

OIR Public Rate Hearing on Recommended Rates

Tim Cerio, President/CEO and
Executive Director

August 1, 2024



Proposed Rate Changes

Citizens' statutory requirements for rate changes:

1. Rates 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 true residual insurer.
2. Citizens makes recommendations to the OIR for rate changes, and the OIR establish Citizens' rates.

Product Line	In-Force Premium	Uncapped Indication	Non-Competitive % Change	Proposed Rate % Change
Personal Multi-peril	\$3,237,890,190	23.1%	92.8%	13.9%
Personal Wind-Only	\$332,306,870	73.2%	N/A	15.0%
Commercial	\$571,875,247	27.9%	N/A	10.3%
Total	\$4,142,072,307	27.8%		13.5%

History of Citizens' Homeowner Rate Changes

2002-2006 – Citizens' rates based on Top 20 companies, must be actuarially sound, and not competitive with the private market.

2007 – House Bill 1A rolled Citizens' rates back to 2006 levels, froze them until July 2009, and eliminated the requirement that Citizens' rates be competitive and based on the Top 20 companies.

2008 – Mitigation credits are doubled resulting in rate decreases and Citizens' rate freeze was extended until January 2010.

2010 – Following the 3-year rate freeze, Citizens' rate increases are limited to 10% per policy, excluding coverage changes and surcharges, to allow a glidepath to actuarially sound rates.

2012 – Because of abusive practices and excessive claims, sinkhole coverage is removed from the base policy but remains optional and rated outside the 10% glidepath.

2018-2020 – Office of Insurance Regulation froze Monroe county rates.



History of Citizens' Homeowner Rate Changes

2020 – No actuarial rate changes are filed, as directed by the Board of Governors, due to the COVID-19 pandemic.

2021 – Senate Bill 76 requires that Citizens' rate calculations include the cost of reinsurance to cover 100-year PML, whether or not the coverage is purchased (within the glidepath). Citizens' rate glidepath to increase by 1% each year until it reaches 15%.

2022 – Citizens' rate glidepath increased to 11% per policy.

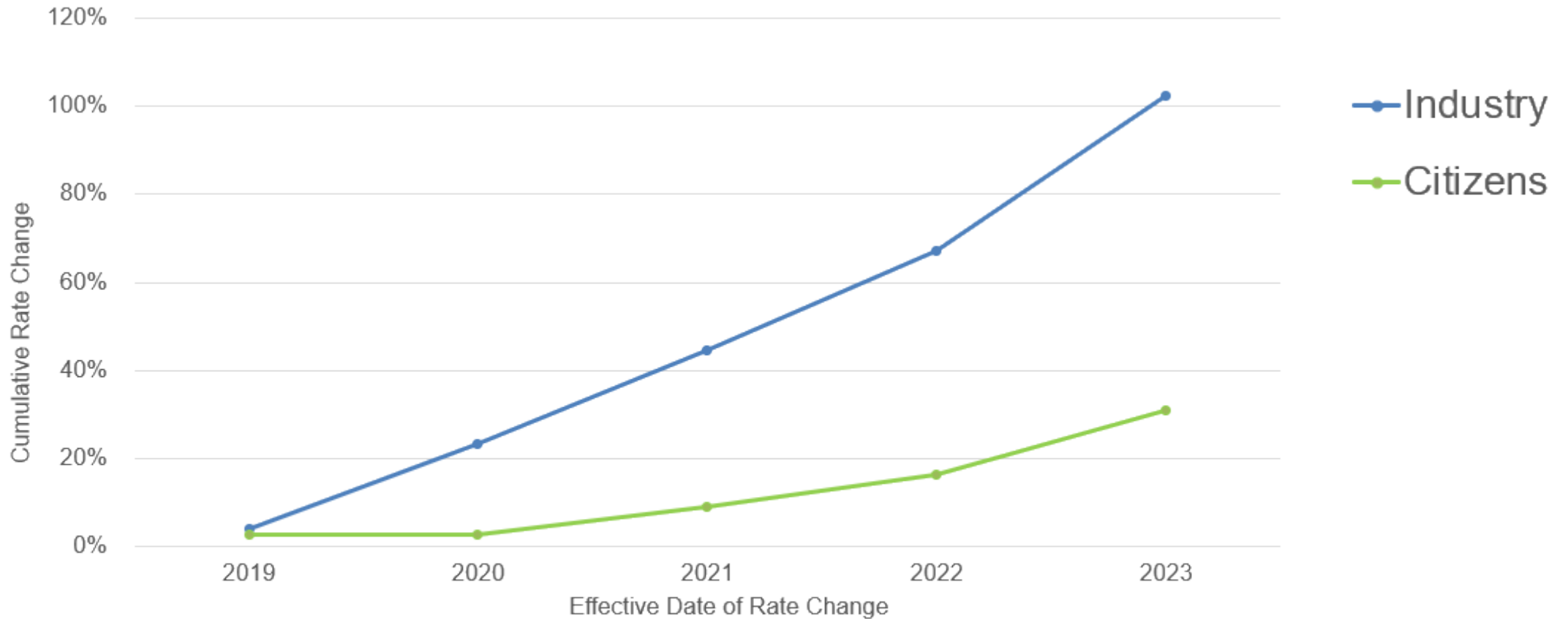
2023 – Citizens' rate glidepath increased to 12% per policy, and rates are again required to be not competitive with the private market.

