Executive Summary

Finance and Investment Committee Meeting, July 12, 2022
Board of Governors Meeting, July 13, 2022

2022 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.

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

The world is in a semi-permanent volatile stage and looking for further direction with multiple unknown variables from inflation, Fed Fund rate increases, the ongoing energy crisis, Russia's invasion of the Ukraine, and the continuation of the COVID crisis in China and its impact on supply chains. As a result, all financial markets are dislocated and under stress, and there is strained capacity in capital markets and hardening pricing conditions in the risk transfer marketplace that have significantly reduced available global capacity. In addition, there has been continued trapped capital linked to prior-events and COVID-related claims, which has affected the catastrophe bond market as well as the collateralized reinsurance and retrocession markets. Reinsurers have significant mark-

Executive Summary

to-market losses in their fixed income portfolios and equity market losses leading to reduced available capital and that has put further pressure on reinsurers. The catastrophe bond market is experiencing even more pressure than the traditional reinsurance market as a result of the mismatch between supply and demand, and increases in cost of capital due to increase in interest rates.

The hardening conditions in the risk transfer market is especially pronounced in Florida, as the Florida insurance market is in crisis due to litigation, continued adverse loss development, and credit quality concerns of primary insurers. The strain on the Florida property insurance market has caused multiple insurers to go into receivership this year. For the Florida risk transfer market, it has been very difficult for insurers to place full risk transfer programs up to 1 in 100 years even with price increases in the range of 10% to 30%. Although Citizens does not have credit quality issues, as it has significant surplus and strong risk management but is experiencing the same overall Florida issues, including excessive litigation and fraud, and continued AOB and adverse development issues.

Citizens' staff worked extensively with its traditional reinsurance broker, Gallagher 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 roadshows and one-on-one meetings with reinsurers and investors.

2022 Risk Transfer Program

As approved by the Board of Governors at its May 18, 2022 board meeting, Citizens sought authorization for $4.697 billion of coverage, at a cost not to exceed $400 million. However, due to current hard market conditions, Citizens was only able to place a cost-efficient risk transfer program of approximately $2.507 billion; which includes $1.447 billion of new placement and $1.060 billion of existing, multi-year coverage from 2020 and 2021; at a cost of approximately $215 million.

Coastal Account

The 2022 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.

Executive Summary

Finance and Investment Committee Meeting, July 12, 2022
Board of Governors Meeting, July 13, 2022

Citizens transferred exposure in the amount of approximately $1.565 billion to the global traditional reinsurance markets and capital markets in 2022 for the Coastal Account, with a weighted average gross rate-on-line (ROL) of 8.54% and a net premium of $124.2 million.

The 2022 risk transfer layers for the Coastal Account are as follows:

- The Sliver Layer sits alongside the FHCF. It provides approximately $89 million, in excess of $801 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.

- Layer 1 sits above the Sliver Layer and the FHCF. This annual, per occurrence layer provides approximately $72 million of coverage of personal residential and commercial residential losses and attaches after $970 million of losses. This layer was placed in the traditional market.

- Layer 2 of this program sits above Layer 1. This single-year, aggregate layer provides $182 million of personal residential and commercial residential losses and attaches after $1.070 billion of losses. This layer was placed in the traditional market.

- Layer 3 of this program sits above Layer 2. This single-year, aggregate layer provides $325 million of personal residential and commercial residential losses and attaches after $801 million of losses. This layer was placed in the traditional market.

- Layer 4 of this program sits above Layer 3. This single-year, aggregate layer provides $272 million of personal residential and commercial residential losses and attaches after $1.070 billion of losses. This layer was placed in the traditional market.

- The 2021 Class B capital markets renewal placement sits above Layer 1 and alongside Layers 2, 3, and 4. It provides $275 million of coverage and was placed in 2021 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential and commercial residential losses and attaches after $2.592 billion of losses.

- The 2021 Class A capital markets renewal placement sits alongside Layers 3 and 4 and the 2021 Class B capital markets placement. It provides $350 million of coverage and was placed in 2021 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential and commercial residential losses and attaches after $3.584 billion of losses.

Personal Lines Account

The 2022 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 $942 million to the global traditional reinsurance and capital markets in 2022 for the PLA, with a weighted average gross ROL of 9.65% and a net premium of $87.7 million.

The 2022 risk transfer layers for the PLA are as follows:

- The Sliver Layer sits alongside the FHCF. It provides approximately $83 million, in excess of $1.327 billion, 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.

