

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
SPECIAL BOARD OF GOVERNORS MEETING
Tuesday, May 14, 2024

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened via Zoom on Friday, May 14, 2024, at 10:00 a.m. (EDT).

The following members of the Board were present:

Carlos Beruff, Chair
Scott Thomas, Vice Chair
Joshua Becksmith
Jason Butts
Erin Knight
Charles Lydecker
LeAnna Cumber
Robert Spottswood

The following Citizens staff members were present:

Tim Cerio
Jennifer Montero
Barbara Walker
Bonnie Gilliland
Raina Harrison
Jay Adams
Joe Martins
Christine Ashburn
Jeremy Pope
Mark Kagy
Aditya Gavvala

Call Meeting to Order

Barbara Walker: Good morning, and welcome to Citizens' May 14, 2024, Special Board of Governors meeting that is publicly noticed in the Florida Administrative Register to convene at 10 a.m. and is recorded with transcribed minutes available on our website. For those attending today's session through the public link, you're automatically in listen only mode. Chair Beruff, we have no speaker requests for today's meeting. I'll proceed with an official roll call.

Chair Carlos Beruff, Vice Chair Scott Thomas, Josh Becksmith, Jason Butts, LeAnna Cumber, Erin Knight, Charles Lydecker, Governor Shelton was unable to attend today. Robert Spottswood. Chairman, you have a quorum.

Chairman Carlos Beruff: Perfect. Thank you. Who's up?

Tim Cerio: Jennifer, you're muted.

Chairman Carlos Beruff: I heard Tim clearly, so it must be on somebody else's end.

Tim Cerio: Yeah, we're trying to get Jennifer unmuted. We have been dealing with some technical difficulties Post storm. Mr. Chairman.

Jennifer Montero: Sorry about that, Mr. Chairman.

Chairman Carlos Beruff: Alright, no worries.

Jennifer Montero: Couldn't find the button. I'm happy to start if you're ready?

Chairman Carlos Beruff: Please.

2024 Risk Transfer Program

Jennifer Montero: So, the reinsurance markets are better than last year, but have significantly changed since the beginning of the year. There were significant amounts of capital invested in reinsurance markets in the last quarter, 2023, as interest rates were starting to come down with the expectation of fed rate cuts. However, as inflation continued, the Fed changed its stand to a higher for longer, and now investors are trying to capitalize on higher rates, and therefore they've been moving some of the capital from reinsurance markets to alternative investments, including private credit, where their returns are higher. There are also additional risk transfer needs of demand from Texas, Louisiana, and California as property markets continue to just locate nationally. Florida's exposures continue to grow. For example, the residential model exposure is \$3.6 trillion in 2024, compared to \$3.3 trillion in 2023, which is a 9.3% increase in growth. Citizens' exposure grew by 31% in 2023, and is expected to grow by 7% this year, even though we expect only a slight change in the policy count in 2024. Market pricing on a risk adjusted basis is expected to be similar to 2023 ranging from a negative 5% to a positive 5%; however, capacity is constrained, as all insurers need more capacity in 2024. This is due to significant increases in exposure and replacement costs, as well as the wrap in 4 layers are expired which translates into additional need for approximately \$1 billion of reinsurance coverage from the private market, and of course, an increase in the CAT Fund retention from \$9.5 to \$9.9 billion. So, Citizens aims to secure private reinsurance coverage of approximately \$5.5 billion. This would be comprised of \$500 million existing private reinsurance remaining from 2023 and \$5 billion of new private risk transfer. Under the scenario Citizens would expose all its surplus for a 1-in- 100-year event and would have a potential Citizen's policyholder surcharge of \$567 million for a 1-to-100-year event which would attach at the 1-96-year event. The proposed 2024 Risk Transfer layers are as follows; the sliver layer will sit alongside the FHCF. It provides approximately \$630 million of annual per occurrence coverage which covers personal and residential personal, residential, commercial, residential losses. This layer is placed in the traditional market, and we work in tandem with the mandatory coverage provided by the FHCF. Layer one will sit above the sliver layer in the CAT Fund. This layer will provide \$4.9 billion of coverage for personal, residential,

commercial residential losses from the capital and traditional insurance markets, which includes a capital market renewal, risk transfer placement of \$500 million through Lightning Re. This is the second year for the multi-year notes which provide aggregate coverage. They are originally placed in 2023, as well as approximately \$4.4 billion of occurrence in annual aggregate coverage from the traditional and capital markets.

