CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, March 2, 2021

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened by Zoom Webinar on Tuesday, March 2, 2021 at 2:00pm (EDT).

The following members of the FIC were present electronically:

Lazaro Fields
Marc Dunbar
Bette Brown

The following members of the Board were present telephonically:

Carlos Berurff

The following Citizens staff members were present electronically:

Jennifer Montero
Barbara Walker
Barry Gilway
Kelly Booten

The following people were present electronically:

Kapil Bhatia Raymond James

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens March 2nd, 2021 Finance and Investment Committee webinar that is publicly noticed in the Florida Administrative Register to convene at 2:00 p.m. This meeting will be recorded with transcribed Minutes available on our website. For those attending today's session through the public link, you are automatically in listen only mode. Thank you for identifying yourself prior to addressing the committee. Chairman Fields, we have no speaker requests for today's meeting. I will proceed with roll call. Chairman Fields.

Chairman Fields: Here.

Barbara Walker: Governor Brown.

Governor Brown: Here.

Barbara Walker: Governor Dunbar.

Governor Dunbar: Here.

Barbara Walker: Chairman, you have a quorum.

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

Chairman Fields: Thank you, Barbara, and good afternoon to everybody. Welcome to the FIC committee meeting for March 2nd. First and foremost, I want to give Chairman Beruff my appreciation for his trust in me to serve as Chairman of this committee, and I just want to let all of you know that I look forward to working with you during my duration as Chair of this committee and on the Board, itself. So, the first item on today's agenda is the **approval of the December 15th, 2020 meeting Minutes. Is there a motion to approve?**

Governor Brown: Move to approve.

Chairman Fields: Is there a second?

Governor Dunbar: Second.

Chairman Fields: All those in favor signify by saying yea.

Governor Dunbar: Yea.

Governor Brown: Aye.

Chairman Fields: The motion carries. The meeting Minutes are approved. The next item on the agenda is the market update by our Raymond James representative Kapil Bhatia. I hope I didn't butcher your last name. Are you there, sir?

2. **Raymond James Financial Advisor**

    a. Market Update

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

Chairman Fields: Yes, sir, good afternoon. Thanks for being here.

Kapil Bhatia: Thank you. And good afternoon Mr. Chairman and Governors. I will briefly go through the market update, but please stop me at any point of time to answer any questions. The unemployment rate fell by .4% to 6.3% in January, and the number of unemployed persons decreased to 10.1 million. But at the same time this reflects an increase of 4.4 million since February of 2020, right before the COVID crisis when the unemployment rate was 3.5%. In addition, during the same time, the U6 unemployment rate increased from 6.9% to 11.1%, which translated into an additional six to seven million people looking for full time employment from part time work. During the same period, the labor force participation rate also edged down by 2%, from 63.4% to 61.4% which translates into 4.3 million. All of these unemployed people effectively adds up to 20 million people looking for full time or even part-time jobs, this number is close to 18.3 million persons currently claiming unemployment insurance benefits. So even though the economy is recovering, we still have 20 million people looking for work. In the U.S. multiple federal stimulus packages in the total amount of over $3 trillion have passed in an attempt to shore up the economic conditions and to mitigate the impact on businesses and individuals. We expect the currently proposed stimulus bill which is being discussed in the Senate to be approved shortly, but we expect the number to be closer to $1.5 to $1.7 trillion instead of $1.9 trillion or approximately 8% of our GDP. The U.S. Federal Reserve Fed Fund target rate is still at zero to 25 basis points and we don't expect that to change, at least until the end of 2022. In addition, the fed is in full quantitative easy mode and its current balance sheet is at $7.2 trillion as compared to $4.2 trillion on December 31st, 2019. To summarize, we have enough monetary and physical stimulus going in to recover from COVID-19 crisis as we progress into 2021. The real GDP decreased by 3.5% in 2020 as compared to an increase of 2.2% in 2019. The real GDP is projected to be 4.5% higher by the end of 2021, or close to $22 trillion or marginally above where we were at the end of 2019, and that makes all of 2020 and at least half of 2021 as lost time from an economic growth perspective. And it is going to take us at least three to four years to capture that lost growth which we are expecting at this point of time if we would have continued on the 2019 trend line but now we will approach that by early 2024.

Equity markets: The equity markets took a significant downturn as a result of COVID in March of 2020. But has recovered significantly after multiple stimulus packages, and now with the successful roll out of COVID-19 vaccinations. The S&P 500 and Dow Jones Industrial averages were higher for 2020 by 14% and 5.5% respectively. And so far, both have continued on the same trend in 2021. However, the markets don't reflect small businesses which are still suffering from the COVID closure but are expected to recover in the second half of 2021. While the fixed income markets have seen interest rates recover significantly in 2021, as the economy is expected to be back by the middle of this year as vaccine roll out continues in a targeted way. However, we expect interest rates to remain range bound from here until the end of 2021. The five-year treasury in the range of 60 to 80 basis points and 10-year treasury in the range of 1.3% to 1.7%. Corporate credit markets are a strong and are back to pre-COVID levels with investment grade spreads at 90 basis points due to encouraging COVID-19 vaccine development, but absolute rates are still low and are expected to remain low. Currently the one to 10-year yield curve is between 28% to 94% below its five-year averages and 33% to 89% lower than its 10-year average, even though the yield curve has started to steepen again as you have seen it recently with the five-year and 10-year rate going up marginally. All of this in summary, effectively COVID-19 vaccinations and the stimulus packages are going to help and economy is going to be in full swing by the second half of this year, and we should expect significant growth in the second half of this year, probably in 10% to 15% quality range, and on an annual rate at around 5% for 2021.

