

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE

ACTUARIAL AND UNDERWRITING COMMITTEE MEETING

June 18, 2019

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North on Tuesday, June 18, 2019 at 4:00 p.m. (EDT).

The following members of the A&U were present.

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

The following Citizens staff members were present:

Andrew Woodward	Joe Martins
Barbara Walker	Kapil Bhatia
Barry Gilway	Karen Holt
Bonnie Gilliland	Kelly Booten
Brian Donovan	Mark Casteel
Christine Ashburn	Mike Sills
David Woodruff	Nancy Staff
Eric Addison	Paul Kutter
Gene Bednarek	Steve Bitar
Jay Adams	Violet Bloom
Jennifer Montero	

The following members of the Board were present:

Bette Brown
Blake Capps

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 December 11, 2018 minutes. All were in favor. Motion carried.

2. Action Item - Loss History Reporting

MR. BITAR: Good afternoon, Mr. Chairman, esteemed committee members. For the record this is Steve Bitar, Chief of Underwriting Agency Services. Behind tab two you will find an action item for loss history reporting services.

In the Underwriting department we actually use loss history reports to help us underwrite new business as it is presented to the company. If I may, I will be more than happy to move forward to the recommendation.

CHAIRMAN WORTMAN: Shoot away.

MR. BITAR: Wonderful. Citizens' staff request that the Actuarial and Underwriting committee approve and recommend that the Citizens Board of Governors approve a contract with a three-year base term and three optional one-year renewal terms for an amount not to exceed \$600,000 to Insurance Services Office, Incorporated as set forth in this action item, and authorize staff to take any appropriate or necessary actions consistent with this action item.

CHAIRMAN WORTMAN: Any questions with the recommendation? Issues? Hearing none, is there a motion to approve staff's recommendation?

A VOICE: So moved.

A VOICE: Second the motion.

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

A motion was made and seconded to approve the Staff's Recommendation for the Loss History Reporting action item on Tuesday, June 18, 2019.

MR. BITAR: All right. Next on the agenda, Mr. Chairman, we have another action item that has to do with our product changes. Our Senior Director of Product Development, Karen Holt, is here to walk us through those product changes and seek your approval. Karen.

3. Action Item – Product Changes

MS. HOLT: Good afternoon Chairman Wortman and committee. As Steve mentioned, I am Karen Holt, Senior Director of Product Development and I have a few product changes to run through for you this afternoon.

Staff has identified several opportunities to update Citizens' policy forms. These changes are driven by the passage of House Bill 7065, claims department feedback and general research. In the first section we outline the changes resulting from House Bill 7065 which was just passed during the 2019 Florida session, and introduces guidelines and limitations regarding assignment of benefits.

We have completed our analysis and determined that several contract changes are needed to reflect the legislation. These changes will be implemented as soon as possible with the proposed effective date of 12/01/2019. These changes include expanded duties for assignees, declaration page updates with additional address information, information regarding delivery of notice and rescission of assignment, enhanced suit against us language relevant to assignees, additional definitions and other changes.

Additionally, please note that Citizens' leadership and staff will be conducting further analysis regarding the option to offer an alternative lower cost policy to ensure it eliminates the right to assign benefits.

Following that, there are a few additional changes. First, the duties after loss section and I won't read those. There are some typically minor changes. I will point out that we are going to introduce language to require the policyholder to notify Citizens of a claims dispute before filing suit, and we are updating our proof of loss requirements.

Additionally, we recommend changes to the commercial declarations page to update policyholder information regarding deductibles and first loss coverage. Please note these changes will be effective October 1st, 2019.

The last sections references changes to loss payment provisions. To limit payments for engineering reports, professional services and other expert opinions unless requested by Citizens. That completes the summary of changes. Are there any questions that I can answer?

CHAIRMAN WORTMAN: No questions. We will move to the recommendation.

MS. HOLT: Citizens staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens Board of Governors approve the above proposals to update policy contract forms, and authorize staff to take any appropriate or necessary action consistent with the Product Changes, June 2019 action item, to include filing with the Office of Insurance Regulation system change implementations, updates to supporting documents or forms and other relevant activities. Final changes may vary slightly depending on guidance from the OIR.

CHAIRMAN WORTMAN: Questions or comments regarding staff's recommendation? May I hear a motion?

A VOICE: I would make the motion to approve the recommendation as presented.

A VOICE: Second.

CHAIRMAN WORTMAN: We have a motion and a second to approve the staff's recommendation as presented. Any discussion? If not, any opposition? The motion carries. Thank you, Karen.

