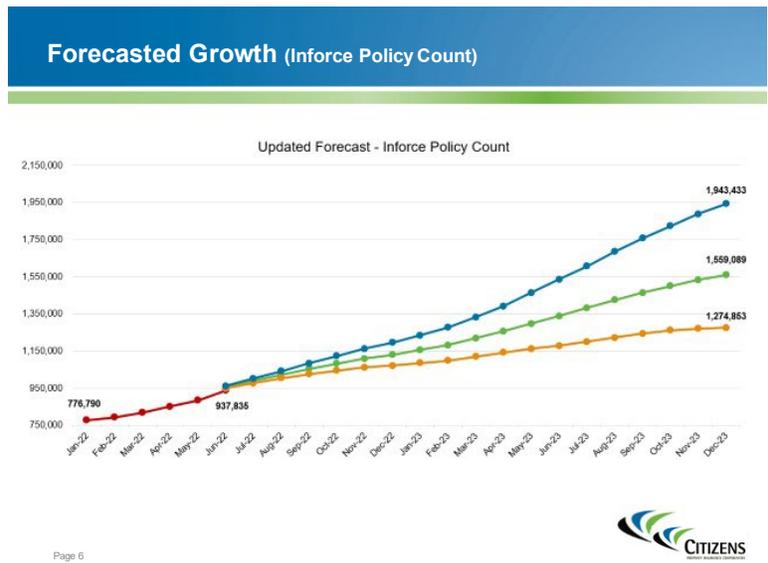
meet rating agency requirements. As Jennifer Montero, CFO, will discuss the reinsurance market and how that is impacting coverage availability, I will leave the reinsurance details to Jennifer. My only comment is that private Florida companies are extremely dependent on reinsurance availability and pricing. The average domestic company reserves 35-50% of every premium dollar for reinsurance.

The result of these market conditions on Citizens is shown on Exhibit #2.



We have grown from a low of 414,000 customers and \$108 billion in exposure (2019) to \$322 billion and 937,835 PIF. By year end 2022 we will exceed 1.2 billion customers and \$b00 Billion in exposure. That is about a 300% increase in company size in less than three years.

To assure that Citizens can respond to virtually any market condition we launched a scenario planning exercise. This initiative, led by COO Kelly Booten and her team, analyzes forecasted growth, evaluates the impact of various growth scenarios, and includes financial projections as indicated in Exhibit 3.



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Next, let's review the process, vendor, and system impacts along with mitigation strategies. The strategic complexity goes beyond adding additional workforce needs. Once the scenario planning is applied, individual business units implement strategies to fully respond to these growth scenarios focusing on efficiencies, technology, and process development.

Process Impacts

Continued increase in PIF is anticipated to result in increases in operational and transactional activities in nearly all business areas:

- Check processing, invoice processing, solicitations/procurements, policy management, agency management, claims handling, claims litigation, and system and technology management
- Call volumes impacting CCC, UW, Claims, QA
- Larger CAT response and PIF related special projects
- Ongoing and future hiring and training activities

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Process Examples include:

- Even though Underwriting technology enhancements have resulted in automated underwriting increase from 17% to 32%, this benefit is offset by new business in excess of 60%.
- 40% of inspections are now handled without of manual intervention.

Vendor Impacts

Business owners identified impacts to vendors we rely on for both services and products.

- BPO Vendors for inbound Call Center calls
- BPO Vendors for Underwriting services
- Independent Adjusters
- Property Inspection services
- Outside counsel firms
- Increase in system users requiring additional usage licenses
- Increase in transactions through SaaS solution impacting costs

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Vendor Examples include:

- Self-service enhancements to our interactive voice system have reduced call volume by 100,000 calls. However, due to growth, the call center is still averaging in excess of 101,000 calls per month - 116,000 in June.

