ACTION ITEM

CONTRACT ID	**Finance and Investment Committee meeting minutes March 24, 2019**
BUDGETED ITEM	N/A
CONTRACT AMOUNT	N/A
PURPOSE / SCOPE	Review of the March 24, 2020 Finance and Investment Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
CONTRACT TERM(S)	Text
PROCUREMENT METHOD	Text
RECOMMENDATION	Staff recommends the Finance and Investment Committee review and approve the March 24, 2020 Finance and Investment Meeting minutes.
CONTACTS	Jennifer Montero, Chief Financial Officer

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, March 24, 2020

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened telephonically on Tuesday, March 24, 2020 at 4:00 pm (EDT).

The following members of the FIC were present telephonically:

Bo Rivard
Marc Dunbar
Carlos Lopez-Cantera
Bette Brown

The following members of the Board were present telephonically:

Blake Capps

The following Citizens staff members were present telephonically:

Barry Gilway
Jennifer Montero
Jay Adams
Barbara Walker
Violet Bloom
Dan Sumner
Steve Bitar
Nancy Staff
Mark Kagy
Christine Ashburn

The following people were present telephonically:

Kapil Bhatia Raymond James

Call Meeting to Order

Barbara Walker: We will convene with roll call. Governor Brown.

Governor Brown: I am here.

Barbara Walker: Governor Dunbar.

Governor Dunbar: Yes, ma'am, I am here.

Barbara Walker: Governor Lopez-Cantera.

Governor Lopez-Cantera: I am here.

Barbara Walker: Chairman, you have a quorum.

1. **Approval of Prior Meeting's Minutes**

Chairman Rivard: Thank you, Barbara. Well, welcome everyone and thank you for being on the call today. I hope everyone is doing well and hope you and your families are safe. We will just jump right in here to the agenda, if you had a chance to review. And I also want to thank Barbara and the whole team for the work leading up to these committee meetings, and also for the Board of Governors meeting tomorrow with the agenda packets and everything being available through hyperlink and so forth. A lot of work went into that and thank you guys for all your hard work to make that happen. But with that, if you have had a chance to review the Minutes, I would entertain a motion to approve the Minutes from the December 10th meeting.

Governor Dunbar: **Move approval.**

Governor Brown: **I will second.**

Chairman Rivard: **Okay. Anyone opposed? Okay, the meeting Minutes from December 10th are approved.** And next we will move into item number two, the market update with Kapil.

2. **Market Update**

Kapil Bhatia: Good afternoon, Mr. Chairman, and Governors. Can you hear me okay?

Chairman Rivard: Yes, sir.

Kapil Bhatia: Great, thank you. Good afternoon, Mr. Chairman, and Board of Governors. For the record, Kapil Bhatia from Raymond James & Associates. I know Barbara shared my talking points earlier this afternoon. I have made a couple of marginal changes which will be updated on the website, but as I go through my talking points, I will also address those changes. They are very marginal. Since market update suddenly has a much different tone and message than the market updates I have given in front of this Board before. The time has stopped and that has suddenly reduced our economic activity and, in some cases, completely eliminated economic activity. We are experiencing a significant global recession and previously unseen and significant volatility in the financial market, and it is a second derivative result of the global pandemic, COVID-19 unlike the 2007/2008 financial crisis. We expect unemployment to increase significantly over the next two to three months from the current rate of 3.5% to close to 7% as the number of unemployed people are expected to increase by five million in the month of March. However, we also expect the unemployment rate could further increase in the first two weeks of April to almost 9%, depending on the length of time of self-isolation and business interruption due to COVID-19.