A motion was made and seconded to approve the Staff's Recommendation for the Product Changes action item on Tuesday, June 18, 2019.

MS. HOLT: Thank you.

MR. BITAR: Mr. Chairman, this is Steve Bitar. If I may, rather than playing musical chairs I would like to take item number five out of order if you would approve us doing so, and then we could finish up the meeting with Brian Donovan and the rates item.

CHAIRMAN WORTMAN: That is fine, go for it.

4. Consent Item - Electronic Document Services – Amendment for End of Contract Data Migration Services

MR. BITAR: Wonderful, thank you. We have behind tab five a consent item. We are seeking to amend a contract that we currently have with Cedar Document Technologies.

We have been under contract with Cedar for five years, and what we are seeking to do now as we terminate this contract is migrate roughly 69 million documents from the current vendor system to our current new system that is tied to Guidewire's that we can access any of those documents should we need to for litigation purposes.

We are in the process right now of negotiating with them the cost in order for us to migrate those policy forms and documents. We have a list of the types of documents. It could be policy, actual policy output, copies of invoices, endorsements, et cetera. We have a list here that is noted here on the contract history. And what we would like to do, because the original contract was broken down to the Board of Governors with an annual year by year spend and this amount would exceed what we have within year five, but still keeps us well below the overall Board approved spend, we would like to for awareness at least bring this forward.

Year five of the contract we had anticipated spending \$180,000. We are on par for that, but these new services that would allow us to index these 69 million documents requires additional work for that meta data to be transitioned over to us so we can scan and then access these actual documents in our new system. As a result of that, we are in the process of negotiating that spend, but it should not exceed \$375,000, which we feel would be money well spent in order for us to bring these documents over and have full access to these historical documents.

With that explanation, I would be more than happy to go into the recommendation

if you approve.

CHAIRMAN WORTMAN: Any questions before Steve goes into recommendation? Hearing none, Steve, it is all yours.

MR. BITAR: Thank you. Citizens staff recommends that the Actuarial and Underwriting committee approve and recommend the Citizens Board of Governors, approve an amendment to contract number 14-13-2006-00 for up to \$375,000 in Data Migration Services and authorize staff to take any appropriate or necessary actions consistent with this action item.

CHAIRMAN WORTMAN: Any questions, comments of Steve?

A VOICE: I will move to approve.

A VOICE: Second the motion.

CHAIRMAN WORTMAN: We have a motion and a second to approve staff's recommendation. Any objection? Hearing none, motion approved.

A motion was made and seconded to approve the Staff's Recommendation for the Electronic Document Services – Amendment for End of Contract Data Migration Services consent item on Tuesday, June 18, 2019.

MR. BITAR: Thank you very much. That concludes my section.

CHAIRMAN WORTMAN: Okay, let's recognize Brian Donovan for the final -- or the next to last item on the agenda. Brian.

5. Action Item - Revised Rate Filing (due to HB 7065)

MR. DONOVAN: Good afternoon, Chairman and committee members. I am Brian Donovan, Chief Actuary at Citizens and I will provide an update concerning the rate filings that we discussed last December and were filed in January.

As discussed at the December Board meeting, the litigation of non-weather water claims was the primary driver of Citizens' rate need for the multi-peril lines of business. In particular, lawsuits related to assignment of benefits have been identified as the major contributor to the need for the increase in cost.

While Citizens' requested rate increase was pending with the Office of Insurance Regulation, the Florida State legislators passed House Bill 7065. This Bill directly addresses the issue of litigation surrounding AOB abuse with the aim of reducing costs related to claims with an AOB.

The Bill specifically stated that Citizens' rates for HO3 and DP3 should not be increased until there was a specific accounting of the changes from this AOB Bill to

address the anticipated savings.

Based on this direction we have withdrawn all pending filings and reconsidered all rate indications and requested rate changes. Today, I will update the Board and committee on the impact of House Bill 7065 on Citizens' rate indications and proposed rates.

If we turn to Exhibit 1, I think we are all familiar with this exhibit at this point in time. We have seen it for several years now. I am not going to go through each of these numbers, but for the record these are the updated rate changes that we will be proposing to file with the Office of Regulation. Instead of going through each of these numbers, I will focus my discussion on which lines of business were impacted by the new legislation and what that impact looks like.

