STATE OF FLORIDA

Property Insurance Update

February 3, 2025

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Market Framework Provides Stability

- The insurance market in Florida is subject to regulatory oversight, and the State has well established entities in place that continue to serve vital roles in Florida's residential property insurance ecosystem
  - **Florida Hurricane Catastrophe Fund ("FHCF")** – State entity that provides stable, predictable, and reliable source of reinsurance for a portion of Florida residential property insurers' hurricane losses
  - **Citizens Property Insurance Corporation ("Citizens")** – Statutorily created insurer of last resort, absorbing policies that are not able to be placed in the private market, with proven depopulation mechanisms in place to shift policies back to private insurers over time
  - **Florida Insurance Guaranty Association ("FIGA")** – Statutorily created to handle the liabilities of insolvent insurance companies, ensuring orderly and timely payment of outstanding claims
  - **Florida Office of Insurance Regulation ("OIR")** – State regulatory agency that provides oversight of insurance industry and ongoing monitoring of the financial solvency of insurers
- These longstanding mechanisms help stabilize the property insurance market during periods of volatility, and more recently the State also implemented temporary State programs that offered additional reinsurance coverage for 2022 and 2023 hurricane seasons

Insurance Market Conditions and Reforms

- Florida's residential property insurance market was plagued by litigation producing excessive industry losses and precipitating legislative and regulatory reforms. Florida represented 9.7% of homeowners' claims nationally, but 71.5% of homeowners' lawsuits in 2023
- From October 2019 through February 2023, 10 property insurers writing approximately 416,000 aggregate policies in Florida were declared insolvent by OIR. Policies of insolvent companies were absorbed by other private insurers or Citizens, with liability for outstanding claims transferred to FIGA – **no disruption to payment of outstanding claims for policyholders**
- Florida has approximately 7.5 million residential property insurance policies in force and displaced policies represent a small and manageable percentage of total market
- The State has taken aggressive steps to address the challenges impacting the insurance industry, with a multi-prong legislative agenda enacted in 2022 and 2023 designed to eliminate abusive litigation practices, curtail insured losses, and promote long-term market stability

Source: Office of Insurance Regulation and Florida Insurance Guaranty Association

Benefits of Litigation Reforms

- Benefits of the State's legislative reforms are beginning to manifest:
  - Litigation declined significantly in 2024, with case filings showing a consistent reduction compared to 2022, peaking at a 30% decrease
  - After years of aggregate industry losses, including combined industry losses of $1.4 billion in 2021 and 2022, many insurers have returned to profitability with aggregate industry gains of $313 million in 2023 and $389 million through Q3 2024
  - Nearly 1.3 million policies at Citizens approved for takeouts in 2024
  - 10 new companies approved by OIR to enter the Florida property insurance market, and an additional company was acquired to expand its footprint in the State
  - 30-day average rate increase request is currently 0.8%, compared to 1.82% a year ago and 21.8% two years ago
  - 180-day average rate increase request is currently 1.0%, relative to 6.21% a year ago and 12.87% two years ago
  - In 2024, companies reported risk-adjusted change in reinsurance costs decreased by an average of 1.7%. From 2022 to 2023, the risk-adjusted change in reinsurance costs increased on average by 27.0%

Source: Office of Insurance Regulation

Florida Hurricane Catastrophe Fund

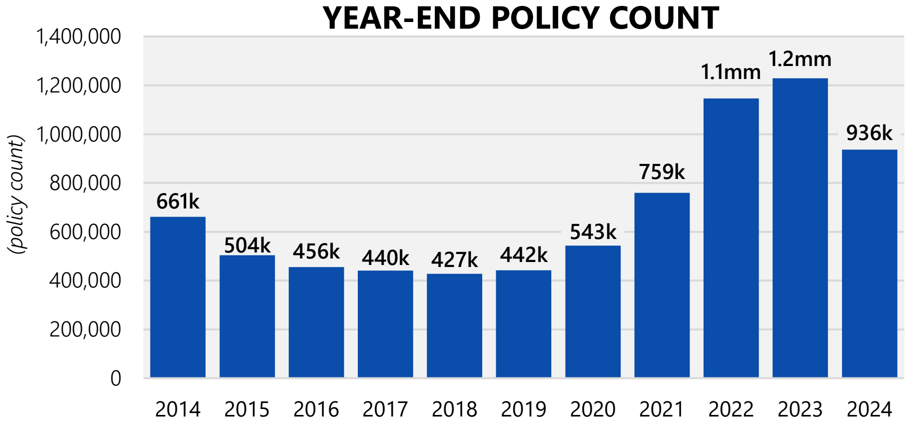
- FHCF maintains significant liquid resources (projected to be $9 billion) relative to the statutory maximum liability of $17 billion for the hurricane season starting June 1, 2025