As you know non-essential businesses across the country are being ordered to shut down. And I should say have globally ordered to shut down and the impacts on the airlines, restaurants, hospitality sector, transportation and construction industry is much more than almost all of the other industries or sectors. Globally, central banks have moved quickly to reduce the economic impact. They have suddenly reduced interest rates, restarted the asset purchase programs and injecting significant liquidity into the economy. And they have a playbook from 2007/2008 financial crisis, and they are all going in with all programs instantly instead of waiting for one thing to start and then waiting for the next thing. In the United States Federal stimulus package from the Treasury and Congress have been passed in an attempt to shore up the financial markets and mitigate the impacts on businesses and individuals. The U.S. Federal Reserve reduced its Fed Funds target rates from 1.75% to where we are from 0.00% to .25% in two cuts. The first cut was on March 4 which was 50 basis points, and again looking at my talking point it says 25 basis points. It was actually 50 basis points and that brought the interest rate down to 1.00% to 1.25%, and the second rate cut was 1.00% or 100 basis points, and now the current Fed Fund rate range is 0.00% to .25%. In addition, as I was presenting , I was hoping to get an update on the third legislative action, which is being drafted by the Senate Republicans in response to economic slowdown and is expected to be approved today and is expected to cost somewhere in the range of $1.6 to $2 trillion. We estimate that number to be $1.8 trillion. That should provide economic stimulus in the form of business loans and cash checks to individuals and families based on certain income thresholds and longer and larger unemployment benefits.

It was only a month ago, but seems like a long time ago, the stock markets were at record high levels and since that point in time we have lost over 30% of its value because of the panic from COVID-19. We don't expect much to change in the short term as the impact on GDP is expected to be significant or to be in the range of -4% to -6% in this quarter and in the next quarter, or from April through June, we expect significant negative growth rate in March, but that may be not as much as we expect the second quarter. But we expect -4% to -6% on a quarterly basis at the low end. If we annualize that, then it becomes a -16% to -24% on an annualized basis. As GDP calculations are amplified by quarterly to annually calculations. So that number is significantly larger than we have ever seen, even in 2007/2008 financial crisis in one quarter. Fixed income markets have seen interest rates crater to never before seen low levels, with 30-year Treasury rate closed at .99% on March 9, currently trading at 1.43%, and the 10-year Treasury rate is .87% and it went as low as .54% on March 9. The table showed where the rates were and where the rates are. If you look at it from a historical perspective the Fed Fund rate to a 10-year maturity we are below any rate over the one, two, three, four, five years prior and are less than five-year average or a 10-year average. From our perspective, the five-year rate is more relevant to us because of our investment policy. A year ago, the five-year U.S. Treasury rate was 2.24% and today it is at 52 basis points. So that just puts the numbers in perspective. The current fourth quarter GDP number is $21.7 trillion, and that number will potentially decrease by $1 trillion in the second quarter of this year. I am just converting the current percentage changes to absolute numbers to show how large the impact is. It's really too early to see or say anything beyond the second quarter. It depends on how things turn around in the next two months, but market projections forecast that the economy could recover in the third quarter. That could translate to annualize rate of 6 to 8% growth in the third quarter and 8 to 10% growth in the fourth quarter, with an overall annual growth rate in 2020 to be closer to 1%.

Eurozone and Chinese growth are also significantly lower. 2020 European zone growth is now forecasted at -1% to -0.5% down from 0.5%. In China 2020 growth is expected to be somewhere in the range of 3% down from 4.8%. Projections are for the pandemic to peak in the next two months and taper off with a recovery beginning in three to four months. The impact of significant social measures will be particularly important with the timing of recovery. We expect the economy to be back to closer to pre-pandemic levels by the fourth quarter of 2020 or the first quarter of 2021. The only positive thing is that we were at a really strong point right before the start of pandemic. Nobody saw this recession coming so quickly and so fast because it is not economic recession. So, we expect recovery to be quicker also. However, with all of that stuff on the negative side, our investments portfolio remains strong and stable. The current one-year total and income return for the portfolio is over 5% and 2% respectively even after all of the volatility. The overall duration of our portfolio is just over four years and as Jennifer mentioned in the Audit Committee, the portfolio annual income for 2019 was approximately $232 million, which was significantly above where we were in 2018. However, our invested portfolio has gone down because of Maria and Irma claims and some of the pre-event bonds have matured. We expect our investment income number to come down, but still stable at closer to $180 to $200 million for 2020.

