Citizens Property Insurance Corporation

Annual Report of Aggregate Net Probable Maximum Losses,
Financing Options, and Potential Assessments

February 2023

Table of Contents

The data contained in this report is unaudited. This report is prepared by Raymond James as financial advisor to Citizens Property Insurance Corporation.

Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments

Purpose and Scope

Section 627.35191 Florida Statutes, enacted in 2013, requires Citizens Property Insurance Corporation (Citizens) to provide a report to the Legislature and the Financial Services Commission identifying the aggregate net probable maximum losses, financing options, and potential assessments of Citizens. Section 627.35191 Florida Statutes follows:

> **627.35191 Required Reports. —**
> (1) By February 1 of each year, the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation shall each submit a report to the Legislature and the Financial Services Commission identifying their respective aggregate net probable maximum losses, financing options, and potential assessments. The report issued by the fund and the corporation must include their respective 50-year, 100-year, and 250-year probable maximum losses; analysis of all reasonable financing strategies for each such probable maximum loss, including the amount and term of debt instruments; specification of the percentage assessments that would be needed to support each of the financing strategies; and calculations of the aggregate assessment burden on Florida property and casualty policyholders for each of the probable maximum losses.

Introduction

Citizens plays an important role in the provision of property insurance coverage for Florida residents unable to find coverage in the private market. Eleven consecutive seasons with minimal claims payment activity until Hurricane Irma in 2017 and Hurricane Michael in 2018, allowed Citizens to accumulate resources for future storms. Citizens had adequate financial resources entering the 2022 season, with estimated combined surplus in all three accounts (PLA, CLA and Coastal) of approximately $6.8 billion. In addition to its surplus, Citizens' financial resources for 2022 also included a reinsurance program of over $2.5 billion through both the traditional reinsurance and capital markets, approximately $4.0 billion through the Florida Hurricane Catastrophe Fund (FHCF), and pre-event debt totaling $275 million that provides liquidity only. However, due to Hurricane Ian, Citizens' financial resources have been significantly depleted and the projected 2023 surplus is approximately $4.9 billion.

If Florida is impacted by a storm or series of storms in 2023, Citizens will need to rely on its assessment capability and / or post-event financing to meet its policyholder obligations.

For the 2023 season, in addition to its surplus of approximately $4.9 billion, Citizens is projected to have approximately $6.0 billion in FHCF reimbursement and is planning for approximately $5.8 billion of private risk transfer (of which $1.2 billion is currently in place for the 2023 season remaining from 2022). Catastrophic losses, either from a single event or from multiple events, that exhaust its claims paying resources resulting in a deficit to any of Citizens' accounts will require Citizens to issue post-event bonds in order to meet its claims-paying needs. Repayment of any post-event bonds issued would be funded through the collection of the associated Citizens policyholder surcharge and emergency assessment. For up to a 1-250 year event, Citizens is projected to have an assessment burden of approximately $8.6 billion for PLA/CLA and approximately $5.3 billion for the Coastal Account.

The analyses presented in this report summarize Citizens' claim paying resources and how Citizens would apply these resources after an event or series of events.

Aggregate Net Probable Maximum Losses

Through three accounts, Citizens provides property insurance coverage in Florida to individuals and businesses that meet statutory criteria. While these accounts are maintained separately for financial purposes (including deficit and assessment calculations), two of the accounts – the Personal Lines Account (PLA) and Commercial Lines Account (CLA) – are combined for purposes of FHCF coverage and bond security. A summary of the three accounts follows:

- Coastal Account: The Coastal Account provides wind-only and multi-peril coverage for policyholders (residential and commercial) in defined geographic areas near the coast.

- Personal Lines Account: The PLA provides residential multi-peril and ex-wind coverage throughout Florida.

- Commercial Lines Account: The CLA provides commercial residential (condominium association, etc.) and commercial nonresidential coverage throughout Florida.

Table 1 on the following page presents the projected net Probable Maximum Loss (PML), including 10% of loss to account for Loss Adjustment Expenses, from storms of the return time specified for: (1) the Coastal Account; (2) the PLA and CLA on an additive basis; and (3) all three accounts combined on an additive basis. The loss calculations are as of December 31, 2022 and were prepared by Citizens using AIR Hurricane Model for the United States Version 1.0.0 as implemented in Touchstone 2021 (version 9.1.0, 50K US Hurricane - Florida Regulatory Event Set). Table 1 also illustrates Citizens' projected payment sources for each return time, including surplus, FHCF reimbursement and private risk transfer, and identifies any shortfalls which would require the levy of the policyholder surcharge, regular assessment (Coastal Account only) and emergency assessment.

