☒ **ACTION ITEM**	☐ **CONSENT ITEM**
☐ **New Contract**	☐ **Contract Amendment**
☐ **Contract Amendment**	☐ **Existing Contract Extension**
☒ **Other – Board Meeting Minutes**	☐ **Existing Contract Additional Spend**
	☐ **Previous Board Approval**_______________
	☐ **Other**__________________________________

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day to day operational item and/or unanimously passed through committee it may be moved forward to the board on the Consent Index.

☐ **Move forward as Consent**: This Action item is a day-to-day operational item, unanimously passed through committee and qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	**Board of Governors Meeting Minutes, March 23, 2022**
Purpose/Scope	Review of the March 23, 2022, Board of Governors Meeting Minutes to provide opportunity for corrections and historical accuracy.
Contract ID	**N/A**
Budgeted Item	☐Yes ☐No N/A
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Board Recommendation	Staff recommends the Board of Governors review and approve the March 23, 2022 Board of Governors Meeting minutes.
CONTACTS	Barry Gilway, President/CEO and Executive Director Barbara Walker, Senior Executive Assistant and Board Secretary

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, March 23, 2022

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened at the Orlando Marriott Lake Mary, Florida on Wednesday, March 23, 2022, at 8:30 a.m. (EST).

The following members of the Board were present:

Carlos Beruff, Chair
Scott Thomas, Vice Chair
Jason Butts
Marc Dunbar
Lazaro Fields
Jillian Hasner
Reynolds Henderson, telephonically
Erin Knight
Nelson Telemaco

The following Citizens staff members were present:

Barry Gilway
Tim Cerio
Jennifer Montero
Barbara Walker
Christine Ashburn
Kelly Booten
Brian Donovan
Jay Adams
Joe Martins
Michael Peltier
Andrew Woodward
Violet Bloom
Jeremy Pope
Stephen Mostella
Carl Rockman
Bonnie Gilliland
Eric Addison
David Woodruff
Thomas Dubocq
Matt Carter
Ray Norris

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	Florida Association for Insurance Agents
Doug Draper	Bank of America
Nathaniel Johnson	Bank of America
Matthew Sansbury	RBC Capital Markets
Donny Kviss	Gen Re
Mark Weinberg	Citi
Vince Jannetti	UBS
David Moffett	UBS
George Smith	Bryant Miller Olive
John Generalli	Wells Fargo
Coleman Cordell	Bank of America

Call Meeting to Order

Barbara Walker: Good morning. You are dialed into Citizens Property Insurance Corporation Board of Governors meeting scheduled to convene at 8:30 AM. Welcome to Citizens March 23, 2022, Board meeting. This is a webinar that is publicly noticed in the Florida Administrative Register to convene immediately and will be recorded with transcribed minutes made available on our website. For those attending in today's session through the public link, you are automatically in listen only mode. Thank you for identifying yourself prior to addressing the Board. Chairman Beruff, we have no speaker requests for today's meeting.

Roll call: Chair Carlos Beruff, Vice Chair Scott Thomas, Jason Butts, Marc Dunbar, Lazaro Fields, Jill Hasner, Reynolds Henderson, Erin Knight, and Nelson Telemaco were all present.

Barbara Walker: Chairman, you have a quorum.

1. Chairman's Report

Approval of Board of Governors September 22, 2021, Minutes

Chair Beruff: Perfect. Thank you. If someone will move to adopt the last meetings minutes, that would be great.

A motion was made and seconded to approve the September 22, 2021, Board of Governors Minutes. All were in favor. Motion carries.

Operating Revenue

Chair Beruff: Where is that little chart? Is it in the book, too? Under what page because it's sort of hard for us to see it. There you go.

[unknown speaker] There's a tab for operating revenues in Section 1.

Chair Beruff: This is a little bit of homework as we operate for the next year that I had the staff put together for me because I'm a simple math guy. I went back to 2009 to try to get an understanding… I think everyone who has been on this board since September 2020, and my focus has been to get to operational break even because we operationally lose… you can look down around… we were very profitable in the early years. If you look at net income, we made $763 million that year, and then $744 million, and then $664 million… Then you get down here to 2016, and this is underwriting gain and loss, you have your losses which you've accumulated (2017 is Hurricane Irma related) … but operationally, without storms we were losing close to $100 million a year. What we do as a company is that we subsidized ourselves with the return on our float, which is supposed to be going back in to continue to grow the reserves of the business for catastrophic events. I thought it would be good to go back 13 years so we could come up and direct the staff over a period of time to try and find a way to capture about $70 million to $100 million in savings operationally or increase revenue. This board last year, for example, made a decision to relook at the rate filings, in that decision ended up making us $11.5 million in additional revenue. Just the other day we had another decision that we think, should it be unchallenged, we increase revenue from $3.5 million to $7 million on the A Rate-policies – the over $10M commercial policies. There are two ways to get to break-even. One is to increase revenues and reduce costs. As a board I suspect that everyone would buy in that we should create or make it known to the staff that this is their charge. Know that there are challenges. I respect that there are challenges in the industry, but we have to lead and we have to find a way to meet the goals so that we have more money going into reserves every year and not taking the savings from the reserves. How much were investments down year over year, Jennifer. Or, Barry, you may know. We got less return on our investments this year than the year before, and we understand why because there has been a compression in the return on bonds. That's another challenge because we are taking in less money on our investments. That may turn because interest rates are going up but we still have to run the business to get even. That is the reason why I created this. You can study it. We can talk about it at the July meeting. You can get more into the weeds on different line items, but this was a broad brush that I think is somewhat simple to follow. That's the only reason why I put this in here. Other than that does anyone have any comments or questions?

Vice Chair Thomas: I appreciate this. It's very helpful to see it set forth with the history in this year's budget. I think it underscores to me, and we'll look at it closer, the real problem we have with rates. The way we increase revenue is to get more premiums, but that means we have more policyholders. Yet, if we are not charging at least actuarially sound rates, and I think that's probably not high enough given where we should be in the market, it seems like additional revenues are actually increasing our exposure on the back end. It makes it harder and harder, so until we can get (and there's not much we can do about it and staff can do about it) some legislative relief on our rates, then I think it's going to be very difficult. We are stuck structurally chasing our own tail. I think this really underscores what the core problem we have here in some respect. I appreciate it very much.

Chair Beruff: Thank you for the comment. Any other comments or questions? You know in our December meeting we were talking through rate increases in what we projected to go forward with the rates, and I think the number was in the 8.6%, and then Mr. Donovan advises that we go to 11%. We have to advocate with those people who have appointed us to this board to make sure that we try to get the rate… because our 11% is still significantly lower than where we should be compared to the other insurance companies in Florida that are getting double increases in their policies. I want to be the least affordable insurance carrier in Florida and not the most affordable insurance carrier in Florida. When you're talking to the people who have appointed you and some of the people at the Office of Insurance Regulation (OIR) to help us, we just want to be solvent so that when a catastrophic event comes, we're not sticking the Florida citizens with an assessment across the state. That is what we are trying to avoid.

Erin Knight: I'd like to ask Barry or the appropriate member of the Executive Leadership Team (ELT) a question. Who can walk us through quickly this past 10 years or longer and help us understand what were some of the key items that were in play during the time? Let's say 2009 showing an underwriting gain of $448 million and walk us through the landscape so that we can think about it holistically.

Chair Beruff: Mr. Gilway, that's either you or Ms. Montero who walked me through it as we discussed this, and I asked for information. For example, what's that big bump in operating costs? You'll notice, Governor Knight, that jump in operating expenses or administrative expenses in 2011 to 2012 to 2013, in that one line item, there is a huge bump in the $40 million in excess. There was an implementation in the system that Ms. Montero can explain… There was a decision that was made prior to Mr. Gilway joining the firm. Is that correct?

Barry Gilway: I think the initial contract was it in 2011?

Jennifer Montero: The implementation started in 2012 through 2014.

[multiple speakers]

Chair Beruff: … to buy the $30 million upgrade or whatever. It was before Barry joined?

Jennifer Montero: Correct. It was the implementation…

Chair Beruff: … I don't want Barry to take the $30 million blame.

Jennifer Montero: Guidewire is our claim system and our policy system, and it was the implementation from a homegrown one that we had (which was pretty clunky) to a more advanced kind of policy system.

Chair Beruff: Anytime a guy looks at numbers and sees a 20% plus increase year over year in costs, you go, "Why?" Until I had this spreadsheet, I did not have that information. To that point, I'd like for you to address Governor Knight.

Barry Gilway: One of the secondary documents that you requested was a breakout of the primary categories over that 12-year period. That's what allows us not to just look at the aggregate numbers… it really takes a look at… So, what was happening for salaries during this period? What was happening for underwriting expenses during this period? The things that jump out, as you indicated, the one that you're referring to is a huge jump in administrative expense as a result of the implementation of the core system. The core system was a very expensive system that covered every element of the business. It took legacy systems in finance, underwriting, sales… everything was transferred to a single platform. During that period, obviously you saw significant increases in an administrative expense during that period. That's probably the one, Mr. Chairman, that jumps out at you. The board paid so much attention to that… This is Kelly [Booten]'s nightmare. I think Kelly reported on that at every single board meeting for four years. We had a report out on core expenses to get them to operate efficiently. The board required a full report out on the core implementation (the expenses, the savings, the CAB, what was expected to be saved, when would we get the savings, etc.). It was a massive change. For four years it was about $43 million that we had to implement. When you look at the breakdown, and it would probably be better if you had a copy of this breakdown sheet, other than that the expense is primarily consistent with the losses. Underwriting expenses, as we have explained, consist of commissions, they consist of… so for 2022 $280

million… commissions are $60 million. Premium taxes are almost $40 million. There's a third category which is first notice of loss (FNL) outsourcing which is Jeremy [Pope]'s area, and they are consistent. Those expenses drive up directly related to premium level. Obviously, the salaries and benefits… and I do want to point out here that we're operating citizens today and it's somewhat exaggerated because of the growth obviously. Administrative expenses never rise at the same level, but we're down from a year ago when we were 23.8% at the end of 2021, which, by the way, was still below the industry level which is 29% to 30% expense ratio. This year will be at 14.7%. So, for all practical purposes…

Chair Beruff: … but the common denominator…

Barry Gilway: …and that's why I started out with that…

Chair Beruff: …we have a short window for bragging rights. [laughter]

Barry Gilway: A great way to get a pat on the back for expenses is to grow the heck out of the business and then wait for the expenses to catch up, and they never will, right, until you start going down on the other side. The salaries have remained very consistent, you know, over that. Salaries and benefits have remained very, very consistent over that period. Payroll taxes are obviously very consistent over the period. The changes are in contingent staffing. No change in commission from a relative standpoint. That is a huge part of our administrative benefit. Unfortunately, as our new board member Jason knows, we pay the lousiest commission in the state. We are paying 7.2%. Kelly just completed a commission analysis to see if there is any room. I think other than any one or two carriers are in the 11% to 12% range. I know that Florida Association of Insurance Agents (FAIA) is doing the same study in that same arena. From a Commission standpoint, this kind of leads to the question that we had yesterday: why do people come to Citizens? Even though Citizens is the least expensive by a long shot; in many cases, the least expensive company… that is not the reason why they come to Citizens. They don't want to deal with the front end and archaic frontend Clearinghouse that has to complete 12 independent applications to aggregate into one in order to get a quote. And that is what Kelly, of course, is working on for Citizens reimagined. It's capacity, capacity, capacity in the marketplace. Nobody wants to write, and I will talk more about that later in my report. They don't have the business. They don't have the capacity. They don't have the capital to put on new business. In the conversation yesterday, what can we do to move people into the Clearinghouse? Very simple. You've got to contract those rates. If you have only two companies participating, then that means those are the two companies that really want to have anything to do with it because there are costs associated with it. They're only getting five policies for every 20 that they identify and put all the work in to get it. Even having said that, the combination of underwriting expenses and contingent expenses on these breakdown sheets really show a consistent pattern that when you increase staff… frankly, if you can do it, the ratio is 1.4 to 1. Anytime you enter into a vendor agreement (and we learned this way back during the KPMG audit) anytime you enter a vendor agreement, then you're going to pay 140% of what you pay a salary employee. The more salaried employees you have then the better off you will be and that is why I am such a strong supporter of Tim Cerio's and Jay Adams' consolidated approach to getting more staff from a legal standpoint to handle the litigation directly. We'll get more control and there will be less costs. Yes, to your point, Mr. Chairman, I think every one of these needs to be looked at. We're looking at the initiatives in Legal that Governor Thomas is well aware of. On a test basis, we're thinking of taking 1,000 claims and litigating them ourselves, and saying, "We're not going to pay the excess costs for the legal adjusters who are working on those claims." The other issue that we have in Legal, of course, is that 54% of all of our volume is in Dade-Broward. You have to look out, but you also have to work with… it's extremely hard to get to… I think our expanded remote program – allowing us to hire people down there – will give us much more flexibility to bring on more staff. Unless

there are specific, large areas that I'm not aware of, I would say that when we look at this, we talk about the seven major categories and breakdowns that really add up to the full budget. It's pretty consistent across the whole model.

