



Barry Gilway - Opening Comments March 14, 2019 Rate Hearing

Slide 1: Good evening. A logical person would assume given the 1,350 miles of Florida coast line, our severe exposure to Hurricanes, and the fact that our ultimate combined losses for IRMA and MICHAEL top \$2 Billion in Direct Loss/LAE, that we would be here recommending significant increases in Wind premiums but that is simply not the case. We are here today presenting rate increases due almost entirely to a man-made catastrophe.

Slide 2: Clearly the Florida residential insurance market has shifted. In 2004, national companies and their offshoots dominated, with Citizens holding a 15 percent market share and Florida domestic carriers handling 22 percent. Following eight hurricanes in 2004-2005, Citizens policy count exploded. By 2011, Citizens market share jumped to 23 percent –nearly one in four policies - while national carriers and their offshoots cut their market share in half.

Along with Citizens, Florida domestic companies picked up the slack. By 2018, the market share of Florida-based companies climbed to 71 percent while Citizens' market share had dropped to 5 percent, returning to its role as the state's insurer of last resort. However, Citizens still insures 23 percent of homes in Miami-Dade, 15 percent of the homes in Broward, and 50 percent of the wind exposure in Monroe.

Slide 3: Citizens' depopulation efforts and a reinvigorated private market have dramatically reduced the financial risk to Floridians. In 2011, Floridians were on the hook for \$11.61 billion in assessments following a 1-100 year storm. Improving market conditions for private insurers and a robust risk transfer program has provided Citizens the financial resources since 2015 to pay claims following a modeled 100-year hurricane without a potential assessment. Further, the percentage of Citizens surplus exposed following a 1-100 year storm has dropped to 34 percent in the Coastal Account and 62 percent in the PLA.

Slide 4: For 2019, we expect these trends to continue as our overall growth measured in premium collected continues to drop, albeit at a more gradual rate. Looking closer, we see continued declines in both the Coastal and CLA accounts, while PLA premium grows slightly.

Slide 5: Why is the insurance market so strong? A major factor is the favorable trends in risk transfer. The change in reinsurance and catastrophe bond pricing over the past seven years has truly transformed the wind market. Rate on line has dropped from 22 percent in 2011 to 6 percent. In 2018. A combination of this rate on line reduction and reduced exposure has allowed Citizens to reduce its risk transfer spend from last year while improving our surplus protection.

Slide 6: While thrilled to report that Citizens will again be able to respond to a major storm or series of events without the risk of assessments, we come to you today to seek rate increases for the vast majority of our customers, particularly those here in South Florida. For our personal lines policyholders - the bulk of our 421,000 customers - we are requesting a statewide average rate increase of 8.2 percent. Why? The explosion of litigation surrounding non-catastrophic water loss claims and the abuse of Florida's well-intentioned assignment of benefits law.

Slide 7: The bottom line is this: 97 percent of our HO-3 homeowners multiperil policyholders will see rate increases in 2019 because of costs related to non-weather water loss litigation. For 2019, we estimate that half of nonweather water claims will end up in litigation. If we could have held the 12 percent litigation rate that prevailed prior to the explosion of litigation that began in 2012, our homeowners' multi-peril indicated rate increase would be reduced from 25.2 percent down to 1.5 percent

Fixing AOB will help us address the problem, but not solve it completely. If the AOB reform is successful, this indication would be reduced to an actuarial sound rate of 10.1 percent. To ensure that Citizens will remain financially able to protect Floridians when they need us most, we also need effective assistance from our Legislative partners to reduce unnecessary litigation while protecting our policyholders' legal remedies when honest disagreements arise.

Like you, Commissioner Altmaier, I remain committed to working with the Legislature to make meaningful changes to Florida's one-way attorney fee statute, which remains the real driver of higher losses and skyrocketing litigation costs.

Slide 8: The impact of litigation and AOB abuse has been devastating to our policyholders, especially here in South Florida. In 2015, we were able to provide decreases to 85 percent our HO-3 homeowners multi-peril customers. Four years later, only 3 percent of these policyholders will receive a decrease. These premium increases are attributed 100 percent to water losses and the litigation that surrounds them. More on that in a minute.

Slide 9: This slide clearly shows the impact of water losses and litigation on rates. The blue area shows recommended rate increases of at least 5 percent. It's important to point out that the recommended rates are based almost entirely on local territorial indications and as such any increase/decrease is specific to each territory. In other words, losses in Miami-Dade County are not driving rates higher in Orange County. Local loss trends are pushing rates higher, and that should be of major concern.

Slide 10: The root causes of these higher costs are the same as last year: Increased abuse of AOB; increased representation at First Notice of Loss and, ultimately, higher litigation rates. For 2019, we estimate that 50 percent of our non-catastrophic water claims will be litigated. Recent litigated cases are three times more expensive than non-litigated cases and, when developed, litigated claims are more than five times more expensive than non-litigated claims.

South Florida remains the epicenter of the problem. While 57 percent of Citizens HO-3 homeowners exposure is located in Palm Beach, Broward and Miami-Dade, the region accounts for 94 percent of all of Citizens litigation. This is an enormous and frankly unreasonable statistic!

If litigation frequency returned to pre-2015 levels, the rate indication for Miami-Dade would be a 2.9 percent decrease instead of an increase of 26.5 percent under current conditions. Based on pre-2015 litigation indications, the average Miami-Dade actuarially sound premium would be \$3,581 instead of the \$4,664 assumed under current circumstances.

Slide 11: While South Florida's water loss claims are out of control, other counties are beginning to experience rising claims and litigation as shown by the mid-shaded blue counties. Based on the cost per policy for these non-catastrophic water claims, South Florida's are still considerably higher than the rest of the state, particularly Broward and Miami-Dade.

In Miami-Dade, it costs almost \$3,000 per homeowner to pay for the losses and all loss adjusting expenses from non-catastrophic water loss claims. Broward County policyholders are paying nearly \$2,800.

Slide 12: It's important to point out that litigation is not just a Citizens issue. While the scale for the two graphs is different, both Citizens and the industry continue to see a large volume of litigated claims and AOB since 2013. Combining the data, we see a 202 percent increase in litigated claims since 2016 and a 285 percent increase in AOB.

Slide 13: Combining Citizens and the industry's data, we find that 85 percent of Florida's litigated claims come from just 10 counties. Of those, 62 percent come from South Florida. Keep in mind each of these suits are packaged not only with indemnity but also the loss adjustment expenses, which can be an exacerbated amount. The bottom line is more litigation leads to more loss adjustment expense.

Slide 14: This slide makes it strikingly clear that litigation rates in South Florida continue to be far greater than the rest of the state. Half of all claims in South Florida are litigation. You can see here that litigation in counties outside of South East Florida continues to increase.

Slide 15: As I previously mentioned, right now, the litigated claims are about three times more expensive than the non-litigated ones undeveloped. But we expect they will continue to increase in cost as they develop and eventually will cost FIVE TIMES as much as the non-litigated claims.

Slide 16: The average severity in South Florida is 80 percent higher than in the rest of the state, or \$12,000 more per claim. The average cost of water claims in South East Florida has nearly doubled since 2011, from \$14,000 to \$27,000.

Most troubling is that the increase is spreading to rest of state. The cost per claim in the rest of state has risen from \$7,000 to \$15,000. This is a new, disturbing trend that was not the case when I was here for the last rate filing.

Slide 17: While increased litigation is fueling the rise in rates, the increased use of AOB is the catalyst. The percentage of claims with assignment of benefits has increased, with more and more claims being represented at first notice of loss. Almost 75 percent of litigated claims closed in 2018 had an AOB attached while 65 percent had representation at First Notice of Loss.

Representation at FNOL is a strong indication that the claim will go into litigation. More than half of the time, the FNOL is the first time Citizens is made aware that there is a claim. What this means for the majority of these lawsuits is that there is already representation when Citizens is first made aware of the claim.

Slide 18: Citizens is doing what we can internally to address these cost drivers. On the water loss front, we have implemented a managed repair program and offer emergency water removal services, provided by licensed, vetted companies that are free to the consumer regardless of the cause of loss. Permanent repairs to covered losses are also completed by licensed, vetted companies. The work is guaranteed. This free service results in policyholders having access to the full Coverage limit for permanent repairs.

To address the larger issue of AOB abuse and litigation, we have produced brochures, infographics, educational pieces and new articles to educate our policyholders on what an AOB is and the impact of bad behavior is having on the premium they are paying.

