Executive Summary

Board of Governors Meeting, May 11, 2021

2021 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 or multiple events.

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 $1.704 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 $1.171 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 $601 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 $734 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 $834 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 $601 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 $371 million of personal residential and commercial residential losses and will attach after $834 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 $2.035 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.

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 $1.162 billion.

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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 $749 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 $1.17 billion 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 $2.000 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 $2.412 billion of losses.

    - A single-year, per occurrence placement that will provide $250 million of coverage for personal residential losses and will attach after $749 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 $749 million of losses. This will be placed in the traditional market.

Recommendation

Staff recommends that the Board of Governors take the following actions:

1) Approve the recommendation to purchase traditional and capital markets risk transfer in the Coastal Account and Personal Lines Account at a cost not to exceed the amount of $240 million; and

2) Authorize Staff to take any appropriate or necessary action consistent with this Action Item.