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 2023 Annual Statement.

Major events occurring in 2023 for LCPIC were:

- A larger than normal rate increase of 63.1% for personal lines and 72.4% for commercial lines were effective as of 1/1/2023 and 11/1/2022 respectively. These rates increases were driven by the rising cost of reinsurance and represent actuarially sound plus 10% per statute.
- LCPIC renewed its reinsurance program in May 2023 with storm coverage of $1,564.5 million and retention of $250.1 million that includes a traditional reinsurance program, two cat bonds, and a parametric limit for an increase in program cost of approximately $68.9 million for the June 1, 2023 through May 31, 2024 program period as compared to June 1, 2022 through May 31, 2023 program period. The 2023 – 2024 program provides for a 1 in 106 year storm coverage compared to a 1 in 66 year storm coverage for the 2022 – 2023 program.
- LCPIC completed a seventeenth round of depopulation effective April 1, 2023 transferring 6,578 policies and approximately $1,763 million of exposure to the private insurance market. LCPIC also completed an eighteenth round of depopulation effective October 1, 2023 transferring 7,755 policies and approximately $2,388 million of exposure to the private insurance market.
- In 2023, LCPIC's incurred losses of $98.3 million resulted primarily from 2023 non-cat losses and 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)	2023	2022
Assets		
Bonds	$113,197	$83,325
Cash, cash equivalents and short-term investments	584,467	358,008
Total cash and invested assets	697,664	441,333
Uncollected and deferred premiums	81,726	58,427
Reinsurance balances	4,427	22,696
Long-term emergency assessments receivable	166,530	229,945
Other assets	22,528	18,047
Total assets	$972,875	$770,448

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Liabilities and Policyholders' Surplus		
Unpaid loss and loss adjustment expenses	$94,307	$50,299
Commissions payable	13,129	9,971
Other expenses, taxes, licenses and fees accruals	13,709	9,693
Borrowed money	172,492	227,633
Unearned premiums	331,720	237,931
Ceded reinsurance premiums payable	195	44,009
Restricted assessments	129,002	93,294
Unearned tax exempt surcharge	10,544	7,236
Pending escheatment payable	6,030	4,736
Take out premium payable	1,448	3,032
Other liabilities	5,700	5,525
Total liabilities	778,276	693,359
Total policyholders' surplus	194,599	77,089
Total liabilities and policyholders' surplus	$972,875	$770,448

Assets

Total assets increased by $202.4 million in 2023 compared to 2022 primarily due to:

Bonds increased $29.9 million in 2023 compared to 2022 primarily due to increased investable cash resulting from higher premiums in 2023

Cash, cash equivalents and short-term investments increased $226.5 million in 2023 compared to 2022 due to the following:

Increase from premiums collected	$594.7	
Decrease from reinsurance paid	(311.6)	
Net increase from premiums collected		$283.1
Increase from net investment income		10.9
Increase from policy related fees		4.7
Increase from receivable of emergency assessments	59.4	
Increase from restricted assessments	35.7	
Increase from earned and unearned tax exempt surcharges	19.6	
Increase from escheatment Payable	1.3	
Decrease from borrowed money	(55.1)	
Net increase from financing and miscellaneous sources		60.9
Increase from Hurricane Ida recoverables in 2023 as compared to 2022	$30.2	
Decrease from non-catastrophe claim activity occurring in 2023	(30.5)	
Decrease from a wind and hail event occurring in 2022	(6.7)	
Decrease from all other claim activity paid in 2022	(3.0)	
Net decrease from loss & LAE claim activity		(10.0)
Decrease from agents' commissions		(89.5)
Decrease from investments acquired exceeding investment proceeds		(31.8)
Decrease from all other cash movements		(1.8)
		$226.5

Uncollected and deferred premiums increased $23.3 million in 2023 compared to 2022 primarily due to higher premiums written.

Reinsurance balances decreased $18.3 million in 2023 as compared to 2022. This decrease is primarily due to Hurricane Ida reinsurance recoverables billed during the fourth quarter of 2022 that were received in the first quarter of 2023.

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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 $63.4 million is primarily due to a bond principal payment made in 2023.

