

MEMORANDUM

DATE: June 17, 2024

TO: David Durden
General Manager

FROM: James C. Murphy, FCAS, MAAA
Chief Actuary, Vice President – Enterprise Analytics

RE: Options for 2024 TFPA Reinsurance Program

At its May 6, 2024 meeting, the TFPA Governing Committee directed staff to purchase reinsurance for the 2024 hurricane season as follows:

- \$518 million in catastrophe reinsurance in excess of a \$40 million retention
- \$30 million in second event coverage to reduce the retention to \$10 million for a second event
- Reinstatement premium protection (RPP) coverage for a portion of the main catastrophe coverage

The budget for the total reinsurance program was approved at \$68 million. The Governing Committee instructed staff to come back for additional direction if the expected cost exceeds this amount.

Gallagher Re has determined that TFPA will be unable to purchase the coverage as directed within the provided budget. Staff, in conjunction with Gallagher Re, has identified three options, described below, for consideration by the Governing Committee. We need a final decision from the Governing Committee at its upcoming June 20 meeting, with enough flexibility to provide for unforeseen circumstances, to successfully secure reinsurance protection by the July 1 effective date.

Gallagher Re will attend the June 20 Governing Committee meeting to provide additional information on general market conditions and to answer any questions the Committee may have.

Summary of Options

	Description	Estimated Cost
Option 1	Originally approved program	\$72.4 - 73.6 million
Option 2	Eliminate Second Event Cover	\$68.5 - 69.1 million
Option 3	Eliminate Second Event and RPP	\$60.8 - 61.8 million

Additional details on each option follow.

MEMORANDUM

Option 1 – Purchase reinsurance program as initially directed

Gallagher Re has obtained quotes from leading reinsurers for the coverage as initially directed and believes sufficient capacity is available in the market to fully place all layers. This program would provide coverage for the initially modeled 100-year PML and supplemental coverage which would reduce assessments required after both a first and second event. The estimated cost of this option is \$72.4 – 73.6 million; however, the Governing Committee may want to consider giving staff the authority to purchase the coverage at the minimum market-clearing price to allow for contingencies.

Option 2 – Purchase reinsurance program without the second event coverage

The second event coverage historically purchased by TFPA reduces the retention on the reinsurance program from \$40 million to \$10 million for a second event. This option would provide the same overall coverage for a first event but would not reduce the retention for a second– it would remain at \$40 million. Given the current surplus situation it is almost certain that an assessment will be necessary after a first event and the Committee may wish to consider eliminating this coverage as it would only reduce the additional assessment required after a second event. Not purchasing this coverage will reduce the cost of the reinsurance program by an estimated \$3.9 million, to \$68.5 – 69.1 million. Staff may still need the authority to purchase the coverage at the minimum market-clearing price.

Option 3 – Eliminate both second event and Reinsurance Premium Protection (RPP) coverage

RPP coverage provides funds with which TFPA can reinstate the reinsurance coverage after a first event. This option would result in the purchase of only the core reinsurance protection. It would eliminate both the second event coverage and the remaining RPP coverage (the Committee eliminated RPP on the second of the two reinsurance layers last year). If TFPA does not purchase RPP, reinsurance recoveries will be reduced by the amounts needed to cover the additional reinstatement premium (approximately \$38 million). This will result in an increase in the assessments required after a reinsured event, but also results in the lowest estimated upfront cost of the three suggested options, at \$60.8 – 61.8 million. Again, staff may need the authority to place this coverage at the minimum market-clearing price.

