

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING
December 11, 2018**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North on Tuesday, December 11, 2018 at 4:00 p.m. (EDT).

The following members of the A&U were present.

John Wortman, Chair
Gary Aubuchon
Fred Strauss (telephonically)
Will Kastroll

The following Citizens staff members were present:

Andrew Woodward	Joe Martins
Barbara Walker	Kapil Bhatia
Barry Gilway	Kelly Booten
Bonnie Gilliland	Mark Kagy
Brian Donovan	Matt Gerrell
Christine Ashburn	Nikki Smith
Dan Sumner	Paul Kutter
David Woodruff	Stephen Guth
Eric Addison	Steve Bitar
Jay Adams	Violet Bloom
Jeremy Pope	

The following members of the Board were present:

Bette Brown
Marc Dunbar

Other attendees:

Dave Newell, FAIA

Call Meeting to Order

Roll was called and a quorum present.

1. Approval of Prior Meeting Minutes

A motion was made and seconded to approve the June 18, 2018 minutes. All were in favor. Motion carried.

2. Annual Recommended 2019 Rate Filings

MR. DONOVAN: Good afternoon, Chairman and committee members. For the record I am Brian Donovan, Chief Actuary at Citizens and I will discuss the recommended rate changes.

First, I will point out, these recommended rate changes, the proposed effective date is 09/01/2019, which means they would not go into effect until 09/01/2019, and then it would take a year for these to roll on. So really it would impact policyholders between 09/01/2019 and 08/31/2020.

In your Board books there are a lot of exhibits. I believe Barbara provided you with a subset of those exhibits and those are the ones I really want to talk about today to kind of emphasize what is within all that material.

So not much has changed since we last talked in June, since we last came to the Board in June. We have updated the indications with six months of more recent data and recalculated the numbers. So, if we look at Exhibit 1, you know, this -- these -- this is the results of all the lines of business across all the accounts. Now, I am not going to talk about each and every one of these numbers, but what we can do is just focus on the lower right-hand corner of this exhibit, columns 10, 11 and 12. In fact, if you turn to the next exhibit, you know, that is what we will see. So, all those numbers from Exhibit 1 roll up to this. For personal lines, the total uncapped indication is 25.9 percent. So, what that is saying is for Citizens to have actuarially sound rates in the personal lines we would need to increase rates on average by 29.5 percent. As the statute requires, we need to apply the glide path ensuring no policyholder gets no more than a 10 percent rate increase. When we do that that leads to a proposed rate change of 8.2 percent.

For commercial lines the uncapped indication is 54.2, and the proposed rate change is 9.0, and across all lines of business the overall uncapped indication is 28.6 and we are proposing an 8.3 percent rate change.

Similar to what we talked about in the June meeting, there are two forces really applying outward pressure on Citizens' rate needs. One is by design and one is not. The first impact is due to the wind only policies. Citizens' portfolio wind only policies is largely due to depopulation continues to decrease. As expected, the more adequately priced policies are finding a home in the private industry leaving Citizens with a more inadequately priced policy.

The second upward pressure as we have been discussing for a couple of years now is the litigated water claims. I would like to take time to talk about the impact of this and what we are doing to address it.

As the Board is aware effective 08/01/2018, any policyholder who experiences a water claim -- let me -- let me rephrase that. Effective, for policies effective 08/01/2018 going forward, any Citizens' policyholder who experiences a non-weather water loss will have an option of using Citizens' Manage Repair program or have a \$10,000 sub limit apply.

To account for the anticipated savings with this policy language change, we have adjusted the proposed indication downwards. Without the consideration of the MRP policy language change we would anticipate a 50 percent litigation rate for water claims. For those policyholders that select the MRP program we are projecting a 25 percent litigation rate. The impact of this is to lower the overall H03 indication by 19 percent. That is the H03 total indication would be 31 percent, but we have discounted that to 24.9 percent to reflect the anticipated savings from that policy language change. We feel this is a reasonable and somewhat optimistic adjustment to the indication. And of course, the results of the new policy language will be monitored very closely, and future indications would direct -- directly impact, reflect this impact.

