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 2022 Annual Statement.

Major events occurring in 2022 for LCPIC were:

- The number of policies issued increased significantly in 2022, 154,507 policies were issued compared to 47,093 in 2021. The increase comes as a consequence of severe hurricane losses incurred to Louisiana's property insurance market over the past two years. As a result, eleven Louisiana property insurers have become insolvent, and at least twelve companies have submitted withdrawal notices to the Louisiana Department of Insurance, forcing tens of thousands of property owners to obtain insurance from LCPIC.
- LCPIC renewed its reinsurance program in May 2022 with storm coverage of $1,182.3 million and retention of $51.6 million that includes a traditional reinsurance program, two cat bonds, and a parametric limit for an increase in program cost of approximately $191.3 million for the June 1, 2022 through May 31, 2023 program period as compared to June 1, 2021 through May 31, 2022 program period. The 2022 – 2023 program provides for a 1 in 66 year storm coverage compared to a 1 in 302 year storm coverage for the 2021 – 2022 program.
- LCPIC completed a sixteenth round of depopulation effective December 1, 2022 transferring 3,672 policies and approximately $721.9 million of exposure to the private insurance market.
- In 2022, LCPIC's incurred losses of $67.6 million resulted primarily from 2022 non-cat losses and one 2022 wind and hail loss occurrence. Also contributing to the incurred losses was an increase in incurred but not reported (IBNR) claim reserves related to Hurricane Ida.

Financial Position

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

Balance Sheet (in thousands of dollars - 000)	2022	2021
Assets		
Bonds	$83,325	$66,570
Cash, cash equivalents and short-term investments	358,008	206,278
Total cash and invested assets	441,333	272,848
Uncollected and deferred premiums	58,427	12,052
Reinsurance balances	22,696	3,092
Long-term emergency assessments receivable	229,945	285,020
Other assets	18,047	16,137
Total assets	$770,448	$589,149

Management's Discussion and Analysis

Liabilities and Policyholders' Surplus		
Unpaid loss and loss adjustment expenses	$50,299	$9,775
Commissions payable	9,971	2,652
Other expenses, taxes, licenses and fees accruals	9,693	4,066
Borrowed money	227,633	288,264
Unearned premiums	237,931	41,967
Ceded reinsurance premiums payable	44,009	0
Funds held by company under reinsurance treaties	0	36,970
Restricted assessments	93,294	64,086
Unearned tax exempt surcharge	7,236	1,259
Pending escheatment payable	4,736	1,781
Take out premium payable	3,032	0
Other liabilities	5,525	3,702
Total liabilities	693,359	454,522
Total policyholders' surplus	77,089	134,627
Total liabilities and policyholders' surplus	$770,448	$589,149

Assets

Total assets increased by $181.3 million in 2022 compared to 2021 primarily due to:

Bonds increased $16.8 million in 2022 compared to 2021 primarily due to increased investable cash resulting from new policies written in 2022. Also, reinvestment of bond proceeds were reinstated in 2022 from the 2021 suspension to reinvest bond proceeds in order to partially offset claims paid due to Hurricane Ida.

Cash, cash equivalents and short-term investments increased $151.7 million in 2022 compared to 2021 due to the following:

Increase from premiums collected	$380.0	
Decrease from reinsurance paid	(109.5)	
Net increase from premiums collected		$270.5
Increase from policy related fees		13.1
Increase from receivable of emergency assessments	55.0	
Increase from restricted assessments	29.2	
Increase from earned and unearned tax exempt surcharges	12.9	
Increase from escheatment payable	5.9	
Decrease from borrowed money	(60.6)	
Decrease from funds held under reinsurance	(37.0)	
Net increase from financing and miscellaneous sources		5.4
Decrease from Hurricane Ida recoverables in 2022 as compared to 2021	($43.8)	
Decrease from non-catastrophe claim activity occurring in 2022	($13.0)	
Decrease from a wind and hail event occurring in 2022	(4.8)	
Decrease from all other claim activity paid in 2022	(.9)	
Net decrease from loss & LAE claim activity		(62.5)
Decrease from agents' commissions		(54.5)
Decrease from investments acquired exceeding investment proceeds		(19.3)
Decrease from all other cash movements		(1.0)
		$151.7

Uncollected and deferred premiums increased $46.3 million in 2022 compared to 2021 primarily due to an increase in policies issued during the year.