- The 2020 Class A capital markets renewal placement sits above the Sliver Layer and the FHCF. It provides $110 million of coverage and was placed in 2020 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential losses and attaches after $4.115 billion of losses.

- A 2021 Class A capital markets renewal placement sits above the Sliver Layer and the FHCF. It provides $325 million of coverage and was placed in 2021 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential losses and attaches after $4.128 billion of losses

- Layer 1 sits above the two capital markets renewal placements. This layer provides approximately $224 million of single year occurrence/aggregate coverage for personal residential losses and will attach after $1.327 billion of losses.
    - The single year, per occurrence portion of the layer consists of $45 million in coverage and the annual aggregate portion of the layer consists of $179 million in coverage.

Executive Summary

- The 2022 capital markets placement sits alongside Layer 1. It provides $200 million of coverage and was placed through Everglades Re II. This multi-year, annual aggregate layer provide coverage for personal residential losses and will attach after $4.563 billion of losses.

- Due to insufficient risk transfer capacity, a Citizen Policyholder Surcharge (CPS) of $450 million (or 15% of premium) could be experienced between a 1-in-62 and 1-in-68-year event. Once the CPS is exhausted a potential Emergency Assessment would be triggered between a 1-in-68 and 1-in-82-year event of approximately $390 million.

- Layer 2 was supposed to sits above Layer 1. This layer consisted of approximately $888 million of exposure. This layer was to provide single year occurrence/aggregate coverage for personal residential losses and would have attached after $1.327 billion of losses. However, due to hard market conditions, no risk transfer was placed in this layer. Therefore, the $888 million layer will be covered by a potential Emergency Assessment.

Summary

On a risk-adjusted basis, the 2022 private risk transfer program cost was relatively flat compared to the 2021 program based on the gross ROL. The 2022 gross ROL is 8.96% compared to a gross ROL of 9.19% for 2021.

- Citizens has experienced moderate growth within the Coastal Account during 2022, which led to a price increase of approximately 2% on a risk-adjusted basis. The total amount of surplus exposed in a 1-100-year event for 2022 is approximately 89%, compared to 45% in 2021.

- Citizens has experienced significant growth in the Personal Lines Account during 2022. However, due to current market conditions with constrained capacity, Citizens was not able to place its program optimally in all layers, which led to a ROL decrease of approximately 5% on a risk-adjusted basis. The total amount of surplus exposed in a 1-100-year event for 2022 is 100%, compared to 80% in 2021. This increase in surplus exposure, as well as the assessment burden, is due to the overall growth in the PLA even though the overall risk transfer program is approximately $59 million less than 2021.

Executive Summary

Finance and Investment Committee Meeting, July 12, 2022
Board of Governors Meeting, July 13, 2022

In summary, the total 2022 risk transfer program, including coverage provided by the FHCF, totals $6.604 billion of coverage with a ROL of 8.4%, which is a 5% increase versus the 2021 risk-adjusted pricing of 8.2%.

- FHCF estimated coverage totals $4.097 billion with a gross ROL of 8.1% and the private risk transfer program totals $2.507 billion with a gross ROL of 8.96%.

