CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE FINANCE AND INVESTMENT COMMITTEE MEETING
Wednesday, June 3, 2020

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened telephonically on Wednesday, June 3, 2020 at 11:00 am (EDT).

The following members of the FIC were present telephonically:

Bo Rivard
Marc Dunbar
Carlos Lopez-Cantera
Bette Brown

The following Citizens staff members were present telephonically:

Barry Gilway
Jennifer Montero
Barbara Walker
Dan Sumner

The following people were present telephonically:

Kapil Bhatia	Raymond James
Adam Schwebach	Willis Re
Ken Vincent	Guy Carpenter
Albert del Castillo	Greenberg Traurig

Call Meeting to Order

Barbara Walker: I would like to welcome everyone to the June 3rd, 2020 Finance and Investment Committee meeting. It is a noticed meeting in the Florida Administrative Register, and we will convene immediately with roll call. If you are not speaking on today's call, we ask that you press star six to mute your line, and request that you do not place this call on hold. Thank you for identifying yourself prior to addressing our committee. And a reminder that our Minutes are recorded and transcribed and available on our website. Chairman, may I proceed with official roll call?

Chairman Rivard: Yes, ma'am.

Barbara Walker: Thank you. Chairman Rivard.

Chairman Rivard: Here.

Barbara Walker: Governor Lopez-Cantera.

Governor Lopez-Cantera: Here.

Barbara Walker: Governor Dunbar.

Governor Dunbar: Here.

Barbara Walker: And Governor Brown.

Governor Brown: Here.

Barbara Walker: Chairman, you have a quorum.

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

Chairman Rivard: Okay, thank you, Barbara, and thank you everyone for being on the call. I hope everyone is having a good day. **We will just jump in here and if everyone has had a chance to review the Minutes from the March 24th, meeting I would entertain a motion to approve.**

Governor Brown: **Move to approve.**

Chairman Rivard: **Is there a second?**

Governor Lopez-Cantera: **Second.**

Chairman Rivard: **Okay, motion and second. Any opposition? If not, please show the Minutes are approved.** And then we will jump to number two Raymond James Financial adviser. We are going to have a market update, Kapil. Kapil, are you available?

Kapil Bhatia: Yes, good morning, Mr. Chairman and Governors.

Chairman Rivard: Good morning.

Kapil Bhatia: Can you hear me okay?

Chairman Rivard: Yes, sir, thank you.

2. **Raymond James Financial Advisor**

   a. Market Update

Kapil Bhatia: Okay, great, thank you. This market update is longer than usual considering the market conditions. But please stop me at any time for any questions concerning this is a little longer presentation than usual. As you all know we are experiencing a significant global recession, and previously unseen volatility in the financial market as a result of COVID-19 global pandemic. Since mid-March right before our last quarterly FIC meeting, more than 40 million Americans have filed for unemployment, effectively erasing more than a decade of job creation. In addition, industrial production has fallen, retail sales have declined at a record pace, and housing sales have slumped. In April, nonfarm payroll employment fell by 20.5 million, labor participation rate decreased from 62.7% to 60.2%, and the unemployment rate increased by 10.3% to 14.7%. That is almost 300% increase in unemployment rate increase. This unemployment rate is the highest rate and the largest over-the-month increase in the history of the series going back to January of 1948. In April, the number of unemployed rose by 15.9 million and the number of people looking for full-time work increased by 4.4 million. The sharp increase reflects the effect of coronavirus pandemic and public health efforts to contain it. May's unemployment number which will be released on Friday, June 5th, and we expect unemployment rate to further increase to 16% before coming down in the third quarter to 12% as the economy reopens. In the United States multiple federal stimulus package in the total amount of approximately $3 trillion have been passed in an attempt to shore up the economic conditions and to mitigate the impacts of businesses and individuals and we expect at least one more stimulus to come potentially in the amount of $1-$1.5 trillion over the next 45 days.

The U.S. Federal Reserve reduced its Fed Fund target rate from 1.5% - 1.75% to a range of zero to 25 basis points in two cuts. The first rate cut was on March 4th and the second on March 14th. In addition, the Fed is already in full quantitative easing “infinity and beyond” mode based on what they are communicating to the market. The current balance sheet is $7.1 trillion as compared to $4.2 trillion on December 31st, 2019, or an increase of $2.9 trillion or approximately 70% over the last five months. And you can see that increase in balance sheet is reflected in the financial market as well as the expectations of economic conditions improving faster than what initially what everybody was thinking, because of the Fed stimulus package. This is not just in U.S. The stimulus packages are being offered by European Central Bank and the Japanese Central Bank. Before the contraction due to COVID, U.S. GDP had grown nearly unimpeded since the great recession of 2007-2009. During the record expansion the unemployment rate failed to a 50-year low of 3.5% as the U.S. economy added jobs for 9.5 years in a row. U.S. GDP failed at a 4.8% annualized rate in the first quarter, which marks the official end of the U.S.’s longest economic expansion following the Great Recession.

