Executive Summary

Finance and Investment Committee Meeting, March 28, 2023
Board of Governors Meeting, March 29, 2023

2023 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.

Proposed 2023 Risk Transfer Program

The proposed 2023 risk transfer program was part of Citizens' operating budget presented at the December 2022 Board of Governors meeting. This year, Citizens has taken a two-phase approach to place risk transfer coverage with the intent of gaining better market participation and pricing.

At the March 17, 2023 Board of Governors meeting, Citizens received approval to purchase $500 million in coverage across all three Citizens' accounts through a new special purpose vehicle, Lightning Re. These Class A Notes provide multi-year collateralized excess of loss protection on an annual aggregate basis. The transaction closed March 24, 2023 and coverage is effective beginning April 1, 2023.

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For the second phase, Citizens will work on the remaining portion of the placement which incorporates strategic elements from prior risk transfer programs. This includes the transfer of risk alongside the FHCF and the transfer of single occurrence and annual aggregate risk above the FHCF, with the goal of reducing the amount and likelihood of potential assessments for a 1-in-100 year event to the citizens of Florida.

Coastal Account

The Coastal Account coverage would be approximately $2.890 billion. This coverage would be comprised of $835 million of existing private risk transfer (reset of $625 million from 2021 and an estimated $210 million from 2023 capital markets placements) and $2.055 billion of new private risk transfer, with budgeted premiums of $325 million. Under this scenario, the Coastal Account would expose all of its surplus for a 1-in-100-year event and would have a potential assessment burden of $488 million for a 1-in-100 year event.

The proposed 2023 risk transfer layers for the Coastal Account are as follows:

- The Sliver Layer will sit alongside the FHCF. It provides approximately $225 million, in excess of $1.152 billion, of annual, per occurrence coverage which 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. This layer will be placed in the traditional market.

- Layer 1 will sit above the Sliver Layer and the FHCF. This annual, per occurrence layer provides $400 million of coverage for personal residential and commercial residential losses and will attach after $1.377 billion of losses. This layer will be placed in the traditional market.

- Layer 2 of this program will sit above Layer 1. This layer will provide $2.265 billion of annual aggregate coverage for personal residential and commercial residential losses from the capital and traditional reinsurance markets, as follows:

    - $625 million of capital markets renewal risk transfer coverage placed in 2021 through Everglades Re II. This multi-year, aggregate layer provides coverage for personal residential losses and attaches after $3.800 billion in losses. This is the final year for these multi-year Notes.

    - Approximately $1.640 billion of annual aggregate coverage from the traditional and capital markets.

        - An estimated $210 million for the 2023 multi-year annual aggregate capital markets placement through Lightning Re. is included in this total.

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Personal Lines Account (PLA)

The proposed risk transfer program for the PLA incorporates elements from prior risk transfer programs with estimated coverage of $2.919 billion. This coverage would be comprised of $795 million of existing private risk transfer (reset of $525 million from 2021/2022 and an estimated $270 million from 2023 capital markets placements) and $2.124 billion of new private risk transfer, with budgeted premiums of $400 million. Under this scenario, the PLA would expose all its surplus for a 1-in-100-year event and would have a potential assessment burden of $2.606 billion for a 1-in-100-year event.

The proposed 2023 risk transfer layers for the PLA are as follows:

- The Sliver Layer of this program will sit alongside the FHCF. It provides approximately $394 million, in excess of $2.020 billion, of annual, per occurrence coverage which covers personal 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. This layer will be placed in the traditional market.

- Layer 2 will sit above the Sliver Layer and the FHCF. It is comprised of capital markets renewal risk transfer placement of $525 million of coverage placed in 2021 and 2022 through Everglades Re II. This multi-year, aggregate layer provides coverage for personal residential losses and attaches after $5.961 billion in losses. This is the final year for the 2021 Notes.

