Management's Discussion and Analysis

Company Background

This discussion provides an assessment by management of the financial position, results of operations, cash flow and liquidity for Louisiana Citizens Property Insurance Corporation (LCPIC). LCPIC was established in 2003 by the Louisiana legislature as a nonprofit corporation to operate residual market insurance plans effective January 1, 2004. The objective of LCPIC is to provide essential property insurance for residential and commercial property applicants who are unable to procure insurance through the voluntary market. LCPIC is the successor to the program established by Act 424 of the 1992 Regular Legislative Session designated as the "Fair Access to Insurance Requirements Plan" or otherwise known as the Louisiana Joint Reinsurance Plan (FAIR Plan) and the Louisiana Insurance Underwriting Plan (Coastal Plan). Information presented in this discussion supplements the financial statements, schedules, and exhibits in Louisiana Citizens Property Insurance Corporation's 2020 Annual Statement.

Major events occurring in 2020 for LCPIC were:

- LCPIC renewed its reinsurance program in May 2020 with storm coverage of $560 million and retention of $35.0 million that includes a traditional reinsurance program and cat bonds for approximately the same cost as compared to 2019. The 2020 program provides for the same 1 in 303 year storm coverage compared to the 2019 program.
- LCPIC completed an fourteenth round of depopulation effective December 1, 2020 transferring 69 policies and approximately $17.2 million of exposure to the private insurance market.
- In 2020, there was one tropical storm and four named hurricanes making landfall into Louisiana where LCPIC incurred losses from all five weather events. The claims resulting from three of these hurricanes met coverage requirements under LCPIC's traditional reinsurance program.

Financial Position

LCPIC's financial position at December 31 was as follows:

Balance Sheet (in thousands of dollars - 000)	2020	2019
Assets		
Bonds	$77,422	$78,319
Cash, cash equivalents and short-term investments	156,685	193,079
Total cash and invested assets	234,107	271,398
Uncollected and deferred premiums	7,086	6,723
Reinsurance balances	13,959	426
Long-term emergency assessments receivable	336,499	386,500
Excess emergency assessments collected over debt service	0	4,520
Other assets	14,812	15,170
Total assets	$606,463	$684,737
Liabilities and Policyholders' Surplus		
Unpaid loss and loss adjustment expenses	$11,174	$16,001
Borrowed money	346,805	405,304
Unearned premiums	29,309	30,434
Restricted assessments	45,455	36,080
Other liabilities	11,782	10,455
Total liabilities	444,525	498,274
Total policyholders' surplus	161,938	186,463
Total liabilities and policyholders' surplus	$606,463	$684,737

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Assets

Total assets decreased by $78.3 million in 2020 compared to 2019 primarily due to:

Cash, cash equivalents and short-term investments decreased $36.4 million in 2020 compared to 2019 primarily due to a $43.6 million increase in net loss and loss adjustment expense payments after reinsurance recoveries.

Reinsurance balances of $14.0 million are primarily the uncollected reinsurance recoverables billed during the fourth quarter of 2020 for Hurricanes Laura, Delta, and Zeta.

Long-term emergency assessments receivable reflects the future assessments that will be utilized to repay outstanding bond debt from Hurricane Katrina losses incurred in 2005. The decrease of $50.0 million is due to a bond principal payment made in 2020.

Excess emergency assessments collected over debt service reflects the excess of either unrestricted bond funds or future debt service costs. Prior to 2020, the asset balance reflected the future debt service costs that exceed unrestricted bond funds. In 2020, future debt service costs have been amortized to where they no longer exceed emergency assessment income. Excess emergency assessments collected over debt service increased $13.0 million in 2020 compared to 2019 primarily due to $71.5 million in emergency assessment income offset by $57.7 million in debt service costs.

Liabilities

Total liabilities decreased $53.7 million in 2020 compared to 2019 primarily due to:

Unpaid losses and LAE decreased $4.8 million in 2020. The decrease is primarily due to a reserve adjustment to the projected exposure for the Oubre class action suit. Unpaid losses and LAE are stated at LCPIC's estimate of the ultimate cost, net of reinsurance, of settling all incurred but unpaid claims. Unpaid losses and loss adjustment expenses are not discounted and no estimate for salvage and subrogation is applied as a reduction to the unpaid losses. The estimate for unpaid losses and loss adjustment expenses is closely monitored and adjusted, if needed. LCPIC uses various development modeling techniques to assist in the evaluation of its reserves under the direction of its actuary. As an additional safeguard in the valuation of unpaid losses and LAE, LCPIC receives a peer review from an outside actuary. Management believes that its reserves are adequate, but establishing reserves is a judgmental and inherently uncertain process. It is therefore possible that as conditions and experience develops, reserve adjustments may be required in the future.

Borrowed money decreased $58.5 million in 2020 compared to 2019 primarily due to the $50.0 million bond principal payment made in 2020 and $8.3 million reduction in unamortized bond premium.