Slide 19: We've also made a series of policy language changes over the past several years and have incorporated estimates that take into account policy and underwriting language changes, and of course the addition of the managed repair program. These adjustments are reflected in the rate filings.

While the adjustments project to dampen some of the impact, we do not believe this will be enough to stop litigation/AOB/FNOL frenzy and the higher rates needed to pay it.

Slide 20: Turning our attention back to rates specifically, this slide shows how Citizens' homeowner's rates compare to the industry. What we found was that for 75% of our homeowner's policies, the average premium from the competitors is higher than Citizens average premium.

Slide 21: Since we have a high market share in South Florida, a closer look at this area is provided. Citizens' average premium tends to be 10 percent lower than the average premium of competitors actively writing homeowners policies in South Florida. Our rates are significantly lower in Broward and Palm Beach when compared to the industry.

Unlike Citizens, which is subject to a 10-percent annual rate cap under the glide path, private insurers are able to and have already requested rate increases higher than 10 percent. The bottom line is the gap between Citizens premiums and private competitors will continue to grow until we get a handle on litigation costs surrounding. In addition, many companies have stopped writing new policies and are, in fact, non-renewing in the area.

Slide 22: Last year, OIR asked Citizens to address four issues in regard to Monroe County. Brian Donovan, the Chief Actuary, can address these items later in the hearing if the OIR would like to discuss. Otherwise, the responses to the requests are provided in the rate filing.

Slide 23: For your information, the following is a rate comparison specific to Monroe County. Only companies with policies that cover wind are included in the comparison. Overall, Citizens rates is 17 percent less than the average competitor's premium.

Citizens has 50 percent of all personal residential policies with wind coverage in Monroe. We currently collect \$40 million in premium annually. With a 10 percent cap, this rate increase would result in \$42.7 million. For actuarially sound rates, we need \$58.6 million. Under current glide, there remains a deficit of \$15.9 million. IRMA losses in Monroe are expected to be \$512 Million

Slide 24: It is absolutely clear in our filing that abuse of assignment of benefits and the overall increase in litigation are being paid for by our policyholders. I'm happy to answer any questions.

Barry Gilway, President/CEO and Executive Director

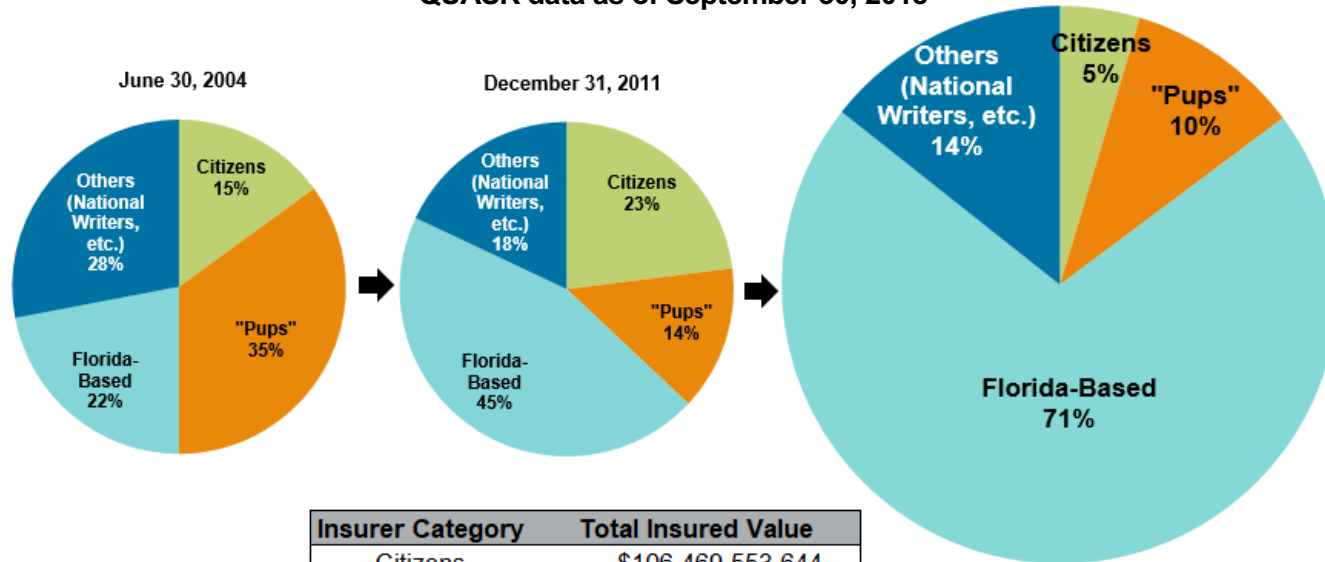
Public Hearing on 2019 Recommended Rates

March 14, 2019
Miami, Florida



Citizens Market Share has Dropped Significantly

Market Share Based on Total Insured Value For Policies that Include Wind Coverage Florida Residential Property Insurance Market QUASR data as of September 30, 2018



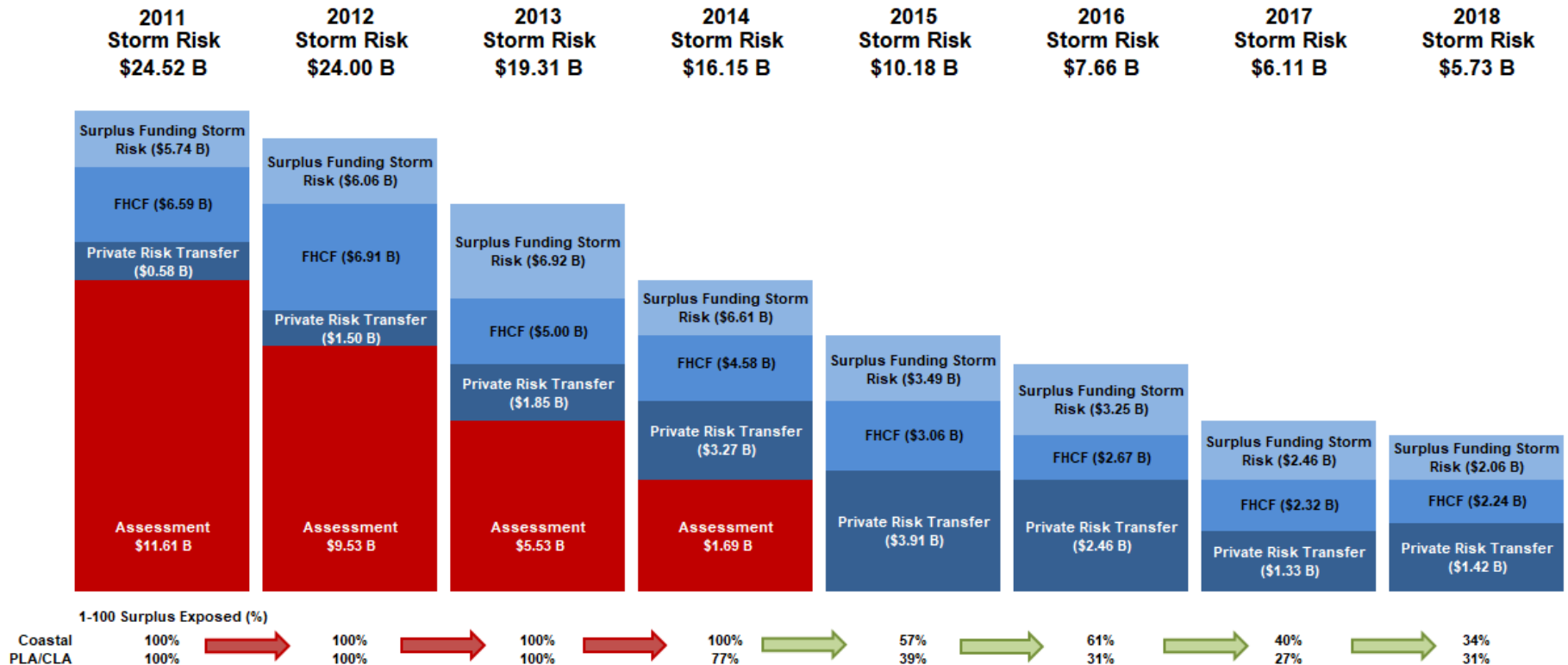
Insurer Category	Total Insured Value
Citizens	\$106,469,553,644
"Pups"	\$233,301,248,536
Florida-Based	\$1,626,959,062,424
Others	\$329,654,614,793
Total	\$2,296,384,479,397

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.

