

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
BOARD OF GOVERNORS MEETING TELECONFERENCE
Tuesday, May 8, 2018**

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened via teleconference on Tuesday, May 8, 2018 at 3:00 p.m. (EST).

The following members of the Board were present telephonically:

Chris Gardner, Chairman
Gary Aubuchon
Blake Capps
Marc Dunbar
Freddie Schinz
Jim Holton
John Wortman
John McKay

The following Citizens staff members were present telephonically:

Barry Gilway
Barbara Walker
Dan Sumner
Christine Ashburn
Kelly Booten
Violet Bloom
Joe Martins
Steve Bitar
Jay Adams
Jennifer Montero

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens May 8, 2018 Board of Governors Teleconference. This meeting is publically noticed in the *Florida Administrative Register* to convene at 3:00 p.m. (EST). Please press *6 to mute your line and #6 to unmute your line. Citizens Board meetings are recorded and transcribed minutes are available on our website. Our meeting will convene with a roll call. Chairman, would you like for me to proceed with roll call?

Chris Gardner: Please Barbara.

Barbara Walker: Thank you. (Roll was called and all Board members were present except Bette Brown.)

Chairman Gardner: Thank you Barbara. Good afternoon everyone. Welcome to our May 8, 2018 Board of Governors teleconference meeting. I'll be brief. I want to talk about last year's Hurricane Irma. I want to remind everyone of the importance of risk transfer for protecting surplus and reducing potential tax payer assessments. Hurricane Irma was a significant event for Citizens and many other Florida Insurers; however, we all know it could've been far worse depending on the storm. Despite Irma's impact, our capital position of accumulated surplus and the proposed 2018 Risk Transfer Program will allow us to face the upcoming wind season, for the fourth consecutive year with no potential assessment risk in a 1-100 year storm event. I would like to thank Jennifer Montero for her focus and capable leadership in delivering the Risk Transfer Program that is before us today. This program that will provide more cover for less money than one year ago. I would also like to thank our reinsurance brokers, Guy Carpenter and Willis Re, our sole structuring agent, John Modeen with Citi and Bank of America Merrill Lynch who acted with Citi as co-book-runners. Additionally, I would like to thank AIR for providing modeling services and finally, Kapil Bhatia, our most trusted financial advisor, with Raymond James, who played a critical role in the architecture of the 2018 Risk Transfer Program. Thank you again to all for a job well done. With that said, I would like to recognize Jennifer Montero to present the program. Good afternoon, Jennifer, you are recognized.

Jennifer Montero: Thank you Mr. Chairman. Good afternoon Board Members. As you know, Citizens' statute requires that the Board make its best effort to procure catastrophe reinsurance to cover a 1 in 100 year storm at reasonable rates. The analysis to purchase reinsurance is evaluated by staff each year and the recommendation is made to the board. Citizens' reinsurance strategy has been to eliminate the potential of an assessment in a 1 in 100 year storm, which was accomplished in 2015, preserve surplus, use aggregate coverage to address the impact of multiple storms, protect the commercial non-residential exposure, which does not have any CAT Fund coverage, use multi-year coverage when available, and to optimize the use of both the traditional and the capital markets. The risk transfer program that we are proposing today accomplishes all of the goals set forth in our strategy.

The PLA/CLA exposes 32% of its surplus with only CAT Fund coverage and no private reinsurance. Whereas the Coastal Account exposes 86% of its surplus, with only CAT Fund coverage and no private reinsurance placement. Therefore, this proposal for risk transfer focuses on the Coastal Account only.

With the proposed Coastal Account risk transfer placement, 66% of the surplus would be protected, which is a 32% increase in protected surplus from last year.

Staff has worked extensively with both Citizens' co-brokers, Willis Re and Guy Carpenter, and Citizens' financial advisor, Raymond James, to evaluate available options relating to the structure, terms, pricing, and other relevant matters in structuring the 2018 Traditional Risk Transfer Program. The co-brokers perform reinsurance market credit analyses to evaluate the financial strength of reinsurers seeking placement on Citizens' program to ensure the reinsurance partners are financially stable, solvent, and properly managed in order to pay valid claims when due. We convened with a number of global traditional reinsurance markets over the last four months to market Citizens' Risk Transfer Program.