Now if we turn to -- the impact of the water litigation cannot be understated. If we turn to the next exhibit, Exhibit 2, we can see the proposed H03 rate change by county. Blue represents increases and green represents decreases. Back in 2017, the blue on this map with a couple of exceptions was limited to the tri-county area, and as we discussed at the June Board meeting, we are starting to see an increase in litigation rates in other parts of the state. As a result, we now see blue across most of the state.

As we will see later in Exhibit 14, 97 percent of policyholders will see a rate increase with this recommended rate change. To put the impact of litigation into perspective, let's turn to the next exhibit in your summary which happens to be page 3 of the Executive Summary.

Table one displays the current indication and proposed change with this recommendation. So, when we look at table one this is H03 total multi-peril policies and the current indication for that set of -- for that set of book of business is 25.2 percent and we are proposing 8.5 percent.

Now, if we take our indication -- now that reflects our projected 50 percent litigation rate that has been adjusted downward as I just described for the MRP program. Now if we take our litigation rate that is built into that indication and dial it back down to levels before the litigation rates took off, the current indication is 1.5 percent with a proposed rate change of .2 percent. So basically what we are saying had litigation rates remained at levels from 2012, 2013, our recommended, you know, our uncapped indication, Citizens' uncapped indication would be 1.5 percent, and then the proposed rate change would be .2 percent which basically means we would be actuarially sound, certainly at least in the aggregate and pretty close across the board.

To look even more deeper at that, if we look at table two, we look at the current premium for Miami-Dade, the current premium was about \$3,700. Under the current indication the actuarially sound premium is close to \$4,700. But if we look at what that needed premium would be with the adjusted indication with the downward, you know, with the litigation rates dialed back to earlier levels, they would actually be seeing a decrease, about a three percent decrease that the needed premium would be about \$100 less than what it currently is. That is pretty, I think that speaks for itself.

Now, if we turn to Exhibit 14 which should be the next slide, this illustrates the distribution of rate changes by policy form. So basically if we look at the homeowners, you know, we look at the top of that exhibit you see the homeowners 82 percent, look at the very bottom of that exhibit you see it falls in the band of five percent to 11 percent. So, 82 percent of homeowner policies will be receiving a rate increase of five to 11 percent. You know, likewise 15 percent will get an increase from zero to five percent, and the remaining three percent will get decreases from zero to minus 11 percent. So basically, 97 percent of the homeowners will see an increase.

Now let's compare this to where we were at a couple of years ago. If you turn to the next exhibit, this is the same exhibit we were just looking at, except this is what we brought to the Board in 2014, for 2015 rates. And at that time 70 percent of homeowners we were recommending to get a rate decrease with only 30 percent with a rate increase. And litigation is -- is very clearly the culprit of this.

GOVERNOR AUBUCHON: May I interrupt for a second?

MR. DONOVAN: Sure.

GOVERNOR AUBUCHON: Quick question. I understand what has happened on the homeowner's side, but looking at this, what is the shift in -- in mobile home?

MR. DONOVAN: Okay. So, where we are currently at with mobile home, there is, first I would point out that mobile home, what drives the mobile home indication is really the wind results. There is not a water issue. Like water, the water litigation issue, the water claim issue as we talked about, homeowners dwelling and even condo are -- are influenced by that a lot. For mobile home that is not an issue. In fact, when you look at the non-wind indication it is negative. So, what is driving that is the remaining books, you know, the remaining mobile homes and the wind risks for that. Now, the shift from -- from -- I believe your question is how did we -- why is mobiles homes so much higher as well. Right. Okay, so the simple answer is, it is the remaining wind -- not wind only, but the remaining wind portion of the multi-peril mobile home policies. That is what drives that. That just comes right out of the models. So, it is not -- it is not water. So, any other questions regarding what we have talked about so far?

CHAIRMAN WORTMAN: Fred Strauss is on the phone. Fred, do you hear us all right and any questions?

MR. STRAUSS: Yes, yes. No questions. I have been able to hear all along. I apologize for the delay and the inconvenience.

CHAIRMAN WORTMAN: Okay, welcome.

MR. DONOVAN: There are just a couple of other items I would like to talk about. First as a reminder, with the last OIR rate order issued for the 2018 rates, the Office directed Citizens to consider four items specific to Monroe County. These items were

discussed in detail at the June Board meeting. So, I will just give a brief remainder here. The four items were, you know, consider adding additional Monroe rating territories. Currently for wind only we only have one Monroe rating territory. The Office asked us to look to see if it made sense to add additional rating territories.