Chair Beruff: I appreciate that. I'd like to make a couple comments. If anyone has any experience with the supply chain in dividing parts and labor to General Motors and Ford, when you sign a contract for supply, in that contract it says you have to reduce the price is by 2% every year. What I'm saying is that some of the providers that we hire should be able to economize the services that they provide to us as they get better at it every year. They should be able to find savings on their side of the equation to lower the cost for us. In the procurement process, and we've talked about this at previous meetings (the cloud storage contracts… we don't know what the provider is paying Amazon or Microsoft or Oracle) we want to know those kinds of things. If they're going to provide multiyear contracts with us, in the first year, there is a learning curve. But they should be able to squeeze cost out of their contracts over time and this firm that is hiring them should be able to benefit from that cost compression. Contracts shouldn't be going up from every year; they should be going down. I understand that they have things going up like salaries and such, but many of our services are not that complicated. There's just a lot of them (call centers, inspection services, things like that) that we subcontract out. I'd like that mentality to start growing inside of Citizens' procurement process when they are negotiating these things because I think it's real. If they cannot find efficiencies within their operations, then we should not be hiring them to work for us.

Barry Gilway: We do. I think the point is, Mr. Chairman, since the KPMG audit, really the genesis of the Vendor Management Program. We do have a whole organization now that never existed, you know, when I arrived. We had a KPMG audit and one of their recommendations also is to bifurcate vendor management. The relationship with vendors and your concentration on vendor quality and costs were the focus. I do agree that this is a never-ending story. There are constant improvements, in my opinion, that could be made relative to vendor contracts. I think that this board has made some significant improvements. I think we've accepted longer term contracts in the past, and I think recommendations from this board have indicated that, "Look, why sign your life away for five years?" There are some contracts that take 1.5 years to implement and then you don't get any benefits six months afterwards any kind in return. There is always a concentration we can do contracts. I think over the last few committee meetings that we made changes in contracts relative to terms and conditions. I do agree with you. I think there is work to be done in becoming more professional on the contracts.

Chair Beruff: Thank you. I want to circle back to Governor Knight. I don't think we answered your question, but we're going to.

Jennifer Montero: I have some keys points I can discuss.

Chair Beruff: That would be great. The other thing for the governors to consider is a line item under year-end PIF. I specifically put that in there so you can see the relationship between PIF and cost in operations. The ebb and flow of the PIF does it quite meander as quickly as underwriting and administrative expenses, which is hard to do in any organization. You cannot upsize the organization and downsize it in the moment that it occurs. There should be some correlation between the amount of business we have on the books and our cost to operate.

Jennifer Montero: In addition to the implementation of Guidewire that took place 2012 and 2014, we also implemented a new data warehouse and a rating engine and some other things that go along with that. In 2013 we implemented the Clearinghouse, and then in 2016 we had center point, which is really

our accounting, procurement, and HR software. In 2017, of course, we had Hurricane Irma and we had Hurricane Michael in 2018. The other development we mentioned in the Audit Committee yesterday is that we had almost $200 million of development in 2021 that's actually related to prior year storms Hurricane Irma and Hurricane Sally. But those are some of the big things and there were the big things that Barry mentioned like outsourcing versus insourcing and changing strategies throughout the different years to change those contingent staff and salaries period. To Barry's point, 1.4 outsourcing versus 1 for insourcing, so when that changes, so does the strategy with the cost related to it. Those are the big items that I can think of that we can identify over the last several years.

Chair Beruff: Governor Knight?

Erin Knight: Yes, thank you. Any thoughts on litigation over the years? Has the increase in litigation been steady? Has that been a factor in this that we should be aware of?

Jennifer Montero: Litigation has been huge. That's been what's been driving our loss ratio. If you look at the budgeted Personal Lines Account (PLA), the loss ratio budgeted for that is in the 60s, whereas for the Coastal [Account] (and I know Brian [Donovan] is here)… I think for Coastal it was 29%, and in the PLA, it's budgeted at 64% and that is all due to litigation. Litigation is really driving our loss costs outside of storms losses in Loss Adjust Expense (LAE). We are seeing a downward trend in the litigation rate. Again, that was something I mentioned in the Audit Committee yesterday.

Chair Beruff: Any other members have a question? Governor Knight, are you okay?

Erin Knight: Yes, thank you.

Reynolds Henderson: I have a couple of comments and questions.

Chair Beruff: Welcome, Mr. Henderson. How are you?

Reynolds Henderson: I'm great. I'm sorry I'm not there in person. If you look at 2014 and 2015, you kind of just explained it but… this started great. I wish I was looking at this because it's really helpful. When you look at the PIF in 2014 and 2015, you see this huge drop. Then, you don't see the administrative expense going down. It does make sense that you can't correlate it immediately but then it starts to level itself out. If you look at the past three years, the underwriting expenses seem to be going up dramatically. Is there some reason for that?

Jennifer Montero: The underwriting expenses are in correlation with the policy count, so the underwriting expenses are variable in that when the policy count goes down, the underwriting expenses the underwriting expenses go down. As they go up then the underwriting expenses go up. You should see a pattern between the underwriting expense and the PIF. Oh. We do have an outreach inspection program that took place… oh, it's added for this budget year. We have an outreach inspection program that is also going to lead into that increase.

Chair Beruff: Correct me if I misspeak, but to refresh this board and Mr. Henderson's memory, we advocated for more inspections to make sure that the homes we're insuring are in better condition in hopes that we would have less claims in the future. It's an investment that should pay dividends in the future and this board thought that was a pretty good idea, but it costs money upfront. Between now and

the next board meeting, there is a significant jump in underwriting expenses year over year from $171 million $283 million, or $112 million difference.

Jennifer Montero: Which year are you referring to?

Chair Beruff: 2021 to 2022. It goes from $171 million dollars to $283 million. You see it there?

Jennifer Montero: Yup! I can get that to you by the end of the meeting.

Chair Beruff: Well, get it to the whole board at your leisure just so we can be better prepared to discuss that $112 million difference in July that's budgeted. But, at the end of the day, I thought this was a good road map for people to get history. I don't know how to run a business if I don't know what's happened. Then, we can have this updated year over year. I have to say kudos to Ms. Montero because I asked these questions five minutes later, I have the answer. I don't know what magic calculator she has in her pocketbook [laughter], but this is all readily available. As long as you ask, she knows where to get it.

Jennifer Montero: It's Andrew Woodward. That's where I get it.

Chair Beruff: Okay. We'll give credit to whoever deserves the credit. Thank you because I think it's a good way to plan for the future. Mr. Dunbar?

Marc Dunbar: Thanks a lot for the information. A couple of questions… one, I know that we had begun to do research on the inspection fees and the ability to … and as the private market does pass on the inspection fees (and I know we have pushed that item off) but maybe it's something we could bring back for the Actuarial and Underwriting Committee (A&U). It's something we may want to bring back as we're looking at how we can tighten the losses and it's something we can work on in September and December. The other item that I was… what year did we bring in house our management from SBA, Jennifer? Do you remember? There was a time when SBA managed the money for JUA Windstorm when Citizens was combined… there was a period of time and then we started to manage our own money. I don't know what year that was.

Barry Gilway: I think it was in 2007.

Marc Dunbar: 2007.

Barry Gilway: I believe it was over $700 million.

[whispering]

Barry Gilway: 2008.

Marc Dunbar: I'm just curious, and this is not for answering today, I am curious about the cost associated with the SBA managing us and our cost associated with that. That's something maybe the board would want to look at.

Kapil Bhatia: For the record, Kapil Bhatia from Raymond James. SBA was managing the money from 2006 to 2008, and right after the financial crisis, it was brought back to it… the SBA management fee was four basis points in the management fee today is 5 basis points. The amount of money to manage is about $5.5

billion to $6.5 billion but we paid a bunch of claims in 2004 and 2005. So, it was around $3 billion at that time.

Marc Dunbar: So, that's the private sector fee, right? It's not the cost to us to staff a machine standpoint? It's not in that percentage that you just quoted, right?

Kapil Bhatia: I'm sorry. I don't get it. We do not have internal resources managed by the investment managers. We pay 5 basis points to manage that money.

Marc Dunbar: I understand. We pay for staff to look after this as well. I know we've approved items from the last couple board meetings in that regard. Again, what I'm trying to understand is the net cost back then versus the net costs we're paying today because it may be worth asking the SBA if we can piggyback off of their economies of scale to save money. It may be a futile exercise, but it may be worth doing that.

Kapil Bhatia: I can answer one part of the question certainly as the board decides. The SBA investment manager is 5 basis points. If you contract with the approved compliance system because we need to run the compliance, it is 0.045 basis points. If you add that up it'll be 5.045 basis points. We were paying SBA 3.5 to 4 basis points just to put this in perspective.

Marc Dunbar: Right. So, that is a 1.5 spread when SBA was doing it versus what we're paying now.

Kapil Bhatia: It's 1.5 basis points.

Marc Dunbar: I'm sorry. It is 1.5%.

[multiple speakers]

Chair Beruff: It's millions of dollars so it adds up pretty quickly.

Kapil Bhatia: If I may, at the time, there were some compliance issues when we had some securities in a portfolio… the reason it was brought back was because we had a significant market to market head. During the financial crisis there were some securities that were not part of our policy system and we're not supposed to be in our portfolio but were bought. That is why we brought it back. We took a significant hit to our portfolio.

Marc Dunbar: I remember the political fight that occurred. It was unrelated to our operating expenses when that decision was made. And it sounds to me like, if I'm hearing this right, it costs us more to manage the money than sending it back to SBA.

Kapil Bhatia: Under the 1.5 basis points, yes.

Chair Beruff: Mr. Gilway? Are there any comments from the board? Are you ready to do your President's report?

Barry Gilway: I'm always ready.

Lazaro Fields: I'm sorry. Can I ask one more question? I think in response to one of the questions that Jennifer… is that the loss was litigation driven… I'm just comparing 2013 budgeted for this year because premiums are almost identical. The budgeted loss in LAE is over $500 million in what we incurred in 2013.

Jennifer Montero: That's all due to the litigation in the PLA.

Lazaro Fields: So close to 100% is litigation driven for that increase is what I'm saying, plus or minus several percentage points.

Brian Donovan: We talked about the non-catastrophe PLA loss ratio. The primary driver of that is the litigation rate for the non-weather water claims. That has been the driver for the last five to six years. It has been the primary driver. There has been a lot of improvements in that, but it's still roughly off hand, the PLA HO – one in four non-weather water claims end up in litigation as opposed to five to six years ago it was close to 60%. It is a credible driver for costs. There have been improvements over the years. It's much better than what it was, but it's still an issue driving the non-catastrophe loss.

Lazaro Fields: To follow up on that, I think it would be useful or helpful if that the loss in LAE was broken out just a little more for comparison's sake. I picked up on the same difference between 2013 and 2022 budget period I'd like to know what we can do with regard to what visibility we have as a board to see how we can drive that number down. That is a significant driver of these results… these projections. Right now, looking at a blanket number of $1.3 billion, I think we can break that down a little bit more.

Brian Donovan: That makes sense. One thing I might add, and this is part of the discussion that was going on earlier, I think it was 2013 and 2014 (right before the litigation took off), our HO3 indication was zero percent at one point. We actually came to the board in 2013, if I recall, and things had settled down and were in good shape. That's when the water litigation took off and we've been fighting that ever since. I would just add in that when we're looking at those numbers, it clearly is the litigation in one form or another that's driving these up.

Barry Gilway: The increasing numbers… in 2013 there were 27,000 property litigated cases, and in 2021, there were 100,000 property litigated cases. During that period, you have to make some adjustments for Hurricane Irma, but during that period, there is a staggering increase which continues to this day. There is a 30% increase in litigation from this last January to this January and there was a 17% increase in litigation from last February to this February. The litigation counts still continue. Governor, if you would like to sit down with us and determine what additional elements you'd like to see, it would be very easy to incorporate them. We do publish the Executive Leadership Team Report and it provides some detailed information every month in terms of a direction that each of these categories are going. There could be some nuances that you would like to highlight in that report or add to that report. We're happy to work with you on that.

Lazaro Fields: Okay. Thank you.

Vice Chair Thomas: When was the sinkhole a big problem for us? I know it was before 2013. When we went to zero rate indications, it was probably after the sinkhole legislation sort of hardened in the marketplace and it got better for sinkholes.

Brian Donovan: That's correct. Senate Bill (SB) 408 addresses the sinkhole which went into effect in 2012. It started in 2008… well, it started way earlier than that… it started between 2008 and 2011.

Chair Beruff: This is our Alamo – water claims. The sinkhole got fixed and they found another loophole. That's what happened here. We need to close that loophole. It's the same thing that happened with sinkhole and legislation fixed it. We just have to fix the problem.

Marc Dunbar: That's where I was going with it. If it takes a year or two when you get the bill passed, it starts to show up in our rate indications. We're starting to feel the assignment of benefits (AOB) legislation in the rate filings that we're making now, right? If it's a roof problem driving things now, you'll always have to have this little bit of lag… and it's showing up in these charts.