Vendor Examples Continued:

- The growth is impacting BPO contracts as we continue to balance staff and outsourcing resources, while outsourcing is more expensive it provides more flexibility. *What goes up will come down.*

System Impacts

Key impacts for internal and external systems:

- Capacity/Storage
- Latency/Bandwidth
- Contractual/Purchasing for licensing
- Maximum concurrent users
- Infrastructure scalability (including need to accommodate potential increase of test environments)
- Dependent integrations, related capacities and performance
- Systems stability
- Prioritizing technical mitigations/Code refactoring
- Monitoring/Metrics/Dashboarding

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Examples includes:

- In 2019 Clearinghouse submissions were 247,000. In 2020 those submissions rose to 530,000, a 115% increase. In 2021 they rose to 1,049,000 quotations, a 98% increase. Through second quarter alone of 2022 there have already been 809,000 unique submissions and we're on track for 1.6 million this year. Aditya Gavvala, Vice President of IT Services and Delivery, and his team are aggressively working to expand bandwidth and capacity to meet these demands.

Mitigation Strategies

Business Areas are implementing mitigation strategies to respond to the increase in PIF.

- Increased Automated Underwriting and usage of Predictive Analytics
- Increase policyholder and mortgagee self-service opportunities
- System changes and agent education to reduce call volumes
- Claims handling model changes to reduce dependence on Independent Adjusters
- Contracts in place with multiple vendors to mitigate reliance on a small group during high demand times
- Continue to negotiate and execute contracts that are scalable
- Essential functions implementing overtime schedules to manage increased volumes
- Increasing infrastructure such as CPU memory servers to meet additional demands
- Enhanced system performance metrics; code refactoring to optimize performance
- Increase use of Robotics Process Automation (RPA) to automate manual tasks
- System enhancements such as inspection automation, usage of third party data, etc
- Additional Staff (Employees / Contractors / BPO Equivalents)

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The next few exhibits simply show how we are managing expenses. The first financial exhibit is a comparison of Citizens expense ratio over the past decade compared to the private market.

Cost Control

- Prioritize high economic value -add initiatives
- Citizens-specific, immersive negotiation training for solicitation negotiation teams
- More robust economic impact and business case development
- Of 14 finalized solicitation and procurement -related negotiations during 2021 and the first quarter of 2022 there has been at least \$6.321M in cost avoidance.
- During the same time period, an estimated cost avoidance of \$7.6M was realized due to contract life cycle management practices.

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Comparison of Expense Ratio Results

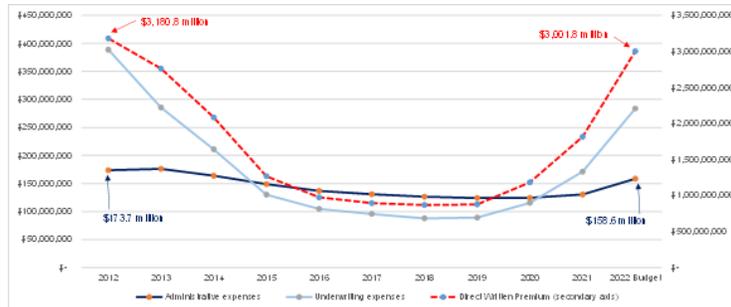


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Growth Affects Variable Expenses



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In 2022 we budgeted for a 14.76% expense ratio compared to an estimate of the private market of 24-25%. The next slide demonstrates how the administrative expense compares with premium versus the Underwriting Expense component that varies directly with premium. The solution is also to improve the overall operating results. As an example, we have seen a substantial improvement in litigation rate, frequency, and severity of losses as indicated by the exhibit below:



Claims & Litigation Growth Pattern

Close Year	Non-Catastrophe Water				Non-Catastrophe Excluding Water*			
	Frequency	Litigation %	Loss Severity		Frequency	Litigation %	Loss Severity	
			Litigated	Non-Litigated			Litigated	Non-Litigated
2015	5.9%	45.3%	\$25,994	\$8,830	2.1%	21.8%	\$30,791	\$9,058
2016	5.7%	51.5%	\$29,214	\$5,311	1.7%	26.0%	\$43,318	\$9,031
2017	4.5%	36.7%	\$27,653	\$6,263	1.5%	12.2%	\$43,249	\$9,044
2018	5.1%	48.4%	\$29,062	\$7,722	1.3%	18.0%	\$48,073	\$8,968
2019	6.1%	36.1%	\$31,529	\$10,533	1.5%	11.9%	\$55,724	\$12,094
2020	5.3%	27.3%	\$34,776	\$8,537	1.5%	8.2%	\$61,723	\$11,415
2021	4.4%	15.5%	\$35,160	\$7,392	1.5%	4.2%	\$39,621	\$11,805