The corporate issuance in 2020 was also higher, at least 60% higher than in 2019, and municipal issuance was higher by 13% in 2020. As both corporate and municipal issuers took advantage of historical low interest rates to build up liquidity and to meet the potential cash flow needs during the recessionary period. We expect $1.6 trillion of corporate issuance as we see some pick up in

M&A activity to make up for the lost organic growth. And finally for the risk transfer market. Reinsurance pricing softened from 2015 to 2017 when interest rates were low, but so far, the insurance industry has incurred approximately $19 billion in losses from Hurricane Irma and Michael and is projected to ultimately incur approximately $22 billion in losses. Globally, they have $275 billion of insured losses from 2017 to 2019. In 2020 national catastrophe accounted for $76 billion of global insured losses, up 40% from 2019, mostly from secondary peril events such as severe convective storms and wildfires in the U.S. This makes it the fifth costliest year for the industry losses since 1970. 2020 was also a very active hurricane season with record number of name storms, but with only moderate insured losses of $20 billion. Despite the COVID-19 pandemic, the Cat bonds segment of the insurance link securities market has rebounded with a record $16.4 billion issued in 2020, with $45 billion currently outstanding. Even after all of these recent losses over a global insurance capital has been relatively unchanged from 2019 at $625 billion as multiple reinsurance were able to raise approximately $23 billion in new capital during the first three-quarters of 2020. And lastly, global reinsurance industry is impacted by negative market forces, largely driven by COVID-19 pandemic mitigation and all familiar social inflation. We expect reinsurance rates to be higher at least in Florida by 10% to 15% f and for some of the good insurers who had fewer losses over the prior years, probably the range of five to 10%, and that reflects the increase in cost of capital as well as the less hardening of reinsurance market. I will stop here and happy to answer any questions you may have.

Chairman Fields: Do any of the members have questions for Mr. Bhatia?

Governor Brown: None here, thank you.

Chairman Fields: Governor Dunbar, anything?

Governor Dunbar: No, I am good, Chair, thank you.

Chairman Fields: Mr. Bhatia, just out of curiosity, are you able to estimate how long the reinsurance rates will continue to go up?

Kapil Bhatia: Governor Fields it is just really hard to estimate. It depends on the events and global losses. If we have event free years, if we go back in time and look at what happened between 2010 and 2015, considering there were not many insured losses, the rates went down. If we have no events either this year or next year or over the next couple of years, and I am not just talking about Florida, but globally, then we should see softening of the market. There is enough capital available and there is enough capacity available. However, as we have losses for each last couple of years, including as I mentioned in 2020, all of that said, if the losses continue the reinsurance market will continue to harden because they need to recover that capital somehow in the short run as well as for the long run.

Chairman Fields: Thank you very much for that. I appreciate that and I appreciate you being here today with us and for all of your work. We are going to move along to the next item on the agenda now, which is the CFO report. Ms. Montero, please, if you would.

3. **Chief Financial Officer Report**

   a. Risk Transfer Update, 2021 Layer Charts

Jennifer Montero: Thank you. Behind tab three you will find the risk transfer update. There is an executive summary as well as the layer charts. And I believe we are going to show the layer charts. Thank you. The Citizens' statute requires that the Board make its best effort to secure catastrophe reinsurance to cover the 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. Essential to Citizens' goal of reducing exposure and by extension reducing or eliminating the amount and likelihood of its assessment burden on Florida payers, is the transfer of risk through reinsurance mechanisms accomplished through participation in the Florida Hurricane Catastrophe Fund, also known as the FHCF, traditional reinsurance markets and in the capital markets.