Lastly reinsurance. Reinsurance capital has increased by 7% through the first nine months of 2019, and at the end of nine months of 2019 or September 30, the total reinsurance market capital was $625 billion. Alternative capital has also increased approaching almost $100 billion largely driving by collateralized reinsurance. Cat activity in 2019 decreased significantly compared to the 2017 and 2018 levels with a total Cat losses of only $62 billion, well below the 10-year average of $81 billion. However, there are continued adverse loss development and market volatility. Lastly, there are still significant uncertainties in both capacities and pricing for the Florida market considering what happened in 2017 and 2018 and all of the adverse loss development. With that I will stop to answer any questions you may have.

Chairman Rivard: Okay, thank you for that, Kapil. Board members any questions?

Kapil Bhatia: Thank you.

Governor Brown: Hi, it is Bette Brown. I am probably going to have questions of Jennifer when we get to her report.

Chairman Rivard: Okay, no problem, Bette, we will do that. So, if there are no questions for Kapil, then we will move on to Jennifer and her presentation for the Risk Transfer Program update.

3. Risk Transfer Program Update

Jennifer Montero: Thank you, Mr. Chairman, Governors. For the record, I am Jennifer Montero, Citizens' Chief Financial Officer. I will provide a quick overview of our 2020 risk transfer program and then walk you through the layer charts which are provided behind tab three of your FIC book. Citizens' statute requires that the Board make its best effort to procure catastrophe reinsurance to cover a 1-in-100 year storm at reasonable rates. The analysis to purchase reinsurance is evaluated by staff and Citizens' financial adviser each year and the resulting recommendation is made to the Board. Central to Citizens' goal of reducing exposure and reducing or eliminating the amount and likelihood of its assessment burden on the citizens of Florida is the transfer of risk to reinsurance mechanisms accomplished through participation in the Florida Hurricane Catastrophe Fund also known as the FHCF, traditional reinsurance markets and capital markets. The proposed 2020 risk transfer program for the coastal account incorporates all the strategic elements from prior risk transfer programs which include risk transfer alongside the FHCF, transfer annual and multi-year, aggregate risk and transfer commercial non-residential risk. Citizens plans to transfer exposure in the amount of approximately $1.4 billion in 2020 for the coastal accounts. This includes $400 million of risk transfer from 2018 that remains in place for the 2020 season. Included in this $400 million is $150 million of multi-year traditional reinsurance and $250 million of capital markets risk transfer to Everglades Re. The 2017 multi-year traditional and capital market placement of $480 million in the same multi-year aggregate layer expires and will need to be replaced.

If you will now turn to page two of the layer charts, I will walk you through the coastal account program. The proposed 2020 coastal account renewal will include four layers which include the replacement of the expiring placement in the multi-year layer. The first layer referred to as the sliver layer sits alongside the FHCF and provides approximately $102 million of annual per occurrence coverage which covers personal residential and commercial residential losses and would work in tandem with the coverage provided by the FHCF to include the co-payments of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market. The second layer 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. The third layer will sit above the $900 million multi-year layer and covers annual aggregate, personal residential, commercial residential losses. This layer provides $350 million of single year coverage. This layer will be placed in the traditional market.