Liabilities

Total liabilities increased $84.9 million in 2023 compared to 2022 primarily due to:

Unpaid losses and LAE increased $44.0 million in 2023. The increase is primarily due to $17.2 million case and IBNR reserves for 2023 non-catastrophe losses, and a $54.6 million increase in IBNR reserves for Hurricane Ida. The increase is offset by a decrease of $26.7 million for all 2022 claims and $1.2 million for all other claims. 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 2023 as compared to 2022 as a direct result of the increase in premiums written on policies issued 2022-2023:

Unearned premiums	$93.8
Commissions payable	$3.2
Unearned tax exempt surcharge	$3.3
Other expenses, taxes, licenses and fees	$4.0

Borrowed money decreased $55.1 million in 2023 compared to 2022 primarily due to the $60.0 million bond principal payment made in 2023 and $1.4 million reduction in unamortized bond premium.

Ceded reinsurance premiums payable decreased $43.8 million in 2023 compared to 2022 primarily due to ceded premiums booked in 2022 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 is June 1, 2023. The adjusted contractual premium payable is calculated using the TIV at the end of the contract period which is May 31, 2024. Due to the significant increase in policies issued during the 2022 contract period, a greater adjusted contractual premium was calculated and paid compared to 2023.

Restricted assessments of $129.0 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 $35.7 million in 2023 compared to 2022 primarily due to the $33.3 million increase in excess emergency assessments collected over debt service. The amount of emergency assessments collected is driven by premiums written by private market insurers.

Take out premium payable of $1.5 million is premium owed to insurers participating in LCPIC's depopulation programs in 2023 as compared to the $3.0 million owed to insurers participating in LCPIC's depopulation programs in 2022. The decrease of $1.6 million is due to the timing of the final 2023 depopulation round occurring on October 1, 2023 as compared to the typical effective date of December 1st.

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Policyholders' Surplus

The increase in total policyholders' surplus of $117.5 million in 2023 compared to 2022 is primarily due to a net gain of $90.9 million and a change in non-admitted assets of $10.2 million. The change in nonadmitted assets primarily resulted from the decrease in reinsurance amounts recoverable from reinsurers of $18.7 million. This is mostly the result of the reinsurance recoverable for Hurricane Ida in the fourth quarter of 2022 that was not collected until February 2023. In addition to net loss and reinsurance recoverable, $19.6 million in tax exempt surcharge was collected on LCPIC policies in 2023.

Offsetting the increase in surplus is a $7.8 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 2023 Bayou RE Catastrophe Bond primarily accounts for the change in nonadmitted due to the increased reinsurance costs for Insurance-Linked Securities Contracts. Also offsetting policyholders' surplus is 3.3 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.

Results of Operations

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

Statement of Income and Ratios (000)	2023	2022
Premiums earned	$260,616	$82,955
Losses incurred	83,357	52,392
LAE incurred	14,923	15,166
Underwriting expenses	85,563	59,097
Underwriting gain (loss)	76,773	(43,700)
Net investment income	9,460	(3,067)
Other Income	4,690	13,102
Net income	$90,923	($33,665)
Loss Ratio	32.0%	63.2%
LAE Ratio	5.7%	18.3%
Underwriting expense ratio	24.1%	21.2%
Combined ratio	61.8%	102.7%

Net income in 2023 was $124.6 million more than 2022 due to:

Premiums earned increased $177.7 million in 2023 compared to 2022 due to increased premiums written on policies issued in 2023.

Losses and LAE incurred was $30.7 million greater in 2023 as compared to 2022 primarily due to an increase of $45.6 million for Hurricane Ida and $56.7 million for the 2023 accident year. Offsetting these increases is a decrease of $70.8 million for the 2022 accident year.

The following underwriting expenses primarily accounted for the $26.5 million increased in 2023 as compared to 2022 as a direct result of the increase in premiums written on policies issued during 2023:

Commissions	$17.3
Premium Taxes	4.4
Surveys & Underwriting Reports	1.9
Boards, Bureaus & Associates	1.1
Total	$24.7

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Combined ratio – the combined ratio in 2023 was 61.8% compared to 102.7% in 2022 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.