2024 – Citizens' rate glidepath increased to 13% per policy.

2025 – Citizens' rate glidepath will increase to 14% per policy.

2026 – Citizens' glidepath will increase to and remain at 15% per policy.

FL Homeowner Cumulative Rate Changes

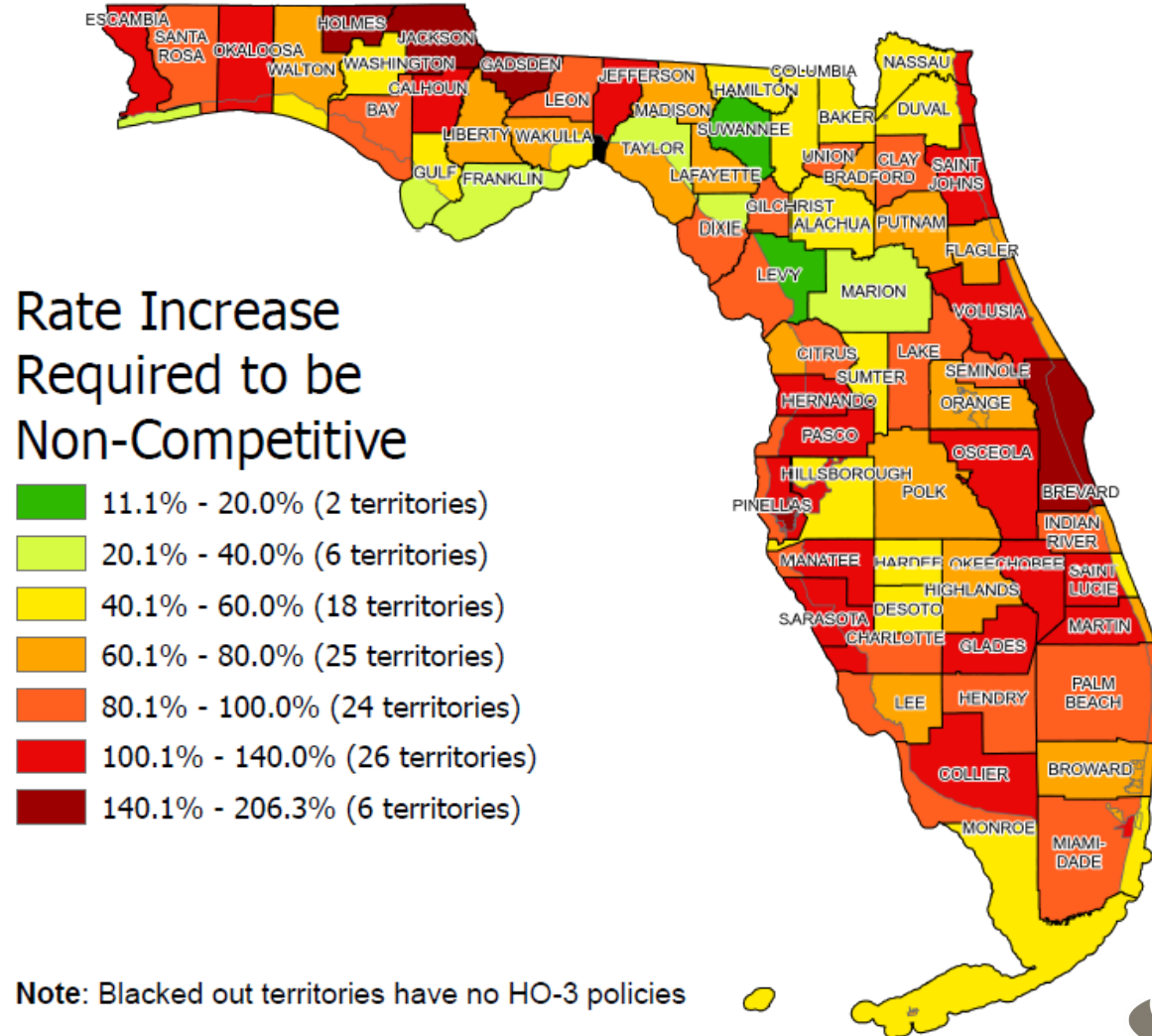


Industry	4.0%	23.2%	44.7%	67.3%	102.4%
Citizens	2.7%	2.7%	9.1%	16.5%	30.8%

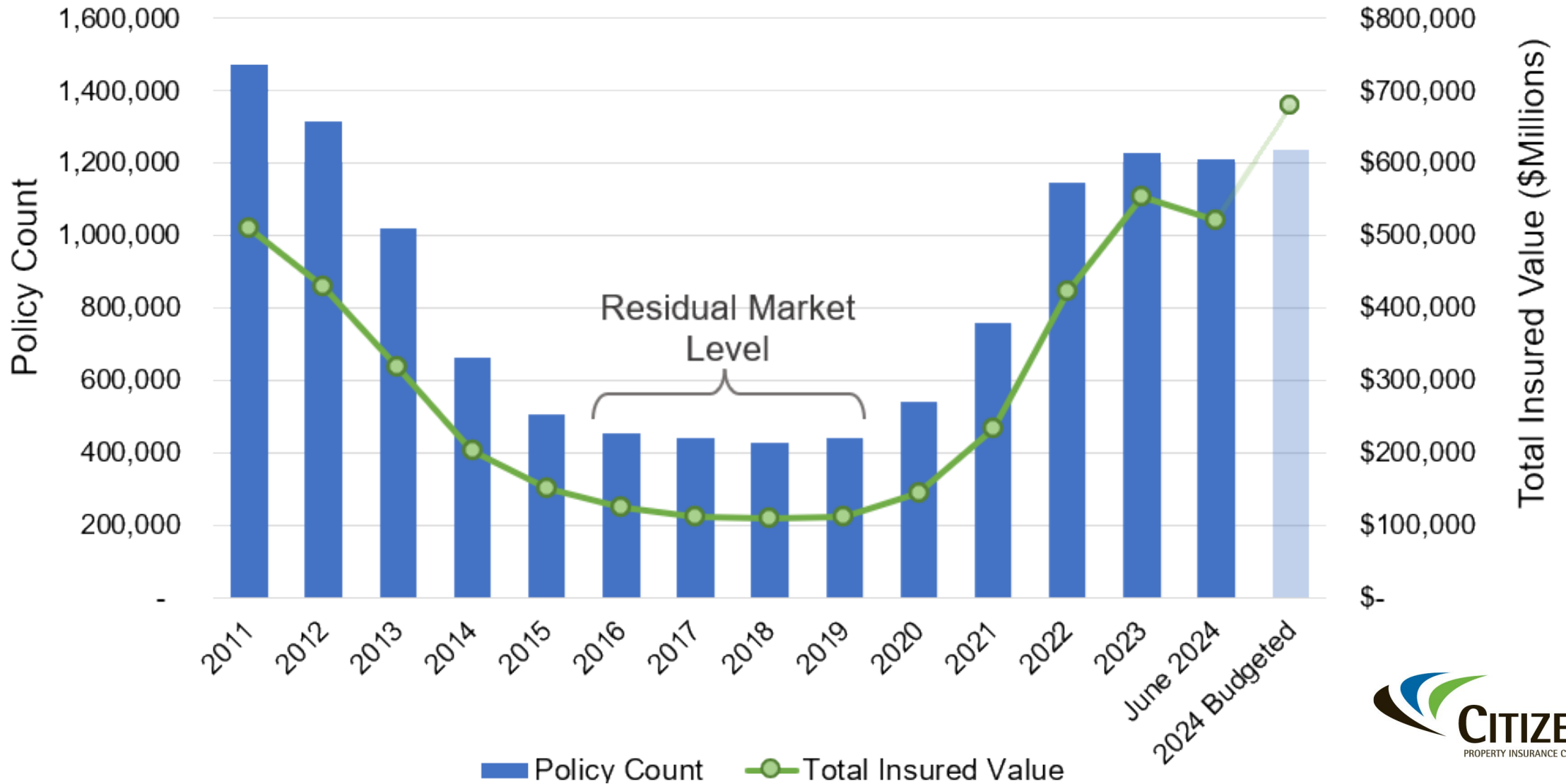
Note: Annual rate changes for companies writing Homeowners (HO-3, HO-4, HO-5, HO-6 and HO-8) insurance in Florida.

