

Executive Summary

Board of Governors Meeting, May 14, 2024

2024 Risk Transfer Program

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 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, the traditional reinsurance markets and the capital markets. Citizens' participation in the reinsurance markets reduces the potential assessments that would 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.

As of January 1, 2024, Citizens is operating under a combined account, referred to as the "Citizens Account." This account, which was authorized by Senate Bill 2-A from the special legislative session in December 2022, is the combination of the three previous accounts: the Personal Lines Account (PLA), the Commercial Lines Account (CLA), and the Coastal Account. This enhances Citizens' ability to pay claims for future storms and minimize the potential for assessments.

Proposed 2024 Risk Transfer Program

The proposed 2024 risk transfer program was part of Citizens' operating budget presented at the December 2023 Board of Governors meeting.

Citizens aims to secure private reinsurance coverage of approximately \$5.5 billion. This coverage would be comprised of \$500 million of existing private risk transfer remaining from 2023 and \$5.0 billion of new private risk transfer. Under this scenario, Citizens would expose

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all of its surplus for a 1-in-100-year event and would have a potential Citizens policyholder surcharge of \$567 million for a 1-in-100 year event.

The proposed 2024 risk transfer layers are as follows:

- The Sliver Layer will sit alongside the FHCF. It provides approximately \$630 million, in excess of \$3.5 billion, of annual, per occurrence coverage which covers personal residential and commercial residential losses. This layer, placed in the traditional market, would work in tandem with the mandatory coverage provided by the FHCF.
- Layer 1 will sit above the Sliver Layer and the FHCF. This layer will provide \$4.9 billion of coverage for personal residential and commercial residential losses from the capital and traditional reinsurance markets, as follows:
 - Approximately \$4.4 billion of occurrence and annual aggregate coverage from the traditional and capital markets.
 - A capital markets renewal risk transfer placement of \$500 million through Lightning Re. This is the second year for these multi-year Notes (originally placed in 2023) which provide aggregate coverage.

Recommendation

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

- 1) Approve the recommendation to purchase traditional and capital markets risk transfer for the entire 2024 program, not to exceed the amount of \$750 million; and
- 2) Authorize staff to take any appropriate or necessary action consistent with this Action Item.