Executive Summary

Finance and Investment Committee Meeting, March 26, 2019

Board of Governors Meeting, March 27, 2019

2019 Risk Transfer Program

History

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 eliminate the amount and likelihood of assessments after such an event.

Central to Citizens' goal of reducing exposure and, by extension, reducing or eliminating the amount and likelihood of its assessment burden on Florida tax payers, 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 delivers a dollar- for-dollar reduction of 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.

2019 Risk Transfer Program

The proposed 2019 risk transfer program for the Coastal Account incorporates all strategic elements from prior risk transfer programs, which include: transfer risk alongside the FHCF, transfer commercial non-residential (CNR) risk, and transfer aggregate annual risk in order to protect a portion of surplus for most catastrophic events and thereby eliminating assessments for a 1-100 year event and further reducing the amount and likelihood of assessments beyond the 1-100 year event to the citizens of Florida.

Citizens plans to transfer exposure in the amount of approximately $1.4 billion to the global reinsurance and capital markets in 2019 for the Coastal Account, which includes $880 million of risk transfer from 2017 and 2018 that remains in place for the 2019 season - $330 million of multi-year traditional reinsurance and $550 million of capital markets risk transfer through Everglades Re. Based on the proposed 2019 risk transfer program, the total amount of surplus exposed for a 1-100 year event in the Coastal Account would be approximately 22%, or approximately $616 million.

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The proposed 2019 risk transfer layers for the Coastal Account are as follows:

- Layer 1 of this program covers personal residential and commercial residential losses and would work in tandem with the mandatory coverage provided by the FHCF to include the co-payment of the 10% of losses not covered by the FHCF (note that the FHCF reimburses 90% of covered losses). In addition, the FHCF only covers 5% of loss adjustment expenses ("LAE") and this layer covers any LAE above 5%. This layer will be placed in the traditional market.

- Layer 2 of this program covers annual, aggregate personal residential and commercial residential losses and will attach after $528 million of losses. This layer will be placed in the traditional market.

- Layer 3 of this program would provide coverage for CNR losses not covered by other layers of the program and for which Citizens has no FHCF coverage. This layer will be placed in the traditional market.

After significant losses in PLA due to Hurricanes Irma and Michael, along with non-weather losses and assignment of benefits, the PLA surplus has decreased significantly and is now exposing much more of its surplus for a 1-100 year storm than in previous years – approximately 62%. Citizens' strategic risk transfer plan for PLA, similar to the Coastal Account, considers the transfer of a relatively marginal amount of risk in order to reduce the amount of surplus exposed in a 1-100 year event. In order to accomplish this, the amount of risk transfer purchased will be approximately $200 million alongside and above the FHCF.

Recommendation

Staff will work with Citizens' co-brokers and its financial advisor to evaluate available options relating to the structure, terms, pricing, and other relevant matters in structuring the 2019 risk transfer program. Citizens and its financial advisor, Raymond James, and co-brokers, Willis Re and Guy Carpenter, will convene with a number of global traditional reinsurers to market Citizens' risk transfer programs over a two week period in April. Following these meetings, staff will provide a recommendation to the Board of Governors in late April or early May for approval.