

OIR Public Rate Hearing on Recommended Rates

Tim Cerio, President/CEO and Executive Director

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Market Conditions and Impact to Citizens

Excess litigation has decimated the capacity of Florida's private insurance market.

This has caused Citizens' policy count to double in two years, from 610K to over 1.2M.

Additional policies increased losses from hurricanes, resulting in a 33% decrease to Citizens' reserves and a likely assessment should a moderately size storm hit this season.

Florida's statutory glidepath prevented Citizens from increasing rates as fast as costs, creating large rate deficiencies and premium far less than the private market.

Senate Bill 2-A [(n)1.]:

(n)1. Rates for coverage provided by the corporation MUST be actuarially sound pursuant to s. 627.062 and not competitive with approved rates charged in the admitted voluntary market so that the corporation functions as a residual market mechanism to provide insurance only when insurance cannot be procured in the voluntary market, except as otherwise provided in this paragraph [a reference to the glidepath].

Market Conditions and Impact to Citizens

For the economic wellbeing of the people of Florida, as well as the good of Florida's insurance market, Citizens must:

- a. Return to truly being the state's insurer of last resort
- b. Charge actuarially sound rates
- c. Not be competitive with the private market

The larger Citizens grows, the greater its exposure; and the greater its exposure, the greater the potential for implementation of emergency assessments.

Emergency assessments would place a financial burden on the taxpayers of Florida, many of whom are not even Citizens' customers.

Citizens must work to depopulate in order to help minimize the risk of emergency assessments on the people of Florida.

The greatest driver of Citizens' policy depopulation is a healthy and robust private market. And the greatest driver of growth in the number of Citizens' policies is a weak market.

Market Conditions and Impact to Citizens

Being able to charge actuarially sound rates is critical to market recovery and promoting depopulation.

Citizens' rates are artificially low because of the glidepath, and that throws off the private market and distorts competition.

A residual insurer should never compete with the private market. That is fundamentally unfair to policyholders in the private market.

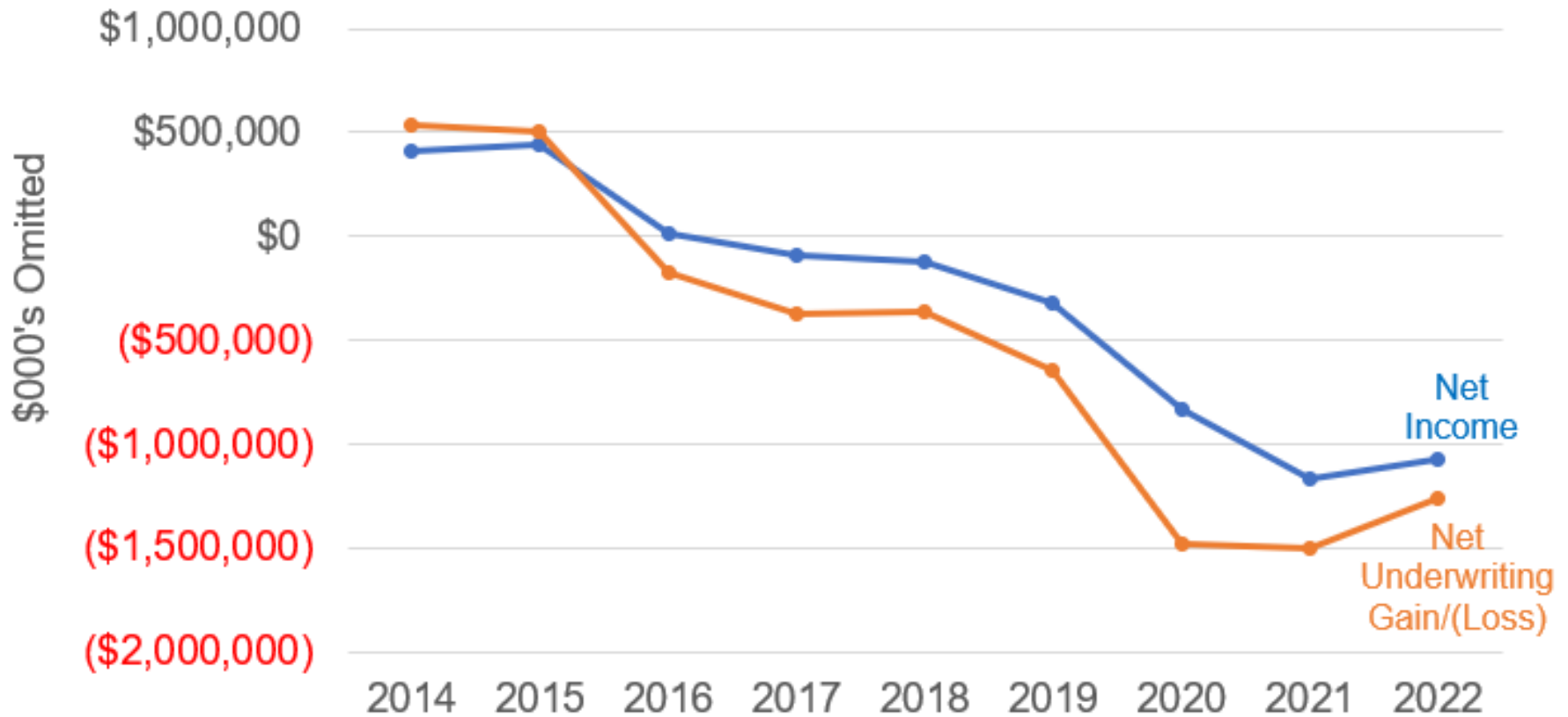
Even if the OIR approves Citizens' requested rate increase for homeowners, which is on average around 13.3%, our policyholders will still be paying on average about 44% below the rest of the Florida market.

