

Executive Summary

Board of Governors Teleconference Meeting, May 14, 2020

2020 Risk Transfer Program

History

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

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

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

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

2020 Risk Transfer Program Coastal Account

The proposed 2020 risk transfer program for the Coastal Account incorporates all strategic elements from prior risk transfer programs, which include: transfer risk alongside the FHCF, transfer commercial non-residential (CNR) risk, and transfer aggregate annual risk in order to protect a portion of surplus for most catastrophic events and thereby eliminating assessments for a 1-100 year event and further reducing the amount and likelihood of assessments beyond the 1-100 year event to the citizens of Florida.

Citizens plans to transfer exposure in the amount of approximately \$1.4 billion to the global reinsurance and capital markets in 2020 for the Coastal Account, which includes \$400 million of risk transfer from 2018 that remains in place for the 2020 season - \$150 million of multi-year traditional reinsurance and \$250 million of capital markets risk transfer through Everglades Re. Based on the proposed 2020 risk transfer program, the total amount of surplus exposed for a 1-100 year event in the Coastal Account would be approximately 27%, or approximately \$770 million.

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The proposed 2020 risk transfer layers for the Coastal Account are as follows:

- Layer 1 of this program is referred to as the sliver layer and will sit alongside the FHCF. It provides approximately \$102 million of annual, per occurrence coverage which covers personal residential and commercial residential losses and would work in tandem with the mandatory coverage provided by the FHCF to include the co-payment of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market.
- Layer 2 will sit above the sliver layer and the FHCF. This multi-year, aggregate layer provides \$900 million of coverage of personal residential and commercial residential losses. This includes the \$400 million of renewing coverage placed in 2018. The new placement of \$500 million will be split between the traditional and capital markets, based on market conditions.
- Layer 3 of this program will sit above the multi-year aggregate layer and covers annual, aggregate personal residential and commercial residential losses. This layer provides \$350 million of single year coverage and it will be placed in the traditional market.
- Layer 4 of this program would provide \$54 million of coverage for CNR losses not covered by other layers of the program and for which Citizens has no FHCF coverage. This layer will be placed in the traditional market.

Personal Lines Account

After significant losses in Personal Lines Account (PLA) due to Hurricanes Irma and Michael, along with non-weather losses and assignment of benefits, the PLA surplus has decreased significantly and is now exposing much more of its surplus for a 1-100 year storm than in previous years – approximately 73%. Citizens' strategic risk transfer plan for PLA is similar to the Coastal Account and considers the transfer of risk in order to reduce the amount of surplus exposed in a 1-100 year event.

Citizens plans to transfer exposure in the amount of approximately \$300 million to the global reinsurance and capital markets in 2020 for the PLA. Based on the proposed 2020 risk transfer program, the total amount of surplus exposed for a 1-100 year event in the PLA would be approximately 57%, or approximately \$979 million.

The proposed 2020 risk transfer layers for the PLA are as follows:

- Layer 1 of this program is referred to as the wrap layer and will sit alongside and above the FHCF. It provides approximately \$175 million of annual, per occurrence coverage which covers personal residential losses and would work in tandem with the mandatory

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coverage provided by the FHCF to include the co-payment of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market.

- Layer 2 will sit above the wrap layer and the FHCF. This multi-year, aggregate layer provides approximately \$125 million of coverage of personal residential losses. This placement will provide multi-year, aggregate coverage. This layer will be placed in the capital markets.

Recommendation

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

- 1) Approve the 2020 Risk Transfer Program recommendation to purchase traditional and capital markets risk transfer in the Coastal Account and Personal Lines Account at a cost not to exceed the amount of \$145 million; and
- 2) Authorize Staff to take any appropriate or necessary action consistent with this Action Item.