Executive Summary

Finance and Investment Committee Meeting, July 13, 2021

Board of Governors Meeting, July 14, 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 taxpayers, 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.

Market Overview

Citizens was able to capitalize on improved risk transfer market conditions in 2021 with increased capacity and pricing that was either flat or marginally higher versus 2020 on a risk-adjusted basis.

Citizens' staff worked extensively with its traditional reinsurance broker, Willis Re, and its capital markets co-underwriting team of Aon Securities and GC Securities, as well as its financial advisor, Raymond James, to market its traditional and capital markets risk transfer program via virtual roadshows and one-on-one virtual meetings with reinsurers and investors. Demand was very strong for Citizens' risk and the traditional reinsurance and capital markets teams were able to achieve an optimal risk transfer program considering current risk transfer market conditions.

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As approved by the Board of Governors at the May 11, 2021 board meeting, Citizens sought authorization for $2.63 billion of coverage, at a cost not to exceed $240 million. Due to current market conditions, Citizens was able to place a cost-efficient risk transfer program of $2.71 billion; which includes $2.6 billion of new placement and the $110 million of multi-year coverage from 2020; at a cost of approximately $235.9 million.

Coastal Account

The 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 transferred exposure in the amount of approximately $1.708 billion to the global traditional reinsurance markets and capital markets in 2021 for the Coastal Account, with a weighted average gross rate-on-line (ROL) of 8.37% and a net premium of $138.8 million.

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

- The Sliver Layer sits alongside the FHCF. It provides $133 million, in excess of $601 million, of annual, per occurrence coverage which covers personal residential and commercial residential losses and works 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 was placed in the traditional market at a gross ROL of 15.0%.

- Layer 1 sits 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 attaches after $734 million of losses. This layer was placed in the traditional market at a gross ROL of 10.5%.

- Layer 2 of this program sits above Layer 1. This single-year, aggregate layer provides $250 million of personal residential and commercial residential losses and attaches after $834 million of losses. This layer was placed in the traditional market at a gross ROL of 10.75%.

- Layer 3 of this program sits above Layer 2. This single-year, aggregate layer provides $275 million of personal residential and commercial residential losses and attaches after $601 million of losses. This layer was placed in the traditional market at a gross ROL of 10.0%.

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- Layer 4 of this program sits above Layer 3. This single-year, aggregate layer provides $325 million of personal residential and commercial residential losses and attaches after $834 million of losses. This layer was placed in the traditional market at a gross ROL of 6.0%.

- The two Capital Markets Layers sit above Layer 1 and alongside Layers 2, 3, and 4. The combined layer was upsized from $600 million to $625 million. The capital markets risk transfer placement was split into two tranches, Class A and Class B, covering multi-year, annual aggregate personal residential and commercial residential losses.

    - The Class A layer provides $350 million of coverage through Everglades Re II and attaches after $2.906 billion of losses at a gross ROL of 5.75%.

    - The Class B layer provides $275 million of coverage through Everglades Re II and attaches after $2.035 billion of losses at a gross ROL of 6.75%

Personal Lines Account

The risk transfer program 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 transferred exposure in the amount of approximately $1.001 billion to the global traditional reinsurance and capital markets in 2021 for the PLA, with a weighted average gross rate-on-line of 10.1% and a net premium of $97.1 million.

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

- The Sliver Layer of this program sits alongside the FHCF. It provides $166 million, in excess of $749 million, of annual, per occurrence coverage which covers personal residential losses and works 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 was placed in the traditional market at a gross ROL of 19.5%.

- Layer 2 sits above the Sliver Layer and the FHCF. This layer provides $835 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

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provides coverage for personal residential losses and attaches after $2.000 billion in losses at a gross ROL of 6.45%.

- A Capital Markets risk transfer placement of $325 million of coverage placed in 2021 through Everglades Re II. This multi-year, aggregate layer multi-year, provides coverage for personal residential losses and attaches after $2.412 billion of losses at a gross ROL of 5.75%. This layer was upsized from $250 million.

- A single-year, per occurrence placement that provides $250 million of coverage for personal residential losses and attaches after $749 million of losses. This layer was placed in the traditional market at a gross ROL of 9.0%.

- A single-year, aggregate placement that provides $150 million of coverage for personal residential losses and attaches after $749 million of losses. This layer was placed in the traditional market at a gross ROL of 13.5%.

Summary

On a risk-adjusted basis, the 2021 risk transfer program cost is approximately 5% higher than the 2020 program based on the gross ROL. The 2021 gross ROL is 9.0% compared to a risk-adjusted gross ROL of 8.6% for 2020.

- Citizens has experienced moderate growth within the Coastal Account during 2021, which led to a price increase of approximately 4% on a risk-adjusted basis. The total amount of surplus exposed in a 1-100-year event for 2021 is approximately 40%, compared to 48% in 2020.