Staff recommends that the board well, I'll hold off before the recommendation Chairman to pause for any questions.

Governor Spottswood: Mr. Chairman, if I may. I've got a question for Jennifer.

Chairman Carlos Beruff: Please.

Governor Spottswood: Just out of curiosity, is there a similar layer chart that's put together, not only for us, but for all of the private insurers involved in Florida? Do we know what the total loss would have to be for all of the private companies as well as us to be tapped out?

Jennifer Montero: Yes, there are. There are, PCN is one that does it. There are those that gather all the losses on an aggregate basis, because, for example, Lightning Re is an industry index bond. We only will recover any monies on that if the industry losses hit a certain amount, and the PCN is the one that has that index for us. That's who we rely on to give us that data and they're part of ISO, and there are others like that, that do gather that aggregate data. The Cat Fund also, is one that would gather the data on, not on the commercial non-residential, but on the commercial residential and the personal residential, everything that's in this subject business of coverage, the Cat Fund covers that as well, and we report to them as well as the Office of Insurance Regulation, so there are entities that collect it for reporting purposes for different kinds of reporting purposes. Obviously, the Cat Fund is so that they know how to pay out, the OIR is keeping track of everybody, and PCN is helping with the index bonds to know when we've attached to them.

Tim Cerio: Jennifer for our board members, and our listeners who may be tuning in, what's PCN and what's ISO?

Jennifer Montero: PCN, I don't know what the acronym stands for, but it is basically a company that is subsidiary, I believe, of ISO, which is a bigger company that provides all kinds of insurance services, ISO does rating, they do all kinds of stuff on our product side. They're not a current vendor, but they have it in the past do our inflation guard factors for our replacement cost. We use their external actuaries to pair review our stuff. PCN is a subsidiary, I believe of ISO, but PCN just collects data on the losses, and you have to have something identified to say, whose numbers are we going to use? So, we use PCN for the purpose of the index bond, but there is aggregate data collected in many, many different places for different reasons.

Governor Spottswood: Jennifer, is that something I could look up online and get access to that kind of data?

Jennifer Montero: Cat Fund may have information on their website.

Tim Cerio: We could probably get it for Governor Spottswood, right?

Chairman Carlos Beruff: I was just going to offer Tim. You could get someone from Jennifer's staff to send Governor Spottswood with the links.

Tim Cerio: Please do it.

Governor Spottswood: That'd be great. Thank you.

Kapil Bhatia: Jennifer, can I just add on to it, maybe helpful. Governor Spottswood, for the record I'm Kapil Bhatia from Raymond James and Associates. We are your financial advisor. So, Cat Fund publishes how they set up their rates in March, the whole rate making formula report which shows the whole State residential exposure, as Jennifer mentioned. So, Jennifer even quoted those numbers in her talking points in the very beginning. So, for example, the losses, like with Ian or an Ian event today will generate a total loss of around \$23.2 billion. That's based on the Cat Fund's data, and they publish that report every year. And we are certainly happy to share that with you. It's up on their website, but we'll share that with you. PCN and ISO are both part of Verisk, the other preeminent risk modeling firm, and they basically do all of the data, but all of their data is by subscription only, and not publicly available.

Governor Spottswood: Thank you for that. Thank you.

Chairman Carlos Beruff: Jennifer?

Jennifer Montero: Yes.

