

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE CLAIMS COMMITTEE MEETING
Monday, November 30, 2015**

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened telephonically on Monday, November 30 at 10:00 a.m. (ET).

The following members of the Claims Committee were present telephonically:

Gary Aubuchon, Chairman
Jim Holton
Freddie Schinz
Jay Adams

The following Citizens staff members were present telephonically:

LaTrice Grier
Joe Theobald
Greg Rowe
Craig Sakraida
Jeff Lambert
Loretta Joiner

Call Meeting to Order

Roll was called: Chairman Gary Aubuchon, Jim Holton, and Freddie Schinz were present.

1. Approval of Prior Meeting's Minutes (September 10, 2015)

A motion was made and seconded to approve the September 10, 2015 minutes. All were in favor. Motion carried.

2. Strategic Update

Jay Adams stated, Chairman Aubuchon and Governors I wanted to take a few minutes to review the independent adjuster solicitation and contract processes as they have stretched over such a long period of time. Before I get started I wanted to recognize a few key players that helped to keep this solicitation and contract on course. First of all, I wanted to recognize Chairman Aubuchon for holding a position of Board Advisor during the solicitation process. Dan Sumner, Chief Legal Officer and General Counsel, along with his legal team and Purchasing provided invaluable insight and guidance in the solicitation and contracting processes. LaTrice Grier, Assistant Director of Vendor Relations and her team set forth the vision needed to support the claims business unit needs.

Jay Adams continued, the independent adjusting services solicitation was released on December 22, 2014. The goal of the solicitation was both to maximize the total roster size of independent adjusters needed to respond to a major catastrophic event, along with minimum commitments for MCM, litigation, and fast track.

Jay Adams continued, the main focus of the solicitation was structured around the independent adjusting firms identifying their level of committed independent adjusting resources that they represented that they could commit to the contract. During the solicitation process there was a single protest that occurred after the public meeting to address vendor questions, and subsequent to the intent to award contracts five additional protests were received which caused delays. All protests were eventually withdrawn without the need for resolution through the Department of Administrative Hearings.

Jay Adams continued, as of the final dismissal the award became final and was brought before the Board of Governors for final approval on June 24, 2015. The Board of Governors approved the award to include 27 independent adjusting firms with 12 of them being primary and 15 of them being contingent if needed. As I stated earlier, this solicitation was structured to allow the independent adjusting firms to make the determination of the number of resources they wished to commit to the contract. The next step in the process was to conduct train-the-trainer to prepare the firms for the credentialing process. When this was completed the clock started clicking on the credentialing processes for each of the independent adjusting firms. Initially the timeline was for 30 days from the time the contract was signed until the credentialing process ended. What we experienced during the credentialing time frame was no independent adjusting firm was able to fully credential their contracted commitment resource totals.

Jay Adams continued, we went through three additional rounds of credentialing periods to allow the independent adjusting firms the ability to meet their credentialed commitment numbers. As of November 6, 2015, four vendors met their obligation to credential their committed resource numbers and provide in excess of 2,000 resources. Those firms are CIS Group, NCA Group, Bright Claim, Inc., and Bradley Stinson & Associates. Through November 6, 2015 14 awarded independent adjusting firms withdrew their contracts for consideration. We are still working with nine independent adjusting firms by providing more time for the credentialing process to see if they can reach their committed resource numbers. As these additional firms meet their credentialing numbers they will be activated and eligible to receive work based on the business unit demands.

Jay Adams continued, as of November 16, 2015, we started to transition the work to the four fully credentialed independent adjusting firms. The 2,000 resources that they are providing is more than adequate to handle our non catastrophe needs. It is interesting to note that under our old contracts we had about 2,200 resources in total and the four fully credentialed independent adjusting firms are providing about the same number of resources. We will continue to work with the remaining nine independent adjusting firms to reach their credentialed committed resources count to attempt to increase our resource base further into 2016.

