Executive Summary

Finance and Investment Committee Meeting, July 11, 2023
Board of Governors Meeting, July 12, 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 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, traditional reinsurance markets and the capital markets. Citizens' participation in the reinsurance markets reduces potential assessments that may result after losses have reduced or exhausted 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

This year the global risk transfer markets have experienced hardening pricing where the effects are unevenly distributed. More concentrated hardening is seen in certain markets, including Florida, due in part to a decrease in available capital. Hurricane Ian losses of $50-$55 billion helped make 2022 the fifth costliest year on record for insurers with $132 billion of insured losses, which reduced capital levels. Capital levels were also affected by unrealized losses due to increases in interest rates. On the positive side, in 2022 there was significant premium growth in the risk transfer market due to rate increases, increased demand, and foreign exchange movements. In 2023, there have been capital

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inflows into the risk transfer market, especially into the capital markets, due to the attractive nature of risk transfer pricing relative to other asset classes in the current environment. It is anticipated that recent legislative reforms will make a significant difference, with better underwriting performance expected once the reforms have been realized in Florida carriers' books of business. This improved performance should alleviate reinsurance pricing pressure in 2024, assuming no large event or multiple smaller events in 2023.

Based on these factors, risk transfer pricing is up for the year with most Florida carriers experiencing rate increases of approximately 30%-50%, while pricing indications for non-Florida risk is up 10%-20%. Capital markets transactions have been able to upsize and price at levels slightly below the initial price guidance. However, overall spread levels are above what has been seen in prior years due to increased scrutiny on credit and risk, increasing cost of capital, macro-level stress in the financial markets, and alternative investment opportunities.

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.

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As approved by the Board of Governors at its May 16, 2023 board meeting, Citizens sought authorization for a total of $5.644 billion of coverage, with a cost not to exceed $675 million. (This includes $500 million in coverage across all three Citizens' accounts through a new special purpose vehicle, Lightning Re, as approved by the Board of Governors at its March 17, 2023 board meeting.) Citizens was able to place a cost-efficient risk transfer program of approximately $5.380 billion; which includes $4.230 billion of new placement and $1.150 billion of existing, multi-year coverage from 2021 and 2022; at a cost of approximately $650 million.

Coastal Account

The 2023 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 to protect a portion of surplus for most catastrophic events and thereby minimize assessments for a 1-in-100-year event to the citizens of Florida.

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Citizens transferred exposure in the amount of approximately $2.461 billion to the global traditional reinsurance markets and capital markets in 2023 for the Coastal Account, with a weighted average gross rate-on-line (ROL) of 11.16% (or net ROL of 10.63%) and a net premium of $261.6 million.

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

- The Sliver Layer sits alongside the FHCF. It provides approximately $124 million, in excess of $1.152 billion, 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 a portion of 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 single-year occurrence layer provides approximately $172 million of coverage of personal residential and commercial residential losses and attaches after losses of $1.377 billion. This layer was placed in the traditional market.

- The 2021 Class B capital markets renewal placement sits above the FHCF and alongside Layer 1. It provides coverage of $275 million 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 losses of $3.400 billion. This is the final year this coverage will be in place.

- Layer 2 of this program sits above Layer 1. This layer consists of both aggregate and occurrence coverage for personal residential and commercial residential losses and attaches after losses of $1.987 billion. The single-year, aggregate segment provides coverage of $160 million, while the single-year, occurrence portion provides $200 million of coverage. This layer was placed in the traditional market.

- Layer 3 of this program sits above Layer 2. This layer consists of both aggregate and occurrence coverage for personal residential and commercial residential losses and attaches after losses of $2.807 billion. The single-year aggregate and single-year occurrence portions of this layer are split evenly with $180 million of coverage each. This layer was placed in the traditional market.