The proposed 2021 risk transfer program for the coastal account incorporates strategic elements from prior risk transfer programs which include risk transfer alongside the FHCF, transfer single occurrence and annual aggregate risks in order to protect surplus. Citizens plan to transfer exposure in the amount of approximately $1.715 billion to the global traditional capital markets in 2021 for the Coastal account. The total amount of surplus exposed for a 1-in-100 year event in the coastal account would be approximately 40% or $1.163 billion. The proposed 2021 risk transfer layer charts for the Coastal accounts 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-pay of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market. Layer one will sit above the sliver layer in 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 two of the program will sit above layer one. This single year aggregate layer provides $250 million of personal residential, commercial residential losses and will attach after $815 million of losses. This layer will be placed also in the traditional market. Layer three of the program will sit above layer two. 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 four of the program will sit above layer three. 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 market layers sit above layer one and alongside layers two, three and four. Each layer is $300 million for a combined $600 million of capital market risk transfer placements split another two tranches covering multi-year annual aggregate personal residential and commercial residential losses and will attach after $2.014 billion of losses. The proposed risk transfer for the 2020 Personal Lines Accounts, so if we could switch slides, please, thank you. Also incorporates elements from our prior risk transfer program. Citizens' strategic risk transfer plan for the Personal Lines Account 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. Citizens plan to transfer exposure in the amount of approximately $926 million to the global traditional reinsurance and capital markets for 2021 for the personal lines account. Based on the proposed 2021 risk transfer program the total amount of surplus exposed for a 1-in-100 year event in the personal lines account would be approximately 68% or $1.164 million. The proposed 2021 risk transfer layers for the personal lines account are as follows. The sliver layer of the program will sit alongside the Cat Fund. It provides approximately $166 million in excess of $726 million of annual per occurrence of coverage which covers personal residential losses, and will work in tandem with the mandatory coverage provided by the Cat Fund to include the co-pay of the 10% of losses not covered by the FHCF. This layer is placed in the traditional market. Layer two will sit above the sliver layer in the FHCF. This layer will provide $760 million of coverage from the capital markets and traditional markets as follows. A capital market's renewal risk transfer placement of $110 million for 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 market 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 in coverage for personal residential losses and will attach after $726 million of losses. This will be placed in the traditional market. And the 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. Staff will work with Citizens' traditional and capital market teams, as well as our financial adviser to evaluate available options relating to the structure, terms, pricing, and other relevant matters with regards to structuring the 2021 risk transfer program. Staff will provide a recommendation for approval to the Board of Governors at a special Board teleconference in May. And I will stop here and ask for any questions.

Chairman Fields: Governors.

Governor Dunbar: Mr. Chair.

Chairman Fields: Sure, go ahead, Governor Dunbar.

Governor Dunbar: I think that was -- I want to ask some questions, but I think that was Governor Beruff.

Governor Beruff: Go ahead, Governor Dunbar, I can wait.

Governor Dunbar: No, sir. I am not stepping on the Chair.

Governor Beruff: Thank you for that courtesy. So how much do we have in cash and cash equivalence at the moment in total?

Jennifer Montero: Let me pull that up really quick. Hold on, I will grab that number for you. It was in my last report. $8.7 billion, cash invested assets of $8.7 billion.

Governor Beruff: Okay. And how much do we have in reinsurance?

Jennifer Montero: How much do we have currently in reinsurance?

Governor Beruff: Yes.

Jennifer Montero: The coverage, we have is 900, that is a million, 900. Do you know off the top of your head, Kapil? I think it is $1.02 billion. Just over a billion.

Governor Beruff: So, it is closer to 1.02? So, over a billion and change.

Jennifer Montero: Yes. And all of it is maturing except for the Cat bond in the personal lines account.

Governor Beruff: And since it is public record, what did we pay for that?

Jennifer Montero: Each layer had a different rate online.

Governor Beruff: Pricing, right.

Jennifer Montero: Yes, in total it was, sorry.

Governor Beruff: That is okay.

Jennifer Montero: It looks like $66.7 million.

Governor Beruff: Okay. And then this round we are going to go chase $1.7 billion, correct?

Jennifer Montero: And in total it was $1.7 billion for just the coastal. And then the PLA was another 900.

Governor Beruff: So, we are going to chase $2.6 billon.

Jennifer Montero: Yes, $2.6 billon.

Governor Beruff: Okay. We'll see a lot of exposure, so we better get more reinsurance. Now, if we had a 1-in-100 year event in the wrong places in the state of Florida, how much would that eat? How big a claims problem would we have?

Barry Gilway: Mr. Chairman, Barry Gilway for the record. You did have us do an analysis, and my recollection is that if we were to have a Cat 5 event and we, excuse me, a 650,000 in customer level, if we were to have a Cat 5 event, then we could assume that Cat 5 event and still have over $3.6 billion remaining in surplus. However, at that same level, if we were to have a Cat 5 event, something like a Dorian for example, that followed the original track of a Dorian, so this is not unreasonable, what would have occurred if Dorian would have kept its original track which came in for us through Miami-Dade, Broward and then across the state, went up through Tampa and out through Jacksonville. If we were to have that event then that would be followed by a Cat 3 event, my recollection is that, you know, we would be in assessment position.

Governor Beruff: So, we are going into the season with a total of $8.7 billion in cash or cash equivalence, and intent on buying $2.6 billion of reinsurance for a total of $11.3 billion, right? Cash, cash equivalence and reinsurance. And one event could bring us down to $3.3 billion.

Barry Gilway: The wrong –

Governor Beruff: The wrong event in the wrong places in the state of Florida.

