Executive Summary

Finance and Investment Committee Meeting, March 2, 2021

Board of Governors Meeting, March 3, 2021

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 reduces the 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.

2021 Risk Transfer Program

Coastal Account

The proposed 2021 risk transfer program for the Coastal Account incorporates strategic elements from prior risk transfer programs, which include: transfer risk alongside the FHCF, transfer single occurrence and annual aggregate risk in order to protect a portion of surplus for most catastrophic events and thereby eliminating assessments for a 1-in-100 year event and further reducing the amount and likelihood of assessments beyond the 1-in-100 year event to the citizens of Florida.

Citizens plans to transfer exposure in the amount of approximately $1.715 billion to the global traditional reinsurance markets and capital markets in 2021 for the Coastal Account. Based on the proposed 2021 risk transfer program, the total amount of surplus exposed for a 1-in-100 year event in the Coastal Account would be approximately 40%, or approximately $1.163 billion.

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The proposed 2021 risk transfer layers for the Coastal Account are as follows:

- The Sliver Layer will sit alongside the FHCF. It provides approximately $133 million, in excess of $582 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 1 will sit above the Sliver Layer and the FHCF. This annual, per occurrence layer provides $100 million of coverage of personal residential and commercial residential losses and will attach after $715 million of losses. This layer will be placed in the traditional market.
- Layer 2 of this program will sit above Layer 1. This single-year, aggregate layer provides $250 million of personal residential and commercial residential losses and will attach after $815 million of losses. This layer will be placed in the traditional market.
- Layer 3 of this program will sit above Layer 2. This single-year, aggregate layer provides $250 million of personal residential and commercial residential losses and will attach after $582 million of losses. This layer will be placed in the traditional market.
- Layer 4 of this program will sit above Layer 3. This single-year, aggregate layer provides $382 million of personal residential and commercial residential losses and will attach after $815 million of losses. This layer will be placed in the traditional market.
- The two Capital Markets Layers sit above Layer 1 and alongside Layers 2, 3, and 4. Each layer is $300 million, for a combined $600 million of capital markets risk transfer placement split into two tranches covering multi-year, annual aggregate personal residential and commercial residential losses and will attach after $2.014 billion of losses.

Personal Lines Account

The proposed risk transfer programs for the Personal Lines Account (PLA) also incorporates elements from prior risk transfer programs. 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-in-100 year event.

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Finance and Investment Committee Meeting, March 2, 2021
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Citizens plans to transfer exposure in the amount of approximately $926 million to the global traditional reinsurance and capital markets in 2021 for the PLA. Based on the proposed 2021 risk transfer program, the total amount of surplus exposed for a 1-in-100 year event in the PLA would be approximately 68%, or approximately $1.164 billion.

The proposed 2021 risk transfer layers for the PLA are as follows:

- The Sliver Layer of this program will sit alongside the FHCF. It provides approximately $166 million, in excess of $726 million, of annual, per occurrence coverage which covers personal 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 layer will provide $760 million of coverage from the capital markets and traditional markets, as follows:

    - A Capital Markets renewal risk transfer placement of $110 million of coverage placed in 2020 through Everglades Re II. This multi-year, aggregate layer provides coverage for personal residential losses and attaches after $1.198 billion in losses.

    - A Capital Markets risk transfer placement of $250 million of multi-year, aggregate coverage for personal residential losses and will attach after $1.198 billion of losses.

    - A single-year, per occurrence placement that will provide $250 million of coverage for personal residential losses and will attach after $726 million of losses. This will be placed in the traditional market.

    - A single-year, aggregate placement that will provide $150 million of coverage for personal residential losses and will attach after $726 million of losses. This will be placed in the traditional market.

Next Steps

Staff will work with Citizens' traditional and capital markets teams, as well as its financial advisor, to evaluate available options, relating to the structure, terms, pricing, and other relevant matters with regards to structuring the 2021 risk transfer program.