2022 Risk Transfer Program

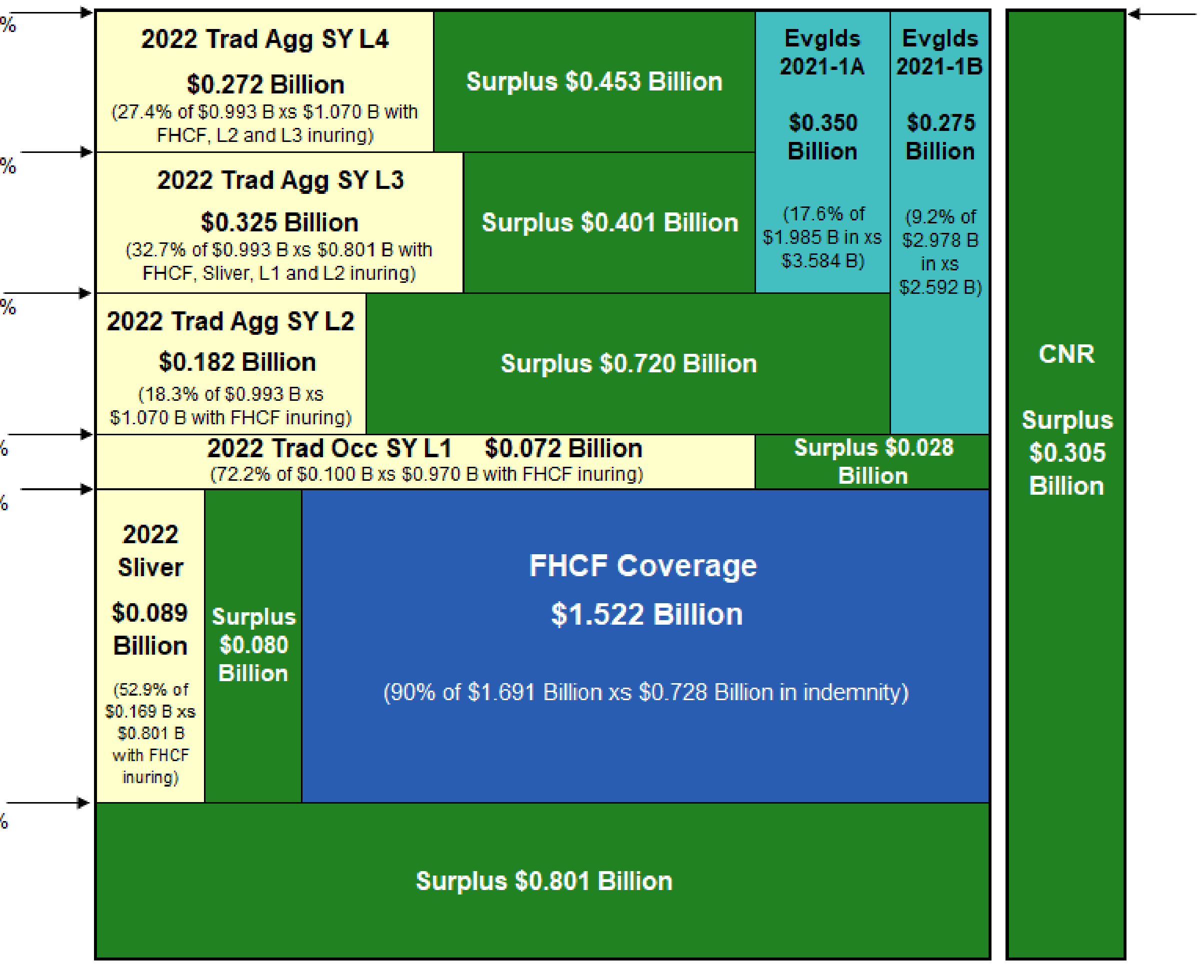
July 12 & 13, 2022

2022 Coastal Account Layer Chart

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

12/31/21 PMLs with 10% LAE and 37% PR/CR, 3% CNR Growth Adjustment

Coastal Residential Loss & LAE	PML Return Time Single	PML Return Time Aggregate	OEP	AEP
$5.570 B	100	93	1.00%	1.08%
$4.578 B	73	69	1.36%	1.46%
$3.585 B	53	50	1.87%	1.99%
$2.592 B	36	34	2.75%	2.95%
$2.492 B	35	33	2.87%	3.08%
$0.801 B	12	12	8.04%	8.68%



Coastal CNR Loss & LAE	Coastal Res + CNR Loss & LAE
$0.305 B	$5.875 B

(Not to scale)