Barry Gilway: Correct, sir.

Governor Beruff: So, then the second one is the one that takes us into negative territory.

Barry Gilway: Yes.

Governor Beruff: But that is only Citizens. That doesn't deal with the other insurers in the state of Florida of which we know many are not as well capitalized as we are. So how many policies, has anybody done any math on how many policies we would have to absorb because another insurer can't cover its policies in the same scenario?

Barry Gilway: Yes, Mr. Chairman, we did a similar analysis, I think two years ago when we took a look at an original estimate on the basis of Demotech. At the time I believe the number was between 12 and 13 companies might potentially.

Chairman Fields: Fail.

Barry Gilway: Be downgraded or rated insolvent, and we made a presentation at the time, and I believe that we would have picked up something of the magnitude of one and-a-half to 2 million -- excuse me, one point -- excuse me, 1.2 to 1.5 million policyholders if that were to take place.

Governor Beruff: And no one has baked those numbers into the needs of Citizens if that were to occur.

Barry Gilway: We do, Kelly Booten, you know, who heads up many areas, including strategic planning, we do scenario planning, but of course, the issue of course is that there is so many unknowns –

Governor Beruff: Right.

Barry Gilway: -- relative to the overall, you know, past. There are so many unknowns relative to which companies will be impacted.

Governor Beruff: And obviously, I was not here two years ago. So, would you say that the market, the insurance market has gotten weaker in the two years?

Barry Gilway: Far weaker, Mr. Chairman. I think to your point that you made a little earlier, we use a slightly different composite, but the numbers for the industry through nine months were $727 million of net income loss and a $1.26 billion in underwriting loss for the industry. So, the industry was profitable for 2013, 2014, 2015. It was relatively static for 2016, and then from 2017 on, 2017, 2018, 2019 and definitely 2020, it has gone through significant deterioration each year. The concern that we have relative to the storms you are describing is that our market share in the tri-county area has grown in 2013, from 45% to as of last week 54%. And as was indicated by CFO Montero, the growth, the significant growth, 70% roughly of the growth today is coming from the tri-county area.

Governor Beruff: So as a person who doesn't like to take up needless staff time on many, many scenarios, how complicated is to update the study that was done two years ago and to take into consideration the weakened state of the financials in the insurance industry to give us a better prospect of what we could expect in the same scenario that you did two years ago? Is that a significant lift for Kelly and her team?

Barry Gilway: No, sir. I think for Kelly and for March Fisher who is the market analytics head working for Jennifer Montero, she does a phenomenal job. She did the analysis previously and we could do a number of scenarios where we select certain companies, and we understand the impact of what might happen if there was a solvency issue relative to any of those companies and we can put together a composite.

Governor Beruff: I think Floridians should know what the potential problems are and how much they have changed in a 24-month period if that were to happen, because we are going to end up with the problem at our doorstep if it does happen. Hopefully it won't, but I don't think preparing or being overprepared rather than underprepared, and more importantly it needs to be known that this thing could fall on the doorstep of every policyholder, because what you just shared with us is just Citizens' problems, but all of those 1.2 to 1.5 million policies becomes Citizens' probably by default. Like I said, again, if it is not a lot of work, I think we should come up with an estimate number. And we don't have to be aggressive. We can be very conservative on the side of best case scenario, not worst-case scenario, but I think even the best case scenario is a pretty bad case for us.

Barry Gilway: Yes, sir. In fact, the issues obviously although, you know, tri-county is 54% of our portfolio, we still are only, I think it is 19%.

Governor Beruff: Of the overall market.

Barry Gilway: We represent 19.7% in Dade, 14% in Broward and if that is growing tremendously and we have the event that you are describing, the Dorian event that comes through the tri-county area, that obviously that is truly going to exacerbate, you know, the situation. So, we can move forward with an analysis.

Governor Beruff: Again, I don't want to do chasing our tail kind of stuff and wasting the staff's time, but I think we should have the full picture of a 1-in-100 year event, and not only the effect on Citizens' balance sheet, but the boomerang effect on the others that will end up back in our lap. Thank you. Thank you, Mr. Chair, for allowing me to have this discussion.

Jennifer Montero: I do have one clarification for you.

Governor Beruff: Yes, ma'am.

Jennifer Montero: The total for the 2020 program was 1.021. That is how much coverage we had, and it cost $84.7 million. The number I gave you didn't include the Cat Bond, the earlier number.

Governor Beruff: So, you can sort of extrapolate what it may cost us to get to 2.6.

Jennifer Montero: Approximately we have estimated at $240 million.

Governor Beruff: Okay, thank you very much.

Jennifer Montero: Thank you.

Chairman Fields: Thank you Chair Beruff, and I apologize, all I can see on my screen is the layer charts and I didn't even know you were a part of the meeting. I heard a male voice and assumed it was Governor Dunbar. But thank you for that. Thank you -- or excuse me, Governor Dunbar do you have still some questions?