NOTES:

1. Includes admitted insurers only
2. State Farm Florida filed QUASR data as "trade secret" with the OIR beginning first quarter 2014. This exhibit reflects values for State Farm Florida as reported for fourth quarter 2013.
3. Surplus lines companies are not included in the market share calculation
4. Based on total insured value for policies with wind coverage

Actuarially Sound Rates Support Financial Soundness



VALUES ARE NOT TO SCALE

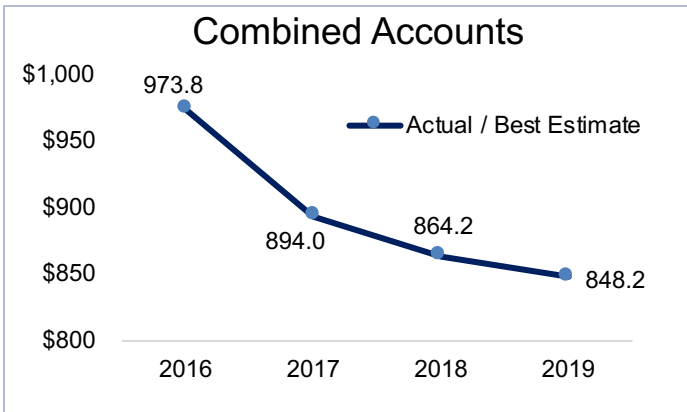
NOTES:

- 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.

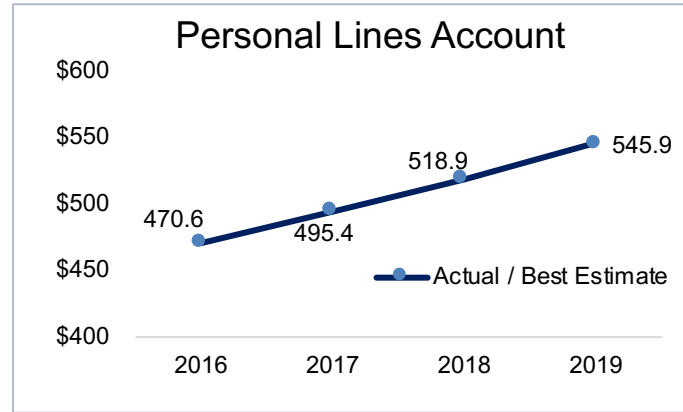


Projected Premium Trends

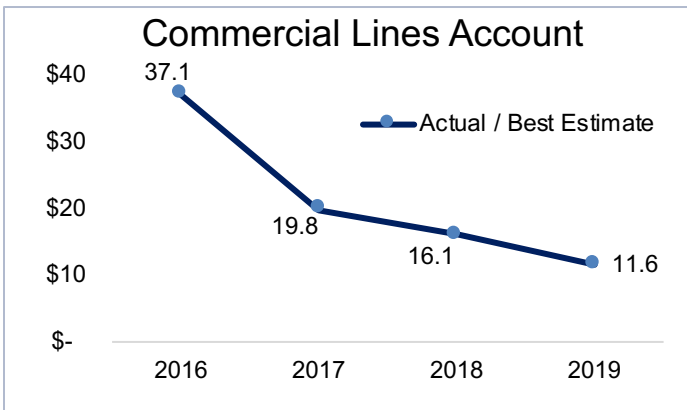
Direct Written Premium – Recent and Projected Trends (\$ millions)



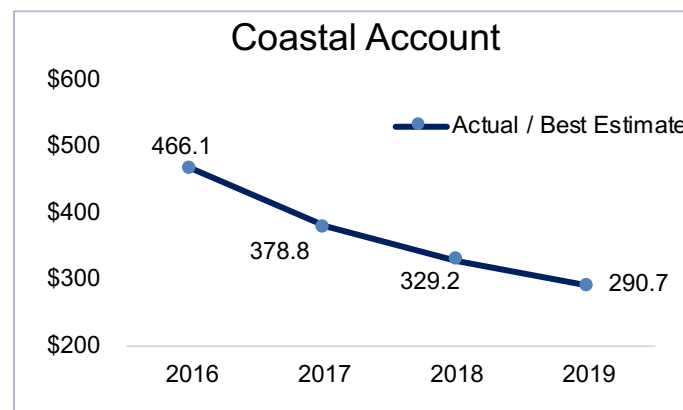
2018: Upper (871.2); Lower (855.0)
 2019: Upper (878.8); Lower (762.5)



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



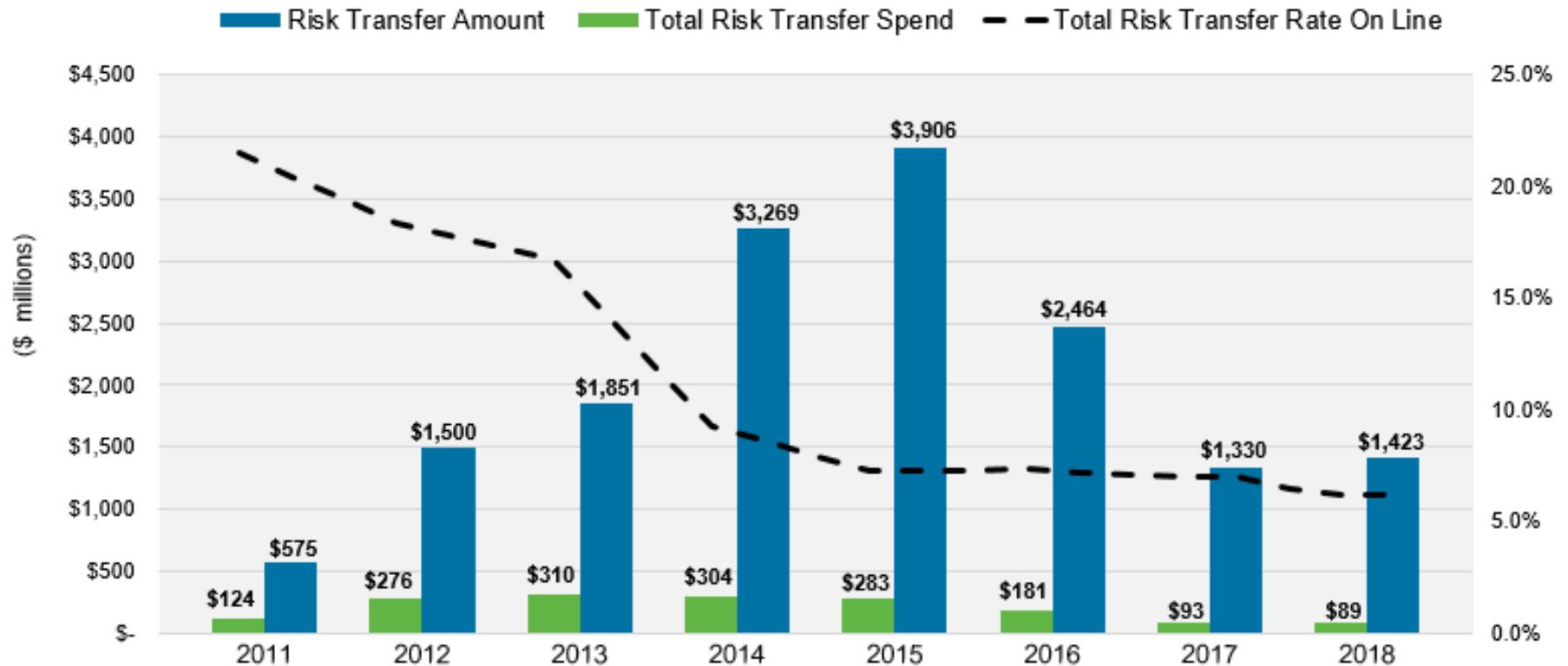
2018: Upper (16.3); Lower (16.0)
 2019: Upper (12.3); Lower (10.8)



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

Reinsurance History with Reduction of Rate on Line

Total Private Risk Transfer (2011-2018)



Statewide Rate Indications

	Statewide Indications	
	Uncapped Rate Indication	Proposed Rate Change
Personal Lines	26.0%	8.2%
Commercial Residential	76.1%	8.3%
Commercial Non-Residential	24.0%	9.7%
Total	28.7%	8.3%