SB 2-A, and other legislative reforms will remedy underlying causes of market problems, but not immediately. Governor Ron DeSantis has said the insurance market will improve at some point but is cautioning those changes wouldn't "happen overnight." *

Due to this residual rate inadequacy, and competitive position within the private market, Citizens is requesting the maximum rate increase allowed under the glidepath.

* Gancarski, A. G. (2023, May 9). *Gov. DeSantis says insurance market improvements won't 'happen overnight.'* Florida Politics. <https://floridapolitics.com/archives/610906-ron-desantis-insurance/>

Financial Trends for Selected Florida Insurers (\$'000)



Source: S&P Global Market Intelligence, FL domestic and foreign companies with large homeowners FL business

6 residential P&C insurers went insolvent last year.

Companies Continue to Halt Business in Florida

Restricting new business and cancelling/non-renewing business

Companies continue to file stronger restrictive underwriting guidelines such as:

- Limits on new business/renewals based on location
- Age of home
- Age of roof
- Required minimum Coverage A limit
- Limited water loss coverage

Higher and more frequent rate increases

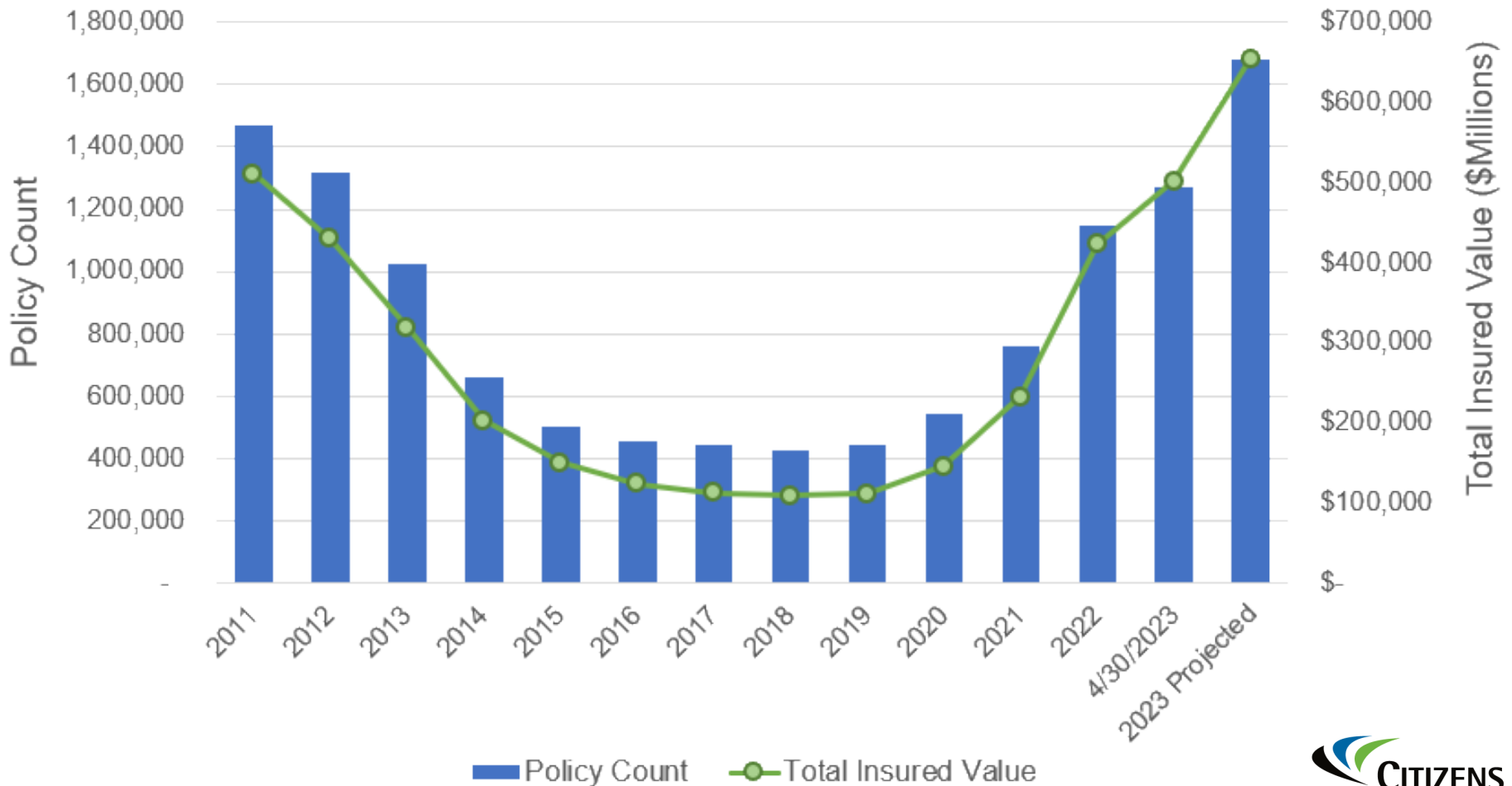
Clearinghouse results continue to significantly decline:

In 2017, companies quoted 36% of new business declined to only 10% in 2022

In 2017, companies quoted 9% of renewal business declined to only 0.3% in 2022

Policies in Force and Total Insured Value

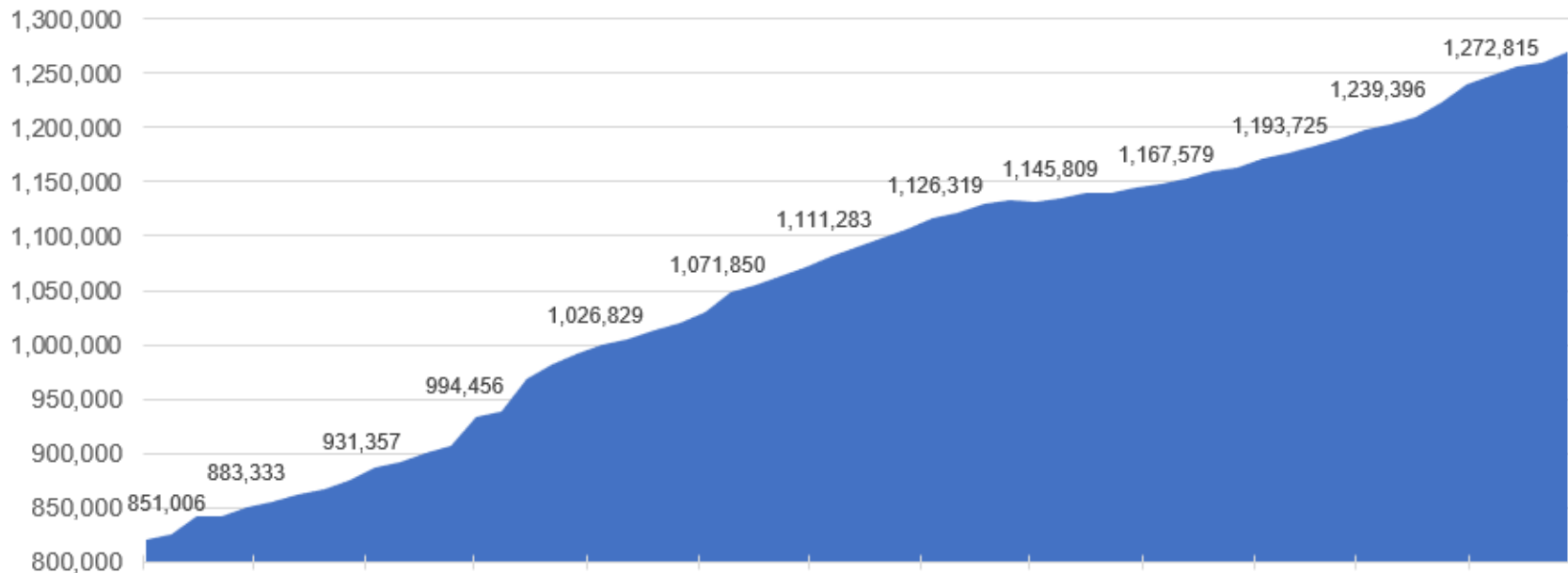
Budgeted policy count at year end is 1.7M with \$654B in total insured value