The GDP is expected to decline significantly in the second quarter by approximately 8% for the quarter or an annualized rate of 32% just because of the annual calculations are straight multiple of quarterly calculation. According to the CBO on an annual basis real GDP is projected to decline by a 5.6% for 2020, and then increase by 2.8% for 2021. However, our estimate is for zero net growth at the end of 2021. As we expect GDP return to the 2019 end of the year levels by the end of 2021, which makes our projections to be a little bit more optimistic than CBO projections. The equity market has been very volatile but has recovered and stabilized partially due to Fed’s additional liquidity as I mentioned earlier, as well as the expectation of faster economic recovery starting in late 2020 and early 2021. S&P is only down 5% for the year and Dow Jones is down 11%. Fixed income markets have seen interest rates cratered to never before seen lows, with the 30-year treasury closing at 99 basis points March 9th, and 10-year treasury rate went as low as 54 basis points by March 9th.

As of yesterday, two-year treasury was 16 basis points and 10-year treasury was 66 basis points. The 1-10 year yield coverage is almost historical low point, are between 70% to 90% below its five-year average and 72% to 80% below its 10-year averages, and we don't expect rates to change significantly at least for the next two years as the Fed's commitment to make sure the economy recovers before they start increasing any interest rates. Corporate issuers because of the low interest rate is strong. As of May 27, 2020, the total investment grade corporate issuance is $967 billion as compared to the total 2019 issuance of $1.06 trillion. We expect corporate issuance to be over $1.75 trillion this year or 40% above the record issuance in the 2017 in the amount of $1.243 trillion. Most of the corporate issuance is to make sure that the large corporations have enough liquidity to weather the recession or slow down over the next 18 months. With that I will stop with the economic update before moving on to the risk transfer market if there are any questions.

Chairman Rivard: Okay, thank you. Any questions from the Board members? Okay, I guess you can proceed then.

Kapil Bhatia: Thank you. Risk transfer market: Reinsurance pricing conditions soften from 2015 through 2017, the insurance industry has incurred approximately $19 billion of losses from Hurricane Irma and Michael and is projected to ultimately incur a total of approximately $21 billion in losses over the next 12 months from those two events. Globally there were other $275 billion of insured losses from 2017 to 2019. In addition, Lloyd's predicts COVID-19 will cost the non-life insurance industry and reinsurance industry approximately $200 billion insured and investment losses because of recent volatility in the financial market. They expect approximately $107 billion in underwriting losses and approximately $96 billion in investment losses, making it the largest single loss event ever experienced by the global market. The risk transfer markets are currently disjointed and to some extent fragmented and expecting significant above normal returns to recover prior years losses. Reinsurers are operating with an increased cost of capital as a result of increased retrocession costs and higher return expectations from the third-party capital providers, due to the widening spread alternative market, such as corporate bond markets as they are proactively trying to manage their potential risks associated with the COVID claims. Due to these factors, price increases are expected in the range of 15 to 20% on an average, and in some extreme cases from 50% to 100%.

Moving on to the Florida risk transfer market, loss creep and social inflation in Florida has ballooned as we all know and have heard at different points of time from numerous carriers primarily due to the increase in litigation and assignment of benefits over the recent years. HB301 passed in 2019 to increase the FHCF loss adjustment expense allowance from 5% to 10%, which removed approximately $700 million of loss adjustment expenses risks for the private reinsurance market for 2019 and thereafter. Average reinsurance rates increases in Florida were approximately 10% to 20% in 2019, but some loss affected layers and inefficient companies saw rate increase of greater than 30%. For 2020 reinsurance pricing, most renewals were priced in the range of 15% to 35% increases, with the highest concentration in the 25% to 30% range. Florida reinsurance pricing in 2020 demonstrates an event a greater amount of differentiation from reinsurers for the Florida companies. They backed with accurate loss estimate, minimal adverse loss development and management of litigated claims was better pricing terms than the other companies. The coverage participation in the FHCF again reflects the dynamic mix of the private reinsurance market, as it allows insurers to optimize their coverage and manage their rate increases based on the market equilibrium. The average percentage coverage selection in the Cat Fund was 73.5% for the 2018/2019 contract year during the softening private reinsurance market years, which increased to 81.6% for the last year of 2019/2020 contract year and has further increased to 86.2% for the current contract year. In conclusion, even with all of this volatility and everything else our investment portfolio is stable, producing excellent return and have significant positive mark to market value. Jennifer will go through more in her presentation, as well as our risk transfer program, which was efficiently placed, and again, Jennifer will go through those details in her presentation. With that I will stop and will be happy to answer any questions.