Jennifer Montero: I do have the answer for you, Mr. Chairman – your question about the difference between the 2021 and 2022 budgeted underwriting. Because the policy count went up almost over 305,000 policies and the majority of that $77 million of it are commissions.

Chair Beruff: I knew the answer actually.

Jennifer Montero: Excuse me? You knew the answer? I knew you did.

Chair Beruff: But I wanted you to say it.

Jennifer Montero: I know you did. [laughter]. That's why I wanted to get back to it in this meeting.

Chair Beruff: I spent too many years around attorneys. Never ask a question if you don't already know the answer. At the end of the day, folks, we have to rein it in and get to operational parity. That's the goal. You gotta do it. You're plenty capable. You don't need us to tell you how to do it. You have to bring us solutions and we have to bring them in. I appreciate that. Anybody else have any comments before Mr. Gilway gets into his report? Seeing none; Mr. Gilway, the stage is yours.

2. President's Report

Barry Gilway: Thank you, Mr. Chairman. I will try to keep it relatively short, but so much is happening in the marketplace that I do think you'll find it interesting. My job today is basically to kind of share with you not the Citizens financials but provide a more brief overview of the Florida property market and the implications for Citizens in the short term. Some of it is history. In 2018, Citizens reached a low point of 414,000 policies that represented an exposure of about $108 billion. This was a significant reduction from 2011 when we reached a high of over 1.5 million policies and more than $512 billion in exposure. And at that point we represented 23% of the entire residential market in the state. Since the end of 2018, there has been a rapid decline in the Florida market profitability. Severe restrictions in the number of policies in the private market is writing along with far more restrictive risk characteristics. This is ultimately led to the policies in-force, and I do have a slide showing they're very consistent increase in policy count by week. It's roughly 5,500 net new policies per week. We're driving at that 30,000+ new business policies coming in the door every month. Ultimately led to policies in force, as indicated on the chart, of more than 800,000. Current projections indicate that we will definitely exceed one million policies in 2022 with an exposure greater than $350 billion. In terms of what that means in 2017, we had close to 400,000 policies when Hurricane Irma hit. I thought this was an interesting comparison. When comparing our current volume with the volume we had in place… if we had another Hurricane Irma that would hit at our current volume (we processed 78,000 claims during Irma), we would have to process over 200,000 claims for that same storm at our current market share. That is based upon today. The volume by the end of

2022 clearly would exceed a quarter of a million claims. What's interesting about Irma is that it really started out as a 1 in 25-year storm. It ended up as a 1 in 10-year storm because of the significant development that occurred on Irma obviously due to litigation. The overall financial condition in the Florida market is clearly driving the increased flow into Citizens. In your board books, I provided documents that reflect the continuing deterioration of the private market results, and it shows the negative net income for the Florida domestic market exceeding $1 billion. Will you put the next slide up? You may not be able to read this. In your board books, I provide documentation that reflects continued deterioration. It shows that the negative net income for the Florida domestic market exceeded $1 billion in 2021. The net underwriting loss exceeded $1.34 billion with one major company still not reporting. As you can see, that has been a consistent degradation, you know, in those numbers from five years ago with $92 million negative net income to $1 billion. The financial strain on the 52 insurance companies has been so great that we have experienced another insolvency with the announcement that Avatar Property Casualty recently entered into receivership. This follows insolvencies of American Capital and Gulfstream last year and the recent insolvency of St. Johns with 140,000 policies. Fortunately for St. Johns, it appears that a newly formed company has agreed to provide renewal offers to the 140,000 St. Johns policyholders. This slide (and here is the current benefit) this slide doesn't carry current liabilities of St. Johns going forward. That is really Florida Insurance Guarantee Association (FIGA), and Marc Dunbar is the Citizens representative for the FIGA board. He might be able to add some additional comment. FIGA is placed in the position of funding unfunded runoff liabilities for these insolvencies. Last year the FIGA board approved the 0.7% assessment or $158 million relating to Gulfstream and additional small storms and now has approved an additional 1.3% assessment for $319 million relating to Saint John's. We do not yet know the impact of Avatar and the impact that might have on the FIGA financials and the need for more assessments. These insolvencies are concerning, but when you look at the marketplace, what's really concerning is the financial condition of the remaining Florida domestic market. I have a second exhibit that we just put up on the board, and this includes the results from the top ten companies operating in this market writing over about $8.5 billion in premium. Three of the top ten companies posted a negative net income of over $100 million a year with only one company posting a slightly positive net income. In a recent report that I provided (the interim report that I provided), I shared a list of eight companies that are recently shut down completely across the state for the business (for new residential business) and that is across the entire state. They simply have no capacity to write new business, and frankly, all of them are terrified relative to what the reinsurance costs are going to be typically in the lower layer below the CAT Fund. Additional companies have been able to announce additional restrictions. For example, ASI/Progressive company recently announced that they would be cancelling 56,000 policies with roofs over 15 years old. I will not talk a lot about Christine Ashburn's area, but we were hoping that this past legislation that we had proposed a close of the gap between Citizens' rates and the industry's rates would pass this year, and as we all know, that was not meant to be. We will still be in a position going forward where we are the least expensive insurance available, and the differential between Citizens' rates and the private market's rates is of course widening as more and more companies pass significant rate increases. Every company, at this point, is filing rate increases in trying to stay ahead of the increase in litigation trends. The legislative session ended with no reform measures passing that could have had an impact on the industry results, and at this point, we are dependent on SB 76 having an impact on the increased litigation rates and the way it's structured around the plaintiff cost paid to plaintiff counsel. Unfortunately, the industry increased litigation by over 30% year over year in January and 17% in February. So, the environment is not improving but the environment is getting worse. We simply cannot expect major changes in the market dynamics without significant legislative reform. Companies, at this point, are simply increasing their rates as quickly as possible to stay ahead of the climbing litigation rates which, of course, is widening the gap between Citizens' rates and those of the private companies. One final note, and it is not a positive one, if you combine (I think these are important numbers) the Florida Hurricane Catastrophe

Fund (FHCF) and the initial budget for Citizens' reinsurance, it is forecast to be 23% of premium. It is at that level because we are only required by statute to place reinsurance at the 1 in 100-year level. The private market, however, to maintain a Demotech rating, is required to place reinsurance that covers a 1 in 130-year primary loss and a reinstatement to cover a 1 in 75-year storm. This result is the private market is paying between 40% and 50% of their premium just to place this coverage. Some companies, far more than that simply because they have historically gone to the market and attempted to place – or have placed – that is below the FHCF. The lower you get of the FHCF, the higher the ROL. You have companies literally paying 50% to 60% just for their coverage below the FHCF layer. At the Bermuda Risk Summit on March 14th the cover story was "Florida Carriers face higher prices, greater client selection and a focus on payment terms." Reinsurers are describing this year's placement as the most difficult they have seen in 15 years. We will have to see what substantial reinsurance pricing increases have on the current financial condition of private market companies. To quote *The Insurer Magazine*, "It will be a fascinating period between now and the start of hurricane season." The increases that are being quoted, I think, 15% to 20% in recent discussions with reinsurers. Kapil was a little more optimistic and was quoting 15% as probably the average increase. But, for some companies because of their poor capital position, there is also a credit charge added to the pricing and they will pay substantially more based upon their financial condition. So, Mr. Chairman, one point I will make, if you jump to the last slide, this is the net underwriting loss for those top ten companies. I do want to point out that every one of these companies had the ability to charge their rate, they had the ability to establish the risk characteristics that they wanted to write, they had the ability to write geographically where they wanted to write, and yet, basically what you're looking at for the top ten companies in underwriting loss is almost $1.5 billion in underwriting loss. That's not going to go away anytime soon. The market only has $3.6 billion (52 carriers) $3.6 billion in surplus. That makes it a very weak overall market. As you all know, Citizens has $6.5 billion surplus. That's an advantage and a disadvantage because people do not want to move away from Citizens because of the strength of our financials. With that, Mr. Chairman, I am wide open for questions.

3. Chief Financial Officer's Report

a. Finance and Investment Committee (FIC) Report

Lazaro Fields: The Finance and Investment Committee met on Friday, and we discussed the reinsurance… we generally discussed the reinsurance program among other things, and I think Ms. Montero will give a more in-depth presentation to the board.

<u>2022 Risk Transfer Program</u>

Jennifer Montero: Good morning. Behind tab 3, you'll find the executive summary for the 2022 Risk Transfer Program. At the December 2021 board meeting, the staff presented a proposed 2022 Risk Transfer Program as part of the 2022 budget presentation. Those respective layer charts are on slides two and three on the presentation behind tab 3. The proposed program incorporated all strategic elements from prior Risk Transfer Program – which included participation in the FHCF, transferring alongside the FHCF, and in the traditional reinsurance market, transferring risk above the FHCF through both the traditional reinsurance market and the capital markets – in order to protect a portion of surplus from the most catastrophic events and to reduce the amount and likelihood of an assessment in a 1 in 100-year event for Florida. So, the proposed Risk Transfer Program provided $1.886 billion of coverage with budgeted premium of $190 million for the Personal Lines Account (PLA) and $2.51 billion of coverage with budgeted premium up to $210 million in the Coastal Account (as you can see on slide three) for total of $4.396 billion of coverage with a budgeted premium of $400 million. That proposed program reflects

exposure data as of September 30, 2021, with projections to September 30, 2022, utilizing a projected growth rate of 60% for the PLA in 44% for the Coastal Account period since that time, Citizens has updated the exposure data as of December 31, 2021, and its projections to September 30, 2022. Based on this update, there has been a significant increase in projected growth in the PLA while the Coastal Account projections have remained consistent with the prior forecast. Therefore, we are proposing a program based on the updated projections utilizing the growth rate of approximately 80% for the PLA and 43% for the Coastal Account from September 30, 2021, to September 30, 2022. As a result, we have revised the proposed Risk Transfer Program to include four scenarios in addition to the 2022 budget scenario presented at the December board meeting. The first scenario incorporates the updated forecast using the updated budgeted risk transfer spend. The second scenario incorporates the updated forecasts with no projected combined underwriting loss. The third scenario incorporates the updated forecast with no projected underwriting loss in the PLA. The fourth scenario incorporates the updated forecasts with no new risk transfer purchase. Turning to slide 4, you'll find scenario one for the PLA entitled "Budget Reinsurance Spend, 12/31/21 Probable Maximum Loss (PMLs)." This scenario provides approximately $1.958 billion of coverage in the PLA comprised of $435 million existing coverage and $1.523 billion of new risk transfer with a budgeted premium of $190 million. Under this scenario, the PLA would expose all of its surplus for a 1 in 100-year event and would have a potential assessment of approximately $656 million comprised of $450 million of the policyholder surcharge and $206 million of emergency assessments. On slide 5, you'll see scenario one for the Coastal Account. This scenario provides…

Chair Beruff: Excuse me…

Jennifer Montero: …of approximately $2.53 billion dollars of coverage

Chair Beruff: Excuse me, Ms. Montero. There's so much information and so many charts. We should probably stop in between every chart for board members to ask questions because you know this cold and most of us are warming up. Does anybody have any questions at this point? At some point, what I'm going to ask, "What is the cost of reinsurance projected for each projected scenario?": That's my question. Does any other board member have a question? Mr Dunbar? Ms Knight, I know you're there, and Mr. Henderson, if you need anything. Go ahead.

Erin Knight: Thank you.

Reynolds Henderson: Go ahead. Thank you.

Marc Dunbar: The question I have (and we talked about this before this in a phone cal) is that we're exposing surplus over there up top of $143 million and what I'm assuming (from our conversation) is a relatively low-cost layer as opposed to the sliver layer that runs next to the FHCF. It's a $290 million sliver layer. I'm curious in the difference in cost between exposing the surplus down low in that sliver next to the FHCF and move that layer up to a cheaper place if that helps us save money. I mean, we're exposing surplus no matter what in a 1 in 79-year event on this, so what is the cost difference of exposing surplus down lower next to the FHCF than for a more expensive layer?

Jennifer Montero: Well, we actually looked at the cost of reinsurance below the FHCF, and at the time, (that was probably 2019 or 2020) and it was almost a 23% rate online versus the top layers which are about 6% to 6.5% rate online. That's because the expected loss is so much lower at the top. You're most likely going to get hit in the lower section. Because of knowing that's so expensive, that's why we leave a significant amount of surplus exposed like our deductible below the FHCF of $1.74 billion.

Marc Dunbar: I think you're misunderstanding my question.

Jennifer Montero: You're wanting to know how much… if I'm going to take this layer, which is probably about 15%…

Marc Dunbar: …the $1.43 million layer that's between 57 and 79 and it's next to the 2022 aggregate that runs across that layer. You see what I'm talking about? It's the green surplus above our Catastrophe (CAT) Bond…so if we expose surplus down below, right, so we're not buying reinsurance next to the FHCF and the sliver layer, I'm assuming the sliver layer next to the FHCF is more expensive than purchasing more reinsurance obviously because of the risk, right?

Jennifer Montero: That is true; it's a lot more expensive.