- Layer 4 of this program sits above Layer 3. This layer consists of both aggregate and occurrence coverage for personal residential and commercial residential losses and

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attaches after losses of $3.627 billion. The single-year aggregate and single-year occurrence portions of this layer are split evenly with $160 million of coverage each. This layer was placed in the traditional market.

- The 2021 Class A capital markets renewal placement sits alongside Layers 2 and 3. 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 $4.010 billion of losses. This is the final year this coverage will be in place.

- The 2023 Class A capital markets placement sits alongside the 2021 Class A capital markets renewal, and Layers 2 and 3. It provides $300 million of coverage and was placed through Everglades Re II. This single-year, annual aggregate layer provides coverage for personal and commercial residential losses and will attach after $4.010 billion of losses.

- The 2023 Lightning Re placement of $500 million across all Citizens' accounts has $200 million allocated to the Coastal Account that sits alongside Layers 2, 3 and 4 in the layer chart. The Notes provide multi-year collateralized excess of loss protection on an annual aggregate basis. They cover personal and commercial residential losses utilizing an industry loss index trigger based on Property Claims Services (PCS) published insured residential losses in the State of Florida for Florida named storms.

- A Citizen Policyholder Surcharge (CPS) of $770 million (or 15% of direct written premium) could be experienced between a 1-in-83 and 1-in-96-year event. Once the CPS is exhausted a potential Regular Assessment of approximately $146 million could be triggered between a 1-in-96 and 1-in-100-year event.

Personal Lines Account

The 2023 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 potential assessment for a 1-in-100-year event to the citizens of Florida.

Citizens transferred exposure in the amount of approximately $2.919 billion to the global traditional reinsurance and capital markets in 2023 for the PLA, with a weighted average gross ROL of 13.99% (or net ROL of 13.21%) and a net premium of $385.6 million.
The 2023 risk transfer layers for the PLA are as follows:

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- The Sliver Layer sits alongside the FHCF. It provides approximately $394 million, in excess of $2.020 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 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 $5.961 billion of losses. This is the final year this coverage will be in place.

- The 2022 Class A capital markets renewal placement sits alongside the 2021 Class A capital markets renewal. It provides $200 million of coverage and was placed in 2022 through Everglades Re II. This multi-year, annual aggregate layer provides coverage for personal residential losses and attaches after $5.961 billion of losses.

- The 2023 traditional occurrence layer sits above the two capital markets renewal placements. This layer provides approximately $1.211 billion of single-year, occurrence coverage for personal residential losses and will attach after $2.020 billion of losses.

- The 2023 traditional aggregate layer sits alongside the 2023 traditional occurrence layer. This layer provides approximately $39 million of single-year, aggregate coverage for personal residential losses and will attach after $2.939 billion of losses.

- The 2023 capital markets placement sits alongside the 2023 traditional occurrence and aggregate layers. It provides $450 million of coverage and was placed through Everglades Re II. This single-year aggregate layer provides coverage for personal residential losses and will attach after $6.486 billion of losses.

- The 2023 Lightning Re placement of $500 million across all Citizens' accounts has $300 million allocated to the Personal Lines Account that sits alongside the 2023 traditional occurrence, traditional aggregate, and capital markets layers. The Notes provide multi-year collateralized excess of loss protection on an annual aggregate basis. They cover personal residential losses utilizing an industry loss index trigger based on PCS published insured residential losses in the State of Florida for Florida named storms.

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- A Citizens Policyholder Surcharge (CPS) of $770 million (or 15% of direct written premium) could be experienced between a 1-in-4 and 1-in-9-year-event. Once the CPS is exhausted a potential Emergency Assessment (EA) of approximately $830 million could be triggered between a 1-in-9 and 1-in-15-year event. An additional $1.005 billion of EA could be triggered between a 1-in-59-year event and a 1-in-100-year event.

Summary

The 2023 private risk transfer program cost was significantly higher compared to the 2022 program based on the gross ROL. The 2023 gross ROL is 12.69% compared to a gross ROL of 8.96% for 2022. (The 2023 net ROL is 12.03% compared to a net ROL of 8.45% for 2022.)