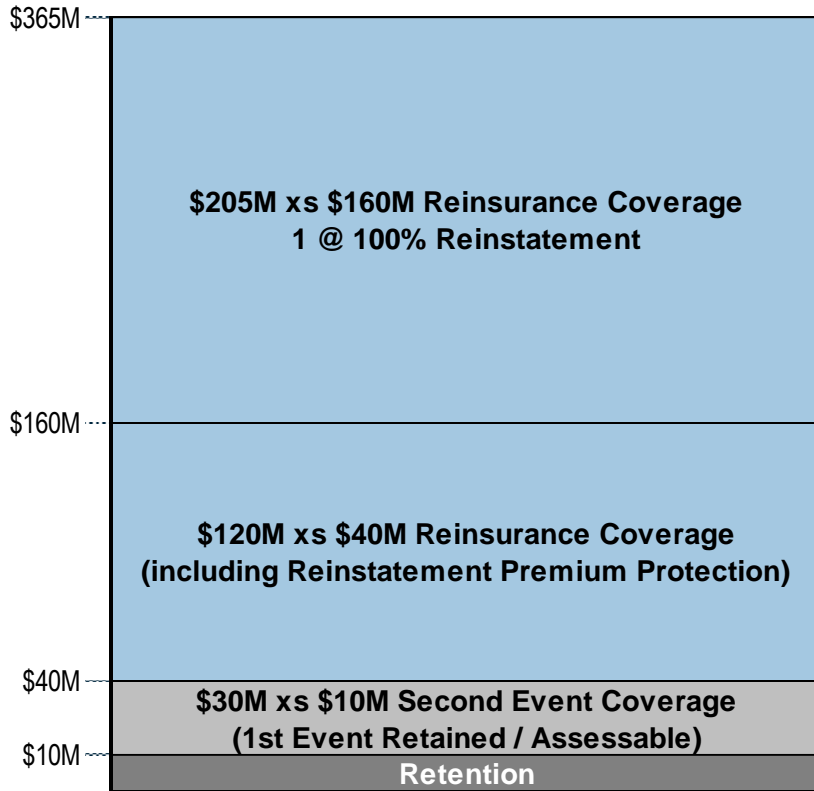
Other coverage options are possible if the Governing Committee chooses not to select one of the three presented, but quotes already received may not be applicable to materially different coverages and given the July 1 effective date, staff would require considerable flexibility to ensure the reinsurance program can be finalized on time.

