Executive Summary

Finance and Investment Committee Meeting, June 25, 2025

Board of Governors Meeting, June 25, 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.

Market Overview

2024 marked a turning point in the Florida risk transfer marketplace as evidenced by the effects of the 2022 and 2023 litigation reforms, which took time to make their way through the marketplace and show meaningful and positive changes within the Florida insurance market. Losses in 2024 from Hurricanes Helene and Milton as well as losses in the first quarter of 2025 from the Palisades and Eaton fires were manageable for the insurance and reinsurance risk markets – this is due to the breadth and depth of reinsurance capital and improved earnings position for writers as well as an increase in capital as mark-to-market losses have improved.

There is ample capacity from reinsurers due to healthy capital levels and the catastrophe bond market has seen significant capital inflows outpacing the traditional reinsurance market. Depending on the placement and cedent, overall rate reductions in Florida at the June 1 renewal are in the range of approximately 10% for layers above the FHCF.

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Citizens' staff worked extensively with its traditional reinsurance broker, Gallagher Re, and its capital markets co-underwriting team of Aon Securities and GC Securities, as well as its financial advisor, Raymond James, to market its traditional and capital markets risk transfer program via roadshows and one-on-one meetings with reinsurers and investors.

2025 Risk Transfer Program

As approved by the Board of Governors at its April 30, 2025 board meeting, Citizens sought authorization for a total of $4.49 billion of coverage, with a cost not to exceed $550 million. Thanks to favorable market conditions, Citizens was able to place its target risk transfer program of $4.49 billion which includes $2.89 billion of new placement and $1.60 billion of multi-year coverage from 2023 and 2024; at a gross rate-on-line (ROL) of 11.89%, a net ROL of 11.74%, and total cost of approximately $530.6 million.

The new risk transfer program for 2025 of $2.89 billion includes $1.369 billion in the traditional market and $1.525 billion in the capital markets, and has a net ROL of 11.95%, which is 13.5% lower than the net ROL line for the new risk transfer program in 2024 of 13.81%.

The 2025 risk transfer program incorporates strategic elements from prior risk transfer programs, which include: transferring risk alongside the FHCF and transferring single occurrence and annual aggregate risk to protect a portion of surplus for most catastrophic events and thereby eliminates the probability of emergency assessments for a 1-in-100-year-year event to the citizens of Florida and reduces the probability of a Citizens' policyholders surcharge to a 1-in-96-year return time..

The 2025 risk transfer layers are as follows:

- The Sliver Layer sits 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, will work in tandem with the mandatory coverage provided by the FHCF.

- Layer 1 sits above the Sliver Layer and the FHCF and provides $500 million of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows:

    - $275 million of single year, per occurrence coverage, placed in the traditional market, attaches after losses of $2.941 billion.

    - $225 million of new multi-year, annual aggregate coverage, placed through Everglades Re II, attaches after losses of $6.489 billion. This is the first year of this three-year coverage.

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- Layer 2 of this program sits above Layer 1 and provides $1.425 billion of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows:

  - $325 million of single year, per occurrence coverage, placed in the traditional market, attaches after losses of $3.652 billion.

  - $375 million of new multi-year, aggregate coverage, placed through Everglades Re II, attaches after losses of $7.200 billion. This is the first year of this three-year coverage.

  - $225 million renewal of multi-year, aggregate coverage, placed through Everglades Re II, attaches after losses of $7.200 billion. This is the second year of this three-year coverage.

  - $500 million renewal of multi-year, aggregate coverage, placed through Lightning Re. This is the third and final year for these multi-year Notes (originally placed in 2023) that utilize an industry loss index trigger based on Property Claims Services (PCS) published insured residential losses in the State of Florida for Florida named storms.

- Layer 3 of this program sits above Layer 2 and provides $1.025 billion of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows:

  - $125 million of single year, per occurrence coverage, placed in the traditional market, attaches after losses of $4.852 billion.

  - $475 million of new multi-year, aggregate coverage, placed through Everglades Re II, attaches after losses of $8.400 billion. This is the first year of this three-year coverage.

  - $425 million renewal of multi-year, aggregate coverage, placed through Everglades Re II, attaches after losses of $8.630 billion. This is the second year of this three-year coverage.

- Layer 4 of this program sits above Layer 3 and provides $1.150 billion of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows:

  - $250 million of single year, per occurrence coverage, placed in the traditional market, attaches after losses of $6.052 billion.

  - $450 million of new multi-year, aggregate coverage, placed through Everglades Re II, attaches after losses of $9.600 billion. This is the first year of this three-year coverage.

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- $450 million renewal of multi-year, aggregate coverage, placed through Everglades Re II, attaches after losses of $9.847 billion. This is the second year of this three-year coverage.

A Citizens Policyholder Surcharge (CPS) of up to $300 million could be experienced between a 1-in-96-year event and a 1-in-100-year event.

Summary

In summary, the 2025 private risk transfer program totals $4.49 billion of coverage, with approximately $1.369 billion of coverage in the global traditional reinsurance market and $3.125 billion of global capital markets coverage, with an overall weighted average gross ROL of 11.89% and net ROL of 11.74%. The 2025 risk adjusted price reflects substantial improvement in market conditions. For coverage placed in 2025, the price is approximately 13.5% lower than it would have cost for similar coverage in 2024.