Frequency = # of claims closed divided by total earned house years
 % Litigation = # of litigated claims divided by # of total closed claims in a period
 Litigated Severity = Severity for claims with litigation
 Non-Litigated Severity = Severity for claims with non -litigation

*Sinkhole claims are excluded

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We are focused on managing the growth patterns of the company and eliminate any potential assessment on Floridians, while we fully meet the statutory vision and mission of the organization.

President's Report Board of Governors Meeting

July 13, 2022



Carrier Report: 2021-2022

Insolvencies and Restructuring

Carrier	Date	# Policies
Florida Specialty	11/1/2019	90,059
Gulfstream	8/27/2021	32,324
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New Business Closed (Statewide/Partial)

Carrier
Bankers
Centauri
Florida Farm Bureau
Heritage
Monarch
Progressive Home
Universal Property and Casualty

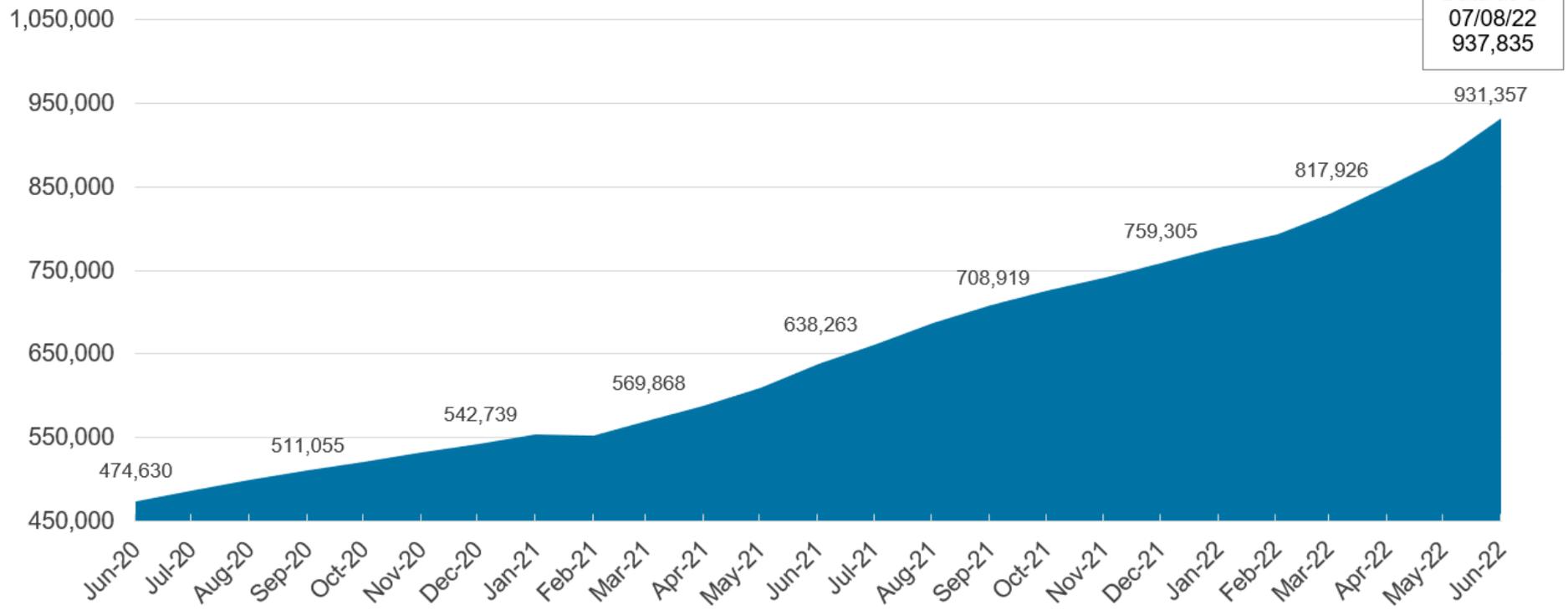
Examples of Tightened Rules on Age of Roof