The second was for Citizens to consider offering a wind mitigation credit for plywood shutters.

The third was to collaborate with Monroe County on the completions of its detailed study to evaluate building code standards to Monroe.

And the fourth had to do with ensuring that we were using the most up-to-date hurricane models. Now we did evaluate items one and two very closely and our recommendation is no change. That is our recommendation is to continue to have one rating territory for Monroe. And then the second item, our recommendation is not to be the only company in Florida offering a credit for plywood shutters. For the third item, as we discussed we consider that a done deal. We have worked with a firm in Monroe County to complete that report. If additional information becomes available, we will be happy to participate. And then the fourth item is, yes, we certainly will use the most up-to-date hurricane models. So, any other questions concerning the rates at this point?

CHAIRMAN WORTMAN: One quick question, Brian, and I am sure it is in here some place. But the breakdown between the numbers between the coastal and the PLA.

MR. DONEVAN: In terms of the indications itself?

CHAIRMAN WORTMAN: Yes, indications, yes.

MR. DONOVAN: If you go back to Exhibit 1.

CHAIRMAN WORTMAN: Right. Where did I miss it?

MR. DONOVAN: So, are you looking for the -- the actual indications?

CHAIRMAN WORTMAN: Yes.

MR. DONOVAN: Yes. It would be on Exhibit 1. So, if we look at the overall indication for the PLA is 23.1, for the coastal multi-peril is 36 percent.

CHAIRMAN WORTMAN: Okay.

MR. DONOVAN: And if a wind only it is 25.9. And then those three numbers roll up to the 25.9 that I mentioned earlier.

CHAIRMAN WORTMAN: When they're combined?

MR. DONOVAN: Yes.

CHAIRMAN WORTMAN: Thanks.

MR. DONOVAN: Sure. So the only other item I wanted to discuss today is rates, Citizens' rates compared to the industry. At the last Board meeting Citizens' staff was directed to get a sense of how Citizens' rates compared to the industry. The fear is that if Citizens' rates are capped at 10 percent and the industry is taking rate changes higher than that, Citizens could start to grow again.

First, I do want to make it clear that the rate indications and our recommendations I just discussed are based on determination of actuarially sound rates only. That means they are strictly based on Citizens' projected losses and expenses in the upcoming policy period. We are required to do this by statute. There is no consideration given to competitive rates when determining our recommended rates. So to compare Citizens' rates to industry we took two approaches.

The first approach was we examined available rating examples across the industry. With every rate filing each company is required to submit to the Office the same three specific rating examples. These examples are then made available to the public for purposes of providing a broad generate rate comparison. These examples are on the next slide. And basically, the three examples are, there is an example, there is a lower valued home with no wind mitigation credits that is older. There is a lower value home with mitigation credits that is older, and then there is higher valued newly constructed homes. Those are the three examples. And when we look at those results, they're summarized on this exhibit. Not surprisingly, so these numbers represent, the lower the number the lower the premium relative to the other 27 companies being evaluated at this time.

So, for example, when we look at say Broward and 100,000, the value pre-2001 construction with mitigation, that four says that Citizens is the fourth cheapest of the 27 companies that we looked at. Not surprisingly the lower valued older homes with wind mitigation credit is where Citizens is the cheapest.

That is the most representative of our book of business. Over 90 percent of Citizens' policies have homes built before 2002, 88 percent of the wind mitigation, 88 percent of those policies have wind mitigation credits, and 85 percent have Coverage A value less than 300,000.

So, this is the first comparison. It is not surprising where Citizens is the cheapest. It is just rather that a broad picture of where Citizens' rates stand relative to the industry.

Now, the second item, the second approach we took, we worked with a third-party vendor and we took Citizens in force book of business as of 06/30/2018, and actually had our policies with our policy characteristics re-rated with 38 different companies rates in Florida. So, then we could do a policy by policy comparison with Citizens' rates versus the other companies' rates. And the way for practical purposes what we ended up doing is Citizens' rates versus the average of the other 38 and just where Citizens was higher, where Citizens was lower. And so, the first result of that we can see statewide with this exhibit. The light blue, the lighter colors indicate where Citizens is cheaper. The darker colors are where Citizens average price is --Citizens' price is actually more expensive than the average of the 38 companies. The green represents where Citizens has its policies. Now, something like this does have to be taken with a grain of salt because we are looking at that 38 different companies across the whole state. We know that 38

companies, that all of those companies aren't in all parts of the state. You know, this doesn't say anything about underwriting guidelines or --or, you know, appetite. But it is just kind of a broad picture of where Citizens' rates compared to the industry.