2021 Risk Transfer Program

March 2&3, 2021

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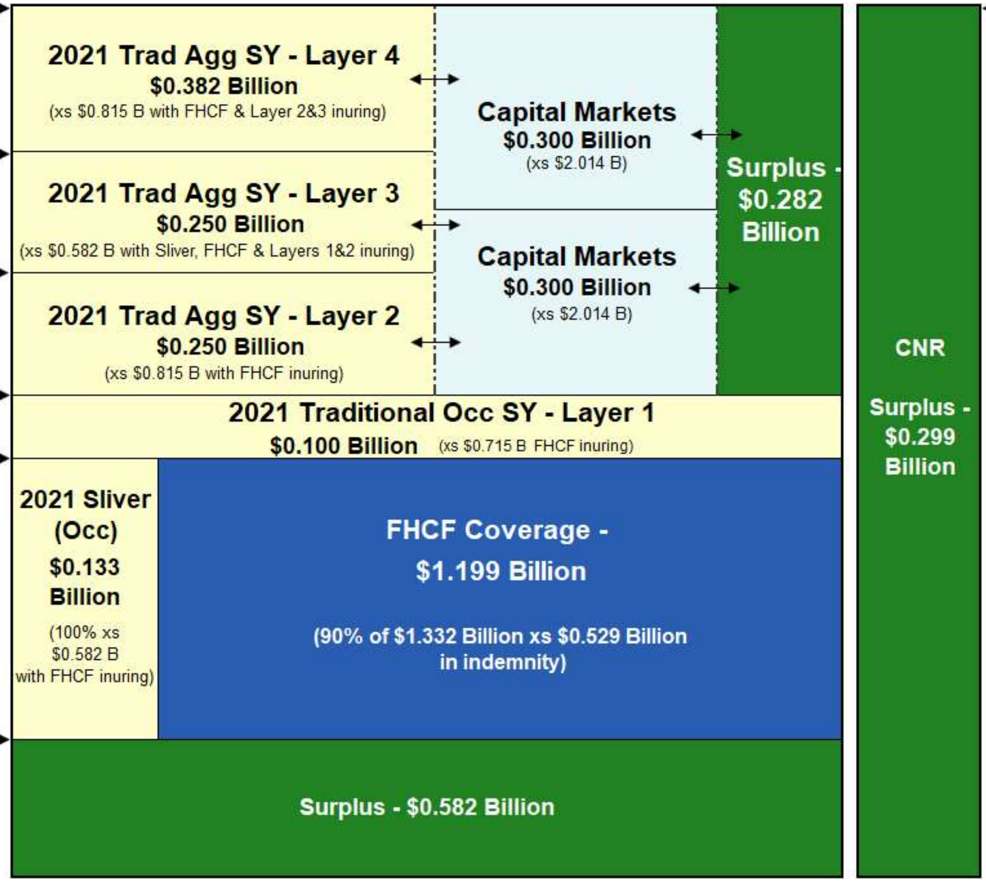
2021 Coastal Account Layer Chart

Residential (Personal & Commercial) and Commercial Non-Residential (CNR)

12/31/2020 PMLs with 10% LAE and Growth of 15% for PR/CR, -4% for CNR

Coastal Residential Loss & LAE	PML Return Time Single	PML Return Time Aggregate	OEP	AEP
$3.777 B	100	94	1.00%	1.06%
$3.014 B	73	68	1.37%	1.48%
$2.514 B	57	53	1.74%	1.88%
$2.014 B	43	40	2.30%	2.50%
$1.914 B	41	38	2.44%	2.66%
$0.582 B	13	12	7.47%	8.09%



