

Executive Summary

Board of Governors Meeting, May 16, 2023

2023 Risk Transfer Program – Part B

Background

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 any hurricane striking Florida would most likely trigger assessments in the Personal Lines Account, but it would require a catastrophic hurricane or series of hurricanes to trigger assessments in the Coastal or Commercial Lines Accounts. 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, the traditional reinsurance markets and 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.

Proposed 2023 Risk Transfer Program

The proposed 2023 risk transfer program was part of Citizens' operating budget presented at the December 2022 Board of Governors meeting. This year, Citizens has taken a two-phase approach to place risk transfer coverage with the intent of gaining better market participation and pricing.

At the March 17, 2023 Board of Governors meeting, Citizens received approval to purchase \$500 million in coverage across all three Citizens' accounts through a new special purpose vehicle, Lightning Re. These Class A Notes provide multi-year collateralized excess of loss protection on an annual aggregate basis. The transaction closed March 24, 2023 and coverage was effective as of April 1, 2023.

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In this second phase, Citizens will work on the remaining portion of the placement which incorporates strategic elements from prior risk transfer programs. This includes the transfer of risk alongside the FHCF and the transfer of single occurrence and annual aggregate risk above the FHCF, with the goal of reducing the amount and likelihood of potential assessments to the citizens of Florida for a 1-in-100-year event.

Coastal Account

The Coastal Account coverage would be approximately \$2.725 billion. This coverage would be comprised of \$825 million of existing private risk transfer (reset of \$625 million from 2021 and an estimated \$200 million from 2023 capital markets placements) and \$1.900 billion of new private risk transfer, with budgeted premiums of \$300 million. Under this scenario, the Coastal Account would expose all of its surplus for a 1-in-100-year event and would have a potential assessment burden of \$653 million for a 1-in-100-year event.

The proposed 2023 risk transfer layers for the Coastal Account are as follows:

- The Sliver Layer will sit alongside the FHCF. It provides approximately \$225 million, in excess of \$1.152 billion, of annual, per occurrence coverage which covers personal residential and commercial residential losses. This layer will be placed in the traditional market.
- Layer 1 will sit above the Sliver Layer and the FHCF and will provide approximately \$610 million of coverage for personal residential and commercial residential losses from the capital and traditional reinsurance markets as follows:
 - Approximately \$335 million per occurrence coverage will be placed in the traditional market and attach after \$1.377 billion of losses.
 - Renewal of \$275 million capital markets risk transfer coverage placed in 2021 through Everglades Re II. This multi-year, annual aggregate coverage attaches after \$3.400 billion in losses. This is the final year for these Notes.
- Layer 2 of this program will sit above Layer 1. This layer will provide \$1.890 billion of annual aggregate coverage for personal residential and commercial residential losses from the capital and traditional reinsurance markets as follows:
 - Approximately \$1.540 billion of annual aggregate coverage from the traditional and capital markets.
 - An estimated \$200 million for the 2023 multi-year annual aggregate capital markets placement through Lightning Re is included in this total.

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- Renewal of \$350 million capital markets risk transfer coverage placed in 2021 through Everglades Re II. This multi-year, annual aggregate coverage attaches after \$4.010 billion in losses. This is the final year for these Notes.

Personal Lines Account (PLA)

The proposed risk transfer program for the PLA incorporates elements from prior risk transfer programs with estimated coverage of \$2.919 billion. This coverage would be comprised of \$825 million of existing private risk transfer (reset of \$525 million from 2021/2022 and an estimated \$300 million from 2023 capital markets placements) and \$2.094 billion of new private risk transfer, with budgeted premiums of \$375 million. Under this scenario, the PLA would expose all its surplus for a 1-in-100-year event and would have a potential assessment burden of \$2.606 billion for a 1-in-100-year event.

The proposed 2023 risk transfer layers for the PLA are as follows:

- The Sliver Layer of this program will sit alongside the FHCF. It provides approximately \$394 million, in excess of \$2.020 billion, of annual, per occurrence coverage which covers personal residential losses. This layer will be placed in the traditional market.
- Layer 2 will sit above the Sliver Layer and the FHCF. It is comprised of capital markets renewal risk transfer placement of \$525 million of coverage placed in 2021 and 2022 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential losses and attaches after \$5.961 billion in losses. This is the final year for the 2021 Notes.
- Layer 3 will sit above Layer 2. This layer will provide \$2.000 billion of coverage for personal residential losses from the capital and traditional reinsurance markets, as follows:
 - Approximately \$1.700 billion of per occurrence and annual aggregate coverage from the traditional and capital markets.
 - An estimated \$300 million for the 2023 multi-year annual aggregate capital markets placement through Lightning Re is included in this total.

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 and Personal Lines Accounts, for the entire 2023 program, not to exceed the amount of \$675 million; and
- 2) Authorize staff to take any appropriate or necessary action consistent with this Action Item.