

Executive Summary

Finance and Investment Committee, December 5, 2023
Board of Governors, December 6, 2023

Redemption of the Everglades Re II Series 2022-1 Catastrophe Bonds

History

In 2022, Citizens entered into a three-year catastrophe bond reinsurance contract with Everglades Re II for coverage of \$200 million for the benefit of the Personal Lines Account with a maturity date of May 19, 2025. Pursuant to this contract, Citizens has the ability to redeem the bonds at no additional cost after April 30, 2024, once Citizens' three accounts are merged.

The Everglades Re II Series 2022-1 bonds were structured with this optionality to account for the potential of merging accounts. This optionality gives Citizens the flexibility to redeem the bonds without any additional call premium. As Citizens will merge its three accounts at the beginning of 2024, Citizens will call the 2022-1 bonds after April 30, 2024, and the reinsurance contract will be terminated for the Third Annual Risk Period, or from May 15, 2024 to May 19, 2025.

By merging its accounts, Citizens can call the Everglades Re II Series 2022-1 bonds at no cost and has full flexibility to consolidate its accounts without capital markets risk transfer contracts in place for the individual Personal Lines Account.

Recommendation

Citizen's staff recommends the Board of Governors to:

- a) Approve the recommendation to call the 2022-1 Everglades Re II Catastrophe Bond; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Redemption of the Everglades Re II Series 2022-1 Catastrophe Bonds

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 | Redemption of the Everglades Re II Series 2022-1 Catastrophe Bonds |
|---------------------------|---|
| Purpose/Scope | <p>Florida Statutes provide that Citizens must make its best efforts to procure catastrophe reinsurance at reasonable rates to cover its projected 100-year probable maximum loss. Citizens’ Board of Governors, at its May 18, 2022 meeting, approved the risk transfer program in the form of coverage provided through the traditional and capital markets.</p> <p>This Action item seeks Board approval to call the Everglades Re II Series 2022-1 catastrophe bond of \$200 million in the Personal Lines Account. There will be no call premium due, provided that Citizens’ accounts are merged, and the redemption occurs after April 30, 2024.</p> |
| Contract ID | <p>2022 Capital Markets Risk Transfer Program – Personal Lines Account</p> <p>Contract number, if applicable</p> <p>Recommended vendor, if applicable</p> |
| Budgeted Item | <p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>No additional spend required</p> |
| Procurement Method | N/A |

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| Contract Amount | No additional cost |
| Contract Terms | Three (3) years, callable prior to the start of the third year |
| Committee Recommendation | <p>Staff proposes that the Finance & Investment Committee review, and if approved recommend the Board of Governors:</p> <ul style="list-style-type: none"> a) Approve the recommendation to call the 2022-1 Everglades Re II Catastrophe Bond of \$200 million without a call premium; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. |
| Board Recommendation from Committee | <p>If approved at its <u>December 5, 2023</u>, meeting, the Finance & Investment Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> a) Approve the recommendation to call the 2022-1 Everglades Re II Catastrophe Bond of \$200 million without a call premium; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. |
| Contacts | Jennifer Montero, Chief Financial Officer |