Executive Summary

Finance and Investment Committee Meeting, July 9, 2024
Board of Governors Meeting, July 10, 2024

2024 Risk Transfer Program

History

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

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

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

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

As of January 1, 2024, Citizens is operating under a combined account, referred to as the "Citizens Account." This account, which was authorized by Senate Bill 2-A from the special legislative session in December 2022, is the combination of the three previous accounts: the Personal Lines Account (PLA), the Commercial Lines Account (CLA), and the Coastal Account. This enhances Citizens' ability to pay claims for future storms and minimize the potential for assessments.

Market Overview

In 2023, the reinsurance markets were hard but softened slightly in 2024 despite the higher demand for reinsurance capacity in Florida related to the expiration of the Reinsurance to Assist Policyholders (RAP) and the Florida Optional Reinsurance Assistance (FORA) programs. This softening can be attributed to additional capital

Executive Summary

inserted into the risk transfer market, especially in the capital markets, due to the attractive nature of risk transfer pricing relative to other asset classes and optimism around the anticipated impact of Florida's legislative reforms, specific to litigation, which have only just begun to be realized.

However, there was also some slight hardening as capital was reduced related to multiple forecasts for a very active Atlantic hurricane season. Additionally, reinsurance capital levels are still significantly affected by Ian losses of approximately $132 billion and remaining investment portfolio unrealized losses, which have not yet evaporated, due to stable, but still higher, interest rates.

As a result, risk adjusted risk transfer pricing was relatively flat or approximately +/- 5% for most Florida carriers and capital markets transactions were able to upsize and priced at levels close to initial guidance. However, specific to Citizens', risk adjusted pricing was down approximately 7.9%.

Citizens' staff worked extensively with its traditional reinsurance broker, Gallagher Re, and its capital markets co-underwriting team of Aon Securities and GC Securities, as well as its financial advisor, Raymond James, to market its traditional and capital markets risk transfer program via roadshows and one-on-one meetings with reinsurers and investors.

2024 Risk Transfer Program

As approved by the Board of Governors at its May 14, 2024 board meeting, Citizens sought authorization for a total of $5.5 billion of coverage, with a cost not to exceed $750 million. Citizens was able to place a cost-efficient risk transfer program of approximately $3.564 billion; which includes $3.064 billion of new placement and $500 million of existing, multi-year coverage from 2023; at a cost of approximately $482 million.

The 2024 risk transfer program incorporates strategic elements from prior risk transfer programs, which include: transferring risk alongside the FHCF and transferring single occurrence risk to protect a portion of surplus for most catastrophic events and thereby minimize assessments for a 1-in-100-year event to the citizens of Florida.

Citizens transferred exposure in the amount of approximately $1.964 billion to the global traditional reinsurance markets and approximately $1.60 billion to the global capital markets (including $500 million of existing, multi-year coverage) in 2024, with a weighted average gross rate-on-line (ROL) of 14.07%, a net ROL of 13.44%, and net premium of approximately $482 million.

Executive Summary

Finance and Investment Committee Meeting, July 9, 2024
Board of Governors Meeting, July 10, 2024

The 2024 risk transfer layers are as follows:

- The Sliver Layer sits alongside the FHCF. It provides approximately $630 million, in excess of $3.514 billion, of annual, per occurrence coverage which covers personal residential and commercial residential losses. This layer was placed in the traditional market.

- Layer 1 sits above the Sliver Layer and the FHCF and provides $1.122 billion of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows:

    - $397 million of single year, per occurrence coverage, placed in the traditional market, attaches after losses of $4.144 billion.

    - $225 million of multi-year, annual aggregate coverage placed through Everglades Re II attaches after losses of $9.809 billion. This is the first year of this three-year coverage.

    - $500 million of multi-year, annual aggregate coverage placed through Lightning Re. This coverage utilizes an industry loss index trigger based on Property Claims Services (PCS) published insured residential losses in the State of Florida for Florida named storms. This is the second year of this three-year coverage.

- Layer 2 of this program sits above Layer 1 and provides $805 million of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows:

    - $380 million of single year, per occurrence coverage, placed in the traditional market, attaches after losses of $5.644 billion.

    - $425 million of multi-year, annual aggregate coverage placed through Everglades Re II attaches after losses of $11.309 billion. This is the first year of this three-year coverage.

- Layer 3 of this program sits above Layer 2 and provides $793 million of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows:

    - $343 million of single year, per occurrence coverage, placed in the traditional market, attaches after losses of $7.644 billion.