- Citizens has experienced significant growth in the Personal Lines Account during 2021, which led to a price increase of approximately 6% on a risk-adjusted basis. The total amount of surplus exposed in a 1-100-year event for 2021 is approximately 65%, compared to 61% in 2020. This increase in surplus exposure is due to the overall growth with the PLA.

In summary, the total 2021 risk transfer program, including coverage provided by the FHCF, totals $5.453 billion of coverage with a ROL of 7.9%, which is a 5% increase versus the 2020 risk-adjusted pricing.

- FHCF coverage totals $2.744 billion with a gross ROL of 7.1% and the private risk transfer program totals $2.709 billion with a gross ROL of 9.0%.

2021 Risk Transfer Program

July 13 & 14, 2021

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%
$3.035 B	74	68	1.36%	1.46%
$2.535 B	58	54	1.72%	1.86%
$2.035 B	44	41	2.28%	2.47%
$1.935 B	41	38	2.41%	2.62%
$0.601 B	14	13	7.28%	7.90%

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

2021 Trad Agg SY Layer 4
$0.325 Billion
(43.8% of $0.742 B xs $0.834 B with FHCF & Layer 2&3 inuring)

Surplus $0.268 Billion

Everglades Re II 2021-1A Agg Cat Bond
$0.350 Billion
(40.2% of $0.871 B xs $2.906 B)

2021 Trad Agg SY Layer 3
$0.275 Billion
(55.0% of $0.500 B xs $0.601 B with Sliver, FHCF & Layers 1&2 inuring)

Everglades Re II 2021-1B Agg Cat Bond
$0.275 Billion
(31.6% of $0.871 B xs $2.035 B)

2021 Trad Agg SY Layer 2
$0.250 Billion
(50.0% of $0.500 B xs $0.834 B with FHCF inuring)

2021 Trad Occ SY Layer 1
$0.100 Billion (100% xs $0.734 B FHCF inuring)

2021 Trad Occ SY Sliver
$0.133 Billion
(100% xs $0.601 B with FHCF inuring)

FHCF Coverage
$1.201 Billion
(90% of $1.334 Billion xs $0.546 Billion in indemnity)

Surplus $0.601 Billion

CNR Surplus $0.299 Billion

(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-34 year event, additional LAEs, or multiple smaller storms in this or subsequent years.

See Notes and Assumptions (page 5)

2021 PLA Layer Chart

12/31/2020 PMLs with 10% LAE and Growth of 27%

PML Return Time Single	PML Return Time Aggregate	Loss + LAE	OEP	AEP
100	92	$3.584 B	1.00%	1.09%
77	71	$2.876 B	1.31%	1.41%
60	55	$2.412 B	1.65%	1.81%
47	42	$2.000 B	2.15%	2.36%
15	14	$0.749 B	6.46%	7.09%

Surplus
$0.338 Billion

Evglds Re II 2020-2
Agg $0.110 Billion
(12.6% of $0.876 B
xs $2.000 B)
(1.32% EL at 02/28/21)

Everglades Re II
2021-2A
$0.325 Billion
(27.7% of $1.173 B
xs $2.412 B)

2021 Trad
Occ SY
$0.250 Billion
(21.3% of $1.173 B
xs $0.749 B Sliver
& FHCF inuring)

2021 Trad
Agg SY
$0.150 Billion
(12.8% of $1.173 B
xs $0.749 B Sliver
& FHCF inuring)

2021 Sliver
SY Occ
$0.166 Billion
(100% xs
$0.749 B
with FHCF
inuring)

FHCF Coverage
$1.497 Billion
(90.0% of $1.663 Billion xs $0.681 Billion in indemnity)

Surplus $0.749 Billion

(Not to scale)

Approximately 65% 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-14 year event, additional LAEs, or multiple smaller storms in this or subsequent years.

See Notes and Assumptions (page 5)

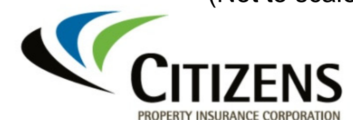
2021 CLA Layer Chart

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

PML Return Time Single	PML Return Time Aggregate	Layer	Loss + LAE	OEP	AEP
100	94		$0.133 B	1.00%	1.06%
		Surplus - $0.057 Billion			
48	45		$0.076 B	2.08%	2.22%
		Surplus - $0.005 Billion; FHCF Coverage - $0.047 Billion (90.0% of $0.053 Billion xs $0.021 Billion in indemnity)			
16	15		$0.024 B	6.39%	6.88%
		Surplus - $0.024 Billion			

(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%
- 2020 Regular Assessment Base — $54.8 Billion
- Regular Assessment Maximum % Per Account — 2% for Coastal; 0% for PLA/CLA
- 2020 Emergency Assessment Base — $56.0 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 15% 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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