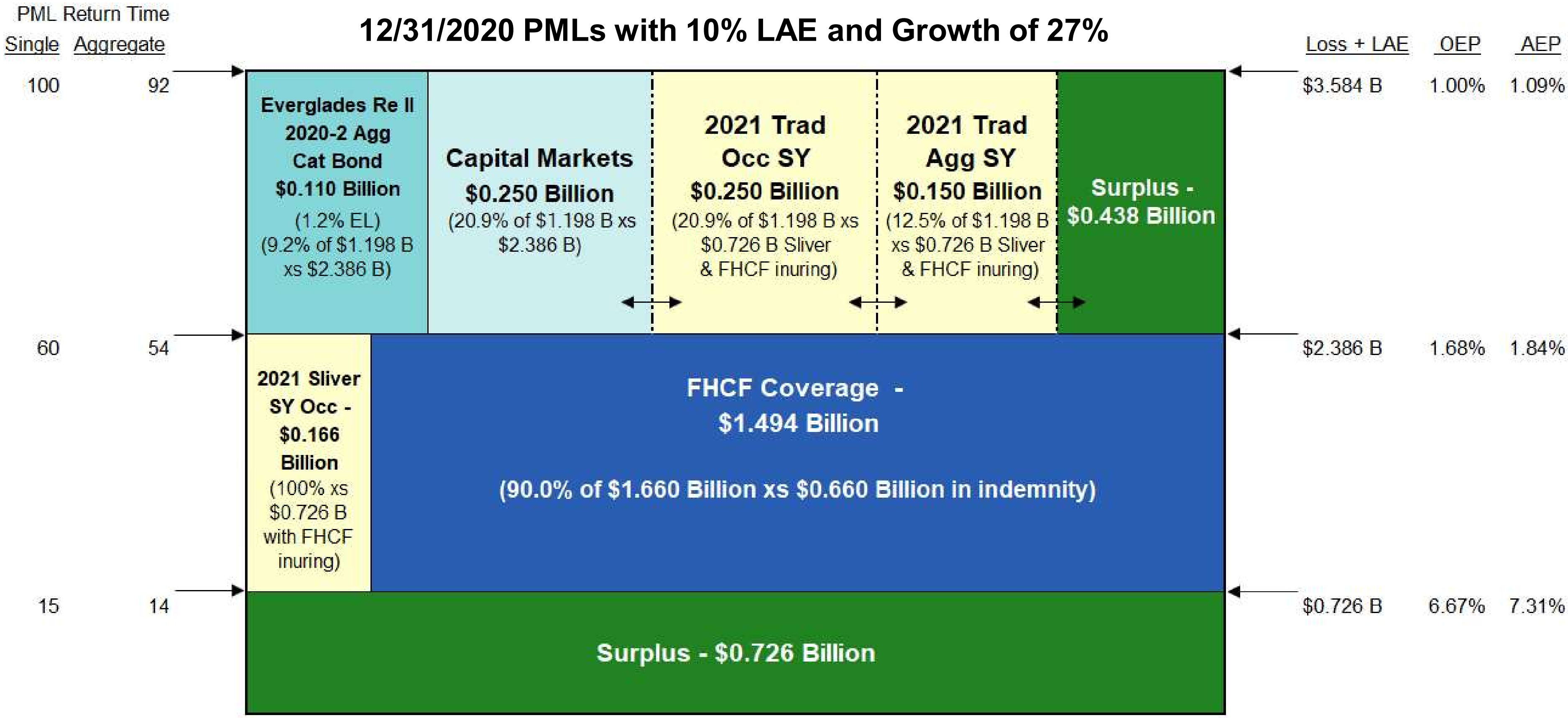
Coastal CNR Loss & LAE	Coastal Res + CNR Loss & LAE
$0.299 B	$4.076 B

(Not to scale)

Approximately 40% of Coastal Account surplus is exposed in a 1-in-100 year event. Surplus remaining after a 1-in-100 year storm is projected to fund a 1-in-33 year event, additional LAEs, or multiple smaller storms in this or subsequent years.

See Notes and Assumptions (page 5)

2021 PLA Layer Chart



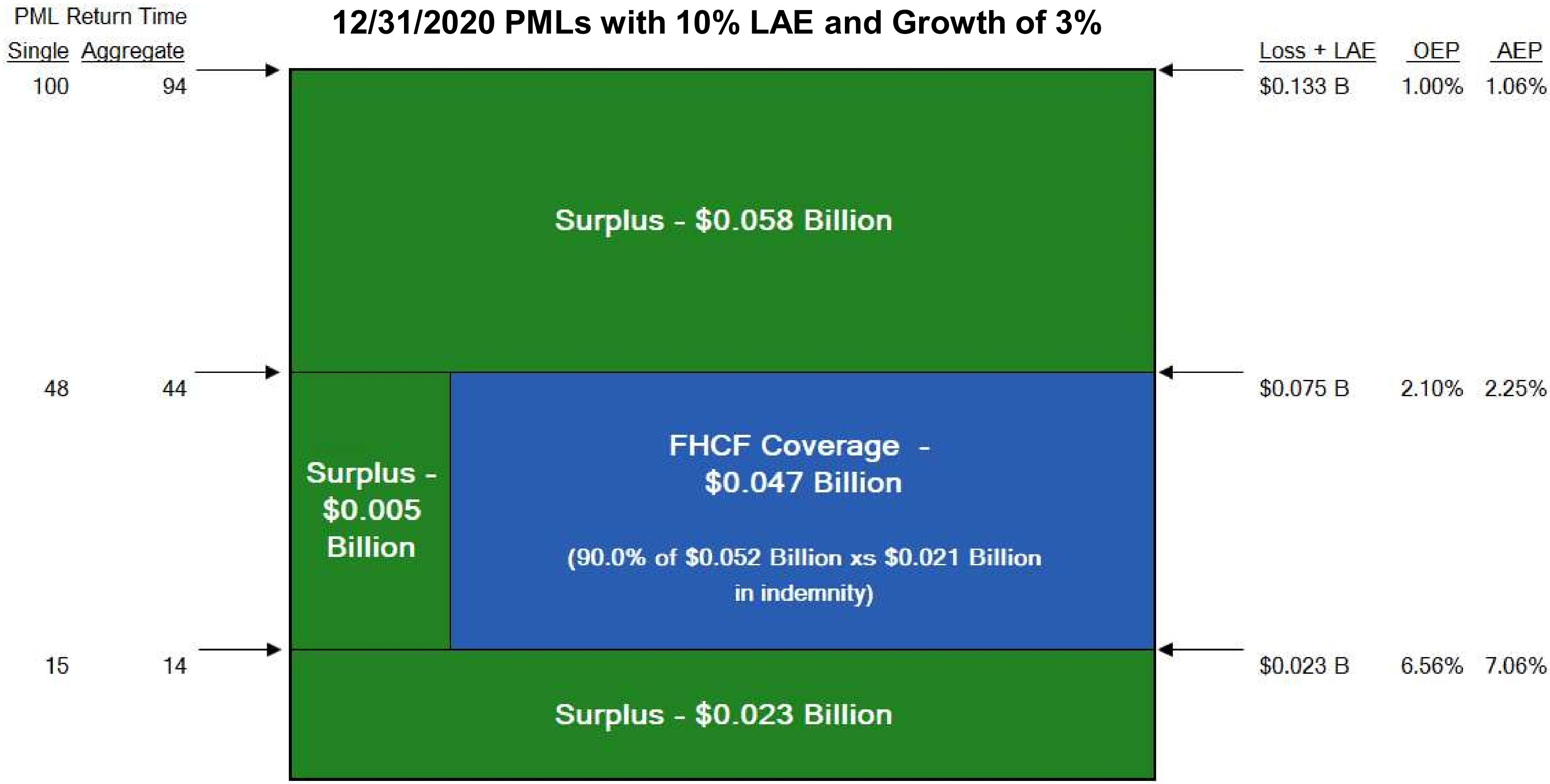
(Not to scale)