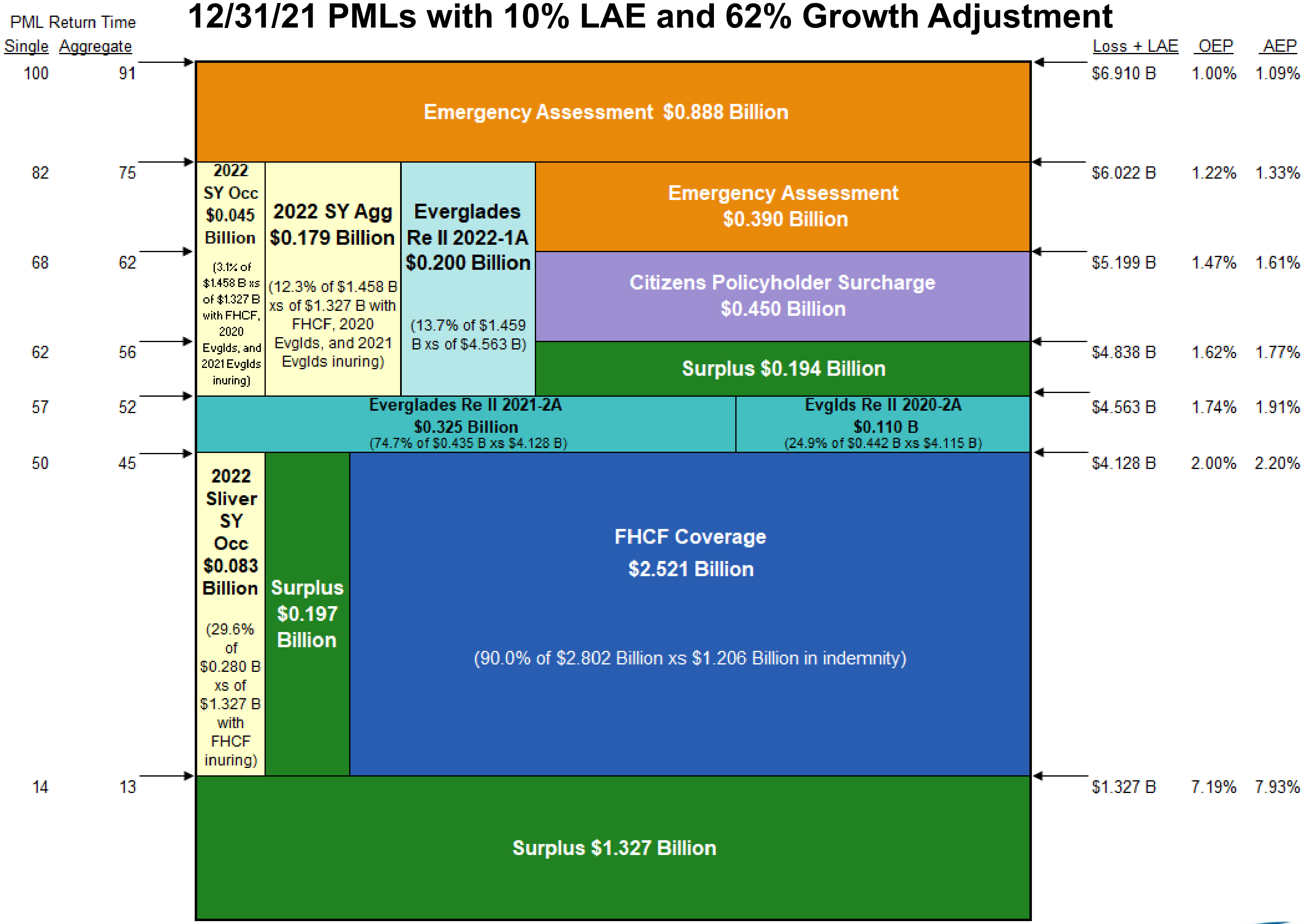
Approximately 89% of Coastal Account surplus is exposed in a 1-in-100 year event. Surplus remaining after a 1-in-100 year storm is projected to fund a 1-in-6 year event, additional LAEs, or multiple smaller storms in this or subsequent years.

CITIZENS PROPERTY INSURANCE CORPORATION

See Notes and Assumptions (page 5)