Reinsurance Coverage Options

Gallagher Re | 6/20/2024

2023 Program

2023 TFPA Schematic



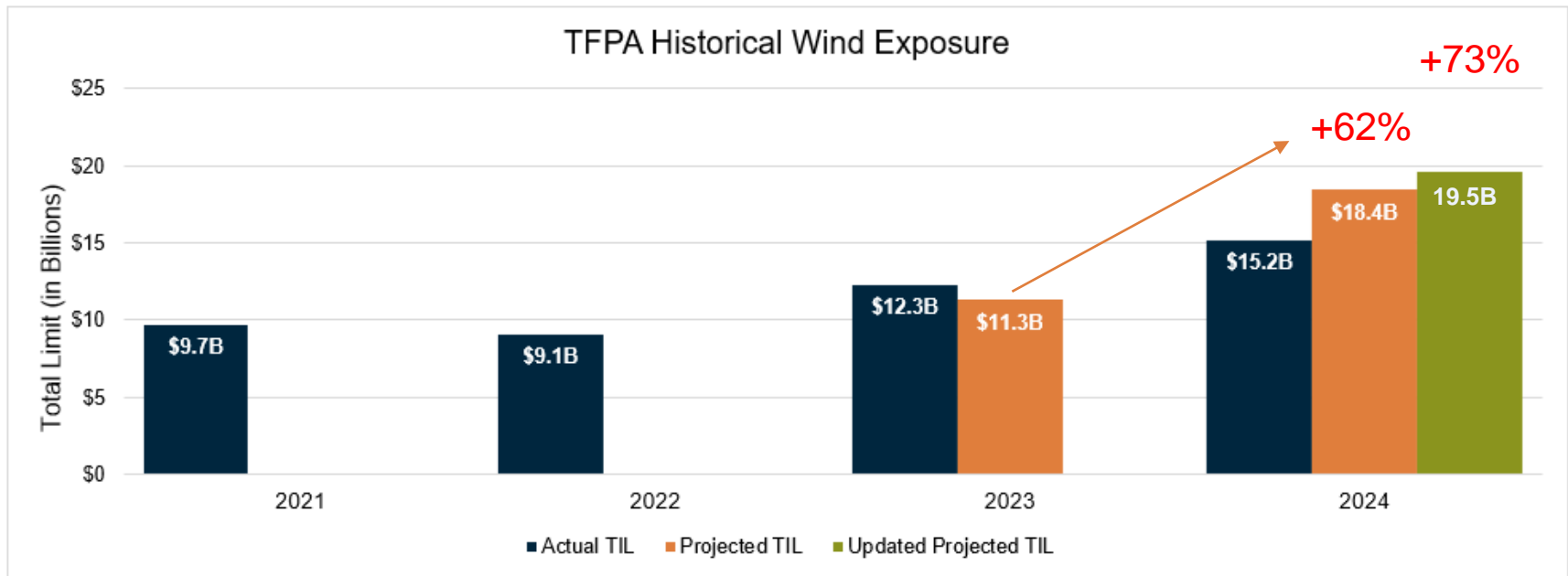
Property Cat XOL - July 1, 2023 Renewal

Structure Name	Layer	ROL	Placed %	Premium at Placed %
2nd Event	30M xs 10M xs 30M	8.25%	100.00%	2,475,000
Layer 1	120M xs 40M	16.75%	100.00%	20,100,000
Layer 2	205M xs 160M	7.50%	100.00%	15,375,000
RPP1	NA	19.26%	100.00%	3,871,763
Total				41,821,763

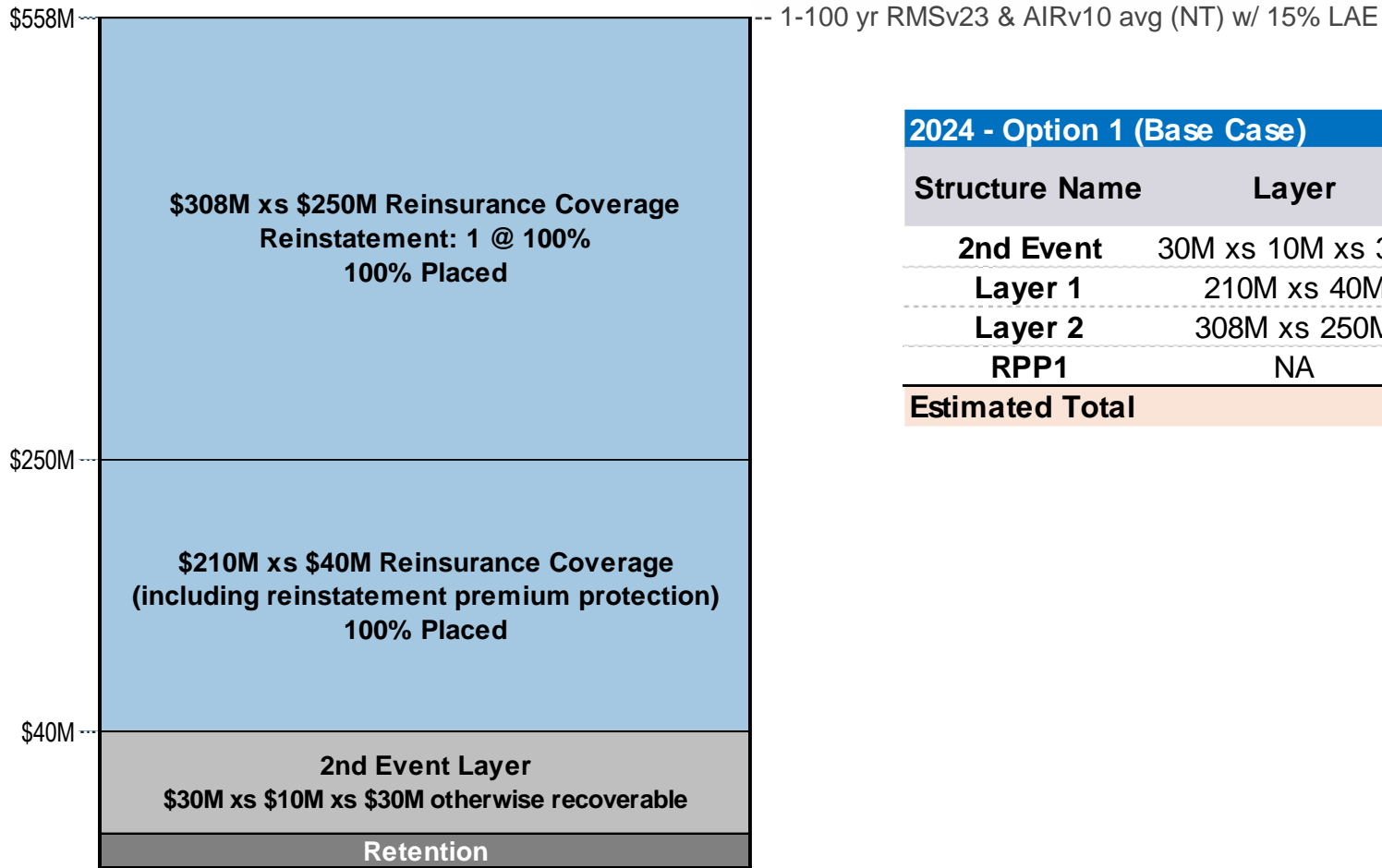
*Premium figures shown are deposit premiums