NOTE: Indications are based on using the FOIR promulgated contingency provisions

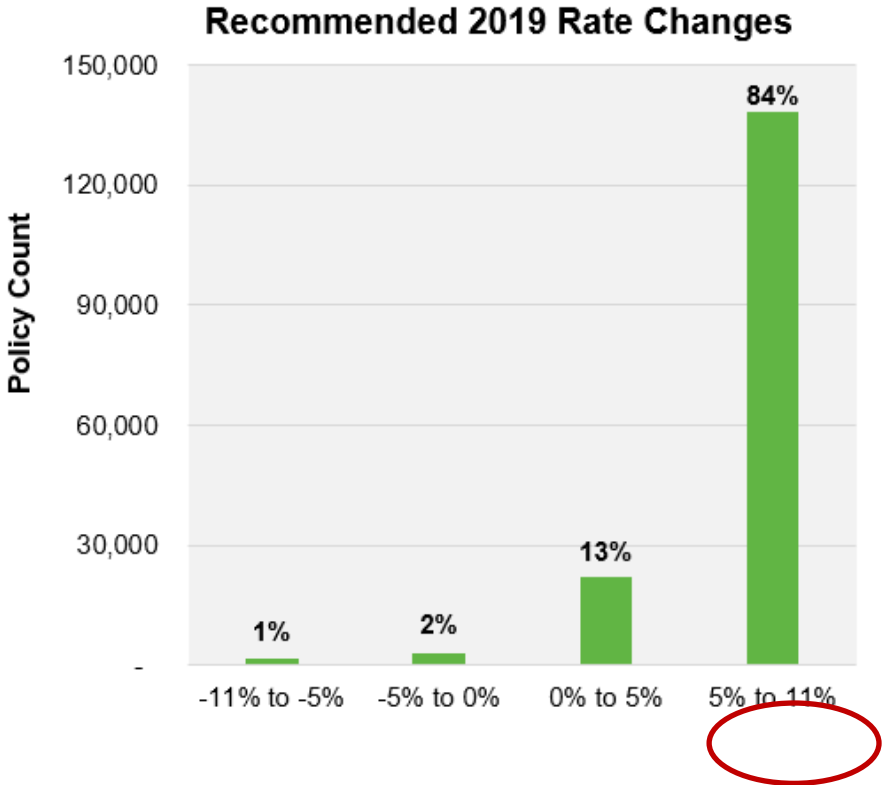
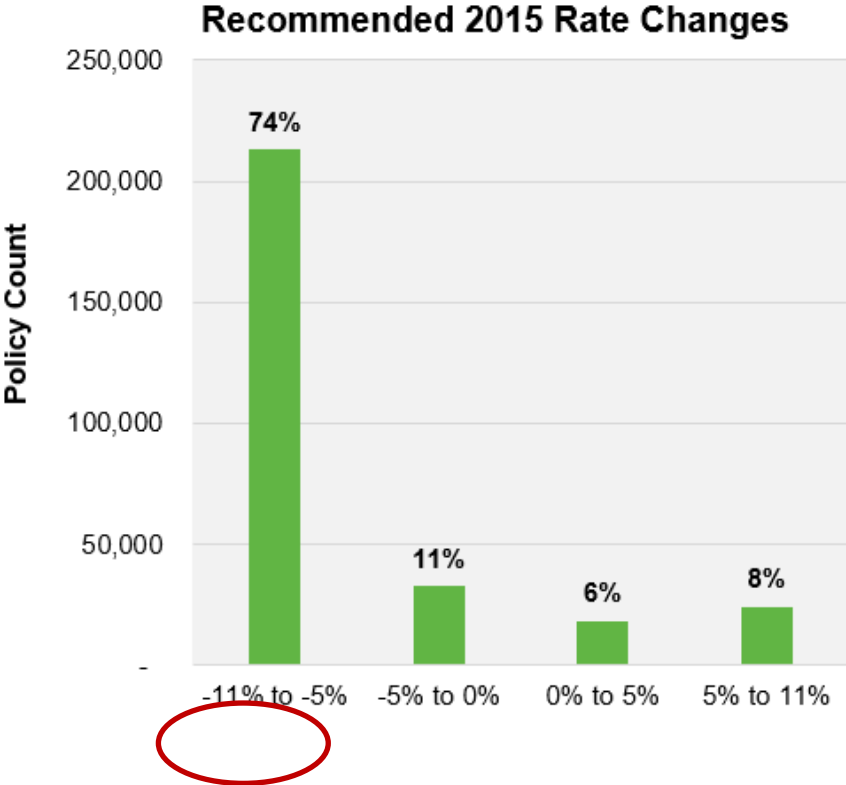
Statewide Personal Lines Rate Indications

- 97% of HO-3 multi-peril policyholders will see rate increases in 2019 due to non-catastrophic water loss litigation

Statewide	Current Indications		Indications Assuming Pre-2015 Litigation Rate	
	Uncapped Rate Indication	Proposed Rate Change	Uncapped Rate Indication	Proposed Rate Change
HO-3 Multi-Peril	25.2%	8.5%	1.5%	0.2%

- In 2015, 85% of HO-3 multi-peril policyholders received rate decreases
- If overall litigation rates can be reduced to pre-2015 levels, the multi-peril homeowners rate indication will be reduced from 25.2% to 1.5%
- If AOB reform is successful, the multi-peril homeowners rate indication will be reduced from 25.2% to 10.1%

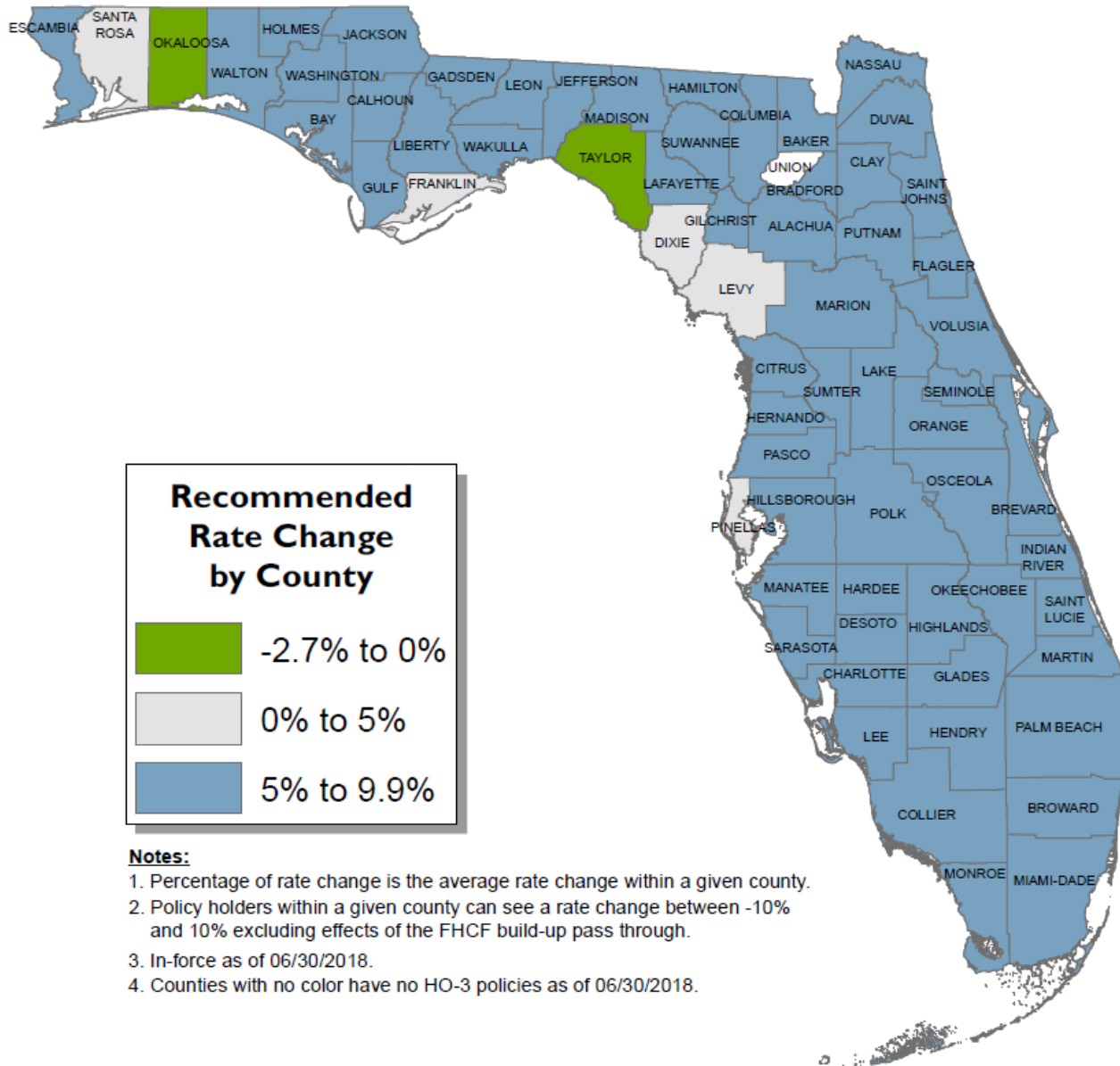
Recommended Homeowners Rate Changes: 2015 vs 2019