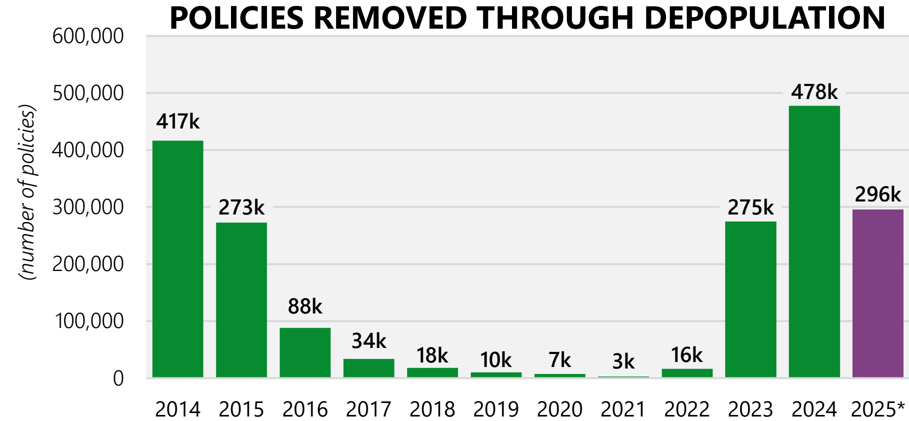
FHCF Estimated Resources for 2025 Hurricane Season *(in billions of dollars)*	
Projected Fund Balance (at December 31, 2025)	$5.75
2020A & 2024A Pre-Event Bond Proceeds	3.25
Estimated Available Resources for 2025 Hurricane Season	**$9.0**
FHCF Statutory Annual Maximum Liability	**$17.0**
Potential Post-Event Bonding	**$8.0**

- FHCF's projected liquid resources are net of approximately $12.5 billion related to Hurricanes Ian, Idalia, Helene, and Milton in the 2022, 2023, and 2024 hurricane seasons, comprised of approximately $5.0 billion in paid losses and $7.5 billion in loss reserves as of December 31, 2024
- The FHCF's current loss estimates based on initial company reporting are $9.0 billion for Hurricane Ian, $3.5 billion for Hurricane Milton, and $11 million for Hurricanes Idalia and Helene combined. These estimates are subject to material change as loss information continues to develop
- FHCF collects reimbursement premiums from participating insurers (projected $1.4 billion for 2025-2026 contract year) and may also levy assessments on most property and casualty lines of insurance in Florida to support FHCF debt. The assessment functions like an insurance premium tax on all assessable policies. There are currently no assessments in place
  - Assessment base totaled $85.2 billion in 2023, which would generate $5.1 billion based on 6% assessment (single season limit) and $8.5 billion based on 10% assessment (aggregate limit)
  - FHCF's estimated post-event bonding capacity totaled $7.9 billion over 12 months based on the October 2024 bonding capacity estimates
  - Loss payouts vary by storm but have historically occurred over multiple years. For example, FHCF's paid losses totaled approximately $2.5 billion from Hurricane Ian over the first 12 months following landfall, relative to the current total loss estimate of $9.0 billion
- **Based on reported loss estimates as of December 31, 2024, FHCF expects losses for the 2022, 2023, and 2024 hurricane seasons (Hurricanes Ian, Idalia, Helene, and Milton) will be paid from current reserves and not require an assessment or financing**

