Executive Summary

Finance and Investment Committee Meeting, March 12, 2025
Board of Governors Meeting, March 12, 2025

2025 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, traditional reinsurance markets and in 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 2025 Risk Transfer Program

The proposed 2025 risk transfer program was part of Citizens' operating budget presented at the December 2024 Board of Governors meeting.

Citizens aims to secure private reinsurance coverage of approximately $4.54 billion. This coverage would be comprised of $1.6 billion of existing private risk transfer remaining from 2023 and 2024, and $2.94 billion of new private risk transfer, with budgeted premiums of approximately $650 million. Under this scenario, Citizens would expose all of its surplus and have a potential Citizens policyholder surcharge of $559 million for a 1-in-100-year event.

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The proposed 2025 risk transfer layers are as follows:

- The Sliver Layer will sit alongside the FHCF. It provides approximately $394 million, in excess of $2.55 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 $4.15 billion of coverage for personal residential and commercial residential losses from the capital and traditional reinsurance markets, as follows:

  - Approximately $2.55 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 third year for these multi-year Notes (originally placed in 2023) which provide aggregate coverage.

  - A capital markets renewal risk transfer placement of $1.10 billion through Everglades Re II. This is the second year for these multi-year Notes (originally placed in 2024) which provide aggregate coverage.

Next Steps

Staff will work with Citizens' traditional and capital markets teams, as well as its financial advisor, to evaluate available options relating to the structure, terms, pricing, and other relevant matters with regards to the 2025 risk transfer program. Staff will present recommendations to the Board in April for final approval of the risk transfer program.