Continued Policy Count Growth

- In 2020, the latest 12-month new business average was 15K policies per month
- In 2021, the latest 12-month new business average was 32K policies per month
- In 2022, the latest 12-month new business average was 49K policies per month

Monthly In Force Policy Count

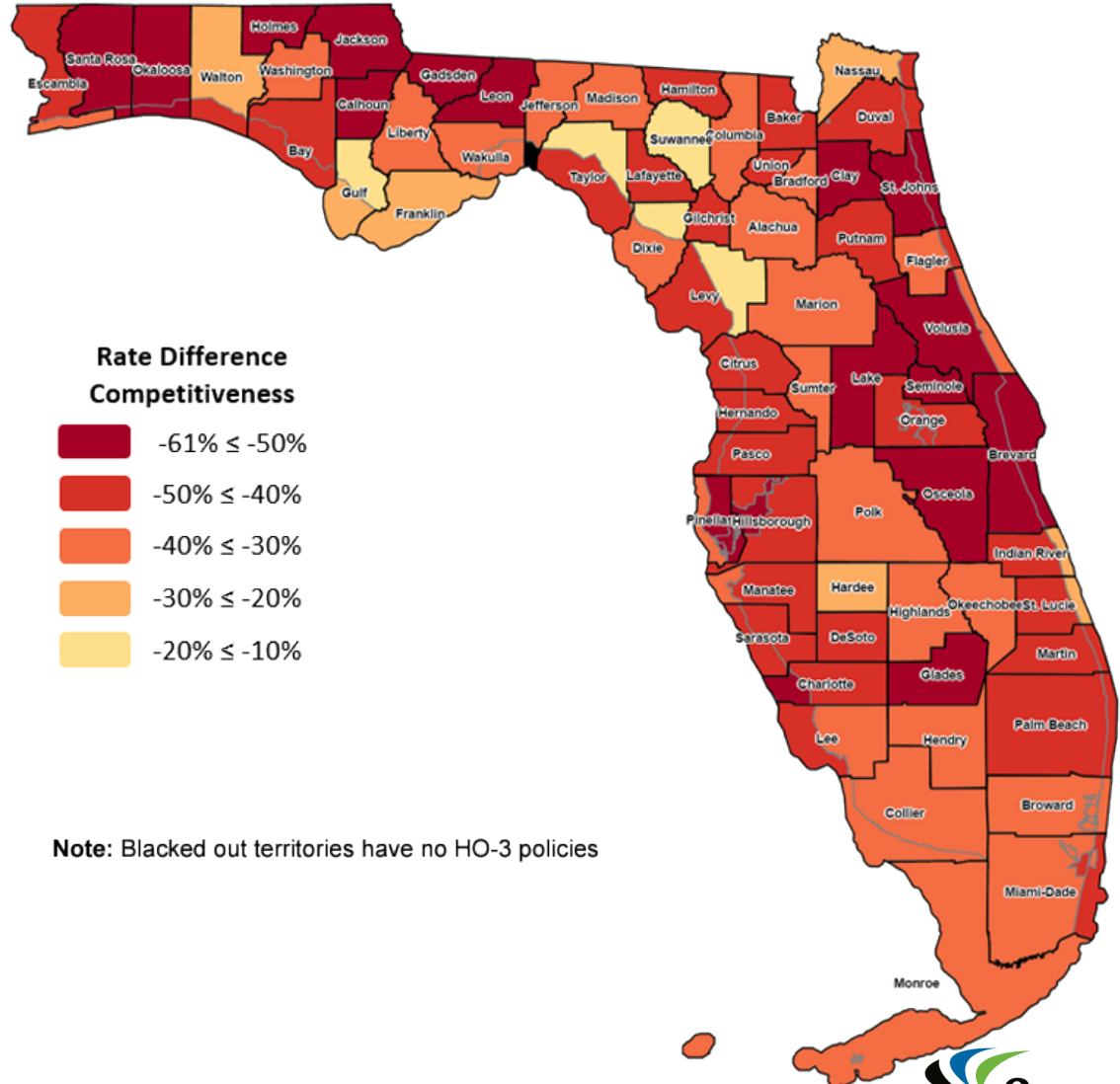


	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
New Business	53,820	49,671	65,562	76,241	49,896	56,689	43,378	35,283	39,642	35,097	38,190	54,479	47,858
Non-Renewals	(7,892)	(8,110)	(9,293)	(6,825)	(6,827)	(5,061)	(429)	(5,989)	(5,879)	(5,371)	(4,910)	(2,429)	(3,018)

Citizens' HO-3 Competitive Position

Citizens' average premium for HO-3 policies is **44%** below 9 competitors that make up 24% of the market. This study used approved rates effective 6/1/22 and Citizens' 7/31/22 policy data.