Restricted assessments of $45.5 million reflects assessment revenues held by the Bond Trustee for repayment of borrowed money. Restricted assessments includes excess emergency assessments collected over debt service and as stated above under Assets, in 2020 future debt service costs have been amortized to where they no longer exceed emergency assessment income. Restricted assessments increased $9.4 million in 2020 compared to 2019 due to the $13.0 million increase in excess emergency assessments collected over debt service offset by the $4.5 million 2019 asset balance for excess emergency assessments collected over debt service.

Policyholders' Surplus

The decrease in total policyholders' surplus of $24.5 million in 2020 compared to 2019 primarily due to a net loss of $24.6 million.

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Results of Operations

LCPIC's operating results and key financial ratios are presented in the following table.

Statement of Income and Ratios (000)	2020	2019
Premiums earned	$36,166	$39,507
Losses incurred	42,695	12,759
LAE incurred	6,667	6,324
Underwriting expenses	13,527	14,240
Underwriting gain (loss)	(26,723)	6,184
Net investment loss	(6,034)	(4,807)
Other Income	8,125	8,433
Net income	($24,632)	$9,810
Loss Ratio	118.1%	32.3%
LAE Ratio	18.4%	16.0%
Underwriting expense ratio	37.4%	36.0%
Combined ratio	173.9%	84.3%

Net income in 2020 was $34.4 million less than 2019 due to:

Premiums earned decreased $3.3 million in 2020 compared to 2019 due to a 2% decline in inforce policies for the majority of policy types written.

Losses and LAE incurred was $49.4 million in 2020 compared to $19.1 million in 2019 for a net change of $30.3 million that was primarily due to the following:

Description (in millions)	Increase (Decrease)
Losses and LAE incurred in 2020 from Hurricane Laura.	38.0
Losses and LAE incurred in 2020 from non-catastrophe losses occurring in 2020.	12.0
Losses and LAE incurred of ($.5) million in 2020 for non-catastrophe losses occurring in 2019 compared to losses and LAE incurred of $14.8 million in 2019 for non-catastrophe losses occurring in 2019.	(15.3)
Losses and LAE incurred of $.1 million in 2020 for Hurricane Barry losses compared to losses and LAE incurred of $2.7 million in 2019.	(2.6)
Losses incurred of $.3 million in 2020 for Oubre Class Action Suit compared to losses incurred of $1.9 million in 2019.	(1.6)
All other decreases in incurred losses and LAE.	(.2)
Net increase in losses and LAE incurred	$30.3

Combined ratio – the combined ratio in 2020 was 173.9% compared to 84.3% in 2019 primarily due to the decrease in premiums earned and increase in losses and LAE incurred. The combined ratio expresses the sum of the costs for losses, LAE and underwriting expenses as a percentage of premiums earned.

Cash Flow and Liquidity

Cash Flow

Primary sources of cash include cash from premiums collected, miscellaneous income, proceeds from investments sold, matured or repaid; and primary uses of cash include losses and expenses paid, cost of investments acquired, and debt service costs.

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The cash flows of LCPIC are summarized as follows:

Cash Flow Statement (000)	2020	2019
Operations		
Premiums collected	$34,192	$38,174
Net investment income received (paid)	(3,751)	(2,231)
Miscellaneous income	8,125	8,433
Losses paid	(60,691)	(16,325)
Expenses paid	(20,384)	(19,698)
Net cash from operations	($42,509)	$8,353
Investment Activities		
Proceeds from investments sold, matured or repaid	$51,710	$16,064
Cost of long-term investments acquired	(53,390)	(12,671)
Net cash from investments	(1,680)	3,393
Financing Activities		
Other cash provided (applied)	7,796	6,297
Net cash from financing activities and miscellaneous sources	7,796	6,297
Change in Cash and Short-Term Investments		
Net change in cash, cash equivalents and short-term investments	($36,393)	($11,018)

Cash, cash equivalents, and short-term investments decreased $25.4 million in 2020 compared to 2019 due to:

Net cash from operations was ($42.5) million in 2020 compared to $8.4 million in 2019 for a net change of $50.9 million was due to the following:

Description (in millions)	Cash Provided (Cash Applied)
Change in premiums collected is related to a decline in policies in force, 35,670 in 2020 as compared to 36,671 in 2019.	(4.0)
Change in net investment income received is related to a $2.5 million decrease in bond interest and offset by a $1.0 million decrease in debt service costs in 2020 compared to 2019.	(1.5)
Losses and expenses paid increased primarily due to following:	
- Loss and LAE paid for 2020 Hurricanes Laura, Delta, and Zeta claims	(52.0)
- Loss and LAE paid for non-catastrophe related claims occurring in 2020	(9.0)
- Decrease in loss and LAE paid for non-catastrophe related claims that occurred prior to 2020	11.8
- Decrease in loss and LAE paid for 2019 Hurricane Barry claims	2.6
- Class action suit settlements ($4.5 million paid in 2020 versus $5.6 paid in 2019)	1.1
All other cash movements related to miscellaneous income and expenses paid	.1
Net cash applied from items listed above impacting cash from operations	($50.9)