- Layer 3 will sit above Layer 2. This layer will provide $2.000 billion of coverage from the capital and traditional reinsurance markets, as follows:
    - Approximately $1.730 billion of occurrence and annual aggregate coverage from the traditional and capital markets.
        - An estimated $270 million for the 2023 multi-year annual aggregate capital markets placement through Lightning Re. is included in this total.

Next Steps

Staff will work with Citizens' traditional and capital markets teams, as well as its financial advisor, to evaluate available options, relating to the structure, terms, pricing, and other relevant matters with regards to structuring the 2023 risk transfer program. Staff will present recommendations to the Board in May for final approval of the risk transfer program.

2023 Risk Transfer Program

March 28 & 29, 2023

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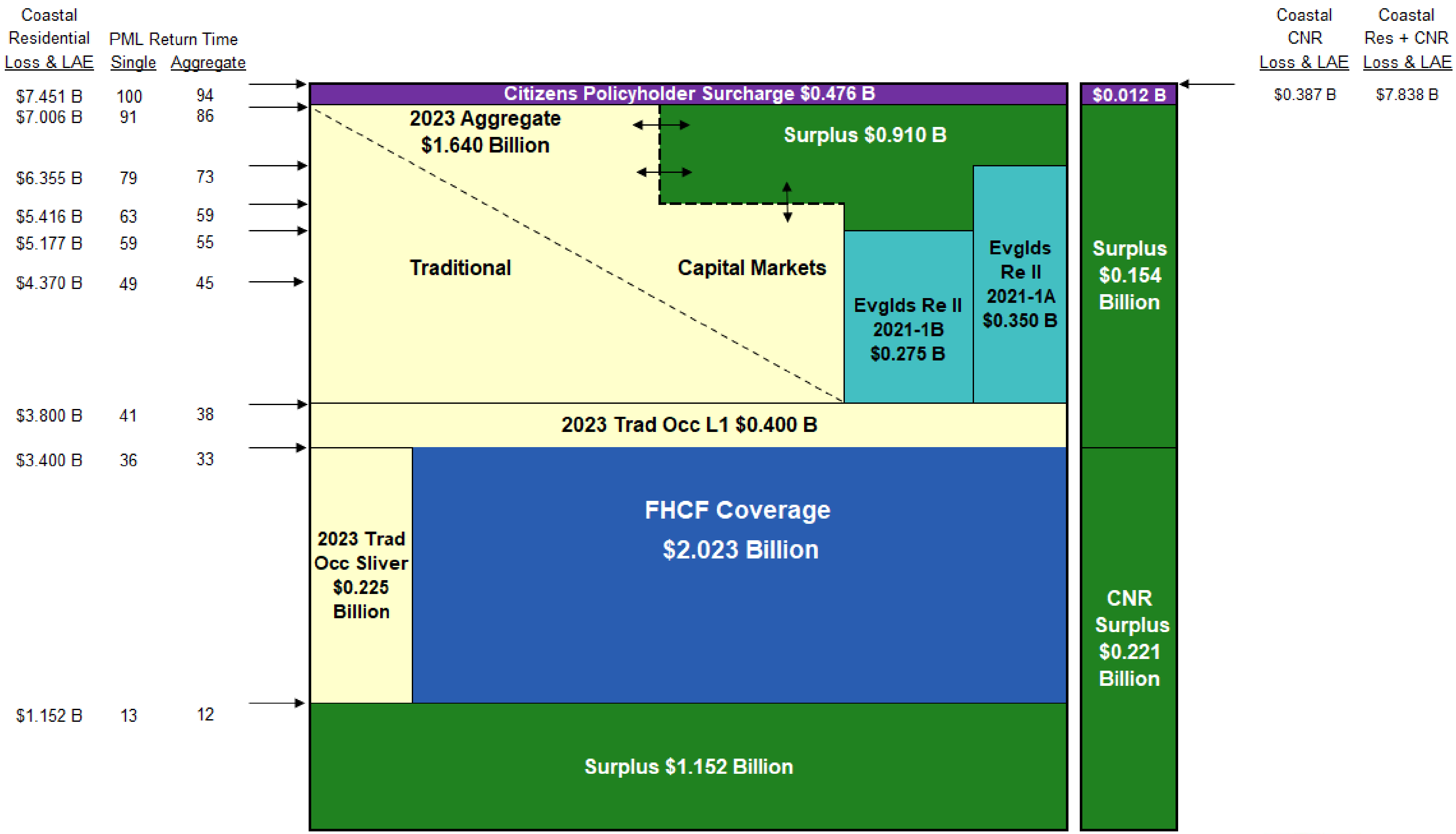
Preliminary 2023 Coastal Account Layer Chart