- Citizens has experienced moderate growth within the Coastal Account during 2023, which led to a price increase of approximately 20.65% on a risk-adjusted basis for coverage placed in 2023. The total amount of surplus exposed in a 1-100-year event for 2023 is 100%, compared to 89% in 2022.

- Citizens has experienced significant growth in the PLA during 2023 along with surplus erosion associated with recent storms and increased litigation. This growth along with market conditions led to a price increase of approximately 28.59% on a risk-adjusted basis for coverage placed in 2023. The total amount of surplus exposed in a 1-100-year event for 2023 is 100%, which was the same in 2022. In 2022, PLA surplus could have been depleted with a 1-in-67-year event. However, in 2023, surplus could be depleted with a 1-in-4-year event.

- The combined Coastal Account and PLA risk adjusted price increase experienced for coverage placed in 2023, is approximately 25.14%.

2023 Risk Transfer Program

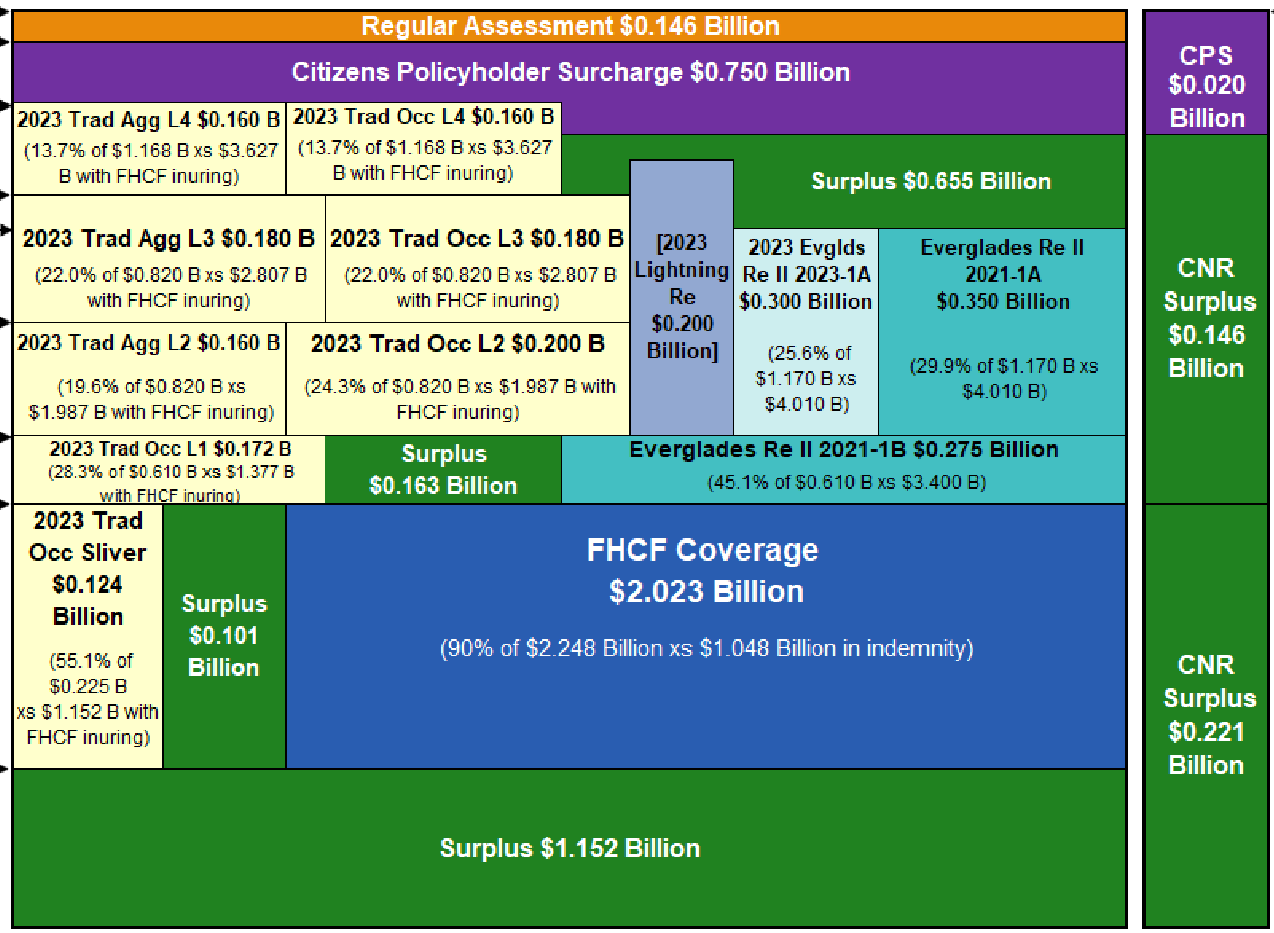
July 11 & 12, 2023

2023 Coastal Account Layer Chart

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

12/31/2022 PMLs with 10% LAE and 30.7% PR/CR, 20.3% CNR Growth Adjustment

Coastal Residential Loss & LAE	PML Return Time Single	PML Return Time Agg	OEP	AEP
$7.451 B	100	94	1.00%	1.06%
$7.305 B	96	91	1.04%	1.10%
$6.818 B	88	83	1.14%	1.21%
$5.650 B	67	62	1.49%	1.60%
$5.180 B	59	55	1.69%	1.80%
$4.830 B	55	51	1.83%	1.97%
$4.010 B	44	41	2.29%	2.47%
$3.400 B	36	33	2.76%	3.02%
$1.152 B	13	12	7.70%	8.28%