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)	2023	2022
Operations		
Premiums collected	$283,107	$270,535
Net investment income received (paid)	10,942	(989)
Miscellaneous income	4,690	13,102
Losses paid	(9,998)	(62,509)
Expenses paid	(89,475)	(54,474)
Net cash from operations	$199,266	$165,665
Investment Activities		
Proceeds from investments sold, matured or repaid	$19,695	$43,224
Cost of long-term investments acquired	(51,505)	(62,525)
Net cash from investments	(31,810)	(19,301)
Financing Activities		
Other cash provided (applied)	59,004	5,366
Net cash from financing activities and miscellaneous sources	59,004	5,366
Change in Cash and Short-Term Investments		
Net change in cash, cash equivalents and short-term investments	$226,460	$151,730

Cash, cash equivalents, and short-term investments increased $74.7 million in 2023 compared to 2022 due to:

Net cash from operations was $199.3 million in 2023 compared to $165.7 million in 2022 for a net change of $33.6 million was due to the following:

Description (in millions)	Cash Provided (Cash Applied)
Change in premiums collected is related to policy rate increases of 63.1% for personal lines and 72.4% for commercial lines were effective as of 1/1/2023 and 11/1/2022, respectively.	12.6
Change in net investment income paid is related to an increase in bond interest earned of $7.2 million and a $4.0 million increase in interest earned from the Regions Operating account.	11.9
Change in miscellaneous income is primarily due to the $3.4 million decrease in application fees received as a result of the decrease in new policies written in 2023, and a $4.8 million decrease in assessment income required to offset debt service costs.	(8.4)
Expenses paid increased primarily due to agents' commission payments as a result of the increase in premiums written.	(35.0)

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Losses paid decreased primarily due to following:	
- Decrease for Hurricane Ida primarily due to reinsurance recoverable from 2022 received in 2023	74.0
- Decrease in losses paid for non-catastrophe related claims that occurred prior to 2023	6.7
- Decrease in amounts for 2020 Hurricanes Laura, Delta, and Zeta claims primarily due to reinsurance recoverable	1.9
- Increase in Loss paid for non-catastrophe related claims that occurred in 2023	(30.5)
- All other claim activity	0.4
Net cash provided from items listed above impacting cash from operations	33.6

Net cash from investments in 2023 was ($31.8) million compared to ($19.3) million in 2022. The ($12.5) 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 decrease in bonds purchased from 2022 to 2023.	11.0
Decrease in net cash related to LCPIC's bonds that matured during 2023.	(23.5)
Net cash applied from items listed above impacting cash from investments	(12.5)

Cash provided from financing activities and miscellaneous sources increased $53.6 million in 2023 compared to 2022. 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 in 2022 that were previously received to offset incurred losses stemming from Hurricane Ida.	37.0
Change in earned tax exempt surcharge is also due to the decrease in policies in force during 2023.	9.3
Change in restricted assessments is primarily due to an increase of $35.7 million in excess emergency assessments collected over debt service in 2023 compared to an increase of $29.2 million in excess emergency assessments collected over debt service in 2022.	6.5
Change in borrowed funds is due to the Bond Principal paid in 2023 being higher compared to 2022.	5.5
All other cash movements related to financing activities and miscellaneous sources	3.7
Change in take-out premium payable is due to the eighteenth round of the depopulation occurring on October 1st instead of the regular processing date of December 1st.	(4.0)
Change in unearned tax exempt surcharge is due to the decrease in policies in force during 2023.	(2.7)
Change in pending escheatment payable is due to number of decreased claim payments..	(1.7)
Net change	$53.6

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 $316 million on the state insurance industry derived from 10% of their written premium for deficits each year, and an emergency assessment up to approximately $358 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.

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In 2023, LCPIC amended its line of credit with Regions Bank to $125 million that matures in June 2025. 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, 2023, LCPIC had approximately $166.5 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.

Pending Litigation

As of December 31, 2023 there were 878 open litigation matters against LCPIC. The majority of these lawsuits are related to first-party suits related to 2021 Hurricane Ida and 2020 Hurricanes Laura, Delta & Zeta. Unpaid loss and loss adjustment expenses are included on the balance sheet of approximately $27.9 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, 2023 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.

The potential for future class action suits has been eliminated with the passage of SB 96, Act 290 which excludes LCPIC from class actions.

Future Plans

LCPIC had $1,564.5 million in total reinsurance and cat bonds in place for the 2023 storm season which provided 1 in 106 year storm coverage. The cat bonds includes one $175.0 million three year catastrophe bond and one $195.0 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, 2024. LCPIC is in the process of negotiating a new reinsurance program for the 2024 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.