

# 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.