Governor Dunbar: I did, thank you, Mr. Chair. Appreciate it. And I don't know if this is a Barry question or a Jennifer question, but our litigation costs are built in the LAE assumptions that are inferred in the layer chart, right?

Jennifer Montero: Correct, 10%.

Governor Dunbar: That is what I was wondering. So, the 10 percent LAE, is that – did we adjust, have we adjusted that since our Irma experience, because I know in some of the other materials for the meeting we go through and do an analysis of, you know, the successes on the litigation fronts and litigation being down, success on using the umpires and appraisal and things like that. But we also have an increase in defense costs that we are going to be asked to approve -- the result of litigation expenses that we didn't anticipate in Irma. So, I guess my question is, are the LAE assumptions that we are building into our risk transfer, do they bring in lessons from Irma and are they reflective in your opinion of the current litigation environment, or is there another LAE surprise that we may have to worry about? Because again, we budgeted 350 for, what was a seven-year window for defense costs I believe and now we are going to add another $180 million to it. I am just trying to make sure that we are -- we are accurately projecting our LAE in the event we do have one of these risk transfer events. Does that long winded question make sense, Barry?

Jennifer Montero: Yes. I am sorry, it is Jennifer. I am happy to answer.

Governor Dunbar: Jennifer, yes.

Jennifer Montero: No, that is okay. So, for Irma we had a lot of LAEs and there were a lot of situations that were very unique with it being in the Keys and having to have adjusters down there and having to house them so they can adjust the losses as well as Harvey occurring right before us. We had to pay more to even get the adjusters. With Hurricane Michael it was a very different story. Our LAE was only 9% for Hurricane Michael. So, I do think that Irma is a one off for the LAE to be that high. But however, I understand your point completely. 10% is pretty much what the market does in the reinsurance world. We could go up and we did talk at one time of making it 12. There is a premium for that. I mean, we can make the number higher, but you pay more. So, 10 is what is the norm in the reinsurance market. With both our Cat bonds, and the Cat bonds just have a 10%. Whatever your losses are you automatically get 10% of whatever they are. They don't even look at the LAEs, just give the factor. On the traditional side it is actual losses up to 10%. So, if they were higher and remember this is just wind coverage, this is just hurricane, you know, wind, not water.

Governor Dunbar: Right.

Jennifer Montero: Where most of the non-weather water, that is where most of that litigation is. But we think that the 10% is reasonable. If the Board wants us to evaluate that and see if we need to increase it, we can do that, but again, it will raise the price, too.

Governor Dunbar: Yes. And to follow up, Mr. Chairman, if I may.

Chairman Fields: Yes, please, go ahead.

Governor Dunbar: So, I remember early on Barry educated me that one of the reasons why we have such success in the reinsurance market is because we are really tight when we project out LAEs that the reinsurers know when we estimate something that it is solid, and that was why I was a little – I was a little concerned when I saw that we had to adjust things because of Irma. I just wanted to make sure that this is – we are not going to be penalized in the marketplace at all by adjustments that we are making as a result of Irma in our -- in our Irma related LAE as we go forward to purchase this additional risk transfer. Does that -- do you follow me? I completely defer to you guys on 10% or 12% or whatever. I just wanted to make sure that it was reflective of whatever our Irma experiences were so that we are not penalized in the marketplace like I believe Barry told me some of the other companies were from time to time.

Barry Gilway: Governor Dunbar, Barry Gilway for the record. There were two issues relative to our position in the overall reinsurance marketplace. LAE was not necessarily the significant driver. It really was loss development. So following Irma we were very aggressive in terms of our overall loss development patterns. In fact, to the very best of my knowledge up until this financial report we were the only company in the Florida domestic marketplace that did not have any development on our coastal reinsured account. As you -- as has been reported recently in the press, the overall development from Irma for the industry has been nothing less than staggering. I have seen reports on average of development in excess of 80% of the original loss estimates. Commissioner Altmaier's recent report on the -- on his reinsurance review clearly is showing, you know, significant increases in loss development across the entire industry. As Jennifer just reports in the financials, we are seeing very, very limited coastal development, I think to the tune of 5%.

Jennifer Montero: It was five percent for everything, but the majority of that was in the PLA. The PLA of the $110 million of development, $73 million was in the personal lines account and $35 million was in the coastal with 4% of that, $4 million being in the coastal non-residential which is not covered by reinsurance. So, we had a $31 million increase since 2019.

Governor Dunbar: And let me -- let me do a follow up just to make sure, because I am guessing maybe I am confused and need a little bit of education. So, I thought loss development was ultimately reflected in LAE.

Barry Gilway: I think the loss adjustment expense, Governor, was very high during the Irma storm.

Governor Dunbar: Right.