Marc Dunbar: Since we're having an exposed surplus anyway in a 1 in 79 event, what's the cost difference in exposing that surplus down lower and saving a little bit of money, with an understanding that if we get hit, you know, that surplus is going to… it's a relatively small amount of surplus that's being exposed down there next to the sliver layer. This question is going to roll forward because what you're going to see from these layered charts is that as you move forward the sliver layer next to the FHCF winds up being smaller surplus exposed at a higher level. I just want to plant this question to see if there is some savings in the program but still gets us being able to purchase reinsurance having a 1 in 100-year event.

Jennifer Montero: Right. This is a significant price savings.

Marc Dunbar: That's what I figured.

Jennifer Montero: But it's also opening up an extreme big exposure because I can tell you for Irma, that's where we attached on Irma. And we were able to attach that layer above Irma where we didn't have a CAT bond because we had those smaller storms that added up that Irma hit the retention and that came down and we got some recoveries like $250,000 or something like that. The exposure wasn't big. That's the sweet spot where we get hit…

Marc Dunbar: But we're 90% covered in that sweet spot FHCF…

Jennifer Montero: …. That's right.

Marc Dunbar: … but that's what I'm saying. We're 90% covered down there and we're going to get hit more there. But we have a decent surplus when you're talking about exposure of less than $300 million. It's really to let everyone know to watch the green up top versus the sliver layer next to the FHCF and to think about, from a risk standpoint, where surplus should be exposed because our most expensive layer.

Jennifer Montero: That's true. As you go up the chart, the price gets cheaper because the expected losses are more remote. It also matters, too, whether it's per occurrence versus being an aggregate because an aggregate allows us to add up all the storms in one season to reach that attachment point versus the per occurrence. And, to your point, that $298 million layer next to the CAT Bond is per occurrence. Any other questions with this slide before we we go to the next one? You'll see, for the most part, for the Coastal Account, with the exception of – if you go to slide 5 – with the exception of scenario 4, the Coastal Account does not run into any kind of assessment burden within a 1 in 100-year event. I'll go back over this one. On slide, 5 this provides for $2.5 billion of coverage in the Coastal Account. It's made up of $625 million

of existing coverage and $1.905 billion of new risk transfer with a budgeted premium of $210 million. Under this scenario, the Coastal Account would have exposed 57% of its surplus for a 1 in 100-year event and it would not have a potential for any assessment.

Marc Dunbar: Just for everyone's benefit, the surplus up top is larger than the sliver layer of the FHCF. This is our healthiest account; the Coastal Account has the healthiest situation. Something to think about is to expose the exposure on there and take advantage of the healthy surplus in the Coastal Account and save some money that we then can use in the overall reinsurance program because we're exposing more surplus in the 1 in 100-year event at the top than we are in that sliver next to the FHCF.

Jennifer Montero: And you're exposing yourself to the chance to…

Marc Dunbar: … in our healthiest account…

Jennifer Montero: Right. I'm just making sure I mentioned that as well.

Barry Gilway: I guess the issue is the level of risk. The higher you put your coverage you might not be getting a response until it's an 80 or 90-year storm. It's a low percentage chance. If you're down at the sliver layer, you're looking at a 14-year storm. So, the bottom line is the lower you drop in your layers the higher the risk of it occurring. You can cover more surplus technically in a 1 in 100 but you may pay out a lot more claims because it's at a much riskier level than your layers. Do you see what I mean?

Marc Dunbar: But it's only 10% of the risk inside that layer, and we can get hit by five 1 in 14 storms and pay the 10% down in that layer and still have a relatively healthy Coastal Account is my only point and save money in the reinsurance program that could be used elsewhere.

Jennifer Montero: I would also point out about that sliver, Governor Dunbar, is the FHCF. They have a flat 10% reimbursement on Loss Adjusted Expense (LAE) ratio, so if our LAE is any more than that, it goes over, and we get it picked up by the private reinsurance in that sliver. That's one of the good things about that sliver layer as well. Moving on to slide 6. To the far right you'll see the 2002 pro forma PML. It's 2.99% and almost at $13 billion and the assessment risk for a 1 in 100-year event is $656 million. You can see in the red in the bar graph.

Chair Beruff: Or do you project the cost of buying reinsurance to cover that graph?

Jennifer Montero: That's $400 million. It's the same as what we have in the budget currently. You're going to see it change with each scenario. Next is slide 7 and this is for the PLA. It's titled "2022 Updated Forecast Scenario #2 (No Projected Combined Underwriting Loss)." The combined underwriting loss is $53 million. This scenario provides $1.708 billion of coverage in the PLA comprised of the $435 million of existing coverage and $1.273 billion of new, private risk transfer with a budgeted premium of $165 million which is $25 million less than the budgeted premium in scenario one. Under this scenario, the PLA would again expose all of the surplus for a 1 in 100-year event and would have a potential assessment of approximately $881 million comprised of $450 million of the policyholder surcharge and $431 million of the emergency assessments, which reflects an increase potential emergency assessment of $225 million from scenario one. I'll pause for any questions there. [silence] On slide 8, you'll see scenario two for the Coastal Account. This scenario provides approximately $2.23 billion of coverage comprised of $625 million of existing and $1.605 billion of new risk transfer with a budgeted premium of $182 million, which is $28 million less than the budgeted premium in scenario one. Under this scenario, the Coastal Account would expose 66% of its

surplus for a 1 in 100-year event or $300 million in additional surplus exposed versus scenario one. It would not have any potential assessment burden. Any questions here? [silence] Slide 9 provides the risk and assessment trend – the 2022 pro forma PML remains just shy of $13 billion in an assessment risk for the 1 in 100-year event increases by $225 million to $881 million as shown in the red bar chart. Any questions? [silence] If you turn to slide 10, you'll find scenario 3 for the PLA. It's titled "2022 Updated Forecast Scenario #3 (No Projected PLA Underwriting Loss)." The budgeted underwriting PLA loss is $700 million. This scenario provides approximately $1.183 billion of coverage in the PLA comprised of $435 million of existing coverage and $748 million of new risk transfer with a budgeted premium of $116 million, which is $74 million less than the budgeted premium from scenario one. Under this scenario, the PLA would again expose all of its surplus for a 1 in 100-year event. It would have a potential assessment burden of approximately $1.356 billion comprised of $450 million of the policyholder surcharge and $906 million of an emergency assessment, which reflects an increase of a potential emergency assessment of $700 million versus scenario one. On slide 11 you'll find scenario three for the Coastal Account. The Coastal Account would not be affected under this scenario because the change was only to the PLA. You'll see that it is the same as scenario one. Turning to slide 12, yet again the 2022 pro forma PML remains just shy of $13 billion; however, the assessment risk for the 1 in 100-year event increases from $700 million to $1.2356 billion as compared to scenario one as shown in the red on the bar graph. Turning to slide 13, you'll find scenario 4: "2022 Updated Forecast Scenario #4 (No New Risk Transfer Purchase)." The budgeted risk transfer purchase was $332 million. This scenario provides only $435 million of existing coverage in the PLA with the budgeted premium of $28 million, which is $162 million less than the budgeted premium in scenario one. Under this scenario, the PLA would again expose all of its surplus for the 1 in 100-year event and it would have a potential assessment burden of $2.016 billion comprised of the $450 million policyholder surcharge and $1.566 billion of emergency assessments which reflects an increase of attentional assessments of $1.36 billion versus scenario one. On slide 14, you'll find scenario 4, for the Coastal Account. This scenario provides $625 million of existing coverage in the Coastal Account with the budgeted premium of $40 million which is $107 million less than the budgeted premium in scenario one. Under this, scenario, the Coastal Account well expose all of its surplus for a 1 in 100-year event and would have a potential assessment burden of approximately $422 million a policyholder surcharge which increases the potential of assessments about $422 million versus scenario one. The total combined assessment under scenario four is $2.438 billion dollars comprised of $827 million a policyholder surcharges and $1.566 billion of emergency assessments. On slide 15, the 2022 pro forma remains at $12.99 billion and the assessment risk in the 1 in 100-year event increases by $1.082 billion dollars to $2.438 billion as compared to scenario one as shown in the red bar graph. The final slide, slide 16, provides a summary of the different scenarios combined on one chart for your convenience. I'll pause there before going into in additional scenario that we prepared for Chair Beruff.

Chair Beruff: Governor Dunbar?

Marc Dunbar: The slide that asks you to prepare for the impact on families…

Jennifer Montero: That is right after the scenario 1B.

Marc Dunbar: Okay, the question I had was on the Citizens uncapped policy… that's the one we talked about that's the addition since the last meeting that shows the subsidy that Citizens' policyholders are getting and that's if we were charging actuarially sound rates. I just wanna make sure…

Jennifer Montero: Yes. We need to go back… can we go back to scenario 1B slide, please? It's the additional slide, 4 pages. Are there any questions before we move on to that?

Lazaro Fields: I'm sorry if I'm not understanding this correctly but scenario 4: there is no new risk transfer purchase, right?

Jennifer Montero: Right, because we have the outstanding bonds and they're for multi-years and we have those from both the PLA and the Commercial Lines Account (CLA). We are committed to those. That's the $28 million and the $40 million respectively. I think that's the premium for those two CAT bonds in each…. Yeah, both the PLA has 2020 CAT bond in the 2021 CAT bond. The Coastal Account has two CAT bonds from 2021.

Marc Dunbar: We also have to purchase the FHCF.

Jennifer Montero: Yes.

Marc Dunbar: That's in the cost also?

Jennifer Montero: No, it's not….

Marc Dunbar: So, what would the cost…

Jennifer Montero: … the cost of the FHCF across all accounts is about $375 million.

Marc Dunbar: Right. So, built in we have a $400 million reinsurance spend no matter. No matter what we do, we will have a spend of $400+ million. It's what we're doing on top of the $400 million and that's what we're talking about today.

Jennifer Montero: Correct. And we are required by law to participate in the FHCF at 90% participation and we do not have a choice in that.

Marc Dunbar: I just want to make sure everyone understands that. We are always buying reinsurance. We are always spending a lot of money on reinsurance and my question is on how much more on top of FHCF. Thank you.

Jennifer Montero: Chair Beruff asked us to prepare for an additional scenario for the PLA that removes the potential assessment burden in a 1 in 100-year event. This presentation is included in the board materials, and we have it on the screen. We refer to this as scenario 1B for the PLA titled 2022 updated forecast cover with up to a 1 in 100 year with an additional $46 million spend reflected in the layer charts. The budgeted spend in this scenario for the PLA was $190 million originally. This scenario provides for approximately $2.66 billion of coverage in the PLA, and it is comprised of the $430 million of existing (that's the CAT bonds that we mentioned) and then $2.225 billion of new private risk transfer with a budgeted premium of $236 million, which is $46 million more than the budgeted premium in scenario one. Under this scenario, the PLA would expose all of its surplus for the 1 in 100-year event and would not have any potential assessment burden for the 1 in 100-year event. Slide 3 shows the pro forma PML and it does remain at the $12.99 billion just like the prior scenario. The assessment risk is decreased to zero, showing no red in the chart. It's also noteworthy to point out that even with the additional budgeted spend of $46 million, comment the budgeted consolidated net income would still be $64.7 million for 2022. I'll pause for any questions before continuing with policyholder impact.

Chair Beruff: So, stating the obvious to the governing board members, the reason why I wanted to have these slides is to show you the exposure that Citizens has had in the past either by choice or by the cost of reinsurance back in those years based on our balance sheet. You can see in 2010, for example, assessments for that particular year in a catastrophic event would have been $13.41 billion, if I'm reading this correctly, right?

Jennifer Montero: That's correct.

Chair Beruff: So, you can see how – and if you can tie this chart with the chart that we started the meeting with – you can see how part of the reason we were so profitable, we were lucky as a state not to have hurricanes and then we took that surplus and we build… but, somebody… was it because reinsurance was so expensive that we didn't buy it? Or did the board make the decision to take this risk?

Jennifer Montero: After 2004 and 2005 and all those storms, we had a tiny bit of reinsurance in the sliver in 2005 in both the PLA and Coastal Account, and we couldn't buy it after that because we had no money. We were doing assessments. Then we bought a tiny bit in 2008 and then the board chose not to buy it because we did not have the money, and overtime, we started to buy it again in 2011 and we bought it consistently ever since.

Marc Dunbar: We also have a statutory mandate…not mandate… we have a statutory "1 in 100-year best efforts" language that was added to the same window of time.

Jennifer Montero: Yes.

Chair Beruff: The point is that the board made the conscious decision, even when you could buy reinsurance, not to buy it for what purposes? Was anyone here back then? It predates you, Barry, but you may know the history.

Barry Gilway: The purpose in not buying reinsurance is that… I'll give you an example. We had the same argument with Chairman Gardner in 2014. But it was exactly the opposite. The reason why it was exactly opposite is because we only had X amount of surplus, and we had a market that was readily available at excellent rates to provide us with more reinsurance than technically I felt we could afford. Affordability was based upon… I didn't want to see any deterioration in surplus if a storm didn't occur. We literally bought reinsurance up to the point where net income was $0.00, and ergo, the reinsurance would not automatically deteriorate the surplus. So, we limited the buy that year to make sure we weren't reducing surplus even if there were no storms. It's a very similar philosophy that many companies take. They don't want to automatically reduce surplus. The standard scenario here would still result in a $64 million addition to surplus if we followed the final recommendation that you made.