If you will turn to slide three. The final layer of the coastal account program would provide $54 million of coverage for the commercial non-residential losses not covered by other layers of the program, and for which Citizens has no FHCF coverage. This layer will also be placed in the traditional market. The total amount of surplus exposed in the 1-in-100 year event in the coastal account would be approximately 27%. After significant losses in the personal lines account due to Hurricanes Irma and Michael along with non-weather water losses and the assignment of benefits, the personal lines surplus has decreased significantly and is now exposing much more of its surplus in a 1-in-100 year storm than in previous years, approximately 54%. Citizens' strategic risk transfer plan for the personal lines accounts is similar to the coastal account and considers the transfer of risk in order to reduce the amount of surplus exposed in the 1-in-100 year event. Citizens' plans to transfer exposure in the amount of approximately $575 million in 2020 for the personal lines account. If you will turn to slide four in the layer charts, I will walk you through the personal lines program. The proposed 2020 personal lines renewal will include two layers. The first layer similar to the 2019 layer referred to as the wrap layer sits alongside and above the FHCF and provides approximately $175 million of annual per occurrence coverage which covers personal residential losses and would work in tandem with the coverage provided by the FHCF to include the copayment of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market. The second layer will sit above the sliver layer and the FHCF. This layer provides $400 million of coverage of personal residential losses. This layer will be split between the traditional and the capital markets based on market conditions. The capital market placement will provide multi-year aggregate coverage and the traditional market placement will provide either aggregate or per occurrence single year coverage. The total amount of surplus exposed in a 1-in-100 year event in the personal lines account would be reduced to approximately 43%. Staff is working with Citizens' co-brokers and its financial adviser to evaluate available options relating to the structure, terms, pricing and other relevant matters in structuring the 2020 risk transfer program. This team began convening with a number of global traditional reinsurers to market Citizens risk transfer programs and will continue via conference calls over the next month. Following these meetings staff will provide a recommendation to the Board of Governors at the May 14th, 2020 Board of Governors teleconference for approval. And I will pause for any questions, but that completes my update.

Chairman Rivard: Okay, thank you, Jennifer. Governor Brown, I think you had a question.

Governor Brown: Yes, Jennifer, I hope you are doing well. It is Bette Brown. And maybe this is something you will be talking about at the Board meeting. But I wanted to be talking a little bit about liquidity needs, about where our portfolio is now and what the plan will be going forward with our portfolio. I mean, that is a real broad question. Sorry about that.

Jennifer Montero: Sure.

Governor Brown: To throw it at you like that without any warning.

Jennifer Montero: No, that is okay, and we are going to cover a lot of that in the next section. But basically, the Coronavirus has affected the entire market. At the end of January, we had a positive mark to market value of $300 million which is about 3% of our portfolio.

Governor Brown: Okay.

Jennifer Montero: Since then the Treasury rates have gone down significantly.

Governor Brown: Yes.

Jennifer Montero: Corporate spreads have widened and currently we just, Kapil and I just checked it right before this meeting, we have a negative mark to market of $15 million which is about .2% of our portfolio. So, with that said however, our income return levels are stable, and we are in good shape. So, we are still in a good place and I will pause to see if Kapil wants to add anything to that as well.

Kapil Bhatia: Thank you, Jennifer. And Governor Brown, thank you. Can you hear me?

Governor Brown: I can hear you, Kapil. How are you doing?

Kapil Bhatia: Great. I am doing great, thank you. I hope all is well. Thank you. I will be brief. And certainly, we had input from all of you, all of the Board members. Our portfolio is very stable. We have almost 40% of our portfolio in Treasury and in agency securities. So, half of our portfolio is very secure, and Jennifer will go through those numbers briefly and that part of the portfolio has behaved much better than everything else maybe with the rates coming down. And on the other hand, as Jennifer mentioned corporate spreads have widened. We do have one half of our portfolio in the corporate sector where spreads are widened, however, they produce a better income. So collectively our portfolio is stable. Our income return is good which is over 2.5% which is far better than even a 30-year Treasury. And as I mentioned in the market update our overall total return is 5%. If you look at it from a historical perspective, last year our total return was 7%. Our intent is not to maximize total return, but to keep our portfolio effectively, limit the risk as much as possible while stabilizing the income and that is where we are. So, we feel very comfortable with our portfolio. There may be one or two ratings downgrades, but we are not really concerned because we have issuer diversification and a limited exposure to each sector as well as each issuer. So, at this point of time we are in a good shape with some of the Federal back stops, actually the portfolio looks better than where we were a couple of days ago.