The industry continues the 3-year trend of filing large rate increases. This further exacerbates the gap between Citizens' rates and the industry.



FL Homeowners Insurance Approved Rate Filings

	Approved Rate Change			Cumulative Rate Change
	2020	2021	2022	2020 - 2022
Industry FL Homeowner Insurers	14%	10%	11%	39%
Citizens	2%	6%	6%	15%

Industry FL Homeowner Insurers make up 42% of the market based on 2022 direct written premium.

Surplus Depletion Scenario: 1.5M Policies

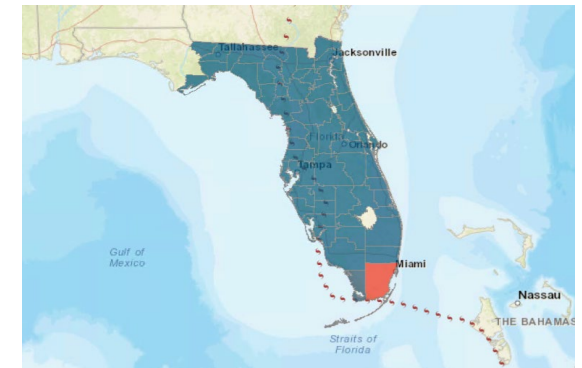
(\$ in millions)

	Coastal	CLA	PLA	Total
Policy Count	274,014	2,781	1,225,260	1,502,055
Surplus	\$2,432	\$2,063	\$406	\$4,901
Additional Claims Paying Resources	\$5,037	\$304	\$6,816	\$12,156

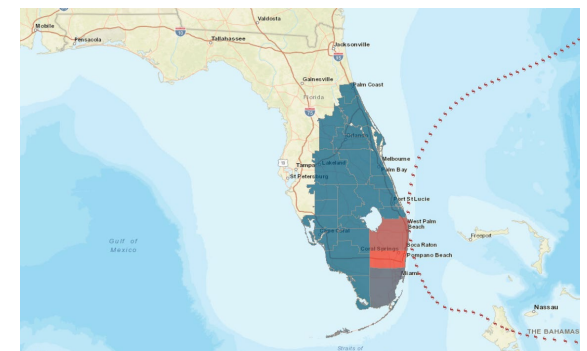
1st Storm: Pre-Landfall Potential Path for Irma				<i>(Estimated Loss \$22.93 B)</i>
Surplus Remaining	\$0	\$1,379	\$0	\$0
Surplus Exposed	100%	33%	100%	N/A
Assessment	\$5,196	\$0	\$2,055	\$7,251