Chair Beruff: Understood. But, to clarify the reason that this anomaly occurs is because the claims are later than the revenue. Mr. Donovan does his projections to the $64 million positive cash flow, let's call it that. There is a strong potential, if we shrink the business, that those dollars evaporate in the future because you're taking the income now and you're not taking the adjustment until the following year or two in some cases, correct? Obviously, Mr. Donovan's projections are important and your team's projections, but if we miss the projections, then we eat into that profit. Ms. Montero?

Jennifer Montero: You're talking about the reserves that Brian has for future storms.

Chair Beruff: Correct. No, I'm talking about the… right now with this particular slide that we're showing, it shows us buying a lot of reinsurance so that there is no claim… there is no assessment, right?

Jennifer Montero: Correct.

Chair Beruff: In that scenario, you also said that we would be $64 million positive.

Jennifer Montero: Yes, the net income would be $64.7 million positive.

Chair Beruff: My comment is that what Mr. Gilway says is that it is an anomaly because we have taken in the revenue for this year but you're not paying some of the claims until the next year and adjustments to the whole system. If Mr. Donovan is wrong, then that $64 million evaporates in the ensuing 24 months. Go ahead, Mr. Dunbar.

Marc Dunbar: The way I interpreted it is that we are essentially going to spend our investment earnings to buy more reinsurance and we're going to… which will allow us to grow surplus slower. If you go back to 2010 (that was when reinsurance rates were like 30% rate online. It was crazy back then, right?). Barry, let me make sure I heard you right. Companies made the decision, but they did not want to spend the surplus… they did not want to erode surplus on reinsurance premium. If the wind doesn't blow, then they keep the money and then grow your surplus and you get to be a healthier company, which was the debate with Gardner. We got to a place where we had a healthy surplus, and we were able to put together a very healthy reinsurance program to protect surplus and grow. Most of the time we've been able to do it and take investment earnings and grow surplus. We also started growing policies which also helped us growing surplus. Then, we fast forward to now where under scenario one, we are spending $400 million on top of the $420 million we'd be spending for reinsurance, and we would be spending a little bit of a projected operating investment income to subsidize the reinsurance program. We have extra to play with, so this 1B is going to spend a little more of those projected investment earnings, which means it won't go into surplus, but it we're going to not have any assessment risk in a 1 in 100-year storm in the PLA.

Jennifer Montero: And we're not buying it out of surplus. We're buying it out of income.

Marc Dunbar: I view investment income isn't going into the savings account as essentially not contributing to surplus.

Jennifer Montero: Right. We're not having to dig out of that savings account either…

Marc Dunbar: … correct. Correct. Going to Barry's point, when we didn't have any surplus and other companies didn't, this didn't make any sense to spend reinsurance from surplus. I just wanted to make sure because when we were talking about the budget that we signed off on, we projected an operating loss of X, but that didn't factor in our projected returns. If you add the investment returns, we projected an operating profit. So, now what we're doing is projecting a smaller operating profit because we are taking some of those returns and putting them into reinsurance to cover the 1 in 100-year.

Barry Gilway: I think my exhibit on the 10 largest carriers clearly shows that they have an underwriting loss, and the investment income can't come close to offsetting the underwriting loss to the point where they can generate bottom line profits. The concern relative to reducing (and we're not going into a discussion phase yet) their concern basically in reducing any surplus is a reduction in surplus reduces your overall investment income. So, you don't have enough investment income to offset your underwriting

loss. Once you get to that point where your surplus is reducing to the point where you are losing surplus every year… but the problem is not reducing the surplus every year. It's losing investment income on surplus every year to offset the underwriting loss. That's the concern in risking levels of surplus.

Chair Beruff: I certainly understand that. I just want the board to look at the chart and see that other boards have made those kinds of decisions in the past. It's our decision to make, but, at the end of the day, if you're operationally even, you don't need surplus income to operate because you're at operationally break even anyway. There is a fine line there between Mr. Gilway's well taken remarks that you want to make sure you always have operational income, or you've got reserves to generate income to subsidize operations. But, if you have your operations to break even, then that becomes less important, which is to the point that I've been trying to make repeatedly which is how do you folks run the business. I understand that litigation is a significant portion, and like I said before, (and it's a bad term) but it's our Alamo is the new loophole that the litigation bar has found to sue us when we closed the sinkhole loophole and that's a challenge for another year since we were not successful in advancing legislation this year. SB-76 hasn't fully implemented to see how it turns out in addition to the AOB, which has begun to show great results over the last 12 to 24 months, correct? This board has to make the decision on what is the right business decision for us to move forward other than directing staff to find ways to get us to operation… even though this year we had the anomaly because our premium was off the charts. We're going to show a profit that you can't show consistently unless we keep the business operating at this level, which we may have to because we're the only guys in town with a product that people can rely on. Mr. Butts, you're in the insurance industry. What do you think of all of this?

Jason Butts: I think it's a great position to be in, right? You do have the luxury to be able to make this choice as most insurance companies in this environment clearly aren't having this conversation. I think over the next couple of years, I don't know if the market is going to turn, so I think it's very important that we have a healthy surplus going forward. I think litigation, in the event of one of these storms (what we've seen in the past) may not be able to take into account what it's going to be like in the future. Looking at that and some of the LAE and transferring that at that point, what does that look like going forward? I think there are a lot of uncertainties in the market, and I think that the responsibility of Citizens is to be able to provide that stable environment. I clearly understand why these things were asked for and I think it's a tremendous exercise to go through to understanding for everybody in the marketplace. One of the things that you mentioned is in the event that the surplus shrinks, what would that look like for us going back to that reinsurance market? For the companies that are not in a very good financial spot, how much more are they paying? Meaning if the decision was made not to buy the reinsurance not only would that cost us potentially on the investment income within a rising interest rate environment, but what does that look like for us in the market going out the following year in terms of more money that we would pay?

Jennifer Montero: If you are not a consistent buyer and they can't rely on you, then that is disruptive to the market. We are one of the biggest players. For us to just pull out and then come back and then pull out and then come back, we'd pay a premium penalty for that.

Chair Beruff: I appreciate your statement and obviously it's well taken. I don't necessarily agree with that. Mr. Kapil [Bhatia] - I'd like to ask him some questions when he comes up later. I would like to go to this end of the table because the other insurance person is Mr. Telemaco. Governor Telemaco, do you have any comments on this discussion?

Nelson Telemaco: I think this meeting started with your summary and objectives overall to stay solvent and ultimately not to impose on the citizens of the state unnecessary assessments. I think these scenarios

are great. I happen to agree with Governor Butts. If there is a decrease in our surplus, then we do end up paying that premium one way or another. I do think that we really need to carefully consider the fact that for us – for Citizens –that the reinsurance market is not unstable. Is that correct? We're not expecting any dramatic changes in our purchasing for this renewal cycle. Is that a fair statement?

Barry Gilway: Dramatic changes in operations?

Nelson Telemaco: No. No. In our reinsurance costs, in our reinsurance purchase… where I'm going with this is that if there was a dramatic change to our reinsurance purchase, you know, our rates and our cost for reinsurance at this renewal cycle, I think we would have a lot more to consider. But, for us (for Citizens) it's a stable environment. If it's a stable environment for us, then we should take advantage of that.

Jennifer Montero: It absolutely is.

Nelson Telemaco: We should take advantage of that because we don't know what's going to happen next year, especially if we do get a storm and our surplus does drop, it would not be a good picture for us.

Lazaro Fields: To add onto that, we discussed this at the end of the FIC. Could you educate the board on the rate online projected under scenario 1B compared to what the rate online was last year when we placed. The way I see it is that under scenario 1B we're buying $446 million in cost or $4.6 billion in coverage.

Jennifer Montero: It's $5.19 billion in coverage under scenario 1B because we added in the $702 million and it's a cost of $446 million.

Lazaro Fields: I thought it was at about 9%.

Jennifer Montero: It is about 9%.

Lazaro Fields: And how does that compare to what we placed last year?

Jennifer Montero: 9%.

Lazaro Fields: So, it's about the same. Okay, thank you.

Jennifer Montero: This is actually 8.5% that's before brokerage.

Chair Beruff: Did I hear 7.5%? [laughter] I thought I heard 7.5%.

Jennifer Montero: We'll try.

Marc Dunbar: If we fast forward to next year, Barry, the growth that you're projecting for us and imagining what the reinsurance program is going to look like next year, we're starting to get perilously close to not having the investment income to help subsidize their reinsurance program. The reinsurance program is going to significantly be more expensive next year because of the growth that's projected. If we get hit by a storm and we lose these other companies, then we know we're going to know we're going to have a big…

Chair Beruff: … I'm a little confused. I think what Ms. Montero said is that we are operationally profitable to a tune of $64 million this year.

Marc Dunbar: No, I'm talking about this time next year.

Chair Beruff: I understand but we're not taking any of our investment income to buy any of this. I just want to make sure.

Jennifer Montero: We have $9.27 billion being managed, and you think we're going to go through all of that?

Chair Beruff: No. In this scenario (the 1B scenario) we are buying reinsurance – first the FHCF which is mandatory plus what we choose to buy so that we have no assessment.

Jennifer Montero: Correct

Chair Beruff: In addition to that comment in this scenario come out we are $64 million cash positive?

Jennifer Montero: We have a net income of $64.7 million.

Chair Beruff: Is that inclusive of the income on our return on investments?

Jennifer Montero: Reinsurance reduces the premium. It comes off the top.

Chair Beruff: I want to be clear. You may be right, but I want to be clear that at this point we are $64 million positive after buying the 1B plan for the reinsurance. Are we taking in any income that Mr. Kapil [Bhatia] brings to the table every year?

Jennifer Montero: I've got it right here. So, we end up with an underwriting loss of the $52 million that we have plus the $46 million adds to that. So, that's a bigger operating loss. Because we're going from a negative… And then we have other income in expense, we have net income that's budgeted at $172 million, and the interest is $11.9 million and other income is at $2 million. It's coming off somewhere.

Chair Beruff: So, the $64 million is positive after taking Mr. Kapil's return into our bank account?

Jennifer Montero: It is.

Chair Beruff: So, we are subsidizing, as Mr. Dunbar has said, the purchase of the reinsurance by $100+ million.

Jennifer Montero: We have $52 million plus $40 million, so we have $92 million of an underwriting loss. Anything that you get ….

[multiple speakers]

Jennifer Montero: … subsidizing the underwriting loss as well.

Chair Beruff: So, you need to find a $100 million.

Barry Gilway: In my mind, the simple way to look at it is that you're basically saying that your underwriting loss is being offset by your net income and the difference between the amount of offset and your ultimate investment net income ….

Chair Beruff: … $64 million.

Barry Gilway: … what you see is net income.

Chair Beruff: $64 million.

Barry Gilway: Right.

Chair Beruff: But we've eaten… we've subsidized revenue by the $170 million that Kapil is bringing to the table. You're bringing $170 million to our account.

Kapil Bhatia: Projected net invested income is $175 million.

Jennifer Montero: So, for the different scenarios, one of them is to get rid of the combined underwriting loss. We took $25 million from one account and $25 million from another account, and it did not get rid of it in the PLA completely, but it did offset that. For the scenario 3, we took the $74 million out of the PLA, and that is the only one we are not touching investment income. The underwriting gains is zero.

Chair Beruff: What is the risk assessment in that scenario?

Jennifer Montero: I can tell you right now.

[multiple speakers]

Chair Beruff: Then we're putting away if there isn't an assessment. If there isn't a storm, we're putting away $170 million in reserves.

Jennifer Montero: So, for scenario 3, we're looking at $1.356 billion in assessments with that $450 million of the policyholder surcharge in that $906 million in the emergency assessment – so a total of $1.356 billion.

Chair Beruff: $1.356 billion in assessments. But all of the money that Kapil produces stays building additional reserves.

Jennifer Montero: That's because what we did is reduce the cost of the reinsurance by the underwriting loss so that it evened out.

Marc Dunbar: Can you pull up PLA scenario 1B? This is why I wanted to highlight this. So, Kapil is going to generate $175 million in projected returns for us. The exposure in that sliver layer that's next to the FHCF is $2.98 billion. Our projected invested earnings cover over half of the exposed sliver layer down there next to the FHCF. That's our most expensive purchase. Then you have the 0.97 surplus that is exposed up top. If that was to drop down, those two things combined, that surplus plus the investment earned covers the first 1 in 51 events. It hits us at the FHCF layer and saves us some money in the

reinsurance program. Just fast forwarding (and this is a question that I want to ask Barry so that we all understand where we're all at) is that this might be the last year where we are in a spot in which we can go in and have a nice investment income to subsidize a significant reinsurance program because if we get hit by a storm… let's say we get hit by a 1 in 25-year event. We're going to lose a few more companies, Barry. That means we will be up to 1.5 million policies or potentially more, which means instead of spending $900 million in a reinsurance program, we're going to be faced with covering 1 in 100-year event on 1.5 million policies of a very much higher number. Kapil is going to have to generate a lot more income for us to be able to pull out and put into the reinsurance premium, which goes to the scenario that Barry was talking about. Insurance companies are not going into surplus to buy reinsurance because it's just a vicious cycle that you're in serious trouble with, right? I want to put it all into perspective that this program is that we're going to have to think creatively even if we don't get hit by a storm because the program is going to be more expensive next year and we're already eating into investment income to subsidize 1A and 1B and we need to start being creative about the program, I think.