3. Vendor Update

LaTrice Grier stated, our first action item is for our Claims Flooring Valuation Services. Currently we are utilizing a claims estimating software which is Xactware to determine replacement costs for carpet, pad, wood and other types of flooring. This tool does not provide the ability to identify the actual type, quality and pricing specifications of damaged flooring and then accurately match to a comparable material and quality retail product. A flooring valuation service provider provides this type of evaluation using comprehensive product data. The vendor is able to quickly analyze a flooring sample, determine product type, quality and pricing and is able to identify multiple types of quality retail products for consideration by the adjuster. The flooring valuation services will allow Citizens to continue obtaining accurate pricing and better product matching, maintain transparency with the insured during the valuation process, improve policyholder satisfaction, accurately manage indemnity spend of flooring claims and reduce Citizens exposure to disputed claims.

LaTrice Grier continued, a little history here, Citizens issued ITN 10-0071 on September 8, 2010, for Claims Flooring Valuation Services and the award was granted to ITEL Laboratories. Citizens has partnered with ITEL Laboratories for the past five years and due to the upcoming expiration of the current contract, Citizens re-solicited competitively to procure services under a new contract. ITEL Laboratories was the single respondent. The response was responsive, responsible and capable of delivering the required services. It is anticipated that this contract will have a five-year base term with one optional two-year renewal term which may be exercised at Citizens' sole discretion. Estimated cost of this contract including renewals is not to exceed \$710,000. The cost for these services is included in the approved 2016 Annual Operating Budget and is paid as a Loss Adjusting Expense.

LaTrice Grier continued, the action item is as follows. We are seeking Board approval of a multi-year contract for Flooring Valuation Services RFP 15-0025. Citizens issued a competitive solicitation seeking qualified vendor responses. There was one single respondent which was the incumbent vendor, ITEL Laboratories. ITEL's existing flooring contract expires on March 23, 2016. The contract term is five years with a one, two-year optional renewal. The recommendation at this time is that the Claims Committee approve and recommend the Board to approve the recommended award for flooring valuation services for RFP 15-0025 and the resulting contract including renewal periods to ITEL Laboratories, authorize the staff to take any appropriate or necessary action consistent with this action item and approve this flooring valuation service contract award not to exceed \$710,000.

Chairman Aubuchon stated, Xactware is our estimating software and the way you explained it is that it does not have the capacity to identify the type, quality and pricing on flooring. Is there any other aspect of estimating that the software doesn't handle that we need an independent vendor to handle?

Jay Adams stated, our estimating system can estimate the different types of flooring. Ultimately that is the pricing that we end up using. What this service does is it helps us determine the type

of carpet and flooring materials that are there. When an adjuster goes in to a loss and looks at carpet, you know, there are many different grades and types, and this service helps to distill down to exactly what we are looking at so that we don't under price or over price that particular risk.

Chairman Aubuchon stated, Okay, but is there any other aspect of the estimating process that our Xactimate software needs an assist, if you will, or is this the only area that we need that? In other words, cabinetry, for example is another item in a house that has a lot of quality levels to it. Do we need a separate vendor to determine the type and quality and so forth of that, or is it only in flooring?

Jay Adams stated, so the reason that we are doing it on the flooring side is typically carpet and some of these different flooring surfaces need to be tested by a testing firm to determine the quality. Most of the other materials in the home you can determine the quality levels with just a normal contractor. We typically don't bring a flooring specialist out on a claim nor would the insured typically hire a flooring expert. They typically would hire a general contractor. And again, this just brings them the specifics to make sure that we are getting to the right quality of the material.

Chairman Aubuchon stated, I got you. And so this is the only instance that we need to do that, is flooring?

Jay Adams stated, based on the types of losses that we are currently receiving this is the only opportunity we have identified at this point. I don't want to say that is the only opportunity, but this is the biggest opportunity as most of our water claims have some type of damaged flooring involved.

Chairman Aubuchon stated, got you. Okay. Thank you. That helps, Jay.

A motion was made by Governor Holton and seconded by Governor Schinz to approve and recommend Board approval for Flooring Valuation Services, RFP 15-0025 and the resulting contract including renewal periods to ITEL Laboratories; authorize staff to take any appropriate or necessary actions consistent with the Consent Item; and approve this flooring evaluation service contract award not to exceed \$710,000. All were in favor. Motion carried.

LaTrice Grier continued, the final recommendation is for Appraisal Services. The claims department contracts with a number of independent field appraisal firms to provide field appraisal services for those claims where Citizens has entered into appraisal with the policyholder in order to resolve a claim. The current contract for these services is set to expire on April 8, 2016.