NOTE: Recommended rate changes apply to multi-peril Homeowners (HO-3) policies



Recommended Multi-peril HO-3 Rate Change



South East Florida - Personal Lines Rate Indications

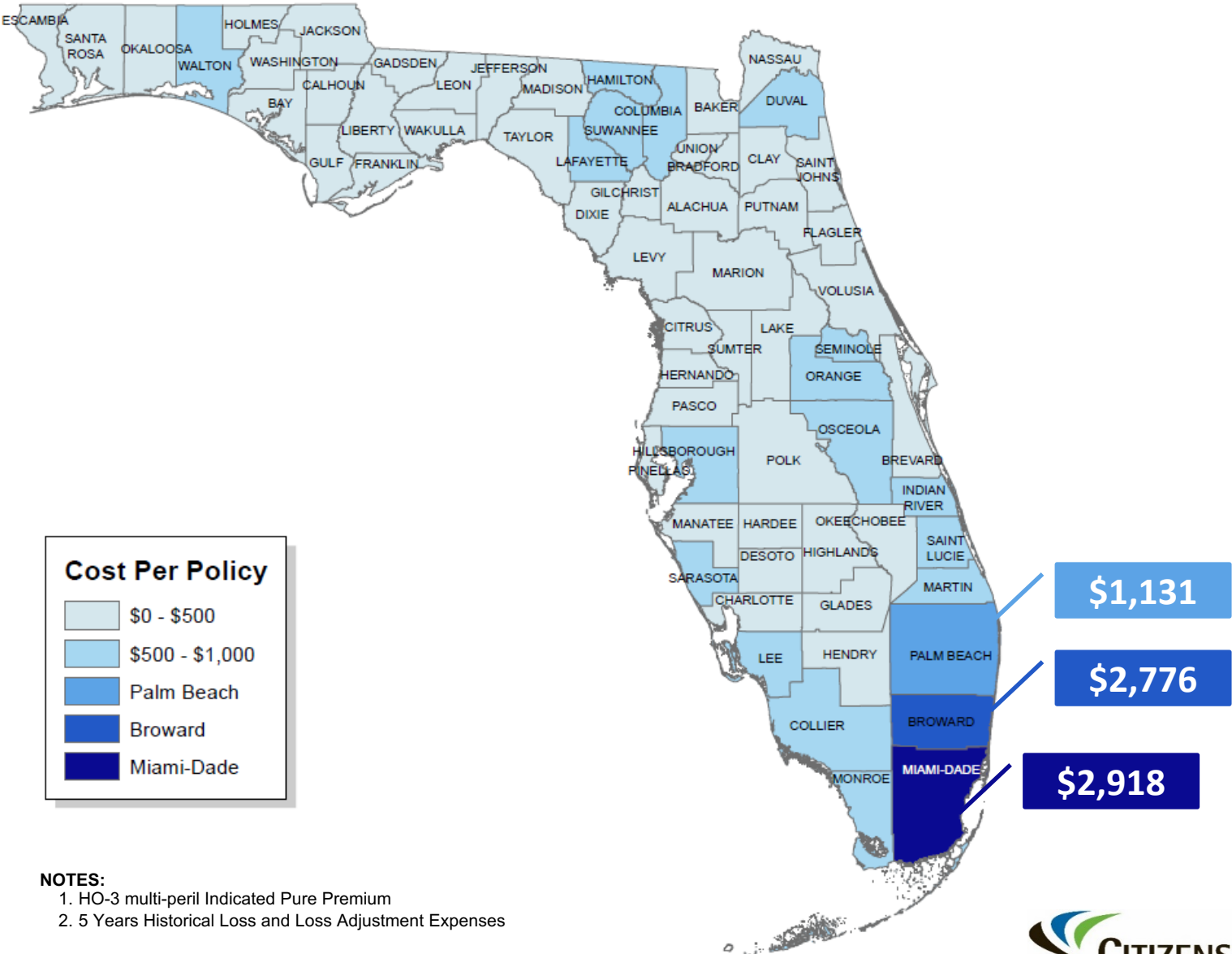
- If nothing changes, it is expected that as much as 60% of South East Florida's non-weather water claims may be litigated
- Recent litigated claims are 3 times as much as non-litigated claims; they are anticipated to be 5 times as expensive when closed
- In 2017, South East Florida accounted for 57% of HO-3 exposure and **94%** of all litigated claims

Miami-Dade County			
Homeowners	Current Premium	Proposed Indication	Indication Assuming Pre-2015 Litigation Rate
HO-3 Multi-Peril	\$3,687	\$4,664	\$3,581

- If overall litigation rates are reduced to pre-2015 levels, Miami-Dade rate indication will change from +26.5% (increase) to -2.9% (decrease)

NOTE: South East Florida includes Palm Beach, Broward, and Miami-Dade Counties

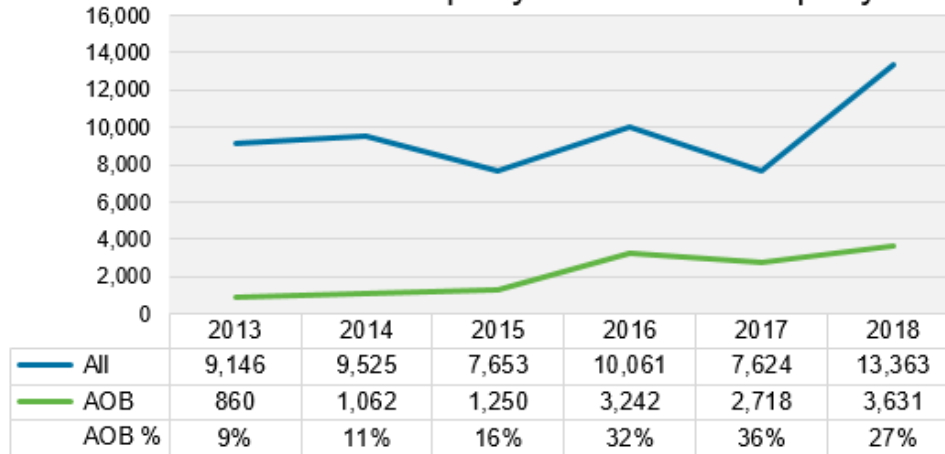
Non-Weather HO-3 Water Claims Cost per Policy



NOTES:
 1. HO-3 multi-peril Indicated Pure Premium
 2. 5 Years Historical Loss and Loss Adjustment Expenses

Increasing Litigation and AOB

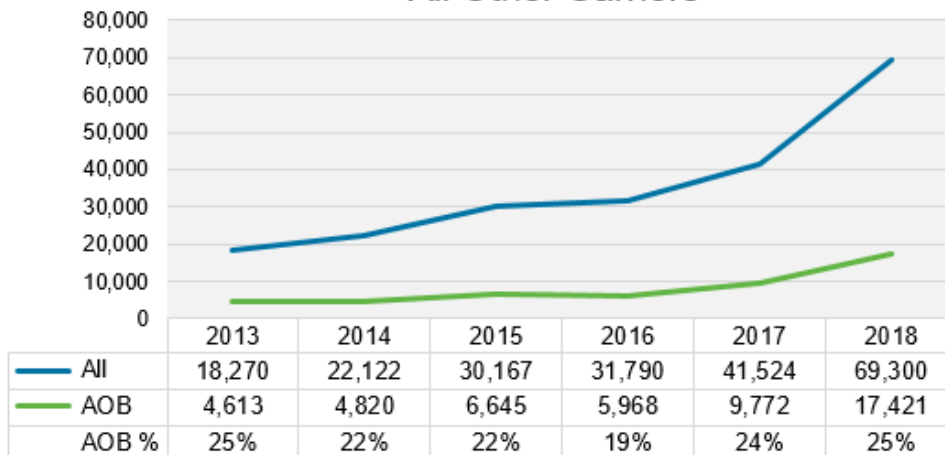
Citizens Property Insurance Company



For all carriers combined, over the past 6 years, non-weather water loss litigated claims:

- Increased by **202%**
- Claims with AOB has increased by **285%**

All Other Carriers



NOTE: 2018 data includes Hurricane Irma data. For Citizens, it comprises approximately 60% of new litigation.