HO-3 Competitive Position

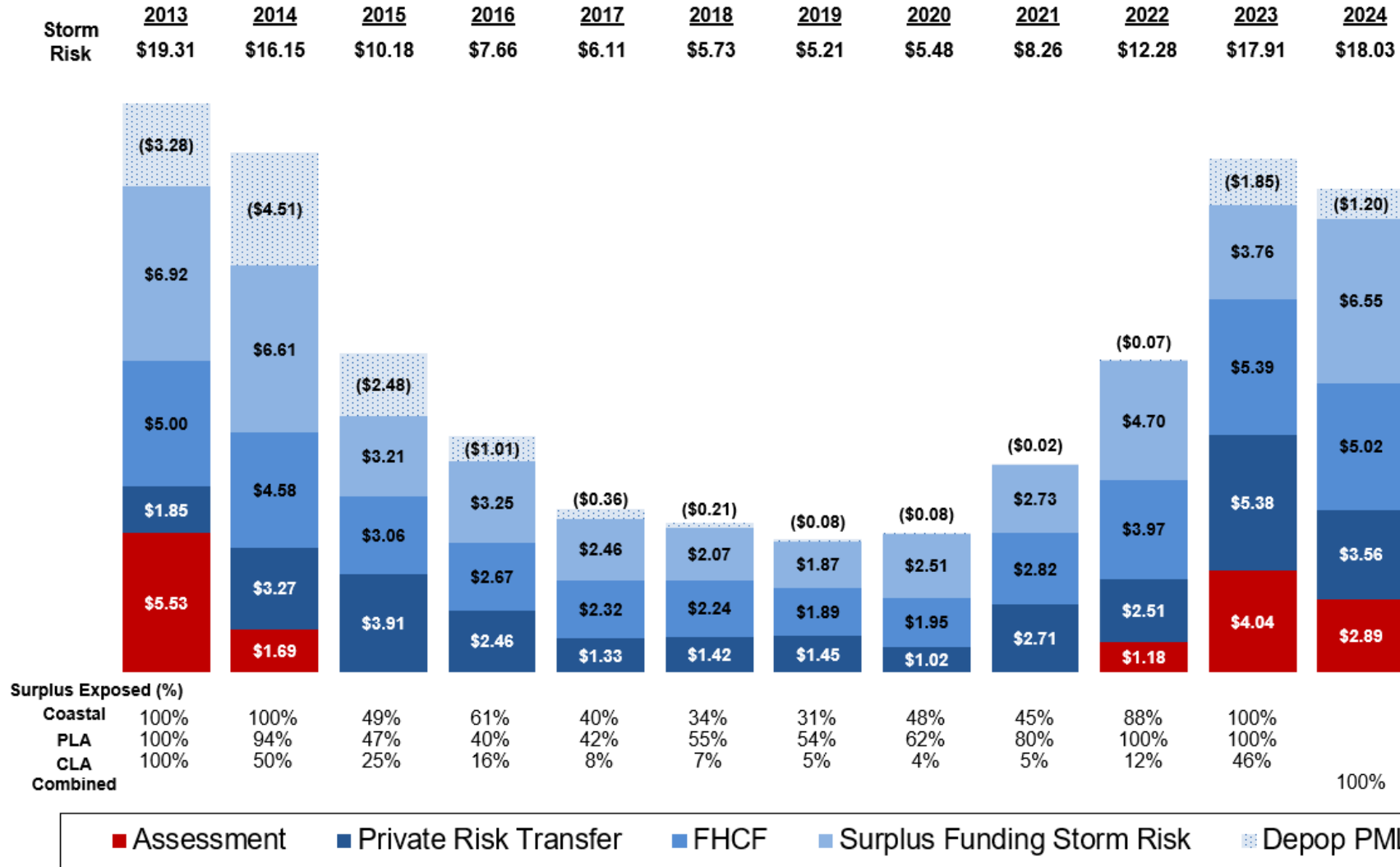
Ignoring 14% cap of the glidepath, to be non-competitive, Citizens' HO-3 rates will need an increase of 96.8% on a statewide basis, using 12/31/2023 policy data.



Policy Count and Total Insured Value



Risk and Assessment Trend (in Billions)