LaTrice Grier continued, upon the conclusion of the evaluation process for a competitive solicitation RFP 15-0022 Appraisal Services, a notice of intent to award contract to multiple vendors was published on November 10, 2015. The recommendation to award considers the estimated need for Citizens for up to 50 appraisers for the handling of daily claims volume and up to 120 appraiser resources for contingency purposes such as increased volume due to market

activity, CAT event, attrition or possible legislation. It is anticipated that this contract will have a four-year base term with three optional one-year renewal terms which may be exercised at Citizens' sole discretion. Estimated cost for this contract including renewals is not to exceed \$36,750,000. The cost for these services is included in the approved 2016 Annual Operating Budget and is paid as a Loss Adjusting Expense.

LaTrice Grier continued, this action item seeks Board approval for a multi-year contract for claims field appraisal services. Citizens issued a competitive solicitation seeking responses from qualified vendors. Citizens staff evaluated the responses and recommends that the Board approve awarding contracts to the seven vendors found on Attachment A of this action item. And I will read them as follows. The seven vendors are: Team One Adjusting Services, LLC; Claims Questions, LLC; Lozano Insurance Adjusters. In the event that Citizens resource needs exceeds the commitments available from the above awarded vendors, Citizens reserves the right to pursue contracts with the remaining responsive vendors in the order ranked below: Connect Point Resolution Systems, CMD Affiliates, LLC dba CatManDo, CIS Group, Pyka & Associates.

LaTrice Grier continued, the top three awarded vendors will collectively provide approximately 50 resources which are needed to handle anticipated daily volume. The remaining four vendors will be utilized on a contingent basis to mitigate the risk of attrition and/or increased volume due to market activity or a CAT event. All vendors will receive the same contract terms and fee schedule. The terms of this contract will have a four-year base term with three optional one-year renewals which may be exercised at Citizens' sole discretion by delivery of a written notice to the vendor at any time prior to the expiration of the then contract.

LaTrice Grier continued, the recommendation is as follows. The staff recommends that the Citizens Claims Committee approve and recommend the Board to approve the recommended award and resulting contracts including renewal periods for appraisal services. The contract number is yet to be defined. It will begin with 15-0022 to the vendors identified in Attachment A of this action item previously read. Also I would like the staff to take any appropriate or necessary action consistent with this action item and approve the action item not to exceed \$36,750,000.

Jay Adams stated, before we ask for a vote I would just like to make a clarifying comment. LaTrice indicated that this is a budgeted item in 2016, that we have an approved budget. We do not have an approved budget as that has not gone before the Board yet. However, this is a continuation of services. It is budgeted and it is paid as an additional expense under the claim. So it is not within the administrative budget.

Chairman Aubuchon stated, thank you, Jay, for that clarification. And Jim or Freddie, do you have any questions?

Governor Schinz stated, I just want one for clarification. And the way that I calculate it, it is \$5.25 million per year and the \$36 million for the overall action item. That is for a total of seven years if we extend the three year renewal option. So I just want some clarification on, is that correct?

LaTrice Grier stated, the break down we have is \$21 million for the base term and then \$15.75 [million] for the three, one year renewal options.

Governor Schinz stated, and so that is all inclusive. So if we do the renewals then it will be the \$36.75 million?

LaTrice Grier stated, that is correct.

Governor Schinz stated, but right now we are obligating ourselves for sure for \$21 million for a four-year basis or five and a quarter million per year, correct?

LaTrice Grier stated, that is correct.

Governor Schinz stated, okay, that is all I need clarification.

Jay Adams stated, I wanted to make sure that we indicate in this that this is based on a current claims volume. So as we continue to depopulate we may be under these numbers or if there is some market change or condition we may be above these numbers and may have to come back and ask for more spend. This was our calculation based on our best guess of where we will be over the period.

A motion was made by Governor Holton and seconded by Governor Schinz to approve and recommend Board approval for the recommended award and resulting contracts including renewal periods to the vendors identified in Attachment A of this Action Item for Appraisal Services RFP 15-0022; authorize staff to take any appropriate or necessary actions consistent with the Action Item; and approve this Action Item not to exceed \$36,750,000. All were in favor. Motion carried.

4. New Business

[Meeting adjourned]