TFPA Exposure Summary

- Presented to Committee on May 7th; the projected cost for expiring structure was \$66M - \$75M based on projected TIV of \$18.4B, or +62% (9/30/24)
- At the time, the Committee capped reinsurance spend at \$68M
- Staff updated TIV projections after Committee meeting to \$19.5B (included in submission to market)
- PML not increasing at the same rate as TIV during 2024



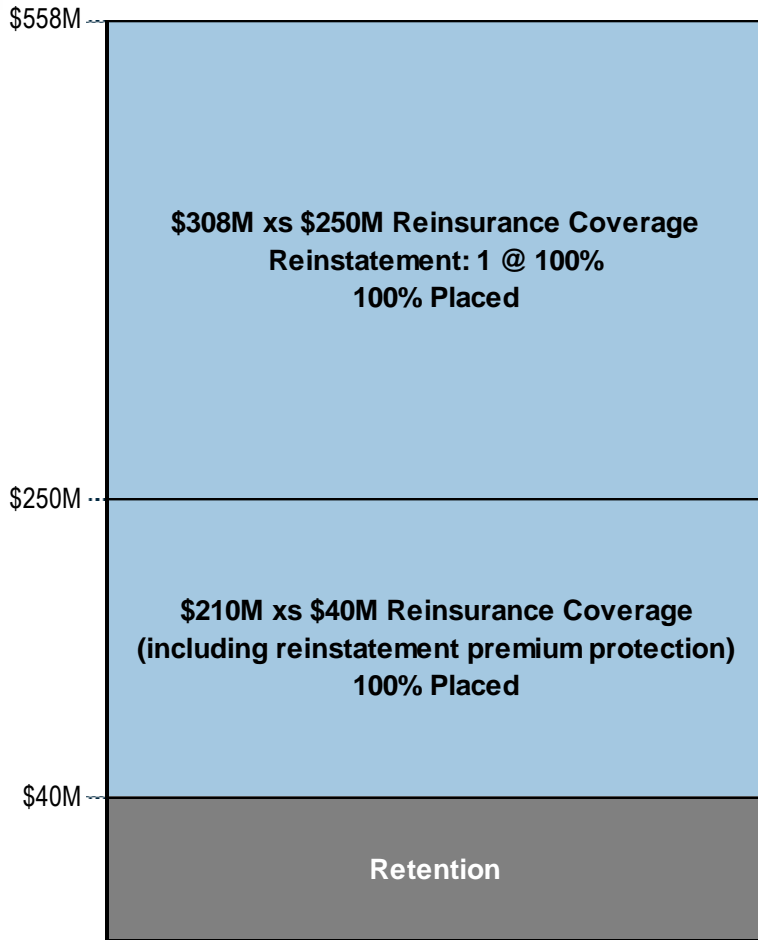
Option 1 – Purchase all layers



*TFPA retains \$40M first event

2024 - Option 1 (Base Case)		
Structure Name	Layer	Placed %
2nd Event	30M xs 10M xs 30M	100.00%
Layer 1	210M xs 40M	100.00%
Layer 2	308M xs 250M	100.00%
RPP1	NA	100.00%
Estimated Total		72.4M - 73.6M