2025 Risk Transfer Program

CITIZENS
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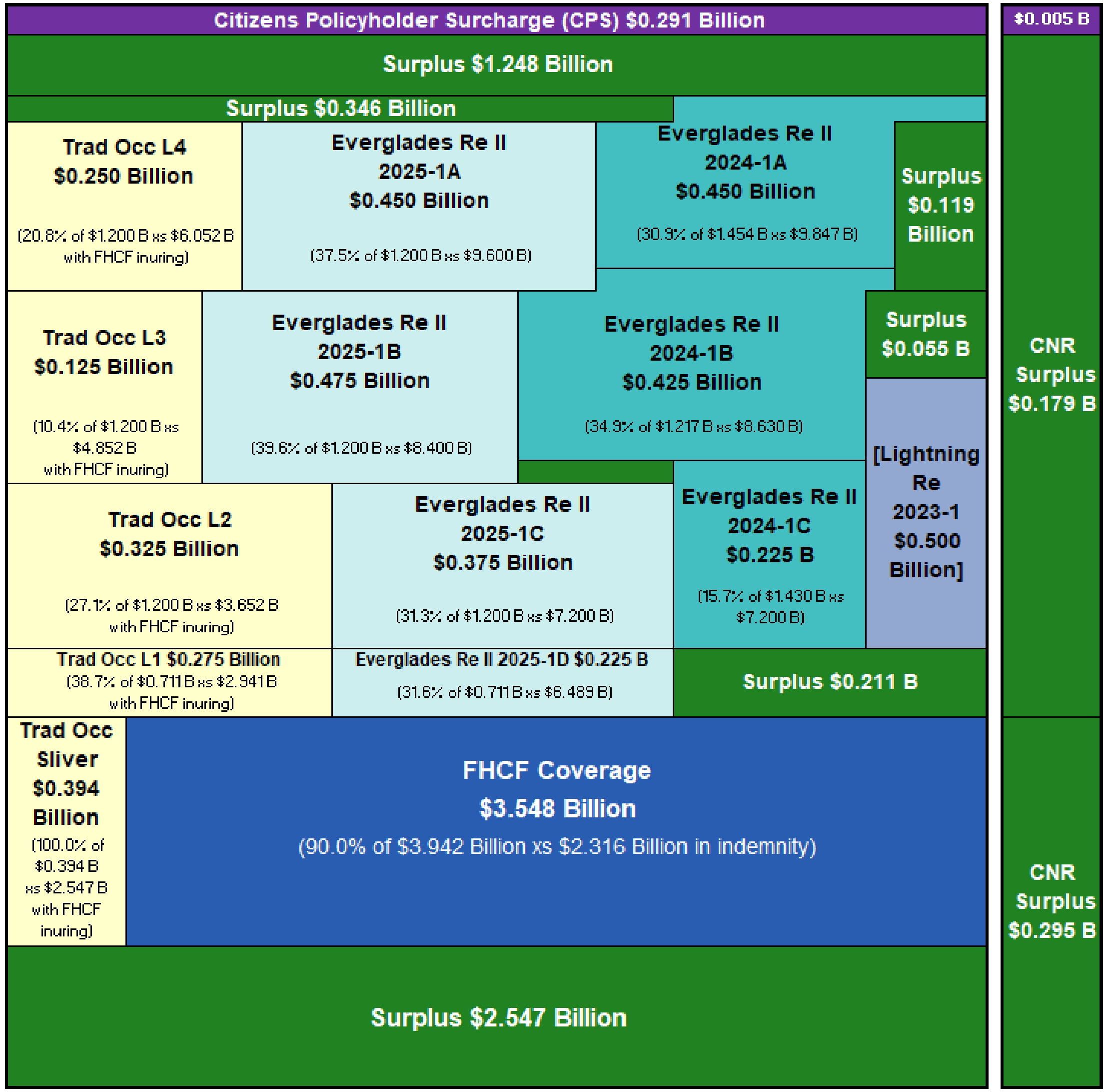
June 25, 2025

2025 Layer Chart

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

(Not to scale)

Residential Loss & LAE	PML Return Time Single	PML Return Time Agg	OEP	AEP
$12.859 B	100	91	1.00%	1.10%
$12.568 B	96	88	1.04%	1.14%
$11.320 B	82	75	1.22%	1.34%
$10.819 B	75	69	1.33%	1.46%
$9.866 B	65	60	1.54%	1.68%
$9.619 B	63	57	1.59%	1.74%
$8.649 B	54	49	1.86%	2.05%
$8.400 B	52	47	1.93%	2.14%
$7.200 B	42	38	2.39%	2.65%
$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

($ Billions)

2025 Projected Surplus	$5.00
FHCF Coverage *(preliminary)*	$3.55
New Risk Transfer Coverage	$2.89
Existing Risk Transfer Coverage	$1.60
Total Private Risk Transfer Program	$4.49
Citizens Policyholder Surcharge	$0.30
Emergency Assessment	$0.00

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See Notes and Assumptions (page 3)

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 +/- adjustment for reinsurance cost and differences between budget and updated forecast FHCF premium
- 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.