As I mentioned earlier HB 7065 directed that Citizens HO3 and DP3 rates should not be increased until we explicitly account for the anticipated impact of future costs. We actually went a step further, as I just mentioned, we went through all lines of business, including commercial lines and the other policy forms and really examined the non-hurricane losses for all perils, not just water, to see if there are any other places where we might anticipate savings from this Bill.

As expected, clearly HO3 and DP3 water claims, there is a very large impact that we will talk about, but to a lesser degree HO6 and mobile home also had a measurable impact that we will talk about and factor into that. We will discuss those impacts and how that changed our proposed rate changes.

The takeaway from Exhibit 1, if you will, on the bottom right-hand corner, columns 11 and 12, this is what all those numbers roll up into. For personal lines our uncapped rate indication, our total rate need at this point in time is 14.2 percent, and we are proposing a rate change of 4.7 percent. For commercial lines, the total rate need is 54.2 percent, and we are proposing a change of 8.9.

Across all lines of business, the rate need for Citizens is 18.1 percent and we are proposing a 5.1 percent increase.

If we turn to the next exhibit, now I am assuming -- let's back up for a second. I am assuming there is a specific set of exhibits that Barbara had provided to you. It is not --it is a summary of what is in the Board materials. I want to make sure that you have a copy of that. Do you have a specific copy of the presentation, or if you want to look at what is on the screen, because it is a summary of the Board materials and I think it would be difficult to follow if you are trying to go through the Board materials. We can provide you a paper copy of it.

All right, so the first exhibit there is exactly Exhibit 1 that I think you all were just looking at in your Board materials, but then after that I kind of skip around in the Board materials. So I think it is easier to follow, you know, what we were just given.

If we move to the next exhibit, so here is a comparison of our rate indications and proposed rate changes in December compared to the updates that we have made here to account for HB 7065.

For personal lines you can see that our rate need in December is 25.9. With the adjustments we have made that overall rate need has come down to 14.2. We were proposing 8.2 percent rate change. Now we are proposing 4.7. For commercial lines, you can see there was not a change. It was 54.2 percent in December. We looked at that and there was really no measurable impact for AOB for commercial lines at all. There

were literally a handful of claims that had AOB on them, and really no anticipated savings.

The rate need for commercial lines is really driven by the hurricane model results. And that had some change. So for that reason commercial lines is not changing. And so we were proposing an 8.9 percent rate change in December, and our rate, proposed rate change remains the same.

CHAIRMAN WORTMAN: Just one second. Question.

A VOICE: Just a quick question. Is the uncapped indication on commercial also driven by the fact that we have had so much depopulation on the commercial line that the residual that we are holding is some of the more higher risk property?

MR. DONOVAN: Absolutely. That is directly related. You know, as we have seen, and as you would expect, with the depopulation, you know, they're going to choose the more adequately priced policies and what's left were inadequate.

And that is the driver of the commercial and when we look at the hurricane model results and compare it to the premium we are collecting for those policies, that is the result there. So that is commercial lines.

I am really not going to talk much about commercial lines through the rest of the presentation, unless there are questions. But the bottom line there is we are not changing. We looked at it very closely and our recommendation is not to change commercial lines.

For personal lines, however, there was significant savings or differences. You can see here in December, there is the 25.9 and now we are at 14.2. But I want to point out, even though that is a significant difference, those numbers actually include the wind only policies. And for the same reason why we are not changing commercial line indications, the wind only indications are not changing either. Those numbers are based upon the hurricane model results. Those model results will not be impacted by House Bill 7065. For that reason the wind only indications are virtually unchanged.

Let's look at what was really changed. If we go to the next exhibit, so as I mentioned earlier, these were the four lines that had the biggest impact. The homeowners, the DP3, the condo units, HO6 and the mobile homes. Just focusing on HO3, we see that in December our rate filing was 25 -- our uncapped rate need was 25.2 percent, and that has dropped to 7.2 percent at this point. And our proposed rate in December, rate change was 8.5 in December and it is now 2.3 percent for today.

It is worth noting that this reduction in indication is not solely due to House Bill 7065. Certainly it was a big part of it, but when we went back and reexamined the indications we did add two more data, two more quarters of loss data and loss trend information. And we actually did see a dip that lowered our projection of future litigation independent of House Bill 7065. So it was kind of a double savings there.

Just to kind of put it in perspective. You might recall at the last Board meeting or committee meeting we discussed our indication and how the projected litigation, it was 50 percent, but due to MRP or Manage Repair Program it adjusted it down to 41 percent and that was the indication we brought forth, it was the 25.2.