Chairman Rivard: Thank you, Kapil. Do we have any questions?

Governor Lopez-Cantera: This is Carlos, I have a question.

Chairman Rivard: Yes, sir.

Governor Lopez-Cantera: Thank you, Chairman. Kapil, you had mentioned that you are expecting another stimulus package from Congress. What are you basing that prediction on?

Kapil Bhatia: It is based on number of conversations we had as well as all the news and media. The comment is based on some of the discussions regarding how much the state and local governments will need, that is one. And there are some discussions going on in terms of how the next stimulus package should be structured for individuals effectively as well as the unemployment. In the last package there was a flat allowance of $600 in addition to the unemployment allowance. That is where the discussions are. Based on all of the conversation as of our discussion with our legislative counterparts, we believe there will be one, but it will be structured differently than the prior package and could be mostly for the help of the local government of the states.

Chairman Rivard: Okay, do you have any follow up questions, Governor Lopez-Cantera or any other questions from other Board members?

Governor Lopez-Cantera: Yes, Chairman, thank you. So, from your legislative counterparts, is there anything that is predicted in that package that would benefit this entity, Citizens at all?

Kapil Bhatia: Governor Lopez-Cantera, as I see there is really nothing we should expect in the package. The short answer is no.

Governor Lopez-Cantera: Thank you. Thank you, Mr. Chairman.

Chairman Rivard: Sure. Any further questions? All right, well, thank you, Kapil, appreciate that.

Kapil Bhatia: Thank you.

Chairman Rivard: And next up we have Jennifer. Is Jennifer on the line?

Jennifer Montero: I am, thank you.

Chairman Rivard: Good morning, Jennifer, you are up.

3. **Chief Financial Officer Report**

   a. Risk Transfer Update

Jennifer Montero: Great. Thank you, Mr. Chairman. Behind tab three of your materials you will find the risk transfer update which is basically the executive summary and the layer charts. I am just going to go over those quickly. As approved by the Board of Governors at the May 14th, 2020 Board meeting, Citizens sought authorization for $1.3 billion of coverage in addition to the $400 million of 2018 coverage that remains in place for the 2020 storm season. Based on current dislocation in the reinsurance markets and significant price increases which Kapil just discussed; Citizens decided not to chase the market and not to lock in the currently elevated rates on a multiple year basis, and therefore, only place a cost efficient risk transfer program of $1.02 billion which includes $620 million of new placement and the $400 million of multi-year coverage from 2018. The 2020 risk transfer program for the coastal account includes $803 million of coverage with a weighted average gross rate online of 7.76% and a net premium of $60.3 million. The 2020 risk transfer layers for the coastal account are as follows. Layer one of the program referred to as the sliver layer and sits alongside the FHCF, it provides $95.4 million of annual per occurrence coverage, which covers personal residential and commercial residential losses and works in tandem with the mandatory coverage provided by the FHCF. This layer was placed in the traditional market at a rate online of 14.75%. Layer two sits above the sliver layer and the FHCF. This single year aggregate layer provides $583.8 million of coverage of personal residential and commercial residential losses. This includes the $400 million of renewing coverage placed in 2018, and new placement of $183.8 million was placed in the traditional market at a rate online of 10%. At the May 14th Board meeting I said that this new placement would be split between the traditional capital markets based on market conditions. On Friday, May 15th, we made the decision to pull the Everglades Re II series 2020-1 coastal account Cat Bond from the market due to significant price increases. However, the $400 million of renewing coverage placed in 2018, includes $150 million of traditional coverage at a rate online of 6.66% and $250 million of coverage from the capital markets at a rate online of 4.73% as compared to the 10% rate online for the newly placed coverage in the same layer.