Coastal CNR Loss & LAE	Coastal Res + CNR Loss & LAE
$0.387 B	$7.838 B

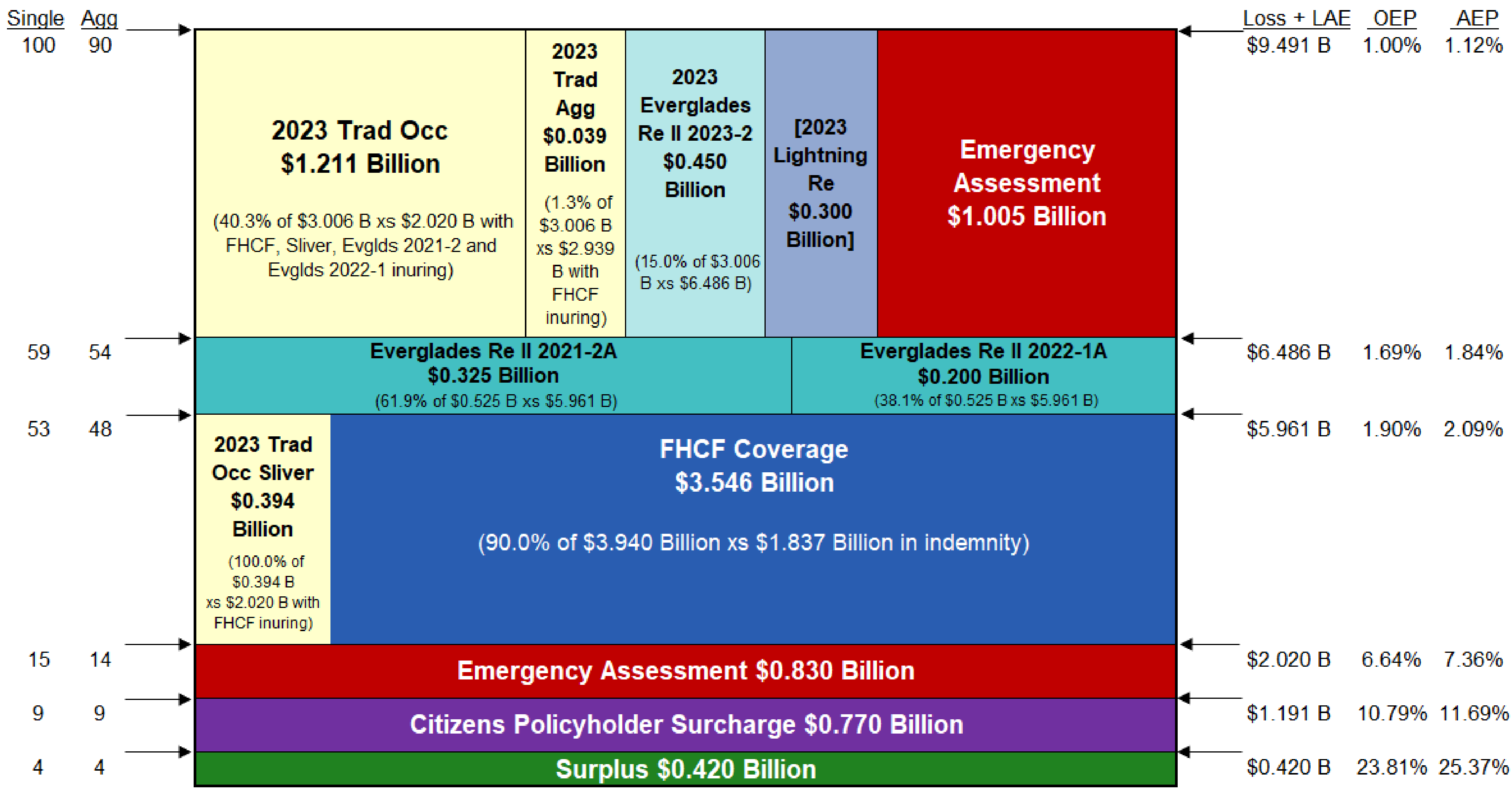
Approximately 100% of Coastal Account surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

(Not to scale)