With this filing we further reduced that litigation rate. It was 41 with the updated loss trend information and the House Bill. We are now projecting a 29 percent litigation

rate in the future. So that is a significant decrease and that is what is explaining the, you know, the change from the 25.2 rate need to the 7.2 rate need. And you can see for dwelling there is also a similar impact, but dwelling was starting at a much higher place, 36.9 to 24. So that is positive, but it doesn't really translate to much when our proposed rate change is 8.9 was what we proposed before at 8.6. And similar for condo and mobile homes. There was slight downward movement on all those numbers.

If we move to the next slide, as you can imagine this reduction in indications led to many more policyholders getting rate decreases. In December our rate indication and our rate proposal, if we just focus on homeowners, that is the dominant line of business.

We are about 4,500 policyholders out of 165,000, we are going to get a rate decrease of 2.7 percent. With these revised indications now over 45,000 policyholders will get rate decreases or close to 28 percent. And you can see across all four lines of business there, in December there would have been 23,290 rate decreases. Today it is up to 67,283 percent.

And so for policyholders receiving a rate decrease, the average savings is \$237. And further, you know, the statewide average proposed premium has decreased from 28.51 to 26.87. This reduction reflects two things. One, it is the decreases that we just talked about. There is also the other benefit. Even the policyholders who are getting an increase are not getting as big of an increase. Where they might have gotten an eight, nine or 10 percent increase, it is more six, seven, eight in some cases. It varies, but that is the idea. People getting actual decreases and the increases not being as much as they would have been. And also that is reflected in the statewide actuarially sound premium which decreased from 32.97 to 28.16 which is a significant difference.

So if we move -- I will pause there. Are there any questions at this point in time?

CHAIRMAN WORTMAN: Questions? Nope.

MR. DONOVAN: Okay. If we move to the next slide. This is just the histogram of the distribution of policy changes by policy form. Just to kind of remind you what this exhibit is, you look at the very bottom you see the four different boxes. Starting on the left the minus 11 to minus five percent, minus five to zero, zero to five, five to 11. That is just that represents the rate changes.

For example, the look at homeowners, 19 percent, the policyholders will receive a rate decrease between 11 and five percent, eight percent will be between zero and minus five, 10 percent zero to five percent and 62 percent will be in the five to 11 percent range.

You can see the distribution of policy rate changes by form. And now if we turn to the next exhibit. So where are those rate decreases going? Who are getting those rate decreases?

And if we look at this next exhibit, what we are looking at here, it is HO3 multi-peril policies and it is the distribution of rate changes by region of the state. You can see the first box, Broward, Dade, Palm Beach and then the rest of the state. And initially when I looked at this it seemed surprising, but after thinking about it for two minutes and going back and verifying and looking at some numbers, it actually makes perfect sense. You can see that Broward is only getting two percent rate decrease and 98 percent of the policyholders are getting an increase, while Dade is getting 71 percent of the policyholders are getting decreases.

And you know, I think some explanation is needed there. Keep in mind that Dade was ground zero for this litigation issue. I mean, it led the way. Broward was always a close second coming behind it, but when we look at overall litigation rate, when it happened, it started first in Dade, peaked higher in Dade and the rates were started to be increased for Dade much earlier.

For example, since 2015, Dade's rates have been increased by 26.3 percent. So in that time since 2015 through 2018, on average that is how much their rates have gone up.

During that same period Broward's rates have increased 16.5 percent. So they have kind of never quite caught up in terms of the rate change. Like I said, the litigation was a little behind, so the rate increases lagged a little behind. And that is reflected in the average premium. If you look at the average premium provided there, you can see that even though Broward is getting an increase from 30.57 to 33.51, that number, their average premium is still lower than Dade's average premium even after Dade gets a decrease of 3.5 percent or whatever, something like this.

And that is despite the fact that the home values, the average coverage amount for Broward is 227,000 Coverage A amount, where Dade is 2008. So basically Broward does have higher coverage amounts on average and still has lower premiums, even after all is said and done here today. And like I said, it is -- it is directly attributable to the fact that Dade just got their premiums increased earlier and now there is an impact for that.

So the rest of the state, the other regions are basically behaving as we would basically expect. The rest of the state still roughly half the average premium of Broward or even less than half than Dade. They are relatively flat. Palm Beach overall is relatively flat. And so that is the -- so any questions regarding that at this point?

CHAIRMAN WORTMAN: Just one thing, Brian. Would you run through the timing again?

MR. DONOVAN: Sure. The timing, so starting, that is a good question. You might remember in 2014, we came to the Board and made a recommendation that overall it was zero percent and there is even overall decrease in multi-peril HO3. So that was 2015.