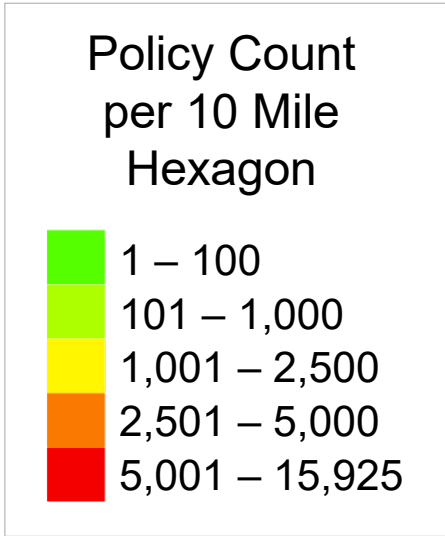
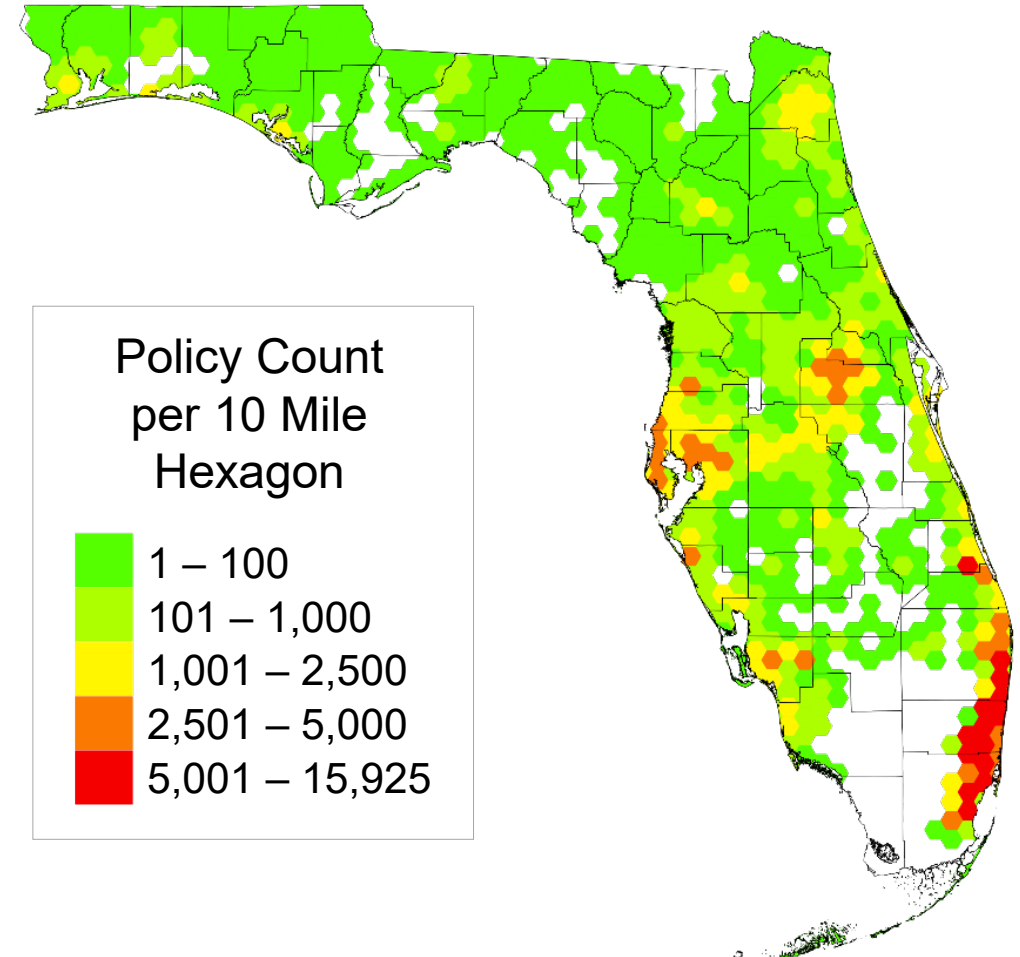


Depopulation Activity

Policies Assumed in 2023 and 2024			
Assumption Date	Number Office of Insurance Regulation Approved	Policyholder Choice Letters Mailed	Number Assumed on Day of Assumption
4/18/2023	20,000	26,335	4,573
6/20/2023	46,218	18,760	17,239
8/22/2023	26,000	27,689	8,836
10/17/2023	184,000	311,310	99,773
11/21/2023	202,399	179,747	92,886
12/19/2023	168,000	86,620	52,017
1/23/2024	200,000	126,479	76,316
2/20/2024	39,000	27,652	15,713
2/27/2024 (CL)	850	437	321
3/19/2024	59,498	27,879	22,209
4/23/2024 (CL)	400	246	150
5/21/2024	54,386	34,760	17,610
6/25/2024 (CL)	300	170	TBD
Total	1,001,051	868,084	407,643

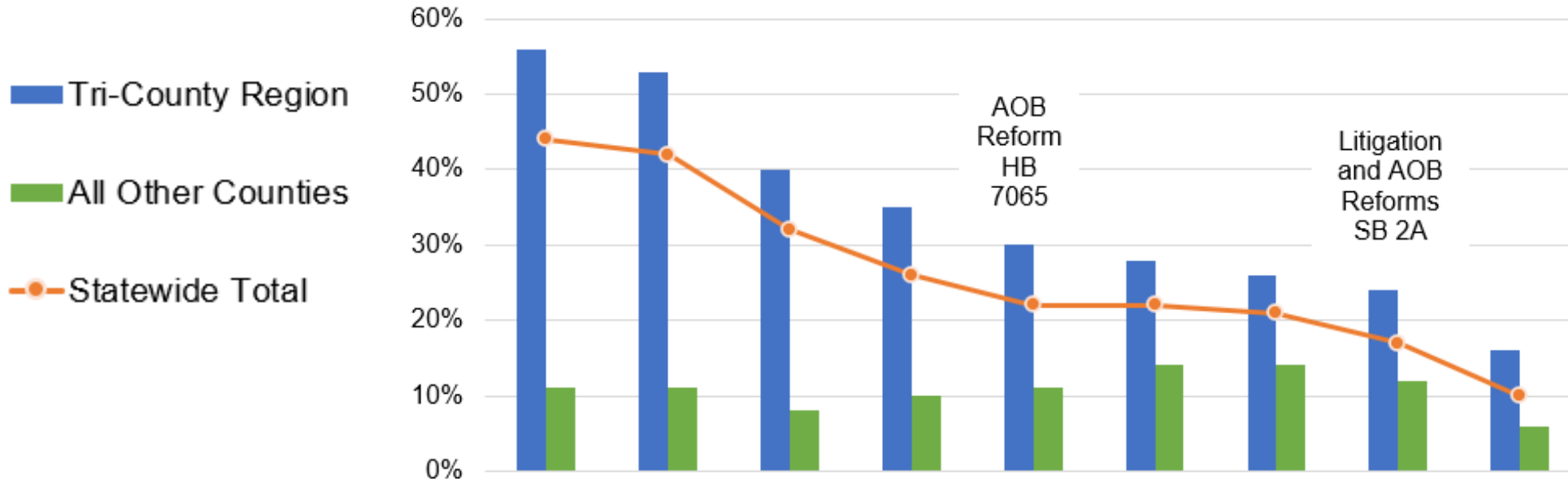
Notes:

- 1) Policyholder Choice Letters Mailed indicates the number of depopulation letters mailed, one per policy. Multiple offers may be contained in a single mailing.
- 2) The hexagon map shows all personal lines and commercial lines (CL) policies assumed from April 2023 through May 2024



Litigation and Assignment of Benefit (AOB) Reforms

Projected Percent of Citizens' Non-Catastrophe HO-3 Litigated Claims



Accident Year (at 12/31)	2015	2016	2017	2018	2019	2020	2021	2022	2023
Tri-County Region	56%	53%	40%	35%	30%	28%	26%	24%	16%
All Other Counties	11%	11%	8%	10%	11%	14%	14%	12%	6%
Statewide Total	44%	42%	32%	26%	22%	22%	21%	17%	10%

Notes:

- 1) The tri-county region includes Broward, Palm Beach and Miami-Dade Counties
- 2) Senate Bill 2A was effective 12/16/2022; however, language changes were not incorporated into Citizens' policy forms until 06/01/2023.

OIR Public Rate Hearing on Recommended Rates

Brian Donovan, Vice President – Chief
Actuary

August 1, 2024



Proposed Rate Changes

Product Line	In-Force Premium	Uncapped Indication	Non-Competitive % Change	Proposed Rate % Change
Personal Multi-peril	\$3,237,890,190	23.1%	92.8%	13.9%
Personal Wind-Only	\$332,306,870	73.2%	N/A	15.0%
Commercial	\$571,875,247	27.9%	N/A	10.3%
Total	\$4,142,072,307	27.8%		13.5%

Uncapped Indication is the increase needed for Citizens' rates to be actuarially sound, considering the impacts of Senate Bill 2A (SB 2A).

Non-Competitive % Change is the increase needed for Citizens' rates to be non-competitive.

Proposed Rate % Change is the recommended rate change that considers all the above.



SB 2A Reform Impacts

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 2A directly addressed this issue of excessive litigation by eliminating the use of Assignment of Benefits (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 2A has lowered Citizens' premium need by over \$500M for 2025.

*Source: <https://www.businessobserverfl.com/article/floridas-insurance-litigation-problem-stares-deep-into-an-abyss>

Improvement in Results

Product Lines	2024 Rate Indication			2025 Rate Indication	
	Unadjusted	SB 2A Adjustments	Approved Rate Change	Unadjusted	SB 2A Adjustments
HO-3 and HW-2	91.5%	55.1%	12.6%	40.9%	25.2%

The primary driver of the improved results is the continued decrease in litigation rates for non-catastrophe losses.

Accident Year	HO-3 Non-Catastrophe Litigation Projected % of Claims Litigated		
	Southeast Counties *	Rest of State	Statewide
12/31/2015	56%	11%	44%
12/31/2016	53%	11%	42%
12/31/2017	40%	8%	32%
12/31/2018	35%	10%	26%
12/31/2019	30%	11%	22%
12/31/2020	28%	14%	22%
12/31/2021	26%	14%	21%
12/31/2022	24%	12%	17%
12/31/2023	16%	6%	10%

* Includes Miami-Dade, Broward and Palm Beach

Adjustments for SB 2A

1. Restated historical litigation rates
2. Restated historical AOB severities
3. Removed litigation costs from the non-hurricane catastrophe provision
4. Selected a mid-point of the four hurricane models