To get, you know, to kind of drill down on that a little bit we -- we limited this, we wanted to look just at the tri-county area and then we identified seven companies where there actually was between six, I think it was between 06/30 or actually March 31st, '16 through 06/30/2018, we identified companies where they actually had increase in policy count in that area. So, to us that was an indicator that they were writing there. And we just limited our comparison to those companies. And, you know, there is variance, it jumps around a bit. But you can see it just kind of gives once again, a feel, a sense for how Citizens' rates compare to the industry at this point. So, any questions regarding that?

CHAIRMAN WORTMAN: Just one point. If we will recall when the first -- when Citizens was created the rating structure was -- was written out in the statute that basically said you had to do an actuarially sound calculation and you also had to look at the five largest writers in each territory and take and add 10 percent to the highest of those five, and Citizens' rate would be the actuarially sound or 10 percent higher than the highest private company. That was changed in I think '04, and that is when, you know, the policy count went to a million five.

MR. DONOVAN: Right.

CHAIRMAN WORTMAN: And so anyway, and we are still not back to that.

MR. DONOVAN: Right.

CHAIRMAN WORTMAN: I mean, the highest in the rating territory plus 10 percent would probably be significantly more than the -- be up to the indication anyway.

MR. DONOVAN: That is correct. That ends my representation.

CHAIRMAN WORTMAN: Any other questions of Brian?

MR. DONOVAN: I do -- I do need to read the action item before we -- before we wrap up. We recommend that Citizens' Actuarial and Underwriting Committee recommends that Citizens Board of Governors approve and recommend the 2019 annual recommended rate filings. Upon approval the presented rate changes will be filed with the Office of Insurance Regulation.

GOVERNOR AUBUCHON: I will move to have approved.

CHAIRMAN WORTMAN: We have a motion to approve the staff's recommendation for the rate change. Do I hear a second?

MR. STRAUSS: I will second the motion.

CHAIRMAN WORTMAN: All right. Any discussion? Hearing none, are there any objections to the motion? Hearing none, the motion carries. Thank you, Brian. So we will go to the next item on the agenda and that is the underwriting reports, the outsourcing and I will introduce Steve.

3. BPO Underwriting Production Services

MR. BITAR: Good afternoon, Mr. Chairman. For the record I am Steve Bitar, Chief of Underwriting and Agency Services. I am joined today by Jeremy Pope who is the Senior Director within Underwriting and Agency Services. Jeremy oversees the Vendor Management effort in our department. I wanted him to be here in case there were any questions regarding any of the items I am about to present.

Behind tab three in the section of your book you will find the very first action item I bring forward today. This action item is in response to an Invitation to Negotiate number 18-0038 that was issued on August 30th, 2018. Three responses were received and all three met Citizens' mandatory requirements and were advanced to negotiations.

On December 4th, 2018, the negotiation team awarded three vendors to provide services for our business process operations in underwriting services, and the two primary vendors are Blue Cod Technologies as well as McNeil Group, and the third is a contingent vendor called Gen Pac Limited.

The vendor identified as the contingent vendor would be utilized in the event the primary vendors are unable to perform or meet Citizens' needs. There is no guarantee of work whatsoever with these contracts.

However, we may at any point, you know, move forward and decide to activate based on performance, et cetera, with the vendors that are selected here. I am happy to take any questions that you may have about this solicitation and moving forward, and if there are none I am happy to move to the recommendation.

CHAIRMAN WORTMAN: Any questions, comments? If none, let's move to the recommendation.

MR. BITAR: Yes, sir. Citizens' staff recommends that Citizens' Actuarial and Underwriting Committee approve and recommend to Citizens' Board of Governors, A, approve the contract for the recommended vendors as set forth in this business process outsourcing underwriting production services action item in an amount not to exceed \$35,616,803 for the five-year base term, an optional three-year and two-year renewal terms, and authorize staff to take any appropriate or necessary actions consistent with this action item.