Reinsurance balances increased $19.6 million in 2022 as compared to 2021 primarily due to Hurricane Ida reinsurance recoverables billed during the fourth quarter of 2022.

Management's Discussion and Analysis

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 $55.1 million is due to a bond principal payment made in 2022.

Liabilities

Total liabilities increased $238.9 million in 2022 compared to 2021 primarily due to:

Unpaid losses and LAE increased $40.5 million in 2022. The increase is primarily due to a $17.0 million case and IBNR reserves for 2022 non-catastrophe losses, $16.9 million case and IBNR reserves for a 2022 wind and hail event, and a $9.5 million increase in IBNR reserves for Hurricane Ida. 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 consulting 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.

The following liabilities increased in 2022 as compared to 2021 as a direct result of the increase in policies issued during 2022:

Unearned premiums	$195.9
Commissions payable	$7.3
Unearned tax exempt surcharge	$5.9
Other expenses, taxes, licenses and fees	$5.6

Borrowed money decreased $60.7 million in 2022 compared to 2021 primarily due to the $55.1 million bond principal payment made in 2022 and $5.4 million reduction in unamortized bond premium.

Ceded reinsurance premiums payable increased $44.0 million in 2022 compared to 2021 primarily due to ceded premiums booked in anticipation of the adjusted contractual premium owed under LCPIC's core reinsurance program. The ceded reinsurance premium under the core program is amortized and paid on a provisional basis during the contract term based upon the total insured value (TIV) at the beginning of the contract period, which was June 1, 2022. The adjusted contractual premium payable will be calculated using the TIV at the end of the contract period which is May 31, 2023. Due to the significant increase in policies issued during the current contract period, a greater adjusted contractual premium will be calculated and paid.

Funds held by company under reinsurance treaties decreased $37.0 million as compared to 2021 due to $28.5 million released back to reinsurers that were initially funded to cover ceded incurred losses resulting from Hurricane Ida and $8.5 million applied to Hurricane Ida recoverable.

Restricted assessments of $93.3 million reflects assessment revenues held by the Bond Trustee for repayment of borrowed money. Restricted assessments includes excess emergency assessments collected over debt service. Restricted assessments increased $29.2 million in 2022 compared to 2021 primarily due to the $31.1 million increase in excess emergency assessments collected over debt service.

Pending escheatment payable increased $2.9 million in 2022 compared to 2021 due to claim payments related to Hurricane Ida in 2021 and the 2020 Hurricanes, Laura, Delta, and Zeta.

Take out premium payable of $3.0 million Is premium owed to insurers participating in LCPIC's depopulation program in 2022. There were no depopulation companies selected for LCPIC's depopulation program in 2021.

Management's Discussion and Analysis

Policyholders' Surplus

The decrease in total policyholders' surplus of $57.5 million in 2022 compared to 2021 is primarily due to a net loss of $33.7 million and a change in nonadmitted assets of $32.3 million. The change in nonadmitted assets primarily resulted from the increase in reinsurance amounts recoverable from reinsurers of $27.9 million that was billed for Hurricane Ida losses. The entire recoverable was collected in February 2023. In addition to net loss and reinsurance recoverable, $6.0 million decrease to surplus for the change in unearned tax exempt surcharge. Tax exempt surcharge is collected to maintain a federal exempt status and to augment the financial resources of the corporation. It is collected on each policy and represents an amount equal to the premium taxes paid which is 3% of the policy premium. Also contributing to the decrease in surplus, $4.1 million change in nonadmitted for other amounts receivable under reinsurance treaties. This nonadmitted receivable is related to prepaid reinsurance premiums for LCPIC's Catastrophe Bonds. LCPIC's 2022 Catahoula Catastrophe Bond primarily accounts for the change in nonadmitted due to the increased reinsurance costs for Insurance-Linked Securities Contracts. Offsetting the decrease to policyholders' surplus is $13.0 million in tax exempt surcharge collected on LCPIC policies in 2022.