Option 2 – No 2nd Event layer



-- \$558M: 1-100 yr RMSv23 & AIRv10 avg (NT) w/ 15% LAE

2024 - Option 2 (No 2nd Event)

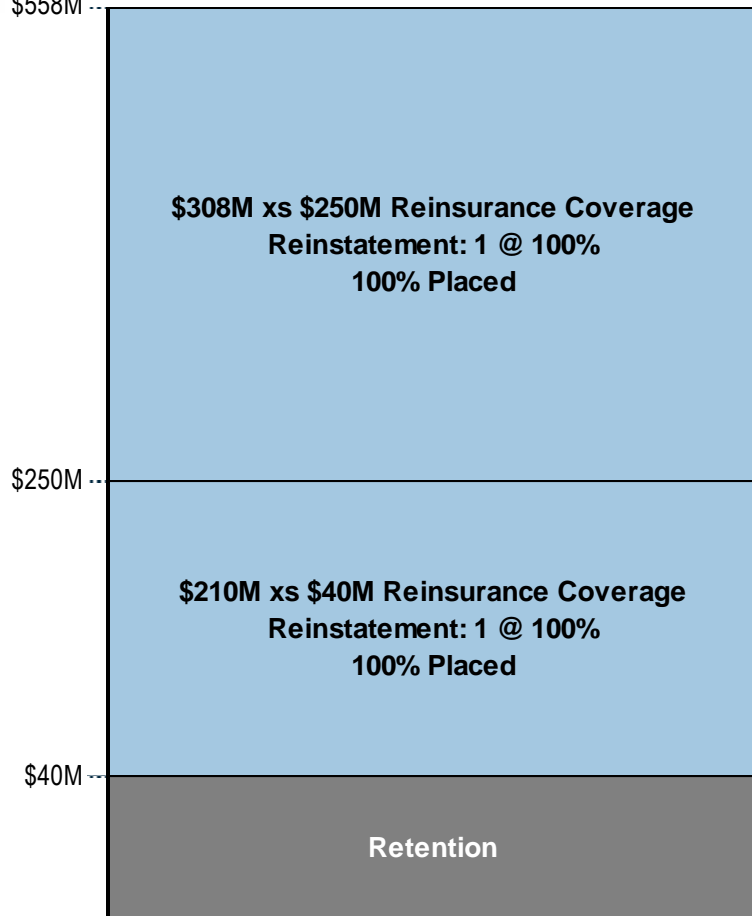
Structure Name	Layer	Placed %
2nd Event	30M xs 10M xs 30M	0.00%
Layer 1	210M xs 40M	100.00%
Layer 2	308M xs 250M	100.00%
RPP1	NA	100.00%
Estimated Total		68.5M - 69.1M

No 2nd Event Layer; TFPA to retain each & every loss occurrence below \$40M

*TFPA retains \$40M each and every event

Option 3 – No 2nd Event and No RPP Purchase

\$558M -- \$558M: 1-100 yr RMSv23 & AIRv10 avg (NT) w/ 15% LAE



2024 - Option 3 (No 2nd Event and No RPP)

Structure Name	Layer	Placed %
2nd Event	30M xs 10M xs 30M	0.00%
Layer 1	210M xs 40M	100.00%
Layer 2	308M xs 250M	100.00%
RPP1	NA	0.00%
Estimated Total		60.8M - 61.8M

→ No Reinstatement Protection; TFPA to pay pro-rata reinsurance premium to reinstate the limit post loss

→ No 2nd Event Layer; TFPA to retain each & every loss occurrence below \$40M

*TFPA retains \$40M each and every event
 **Obligated to pay reinstatement premium if event exceeds \$40M

Options for Coverage

Summary of Coverage Options

	2023	Option 1 Base Case	Option 2 No 2nd Event Layer	Option 3 No 2nd Event and No RPP
Estimated Deposit	41,821,763	72.4M - 73.6M	68.5M - 69.1M	60.8M - 61.8M