Jennifer Montero: As we grow, you know, our premium grows as well. We are getting more actuarially sound each year. Brian gets to go up a digit next year with a 12% cap instead of 11% versus 10% last year. Hopefully we will be in a position where we can buy it out of premium and not out of….

Barry Gilway: … And our expense rate ratio….

Jennifer Montero: …if we can get the litigation problem solved, then I have money for reinsurance.

Nelson Telemaco: So, when I think of reinsurance, I think of it as a function of written premium to fund it and not so much as an investment income. I think reassurance is a function of the premium. So, to your point earlier, the more we grow (God forbid that we're at 1.5 million policies) yes, our reinsurance costs will go up. But we will have premium covering that cost. The other question I have is that, if I understood correctly, we do have the ability to surcharge on the premium for additional reinsurance costs.

Jennifer Montero: No. SB 76 allows us to take the cost of buying reinsurance up to the 1 in 100 even if we don't buy it to put it in our rate filings.

Marc Dunbar: But remember if we were a private company, the premium would pay for reinsurance because they are actually sound.

Nelson Telemaco: Right.

Marc Dunbar: What's going to happen is that if the legislature doesn't change it, yeah, we're going to get more premium. There's no doubt about it. But it's an actuarially unsound premium. We're finally able to factor in the reinsurance cost in the premium, but Brian is going to come in and say, "Well, we're still 30% upside down from the actuarially sound rate." So, that means we're not going to be able to say, "Okay, for every dollar in premium that we make, will be able to cover reinsurance."

Kapil Bhatia: Just one more clarification point which may be helpful is that below the FHCF where we expose our surplus because it's most expensive layer, we do get to pass on that, too, and that's basically put down on the capital effectively. We get to include that because of the SB 76 even though we don't buy, we expose our surplus in our rates. That is kind [unintelligible] on our surplus because we get the investment [unintelligible] and we get to pass on the rates.

Marc Dunbar: Right. That's what I'm saying is that we benefit in our rates of buying there, but if we don't buy there then we save money even though we're able to reflect it in our actuarially unsound rates.

Kapil Bhatia: Right. Surplus reservation does sometimes with the [unintelligible]

Chair Beruff: Okay.

Jennifer Montero: I'm not done. [laughter] I do have another chart at the request of Mr. Dunbar. This is called the potential policyholder impact from surcharge and assessments, slide two please.

[unknown speaker] where is the slide in the notebooks?

Jennifer Montero: They should be following the big one and then you should have the small scenario. It should be the last page in that section.

Marc Dunbar: Barbara, it's not online. Do you have a hard copy?

Jennifer Montero: They were added because they were updated. This is a slide that we did do at Governor Dunbar's request for the FIC, but after the FIC, he asked us to change it up a little bit. This is just comparing basically the Citizens Premium and other companies and then we wanted to see what it would look like with our uncapped premium. Basically, this is a potential policyholder impact from surcharges and assessments related two scenarios one through four. The assumptions include the average annual homeowner's policy premium for Citizens is $2950. The average annual homeowner's policy premium for other insurers is $2442, and the average auto policy premium is $2364. During the FIC meeting, staff was also asked to include the uncapped premium per Citizens homeowner's policy, which is $3625. So, a slide shows the assessment impact to Citizens' policyholders and the policyholders of other insurers for each of the scenarios. The Citizens policyholder surcharge applies to Citizens' policyholders only. The policyholder surcharge is maxed out at 15% in the PLA for all four scenarios and 14.1% in scenario four only for the Coastal Account. The emergency assessment applies to both Citizens policyholders and to the policyholders of other insurers and it is a uniformed percentage across all lines of business. In this example, the business lines include homeowners and auto policies and are assessed in all four scenarios in the PLA. If you look at the chart, you'll see the increase in total premium as a result of the assessment. In scenario one you'll see that the Citizens capped policy had an increase of 8.7% where the uncapped policy had an increase of 9.4%. All others had a 0.4% increase in premium. Moving on to scenario 2, you'll see that Citizens capped was at 9.1% increase. The uncapped was 9.9%. All others 0.8%. With scenario 3, it moved up to 9.9% for the capped, 10.7% for the uncapped, and all others at 1.6%. In scenario 4, the capped was 18.9%, the uncapped was 20.4%, and all the others was at 2.8%. One other thing that Governor Dunbar mentioned yesterday is that FIGA also has an assessment and that would be tacked on as well. It's a 1.3% and a 0.7% with two assessments that would also hit everybody on this slide. So, they would get another 2% in addition to Citizens' assessments.

Marc Dunbar: The reason why I asked for this to be put together is to highlight a couple of things, particularly for the new board members. I personally don't feel like we should fear surcharge exposure in the PLA because you're currently subsidizing those policyholders at a level that is below the full surcharge amount. You'll see that under scenario one the policies charged would be $462 and that carries across. But, if you looked at… if we were actually charging actuarially sound rates currently, the difference is almost $700. An existing Citizens policyholder on average is $700 under, and even if they got hit with the maximum statutory surcharge (and I don't want us to get there, but I want you to appreciate this getting

it into context) they are already paying less than what they're already paying if they had to go out and purchase it in a fully functional actually sound marketplace. Does that make sense? Then, you roll it over to the assessment, which is on everybody else, that is subsidizing the Citizens policyholder. To put it into context, we would have to run out to scenario 3 before we get to a level that is above what FIGA is currently assessing. It's sometimes difficult, in my mind, to get into the brains of the policy makers. We would have loved to have a piece of legislation this year, but I also think that this narrative highlights to me where the overall policy brain maybe… is that the policy makers didn't do anything that alleviated the $50 on every insurance policyholder out there right now. I don't know why they didn't, but they could have relieved the citizens of that. We're operating under a body of statutes that these policymakers did not create. They were created by another administration, and we have to do the best we can with what we have. We have some tools to try to get there, but, at some point, we have to appreciate what it means to the average Floridian. I think this, I thought, would capture it. That was the method to my madness.

Barry Gilway: I really want to make this point because I think it's really key. You don't pay assessments until surplus is gone. When surplus is gone, it's gone. Then, the next storm that you have, there is no surplus to offset the costs. The bottom line is it's another assessment because there is no capital to fund the next storm. In my mind, it's an issue that could build overtime, and I understand your argument on a one year basis, but overtime, the model doesn't work because if you have multiple storms the way we did in 2004 and 2005, then you will run into a scenario where you are eliminating surplus and you are paying your cost directly… and the only way to recoup the costs that you're paying is assessments. It's going to build assessments overtime under that scenario.

Marc Dunbar: I'm not disagreeing with you, but, by the way, to add to that is when we were in that scenario before, the legislature recapitalized or bought down the assessment basically to offset it, right? Unlike a private company, we do have that. Again, I'm not advocating for that level of exposure right now. It's to highlight how the statutes are set up right now and what levers are available to us. We're not at the point where we're spending surplus to buy reinsurance, yet. But we are spending investment income which is the beginning of getting to that place. We have some tough decisions coming because even if the wind doesn't blow, we're going to pick up a few hundred thousand more policies.

Barry Gilway: And, of course, you're always going to spend investment income to offset the underwriting losses. That is the way the mechanism works. I think what we're hoping for, Mr. Chairman….

Chair Beruff: …. A break? [laughter]

Jennifer Montero: I'm still not done. We have one more subject before we move onto financing. This is just the Risk Transfer Program.

Chair Beruff: Okay. Let's go.

Jennifer Montero: Additionally in December, you guys asked staff to consider parametric triggers as an alternative trigger option in the capital market risk transfer. Parametric triggers have recoveries based on objective measurements such as maximum wind speed and landfall location. Utilizing a trigger other than indemnity introduces basis risks to Citizens Risk Transfer Program where there is a mismatch between the severity of the event as measured by either the wind speed hurricane category industry losses and the actual potential indemnity losses for each event. Parametric insurance does not relate to Citizens' losses exposure concentration because on the path of the event (as most of Citizens' exposure concentrates in South Florida) parametric insurance is typically used by national insurers like large, pooled risks and

operate within multiple states and multiple risk types. Parametric triggers are also used by reinsurers in a retrocession market as they cover multiple risk types and multiple geographies. In addition, parametric triggers are also used for un-modeled/hard-to-model risks. Indemnity triggers are the most common trigger types for insurers like Citizens to manage single perils, single state risks. Like most insurers in Florida, Citizens has utilized indemnity risks for all of its capital market risk transfer placements and recommends continuing to use the indemnity risk in the capital market risk transfer placement this year to eliminate any mismatch between actual losses and recoveries. Staff will work with Citizens traditional and capital markets teams as well as the financial advisor to evaluate the Risk Transfer Program including the structure of terms, pricing, and other relevant matters. We will convene with several global traditional reinsurers and investors to market the Risk Transfer Program and then we'll present recommendations to the board at a special board meeting in May for final approval for the program. And lastly, there will be some loss incurred but not to exceed $500,000 for the capital market Risk Transfer Program to be paid to service providers such as legal counsels and risk mulling firms if the volumes are not placed. Also, there is a flat fee of $400,000 to be paid to Citizens traditional reinsurance broker Gallagher Re if no additional reinsurance is placed. Now I'm done.

Marc Dunbar: Wasn't there also (and maybe it's the next agenda item) the CAT Bond portion?

Jennifer Montero: We have the financing plan which talks about the pre-event financing debt and then there's policy investment changes.

Marc Dunbar: No no. Isn't the pre-event part of the overall risk transfer decision making?

Jennifer Montero: It's part of the financing plan. These don't have an action item because the action comes in May. We're going to go out and get the best program that we can get and bring it to the board and then the board can make a decision on how much of that they want to place. It's the same thing with the financing. We will go over into the market and come back to the board if you'd like.

Marc Dunbar: The reason why I'm asking is that if the board wanted to have a multi-year pre-event bond that was put in place, wouldn't you need to know that when you go into the risk transfer market?

Jennifer Montero: Yes, but because we want to merge accounts, if you want to do a muni bond, it matures in December 2024.

Marc Dunbar: I've talked to Bond Counsel (and maybe George or who's the person at Greenberg that helped us?) … you can easily build a bond covenant that covers that if we choose to go beyond that. It would just be a covenant in the bond that's issued.

Jennifer Montero: I have to talk to Albert [del Castillo].

Chair Beruff: There's the break! [laughter]

[break]

Barbara Walker: We are reconvening with roll call.

Roll call: Chair Carlos Beruff, Vice Chair Scott Thomas, Jason Butts, Marc Dunbar, Lazaro Fields, Jillian Hasner, and Nelson Telemaco were all present.

Barbara Walker: Chair, you have a quorum, and we will work on rejoining Reynolds Henderson and Erin Knight who are online.

Chair Beruff: Great. Thank you. Ms. Montero, continue.

Jennifer Montero: Thank you. I think we're pretty done with the Risk Transfer Program. I will end it by saying that our next steps are that we're planning on going to market, getting the best placement we can find that's efficient and affordable, and bringing it back to the special board meeting for your consideration.

Marc Dunbar: Can I just make a request that when you go into the marketplace could you also price the exposure in the sliver layer if we expose surplus in that next to the FHCF? I'm just curious of the difference because I think that's something we need to look at. You understand?

Jennifer Montero: You want us to price the sliver layer?

Marc Dunbar: I'm curious as to what the reinsurance would look like if we exposed surplus next to that sliver layer next to the FHCF.

Jennifer Montero: Okay.

2022 Financing Plan

Jennifer Montero: Pre-event liquidity provides a bridge to the FHCF mandatory layer, as well as to some of Citizens' other claims-paying resources that are not readily available in cash after a storm. This allows for timely payment of claims after an event while providing timing flexibility for the issuance of post-event bonds, if needed. Citizens currently has outstanding pre-event debt totaling $435 million. The PLA/CLA series of $160 million will mature on June 1, 2022, and the Coastal Account series of $275 million will mature on June 1, 2025, with a six-month optional redemption on December 1, 2024. While pre- event bonds are outstanding in any respective account, the three Citizens….

Chair Beruff: …Ms. Montero? I just want everybody to… you and I discussed in the past that there is a way to possibly pay the bonds off… defease that.

Jennifer Montero: Yes.

Chair Beruff: Because those bonds outstanding are precluding us from merging the reserve accounts.

Jennifer Montero: That is correct.

Chair Beruff: If we haven't given you direction, can we go ahead and start that process?

Jennifer Montero: I believe that we have. The first part is on Christine. Currently our statute has the accounts… they are described… there is a definition in each account in the statute and that would have to be changed so that there is one account identified for those policies because they are very specific right now.

Chair Beruff: So, we need a statutory change in order to consolidate those accounts?

Jennifer Montero: Right.

Chair Beruff: In addition to defeasing and paying off the bonds?