2nd Storm: Actual Path Great Miami Hurricane of 1926				<i>(Estimated Loss \$17.48 B)</i>
Surplus Remaining	\$0	\$579	\$0	\$0
Surplus Exposed	100%	58%	100%	N/A
Assessment	\$9,105	\$0	\$7,577	\$16,682

1st Storm Potential Path for Hurricane Irma



2nd Storm Actual Path for Great Miami Hurricane of 1926



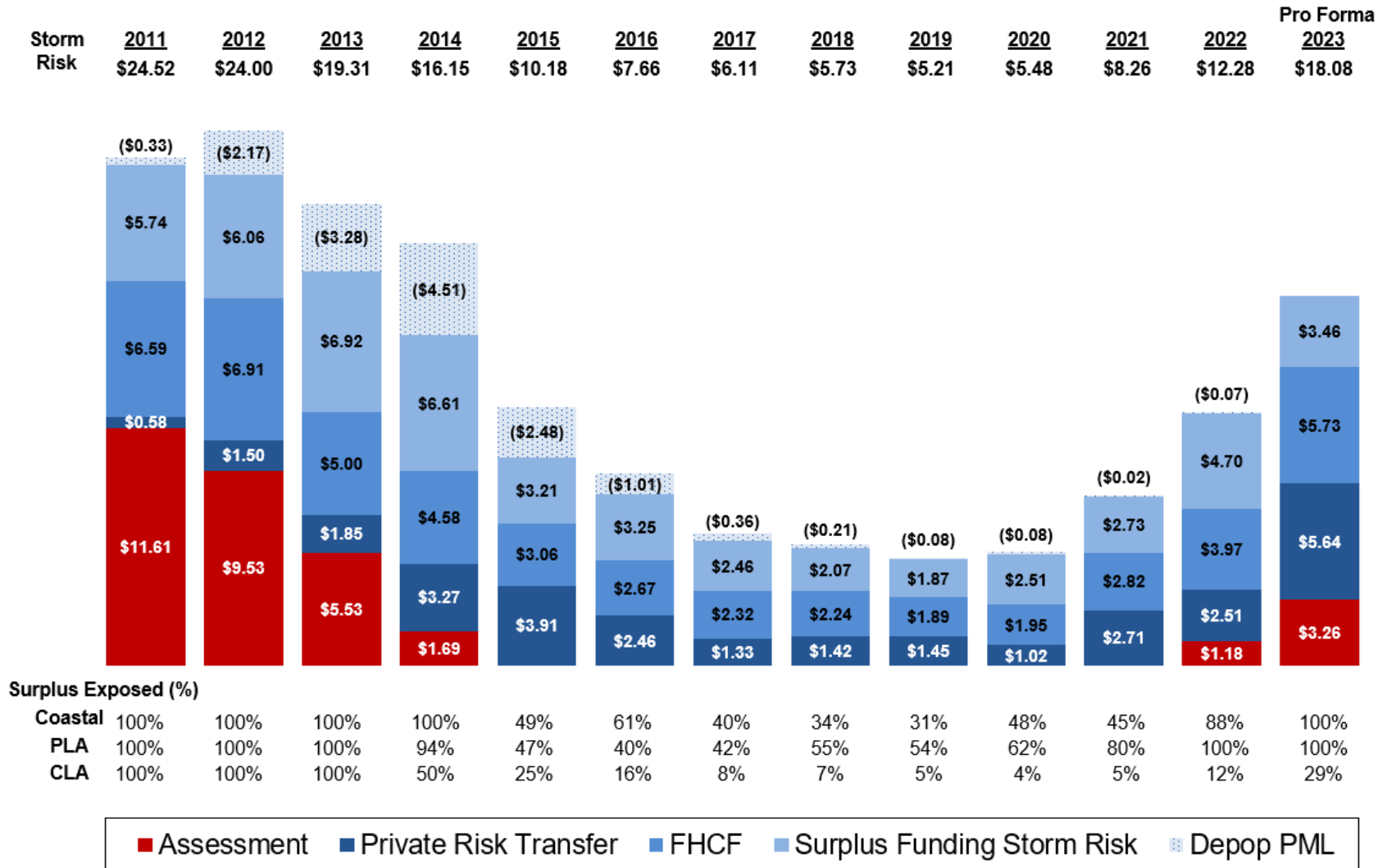
\$23.9 B in potential assessments resulting from 2 Category 4 storms

