

Executive Summary

Finance and Investment Committee, September 21, 2020

Board of Governors Meeting, September 22, 2020

Reinsurance Advisory and Brokerage Services

Topic

Citizens requests approval to contract with Willis Re, Inc. 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.

Background

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' 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.

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.

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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, preparation of bordereaux loss petitions, preparation of quarterly catastrophe modeling results, assistance with resolving amounts in dispute between ceding insurers and assuming reinsurers, and assistance with methods of evaluating the financial strength and position of potential reinsurers.
- **Program Analytics** including: Catastrophe modeling and meteorology; stochastic reserve estimating; catastrophic risk exposure; and evaluation of risk transfer.

The placement of Citizens' reinsurance program is an integral part of Citizens' capital structure and relies heavily on the services offered by reinsurance brokers. Using the evaluation criteria defined in the ITN, Willis Re was selected as the vendor providing the best value to Citizens.

While all three respondents have the capability to act as Citizens' reinsurance broker, the company culture and proposed broking team for Willis Re were key differentiating factors. In addition to having a business segment dedicated solely to the Florida market, the broking team has considerable experience with placing reinsurance for Florida carriers. Further, the key personnel on the broking team all reside in Florida. Despite uncertainty surrounding the sale of Willis Re, this broking team remained intact and committed to both Citizens and Willis.

Through the evaluation and negotiation phases, Willis Re demonstrated outstanding communication skills and a fundamental understanding of Citizens' unique challenges and operating characteristics. In the ITN process, the price of services is not the only selection criteria, but it is taken into consideration to determine the best overall value. While the price for Willis Re is marginally higher than the other two vendors, the negotiation team found that quality and strength of the broking team, prior relevant experience in placing reinsurance programs and providing program analytics, and ability to provide quality and timely services based on the company culture and key personnel offset any difference in price between the vendors.

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Recommendation

Staff proposes that the Finance and Investment Committee review, and if approved recommend the Board of Governors:

- a) Authorize Citizens to contract with Willis Re, Inc. for an initial term of three (3) years with two (2) one-year renewals, for the total amount not to exceed \$16.7 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

New Contract

Contract Amendment

Other _____

CONSENT ITEM

Contract Amendment

Existing Contract Extension

Existing Contract Additional Spend

Previous Board Approval _____

Other _____

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

Move forward as Consent: This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	Reinsurance Advisory and Brokerage Services
<p>Purpose/Scope</p>	<p>This Action Item seeks Board approval to contract with Willis Re, Inc. for Reinsurance Advisory and Brokerage Services. The services provided will include:</p> <ul style="list-style-type: none"> • Comprehensive Reinsurance Advisory and Brokerage Services including evaluating and proposing placements of private market risk transfer facilities and brokerage administrative services (contract and cover-slip drafting, marketing and syndication of catastrophe reinsurance programs, handling and escrow of ceded premiums, commissions and loss payments, preparation of bordereaux and loss petitions, preparation of quarterly catastrophe modeling results, assistance with resolving amounts in dispute, and assistance with methods for evaluating the financial strength and position of potential reinsurers). • Program Analytics including catastrophe modeling and meteorology, reserve estimating, catastrophic risk exposure, and evaluation of potential risk-transfer measures. • Annual Risk Transfer Plan which outlines a proposal for traditional reinsurance, which significantly reduces the probability and amount of assessments, at a cost which is practical and realistic given Citizens' current surplus, business volume, and expected operating environment.

Contract ID	Reinsurance Advisory and Brokerage Services Contract number: 21-0015 Recommended vendor: Willis Re, Inc.
Budgeted Item	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Funding included in 2021 Operating Budget and annually for each respective contract year.
Procurement Method	The contract was procured pursuant to Invitation to Negotiate (ITN).: 21-0015. The ITN was issued on July 15, 2021. On August 20, 2021, three (3) vendors were advanced to the negotiation phase. Citizens' negotiation team recommended Willis Re, Inc. for award on September 8, 2021, after conducting negotiations with all three vendors.
Contract Amount	Not to exceed \$16.7 million for the life of the contract (including the renewal terms) <ul style="list-style-type: none"> • \$9.9 million – Years 1-3 • \$6.8 million – Years 4-5
Contract Terms	Three (3) year base term with two (2) one (1) year renewal options.
Committee Recommendation	Staff proposes that the Finance & Investments Committee review, and if approved recommend the Board of Governors: <ol style="list-style-type: none"> a) Authorize Citizens to contract with Willis Re, Inc. for an initial term of three (3) years, and for two (2) one (1) year renewal options, for an amount not to exceed \$16.7 million for the life of the contract, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
Board Recommendation from Committee	If approved at its September 21, 2021 meeting, the Finance & Investment Committee recommends that the Board of Governors: <ol style="list-style-type: none"> a) Authorize Citizens to contract with Willis Re, Inc. for an initial term of three (3) years, and for two (2) one (1) year renewal options, for an amount not to exceed \$16.7 million for the life of the contract, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
Contacts	Jennifer Montero, Chief Financial Officer