Jennifer Montero: That's correct and next year is 2023 and we can either wait until… yes, we can defease them at the end of 2023 and then we can have them effective January 2024. Even if Christine goes to the legislation, it wouldn't be effective until July 1 usually, and I don't know if we want to merge accounts mid-year. That would be a nightmare.

Marc Dunbar: And maybe this really isn't to you, Jennifer, but really to Bond Counsel but here's the way I understand it. Our real barriers are the legislation as far as the separate accounts. The bonds that have been issued are subject to legislative change if we would want to go to market and put a billion-dollar bond, you know, take advantage of interest rates, put something out there now, and we could do a multi-year bond putting covenants in there making it subject to the legislative change. The consolidation of the accounts as well as taking care of these two bonds… it's really a function of the legislation and not the bonds right now. I just want to make sure that we have the ability as a board to go to the marketplace.

Chair Beruff: The board needs clarity. If it's Bond Counsel… and the Bond Counsel agrees with Mr. Dunbar's… the only thing we need to do is get the statute changed. If that's not correct, then we need to know that. If there's multiple things like the bonds and having to defease them and the statutory changes, then I'd like to know which one of that or both that we have to do.

Kapil Bhatia: Chair Beruff and Governor Dunbar, there are a couple things we can do if I may go in sequential order. We can defease the bonds at any point in time but that will not help us to combine the accounts. There is a cost to defeasing the bonds. That's one. By December 2024 the defeasement cost would be $0.00. We can call them. The second is that we can put the springing amendment documents that the legislature approves and the accounts are combined… however, that changes the underlying credit, so the number of investors that may participate in the transaction may go down. Suddenly the investors… there will be some penalty because the investors are taking a legislative risk. It's not hard to quantify but it's not really a significant risk from a credit perspective. We can certainly include potential event if the legislation decides to combine the accounts, then the credit will be together, and we can use it for the PLA/Coastal Account for business purposes. However, there will be some cost. It's not required but it would be helpful from the demand perspective and from the placement perspective.

Chair Beruff: The pricing would be better if the statute exists.

Kapil Bhatia: Correct. It would be clearer because the noise goes away.

Chair Beruff: It's a political risk.

Kapil Bhatia: Correct.

Marc Dunbar: Right. It's not a barrier. There is just a cost associated with it. If we chose to go forward, we could go forward but the big barrier (the real barrier) is the legislature.

Kapil Bhatia: The real barrier to combine the account is the legislature. However, I would just add one more point to that. Because we have the outstanding debt, that would be senior because they were issued with two separate accounts. Right now, we have a Coastal Account outstanding. If we use the combined account, who gets the credit first? There are some credit quality issues to it, so we may have to defease it as soon as the Spring amendment comes in because these bonds could become effectively a senior lead because those investors can be sequential in line. So, there is a little bit of work to be done but it can be done.

Marc Dunbar: Or, like what you do with the house, you can essentially refinance. Bring the cost into defeasement and get rid of those bonds and have a new master bond with all of these things. There are costs associated with that, but I want to make sure that when we pose a question and it's a "we can't do this because" that it's that "we can't do this because and that's the reason." And, if it's that "we can't do this because there is a cost associated with it," then we need to say, "No, you can do that but there is a cost associated with it." That's the way it should be presented; it's not that it's just a hard barrier. I want to make sure for this board that they realize that there are two bonds hanging out there and aren't the reason why we shouldn't look at additional debt if we wanted to take advantage of interest rates and put in a multi-year vehicle in place right now. We could do that, and it could be subject to legislation that would allow us to take advantage of the combined accounts down the road. I just want to make sure everybody understands that's an option.

Kapil Bhatia: That's correct. Practically it can be done. I just want to put in a defeasement cost number so that when we say we cannot do it because we were talking about all of the economics… so, the defeasance costs, if we do it as of June 1, 2023, it would be around $15 million because of the duration of each of the bonds and where they are right now. Every six months the cost will come down by $5 million to $6 million. It's a large sum of money when we say we cannot do it. There are barriers to enter and there are barriers to exit, so there is a significant cost to it, but it can be done.

Marc Dunbar: And it can be offset by the risk with interest rates going up (and we hear that interest rates next year will be higher) that could offset the defeasance costs, all of which are decisions that these nine folks need to be able to weigh and say, "Okay, I'm not comfortable with the $15 million and I can wait until interest rates go up." It's just presented in such a way that we do have the option if it's something we want to put into our overall Risk Transfer Program.

Kapil Bhatia: I would just add that it's the financing plan. It's not really transferring the risk.

Marc Dunbar: I understand but the CAT Bonds are barriers built in the Risk Transfer Program, right? The pre-event helps us in the event of a catastrophe because it gives us cash while we're waiting for the FHCF. I know technically you don't call it as part of the Risk Transfer Program, but we're showing that the CAT Bonds are barriers in the Risk Transfer Program. That's my only point.

Kapil Bhatia: The CAT Bonds in the Risk Transfer Program are risk transfer CAT Bonds. They are not the pre-event revenue bonds, so those CAT Bonds shown in the Risk Transfer Program, we don't have to pay back. That is a true risk transfer in that the pre-event bonds will not be part of the risk transfer.

Marc Dunbar: I understand. That was confusion on my part. That's why I've been having some difficulties when we're talking about… I thought we were talking about those and not the other ones.

Kapil Bhatia: CAT Bonds are part of the new program. So, if you look at any of the scenarios that Jennifer went through, we have a diagonal line and we talk about the CAT Bonds, which are the capital markets risk transfer transactions. These bonds are just truly transfer that we will pay with either premiums or assessments and just provide you the liquidity as a cash mechanism.

Marc Dunbar: Got it.

[multiple speakers]

Jennifer Montero: On the CAT Bond, there is a reinsurance agreement done between the parties and it's basically the investors… instead of a bunch of reinsurers putting on a layer, we have investors that invest in this CAT Bond, so that it is a fully collateralized CAT Bond that sits up there and they get their interest payments. If the wind blows, then we get those monies like reinsurance monies and we don't pay it back. They lose out. If the wind doesn't blow, then they get all of the interest plus the principle back. For them it's a nice diversification because their trigger is not a financial trigger. It's weather. For us it diversifies our investor base.

Marc Dunbar: Sorry. I thought it was a behind the scenes, off of those bonds.

Jennifer Montero: Okay. Shall I continue?

Chair Beruff: Yes.

Jennifer Montero: Currently, Citizens has the opportunity to either lock-in relatively low interest rates with a fixed rate issuance or take advantage of the increasing interest rate environment through a variable rate issuance. A pre-event financing will increase liquidity resources and potentially earn additional investment income above the interest cost through either a taxable fixed rate or variable rate issuance with a final maturity in December 2024. Based on the strong liquidity position of the Coastal Account, our analysis only contemplates a pre-event financing for PLA. Based on current market conditions, a taxable financing is more advantageous to Citizens in order to take advantage of incremental yield opportunities in the diverse and large taxable fixed income marketplace for the investment of proceeds. The narrower tax-exempt fixed income marketplace is more restrictive and a lower yielding universe of permissible securities. A $1 billion financing for the PLA with a final maturity on December 1, 2024, would have a net liquidity cost / benefit that is neutral to approximately ±0.50%, or $5 million, depending on interest rate movements at the time of the financing and in the investment portfolio over the life of the bonds. So, if the board desires, Staff will continue to monitor pre-event financing opportunities through the use of fixed rate and/or variable rate issuances and will come back to the board with an update of this analysis and a recommendation at the July 2022 Board of Governors meeting.

Chair Beruff: Thank you. What else?

Jennifer Montero: That's all I have for the financing plan.

Action Item: Investment Policy Changes

Lazaro Fields: We looked at this in the FIC meeting on Friday, and I believe there is an action item that Ms. Montero is going to explain briefly.

Jennifer Montero: Citizens has five separate investment policies in our capital structure. The assets are only invested in high quality fixed income securities with an overall investment strategy that has the following prioritized goals: safety of principle, liquidity (so that operating expenses and claims can be paid in a timely manner), and competitive returns. However, each of the investment policies provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund. The taxable liquidity fund generally governs the investment funds and surplus that needs to be used first to pay claims after an event. They then can be used to pay operating expenses on an ongoing basis. The amount of the fund is reset each year to equal the FHCF retention. The taxable claims paying fund generally governs the investment of funds that are up to the 1 in 100-year probable maximum loss and will be used to pay claims post-event after Citizens has expended all monies in the liquidity account. The claims paying long duration bond generally governs the investment funds that are above the 1 in 100-year probable maximum loss and will be used to pay claims post event after Citizens has expended all of its monies in the taxable claims paying fund. The monies invested pursuant to these policies will be Citizens last resort of taxable payable funds. The duration limits of this policy are longer than the duration of the taxable claims paying fund, which allows for maximum returns as the fund is preserved where surplus is retained. And then, we have two tax exempt policies. The tax-exempt liquidity fund generally governs the investment of a tax-exempt pre-event bonds and any other monies required to be invested in the tax-exempt instruments. This bond will be used to pay for claims after an event or to pay principal and interest payments as needed. This account is currently not funded. The tax-exempt claims paying fund generally governs the investment of tax-exempt pre-event bonds and any other monies required to be invested in the taxable instruments. This fund is used to pay claims after an event typically after funds in the tax-exempt liquidity fund and the three taxable funds have been expended. This fund is also used to pay principal and interest debt service payments. As part of the annual review of the investment policy, Citizens staff works with the investment advisors as well as our investment manager to make changes to the taxable policies only, as the tax-exempt claims paying fund has one remaining in maturity for the Coastal Series 2015A bond with the final maturity of June 1, 2025, and the current value of only $275 million. These proceeds will most likely fund the payment on the principle on the call date or at maturity. The debt service payments for the PLA/CLA Series 2012A bonds of $160 million will be pre-funded this month as the final date maturity is on June 1, 2022. There is a matrix in your books that goes through all the changes, but I'm going to try and make it simple.

Chair Beruff: I'd like to refer to Chair Fields. It came out of the committee recommending approval

Lazaro Fields: Yes, it was unanimous.

[multiple speakers]

Chair Beruff: The 144A….

Jennifer Montero: That's in here. That's part of this.

Chair Beruff: Can you define that? I think that the concern…

Kapil Bhatia: … Yes, Mr. Chair.

Chair Beruff: … of this board member is investments in foreign entities that would not be friendly to public relations or to us Americans.

Jennifer Montero: This is something that came up at the FIC meeting.

Marc Dunbar: So, you guys understand that it was twofold. One, we're increasing the amount of junk that we can hold. We're increasing the volatility, you know, and this is the second time we've done it. We did it last year.

Jennifer Montero: It was before COVID.

Marc Dunbar: Yes, we've done it before. That was one of my concerns and the other one was the one for incorporating 144A, which is an investment vehicle that you could have foreign stuff in that we have little ability to look inside.

Kapil Bhatia: Thank you, Governor Dunbar. I know we went through it. Before we get into that, I'd like to make a few comments on the investment policy changes. The two questions, at least from what I understood at the FIC meeting, how do we know and control the foreign sanctioned entities (and not just foreign entities) will not end up in our portfolio, especially if we go with 144A securities. The second question was what do other public entities allow for 144A securities? Is that right, Governor Dunbar? I want to make sure we address it. I know you brought up something about the volatility, and we will talk about that separately.

Marc Dunbar: I think Governor Knight and I had those questions. I stated my reasons for voting no, and then Governor Knight asked afterwards at the end, when I had to get off the call, those questions.

Kapil Bhatia: Before I answer both questions, I would just like to go through what exactly the SEC rule of 144A is. The SEC rule is the registration rule from 1933 in the 144A was added by the SEC into the rule in 1990. These rules were added because we were losing (we as a nation) the capital markets to Europe because the European regulations were much more user friendly, and they were easily accessible market. So, the SEC introduced the 144A to make sure that qualified institutional buyer could participate in the market. It basically changed the registration rules. However, over the last 40 years or so since the rule was changed, there has been so much issuance in 144A market because it is much easier for qualified companies to enter the market and take advantage of that. Because of so much issuance, the interest spreads between registered and 144 has diminished and the markets have become more robust. A number of states have sued the SEC to include 144A because governmental entities were prohibited. A number of states sued, and some states won over the last 10 years. Finally, in August of 2020, the SEC changed the rules and allowed government entities that now you can participate in the 144A. The rule was adopted in August and effective on December 8, 2020. According to the SEC ruling, $1.2 trillion of new capital was offered as restricted securities and $2.7 trillion was raised through the 144A offerings. So, the markets have significantly grown, and all of the governmental entities, including us were not able to participate in that. What 144A will do basically will allow our investment managers to expand the efficient risk investment frontier. It's not to add more risk but it will construct our portfolio within the risk front properties which our investment policy will allow to get actually better or incremental yield. We review our investment policy each year. However, we did not do it last year because of COVID and the markets were going crazy and there was no real good direction. There was significant volatility, so we did not review it last year. This was the question you brought up, Chair Beruff. We looked at it this year at all of the pieces including 144A; we were waiting to change the investment policy and bring it before the board. The apparent investment policy changes reflect all of our thoughts, and we are comfortable with the risk profile on what these changes bring to us. We are still making sure we have the three objectives of our investment policy maintained: safety of principle, liquidities so that claims can be paid on time, and

a competitive return. We understand that insurance as a business has a reverse production curve. So, we basically get the cost revenues first because we sell our product while we pay for those goods later if an event happens (so, anytime there are any kind of losses). We have a reverse production curve, and we need to make sure that our investment policy does not have that risk. And that is why our investment policy is very conservative and our return is not like the equity return. Those are all of your objectives and the 144 a history. To answer Governor Dunbar's question, our investment managers follow the US federal and state laws and do not invest in any sanctioned securities even though it is not implicitly mentioned in our policy, but it is part of the investment managers code of investment ethics. However, we will include in the investment what Florida Statute 287-135 (the Florida Public Investment Act) which will explicitly prohibit managers from investing in countries barred by the statute. Right now, that is effectively implicit, but we will make it explicit. We will include it to make sure nothing ever happens by error, even though we run the compliance system and all of our portfolio is compliant and we have no securities that meet outside of our investment policy. Number two, SBA and FHCF both of them participate in the 144A securities simply because of the rule change. So, the state of Florida already participates in 144A. California passed a bill last year after the SEC passed its ruling let's seize the whole state of California including all governmental entities can participate based on the cash they have, and they are. Every municipality in California is part of the 144A now, the state of Alaska, and the state of Florida. If there are any more questions, I am happy to answer them.