Top Counties for Litigation and AOB for the Industry

85% of all lawsuits come from these 10 counties for all carriers combined

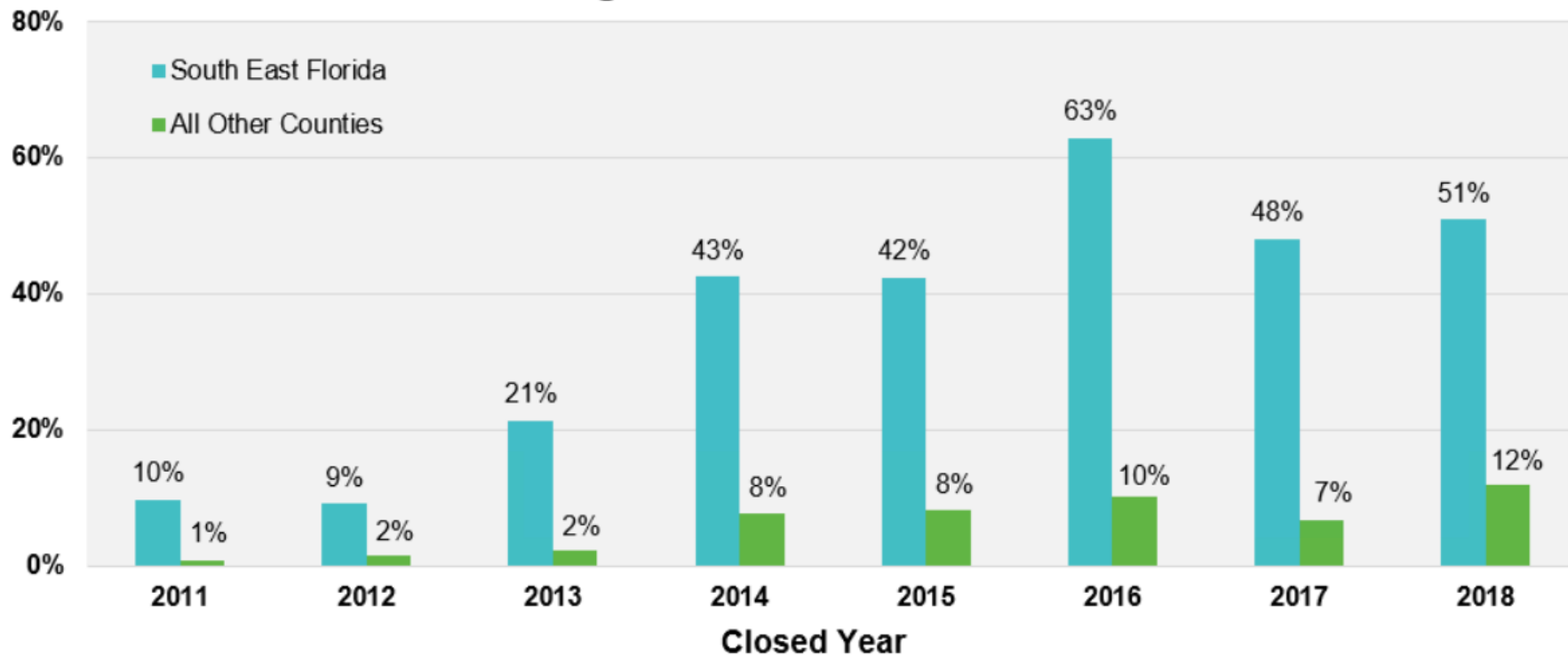
62% of all lawsuits are in South East Florida

	Miami-Dade		Broward		Palm Beach		Orange		Hillsborough	
	Lawsuits	AOB	Lawsuits	AOB	Lawsuits	AOB	Lawsuits	AOB	Lawsuits	AOB
2013	10,759	26%	4,383	18%	2,116	17%	1,583	46%	2,064	6%
2014	12,287	23%	5,933	19%	2,377	12%	1,816	42%	2,026	2%
2015	13,133	25%	8,317	26%	3,184	18%	2,111	25%	2,022	1%
2016	14,722	25%	9,612	30%	3,493	21%	2,000	21%	2,429	4%
2017	13,999	32%	11,137	34%	4,402	24%	2,982	22%	2,913	7%
2018	25,736	27%	17,281	30%	6,139	22%	6,232	37%	3,594	18%

	Pinellas		Duval		Osceola		Lee		Seminole	
	Lawsuits	AOB	Lawsuits	AOB	Lawsuits	AOB	Lawsuits	AOB	Lawsuits	AOB
2013	907	12%	726	9%	185	16%	340	13%	282	23%
2014	976	7%	781	12%	312	22%	493	24%	316	11%
2015	1,223	14%	961	10%	510	18%	521	23%	635	24%
2016	1,226	17%	1,049	6%	616	20%	491	13%	678	28%
2017	1,561	15%	1,488	13%	1,120	25%	726	16%	747	22%
2018	1,931	18%	2,027	22%	2,142	35%	2,313	18%	1,363	25%

Litigation Continues to Drive Water Trends

Percent of Litigated Non-Weather Water Claims

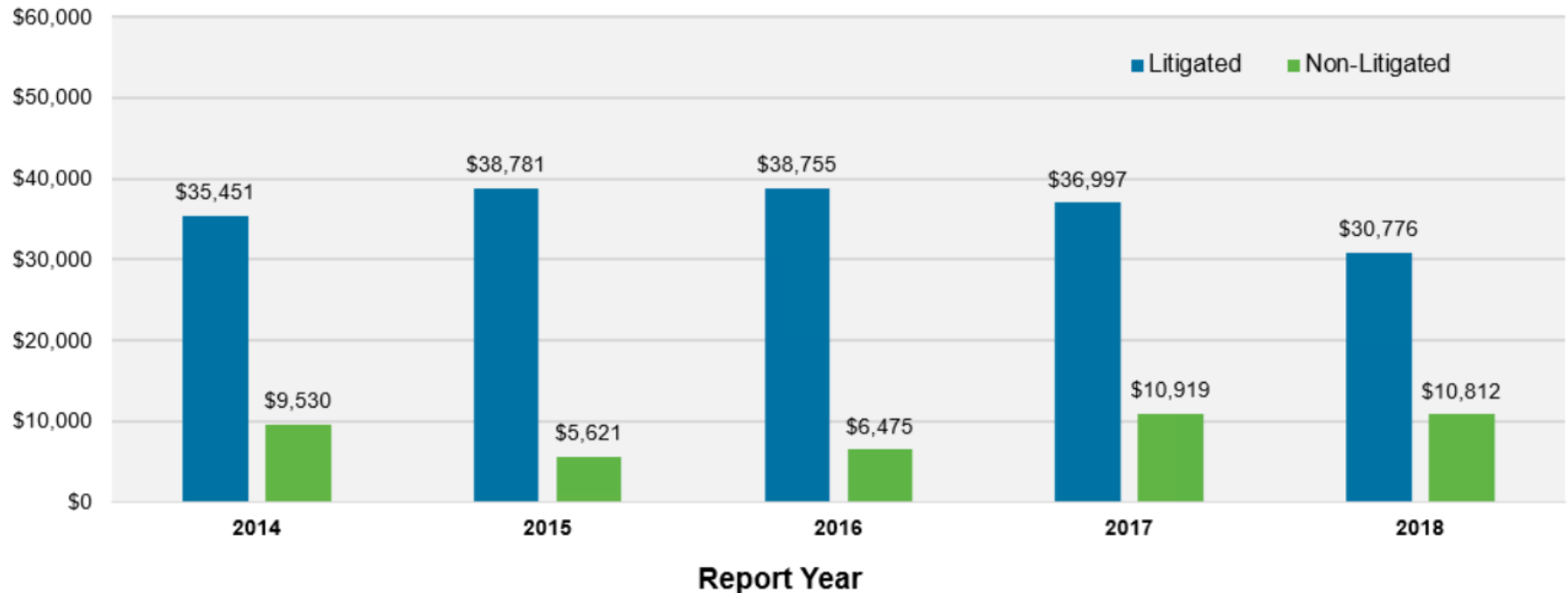


NOTES:

1. Claims data is based on non-weather water claims for multi-peril Homeowners (HO-3) policies
2. South East Florida includes Palm Beach, Broward, and Miami-Dade Counties

Homeowners Non-Weather Water Loss Severity – Litigated vs. Non-Litigated

Severity of Litigated vs. Non-Litigated Water Claims

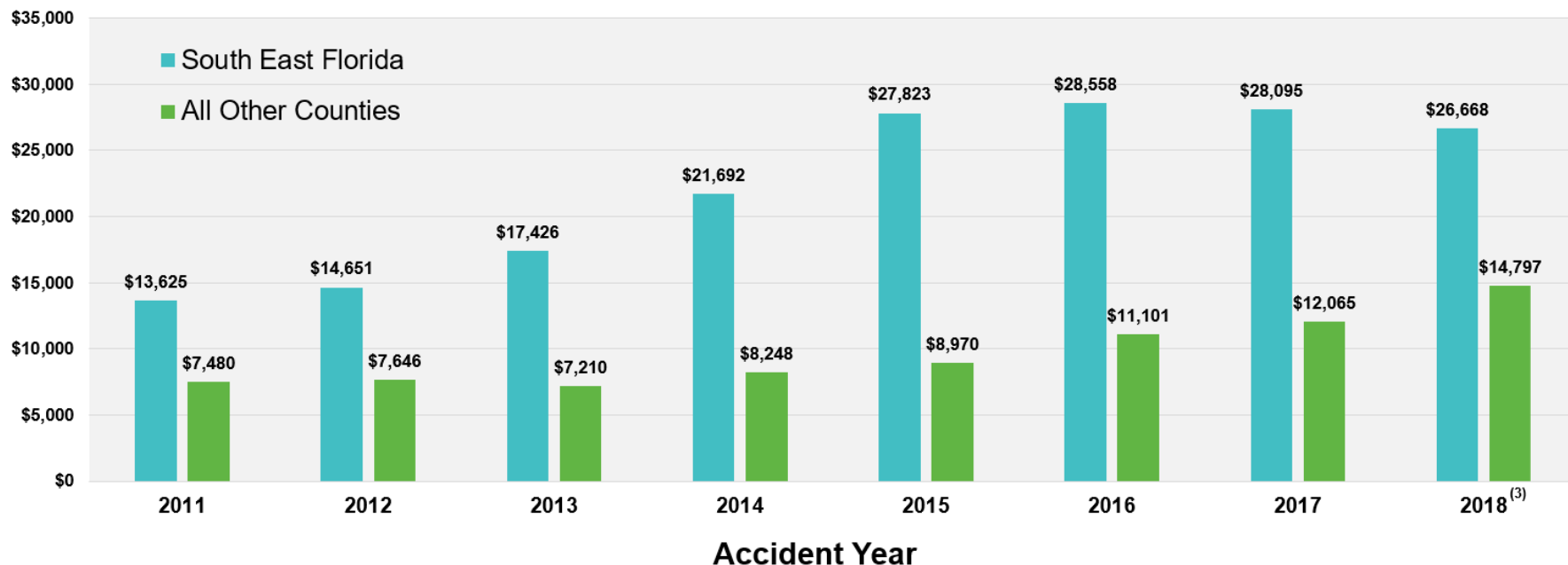


NOTES:

1. Claims data is based on non-weather related water claims for multi-peril Homeowners (HO-3) policies
2. Severity of litigated and non-litigated claims are based on undeveloped report year incurred loss and allocated loss adjustment expense (ALAE)

Homeowners Non-Weather Water Loss Severity – South East Florida vs. All Other Counties

Average Loss & ALAE Severity per Claim



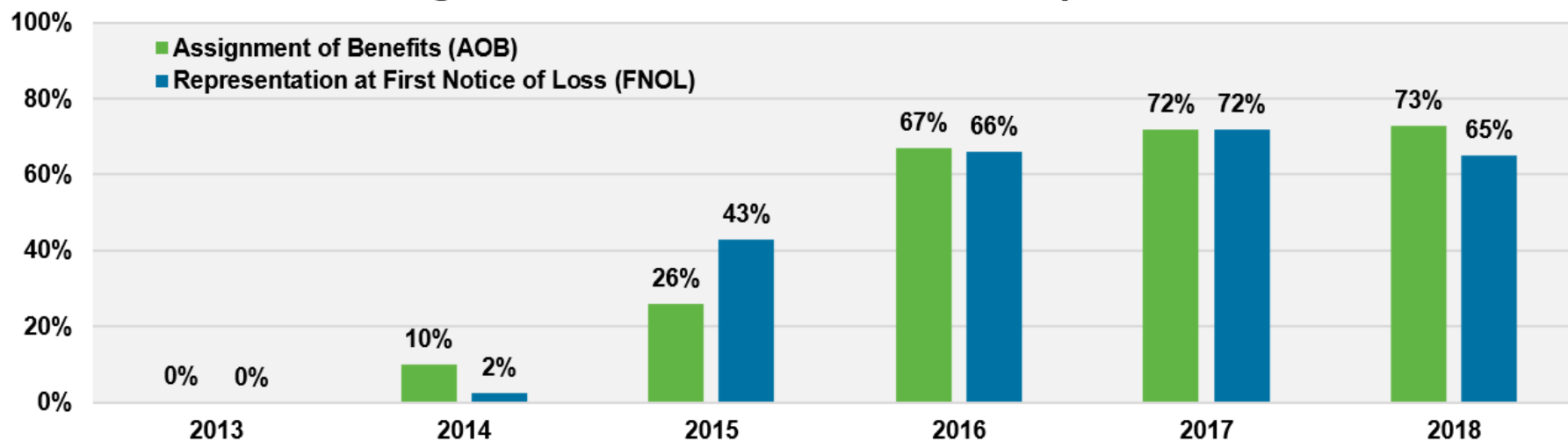
NOTES:

1. Figure above shows accident year trends based on water losses and water claims for multi-peril Homeowners (HO-3) policies
2. South East Florida includes Palm Beach, Broward, and Miami-Dade Counties
3. 2018 is based on accident year 10/01/2017 through 09/30/2018

AOB and Representation at FNOL Continue to Drive Water Trends and Loss Expenses

- 73% of litigated non-weather water claims closed in 2018 include an Assignment of Benefits
- The percentage of litigated non-weather water claims closed in 2018 with representation at First Notice of Loss has risen to 65%

Percent of Litigated Water Claims with AOB or Representation at FNOL



NOTE: Multi-Peril Homeowners (HO-3) policies, litigated non-weather related water claims based on the year the claim was closed for losses that occurred 2010–2018 and excludes catastrophe claims

Mitigating Non-Weather Water Losses

Voluntary program offered at time of non-catastrophic water losses for HO-3 and DP-3 policies caused by accidental discharge or overflow of water or steam from a plumbing, heating, air conditioning, automatic fire protective sprinkler system or household appliance

Emergency Water Removal Services

- No deductible
- No cost to policyholder even if loss is not covered
- If elected, a Citizens approved contractor(s) is provided for water removal and drying services

Managed Repair Contractor Network Program (MRCNP)

- Provides permanent repair services for covered damage
- Policyholder works with licensed and insured contractors within the network
- All contractors' claim related work is guaranteed for 3 years

Mitigating Non-Weather Water Losses – Policy Changes

2016 Policy Language Changes

- Limit reasonable emergency measures (REM) to \$3,000 or 1% of Coverage A unless approved by Citizens
- No coverage for permanent repairs started prior to 72 hours after loss is reported to Citizens or damage is inspected/approved by Citizens
- Clarified “access to repair” and “collapse” language to limit non-covered and excessive repairs