Layer three of the program sits above the $583.8 million single year aggregate layer and covers annual aggregate personal residential and commercial residential losses. This layer provides $124.2 million of single year coverage and was placed in the traditional market at a rate online of 6.5%. In my presentation at the last Board meeting we also had a fourth layer for the commercial non-residential coverage, and you will see we were unable to place that in this current reinsurance environment. The 2020 risk transfer program for the personal lines account includes $218 million of coverage with a weighted average gross rate online of 10.58%, and net premium of $24.4 million. The 2020 risk transfer layer for the PLA account are as follows. Layer one of the program is referred to as the wrap layer and sits alongside and above the FHCF. It provides approximately $108.1 million of annual per occurrence coverage, which covers personal residential losses and works in tandem with the mandatory coverage provided by the Cat Fund. This layer was placed in the traditional market at a rate online of 15%. Layer two sits above the wrap layer and the FHCF. This multi-year aggregate layer provides approximately $110 million of coverage of personal residential losses. This layer was placed in the capital markets via Everglade Re II series 2020-2 personal lines accounts Cat Bond at a rate online of 6.25%. We closed on the Cat Bond on May 28 of 2020. On a risk adjusted basis the 2020 risk transfer program cost of $84.7 million is 20% higher than the 2019 program based on the gross rate online. The 2020 gross rate online is 8.36% compared to the risk adjusted rate, gross rate online of 6.99% for 2019. The coastal account 2020 placement, 16% higher than the 2019 placement on a risk adjusted basis. The total amount of surplus exposed in a 1-in-100 year event will result in approximately 48% compared to 28% in 2019. The personal lines account 2020 placement is 25% higher than the 2019 placement on a risk adjusted basis. The total amount of surplus exposed in a 1-in-100 year event will result in approximately 62% compared to 58% in 2019. The surplus exposed in 2020 is higher than what was exposed in 2019 due to inefficient market conditions and significantly higher pricing. However, we expect reinsurance markets to stabilize as economic conditions and financial markets improve by the end of this year, which will allow us to manage the risk transfer program and surplus exposure effectively and efficiently. In summary, the total 2020 risk transfer program including coverage provided by the FHCF totals $2.9 billion of coverage with a rate online of 7.5% which is a 7% increase versus the 2019 risk adjusted pricing. The FHCF coverage totals $1.9 billion with a gross rate of 7% and the private risk transfer program totals $1.02 billion with a gross rate line of 8.36%. And I will pause there for any questions, Chairman.

Chairman Rivard: Okay, thank you. Questions, Board members? Okay.

Governor Brown: Jennifer, I do have one question.

Jennifer Montero: Sure.

Governor Brown: Okay, on the summary it looks like for both Coastal and PLA we are going to have surplus exposed more than we had in the previous year.

Jennifer Montero: That is correct.

Governor Brown: Can you talk about why that is again and what that means in dollars? Is that possible?

Jennifer Montero: Sure, absolutely. If you look at the coastal account layer chart, we have way more green on there than we had before. We were unable to fill all of the layers, and as I said, our price increases were consistent with the market, but there were other companies that were paying even more. So that is where the capacity went.

Governor Brown: Okay.

Jennifer Montero: Similar to what we saw in the market last year, but even worse. We do not have as much reinsurance coverage in the coastal account. So that is why we are exposing more of our surplus, and that dollar amount, Governor Brown, on the coastal account, the 48% that is being exposed is about $1.3 billion of surplus what is exposed in a 1-in-100 year event. On the PLA we have got a couple of things going on. One, we have less coverage around the wrap. We had $175 million, but we did add the Cat Bond. But with that, the surplus as I mentioned went from, 58% now it is 62%. It's not as big of a difference, because we do have the addition of the Cat Bond. But in addition to that we are seeing growth in the personal lines account, and as we see growth we will need to buy more and more reinsurance over time to protect that additional exposure that we are taking on specifically in the personal lines account. And that amount for the personal lines account is about $1.0 billion.

Governor Brown: So I guess my next question would be, do you need additional authorization or are we covered under our motion for the last Board meeting to purchase reinsurance going forward should you have the opportunity to do so?

Jennifer Montero: The Board actually gave sufficient authority not to exceed $145 million and we spent $84.7 million.

Governor Brown: Okay, good. I thought so, I was just checking.

Jennifer Montero: Yes, the Board gave us sufficient authorization, and if we could have bought -- if we could have filled in all the layers, it would have been approximately what it would have cost to do such, but we didn't. We were unable to secure that much and we pulled out the Cat Bond because the pricing just kept going up and up and up to the point where it was not a good economic decision to buy that layer at that price.

Governor Brown: Thank you very much.

