

# Executive Summary

Finance and Investment Committee, September 21, 2020

Board of Governors Meeting, September 23, 2020

## Reinsurance Advisory and Brokerage Services

### Topic

Citizens is requesting approval to enter into a contract for Reinsurance Advisory and Brokerage Services. The services will include comprehensive Reinsurance Advisory and Brokerage Services consisting of access to all traditional risk-transfer markets, brokerage administration services, program analytics, and an annual risk-transfer plan.

### History

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 reduces the potential assessments that result from losses reducing or exhausting Citizens' surplus and FHCF coverage.

Citizens' enabling statute, 627.351 (6)(c)(9) Florida Statutes, requires it to make its best effort to procure catastrophe reinsurance in the private market at reasonable rates to cover its projected 100-year Probable Maximum Loss (PML). 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.

Since inception, Citizens has procured qualified reinsurance brokers to provide Reinsurance Advisory and Brokerage Services, which include advising and assisting Citizens on all matters in the traditional market related to the transfer of risk of loss from catastrophic events. These vendors have assisted Citizens to plan its annual Risk Transfer Program that spreads the insurance losses from catastrophic events globally and reduces the probability and amount of assessments on Florida policyholders. 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.

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Additional services provided by the reinsurance brokers assisting Citizens' ability to serve its three (3) accounts: the Personal Lines Account (PLA), the Commercial Lines Account (CLA) and the Coastal Account (Coastal), the services provided over the years by the reinsurance brokers are:

- **Brokerage Administration Services** including: Contract and coverslip drafting and administration; marketing and syndication of occurrence-based and annual aggregate excess-of-loss catastrophe reinsurance programs; handling and escrow of ceded premiums, ceding commissions, and ceded loss payments associated with traditional reinsurance.
- **Program Analytics** including: Catastrophe modeling and meteorology; stochastic reserve estimating; catastrophic risk exposure; and evaluation of risk transfer.

## Recommendation

Staff proposes that the Finance and Investment Committee review and approve for consideration by the Board of Governors:

- a) Approve a contract with Willis Re, for an initial term of three (3) years with two (2) one-year renewals, for the total amount not to exceed \$17 million, as set forth in the Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.