GOVERNOR AUBUCHON: Move to approve.

CHAIRMAN WORTMAN: There is a motion to approve staff's recommendation.

Do we have a second?

MR. STRAUSS: Second.

CHAIRMAN WORTMAN: We have a motion and second to approve staff's recommendation. Are there any objections to the motion? Hearing none, the motion carries. Thank you, Steve.

MR. BITAR: Thank you.

CHAIRMAN WORTMAN: We will move to item four.

4. Policy Document Generation and Mail Services

MR. BITAR: Thank you. Sounds good. Behind tab four is the next action we bring forward. This is for policy document generation and mail services. As you know with underwriting, we have to print policy packages, dec pages, invoices, et cetera, and mail all of those to our customers. What we are seeking to do here is take advantage of a Florida state term contract. Citizens' staff, if I may move to the recommendation.

CHAIRMAN WORTMAN: Any questions? To the recommendation.

MR. BITAR: Yes, this is pretty straightforward. Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that the Citizens' Board of Governors approve contracting with a recommended vendor for a term of 23 months and a one-year optional renewal period. Authorize staff to take any appropriate or necessary actions consistent with this action item, and C, approve this action item for an amount not to exceed \$17,326,263.

CHAIRMAN WORTMAN: Do I hear a motion?

GOVERNOR AUBUCHON: So moved.

CHAIRMAN WORTMAN: We have a motion to approve staff's recommendation. Is there a second?

GOVERNOR KASTROLL: I second.

CHAIRMAN WORTMAN: We have a motion and a second. Any objections to the motion? Hearing none, the motion carries. Thank you, Steve.

MR. BITAR: Thank you. Behind tab five is an item that doesn't need action, but I wanted to bring it forward for an awareness perspective. There will be a consent item at the Board meeting tomorrow. We are not seeking money. We are only seeking time with

this consent item. We are looking to conduct a competitive solicitation next year for loss history reports that are utilized in underwriting, and we are seeking a six-month extension to our current contract in order to allow us the time to build the appropriate solicitation vehicle and ultimately bid for these services next year. We originally had an approved spend of \$2 million. We have only spent roughly \$1.3 million thus far. We have plenty of funds remaining on the original approval for us to extend six months and not exceed the original amount. So, what we seek today is simply a six-month extension. No additional spend whatsoever. And if I may I will be happy to move to the recommendation.

CHAIRMAN WORTMAN: Go to it.

MR. BITAR: All right. Staff request that the Citizens' Board tomorrow approve the extension to contract 14-13-0019-00, simply adding six months to the contract, and we will be asking that the Board authorize staff to take any appropriate action. Like I said, no action is needed today. I just wanted to get that on the record and make that you are aware of what is coming tomorrow.

CHAIRMAN WORTMAN: So this is a for your information. And any questions of Steve or comments? No. Okay.

5. A&U Charter Review

MR. BITAR: Wonderful. The last item I have today is review of the charter that we are proposing for the Actuarial and Underwriting Committee. As you know several Board committees at Citizens have charters. That A&U did not have one. So we worked with Chairman Wortman to develop one that models the other charters that are in existence for other Board committees, and what you have before you is a proposed charter that we would like to hopefully get approved today and be able to use moving forward to govern the work of the Actuarial and Underwriting Committee.

CHAIRMAN WORTMAN: Are there any questions or comments of Steve on the proposed charter? Do I hear a motion for approval?

MR. STRAUSS: So moved.

CHAIRMAN WORTMAN: We have a motion to approved staff's recommendation for a charter. Is there a second?

GOVERNOR AUBUCHON: Second.

CHAIRMAN WORTMAN: We have a motion and a second. Any objections to the motion? Hearing none, the motion carries and your charter is approved.

MR. BITAR: Thank you very much, and that concludes my report.

CHAIRMAN WORTMAN: Thank you, Steve. Okay, is there any new business to come before the committee?

GOVERNOR KASTROLL: I will move to adjourn.

CHAIRMAN WORTMAN: We have a motion to adjourn. Is there a second?

GOVERNOR AUBUCHON: I second.

CHAIRMAN WORTMAN: Any objections? Hearing none, the meeting is adjourned.

(Whereupon, the meeting was adjourned.)

DRAFT