Yes, those rates were brought to the Board in 2014, filed in 2014, for implementation in 2015. During 2015, is when we started seeing the steep incline in the litigation rate. And so that is the time, that is when it started. So 2015, at that point in time Broward actually had for the 2015 rates a minus 6.7 rate decrease for 2015, where Dade was at a minus 3.4 at that point in time. But like I said, that is when it took off. So since that time, from 2015 through 2018, we just saw a steady steep increase in the litigation rate with Dade leading the way. And during that time between 2015 and the rates that are currently in effect, Dade's rates were increased by 26.3 percent, while Broward's were increased by 16.5. During that same time the rest of the state actually had a decrease of minus 18 percent on average and Palm Beach was at 12.8 percent.

CHAIRMAN WORTMAN: Other questions any board members?

GOVERNOR KASTROLL: Hi, it is Will.

CHAIRMAN WORTMAN: Go ahead.

GOVERNOR KASTROLL: Which one?

CHAIRMAN WORTMAN: You.

GOVERNOR KASTROLL: Okay, thank you. It is Will Kastroll. With these rate changes, and this is a statement, not a question, I think you are going to find an increase in policy counts throughout Citizens as these take place as other insurance companies out there are taking larger rate increases than this.

MR. DONOVAN: I think that is a possibility. I mean, our mandate is to provide actuarially sound rates and to directly reflect anticipated savings from this. And that certainly is a real possibility, you know.

CHAIRMAN WORTMAN: What do you hear on the street from the private sector about the AOB legislation?

MR. DONOVAN: At this point the AOB legislation is anticipated. Christine had a very good quote, where basically the person who was responsible for this in the first place kind of announced AOB was dead with this Bill. So there is anticipation that there will be significant savings from this Bill.

MR. GILWAY: Yes, Mr. Chairman, for the record, Barry Gilway. First, I would like to address Governor Kastroll's question relative to the potential increase.

Two things are occurring. One, if you take a look at the recent filings with OIR, the private industry is still reflecting fairly significant rate increases. That should offset to some extent the impact of the decreases that Citizens is seeing. I think to some extent they will be a wash.

I think the marketplace reaction is going to be driven by a couple of things. Number one, as Brian reflected, Citizens is really estimating and making assumptions relative to the success of the AOB legislation. Tomorrow, the Board will hear from Christine and Jay in some detail relative to the actions we are taking to take full advantage of this.

The other, the private market is in a very different position. They without question will wait and determine what impact AOB legislation is having on the litigation rates and then they will subsequently file increases that reflect the actual experience. So Citizens is actually estimating their experience up front, whereas the private market will most likely delay an increase until they can show real progress relative to the reduced litigation.

What will be interesting in, back to Governor Kastroll's comment, what is going to be interesting is the tri-county activity, because within tri-county as Brian indicates, the reason tri-county is getting more of a positive impact from this is because they had higher litigation rates.

The private industry is getting hit with fairly significant reinsurance increases. What we are hearing, Chairman Wortman, from the industry is to some extent the reinsurance pricing increases will offset some of the benefits of the AOB reduction. The reinsurance marketplace is also reacting to increased exposure in the tri-county area, and the rates

for companies with higher tri-county exposure seem to be getting a higher level of increases from the reinsurance standpoint than others. All of these factors combined, I don't believe you are going to see a significant change in the overall policy count that will have to remain. Again, private market continuing to go up until they see the improvement, whereas Citizens is going down to some extent.

CHAIRMAN WORTMAN: Thank you. Any other questions, comments of Brian or Barry? No, okay.

MR. DONOVAN: 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.

CHAIRMAN WORTMAN: Is there a motion to accept staff's recommendation?

A VOICE: So moved.

A VOICE: I will second the motion.

CHAIRMAN WORTMAN: There is a motion and a second to approve staff's recommendation. Any discussion? Any opposition? The motion carries, staff's recommendation is approved. Thank you, Brian.

A motion was made and seconded to approve the Staff's Recommendation for the Revised Rate Filing action item on Tuesday, June 18, 2019.

MR. DONOVAN: Thank you.

CHAIRMAN WORTMAN: Any new business to come before the committee? Hearing none, I would take a motion to adjourn.

A VOICE: So moved.

A VOICE: Second.

CHAIRMAN WORTMAN: There is a motion and a second to adjourn. Any opposition? Hearing none, meeting adjourned. Thank you.

(Whereupon, the meeting was concluded.)