

NON WEATHER WATER UPDATE

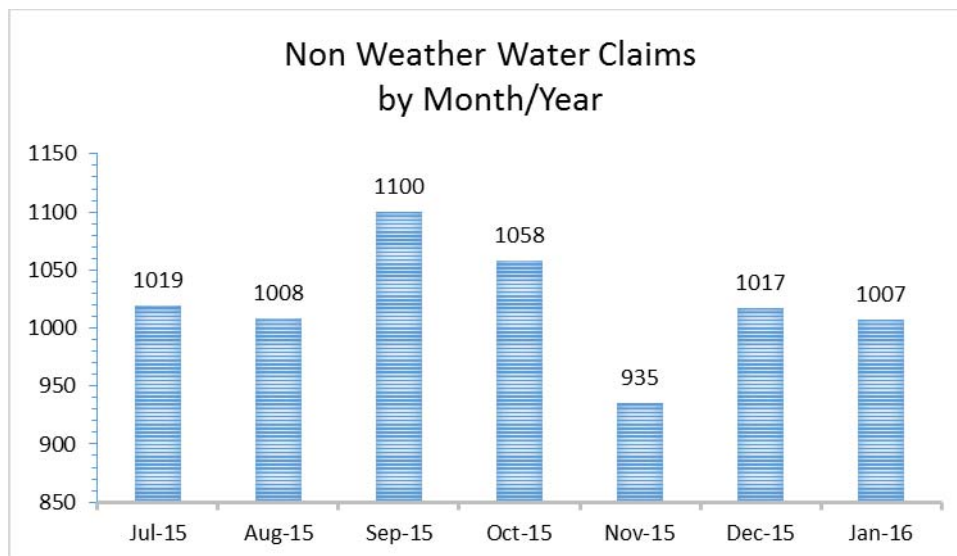
CLAIMS COMMITTEE MEETING MARCH 9, 2015
BOARD OF GOVERNORS MEETING MARCH 16, 2015

EXECUTIVE SUMMARY

Non Litigation

Non Weather Water Team

As indicated in the chart below, Citizens received 3127 new First Notice of Loss (FNOL) for third quarter 2015 and 3010 new FNOLs for fourth quarter 2015. This represents 49 percent and 56 percent of all new claims received for the same periods. For January 2016 Citizens has received 1007 new FNOLs. Despite the robust depopulation efforts and the reduction of Citizen's inforce policies, the Non Weather related water claims volume remains constant.



The team structure of the Non Weather Water team consists of six teams staffed by a mix of Citizens adjusters and dedicated teams of independent adjusters. Oversight of the claims teams is provided by six Citizens staff field claim managers. The strategic vision is to have the Non Weather Water team fully staffed with Citizens adjusters.

Some of the challenges that face the Non Weather Water adjusting staff and management continue to include the increase in water claims that have assignment of benefits and late notice claim reporting where the work has already been completed.

To address some of these challenges Citizens has implemented a water mitigation estimate review pilot program with two contracted vendors. Since September 2015 Citizens has submitted over 1500 water mitigation estimates for review. Additionally, the claims team is calibrated and conducting quality assurance reviews to ensure consistent and proper claims handling.

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Litigation

Overview of Incoming Lawsuits and Pending Volume

From January 2015 through February 2016, Citizens was served with 8,074 lawsuits regarding residential property losses. This reflects an average of 621 new lawsuits per month. During this timeframe, Citizens resolved 12,149 litigated matters.

As of February 1, 2016, current pending volume totaled 6,607 lawsuits. This reflects a 34 percent decrease in pending as compared to this same time last year (10,071 pending matters).

Ninety-six percent of the incoming lawsuits arise out of the Tri-County area. This distribution has remained consistent since March 2014:

- Miami-Dade 67%
- Broward 23%
- Palm Beach 6%

The leading dispute in 54 percent of new incoming lawsuits is a disagreement over scope and pricing issues.

The insured was represented at First Notice of Loss (FNOL) in 85 percent of these incoming lawsuits:

- Public Adjuster 45%
- Attorney 38%
- Both PA & Attorney 1%

In 61 percent of the incoming lawsuits the insured did not dispute Citizens' position or adjustment of the claim prior to filing suit.