CITIZENS
PROPERTY INSURANCE CORPORATION

Executive Summary

    - $450 million of multi-year, annual aggregate coverage placed through Everglades Re II attaches after losses of $13.309 billion. This is the first year of this three-year coverage.

- Layer 4 of this program sits above Layer 3 providing $213 million of single year, per occurrence coverage for personal residential and commercial residential losses. It attaches after losses of $9.644 billion. This layer was placed in the traditional market.

A Citizen Policyholder Surcharge (CPS) of up to $895 million (or 15% of direct written premium) could be experienced between a 1-in-74 and 1-in-83-year event. Once the CPS is exhausted a potential Emergency Assessment of up to approximately $2.0 billion could be triggered between 1-in-83 and 1-in-100-year event.

Summary

In summary, the total 2024 private risk transfer program totals $3.564 billion of coverage with a weighted average gross ROL of 14.07% and a net ROL of 13.44%. The 2024 risk adjusted price reflects some improvement in the market, despite the appearance of an increase in pricing in both the traditional and capital markets. For coverage placed in 2024, the price is approximately 7.9% lower than it would have cost for similar coverage in 2023. The 2024 gross ROL of 14.07% compared to the risk adjusted gross ROL of 15.2% for 2023 and the 2024 net ROL of 13.44% compared to the risk adjusted net ROL of 14.5% for 2023.

The combining of the three previous accounts into the Citizens Account enhanced Citizens' ability to pay claims for future storms and minimized the potential for assessments. In 2022, the Personal Lines Account (PLA) surplus could have been depleted with a 1-in-67-year event and in 2023, PLA surplus could have been depleted with a 1-in-4-year event. However, in 2024, with combined accounts, surplus could be depleted with a 1-in-74-year event.