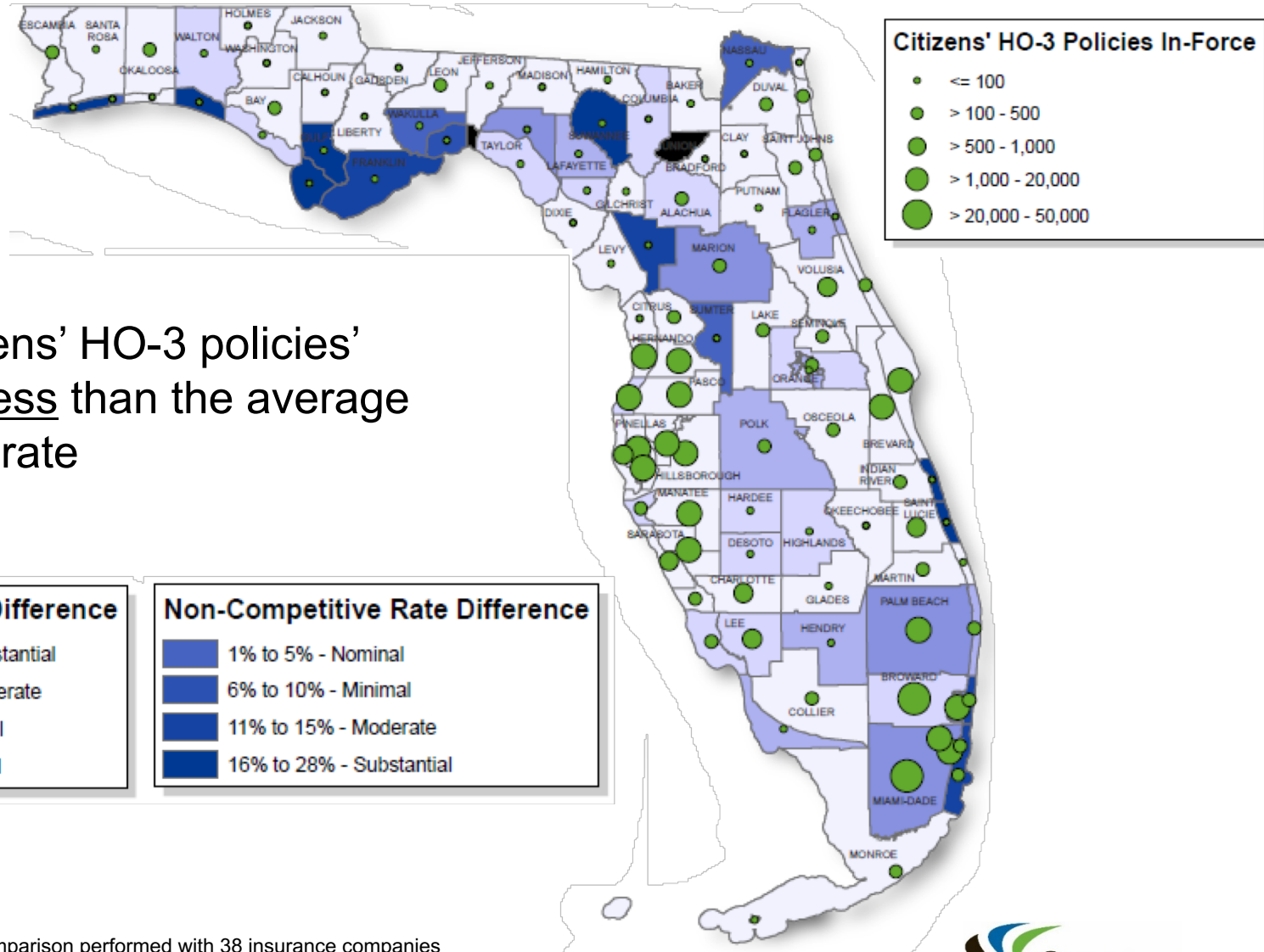
2017 Policy Language Changes

- Managed Repair Contractor Network Program (MRCNP) introduced
- Emergency Water Removal Services (EWRS) for non-weather water loss introduced

2018 Policy Language and Underwriting Changes

- \$10,000 Limit on Coverage for non-weather water loss introduced
 - Limit will be waived if policyholder participates in the MRCNP
 - Limit applies to Coverages A and B and may be reduced by payments for other coverages
- REM limit amended to \$3,000 for non-weather water loss; all other covered perils, applicable coverage limit applies.
 - Payment under the \$3,000 REM non-weather water loss limit will be deducted from the \$10,000 Limit on Coverage
 - If policyholder participates in the EWRS the \$3,000 non-weather water loss limit will be waived and payments will not be deducted from the \$10,000 limit on coverage
- Requires all claimants other than insured, their agent, representative or a public adjuster representing claimant to:
 - Provide documentation supporting the right to make a claim
 - Provide documentation detailing the scope and amount of loss
 - Participate in appraisal or alternative dispute resolution
- Restrict eligibility for risks with more than 2 non-weather water losses. Exceptions may be made if the underlying cause of loss has been remediated.

Homeowners Rate Comparison with Industry – Statewide



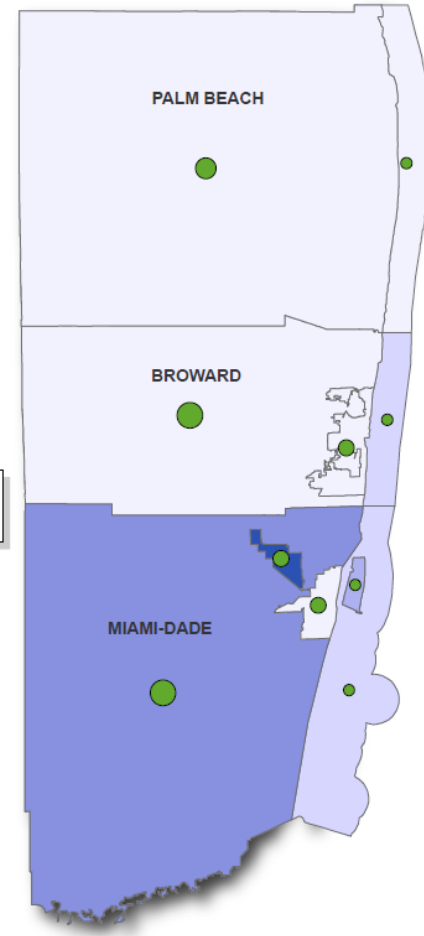
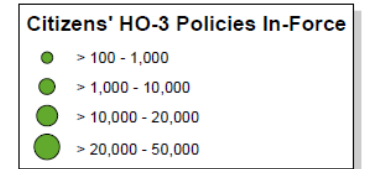
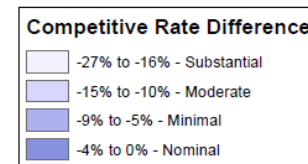
75% of Citizens' HO-3 policies' premium is less than the average competitor's rate

NOTE: Competitive rate comparison performed with 38 insurance companies

Homeowners Rate Comparison with Industry – South East Florida

Citizens' average premium is **10% less** than the average competitors' premium in South East Florida

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



Response to OIR Order Regarding Monroe County

1. An evaluation and study of appropriate rating territories for Monroe County for wind-only and multi-peril policies
2. Review the study of Applied Research Associates, Inc. which evaluated the effectiveness of Plywood (Class C) shutters, for consideration by Citizens to provide a credit for this wind mitigation feature
3. Collaborate with Monroe County on the completion of its detailed study to evaluate the effect of building code standards in Monroe County and the impact of those standards on wind mitigation credits
4. An evaluation and study of the models accepted by the Florida Commission on Hurricane Loss Projection Methodology using the 2017 standards, which includes the requirement that county building codes be reflected in the model results

Homeowners Rate Comparison with Industry – Monroe

Citizens' average premium is **17% less** than the average competitors' premium in Monroe County

Citizens average premium falls in the middle of the highest and lowest premiums

Company A	\$11,209
Company B	\$8,314
Company C	\$7,474
Company D	\$6,479
Company E	\$5,188
Company F	\$4,889
Citizens P & C	\$4,816
Company G	\$4,753
Company H	\$4,714
Company I	\$3,993
Company J	\$3,836
Company K	\$3,294
Competitor Average	\$5,831
Difference	-17%

NOTE: Competitive rate comparison using 11 out of 26 insurers known to have multi-peril homeowners policies in force in QUASR as of 09/30/2018 based on information available in a competitive rating database (not all carriers premiums are available in the database)

Questions and Discussion