 Source: Florida Hurricane Catastrophe Fund

Citizens Property Insurance Corporation





- Trends in Citizens' policy count is a proxy for the health of Florida's property insurance market. Policies peaked at 1.4 million in September 2023 as it absorbed policies from insolvent companies and other private market insurers reducing their exposure. Since then, policy count has decreased to approximately 936k as of December 2024 (estimated 10% market share). In November 2024, Citizens wrote less than 20,000 new policies, the lowest monthly amount since February 2021
- Citizens remains in a strong financial position with projected total claims-paying capacity of $12 billion for the 2025 hurricane season
    - $3.8 billion of surplus, $3.5 billion of FHCF coverage, and planning for up to $4.6 billion of private risk transfer
    - Citizens maintains strong liquidity to pay claims, with $11.3 billion in cash and invested assets as of September 30, 2024. The combining of the three Citizens accounts pursuant to a change in law in 2024 reduced the risk of assessments
- Current estimated losses for storms in the 2024 hurricane season total $4.4 billion. These estimates are subject to change materially as losses develop
- Citizens collects premiums like a typical insurance company. But it also has the authority to levy surcharges on its policyholders as well as assessments on a broad base of property and casualty insurance policies in the State (similar to FHCF)
- Citizens has two assessment tiers:
    1. Citizens Policyholder Surcharge: one-time assessment on Citizens' policyholders only, up to 15% of premium
    2. Emergency Assessment: single or multi-year assessment levied on both Citizens and private-market policyholders, up to 10% of premium. Only levied if the policyholder surcharge is insufficient to eliminate a deficit
- Citizens defeased its remaining $275 million of pre-event bonds in December 2023 and currently has no pre-event or post-event debt outstanding
- **Based on current estimated losses for the 2024 hurricane season, Citizens anticipates paying losses from surplus or reinsurance and no assessments or financing will be needed**

Source: Citizens Property Insurance Corporation

Florida Insurance Guaranty Association

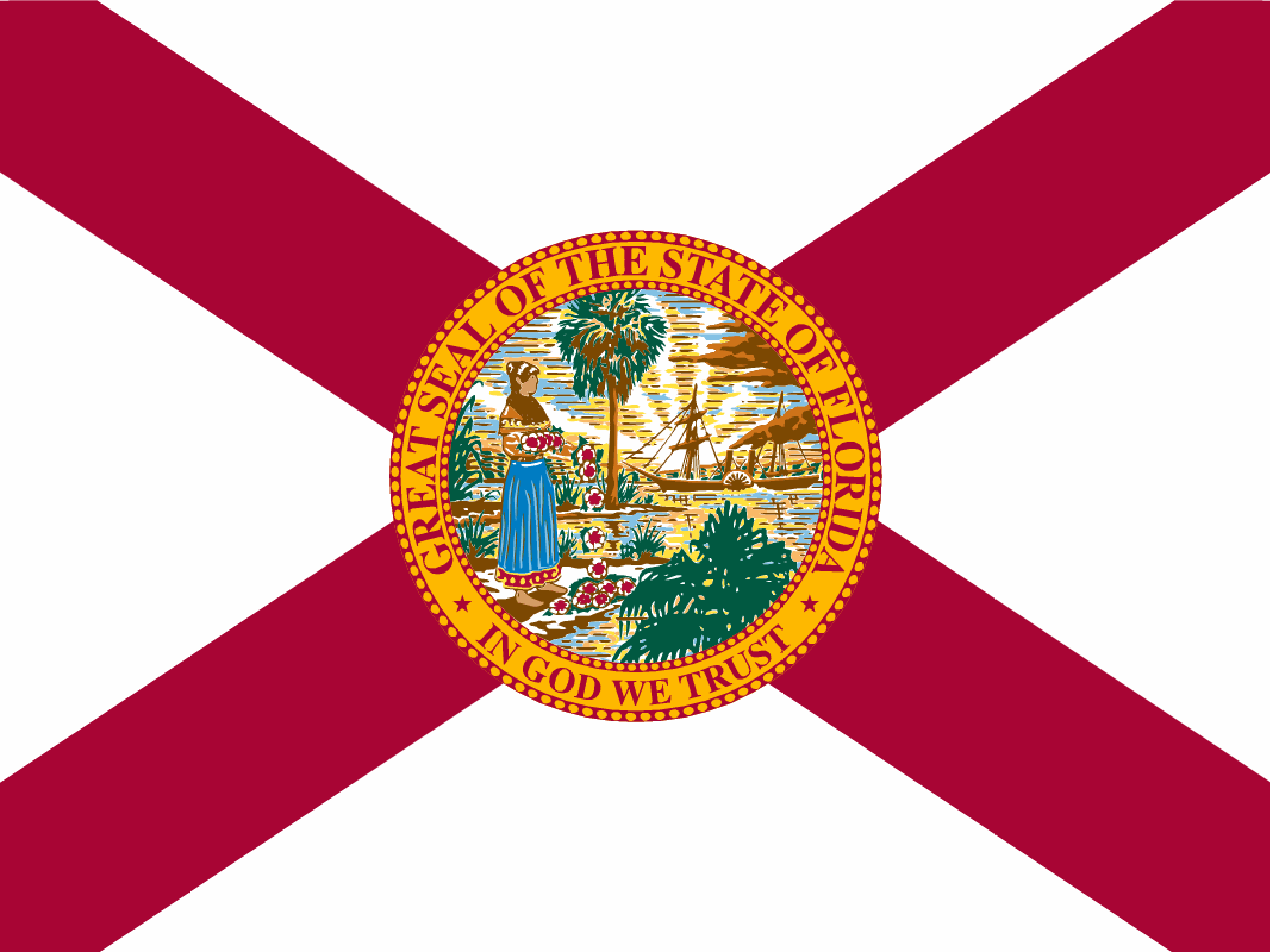
- FIGA was statutorily created to ensure that insurance contracts are honored after an insurance company fails, with membership mandatory for all insurers that transact business in Florida. FIGA is organized into two separate accounts (the "Auto" and the "All Other" which includes property insurers)
- Primary funding sources for each FIGA account are estate distributions from insolvent insurers, investment income, and assessments on broad range of insurance lines. FHCF reimbursements to insolvent property insurers are sent directly to FIGA
- Assessments are charged directly to insurers, not policyholders:
  - Regular Assessment: up to 2% per year of each insurer's direct written premium
  - Emergency Assessment: up to 4% per year of each insurer's direct written premium to pay claims of insurers rendered insolvent by the effects of a hurricane. Emergency Assessments can only be levied for the "All Other" account and apply to a broad range of insurance lines (excluding "Auto")
  - The assessment base for the "All Other" account totaled $32 billion in 2023, which would generate $1.9 billion annually based on maximum assessment (2% regular and 4% emergency)
- 10 property insurers were declared insolvent from October 2019 to February 2023 resulting in estimated losses of $2.18 billion
- FIGA financed a portion of the claims from insolvent insurers with bank loans totaling $400 million (now fully paid off) and the issuance of $590.3 million of bonds in 2023
- The Series 2023 Bonds are currently outstanding in the aggregate principal amount of $539.8 million and are secured by a 1% emergency assessment. The levy is estimated to generate $318 million in emergency assessment revenue annually based on 2023 assessment base, which produces estimated debt service coverage of approximately 2.2x. The fixed-rate bonds have a final maturity in 2028 and the variable rate bonds mature in 2032
- At end of 2024, FIGA had paid $2.04 billion out of total estimated $2.18 billion of claims from insolvent insurers and has claims-paying capability for the "All Other" account of $381 million as December 31, 2024
- **FIGA's potential for levying additional assessments in the future is unknown and is dependent on future insolvencies of property market insurers**