Results of Operations

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

Statement of Income and Ratios (000)	2022	2021
Premiums earned	$82,955	$35,382
Losses incurred	52,392	44,526
LAE incurred	15,166	5,816
Underwriting expenses	59,097	14,664
Underwriting gain (loss)	(43,700)	(29,624)
Net investment loss	(3,067)	(6,093)
Other Income	13,102	7,381
Net income	($33,665)	($28,336)
Loss Ratio	63.2%	125.8%
LAE Ratio	18.3%	16.4%
Underwriting expense ratio	21.2%	30.5%
Combined ratio	102.7%	172.7%

Net income in 2022 was $5.3 million less than 2021 due to:

Premiums earned increased $47.6 million in 2022 compared to 2021 due to the increase in premiums written and policies issued in 2022. The increase comes as a consequence of severe hurricane losses incurred to Louisiana's property insurance market over the past two years, as noted in the major events section on Page 350.

Losses and LAE incurred was $17.3 million greater in 2022 as compared to 2021 is primarily due to $34.4 million in non-catastrophe claim activity for the 2022 accident year and $20.6 million incurred from a 2022 wind and hail loss occurrence. Offsetting the increase was a decrease of $30.3 million in incurred losses resulting from Hurricane Ida and a decrease of $10.6 million in non-catastrophe losses for the 2021 accident year.

The following underwriting expenses primarily accounted for the $44.4 million increased in 2022 as compared to 2021 as a direct result of the increase in policies issued during 2022:

Commissions	$34.6
Boards, bureaus and associations	3.4
Premium taxes	3.2
Surveys and underwriting reports	1.2
Total	$42.4

Combined ratio – the combined ratio in 2022 was 102.7% compared to 172.7% in 2021 primarily due to the increase in premiums earned and written used as denominator to compute each ratio. The combined ratio expresses the sum of the costs for losses, LAE and underwriting expenses as a percentage of premiums (premiums earned for the loss and LAE ratios and premiums written for the underwriting expense ratio). The ratio is a recognized industry measure of underwriting performance.

Management's Discussion and Analysis

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.

The cash flows of LCPIC are summarized as follows:

Cash Flow Statement (000)	2022	2021
Operations		
Premiums collected	$270,535	$42,662
Net investment income received (paid)	(989)	(3,225)
Miscellaneous income	13,102	7,381
Losses paid	(62,509)	(34,757)
Expenses paid	(54,474)	(19,987)
Net cash from operations	$165,665	($7,926)
Investment Activities		
Proceeds from investments sold, matured or repaid	$43,224	$28,565
Cost of long-term investments acquired	(62,525)	(20,450)
Net cash from investments	(19,301)	8,115
Financing Activities		
Other cash provided (applied)	5,366	49,405
Net cash from financing activities and miscellaneous sources	5,366	49,405
Change in Cash and Short-Term Investments		
Net change in cash, cash equivalents and short-term investments	$151,730	$49,594

Cash, cash equivalents, and short-term investments increased $102.1 million in 2022 compared to 2021 due to:

Net cash from operations was $165,665 million in 2022 compared to ($7.926) million in 2021 for a net change of $173.6 million was due to the following:

Description (in millions)	Cash Provided (Cash Applied)
Change in premiums collected is related to an increase in policies in force, 133,120 in 2022 as compared to 41,157 in 2021.	227.9
Change in net investment income paid is related to a $1.0 million increase in bond interest and a $1.2 million decrease in debt service costs in 2022 compared to 2021.	2.2
Change in miscellaneous income is primarily due to the $6.6 million increase in policy fees received from the increase in policies in force and offset by a $1.8 million decrease in assessment income required to offset debt service costs.	4.8
Losses paid increased primarily due to following:	
- Increase in amounts recoverable from reinsurers in 2022 for 2021 Hurricane Ida	(43.8)
- Loss and LAE paid for non-catastrophe related claims that occurred in 2022	(17.4)
- Decrease in amounts recoverable from reinsurers in 2021 for 2021 Hurricane Ida and 2020 Hurricanes Laura, Delta, and Zeta claims	(10.9)
- Loss and LAE paid for 2022 wind & hail event	(6.4)
- Decrease in loss and LAE paid for 2021 Hurricane Ida	39.8
- Decrease in loss and LAE paid for non-catastrophe related claims that occurred prior to 2022	6.2
- Class action suit settlements ($0 million paid in 2022 versus $4.3 paid in 2021)	4.3
- All other claim activity	.4
Expenses paid increased primarily due to agents' commission payments as a result of the increase in policies in force.	(34.6)
All other cash movements related to miscellaneous income and expenses paid	1.1
Net cash provided from items listed above impacting cash from operations	$173.6

Management's Discussion and Analysis

Net cash from investments in 2022 was ($19.3) million compared to $8.1 million in 2021. The ($27.4) 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 2022.	14.6
Decrease in net cash related to LCPIC's growth in bonds purchased from 2021 to 2022.	(42.0)
Net cash applied from items listed above impacting cash from investments	(27.4)

Cash provided from financing activities and miscellaneous sources decreased $44.0 million in 2022 compared to 2021. Explanations of the change are displayed below:

Description (in millions)	Cash Provided (Cash Applied)
Change in funds held by company under reinsurance treaties is primarily due to funds returned that were previously received to offset incurred losses stemming from Hurricane Ida.	(73.7)
Change in restricted assessments is primarily due to an increase of $29.2 million in excess emergency assessments collected over debt service in 2022 compared to an increase of $18.6 million in excess emergency assessments collected over debt service in 2021.	10.6
Change in unearned tax exempt surcharge is due to the increase in policies in force during 2022.	5.6
Change in earned tax exempt surcharge is also due to the increase in policies in force during 2022	5.1
Change in take out premium payable is due to the sixteenth round of depopulation that occurred in 2022 compared to no depopulation that occurred in 2021.	3.1
Change in pending escheatment payable is due to increased claim payments related to Hurricane Ida in 2021 and the 2020 Hurricanes, Laura, Delta, and Zeta.	2.7
All other cash movements related to financing activities and miscellaneous sources	2.6
Net change	$44.0

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 $282 million on the state insurance industry derived from 10% of their written premium for deficits each year, and an emergency assessment up to approximately $289 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 2022, LCPIC amended its line of credit with Regions Bank to $125 million that matures in June 2023. 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, 2022, LCPIC had approximately $217.5 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 and will be fully paid for in June 2026. The emergency assessments are remitted quarterly to the bond trustee.

Management's Discussion and Analysis

Pending Litigation

As of December 31, 2021 there were 516 open litigation matters against LCPIC. The majority of these lawsuits are related to first-party suits related to 2021 Hurricanes Ida and 2020 Hurricanes Laura and Delta. Unpaid loss and loss adjustment expenses are included on the balance sheet of approximately $15.7 million, excluding the Oubre class action suit described below. The balance of the litigated matters are first party losses, third-party bodily injury claims, subrogation or claims where the issue of coverage is in dispute.

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 $145.5 million towards the final settlement as of December 31, 2022 and has a reserve of $3.7 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 $1,182.3 million in total reinsurance and cat bonds in place for the 2022 storm season which provided 1 in 66 year storm coverage. The cat bonds includes one $50.0 million three year catastrophe bond and one $175.0 million three-year catastrophe bond. 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, 2023. LCPIC is in the process of negotiating a new reinsurance program for the 2023 storm season and it is anticipated to provide at least a 1 in 100 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.