Residential (Personal & Commercial) and Commercial Non-Residential (CNR)

12/31/2022 PMLs with 10% LAE and 30.7% PR/CR, 20.3% CNR Growth Adjustment

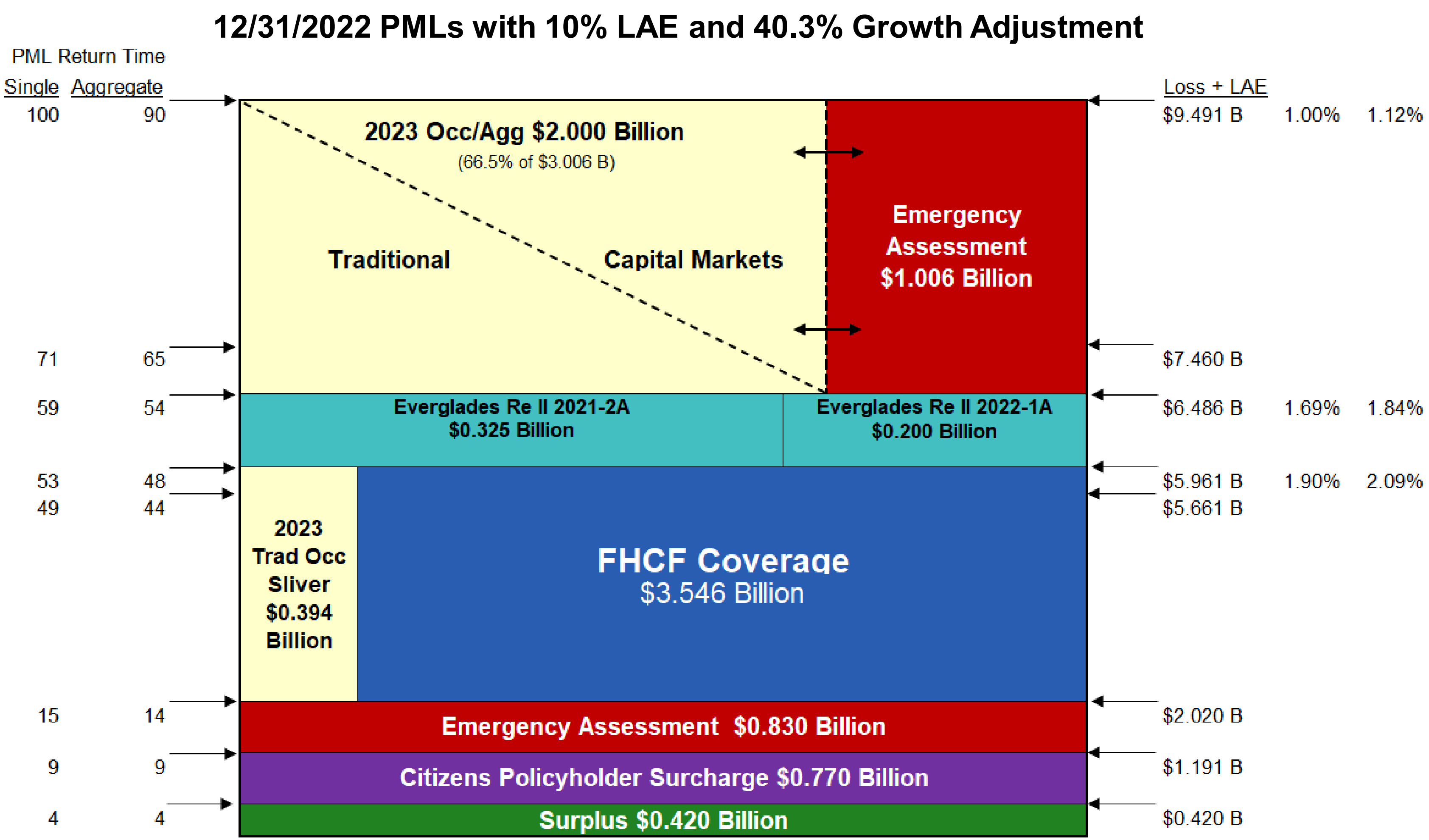


Approximately 100% of Coastal Account surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