Chairman Carlos Beruff: I think, unless obviously any board member is welcome to ask any questions along the way and stop us, but what I'd like to focus on is, what did we pay online last year in average over the total placement we paid? And what do you think we're going to get to, so can authorize you to move forward.

Jennifer Montero: Sure. Last year the net rate online was 12.09 and we spent \$650 million. This year we would like the Board to approve a spend of \$750 million with a rate online of 13%.

Chairman Carlos Beruff: Okay. And then the other thing that was a bit of a surprise to some of us on the Board was the true up, and I call it a true up because of the policy count that is a snapshot taken and correct me, is it September 1 or September 30?

Jennifer Montero: September 30, Mr. Chairman.

Chairman Carlos Beruff: So, September 30, everybody. So that you know this, there's a snapshot of the policies we have in force; we're buying the insurance based on a policy count that we've estimated and if it exceeds the parameters that I think Jennifer is going to negotiate towards it exceeds 10% up or down. There's no cost to us, correct me if I'm wrong, Jennifer.

Jennifer Montero: Correct.

Chairman Carlos Beruff: Okay, and if it exceeds 10% in either way, we either get money back from the premium, or we have to pay an additional amount that's prorated for the amount of policies that we exceed the 10% cap. Is that a true statement, Jennifer?

Jennifer Montero: That is correct.

Chairman Carlos Beruff: Okay, so go ahead, any Board member, jump in if you have questions or queries.

Governor Spottswood: I was just going to ask, is that 10% of the of the outstanding exposure on total policies or what is that based on?

Jennifer Montero: It's based off the Tiv the exposure. These layer charts that you're seeing in front of you right now, those are forecasted to September 30, and we put those numbers out at the beginning, and if at the end of the day when the actual September 30 comes in it with, the chairman is saying, is that they differ from our forecast to the actual by more than more or less than if it's within 10% up or down.

Chairman Carlos Beruff: Nothing changed.

Jennifer Montero: Nothing changes. If it's higher, we owe an additional premium on that amount that we went over, and if it goes under 10%, we get a premium refund for the shrinkage that occurred.

Governor Spottswood: So, we had portion of the amount of refund, Jennifer, or refund calculator?

Jennifer Montero: It's calculated based off the increases and it's the premium extended to the additional Tiv, so you're paying as though you're paying....

Chairman Carlos Beruff: It's prorated actual, though?

Jennifer Montero: Right? Yes.

Chairman Carlos Beruff: That's I think that's beneficial.

Governor Spottswood: The benefit of depopulation to get down by at least 10%, so that you get that depop refund. Is that right, Chairman?

Chairman Carlos Beruff: That's correct. If we were able to hit it targeted and the projection, and then we depopulated prior to September 30, at the snapshot, we would get a credit, that's pro rata to the amount that we paid. Is that a true statement, Jennifer? I think it is.

Jennifer Montero: That is, but I will say the problem with that is, most of the depop stops in May.

Chairman Carlos Beruff: Oh, yeah, that's a different animal. The example math is correct the likelihood of depopulation in midstream of hurricane season becomes very unlikely.

Governor Spottswood: And it doesn't apply to the following year. So.

Chairman Carlos Beruff: No correct.

Governor Spottswood: Okay.

Citizens' Staff proposes that the Board of Governors, a) 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 b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Chairman Carlos Beruff: Jennifer, if there are no questions from the other Board members and please, you know there's no rush here. Just if there's no question, then I the chair, would request the motion to approve Jennifer to move forward.

Governor Spottswood: I'll move.

Governor Knight: Second.

Chairman Carlos Beruff: Okay, we have a first and a second. All those in favor signify by saying, Aye.

Governor Knight: Aye.

Governor Thomas: Aye.

Governor Spottswood: Aye.

Chairman Carlos Beruff: I believe we're unanimous in our in our approval, but if not, somebody, say something. So, I recommend that you move forward, Jennifer, and report to us your success, so that Florida gets plenty of reinsurance this year as we go into the summer season, and for all of you board members that I won't see for a while. I guess I'll see many of you at our July meeting. Always a pleasure.

