Executive Summary

Board of Governors Teleconference, May 17, 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 $1.38 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 24%, or approximately $656 million.

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

- Layer 1 of this program covers $100 million in excess of $393 million of 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)

- Layer 2 of this program covers $350 million of annual, aggregate personal residential and commercial residential losses and will attach after $493 million of losses

- Layer 3 of this program would provide approximately $53 million of coverage for CNR losses not covered by other layers of the program and for which Citizens has no FHCF coverage

After significant losses in Personal Lines Account (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 63%, or approximately $1.1 billion of surplus is exposed for a 1-100 year event. Citizens' strategic risk transfer plan for PLA, similar to the Coastal Account, considers the transfer of $200 million of risk alongside and above the FHCF, which will reduce the amount of surplus exposed in a 1-100 year event to approximately 52%.

- Layer 1 of this program covers $200 million in excess of $415 million of 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) as well as $94 million of losses above the FHCF layer

Recommendation

Staff recommends that the Board of Governors take the following actions:

1) Approve the recommendation to purchase traditional reinsurance risk transfer in the Coastal Account and PLA at a cost not to exceed the amount of $110 million; and

2) Authorize Staff to take any appropriate or necessary action consistent with this Action Item.