Barry Gilway: And very high. And frankly that was a decision, that was a very specific decision that was made relative to the resources that we need to commit to Monroe County, and to make sure we had, you know, sufficient adjuster force, qualified adjuster force on the ground. So, we did have a very high LAE, and of course, given that we write 70% plus of the wind, you know, business in Monroe County, we had to be there to respond, and I made a decision along with Jay Adams, Chief Claims Officer we had to provide the quality resources and it cost us in a marketplace where the resources were very, very scarce. We made a difficult financial decision, and it did impact the loss adjustment expense, you know, component during Irma. Not so, as Jennifer indicated, during Michael. During Michael, the loss adjustment expense was below the 10% level. I believe it was 8 or 9%.

Jennifer Montero: Nine, yes, nine.

Barry Gilway: And as a result of that, of course, we have very low market share in the Panhandle.

Governor Dunbar: Right, yes. And so going to Chair Beruff's question if we have the perfect storm that hits us in the wrong place in tri-county, it is not going to be like Michael as we know. And also, the environment down there and just the processing claims, particularly with the experience in Monroe County, but then also just the general litigation environment that we have been talking a lot about in tri-county. Are we comfortable with the reinsurance profile as is presented in the event of that perfect storm hitting down there in tri-county?

Barry Gilway: Governor, I don't think we could ever be completely comfortable. I think the decision that we have to make as an organization is, you know, how much surplus do we have in place. How much of this can we fund ourselves, what rates are available to us in the marketplace. One of the issues that Jennifer was reviewing on the layer charts for example, is she is being very aggressive in really playing the traditional market or comparing the traditional market with the capital market, and really focusing on where she can get the best rate online, whether it's traditional or whether it is in the ILS marketplace. So, while you can't ever be totally comfortable, you know, that you have got enough insurance in place, the target basically is to provide as much coverage as you possibly can and still not take an automatic hit to surplus as a result of your reinsurance placement.

Governor Dunbar: Right.

Barry Gilway: Because if you buy too much you will actually reduce your surplus even without an event. And that is not a -- that is a difficult situation.

Governor Dunbar: Yes, and so it just -- and I am sorry for the multiple questions, Chairman. But it seems like the whole time I have been on the Board we have put a risk transfer picture out there to sustain a 1-in-100 and a 1-in-30 or a 1-in-40, it sort of seems like that is our sweet spot. Is it possible, and I kind of will defer to Chair Beruff on this based off what he just recently asked for, is should we be looking at different attachment levels, and so that we can say, okay, if we -- if we make this adjustment, we spend X, but we are protecting Y. And then we as a Board can say, well, do we want to spend $150 million on reinsurance to project blank or do we want to spend $100 million in reinsurance to protect, you know, blank minus 20%. Do you follow my logic?

Barry Gilway: Mr. Chairman. Yes, sir, I do, and that is exactly what we do. You know, we basically assess, CFO Montero along with our financial adviser, we assess the overall marketplace. We decide basically at what level we would attach. As you are aware we had to make some very difficult decisions in the 2020 placement because we felt that the overall pricing at certain attachment levels just was too aggressive on the part of the market. And as you know on the second and third layer of the layer charts last year, particularly in coastal, we were not able to price coverage at the upper layers at a price that we felt was a prudent price relative to the actual estimated loss cost. So, it is a complex and difficult decision, but Governor Dunbar, we do exactly what you are recommending. We do look at various levels of attachment above the FHCF layer and we determine basically what attachment levels, you know, work to the best economic benefit, you know, Citizens and our customers.

Governor Dunbar: Do you feel –

Jennifer Montero: And I will add –

Governor Dunbar: Go ahead, Jennifer.

Jennifer Montero: I was just going to add that layer two and layer three and layer four, if you look at them, they all have different attachment points. So, layer two at the bottom of that it actually attaches in the chart at $2.014 billion which is what the Cat Bond attach their gross. The layers in the traditional are net. So, what they do is they drop down. So, the attachment point is $815 billion on layer two. So, it will kick in right after layer one is done, and then you will see layer three drop down to $582 billion, which is where the sliver goes in. If we had multiple storms and once it is gone through the sliver in that, that top layer can come all the way down. The same with this layer four. The attachment is $815 billion, so that drops as well. So, this is a feature that the reinsurers are not liking very much because it has been triggered. But we are looking for that. We do think that we can still get placed with those lower attachment levels.

Governor Dunbar: Okay, cool. And then one last question, Mr. Chair, and it really is. The budget that we just approved, approved a budgeted amount for reinsurance. Go ahead.

Jennifer Montero: No, I am sorry, finish your question, I am sorry.

Governor Dunbar: No, no. It is assumed in our budget that we just approved, right?