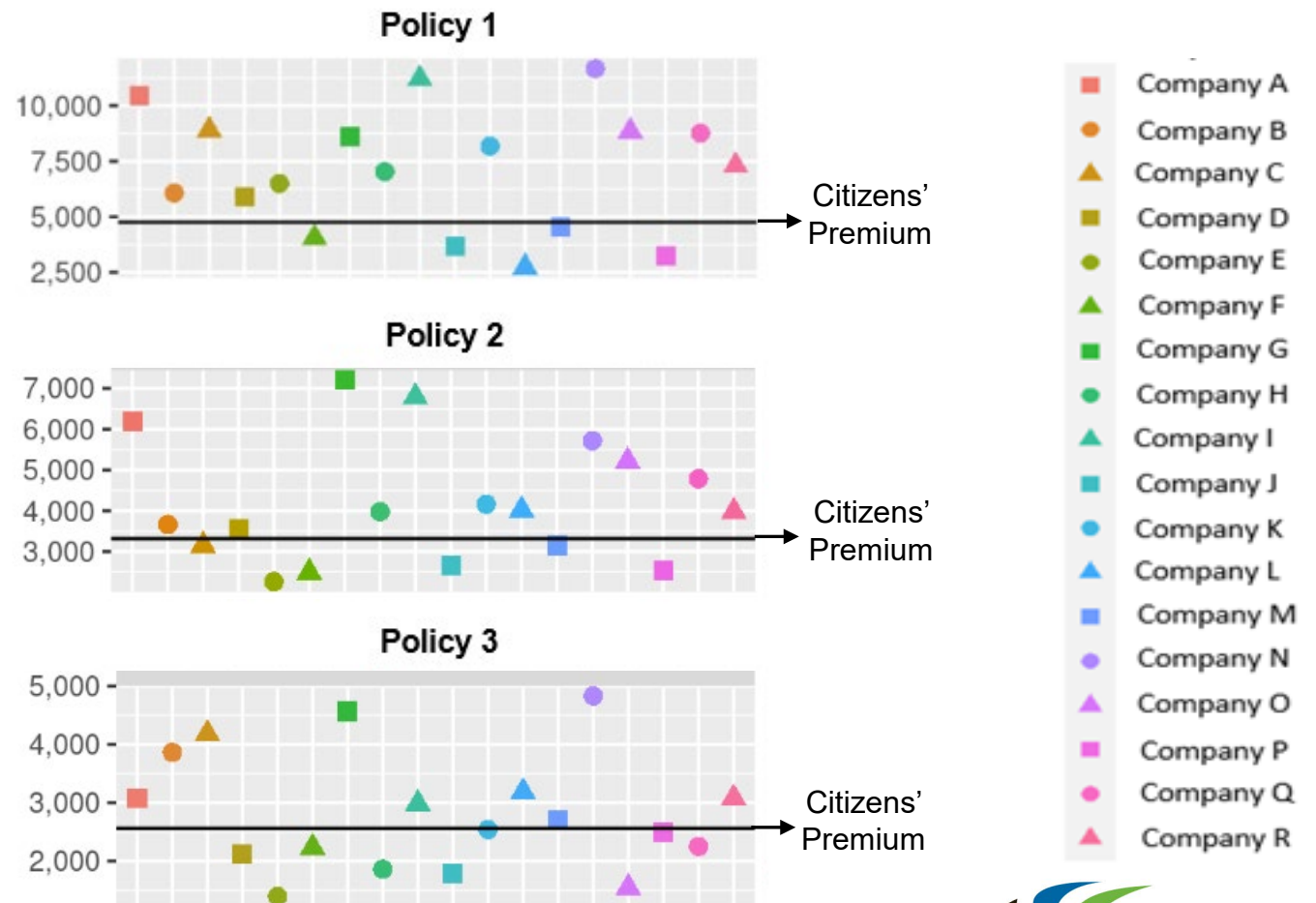
Competitive Analysis

To determine competitiveness, insurers' rating manuals were provided in October 2023 and used to determine premiums for Citizens' HO-3, HO-6 and DP-3 policy data as of 12/31/2023.

The analysis used the 75th percentile as the selected "non-competitive" premium.

Market Share as of 9/30/2023		
Policy Type	Number of Competitors	Competitors & Citizens' Market Share
HO-3	18	63.5%
HO-6	15	60.0%
DP-3	11	78.9%

Policy Examples of Competitors' Premiums



Competitive Analysis Methodology

Company	Competitor Premium
G	\$7,201
I	\$6,790
A	\$6,188
N	\$5,717
O	\$5,213
Q	\$4,785
K	\$4,163
L	\$4,019
R	\$3,979
H	\$3,977
B	\$3,663
D	\$3,549
C	\$3,155
M	\$3,154
J	\$2,654
P	\$2,532
F	\$2,492
E	\$2,261

Annotations:

- 75th Percentile Premium: \$5,106 (indicated by a blue arrow pointing to the space between O and Q)
- Citizens' Proposed Premium: \$3,763 (indicated by a green arrow pointing to the space between H and B)
- Citizens' Current Premium: \$3,155 (indicated by a black arrow pointing to the space between C and M)

The 18 competitor premiums are listed in descending order for Policy 2.

