

Executive Summary

Board of Governors Teleconference, March 3, 2017

2015 Everglades Re II Catastrophe Bond

History

In 2015, Citizens entered into a catastrophe bond reinsurance contract with Everglades Re II for coverage of \$300 million. Coverage was provided by Everglades Re II through the issuance of Series 2015-1 bonds with the following terms: 1) initial attachment probability of 1.46%, 2) initial exhaustion probability of 1.19%, 3) initial expected loss probability of 1.31%, and 4) initial gross rate-on-line of 5.15% (pricing multiple of 3.93x).

Pursuant to the underlying agreements, on each reset date, the attachment probability is reset to maintain an expected loss of the Everglades Re II Series 2015-1 bonds within a range of 1.21% to 1.41% (+/- 0.10% of the initial expected loss probability of 1.31%). Based on the projected placement of the Everglades Re II Series 2015-1 bonds for the 2017 contract year, the expected loss is estimated at 1.35%, which would increase the gross rate-on-line to 5.31%.

The Everglades Re II Series 2015-1 bonds are callable on May 3rd, 2017 subject to Citizens' Coastal Account total insured value as of February 28th, 2017 and are callable without a call premium if Citizens' Coastal Account total insured value is less than or equal to \$68.178 billion. As of January 31st, 2017, Citizens' Coastal Account total insured value was \$58.641 billion, which permits Citizens to call the Everglades Re II Series 2015-1 bonds at par value and without a call premium. Citizens must notify investors of its intention to call the bonds at least 35 days (March 29, 2017) and no more than 75 days (February 17, 2017) prior to the optional redemption date of May 3rd, 2017.

By calling the Everglades Re II Series 2015-1 bonds, Citizens will have full flexibility to optimize the structure of its 2017 risk transfer program without any existing risk transfer carryover and will be able to take full advantage of current market conditions. Based on these factors, we believe it is the most efficient option to call the Everglades Re II Series 2015-1 bonds on the optional redemption date of May 3rd, 2017. This will allow Citizens to place its 2017 risk transfer program both in the traditional and capital markets as approved by the Board on December 17, 2016 with the understanding that the 2017 risk transfer program must be brought back to the Board of Governors for final approval prior to the execution of any financial transaction.

Recommendation

Citizen's staff recommends the Board of Governors to:

- a) Approve the recommendation to call the 2015 Everglades Re II Catastrophe Bond without a call premium; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.