Table 1
($ in millions)

Coastal

Return Time (Years)	PML[1] (Coastal)	Projected FHCF Reimbursement	Projected Payment from Surplus[2]	Projected Private Reinsurance / Catastrophe Bonds[3]	Projected Assessable Shortfall
250	$12,701	$2,111	$2,437	$2,900	$5,253
100	$7,838	$2,111	$2,437	$2,900	$390
50	$4,745	$2,111	$1,221	$1,412	$0

PLA and CLA[4]

Return Time (Years)	PML[1] (PLA + CLA)	Projected FHCF Reimbursement	Projected Payment from Surplus[2]	Projected Private Reinsurance / Catastrophe Bonds[3]	Projected Assessable Shortfall
250	$16,945	$3,864	$1,507	$2,936	$8,638
100	$10,246	$3,864	$1,012	$2,936	$2,434
50	$6,180	$3,550	$697	$376	$1,556

Total Coastal, PLA and CLA[5]

Return Time (Years)	PML[1] (Coastal + PLA + CLA)	Projected FHCF Reimbursement	Projected Payment from Surplus[2]	Projected Private Reinsurance / Catastrophe Bonds[3]	Projected Assessable Shortfall
250	$29,646	$5,975	$3,945	$5,836	$13,890
100	$18,085	$5,975	$3,450	$5,836	$2,824
50	$10,925	$5,661	$1,919	$1,789	$1,556

[1] All PMLs reflect single event modeled losses as of December 31, 2022 per AIR Hurricane Model for the United States Version 1.0.0 as implemented in Touchstone 2021 (version 9.1.0, 50K US Hurricane - Florida Regulatory Event Set), including demand surge, excluding storm surge, including 10% of loss to account for Loss Adjustment Expense. The PMLs are projected to September 30, 2023 using a growth factor of 31% for the residential portion of the Coastal Account, 20% for the non-residential portion of the Coastal Account, 105% for the CLA and 40% for the PLA. The PML numbers would be higher by approximately 6% for aggregate events or losses.

[2] Surplus is estimated as of 12/31/22 and includes 2023 net projected income/(loss) with $5.8 billion of projected traditional reinsurance/capital markets for the 2023 season.

[3] Private reinsurance/capital markets are estimated amounts per Citizens' projected risk transfer program for 2023. These amounts are preliminary, however, and may change.

[4] Although PLA and CLA is combined for FHCF recoveries and pre-event bonding, surplus from one account cannot be used to offset deficits in another account. The combination of PLA and CLA PMLs and resources are shown on an additive basis. The assessable shortfalls are due entirely to a projected deficit in the PLA account.

[5] Total PMLs are a sum of the Coastal, PLA and CLA PMLs in this analysis to be consistent with the FHCF allocation. Combined PMLs are slightly different than the sum of the individual PMLs at these return times.

Numbers may not add due to rounding.

Financing Options

Financing provides liquidity but does not transfer risk. Citizens may undertake two basic types of financing: (1) pre-event financing – to provide liquid funds to meet policyholder obligations in a timely manner (Citizens uses this financing primarily as a "bridge" to ultimate claims-paying resources such as FHCF reimbursements or assessments); and (2) post-event financing – to provide the ultimate source of payment of covered claims in excess of accumulated surplus, FHCF reimbursements, other private reinsurance recoveries, Citizens policyholder surcharges, and regular assessments (Coastal Account only).

Citizens currently has $275 million in total external pre-event liquidity in the Coastal Account, available for the 2023 season. Together with Citizens' accumulated surplus, this external pre-event liquidity provides the source of immediately available funds to pay claims. For 2023, claims-paying sources in the Coastal Account are projected to total $7.7 billion ($2.4 billion of estimated surplus in addition to $275 million of pre-event bonds, $2.1 billion of FHCF reimbursements, and $2.9 billion of projected private risk transfer). Claims-paying sources in the PLA available for 2023 are projected to total approximately $7.1 billion ($420 million of estimated surplus, $3.7 billion of FHCF reimbursements, and $2.9 billion of projected private risk transfer). Additionally, the CLA has approximately $2.2 billion in claims-paying resources ($2.1 billion estimated surplus and $163 million of FHCF reimbursements). Citizens' pre-event bonds are serviced primarily from the investment earnings on the bond proceeds (which are retained pending their need to pay future claims or used to pay principal upon maturity) and from the collection of policyholder premiums.