Chair Beruff: Is there an action item?

Jennifer Montero: Yes, there is.

Chair Beruff: Any further discussions so that we can take that up? [silence]

Jennifer Montero: Do you want me to continue?

Chair Beruff: Please. Read the action item.

Kapil Bhatia: I think Governor Dunbar has a question on volatility.

Chair Beruff: On what? No, we don't. You addressed it.

Kapil Bhatia: Okay. Thank you.

Chair Beruff: So, back to the action item.

Jennifer Montero: I've got it right here.

Lazaro Fields made the motion for the board to approve the changes to Citizens' Investment Policy duration, credit quality and composition to the Taxable Liquidity Fund, Taxable Claims-Paying Fund, and Taxable Claims-Paying Long Duration Fund. These changes will allow Citizens to take advantage of market conditions and provide additional diversification and incremental yield to Citizens' Investment Portfolio and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Erin Knight seconded the motion. Marc Dunbar voted against the motion. The remaining board members voted for the motion. Motion carries.

<u>Action Items</u>

Chair Beruff: I think we're going to jump to the action items. If you turn out the back of your page, there are action items that cleared through the committees that we can approve in bulk.

Jennifer Montero: The A&U….

Chair Beruff: Does anybody want to take off any action items on the list? [silence]. We're good? [silence]. I'll entertain a motion to approve all the Action Items pending a board member hasn't taken off the list.

A motion was made to approve the following Action Items:

C. A-Rates
D. MICR Printers and Related Services
E. Identity Governance and Administration, Access Management, and Related Products
F. Product Updates – March 2022
G. 2022 FIGA Assessments
H. Fraud Analytics Software
I. Janitorial Services
J. Approval of Increases Required by 627.351 Fla Statute
K. Call Center Services – Catastrophe Only

Nelson Telemaco seconded the motion. All were in favor. Motion carries.

Jennifer Montero: Does that include those that did not go through committee as well?

Chair Beruff: It's whatever is on that list. [laughter]

Jennifer Montero: Okay. That concludes mine.

Chair Beruff: If it's on that list, then they're action index, right? They're requiring action to what Ms. Walker puts together so competently and we just approved it if it's there.

Barbara Walker: All A through K?

Chair Beruff: Yes. Mr. Kapil, do you have a comment? No. Mr. Dunbar has a question for Kapil.

Marc Dunbar: So, the annual report that we got, Jennifer, I emailed you a question that went to Tim [Cerio] ….

Jennifer Montero: Oh, yes. I have that somewhere – your answers.

Marc Dunbar: Unrelated to that – because Tim and I talked, so I understand the answers to those question. When I was going through the report on the holdings that we have, drilling in to see the individual securities, you and I a couple years ago had a conversation about Florida investments and about whether or not we have the ability to segregate and invest in Florida municipal debt and things like that. I went back through the minutes and it's not the preference because Florida investing in Florida is not really recommended. But what I found when I went in there, is that there are a number of Florida investments that our investment advisors are investing in. Does that make sense?

Kapil Bhatia: Yes, it does.

Marc Dunbar: So, what I was wondering, is that a function of them buying a bucket of securities and it just happens to be in there, or do those investment advisors make a conscious decision that we think the same people – water, utility – it's a good debt so we're going to buy it?

Kapil Bhatia: Governor Dunbar, when we mentioned that our investment managers won't invest in Florida, it's the FHCF because that is where the overlapping assessment credit comes in. But we do have Florida issuers like Florida Power and Light that are completely independent of the credit and the investment managers have the ability… it's just the FHCF.

Marc Dunbar: Okay. So, it's just the FHCF that we do not invest in so now my segway question is because you were on the FIGA call, right? You helped coach us on the borrowing that FIGA is about to do. Are we prohibited from being involved in that short term financing that FIGA is involved in by virtue of an investment policy… same thing as the FHCF? The reason why I bring it up is that we're going to get paid back. We know there's going to get charges on the rate of return. I just don't know if we have the ability to do that?

Jennifer Montero: We do not.

Kapil Bhatia: I can answer for the FHCF and the SBA because we did follow up. I'm not sure if this was the right place. We did have a conversation with the SBA Executive Director and the CEO of the FHCF. They are both prohibited by statute that they cannot invest it.

Marc Dunbar: Right.

Kapil Bhatia: And the same answer was given by the Treasurer's Office to the General Counsel of FIGA. Jennifer has the same answer on Citizens because it's not the investment policy. It's the statute.

Marc Dunbar: That's what I was wondering because in talking with the CFO's Office about the Treasury, I did not know if we were bound by the same limitations. It always makes sense to me that if Florida can invest in Florida and keep the money inside the loop as opposed to sending it out it makes sense. But I wasn't sure if our… because I couldn't find it in our investment policy which is why I asked.

Kapil Bhatia: It's not the investment policy. It's the statute. The FHCF is also not an investment policy it's the implicit instructions to each investment manager.

Marc Dunbar: Okay.

Kapil Bhatia: Jennifer can answer the Citizens question, but it is the statute.

Marc Dunbar: That's fine. Thank you.

Chair Beruff: Ms. Montero, are you done?

Jennifer Montero: I have the financial statements if you'd l Ike to hear them – the ones from yesterday. They're quick.

4Q2021 Results of Operations and Financial Position (unaudited / 4Q2021 Results of Operations and Financial Position – Commentary

Jennifer Montero: In your books the next tab should be the financial statements for December 31st Unaudited Financials. On December 31st, Citizens had consolidated and cash investments of $9.1 billion, reflecting an increase of approximately $366 million from December 2020. This increase was driven by an increase in cash flows from operations largely as a result of an increase in written premium. Consolidated surplus as of December 31st was $6.5 billion, marking an approximate increase of $85 million from December 2020. Consolidated direct written premium in 2021 was $1.8 billion with an increase of $632 million from 2020 and $435 million greater than budgeted. Although renewal rates in 2021 continued to trend below the rates in 2020, an increase in new policies written largely in Dade, Broward, and Palm Beach counties contributed most significantly to the overall increase in written premium. Approximately 50% of all new PLA policies written in 2021 were in those three counties. Premium ceded through reinsurance including premium ceded to the FHCF of $452 million, or $225 million more than premium ceded in 2020. The increase in exposure is driven mainly by the increase in policy count… that was the main driver year over year for the increases. As a December 31st the ultimate direct written loss in LAE related to Hurricanes Irma and Michael were $2.4 billion and $159 million respectively, reflecting an increase of $124 million for Hurricane Irma only from December 2020. Of the $2.4 billion from Hurricane Irma's losses in LAE across all accounts, $1.01 billion is recoverable under Citizens' reinsurance contracts, with both the FHCF and the private reinsurance. There are no reinsurance recoverables related to Hurricane Michael as the attachment levels of reinsurance were not met. Net loss in LA E development on Hurricane Irma, Tropical Storm Eta, and Tropical Storm Sally in 2021 was $197 million. Development on pending claims and litigation on reopened claims for Hurricane Irma contributed to $49.3 million of the net adverse development. Tropical Storm Eta Contributed $132.3 million in adverse development experienced a significant volume of late reported claims in addition to a high level of litigation. Current projections indicate that approximately 40% of Tropical Storm Ada claims will enter litigation. Similar to Tropical Storm Eta, Tropical Storm Sally experienced an increase in a number of projected claims and contributed to $15.8 million in adverse development during 2021. No ceded recoverables were recorded for Tropical Storms Eta or Sally due to the losses in LAE not meeting the attachment levels. Current accident year losses LAE unrelated to hurricanes and sinkhole did not experience meaningful variances in the prior quarter as the development of prior accident year losses in LAE was expected. The 2021 accident year non-catastrophe losses in LAE ratios across all three accounts showed significant improvement in comparison to prior years. The dominant driver behind the improvement in the losses in LAE was a continued downward trend in litigation rates, which continues to be the most significant important factor in non-catastrophe losses in LAE. Within the CLA losses in LAE related to sinkhole claims have remained relatively unchanged; however, volatility in older non-sinkhole claims have potential to contribute to material quarterly variances and reported losses in LAE in future periods. Administrative expenses incurred in 2021 was $130 million, or $6 million more than 2020 and $9 million less than budgeted. For the year ending on December 31, 2021, Citizens' expense ratio is 16.6% which reflects a 3.7% decrease from 2020 and 3.4% decrease compared to budget. Total investment income in 2021 was $264.7 million, approximately the same as in 2020, while the average invested assets increased $339 million. The decrease in earned income I have $16.1 million was principally driven by significant reductions in interest rates during 2020 as well as reductions in tax-exempt holdings resulting from scheduled maturities of certain outstanding bond obligations. However, this decrease was largely offset by an increase of $15.9 million of realized gains in which a significant amount was taken in July 2021. So, heading into 2022 Hurricane Season, Citizens' total assets and surplus together with the 2022 budgeted reinsurance program helps ensure that adequate claims playing resources to meet any potential claims paying obligations that

may rise due to hurricanes and continued growth in Citizens' policy count. If there are no questions, that concludes my report.

Chair Beruff: Thank you. Next? Ms. Booten?

Barbara Walker: Chair Beruff, this is Barbara. To clarify for historical records, Action Items C through K were combined with the three consent index items and unanimously approved except for one vote by the board, correct?

Chair Beruff: Right.

Barbara Walker: Than you, sir.

Kelly Booten: Good morning. All of my action items were passed, so I do not need to cover any of that. The Information Systems Advisory Committee (ISAC) report, we covered dashboards and the same thing with the Exposure Reduction Committee.

Chair Beruff: Does the board have any questions of Ms. Booten? [silence]

Kelly Booten: Then the Market Accountability Advisory Committee (MAAC) report . . . Nope, we're good. Thank you.

Chair Beruff: Ms. Ashburn? You don't have a legislative report, unless there is a question? Yes, of course, Governor.

Consumer Services Committee (CSC) Report

Jillian Hasner: The CSC met on March 2nd. The topics discussed included an annual consumer operational update provided by Jeremy Pope along with and action item that was reviewed and approved by the committee (Call Services Center). Christine Ashburn also provided the committee with a legislative update, which is current up to our meeting date, and was still in session at the time. The next meeting is scheduled for June 1st. As we know, nothing passed during legislation so not much has changed since the time of our meeting. At this time, I was going to recognize Christine, but I think we know that nothing passed. That's where the committee stands.

Chair Beruff: Thank you. We'll start working on next year, right? Mr. Adams?

Claims Committee Update

Jay Adams: Good morning. I had a presentation at the request of the board for a legal spend update. It's in the binder and I would be glad to go through it, but I will do what pleases the board.

Chair Beruff: What's the pleasure of the board?

[unknown speaker/multiple speakers] [laughter]

Vice Chair Thomas: By the way, Jay, we did have an action item. It was the product audit software that we approved. I appreciate the supplement that you provided in the materials and the questions that the

claims committee asked about both duration and the expected benefit of it. Thank you for that supplement.

Audit Committee Update

Chair Beruff: Mr. Martins, your turn. Does anybody have any questions for Mr. Martin? [silence]. I think we're good.

Joe Martins: Thank you, sir.

Chair Beruff: Do we have any questions for Ms. Bloom? I don't think so. We approved everything. Mr. Cerio, I don't think we have any questions out of you, do we? Does the board have any questions or comments of Mr. Cerio? Does the board have any questions of Mr. Pope under customer experience, call center services?

New Business

Chair Beruff: That concludes all of our business.

Jason Butts: I just want to say thank you to the Citizens team and for the time last month that you spent with and the patience. I know I had a ton of questions, so I thank all of you for taking the time. I really appreciate it. Mr. Chair, I look forward to serving with this board for the next few years. We have a lot of work to do, and I'm excited to be part of it.

Chair Beruff: Thank you.

A motion was made and seconded to adjourn the meeting. All were in favored. Motion carried.