Declining Surplus, Increasing Risk

	In Billions			3 Year Change
	2020	2021	2022	
Surplus	\$6.4	\$6.5	\$4.3	(33%)
1-in-100 Year Probable Maximum Loss	\$5.9	\$7.7	\$11.4	93%
Total Insured Value	\$145	\$233	\$423	192%

- Surplus has declined due to Citizens' increased exposure combined with storms and litigation
- 1-in-100 Year Probable Maximum Loss continues to drastically increase
- Total Insured Value continues to alarmingly increase

Risk and Assessment Trend (in Billions)



See the Appendix for the underlying notes and assumptions

OIR Public Rate Hearing on Recommended Rates

Brian Donovan, Vice President – Chief Actuary



Proposed Rate Changes

	Premium	Rate Indication	Proposed Rate Change
Personal Lines	\$2,785,309,136	58.3%	13.4%
Commercial Lines	\$141,003,867	66.1%	11.7%
Total	\$2,926,313,003	58.6%	13.3%

The rate indication and proposed changes take the following into consideration:

- ❑ Actuarial Soundness
- ❑ A provision of reinsurance coverage for up to a 1-in-100 year storm
- ❑ Anticipated Savings due to SB 2-A
- ❑ Different capping for primary versus non-primary risks
- ❑ Competitiveness of Citizens' rates compared to the private market
- ❑ Application of applicable glide-path capping on the policy level

SB 2-A Savings to Policyholders

Excess litigation has been the primary cause of the poor health of the Florida property insurance market

In 2021, Florida comprised 9% of property claims countrywide but over 81% of the residential property insurance litigation suits*

SB 2-A directly addressed this issue of excessive litigation by eliminating the use of AOBs as well as the one-way attorney fee statute

These changes are expected to drastically reduce future litigation, reducing the crippling costs associated with the excessive number of lawsuits

This anticipated savings is included in the rate indication calculations, resulting in substantial savings

SB 2-A has lowered Citizens' premium need by over \$900M

* *Florida's insurance litigation problem stares deep into an abyss.* (2022b, September 16). Business Observer. <https://www.businessobserverfl.com/news/2022/sep/16/floridas-insurance-litigation-problem-stares-deep-into-an-abyss/>

SB 2-A Primary versus Non-Primary Risks

Personal Lines Only	In-Force Premium	Uncapped Rate Indication	Proposed Rate Change
Primary	\$2,630,369,621	57.3%	11.8%
Non-Primary	\$154,939,515	75.1%	40.2%
Total	\$2,785,309,136	58.3%	13.4%

A risk is “primary” if the occupant of the dwelling resides there for 9 months or more in a year

A risk is “non-primary” if the occupant of the dwelling resides there for less than 9 months in a year

All primary risks are subject to a 12% cap in 2023

All non-primary risks are subject to a 50% cap in 2023 (and beyond)

SB 2-A Competitiveness of Citizens' Rates

SB 2-A requires Citizens to consider the competitiveness of its rates relative to other carriers' rates in the state

A 2022 Citizens' report found Citizens' average premium for HO-3 policies was 44% lower than the insurers whose rate information was not trade secret

A study based on more recent data provided by the OIR also indicates that Citizens' rates are significantly less than the other major private insurers

For any county in the state where it was clear that Citizens' rates were much lower, Citizens recommends a 12% increase for all primary policies, regardless of the actuarial indication

For HO3, we recommend 12% increase for all primary policies

Conclusion

Since 2020:

Citizens' surplus decreased 33%

Citizens' exposure increased 192%

Private market increased its HO3 rates 39%

Citizens increased its HO3 rates 15%

Even after the SB 2-A savings and the proposed rate increases, Citizens would still need an additional \$1.3B of premium to be actuarially sound.

Citizens' rates are highly competitive. Since SB 2-A mandates Citizens' rates be non-competitive, we recommend the maximum increase by law where appropriate.