Source: Florida Insurance Guaranty Association

Office of Insurance Regulation

- OIR continues to see overall market stabilization following the historic legislative reforms of 2022 and 2023 that enhanced protections for consumers, strengthened Citizens, and encouraged investment in the State by insurers and reinsurers by providing clarity to the market and the risk they underwrite
    - Rate filings for 2024 show a slight downward trend for the first time in years, indicating stabilization in the property insurance market. Out of 134 companies, 32 have filed a 0% increase, and at least 17 companies have filed a rate decrease to take effect in 2024
    - The reinsurance market has also responded positively to these reforms, and early signs from the 2024 reinsurance purchasing season show further positive indications. Reinsurance is a direct and significant cost to consumers and relief in this area is a significant sign that the legislative reforms are working
    - After years of consecutive underwriting losses, Florida property market insurers saw overall stability with many companies reporting a net profit in 2023 and through Q3 2024
- OIR is committed to seeing the impacts of the reforms fully realized and will continue to expand and promote transparency for consumers while maintaining a competitive marketplace where insurers are interested in operating and able to confidently grow
- The financial condition of the property insurance market is closely monitored by OIR, with a focus on identifying companies that may face financial difficulties and proactively seeking solutions. Legislation in 2024 expanded the property market data collected by OIR to provide more regular and granular market data
- In the event of an insurer insolvency, OIR works with private carriers to secure consumers streamlined replacement coverage in the private market. Policies of insolvent companies are also picked up by Citizens or other private insurers, and liabilities are transferred to FIGA for payment of outstanding claims
    - There have been no additional property insurance insolvencies since February 2023

 Source: Florida Office of Insurance Regulation.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