Governor Brown: That is great news. And I assume you are watching it daily. Things are pretty fluid.

Kapil Bhatia: Yes, we are on top of it. We have done the compliance test and everything else every day. We have seen one downgrade so far, but we are still not concerned with the downgrade simply because it is like an $8 million position, but overall, we are on top of it. Thank you.

Governor Brown: Thank you very much.

Jennifer Montero: And I will go into a lot more detail. I was just going to say in the next section, which is the investment summary, the executive summary gives a lot of detail, kind of hits on all those points, Bette.

Governor Brown: I appreciate it, Jennifer. I know I jumped the gun, but I am glad to hear it.

Jennifer Montero: That is okay.

Governor Brown: I am glad to hear what you all had to say. Thank you

Chairman Rivard: Are there anymore questions on the risk transfer side? Okay, well, if not, then we can move into the Investment Portfolio Update, Jennifer.

4. **Investment Portfolio Update**

Jennifer Montero: Wonderful, thank you. That is behind tab four. On slide one is the executive summary. The total portfolio is $9.2 billion with approximately $8.5 billion or 92% of that being externally managed by 10 investment managers. The remaining $750 million is internally managed and primarily consist of operating funds, debt service funds and debt service reserve funds. The taxable portfolio is $8.1 billion or about 88%, and the tax exempt portfolio is $1.1 billion or 12%. The portfolio is very conservative and stable with sufficient liquidity to pay future or outstanding claims from 2017 and 2018 events. The total portfolio average duration is just over 4.17 years. The total return in income return for a one year is 7.48% and 2.23% respectfully.

The total return reflects a significant increase in the market value of the portfolio as interest rates have significantly decreased over the last 12 months. However, as corporate spreads have widened due to COVID-19 over the last 30 days, we expect the total mark to market will decrease to approximately 5%, but income return will remain stable at the current levels. On slide two under interest rates. Rates for the Treasury increase in 2017 and 2018 have significantly decreased over the last 30 days and they're not expected to change at least for 2020. The yield curve has steepened as the Fed has cut the Fed Funds rate to 0.00% to .25%. The curve has steepened, but absolute rates are at historical lows. The tax exempt rates have also decreased similarly, but they haven't kept up with Treasury rate decline. On slide three, the portfolio summary. The taxable and tax exempt portfolio both have very strong credit qualities. 80% of the taxable portfolio in the money market funds are rated A or higher. 89% of the tax exempt portfolio is in money market funds are rated AA or higher, and over 33% of the total portfolios in Treasury and agency securities are in money market funds. And then the final slide, slide four, the portfolio return summary. The portfolio return summary is 7.48% over the last 12 months and 4.93% over the last two years. And the portfolio income return summary is 2.23% over the last 12 months, and 2.52% over the last two years. And I wanted to remind you that there is also an appendix that we include that goes into a lot more detail. The much longer report that is behind this summary report. And that concludes my update unless there are any questions.

Chairman Rivard: Okay, thanks Jennifer. Questions? Okay. I guess there are no questions. And so next up we have the Depopulation Clearing House update, but who is doing that for us or is that just provided?

Jennifer Montero: That is just provided for information. I am happy to answer questions if you have any, but it is just informational supplements that we have put in there.

Chairman Rivard: All right, are there any questions on the depop? All right. Well, we have got a quiet group today, but that is all that is on the agenda, guys. Is there anything else, any new business or other items you guys want to talk about while we are on the phone together?

Governor Dunbar: Move to adjourn.

Chairman Rivard: Okay, thank you, appreciate it, guys. Look forward to talking to everyone tomorrow.

Jennifer Montero: Thank you.

Chairman Rivard: Thank you, bye-bye.

(Whereupon, the meeting was concluded.)