Additionally, we worked with the capital markets financing team: Citibank, Bank of America Merrill Lynch, and Raymond James to structure Everglades Re's sixth catastrophe bond. We conducted a global roadshow over a two week period and met with numerous investors. Market conditions continue to be favorable to transfer risk in the capital markets and the benefits of doing so include diversification of Citizens' Risk Transfer Program while providing collateralized, multi-year aggregate protection at a fixed cost.

In your materials you should have the 2018 proposed layer charts. On page two you will find the Coastal Account layer chart. I will walk you through our recommended Risk Transfer Program. The 1st layer would work in tandem with the mandatory coverage provided by the CAT Fund. The placement consists of approximately \$183 million of coverage that sits alongside the CAT Fund. This layer is a single shot, per occurrence.

The 2nd layer, which sits right above the Cat Fund, provides \$880 million of coverage. This annual aggregate loss layer is divided between the traditional and capital markets. You may recall, the 2017 CAT bond was a multi-year placement providing \$300 million of coverage over three years. Additionally, \$180 million of the layer was multi-year traditional coverage placed in 2017, providing two limits over three years. Therefore, \$480 million of coverage in this layer is carried over from the 2017 program. The remaining \$400 million of the layer will consist of multi-year traditional coverage and a three year Everglades Re CAT bond. The 2018 CAT bond is very similar to the 2017 CAT bond. And like the 2015 and 2017 CAT bonds, is callable in year three, in the event of a significant change to Citizens' exposure, primarily due to depopulation.

Layer three of this program provides \$300 million of traditional annual aggregate loss coverage, protecting Citizens against multiple storms in a single season.

On page three of the layer charts is the fourth layer; \$60 million of coverage for the commercial non-residential exposure not covered by other layers of the program and for which Citizens has no CAT Fund coverage. This layer will be placed in the traditional market.

This proposed risk transfer program will result in a combined 2018 traditional reinsurance and capital markets risk transfer program of approximately \$1.4 billion, which is almost \$100 million more than the \$1.3 billion of risk transfer that was purchased last year at a cost not to exceed \$92 million, which is less than the \$92.7 million spent in 2017. I will pause now for any questions.

Chairman Gardner: Members, any questions for CFO Montero?

John Wortman: Jennifer, this is John Wortman, I just think it's a tribute to all you guys to come through a significant storm year and buy more coverage at less price, and I'd like to say congratulations and job well done.

Jennifer Montero: Thank you very much Governor Wortman.

Chairman Gardner: Any other questions, members? (*Hearing none*) Please proceed Jennifer.

Jennifer Montero: I'll read to you the formal recommendation.

It is recommended that Citizens' Board approve the recommendation to purchase the 2018 traditional and capital markets risk transfer in the Coastal Account at a cost not to exceed the amount of \$92 million; and authorize staff to take any appropriate or necessary action consistent with this Action Item. (Vote was unanimous)

Freddie Schinz: I'll make the motion to approve.

John McKay: I'll second.

Chairman Gardner: Thank you, Governor McKay. Barbara, I think we will do a roll call vote.

Barbara Walker: Yes sir....Chris Gardner?

Chairman Gardner: Yes

Barbara Walker: Vice Chair, Gary Aubuchon?

Gary Aubuchon: Yes

Barbara Walker: Governor Bette Brown? (Excuse me, Governor Brown is not on the line.)

Governor Capps:

Blake Capps: Yes

Barbara Walker: Governor Marc Dunbar?

Marc Dunbar: Yes

Barbara Walker: Governor Freddie Schinz?

Freddie Schinz: Yes

Barbara Walker: Governor Jim Holton?

Jim Holton: Yes

Barbara Walker: Governor John Wortman?

John Wortman: Yes

Barbara Walker: Governor John McKay?

John McKay: Yes

Barbara Walker: It's a unanimous vote sir.

Chairman Gardner: Is there any new business for the good of the order? Okay, hearing none I'll accept a motion to adjourn. Motion was made and seconded. Meeting adjourned.