Appendix

Slide 8: Industry Homeowner Insurance Rate Filing Data

Company Name	FL HO 2022 Direct Written Premium in millions	Approved Rate Change			Cumulative Rate Change
		2020	2021	2022	2020 - 2022
Universal Property & Casualty Insurance	\$1,416,832	13%	16%	17%	53%
State Farm Florida Insurance Company	\$963,435	0%	5%	6%	11%
First Protective Insurance Company	\$607,313	5%	10%	7%	24%
ASI Preferred Insurance Corporation	\$448,600	35%	11%	0%	50%
Heritage Property & Casualty Insurance Company	\$397,174	15%	8%	32%	64%
Castle Key Indemnity Company	\$355,525	0%	32%	13%	49%
Edison Insurance Company	\$329,055	28%	15%	20%	76%
Florida Peninsula Group	\$325,958	19%	0%	18%	40%
Homeowners Choice P&C Insurance Company	\$308,620	12%	0%	10%	23%
TypTap Insurance Company	\$236,705	14%	0%	12%	28%
Truck Insurance Exchange	\$155,572	12%	15%	0%	29%
American Strategic Insurance Corporation	\$116,029	28%	9%	0%	39%
Castle Key Insurance Company	\$108,180	0%	30%	0%	30%
Tower Hill Signature Ins Company	\$100,845	14%	0%	15%	32%
Tower Hill Preferred Insurance Company	\$65,307	14%	0%	0%	14%
Tower Hill Prime Insurance Company	\$64,309	26%	0%	16%	45%
Nationwide Mutual Insurance Company	\$60,261	3%	15%	19%	42%

Cumulative
3-year
rate
change
was **39%**

Source: S&P Global Market Intelligence, Rank is based on FL homeowner 2022 direct written premium

Slide 9: Surplus Depletion Scenario Notes and Assumptions

- 1) Surplus is projected as of 12/31/2023 with adjustments to account for reinsurance spend. It is assumed that any change to surplus resulting for the specific scenario reinsurance spend is offset by the change in net income resulting from a change in policy count.
- 2) In determining the storm impacts for each scenario, the Probable Maximum Loss (PML) is adjusted proportionally to project the increase in policy count. Initial PMLs for each storm are based on actual 03/31/2023 exposure.
- 3) In each scenario, Additional Claims Paying Resources reflect a risk transfer program consistent with that proposed in the budget for the 2023 storm season adjusted to cover 40% of the Coastal Account and 30% of the Personal Lines Account (PLA) scenario adjusted PML.
- 4) The estimated Loss for each storm is the PML with 10% Allocated Loss Expenses.
- 5) The pre-landfall potential path for Irma represents a simulated hurricane track obtained from the AIR hurricane model's stochastic catalog. This simulated track was selected to approximate the path of Irma based on its National Oceanic and Atmospheric Administration forecast track as of 09/06/2017, prior to Irma making landfall in Florida.

Slide 11: Risk and Assessment Trend Notes and Assumptions

- 1) 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 08/31/2017, 2021 is as of 09/30, 2022 is as of 9/30, and 2023 is projected to 09/30. PMLs shown in this exhibit are as of different time period from those shown in slide 13 which are all as of year end.
- 2) 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 - 2021, not all surplus in PLA/CLA and the Coastal Account is needed to fund storm risk. Any remaining surplus available within an account is available to fund a second event.
- 3) Florida Hurricane Catastrophe Fund (FHCF) is as projected at beginning of storm season; except for 2017, 2018, 2021 and 2022 which are Citizens' initial data submission to the FHCF.
- 4) Private Risk Transfer amounts presented in the graph reflect the full amount secured regardless of the attachment or exhaustion point. In both 2016 and 2022, coverage extended beyond the 1-in-100 year event level. In these cases, the sum of the components exceeds the Storm Risk.
- 5) Assessments are the sum of the Policyholder Surcharge, Regular Assessment (where applicable), and the Emergency Assessment.
- 6) Depopulation PMLs are not included in storm risk totals and are presented as year end totals unless otherwise noted. 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 - 2021 PMLs reflect only SSST event catalog. Starting with year-end 2021, PML results displayed are 50K US Hurricane, Florida Regulatory (SSST) Event Set.