(Not to scale)

Preliminary 2023 PLA Layer Chart



Approximately 100% of PLA surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

(Not to scale)

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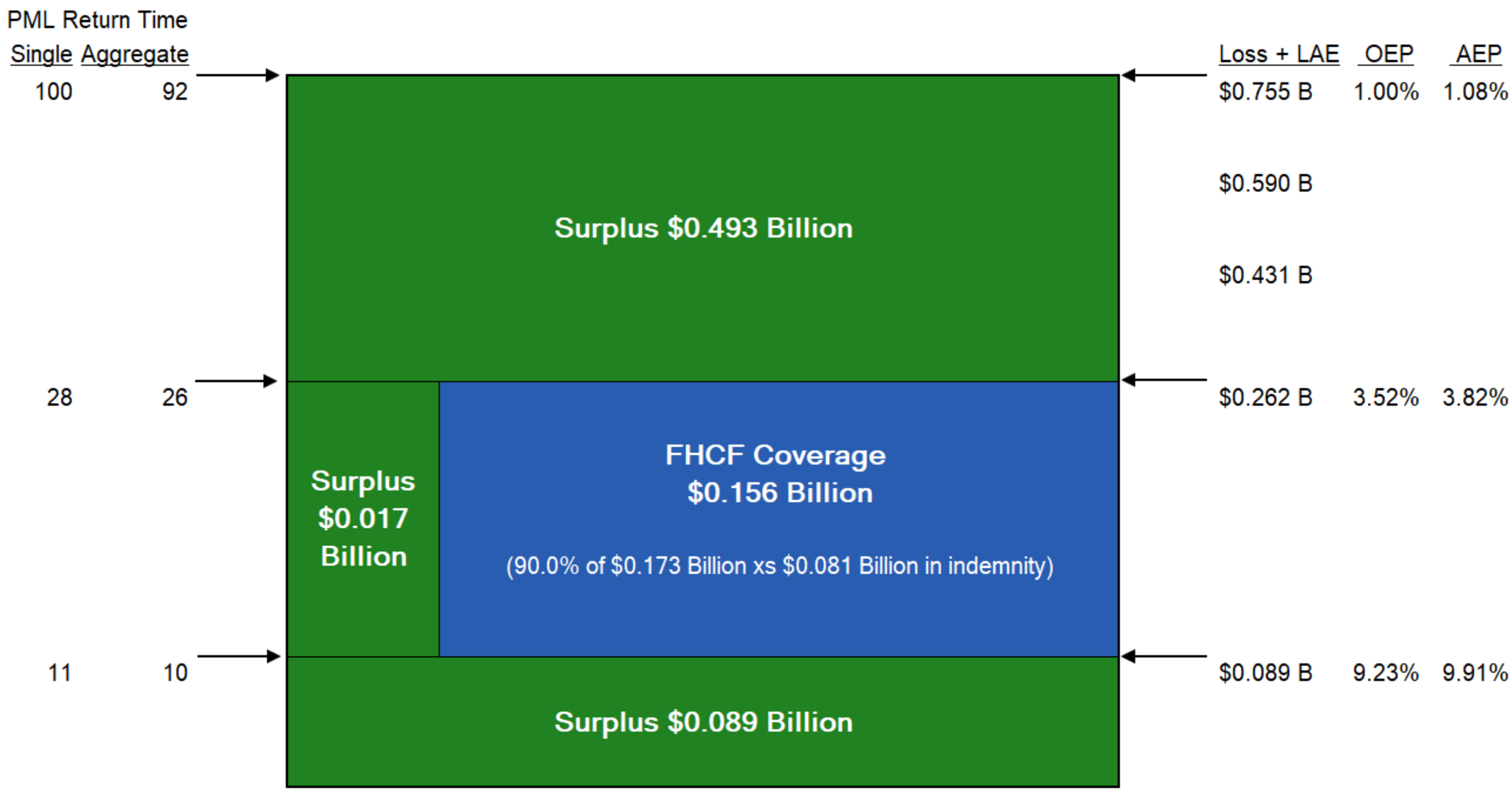
Preliminary 2023 CLA Layer Chart