2022 PLA Layer Chart

12/31/21 PMLs with 10% LAE and 62% Growth Adjustment



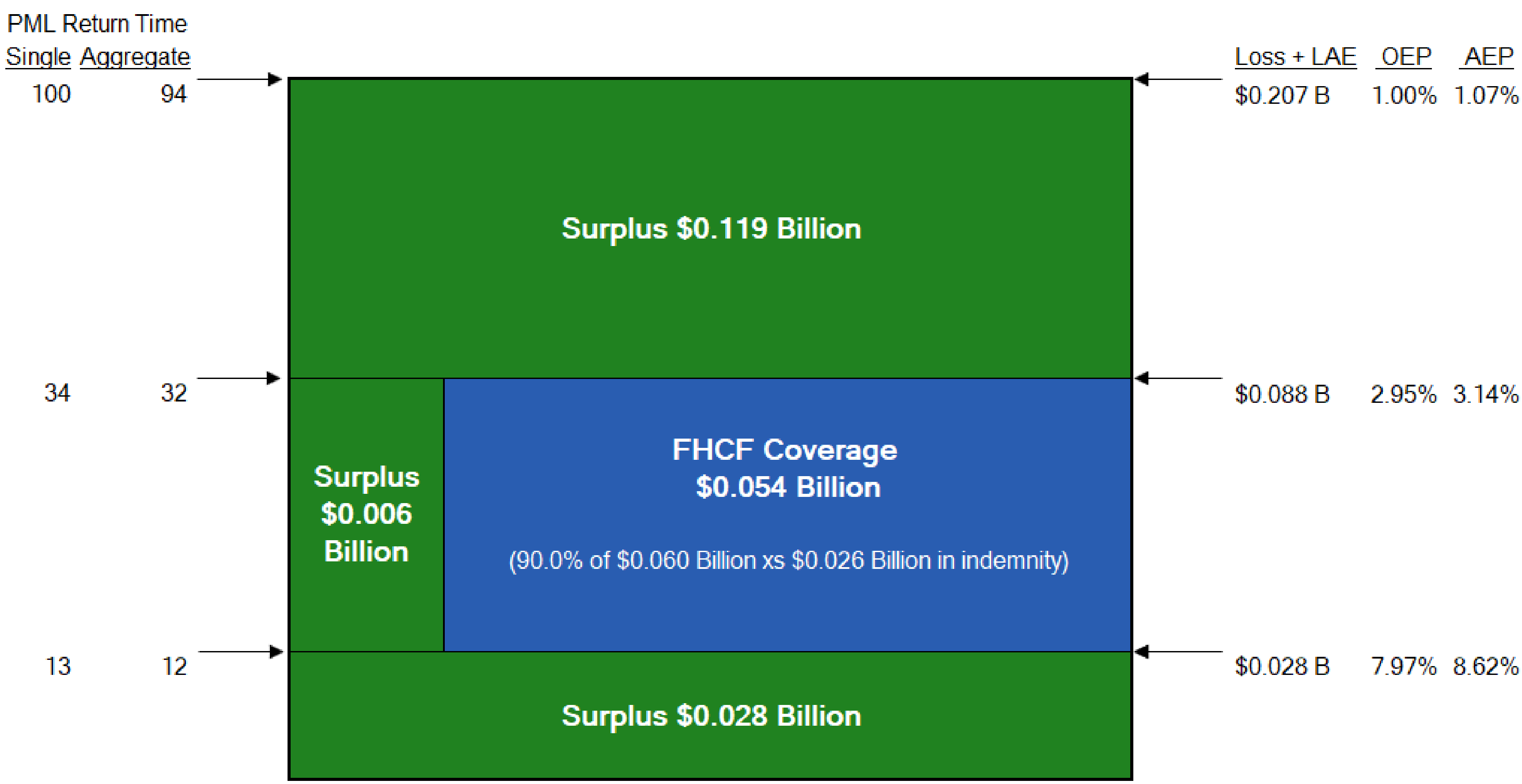
(Not to scale)

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

See Notes and Assumptions (page 5)

2022 CLA Layer Chart

12/31/21 PMLs with 10% LAE and 30% Growth Adjustment



(Not to scale)

Approximately 8% of CLA surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

Notes and Assumptions

2022-2023 Storm Season

ASSUMPTIONS

Citizens' 2022 Budgeted DWP	$3,002 Million
Citizens' Policyholder Surcharge Maximum % Per Account	15%
2022 Regular Assessment Base	$52.4 Billion
Regular Assessment Maximum % Per Account	2% for Coastal; 0% for PLA/CLA
2022 Emergency Assessment Base	$66.3 Billion

- PMLs are based on modeled losses as of December 31, 2021, AIR Hurricane Model for the United States Version 1.0.0 as implemented in Touchstone 2021 (version 9.0.3). All PMLs reflect the 50K US Hurricane - Florida Regulatory Event Set including Demand Surge, excluding Storm Surge, and include 10% of loss to account for loss adjustment expense (LAE). The PMLs are adjusted to project to September 30, 2022, using growth factors of 37% for Coastal PR/CR, 3% for Coastal CNR, 30% for CLA, and 62% for PLA.
- Interim Return Periods are derived by linear interpolation between 5-year intervals
- 2022 Projected Surplus = unaudited 2021 surplus + 2022 budgeted net income +/- adjustment for reinsurance cost and differences between budget and updated forecast FHCF premium
- FHCF pays 10% of reimbursed loss for loss adjustment expense
- Citizens' 2022 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.

CITIZENS
PROPERTY INSURANCE CORPORATION