2025 Preliminary Risk Transfer Program

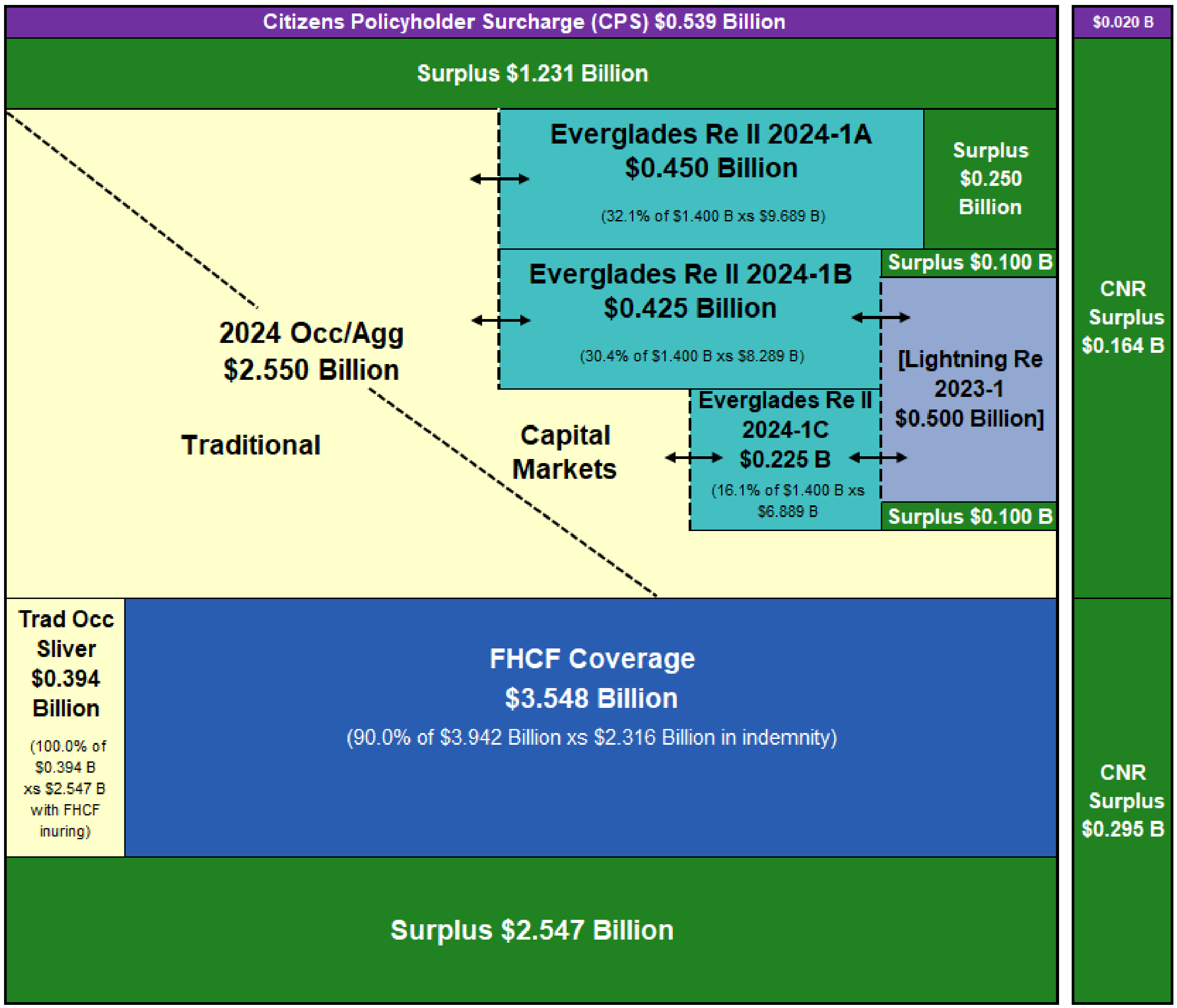
March 12, 2025

2025 Preliminary Layer Chart

Projected 2025 Surplus	$4.69
FHCF Coverage	$3.55
New Coverage	$2.94
Existing Coverage	$1.60
Citizens Policyholder Surcharge	$0.56
Emergency Assessment	$0.00

12/31/2024 PML with 10% LAE and -5.8% PR/CR, -7.6% CNR Growth Adjustment

Residential Loss & LAE	PML Return Time Single	PML Return Time Agg	OEP	AEP
$12.859 B	100	91	1.00%	1.10%
$12.320 B	93	85	1.08%	1.18%
$11.089 B	79	72	1.27%	1.39%
$9.689 B	63	58	1.58%	1.72%
$8.289 B	51	46	1.97%	2.19%
$6.889 B	39	35	2.55%	2.83%
$6.489 B	36	33	2.75%	3.04%
$2.547 B	14	13	7.30%	7.87%



CNR Loss + LAE	Res + CNR Loss + LAE
$0.479 B	$13.338 B

See Notes and Assumptions (page 3)

(Not to scale)

Notes and Assumptions

2025 Storm Season

ASSUMPTIONS

- Citizens' 2025 Budget Projected DWP — $3.7 Billion
- Citizens' Policyholder Surcharge Maximum — 15%
- 2024 Emergency Assessment Base (based on 2023 DWP) — $85.2 Billion
- PMLs are based on modeled losses as of December 31, 2024, Verisk Hurricane Model for the United States Version 2.0.0 as implemented in Touchstone (version 11.5.0). 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). December data is projected to September 30, 2025 using growth adjustment factors of -5.8% for PR/CR and -7.6% for CNR policy types. Interim Return Periods are derived by linear interpolation between 5-year intervals.
- 2025 Projected Surplus = Year end 2024 surplus + 2025 budget projected net income
- FHCF pays 10% of reimbursed loss for loss adjustment expense
- Citizens' 2025 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. 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. Three significant complicating factors are described below:

1) PR/CR PML vs. CNR PML: An actual 100-year PML event in the Residential portion of the book (PR/CR) may not be a 100-year PML event for the Non-Residential (CNR) portion of the book. The relative magnitude of actual losses for the Residential and Non-Residential portions will depend on the storm size and path.
2) Non-residential exposure: Commercial non-residential (CNR) exposures are not reinsured by FHCF. CNR losses are shown in a stand-alone chart and correspond to the actual CNR's PML and return periods.
3) Liquidity: These charts do not show liquidity. Ample PML resources may still require liquidity as many of the resources are not available immediately following a major hurricane. The timing and magnitude of receivables such as FHCF recoveries and assessments are unknown.