The 75th percentile is defined to be the value such that 4.5 of the values are above that value, and for this policy, it is \$5,106.

Citizens' premium of \$3,318 will need to be increased by 53.9% to be non-competitive.

The proposed premium is \$3,763.

The percent change needed for each territory to become non-competitive is determined by taking averaged policy level data using Citizens' premiums as the weights.



Competitive Analysis HO-3 Results

HO-3 Policies as of 12/31/2023

Region / County	Policy Count	Increase Needed to be Non-Competitive	Number of Competitive Policies	Number of Competitive Policies After 14% Increase	Proposed Rate Change
Broward	71,526	74.1%	71,472	70,992	13.5%
Central East Coast	107,304	117.0%	107,205	106,870	13.7%
Dade	97,222	82.6%	97,142	96,518	13.5%
Inland	53,834	82.2%	53,237	51,902	13.6%
Monroe	1,418	49.1%	1,303	1,167	16.2%
North East Coast	40,519	86.1%	40,389	39,781	13.5%
North Gulf Coast	170,579	112.3%	168,778	162,616	13.5%
Palm Beach	61,705	80.5%	61,583	60,930	13.4%
Panhandle	21,393	101.6%	21,096	20,631	13.2%
South Gulf Coast	56,114	100.9%	55,790	54,971	13.5%
TOTAL	681,614	96.8%	677,995	666,378	13.5%

Excludes policies marked for takeout

For Citizens' rates to be non-competitive, they would need to be doubled.

Based on this information, the maximum increase of 14% in most territories is recommended.

Even after a 14% increase, **98% of policies remain competitive.**



Primary vs Non-Primary

SB 2A requires Citizens to cap all non-primary policies between 0% and 50%.

Personal Lines	PRIMARY		NON-PRIMARY		TOTAL		Non-Primary Policy Count	Non-Primary % of Policy Count
	In-Force Premium	Proposed Change	In-Force Premium	Proposed Change	In-Force Premium	Proposed Change		
Homeowners	\$2,536,522,507	13.4%	\$121,286,837	17.9%	\$2,657,809,344	13.6%	24,978	3.4%
Renters	\$1,950,271	12.9%	\$84,080	23.1%	\$2,034,351	13.3%	199	2.2%
Condo Units	\$103,324,083	13.5%	\$36,492,937	15.0%	\$139,817,020	13.9%	18,876	21.3%
Dwelling DP3	\$479,906,002	13.5%	\$33,321,618	25.9%	\$513,227,620	14.3%	13,780	6.0%
Dwelling DP1	\$113,386,507	13.2%	\$5,009,030	24.1%	\$118,395,537	13.6%	1,771	3.4%
Mobile Home (MH)	\$83,191,926	13.4%	\$36,035,335	42.2%	\$119,227,261	22.1%	16,834	26.0%
Dwelling MH	\$15,594,913	13.6%	\$4,091,016	39.6%	\$19,685,929	19.0%	3,429	17.4%
Total	\$3,333,876,210	13.4%	\$236,320,851	22.8%	\$3,570,197,061	14.0%	79,867	6.7%

The recommended change for primary is 13.4% versus 22.8% for non-primary.

Non-primary makes up 6.7% of the total personal lines policies but varies greatly by line of business.

Non-primary policies make up a much larger percentage of the book of business in the mobile home and condominium unit lines of business.



Conclusions

Rates must be actuarially sound pursuant to s. 627.062, F.S., and not competitive with approved rates charged in the admitted voluntary market, so that the corporation functions as a true residual insurer.

With the implementation of SB 2A and improvement in the litigation rates, Citizens' overall rate need for actuarial soundness has shown great improvement in the last two years.

SB 2A results in savings for Citizens, which reduces the probability and severity of assessments.

Even if the proposed rate changes are approved, Citizens' rates will not be actuarially sound and more importantly, **98%** of policies will remain overly competitive.

Recommendations meet the dual statutory requirements of moving rates towards actuarial soundness and non-competitiveness while also adhering to the 14% glidepath.

Appendix

Slide 8 Notes and Assumptions

- 1) Storm Risk is as measured by the 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 for years 2013 through 2023. In these years, PLA/CLA combined PMLs are added to the Coastal PMLs to be consistent for surplus distribution. As of January 2024, Citizens combined the three accounts into a single account. 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, 2021 is as of 09/30, 2022 is as of 9/30, 2023 is as of 9/30, and 2024 is projected to 09/30.
- 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 individual account is available to fund a second event. As mentioned above, beginning January 2024, Citizens combined the PLA, CLA and Coastal Account into a single "Citizens" account. The surplus from each is combined from this point forward.
- 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 2016, 2022 and 2023, 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. Beginning with 2024, the Regular Assessment is no longer an available funding source due to the combining of the three accounts into a single "Citizens" account.
- 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. 2024 Depopulation PML is based on takeouts through June 25, 2024.