

# Executive Summary

Finance and Investment Committee, December 15, 2020

Board of Governors Meeting, December 16, 2020

## Reinsurance Advisory and Brokerage Services

### Topic

Citizens is requesting approval for a one-year 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.

During the September 23, 2020 Board of Governor's meeting, staff recommended an award to contract with Willis Re for Reinsurance Advisory and Brokerage Services for an initial term of three years, and for two one-year renewals, for an amount not to exceed \$17 million, or \$3.4 million per year. Due to the uncertainty regarding the pending merger of Willis Re and AON, Citizens' Board instead approved a one-year extension of Willis Re's current contract, which expires December 31, 2020, for \$3 million.

However, for various reasons, there were no more renewals available for the current contract under Chapter 287 FS. Staff is recommending approval of a new one-year contract, with no renewals, for \$3 million as an alternative.

### History

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.

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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.

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

If approved at its December 15, 2020 meeting, the Finance and Investment Committee recommends that the Board of Governors:

- a) Approve a contract for Reinsurance Advisory and Brokerage Services with Willis Re, for one-year with no renewals, for the total amount not to exceed \$3.0 million, as set forth in the Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

# ACTION ITEM

Finance & Investment Committee Meeting, December 15, 2020  
Board of Governors Meeting, December 16, 2020

- Contract – New**  **Committee or Board Minutes**  
 **Contract – Amendment of Contract Terms**  **Product Changes**  
 **Contract – Additional Spend**  **Other** \_\_\_\_\_

<b>Contract ID</b>	Reinsurance Advisory and Brokerage Services Recommended vendor, Willis Re
<b>Budgeted Item</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Funding to be included in the 2021 Annual Operating Budget.
<b>Procurement Method</b>	Pursuant to Section 287.057, Florida Statutes on July 1, 2020 Citizens released Invitation to Negotiate (ITN) No. 20-0006. Vendor Responses were due by July 20, 2020 and were then reviewed and scored by an Evaluation Team. On September 2, 2020, the Negotiation Team recommended an award to Willis Re as they provided the best overall value to Citizens. During the September 23, 2020 Board of Governor's meeting, staff recommended an award to contract with Willis Re for Reinsurance Advisory and Brokerage Services for an initial term of three years, and for two one-year renewals, for an amount not to exceed \$17 million, or \$3.4 million per year. Due to the uncertainty regarding the pending merger of Willis Re and AON, Citizens' Board instead approved a one-year extension of Willis Re's current contract, which expires December 31, 2020, for \$3 million. However, for various reasons, there were no more renewals available for the current contract under Chapter 287 FS. Staff is recommending approval of a new one-year contract, with no renewals, for \$3 million as an alternative.
<b>Contract Amount</b>	\$3.0 million for one-year, with no renewals.
<b>Contract Term(s)</b>	One-year, with no renewals.
<b>Purpose/Scope</b>	This Action Item seeks Board approval for Citizens to enter into a contract with Willis Re for Reinsurance Advisory and Brokerage Services. The services will include: <ul style="list-style-type: none"><li>• Comprehensive Reinsurance Advisory and Brokerage Services</li><li>• Program Analytics</li></ul>

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## Board Recommendation

If approved at its December 15, 2020 meeting, the Finance & Investment Committee recommends that the Board of Governors:

- a) Approve a contract for Reinsurance Advisory and Brokerage Services with Willis Re for a one-year term, with no renewals, for an amount not to exceed \$3.0 million, as set forth in this Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.