Executive Summary

Board of Governors Meeting, May 18, 2022

2022 Risk Transfer Program

History

Citizens' enabling statute requires it to make its best effort to procure catastrophe reinsurance in the private market at reasonable rates. The analysis and decision to purchase catastrophe reinsurance coverage is evaluated by staff each year and a recommendation is made to the Board of Governors.

Citizens' Board of Governors and staff recognize that the event most likely to trigger assessments would be a catastrophic hurricane or series of hurricanes striking Florida. Transferring risk through the use of catastrophe reinsurance offers an effective means to eliminate the amount and likelihood of assessments after such an event or multiple events.

Central to Citizens' goal of reducing exposure and, by extension, reducing or eliminating the amount and likelihood of its assessment burden on Florida taxpayers, is the transfer of risk through reinsurance mechanisms, traditionally accomplished via participation in the Florida Hurricane Catastrophe Fund (FHCF) reimbursement program, traditional reinsurance markets and in the capital markets. Citizens' participation in the reinsurance markets reduces the potential assessments that result from losses reducing or exhausting Citizens' surplus and FHCF coverage.

Citizens' risk transfer program is structured to provide liquidity by allowing Citizens to obtain reinsurance recoveries in advance of the payment of claims after a triggering event while reducing or eliminating the probabilities of assessments and preserving surplus for multiple events and/or subsequent seasons.

2022 Risk Transfer Program

Coastal Account

The proposed 2022 risk transfer program for the Coastal Account incorporates strategic elements from prior risk transfer programs, which include: transfer risk alongside the FHCF, transfer single occurrence and annual aggregate risk in order to protect a portion of surplus for most catastrophic events and thereby eliminating assessments for a 1-in-100-year event and further reducing the amount and likelihood of assessments beyond the 1-in-100-year event to the citizens of Florida.

Citizens plans to transfer exposure in the amount of approximately $1.869 billion to the global traditional reinsurance markets and capital markets in 2022 for the Coastal Account. Based on the proposed 2022 risk transfer program, the total amount of surplus

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exposed for a 1-in-100-year event in the Coastal Account would be approximately 80%, or approximately $2.484 billion.

The proposed 2022 risk transfer layers for the Coastal Account are as follows:

- The Sliver Layer will sit alongside the FHCF. It provides approximately $169 million, in excess of $801 million, of annual, per occurrence coverage which covers personal residential and commercial residential losses and would work in tandem with the mandatory coverage provided by the FHCF to include the co-payment of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market.

- Layer 1 will sit above the Sliver Layer and the FHCF. This annual, per occurrence layer provides $100 million of coverage of personal residential and commercial residential losses and will attach after $970 million of losses. This layer will be placed in the traditional market.

- Layer 2 of this program will sit above Layer 1. This single-year, aggregate layer provides $325 million of personal residential and commercial residential losses and will attach after $1.070 billion of losses. This layer will be placed in the traditional market.

- Layer 3 of this program will sit above Layer 2. This single-year, aggregate layer provides $325 million of personal residential and commercial residential losses and will attach after $801 million of losses. This layer will be placed in the traditional market.

- Layer 4 of this program will sit above Layer 3. This single-year, aggregate layer provides $325 million of personal residential and commercial residential losses and will attach after $1.070 billion of losses. This layer will be placed in the traditional market.

- A Capital Markets renewal risk transfer placement sits above Layer 1 and alongside Layers 2, 3, and 4. The 2021-1B placement of $275 million of coverage was placed in 2021 through Everglades Re II. This multi-year, annual aggregate personal residential and commercial residential losses and will attach after $2.592 billion of losses.

- A Capital Markets renewal risk transfer placement alongside Layers 3 and 4 and the 2021-1B $275 million capital markets placement. The 2021-1A placement of $350 million of coverage was placed in 2021 through Everglades Re II. This multi-year, annual aggregate personal residential and commercial residential losses and will attach after $3.584 billion of losses.

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Personal Lines Account

The proposed risk transfer programs for the Personal Lines Account (PLA) also incorporates elements from prior risk transfer programs. Citizens' strategic risk transfer plan for PLA is similar to the Coastal Account and considers the transfer of risk in order to reduce the amount of surplus exposed in a 1-in-100-year event.

Citizens plans to transfer exposure in the amount of approximately $2.828 billion to the global traditional reinsurance and capital markets in 2022 for the PLA. Based on the proposed 2022 risk transfer program, the total amount of surplus exposed for a 1-in-100-year event in the PLA would be approximately 100%, or approximately $1.56 billion.

The proposed 2022 risk transfer layers for the PLA are as follows:

- The Sliver Layer of this program will sit alongside the FHCF. It provides approximately $280 million, in excess of $1.327 billion, of annual, per occurrence coverage which covers personal residential losses and would work in tandem with the mandatory coverage provided by the FHCF to include the co-payment of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market.

- A Capital Markets renewal risk transfer placement sits above the Sliver Layer and the FHCF. The 2020-2 placement of $110 million of coverage was placed in 2020 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential losses and attaches after $4.115 billion in losses.

- A Capital Markets renewal risk transfer placement sits above the Sliver Layer and the FHCF. The 2021-2A placement of $325 million of coverage was placed in 2021 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential losses and attaches after $4.128 billion in losses

- Layer 1 will sit above the two Capital Markets renewal placements. This layer will provide $1.225 billion of coverage from the capital markets and traditional markets. The Capital Markets risk transfer placement provides multi-year, annual aggregate coverage for personal residential losses and will attach after $4.563 billion of losses. The traditional reinsurance market placement provides single year occurrence/aggregate coverage for personal residential losses and will attach after $1.327 billion of losses.

- Layer 2 will sit above Layer 1. This layer will provide $888 million of coverage from the traditional market, as follows:

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- A single year, per occurrence placement that will provide $444 million of coverage for personal residential losses and will attach after $1.327 billion of losses.
- A single year, annual aggregate placement that will provide $444 million of coverage for personal residential losses and will attach after $1.327 billion of losses.

Recommendation

Staff recommends that the Board of Governors take the following actions:

1) Approve the recommendation to purchase traditional and capital markets risk transfer in the Coastal Account and Personal Lines Account at a cost not to exceed the amount of $400 million; and

2) Authorize Staff to take any appropriate or necessary action consistent with this Action Item.