A review of the timing of incoming lawsuits reveals that 48 percent of lawsuits are brought within 6 months of the FNOL:

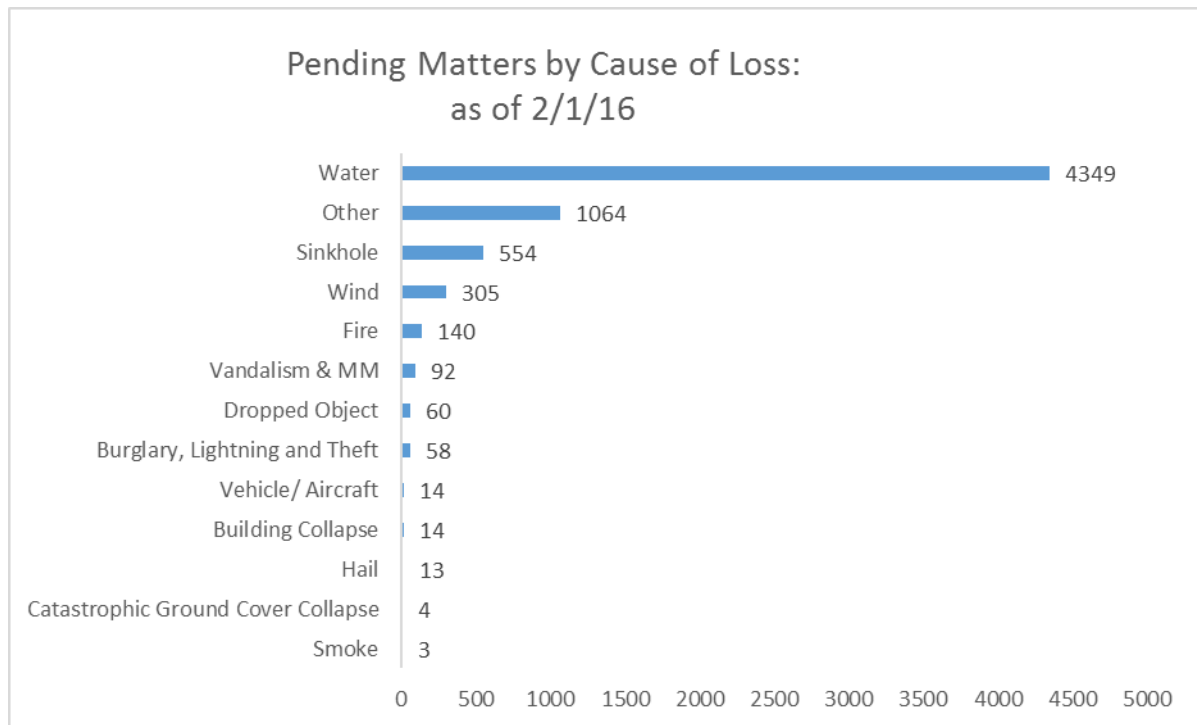
- Within 6 weeks of FNOL 2%
- Within 3 months of FNOL 10%
- Within 6 months of FNOL 36%
- Within 1 year of FNOL 30%
- 2 or more years from FNOL 22%

Water Loss

The leading cause of loss for all new incoming lawsuits remains Water Loss which represents 82 percent of incoming suits. Water Losses have consistently comprised in excess of 80 percent of all incoming lawsuits since March 2014. Fifty-four percent of water losses are due to a plumbing leak/break. Water Loss matters also remain the leading cause of loss in pending volume, representing 65 percent of the pending.

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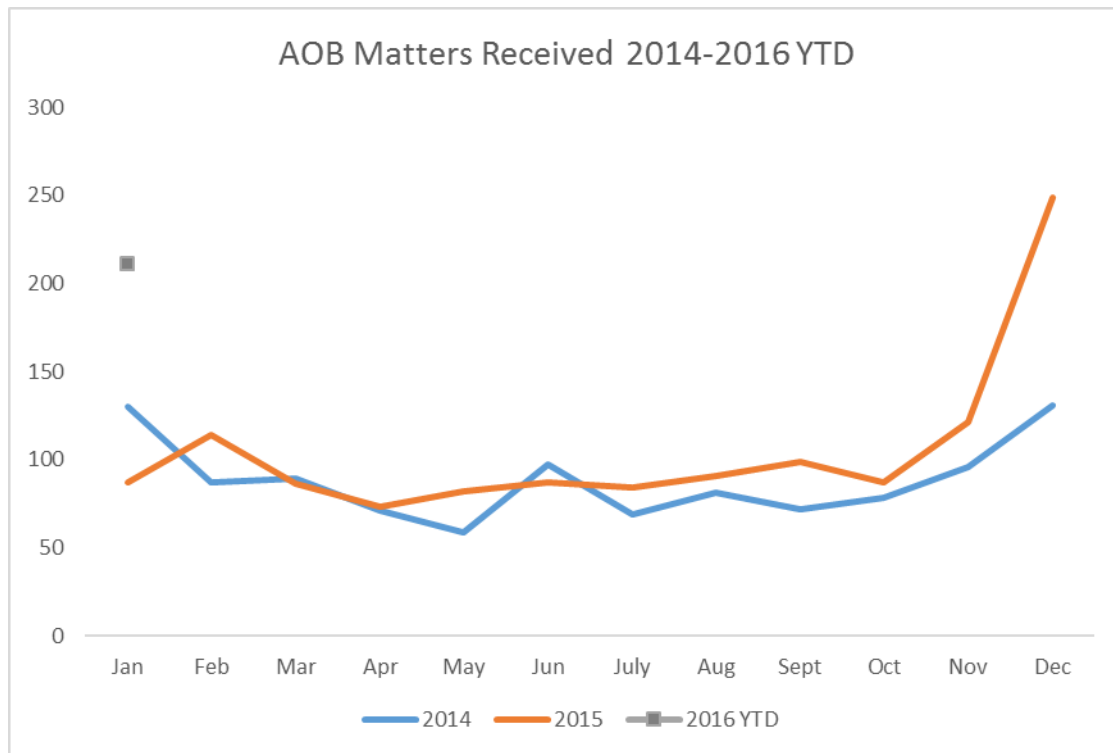
At this time, Citizens has 73 Water Loss cases set for trial in 2016.