Citizens is currently evaluating market conditions for private risk transfer and is projected to have approximately $2.9 billion for the Coastal Account and $2.9 billion for the PLA for a total of $5.8 billion in 2023, which would reduce the projected assessable shortfall (if needed). This $5.8 billion includes approximately $1.2 billion of multi-year private risk transfer ($625 million for the Coastal Account and $525 million for the PLA) that carries over from prior years and is available for the 2023 season.

Citizens has three assessment tiers, which must be used by Citizens in a statutorily prescribed manner to fund any deficits caused by storm losses (see the following section for a description of each assessment type). The Citizens policyholder surcharge is collected over a 12 month period and the regular assessment (Coastal Account only) is due within 30 days of billing. As a result of their relatively short collection periods, these "one-time" levies require no financing. However, if a deficit still remains in any account, Citizens is obligated to levy an emergency assessment. Emergency assessments can be levied over time in the amount of up to 10% of aggregate state-wide assessable premium per year, per account, and may be used to secure post-event bond financing. Citizens does not have a specific maturity limitation on its indebtedness and currently has no outstanding post-event bonds or assessments.

According to Citizens' financial advisor, Raymond James & Associates, conditions in the municipal and corporate markets are volatile and interest rates increased dramatically during 2022 as a result of the Federal Reserve raising the Federal Funds rate by 4.25%. This has dampened corporate and municipal issuance in 2022 with approximately $1.4 trillion and $387 billion of issuance, respectively. While cumulative issuance is down overall, the amount of municipal issuance on an individual issuer basis has increased in 2022 with each of the top five largest municipal issuers having issued between $8 billion to over $12 billion as compared to the top five largest municipal issuers in 2021 issuing between $4 billion to approximately $8 billion.

Table 2
($ in billions)

	Corporate Issuance		Municipal Issuance	
Year	Par ($B)	% Change from Prior Yr	Par ($B)	% Change from Prior Yr
2013	$1,425	2%	$335	-12%
2014	$1,481	4%	$339	1%
2015	$1,514	2%	$405	19%
2016	$1,551	2%	$452	12%
2017	$1,678	8%	$449	-1%
2018	$1,378	-18%	$347	-23%
2019	$1,418	3%	$426	23%
2020	$2,275	60%	$485	14%
2021	$1,958	-14%	$476	-2%
2022	$1,354	-31%	$387	-19%

Source: SIFMA

While current financial market conditions are moderately conducive for issuers of debt, it is not possible to guarantee future financial market conditions at any time. If long-term bonding in sufficient amounts is not immediately available, Citizens may need to explore alternatives, including the levying of emergency assessments with no financing, issuing bonds in multiple tranches over time and / or other interim financing alternatives.

Assessment Impact

Citizens has a three tier assessment structure as prescribed by Florida Statutes. Two important features of the Citizens assessment structure are (1) each account (i.e., Coastal, PLA, or CLA) calculates its deficit separately, and each account has separate assessment authority. Therefore, there is the potential for concurrent assessments caused by deficits in more than one of Citizens' accounts; and (2) unlike emergency assessments, Citizens' policyholder surcharges and regular assessments (Coastal Account only) are one-time levies that cannot be financed. With these factors in mind, the basic construct of Citizens' assessments for 2023 is as follows (note that this is a high-level summary and is therefore not exhaustive and may omit certain precise attributes):

(1) Any deficit in an account (defined generally as losses and expenses in excess of surplus, FHCF reimbursement and private reinsurance) is first funded by Citizens' policyholder surcharge, up to a maximum of 15% of Citizens policyholder premium, per account.

(2) For the Coastal Account only, any remaining deficit is then funded by a regular assessment of up to 2% of written premium on insurance companies writing most types of property and casualty policies in Florida. There is no regular assessment for the PLA and CLA.

(3) Any remaining deficit is then funded through the collection of emergency assessments, which can be levied directly on policyholders of most property and casualty lines in Florida at the greater of 10% of the assessment base or 10% of the remaining deficit per account. This effectively gives Citizens the ability to finance any deficit over a 10-year period, although Citizens could choose to finance the assessment over a longer or shorter period. These emergency assessments would typically be used to secure post-event bonds, the proceeds of which would be used to pay policyholder claims in a timely manner.