2023 PLA Layer Chart

12/31/2022 PMLs with 10% LAE and 40.3% Growth Adjustment



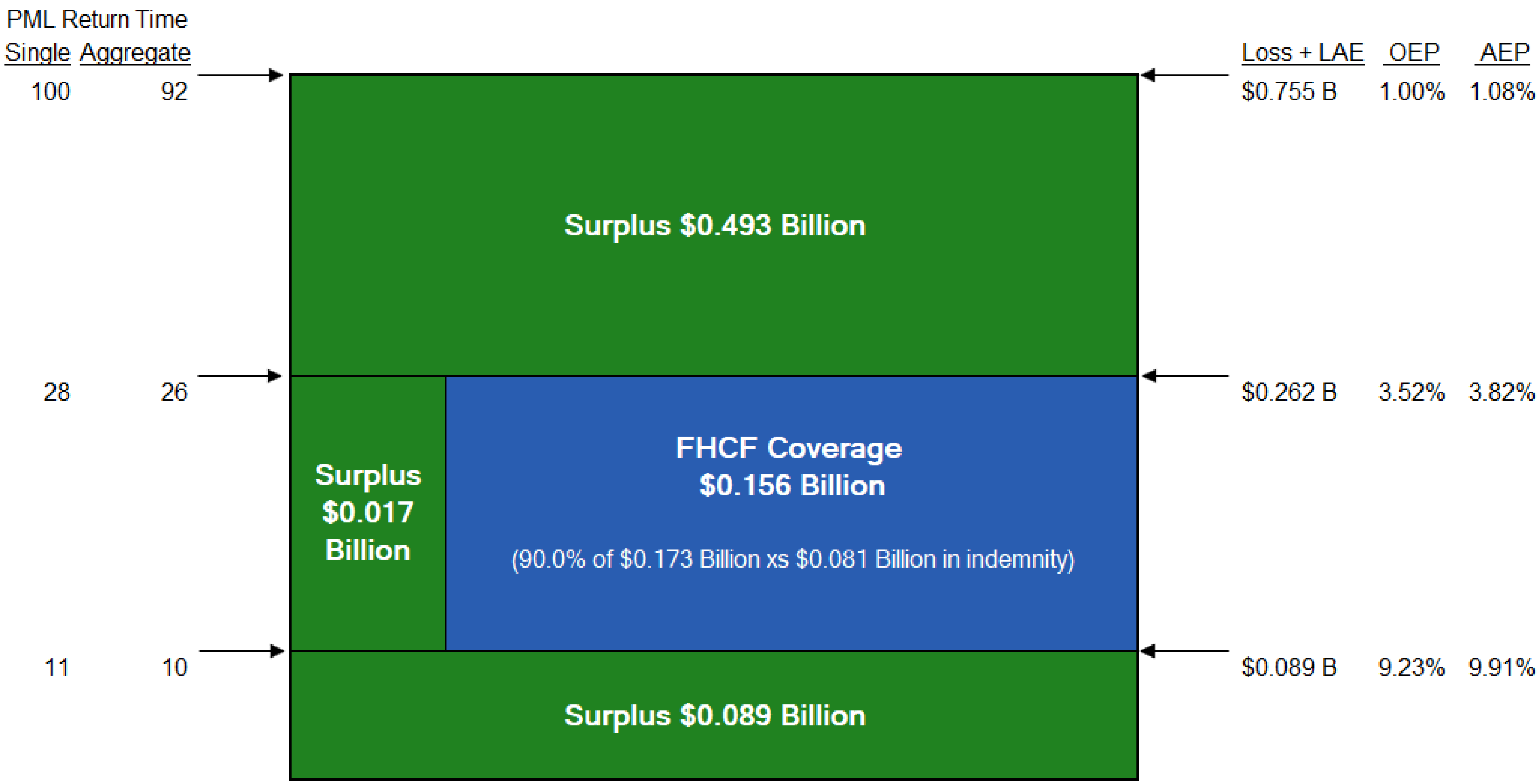
Approximately 100% of PLA surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

(Not to scale)

2023 CLA Layer Chart

12/31/2022 PMLs with 10% LAE and 104.7% Growth Adjustment



Approximately 29% of CLA surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

(Not to scale)

Notes and Assumptions

2023-2024 Storm Season

ASSUMPTIONS

▪ Citizens' 2023 Budgeted DWP	$5.1 Billion
▪ Citizens' Policyholder Surcharge Maximum % Per Account	15%
▪ 2022 Regular Assessment Base (based on 2021 DWP)	$61.5 Billion
▪ Regular Assessment Maximum % Per Account	2% for Coastal; 0% for PLA/CLA
▪ 2022 Emergency Assessment Base (based on 2021 DWP)	$63.3 Billion

- PMLs are based on modeled losses as of December 31, 2022, AIR Hurricane Model for the United States Version 1.0.0 as implemented in Touchstone (version 9.1.0). 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, 2023, using growth factors of 30.7% for Coastal PR/CR, 20.3% for Coastal CNR, 104.7% for CLA, 40.3% for PLA, and 39.9% for the hypothetical consolidated accounts.
- Interim Return Periods are derived by linear interpolation between 5-year intervals
- 2023 Projected Surplus = projected year end 2022 surplus + 2023 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' 2023 FHCF coverage is based on preliminary retention and coverage estimates. Actual Citizens' FHCF attachment and limits of coverage could differ significantly from estimates.
- Lighting Re is an industry loss index trigger catastrophe bond based on PCS published insured residential losses in the State of Florida for Florida named storms. The fully collateralized Notes provide multi-year excess of loss protection on an annual aggregate basis across all three accounts. Estimated placement of this coverage on the layer charts is based on internal analysis. Actual attachment and exhaustion points 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