Net cash from investments in 2020 was ($1.7) million compared to $3.4 million in 2019. The $5.1 million change in net cash relates to the cash inflows and outflows of the assessment revenue bond obligations as well as investments of operating cash. Explanations of the change are displayed below:

Description (in millions)	Cash Provided (Cash Applied)
Increase in net cash related to LCPIC's bonds that matured during 2020.	35.6
Decrease in net cash related to LCPIC's growth in bonds purchased from 2019 to 2020.	(40.7)
Net cash applied from items listed above impacting cash from investments	(5.1)

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Cash provided from financing activities and miscellaneous sources increased $1.5 million in 2020 compared to 2019. Explanations of the change are displayed below:

Description (in millions)	**Cash Provided (Cash Applied)**
Change in restricted assessments is primarily due to an increase of $9.4 million in excess emergency assessments collected over debt service in 2020 compared to an increase of $1.6 million in excess emergency assessments collected over debt service in 2019. Prior to 2020, debt service exceeded emergency assessments collected due to the bond premium received from the 2016 bond refinancing.	7.8
Change in receivable for long-term emergency assessments is primarily due to $2.4 million in additional bond principal paid less $3.6 million cash draw down to partially cover the class action suit claim payment paid in 2019.	(1.2)
Change in receivable for excess emergency assessments collected over debt service primarily due to the bond premium received from the 2016 bond refinancing.	(5.1)
Net change	$1.5

Liquidity

All liquid funds held by LCPIC are kept in commercial bank accounts that are FDIC insured or 100% collateralized.

In addition to policyholder premiums, LCPIC has a much broader range of resources available to pay losses and repay debt obligations than does a typical insurer. Presently, LCPIC can institute a regular assessment up to approximately $260 million on the state insurance industry derived from 10% of their written premium for deficits each year, and an emergency assessment up to approximately $267 million derived from 10% of the premium written on property policyholders of the State of Louisiana for each calendar year of a storm to pay debt incurred in previous years. Emergency assessments levied in any calendar year can remain in place each year until any borrowings from that year have been repaid.

In 2019, LCPIC secured a $50.0 million line of credit with Regions Bank that matures in June 2021. The line of credit provides additional liquidity to the corporation.

In 2010, LCPIC instituted lockbox processing to reduce cash flow interruption in the event of a temporary closure of its office for a catastrophic event.

In 2005, LCPIC did not have sufficient funds to pay approximately 80,000 claims resulting from Hurricanes Katrina and Rita. In 2006, LCPIC issued $978.2 million of fixed rate assessment revenue bonds. On December 31, 2020, LCPIC had approximately $324.1 million of fixed rate assessment revenue bonds outstanding. The debt service of these bonds is paid through emergency assessments on property insurance policies written in the State of Louisiana. The emergency assessments are remitted quarterly to the bond trustee.

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Pending Litigation

As of December 31, 2020 there were 49 open litigation matters against LCPIC. The majority of these lawsuits are related to first party losses, third-party bodily injury claims, subrogation or claims where the issue of coverage is in dispute. Unpaid loss and loss adjustment expenses are included on the balance sheet of approximately $5.1 million, excluding the Oubre class action suit described below. The balance of the litigated matters are first-party suits related to Hurricanes Katrina and Isaac.

Oubre v. Louisiana Citizens Property Insurance Corporation. The plaintiffs in this suit allege that LCPIC failed to timely initiate loss adjustment as required by Louisiana statutory law exposing LCPIC to penalties up to a mandatory limit of $5,000.00. On July 23, 2012 LCPIC settled the first phase of this class action suit with a payment of $104.7 million to the plaintiff counsel for distribution to the class members. LCPIC entered into a settlement with the class for the remaining Oubre claims. LCPIC has paid $141.2 million towards the final settlement as of December 31, 2020 and has a reserve of $5.2 million for the remaining settlement (included in unpaid losses on the balance sheet). LCPIC will continually review the reserve to ensure that it meets the anticipated settlement costs.

Future Plans

LCPIC had $560 million in total reinsurance and cat bonds in place for the 2020 storm season which provided 1 in 303 year storm coverage. The cat bonds includes two $100.0 million three year catastrophe bonds. In addition to the reinsurance program and cat bonds, LCPIC has reinstatement premium protection and second event catastrophe coverage. The amount of reinsurance purchased by LCPIC is determined by many factors that include, losses projected by catastrophe models, insured values of the company, reinsurance market prices, and availability of cash. The reinsurance coverage, excluding cat bonds, described above expires on May 31, 2021. LCPIC is in the process of negotiating a new reinsurance program for the 2021 storm season and it is anticipated to provide at least a 1 in 300 year storm coverage.

To the extent that the above comments about future plans constitute forward-looking statements, these statements are not guaranties of future performance. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about LCPIC, economic and market factors, judicial rulings and the insurance industry, among other things. Actual events may differ materially from those expressed in forward-looking statements.