Table 3 on the following page presents the estimated assessment impact, by assessment type, for each of the three return periods.

Table 3
($ in millions)

Coastal

Return Time (Years)	Projected Assessable Shortfall	Citizens' Policyholder Surcharge[1]		Regular Assessments[2]		Emergency Assessments		
		$ Amount in MM	%	$ Amount in MM	%	Total $ Amount in MM	Annual $ Amount in MM[3]	Annual %
250	$5,253	$770	15.0%	$1,230	2.0%	$3,252	$751	1.19%
100	$390	$390	7.6%	$0	0.0%	$0	$0	0.00%
50	$0	$0	0.0%	$0	0.0%	$0	$0	0.00%

PLA and CLA

Return Time (Years)	Projected Assessable Shortfall	Citizens' Policyholder Surcharge[1]		Regular Assessments[2]		Emergency Assessments		
		$ Amount in MM	%	$ Amount in MM	%	Total $ Amount in MM	Annual $ Amount in MM[3]	Annual %
250	$8,638	$770	15.0%	N/A	N/A	$7,867	$1,817	2.87%
100	$2,434	$770	15.0%	N/A	N/A	$1,663	$384	0.61%
50	$1,556	$770	15.0%	N/A	N/A	$786	$182	0.29%

Total Coastal, PLA and CLA

Return Time (Years)	Projected Assessable Shortfall	Citizens' Policyholder Surcharge[1]		Regular Assessments[2]		Emergency Assessments		
		$ Amount in MM	%	$ Amount in MM	%	Total $ Amount in MM	Annual $ Amount in MM[3]	Annual %
250	$13,890	$1,541	30.0%	$1,230	2.0%	$11,119	$2,568	4.06%
100	$2,824	$1,161	22.6%	$0	0.0%	$1,663	$384	0.61%
50	$1,556	$770	15.0%	$0	0.0%	$786	$182	0.29%

[1] *These assessments are one-time assessments for the first year only. Citizens' policyholder surcharges are based on projected written premiums of $5 billion for 2023.*

[2] *These assessments are one-time assessments for the first year only for the Coastal Account. The regular assessments are calculated based on the emergency assessment base less Citizens' direct written premium (currently estimated using the base for 2022; if this base is smaller or larger, required assessment percentages would be slightly higher or lower than shown above). There are no regular assessments for PLA and CLA.*

[3] *Represents annual assessment amount over a 5-year period using an assumed interest rate of 5% and the emergency assessment base of approximately $63 billion, which was the base for 2022. If this base is smaller or larger, required assessment percentages would be slightly higher or lower than shown above.*

Conclusion

Due to the impact of Hurricanes Irma and Ian, Citizens' financial strength has deteriorated for up to a 1-100 year event with a moderate assessment burden for the Coastal Account and a significant assessment burden for the PLA. Due to continued instability in the Florida property insurance marketplace, Citizens' policy count and exposure are increasing at a substantial rate and therefore its financial position may further deteriorate after a single event or multiple events. For catastrophic losses which exceed Citizens' available surplus and risk transfer program, Citizens will rely on its policyholder surcharge, regular assessment (Coastal Account only) and state-wide emergency assessments on Florida residents.

For catastrophic losses, either from a single event or from multiple events that result in a deficit to any of Citizens' accounts and levying the emergency assessment, Citizens may issue post-event bonds in order to meet liquidity demands. Repayment of these post-event bonds would be funded through the collection of the associated emergency assessment. Citizens is projected to have a moderate assessment burden in the Coastal Account, a significant assessment burden in the PLA, and no assessment burden in the CLA for up to a 1-100 year single event.

Citizens' ability to pay claims in full and in a timely manner remains critical to the people whose homes and businesses are insured and for the Florida economy in general. Citizens' claims-paying resources, which is comprised of its surplus, FHCF reimbursements, private risk transfer program, and pre-event bonds, is what allows Citizens to meet its potential claims-paying obligations. The preservation of Citizens' surplus and a robust risk transfer program enables Citizens to achieve its statutory requirement of limiting the assessment burden on Florida residents.

Currently, Citizens is projected to have a considerable portion of its surplus exposed in the 2023 storm season and has the potential for significant assessments for a 1-100 year event or after multiple smaller events.