



Association of Bermuda Insurers and Reinsurers

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Mr. Barry Gilway
President & CEO
Citizens Property Insurance Corporation ("Citizens")
2139 Maryland Circle
Tallahassee, FL 32303
Via Email: Barry.Gilway@citizensfla.com

Subject: Citizens' Risk Transfer Program – Market Perspective

Dear President Gilway:

I am writing you today on behalf of the members of the Association of Bermuda Insurers and Reinsurers ("ABIR"). ABIR members are 21 Bermuda domiciled insurers and reinsurers, representing \$70 billion in gross written premiums and \$95.4 billion in capital as of December 31, 2013. Ninety-seven percent of these gross premiums are written by companies publicly traded on the New York or London stock exchanges. ABIR members provide more than 60% of the property catastrophe reinsurance purchased by Florida insurance companies, and paid in excess of \$22 billion in losses for the hurricanes that struck Florida and the Gulf Coast in 2004 and 2005. No member of ABIR has ever failed to pay a valid claim.

As you are aware, my members are based in Bermuda, and are generally constrained from doing business in the United States. For this reason, property catastrophe reinsurance underwriters typically may not travel to the US to meet with clients to discuss specific reinsurance programs. Consequently, it is the custom and practice of the industry to have meetings with Florida clients in Bermuda, particularly in the months prior to the June 1 renewal of most hurricane-exposed reinsurance programs. These meetings serve a number of purposes, including reviewing the performance of the prior year's program, discussing changes in the insurance company's exposure and risk management, and negotiating pricing and terms and conditions for the upcoming year. The participation of senior management in these meetings is considered essential, and often includes the chairman of the insurance company. Management participation at this level demonstrates the commitment of the company to good enterprise risk management and effective risk transfer, and is looked upon favorably by reinsurance underwriters. I also note that most if not all of the state residual insurance markets in the US purchase reinsurance and travel annually to Bermuda to meet with reinsurers.

Based on discussions with my members, it is clear that the travel of Citizens senior management to Bermuda was not only consistent with industry practices, it was essential to building an appropriately-sized and efficiently-priced reinsurance program. Prior to re-entering the reinsurance market in 2011, Citizens had not purchased reinsurance for several years. That fact, coupled with its financial performance in prior years, meant Citizens management had to overcome a substantial level of skepticism regarding the viability of their business model and the reinsurance thereof. It was only through the active participation of Citizens senior management in these meetings, including the Chairmen, that Citizens was able to convince the market they were serious about improving their enterprise risk management and developing an effective risk transfer program.

Another factor dictating the necessity of international travel when marketing a reinsurance program is the prevalence of reinsurers located in jurisdictions outside the United States. In 2013, for example, approximately 11% of Citizens reinsurance came from domestic U.S. writers. Bermuda reinsurers, on the other hand, represented in excess of 50% of the Citizens program, with European reinsurers (including Lloyd's) representing the remainder. For an insurance company as large as Citizens, it would be difficult if not impossible to purchase enough reinsurance exclusively in the US, especially on conditions that would be considered acceptable.

Since re-entering the reinsurance market in 2011, Citizens has seen a substantial improvement in both pricing and terms and conditions, while at the same time growing the size of the reinsurance program substantially. Including the Everglades Re cat bond, Citizens was able to purchase 55% more protection in 2014 than in 2013, while paying essentially the same amount of premium as in 2013. When comparing the amount of premium paid to the amount of protection purchased (what reinsurers would call the "Rate on Line"), Citizens is paying less than half as much now for a comparable amount of reinsurance as it did in 2011. Even though premium growth was flat year-on-year, it is worth noting that, relative to its size, Citizens still purchases considerably less reinsurance than private companies or other state residual insurance markets. The active, in person participation of the Citizens leadership and professional staff was, I am informed, critical to obtaining these substantial price reductions.

Citizens' effective purchase of reinsurance in 2014 was all the more notable, as Citizens had both a new Chairman and a new CFO. Reinsurance underwriters are reliant on the good enterprise risk management practices of insurance companies. Risk management is driven by senior management and the Board. The willingness of Chairman Gardner and CFO Montero to meet with reinsurers was critical to Citizens successful reinsurance renewal. As discussed above, these meetings would not have been possible in the United States.

I understand that, in the past, Citizens was subject to the criticism that it was taking reinsurance capacity from other Florida insurance companies. I would like to take this opportunity to dispel this notion. In each of the last three years, Citizens has enjoyed both significant price reductions and oversubscriptions (*i.e.*, commitments of reinsurance capacity in excess of what was needed to fill its program) on its reinsurance program. This excess capacity needed to find alternative hurricane risk, which helps explain the favorable state of the reinsurance market in Florida currently. The reinsurance market continues to have significant excess capacity, and should be able to meet any increased demand from Citizens and the Florida market in the future. Brokers and other market participants have published statements that, far from adversely impacting them, the growing Citizens program contributed to favorable renewal conditions for the private companies, both by its early completion and its improving terms. The personal efforts of the Citizens leadership team, I am told, were instrumental in this regards.

In closing, on behalf of the members of ABIR, I would like to thank you for all your hard work, and the hard work of your management team, in reducing the assessment risk borne by all Floridians, and reforming Citizens into an increasingly more stable participant in the Florida insurance market. If there is any more information I can provide you, please do not hesitate to contact me in the future.

Sincerely,



Brad Kading

President and Executive Director

Association of Bermuda Insurers and Reinsurers