Approximately 68% of PLA surplus is exposed in a 1-in-100 year event. Surplus remaining after a 1-in-100 year storm is projected to fund a 1-in-12 year event, additional LAEs, or multiple smaller storms in this or subsequent years.

See Notes and Assumptions (page 5)

2021 CLA Layer Chart

12/31/2020 PMLs with 10% LAE and Growth of 3%



(Not to scale)

Approximately 5% of CLA surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

Notes and Assumptions

2021-2022 Storm Season

ASSUMPTIONS

▪ Citizens' 2021 Budgeted DWP	$1.379 Million
▪ Citizens' Policyholder Surcharge Maximum % Per Account	15%
▪ 2021 Regular Assessment Base (projected)	$51.9 Billion
▪ Regular Assessment Maximum % Per Account	2% for Coastal; 0% for PLA/CLA
▪ 2010 Emergency Assessment Base	$53.2 Billion

- PMLs are based on modeled losses as of December 31, 2020 per AIR Hurricane Model for the United States Version 17.0.1 as implemented in Touchstone Version 7.3.0. All PMLs reflect the Standard Sea Surface Temperature (SSST) Event Catalog including Demand Surge, excluding Storm Surge, and include 10% of loss to account for loss adjustment expense (LAE). Projected forward to storm season using growth factors of 10% for Coastal PR/CR, -4% for Coastal CNR, 27% for PLA and 3% for CLA.
- Interim Return Periods are derived by linear interpolation between 5-year intervals
- 2021 Projected Surplus = unaudited 2020 surplus + 2021 budgeted net income + adjustment for reinsurance cost
- FHCF pays 10% of reimbursed loss for loss adjustment expense
- Citizens' 2021 FHCF coverage is based on preliminary retention and coverage estimates. Actual Citizens' FHCF attachment and limits of coverage could differ significantly from estimates.

NOTES

These charts are imperfect! They attempt to show projected claims-paying resources, but they are approximations only. Four significant complicating factors are described below:

1) Coastal PML vs. PLA/CLA PML: An actual 100-year PML event in the Residential portion of the Coastal Account may not be a 100-year PML event for PLA/CLA nor for the Non-Residential portion of the Coastal Account. The relative magnitude of actual losses for Coastal and PLA/CLA will depend on the storm size and path

2) Combining PLA and CLA: The PLA and CLA are separate accounts for deficit calculation and assessment purposes but are combined for FHCF and credit purposes. It is impossible to accurately show the PML resources situation of these accounts on either separate or combined charts since simplifications must be made in either case that could prove materially inaccurate

3) Non-residential exposure: Commercial non-residential (CNR) exposures in the CLA and Coastal Account are not reinsured by FHCF. Coastal CNR losses are shown in a stand-alone chart and correspond to the actual CNR's PML and return periods. CNR is a small portion of the CLA Account and so is not considered in that chart.

4) Liquidity: These charts do not show the liquidity needs of the accounts. An account with ample PML resources may still require liquidity as many of the PML resources are not available immediately following a major hurricane. The timing and magnitude of receivables such as FHCF recoveries and assessments are unknown.

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