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American Integrity
Cypress
Frontline
Safepoint

Information available as of 07/06/2022

Citizens Growth

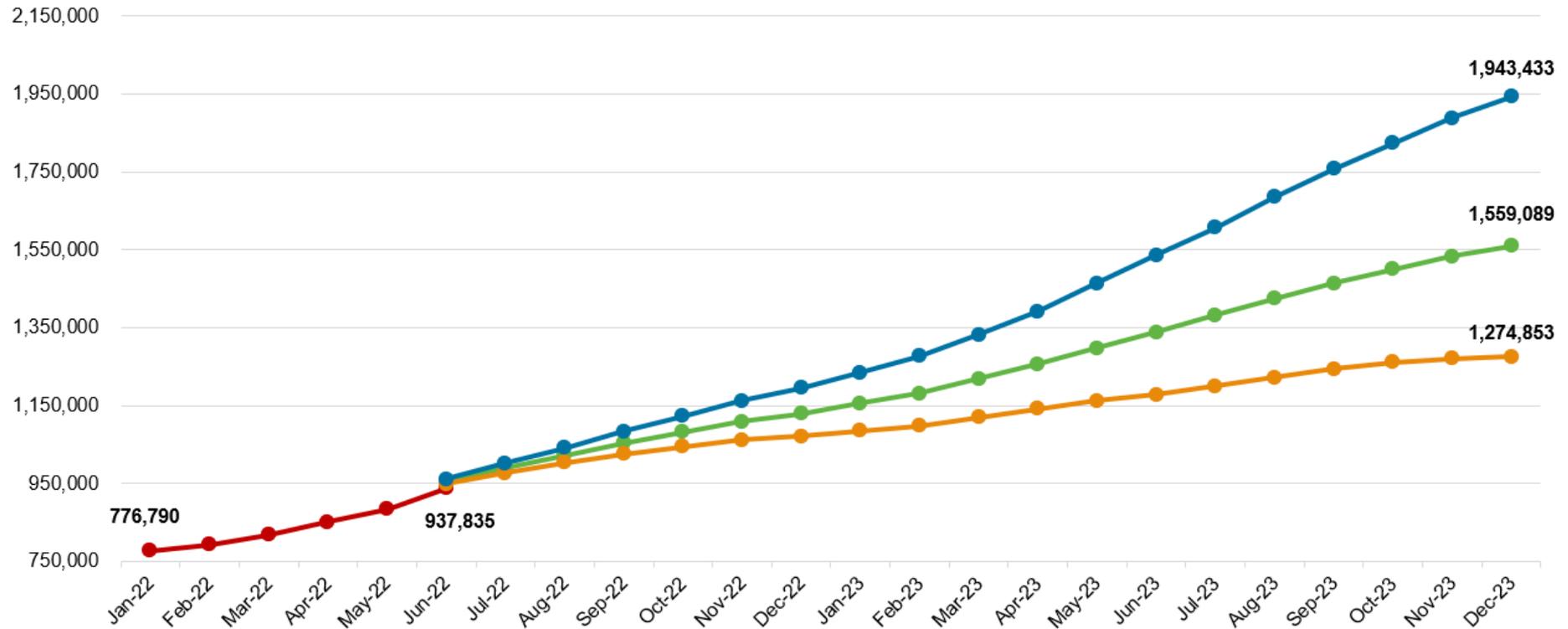
In Force Policy Count



	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
New Business	15,856	16,167	17,799	26,097	39,074	33,323	30,865	41,410	65,562
Non-Renewals	(688)	(341)	(396)	(3,118)	(4,231)	(4,838)	(5,506)	(7,845)	(9,293)