Tim Cerio: We do have another issue, Mr. Chairman.

Chairman Carlos Beruff: We don't have an issue, we have another thing to discuss.

Tim Cerio: Another item. Yes, it could be an issue, but we hope not, but definitely another item.

Chairman Carlos Beruff: Alright! Alright!

Jennifer Montero: Thank you, Mr. Chairman!

Chairman Carlos Beruff: Jay, that's it?

Jay Adams: Am I recognized?

Chairman Carlos Beruff: Can I cut through to Jay's issue? Jay's issue, somehow magically he found a way to save us \$100 million dollars, am I correct in that assumption?

Governor Spottswood: I move to approve.

Chairman Carlos Beruff: Exactly!

Jay Adams: That's correct.

Chairman Carlos Beruff: Okay, so Jay found a magical way to save us \$100 million dollars, I said you had me at Hello!

Jay Adams: Thank you.

Chairman Carlos Beruff: So, we have a motion to approve Jay to move forward with that idea, is there a second?

Governor Lydecker: I'll second it.

Chairman Carlos Beruff: Okay, let's discuss it for those board members, I don't want to make light of it, but I thought I'm pretty sure all of you were briefed on this subject, but if there are any comments, or you want to hear from Jay as to how he did it we're happy to put the Jay on the spot? Nope? So, we have a second. All those in favor signify by saying, Aye.

Governor Cumber: Aye!

Chairman Carlos Beruff: I think motion carries unanimously.

Governor Lydecker: Chairman, I'd like to make a comment if I may, regarding the first item.

Chairman Carlos Beruff: Yeah, of course.

Governor Lydecker: Just as a general comment, I continue to think that I don't think I have a choice on this, I'm just going to register my view, that it's very hard to have a thoughtful discussion as a board on the issue of reinsurance placement when it's in the public, and all the participants in that process get to hear any level of strategy that comes from this board. So, I don't think there's anything we can do about it, and you know the power of sunshine is far more important than I guess our desire to be able to strategize as a group. Talking out, speaking out loud and thinking out loud amongst ourselves and radiating that to the marketplace is just, you know, foolish. So, I'm reserving my comments. And I do have comments. But I'm going to reserve them specifically for Jennifer. I just wanted to go on record

of saying that.

Chairman Carlos Beruff: And I'd like to go on record to say that I'm 100% in concurrence. It's hard to negotiate or play a poker game when you're showing people your poker hand.

Governor Spottswood: I would agree.

Governor Thomas: Although I would try to emphasize. All we've done is we've authorized a number, I mean, we still work under the statutory mandate to buy it if it's at reasonable rates, and so I fully expect our professional staff to walk away from unreasonable rates. No one should mistake this who's listening or watching that we've somehow committed to anything other than an overall authority that we've granted our staff to go out in the market with it, right?

Chairman Carlos Beruff: Absolutely

Governor Spottswood: That's a good point.

Chairman Carlos Beruff: It's a great point.

Governor Lydecker: It's... I think it is a good point. I don't agree with it, but I think it's a very good point. We didn't tip our entire hand, that's true. But you know gosh, if I knew what the budget was for our clients, and how I could address their needs, then, you know, that would be very advantageous as a seller. So again, I'm just simply registering my view. It's very hard to do that in public, and out of respect for Jennifer and Tim and the team and making sure that we support their reference 100%. I don't think it makes sense to have any further conversation about it.

Governor Spottswood: Yeah

Chairman Carlos Beruff: Agreed.

Jennifer Montero: Mr. Chair, this is Jennifer, may I make a quick comment?

Chairman Carlos Beruff: Course.