Assignment of Benefits (AOB):

Since December 2015 Citizens has experienced an increasing trend in the number of new incoming AOB lawsuits where the suit is brought against Citizens by a service vendor hired by the insured (typically a water mitigation company). Prior to December 2015, the number of new incoming AOB suits averaged 91 per month. In December 2015 and January 2016, Citizens was served with 249 and 211 new AOB suits respectively – representing a 200+ percent increase over the monthly average of the prior 12 months.

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AOB suits comprise approximately 21 percent of new incoming lawsuits, which represents a 5 percent increase since our last report in September 2015. Seventy-eight percent of all pending AOB suits arise from a Water Loss, of which 48 percent are associated with a plumbing leak/break. The dispute in the majority of these matters is over the reasonableness and necessity of the charges/services submitted for payment.

At this time, Citizens has 20 AOB cases set for trial in 2016.

Conclusion

The majority of new incoming lawsuits continue to arise out of water loss claims in the Tri-County area. This trend has remained consistent since early 2014. A rise in the number of incoming AOB suits has also been realized since December 2015. Roughly one half of new suits continue to be filed within six months of the First Notice of Loss, and the vast majority reflect representation of the insured at the time the loss is first reported. The majority of lawsuits are also filed in the absence of the insured disputing Citizens' position at the time of the adjustment of the claim.

In response to the ongoing trend with Water Loss litigation and increasing frequency of AOB lawsuits, the Claims Litigation department is refining the organizational structure and working closely with in-house Legal staff to craft appropriate and effective litigation strategies to address these matters.

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Special Investigations Unit (SIU)

Water Claims Overview

During the September 2015 Claims Committee Meeting, Citizens' Claims leadership presented information on non-weather related water claims. At the time, we brought attention to an increase in fraudulent and staged losses, most particularly in Miami-Dade County which also accounted for the largest share of newly filed law suits (71 percent of new suits reviewed in December 2014.)

SIU Strategic Response

Because of the serious impact these issues cause for Citizens (and indirectly, the Florida consumers), the Claims Leadership team convened a Water Summit to communicate a clear vision and ensure alignment of our claims handling, litigation and SIU strategies to one another. During the Water Summit, SIU analyzed and presented data on the South Florida market place, claims and SIU trends.