2024 Risk Transfer Program

July 9 & 10, 2024

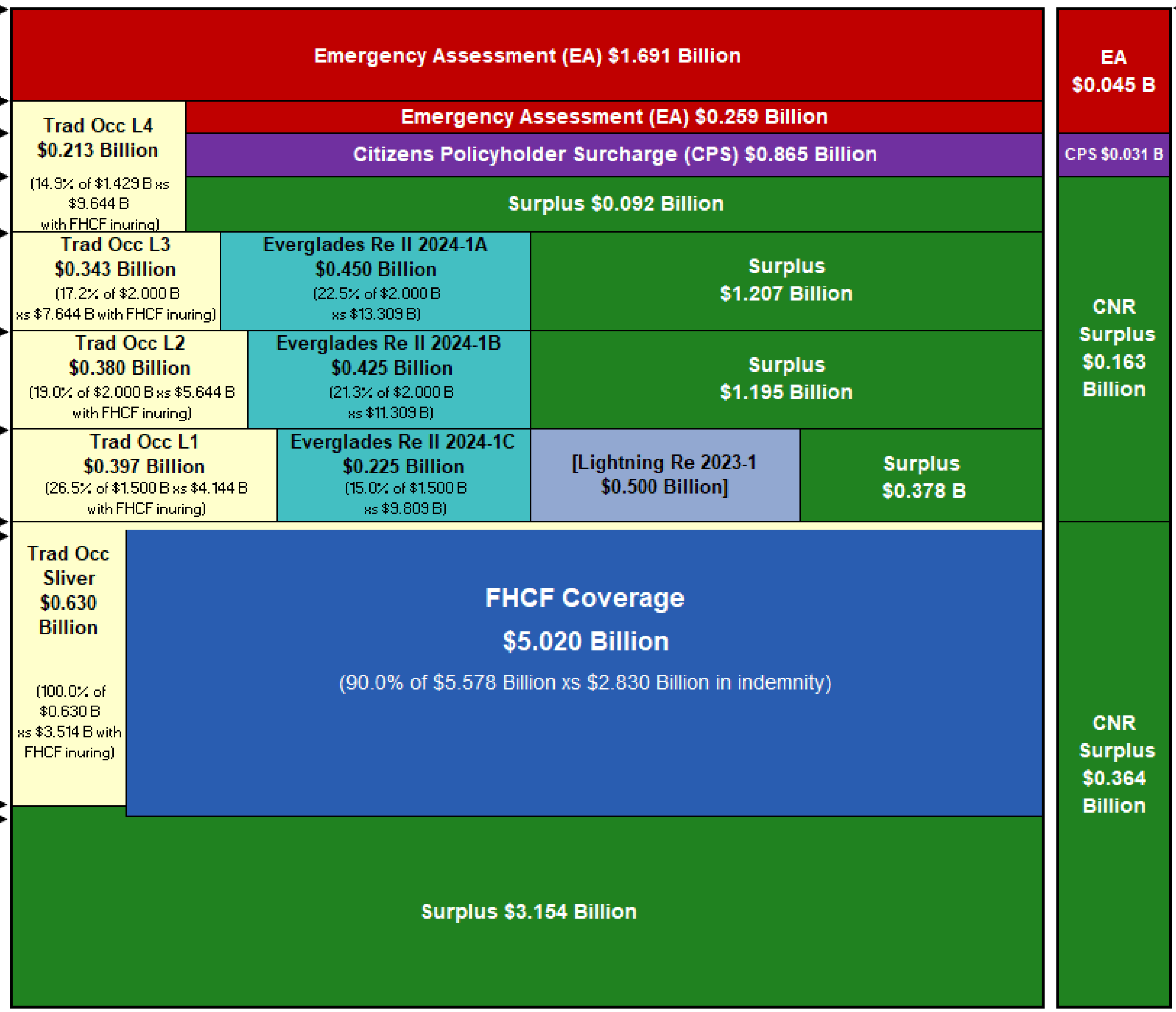
CITIZENS
PROPERTY INSURANCE CORPORATION

2024 Layer Chart

03/31/2024 PML with 10% LAE and 2.6% PR/CR, 3.5% CNR Growth Adjustment

Residential Loss & LAE	PML Return Time Single	PML Return Time Agg	OEP	AEP
$17.424 B	100	91	1.00%	1.10%
$15.733 B	85	78	1.17%	1.29%
$15.429 B	83	75	1.21%	1.33%
$14.413 B	74	67	1.36%	1.49%
$14.304 B	73	66	1.37%	1.50%
$12.304 B	58	53	1.73%	1.89%
$10.304 B	46	41	2.20%	2.45%
$8.804 B	37	33	2.72%	3.01%
$8.732 B	36	33	2.75%	3.04%
$3.514 B	14	13	7.12%	7.71%
$3.113 B	13	12	7.89%	8.53%

CNR Loss + LAE	Res + CNR Loss + LAE
$0.602 B	$18.026 B



Approximately 100% of surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 3)

(Not to scale)

CITIZENS PROPERTY INSURANCE CORPORATION

Notes and Assumptions
2024 Storm Season

ASSUMPTIONS

- Citizens' 2024 Budgeted DWP — $5.9 Billion
- Citizens' Policyholder Surcharge Maximum — 15%
- 2024 Emergency Assessment Base (based on 2023 DWP) — $85.2 Billion
- PMLs are based on modeled losses as of March 31, 2024, AIR Hurricane Model for the United States Version 2.0.0 as implemented in Touchstone (version 11.5.0). All PMLs reflect the 50K US Hurricane - Florida Regulatory Event Set including Demand Surge, excluding Storm Surge, and include 10% of loss to account for loss adjustment expense (LAE). Interim Return Periods are derived by linear interpolation between 5-year intervals. 2024 preliminary program chart uses growth adjustments of 2.6% for PR/CR and 3.5% for CNR to project to September 30, 2024.
- 2024 Projected Surplus = projected year end 2023 surplus + 2024 budgeted net income +/- adjustment for reinsurance cost and differences between budget and updated forecast FHCF premium
- FHCF pays 10% of reimbursed loss for loss adjustment expense
- Citizens' 2024 FHCF coverage is based on preliminary retention and coverage estimates. Actual Citizens' FHCF attachment and limits of coverage could differ significantly from estimates.
- Lighting Re is an industry loss index trigger catastrophe bond based on PCS published insured residential losses in the State of Florida for Florida named storms. The fully collateralized Notes provide multi-year excess of loss protection on an annual aggregate basis. Estimated placement of this coverage on the layer charts is based on internal analysis. Actual attachment and exhaustion points could differ significantly from estimates.

NOTES

These charts are imperfect! They attempt to show projected claims-paying resources, but they are approximations only. Three significant complicating factors are described below:

1) PR/CR PML vs. CNR PML: An actual 100-year PML event in the Residential portion of the book (PR/CR) may not be a 100-year PML event for the Non-Residential (CNR) portion of the book. The relative magnitude of actual losses for the Residential and Non-Residential portions will depend on the storm size and path.
2) Non-residential exposure: Commercial non-residential (CNR) exposures are not reinsured by FHCF. CNR losses are shown in a stand-alone chart and correspond to the actual CNR's PML and return periods.
3) Liquidity: These charts do not show liquidity. Ample PML resources may still require liquidity as many of the resources are not available immediately following a major hurricane. The timing and magnitude of receivables such as FHCF recoveries and assessments are unknown.

CITIZENS
PROPERTY INSURANCE CORPORATION