Jennifer Montero: I just wanted to point out that we definitely do not pay above market for the reinsurance we have walked away before, and I think the market knows that. In 2022, when there was a lot of the special session, it was very late in the season, it was into late May, everybody kind of froze with what to do, and then, when it was done, it was almost like an auction, and there were a lot of demands of, "you gave me this rate online", "I'm going to double it and you have until 4:00 pm, or I'm going somewhere else". It was a lot of ugliness, and Citizens walked away from that, we didn't participate. We got most of our coastal account filled and only part of our PLA, because the pricing was so outrageous. So, I just want to assure the board that my team and I would never go out and pay outrageous pricing just because we have the authority for this spend. I just wanted to make sure you are comfortable, knowing that.

Chairman Carlos Beruff: Well, I think we are. That's what the Board members have said, they have confidence in your team, but at the same time it's just, I agree with Charlie that it's just a terrible way to negotiate, but we'll deal with that another time.

Governor Lydecker: But, Jennifer, I think, Jennifer, you could expect to get a bunch of calls from us.

Governor Spottswood: Chairman, can I pass on one more afterthought?

Chairman Carlos Beruff: I'd like to just add to Mr. Lydecker, I had a very passionate discussion about this last week. Okay go ahead, Mr. Spottswood.

Governor Spottswood: I was just wondering if there's a way of changing that September 30 true-up date to make it more meaningful to us to have a better chance of getting a refund. I mean I don't know if there's some magic to September 30.

Jennifer Montero: September 30 is kind of the peak of the hurricane season, Governor, and so that's the peak point of where they decided; that's an industry thing across all traditional reinsures. It's better for hurricane season, it's a September 30 exposure date.

Governor Spottswood: It just seems that guts the possibility of getting that kind of 10% reduction and getting a refund. I'm not sure if they picked that date, because it renders the possibility of a refund meaningless.

Jennifer Montero: Most companies can control what they write and they can get their hands around that, manage that in a better way, because they decide what policies come into them and which ones they don't, and which counties they go in, and what kind of risk they take and they can very much control how much exposure they have during hurricane season, so that it never moves and it doesn't grow. We unfortunately are one of the ones that don't have that option. We grow and shrink without any of our own control, and so those callers are there, I think, for us, because we do have that issue of, we could go either way with no control. So, I don't think they were meant to be punitive, I think it was trying to help us out, saying, we know you don't have a lot of choice, so we'll give you this caller if it changes, and we'll do it both ways, up and down. But it is an industry thing, and it is probably, and Kapil's on and could probably speak to it as well. It's probably the best identifier to what the exposure is, you know, at the time when the season is active.

Chairman Carlos Beruff: So, on the topic in July, I'd like to add Barbara for discussion, and Mr. Cerio and Jennifer, let's discuss one of the things that, and anyone that's on this, I think anyone's on this call is going to agree with the comment I'm about to say. We all hate something, "it's always been done this way"; That's like the worst thing in business to me. We've always done it this way, so I'm not saying it's wrong, but we should at least discuss it at the July meeting, and then see if there is, we're the biggest show in town with the biggest pockets we should be able to make our own, take our own direction on things and see what happens. With that, said, the chairman recognizes that I always do things without consulting Barbara Walker, who does have to read the action items, and then we can vote on it and make

it official so go ahead, Barbara.

Barbara Walker: For the claims adjusting services, action item, Staff recommends that the Board of Governors, authorize Claims Adjusting Services contracts with 31 vendors as indicated in attachment A, for an initial term of 5 years, with 1, 3 year renewal, option, followed by 1, 2 year, option for an amount not to exceed \$500 million as set forth in this Claims Adjusting Services action item and authorize staff to take any appropriate or necessary action consistent with this item, and Chair, the vote is already standing, and thank you for allowing me to read that into the record.

Chairman Carlos Beruff: Very good. Thank you, Barbara. Okay. Anyone else have any comments? Hearing no comments, I entertain a motion to adjourn?

Governor Spottswood: Aye!

Governor Lydecker: Second

Chairman Carlos Beruff: Motion. A second. Folks have a nice summer. See? Everybody in July.

Governor Spottswood: Take care, everybody! Thank you!

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