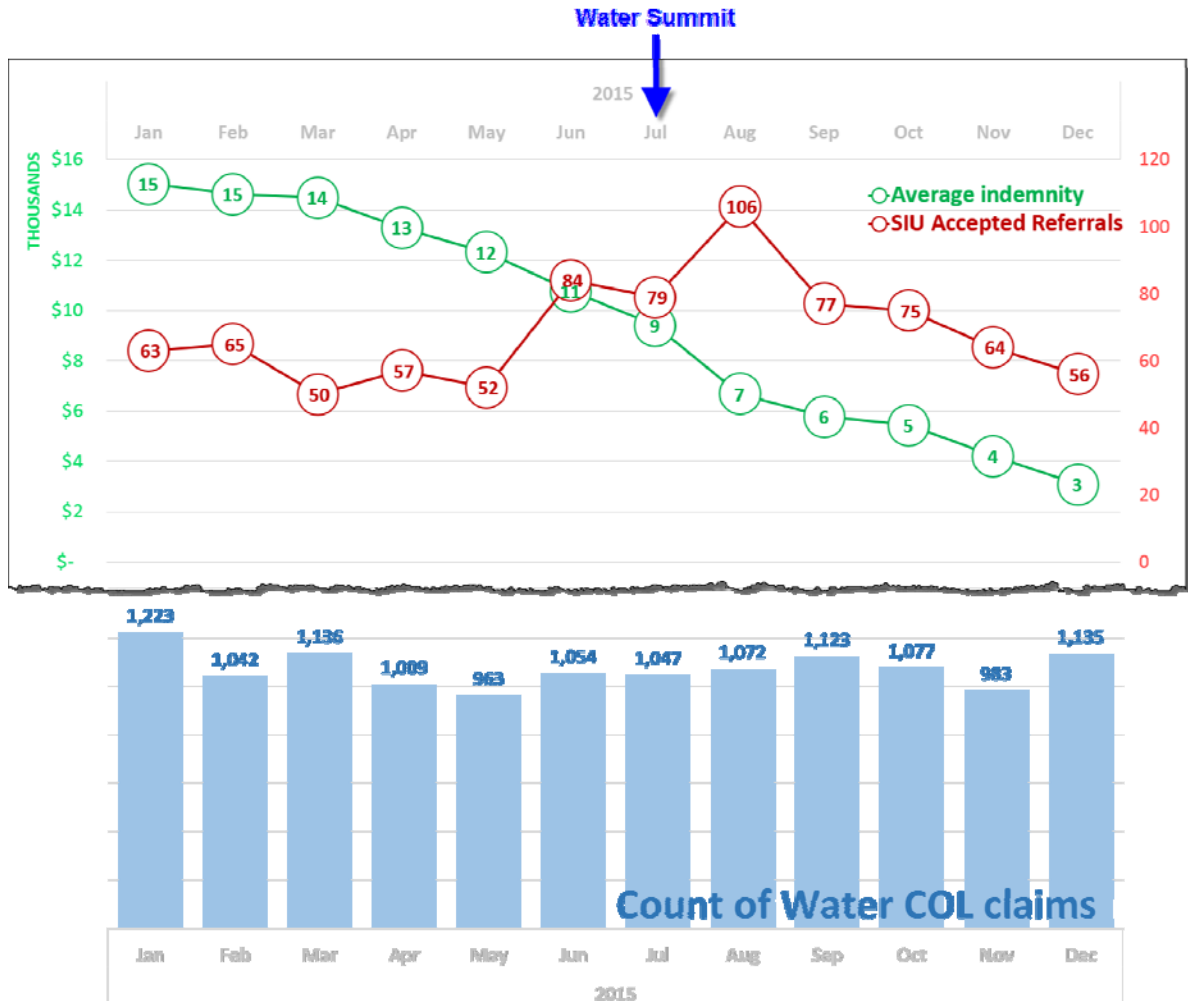
The information developed during the Water Summit provided a spring board to a more robust strategy, in which our SIU Program:

- Refocused our analytics capabilities to proactively identify and investigate suspect water claims that have the most impact potential, increase the speed to detection, and work to expose crime rings that are targeting Citizens.
- Provided training to front-end adjusters to improve adjuster awareness, and investigative competencies of water-related fraud claims to promote quality of SIU referrals.
- Raised the bench strength of our investigative team by developing and presenting training material on water-related claims investigations.
- Revamped SIU's Desk & Outsourcing team to balance use of staff and outsourced firms and efficiently handle water-related claims.
- Maintained an open line of communication with law enforcement and industry partners in support of their efforts to prosecute and expose fraud.

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Data Observations



- In August (the month following the Water Summit), accepted investigation referrals for the water causes of loss (COL) increased by 34 percent.
- Following the Water Summit, the average indemnity continued to experience a significant decline.
- The significant decline to average indemnity for the water COL is likely attributable to a combination of establishing a clear vision, and ensuring alignment of our claims handling, litigation and SIU strategies to one another.

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Systemic Challenges

Although we have a positive glide path in our ability to identify potentially suspect claims, we continue to have challenges which limit the ability of Citizens to fully investigate these losses. More specifically, we've observed that representatives of insureds (including attorneys and public adjusters) have:

- Delayed the reporting of claims, typically 10-15 days;
- Attempted to prevent our SIU representatives from attending the damage inspection along with the claims field adjuster; and
- Disallowed the SIU representative to conduct an interview of our named insured.

In some cases, this pattern served to spoil evidence and hamper our investigative efforts.

Looking Ahead

- Partnership with Learning and Development in the creation of bulletins and guides for adjusters that focus on critical first steps and direct connection to preparation of a quality SIU referral.
- Continue to keep our adjusting teams informed of fraud trends and abuses in order to keep the "spotlight on fraud" and invigorate quality SIU referrals.
- Deeper analysis of those parties involved in the transaction to identify organized crime groups that are potentially targeting Citizens.

RECOMMENDATION

There is no recommendation at this time.