Forecasted Growth (Inforce Policy Count)

Updated Forecast - Inforce Policy Count



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Mitigation Strategies

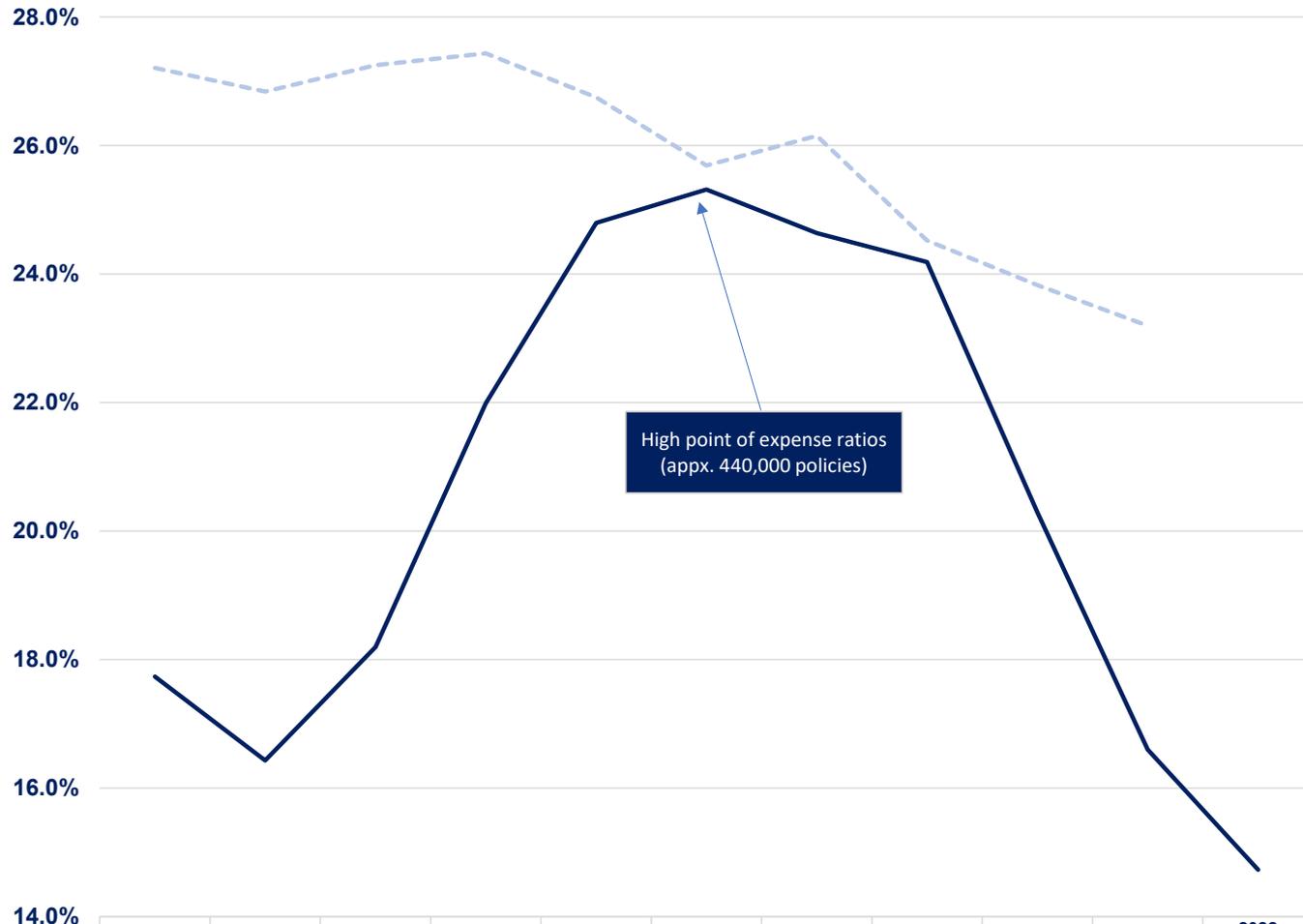
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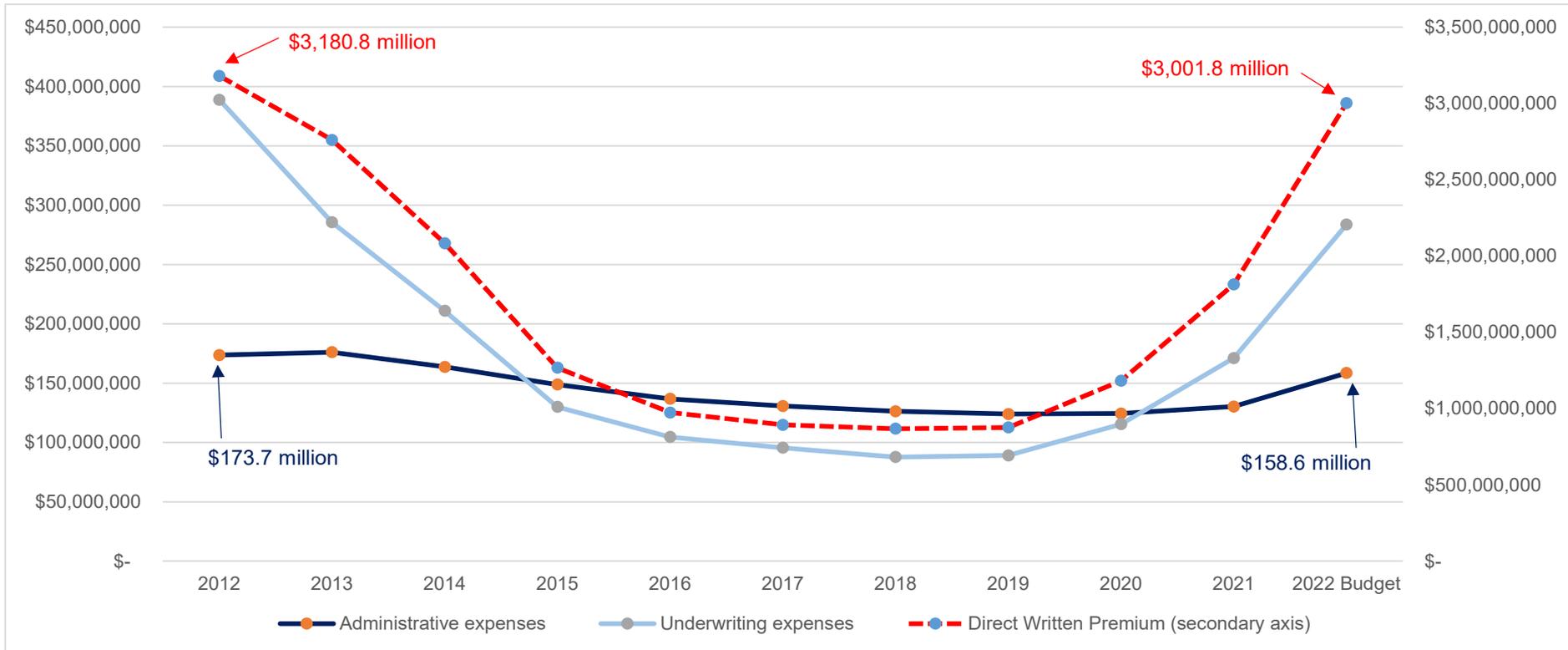
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Comparison of Expense Ratio Results



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 Budget
Florida carriers (mid-point)	27.2%	26.8%	27.2%	27.4%	26.7%	25.7%	26.2%	24.5%	23.8%	23.2%	
Citizens	17.7%	16.4%	18.2%	22.0%	24.8%	25.3%	24.6%	24.2%	20.3%	16.6%	14.7%

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