Jennifer Montero: It is considered a placeholder, and the reason is because we do that in October, and we have no idea what the market is going to be in the spring. They have renewals on January 1, sometimes are the same, the same as the June 1st renewals. Sometimes the market is different. But in October, we had no clue, so I worked with Kapil and staff and we came up with the best pricing that we think we gave it a 5% increase, a 10% increase in the rates and we did some scenario planning like that to figure out what that rate is. Now that we know more, I believe we budgeted 160 and 50, 210 million. This program is over that if our pricing is correct, and if we place all of it. The problem was last year, as we were not able to place our entire program basically due to pricing. The reinsurers, they punished, as Barry mentioned earlier, they punished the companies that had bad estimates, bad numbers for Irma and then had development on the indemnity and the LAE drag out for a really long time. So, they charged them higher premiums, but then last year when it came down to it, they were after rates. So, they chose to go with those companies for the higher rate rather than paying the risk adjusted that we went out with, very fair rates. Knowing that happened, we don't want that to happen again. So, we have adjusted these rates hopefully to be attractive. We have lots of different layers. So, we are hoping that different reinsurers they can go where they want to go to the risk that they want. The higher layers usually safer, but the rate online that we pay is less. So yes, I think –

Governor Dunbar: You know, you did a good job anticipating my next question, because this was particularly for the other two members is knowing that it is a placeholder and a penalty that was given in the marketplace to Florida wind last year. I was curious if you, Jennifer, felt like you had enough money budgeted to you to get the program you wanted. And so, I was going to ask if we needed to do anything to make sure you guys had the flexibility as well as the, you know, the budgeted allocation to get the risk profile that you wanted out there when you go to market in case there is another penalty to Florida wind like there was last year.

Jennifer Montero: Correct. And we did, we called that a placeholder in the budget and we do have a special Board meeting that we have usually in May solely for the approval of reinsurance. We reach out to each Board member individually and we go over the program, the different costs for different layers and then not to exceed X dollars. And then when we have the public meeting, we present the layers without the rate online, without the cost, because we are still in the market, and get approval from the Board not to exceed X dollars, whatever that is, and then that is why we have a second approval because that budget is just a placeholder for reinsurance. The Board had to do a special approval for that.

Barry Gilway: And Governor Dunbar, I just want to point out that your point is extremely well made. We will be presenting litigation numbers at the Board meeting, and sure enough the litigation, Irma related litigation continues to increase. So, you know, Jay Adams, Chief Claims Officer, is consistently advising us that the litigation continues to come in. I think we had almost a record month this month of 850 new litigated cases entering with over, excuse me, I believe it is 12,700 pending cases that we are managing. So, your point is extremely well made, and it is very difficult to assess where this whole litigation process is going to carry, not only Citizens, but the industry. And you will see that the industry while Jay Adams is reporting short term, a drop in overall litigation rates, the litigation rate for the overall industry will be displayed tomorrow is increasing at a fairly staggering rate. So, your point is very well made, and the concerns are well expressed.

Governor Dunbar: Thank you, that is all I had. Thank you.

Chairman Fields: Thank you, Governor Dunbar. Governor Brown, do you have any questions?

Governor Brown: No thanks.

Governor Beruff: Mr. Chair.

Chairman Fields: Yes, sir.

Governor Beruff: This is Carlos Beruff.

Chairman Fields: Yes, Chairman.

Governor Beruff: Could I ask a follow up question? Thank you. What is the year over year premium growth projected from last year to this year?

Jennifer Montero: I have that. Well, for this year is 1.2, and we budgeted 1.45.

Chairman Fields: Can I just ask for clarification? Are we talking about premium base paid by insureds or premium for reinsurance purchase?

Governor Beruff: No, retail premiums paid to us.

Barry Gilway: Full cash revenue.

Governor Beruff: Full cash revenue year over year.

Jennifer Montero: I don't have that in front of me. I do have the December 2020 number is 1.182, 1.25. Almost $1.2 billion. It was $876 million last year because we were smaller. We expected to grow, but I do not have the budget. I can get the budget number for you.

Governor Beruff: Because we need to start focusing on is what is that obviously when you start buying reinsurance from one point something that we paid for, what was the number, we paid $98 million or $66 million.

Jennifer Montero: $84 million.

Governor Beruff: $84 million?

Jennifer Montero: $84.7 million.

Governor Beruff: That is right. $84 million, we had three different numbers, but we paid $84 million and now we are going to pay somewhere north of $250 million.

Jennifer Montero: No, the high end was $240 million.

Governor Beruff: $240 million. Well, we still got $160 million Delta.

Jennifer Montero: Correct. I do have the budget number –

Governor Beruff: And then obviously the other question you have got to ask is if we lost, the amount of money we lost on operational, because some of that premium is going to be lost operationally also. It is not all going to hit the bottom line, right? The additional if we had a billion dollars in premium and we are going to a billion four, all that additional $400 million is not going to go to the bottom line.

Barry Gilway: No, that is not going to the bottom line.

Governor Beruff: So, the question is, what is our projected operational loss based on our history the last two years, because then it could be that your operational loss starts ballooning considerably which then has a bigger impact on our ability to create reserves.

Jennifer Montero: I have the budget right here in front of me.

Barry Gilway: Thank you, Jennifer.

Jennifer Montero: Premium, combined we have 1.379.5.

Governor Beruff: As your projected gross revenue budget.

Jennifer Montero: Yes, projected premium.

