

Executive Summary

Board of Governors Meeting, March 15, 2023

2023 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 reduce or 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.

2023 Risk Transfer Program

Senate Bill 2-A, which passed during the special legislative session in December of 2022 and became effective December 16, 2022, provides Citizens the authority to combine its three accounts (Coastal Account, Personal Lines Account and Commercial Lines Account) into a single Citizens Account. One of the benefits of this would be the surplus previously separated by account would be combined. This would enhance Citizens' ability to pay claims for future storms and minimize the potential for assessments. Currently, Citizens intends to make this transition no earlier than January 2024.

Given the accounts will remain separate for one additional storm season (2023), Citizens has pursued an option that would provide multi-year coverage that is not directly tied to the losses of an individual Citizens account.

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Citizens plans to transfer exposure to the capital markets through a new special purpose vehicle, Lightning Re. These Class A Notes range in size from \$400 million to \$500 million, attaching at \$51.5 billion and exhausting at \$66 billion of total Florida personal and commercial insured residential losses, with price guidance equal to investment yield plus 11.0%-11.5%. The Notes provide multi-year collateralized excess of loss protection on an annual aggregate basis. They cover personal and commercial residential losses across all three accounts utilizing an industry loss index trigger based on PCS published insured residential losses in the State of Florida for Florida named storms.

This transaction is part one of a two-part reinsurance placement strategy, with the second part to include the traditional placement and the indemnity trigger capital markets placement, if any, which will come before the board for approval during its regular reinsurance board meeting in early May.

Recommendation

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

- 1) Approve the recommendation to purchase a capital markets industry loss index trigger placement of \$400 million to \$500 million at a cost not to exceed investment yield plus 11.0% to 11.5%; and
- 2) Authorize Staff to take any appropriate or necessary action consistent with this Action Item.