12/31/2022 PMLs with 10% LAE and 104.7% Growth Adjustment



Approximately 29% of CLA surplus is exposed in a 1-in-100 year event.

See Notes and Assumptions (page 5)

(Not to scale)

Notes and Assumptions
2023-2024 Storm Season

ASSUMPTIONS

▪ Citizens' 2023 Budgeted DWP	\$5.1 Billion
▪ Citizens' Policyholder Surcharge Maximum % Per Account	15%
▪ 2022 Regular Assessment Base (based on 2021 DWP)	\$61.5 Billion
▪ Regular Assessment Maximum % Per Account	2% for Coastal; 0% for PLA/CLA
▪ 2022 Emergency Assessment Base (based on 2021 DWP)	\$63.3 Billion

- PMLs are based on modeled losses as of December 31, 2022, AIR Hurricane Model for the United States Version 1.0.0 as implemented in Touchstone (version 9.1.0). 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). The PMLs are adjusted to project to September 30, 2023, using growth factors of 30.7% for Coastal PR/CR, 20.3% for Coastal CNR, 104.7% for CLA, 40.3% for PLA, and 39.9% for the hypothetical consolidated accounts.
- Interim Return Periods are derived by linear interpolation between 5-year intervals
- 2023 Projected Surplus = projected year end 2022 surplus + 2023 budgeted 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' 2023 FHCF coverage is based on preliminary retention and coverage estimates. Actual Citizens' FHCF attachment and limits of coverage could differ significantly from estimates.

NOTES

These charts are imperfect! They attempt to show projected claims-paying resources, but they are approximations only. Four significant complicating factors are described below:

1) Coastal PML vs. PLA/CLA PML: An actual 100-year PML event in the Residential portion of the Coastal Account may not be a 100-year PML event for PLA/CLA nor for the Non-Residential portion of the Coastal Account. The relative magnitude of actual losses for Coastal and PLA/CLA will depend on the storm size and path
2) Combining PLA and CLA: The PLA and CLA are separate accounts for deficit calculation and assessment purposes but are combined for FHCF and credit purposes. It is impossible to accurately show the PML resources situation of these accounts on either separate or combined charts since simplifications must be made in either case that could prove materially inaccurate
3) Non-residential exposure: Commercial non-residential (CNR) exposures in the CLA and Coastal Account are not reinsured by FHCF. Coastal CNR losses are shown in a stand-alone chart and correspond to the actual CNR's PML and return periods. CNR is a small portion of the CLA Account and so is not considered in that chart.
4) Liquidity: These charts do not show the liquidity needs of the accounts. An account with ample PML resources may still require liquidity as many of the PML resources are not available immediately following a major hurricane. The timing and magnitude of receivables such as FHCF recoveries and assessments are unknown.

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