Governor Beruff: Okay. And what do you think our operational bottom line is going to be if you don't put in our investment income?

Jennifer Montero: Without the investment income, it is a loss.

Governor Beruff: How big?

Jennifer Montero: $93.6 million.

Governor Beruff: And that is budgeting 200 and something million dollars for reinsurance?

Jennifer Montero: 210 was budgeted, yes.

Governor Beruff: Which we now know is light by maybe $30 million.

Jennifer Montero: Correct.

Governor Beruff: So, your operational loss goes north about $130 million.

Jennifer Montero: And just a reminder, we do the scenario planning, and we have a whole team that does the forecasting. However, all of this gets done around October. And so, the growth that we are seeing, we were forecasting for some of it, but I don't think as much as we are getting.

Governor Beruff: So, you are going to both have two sides, more revenue growth than projected.

Jennifer Montero: Yes.

Governor Beruff: And your budget, but you are also going to have more operational costs.

Jennifer Montero: Right. This budget has about 630,257 policies in it, and we think it is probably going to be more like 690 or 700. So, the revenue number is off, too, because the revenue number will go up.

Governor Beruff: Yes. Okay. So, it is a moving target that we are going to have to – this is going to be an unusual year I think for this organization. I think you are going to have to move those numbers at every meeting, update them to keep up against the budget. And hope you guys can, the reinsurance market is not as painful as it might be.

Jennifer Montero: And we do the forecasting on a regular basis.

Governor Beruff: Right.

Jennifer Montero: Just so we know.

Governor Beruff: Thank you, Mr. Chair, for allowing me to blabber on.

Chairman Fields: Thank you, Chairman. Ms. Montero, does that conclude your report?

Jennifer Montero: I do have one more item, Mr. Chair. It is also behind tab three, and it is the investment portfolio.

Chairman Fields: Yes, ma'am.

b. Investment Portfolio Update

Jennifer Montero: And I believe that was going to be on the screen as well. Okay, no problem. Great, thank you. On slide one, thank you. The total portfolio is $9.37 billion with approximately $8.81 billion or 95% is externally managed by 10 money managers. The remaining $560 million or approximately 5% is internally managed and consist of operating funds, debt service funds and debt service reserve funds. The taxable portfolio is $8.57 billion or approximately 91% of the taxed exempt portfolio is $800 million or approximately 9%. The portfolio is very conservative and stable, with sufficient liquidity to pay any current claims or potential futures claims. The total portfolio average duration is stable and just over 4.67 years. The total return and income return for one year are approximately 4.85% and 1.17%, respectively. The total return reflects an increase in the market value of the portfolios as interest rates decreased due to COVID-19 in 2020. However, interest rates and corporate spreads have now stabilized as economic conditions have started to recover and are expected to be more robust in the second half of 2021.The portfolio is stable; however, the total return is expected to continue to decrease as the portfolio matures over time. It is expected to decrease to approximately four percent over the next six months. The income return is expected to remain in range from 1.25% to 1.5%, similar to the 10-year treasury rate. And then if we go to slide two. Rates for treasuries were increasing in 2017 and 2018 but started decreasing in 2020. Although they have now started to recover, they are expected to remain at current historical low levels over the next two years. The yield curve has steepened as the Feds cut the fed funds rate from zero to .25%. However, absolute rates remain at historical low levels. The steepness in the yield curve will allow to us maximize the income return. Tax exempt rates have also decreased but to a lesser pace than the treasury rate decline. Slide three, please. Both the taxable and tax exempt portfolios have very strong credit qualities. Approximately 74% of the taxable portfolio is in the money market or rated "A" or higher. 100% of the tax exempt portfolio is in money market funds or rated "A" or higher. And approximately 33% of the total portfolio is in treasury and agency securities or in money market funds. Slide four, please. The portfolio income return as I said is 1.17% over the last 12 months, and it is 1.70% over the last two years. And the portfolio total return was 4.85% for the last 12 months and 6.17% over the next last two years. And that completes my report. There is an appendix in there that has a lot more information if you interested behind the next tab, but I will ask for any questions.

Chairman Fields: Members, any questions for Ms. Montero?

Governor Dunbar: This is Marc, I just have one quick one.

Chairman Fields: Yes, sir.

Governor Dunbar: Thank you. Jennifer, the downgrade assets that we were discussed back in the last Board meeting for Occidental, did we unload those? Is that why they have disappeared from the last page of the report?

Jennifer Montero: Yes.

Governor Dunbar: Okay. That is, it.

Jennifer Montero: Exactly.

Governor Dunbar: Thank you.

Chairman Fields: Chair Beruff or Governor Brown?

Governor Beruff: Nothing from me, Mr. Chair.

Chairman Fields: All right. That seems to conclude Ms. Montero's report. Is there any other new business to come before the committee? Seeing none, I will entertain a motion to adjourn.

Governor Dunbar: So moved.

Chairman Fields: Without objection we are adjourned. Thank you everybody.

(Whereupon the meeting was concluded.)