Chairman Rivard: Yes, thanks for your question, Governor Brown. Do we have other questions? Okay, if not, Jennifer, you can proceed.

b. Investment Portfolio Update

Jennifer Montero: Okay. The next item is the investment portfolio update. It should be behind the next tab. The total portfolio is $9.37 billion with approximately $8.6 billion or 92% of it is externally managed by 10 investment managers. The remaining $810 million is internally managed, primarily consisting of operating funds, debt service bonds and debt service reserve bonds. The taxable portfolio is $8.2 billion or approximately 88%, and the tax exempt portfolio is $1.6 billion or 12%. The portfolio is very conservative and stable with sufficient liquidity to pay any remaining claims from the 2017/2018 event. The total portfolio average duration is slightly over 4.27 years. For the total portfolio, the total and income return for one year is approximately 7.3% and 2% 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 rates and spreads have stabilized over the last three months, we expect that the total return will decrease to approximately 6%, but income return will remain stable at current levels of approximately 2%. On page 2, the interest rates, rates for treasury increased in 2017 and 2018, but significantly decreased due to COVID-19 over the last three months and are now expected to remain unchanged at least for 2020, and most likely for the first half of 2021. The yield curve has steepened as the Fed has cut the fed fund rate to zero to .25%, but absolute rates are at historical lows. The tax exempt rates have also decreased, but not at the same rate as the treasury rate has declined.

On slide three the portfolio summary, the taxable and tax exempt portfolios both have very strong credit quality. Approximately 80% of the taxable portfolio is in money market funds are rated "A" or higher, and 100% of the tax exempt portfolio is in money market funds are rated "A" or higher, and approximately 31% of the total portfolio is in treasury and agency securities or in money market funds. And turning to the final slide, the portfolio return summary. The portfolio income return summary is 1.99% over the last 12 months, and 2.41% over the last two years. In the portfolio return, total return summary is 7.33% over the last 12 months, and 6.10% over the last two years. And I will remind committee members that there is also an appendix that goes into a lot more detail if you are interested in that detail. And I will pause before moving on to the last item I have for any questions related to the portfolio update.

Chairman Rivard: Okay, thanks. Do we have any questions? Okay, I guess not, you can just plow ahead. Thanks, Jennifer.

c. Memorandum Implementation of New Coastal Account Master Trust Indenture

Jennifer Montero: Great, thank you. The last item is the memorandum, the implementation of a new coastal account Master Trust. In 2015 Citizens decided to amend and restate in its entirety the 1997 Trust Indenture with a modernized Trust Indenture that would be more user friendly, would contain a number of changes Citizens had identified over the years as being desirable, and would allow Citizens to eliminate the Pledge Security and Trust Agreement known as the PSTA that was put in place by the Florida Windstorm Underwriting Association, the FWUA, in 1997. The new coastal account Master Trust Indenture was approved by the Board in 2015, at the time Citizens approved the issuance of its coastal account series 2015 A bonds. The last of the outstanding coastal account bonds that did not consent to the Master Trust Indenture are the series 2011 A-1 bonds. Those bonds were paid in full on Monday, June 1st, 2020. Now the Master Trust Indenture can be executed and delivered by Citizens on or after June 2nd, 2020. Once the Master Trust Indenture is executed and delivered the 1997 Indenture and the PSTA will no longer be in effect and future coastal account bonds will be issued under and secured by the Master Trust Indenture. The new Master Trust Indenture will serve as an umbrella or master security document instead of two documents for bond issued. The security for the bonds and all other obligations remains the same and the credit has not changed based on the changes to the Master Trust Indenture. The underlying credit strength remains intact but is intended to improve administrative efficiencies. There is a memo included with the six documents from Citizens' bond counsel, Albert del Castillo with Greenberg Traurig, as well as an appendix that provides additional details for your reference. Mr. del Castillo is on the phone in case you have any specific questions regarding this Master Trust Indenture. And I will pause for any questions.

Chairman Rivard: Okay, thanks. Do we have any questions? Okay, I guess not.

Jennifer Montero: And this does not require any approval. The Board has already approved it in 2015. We just wanted to bring it back to the Board so that we can act on it.

Chairman Rivard: Okay, thank for bringing it to our attention, but you don't need any action from the Board, right?

Jennifer Montero: No, I do not.

Chairman Rivard: Okay.

Jennifer Montero: And that completes my report, Mr. Chairman.

Chairman Rivard: Okay, thank you, Jennifer. Okay, so next we have for our information there is a tab on the Depopulation Clearinghouse update. Barbara, do we have a presentation on that or is that just in the packet for our information?

Barbara Walker: It is in your packet for information, sir.

Chairman Rivard: Okay, great. All right. Any new business? Anything for the good of the order? All right, well, if not thanks everybody for being on the call. I appreciate all the presentations and look forward to talking to you soon. And with that I will entertain a motion to adjourn.

Governor Brown: Move to adjourn.

Governor Lopez-Cantera: Second.

Chairman Rivard: Thank you, guys, we are adjourned. Have a great day.

(Whereupon, the meeting was concluded.)