

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE

ACTUARIAL AND UNDERWRITING COMMITTEE TELECONFERENCE MEETING

December 3, 2019

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened telephonically on Tuesday, December 3, 2019 at 11:00 a.m. (EDT).

The following members of the A&U were present telephonically:

John Wortman, Chair
Reynolds Henderson
William Kastroll
Fred Strauss

The following Citizens staff members were present telephonically:

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| Ariel Shami | Dan Sumner |
| Barry Gilway | Jeremy Pope |
| Barbara Walker | Jay Adams |
| Bonnie Gilliland | Bethany Kocher |
| Brian Donovan | March Fisher |
| Steve Bitar | Janice Watts |
| John Fox | Charlie Broward |
| Scott Crozier | Karen Holt |

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 September 10, 2019 minutes. All were in favor. Motion carried.

2. Annual Market Research Update

Mr. Crozier: Good morning, thank you, Chairman Wortman. For the record this is Scott Crozier, the Vice-President of Underwriting and Product Development. And for the next roughly 15 minutes I am going to present the Annual Market Research Update. If you have your slides in front of you on the second page, there are five topics that we are going to discuss today, and the idea is to do a high-level overview of these topics for your awareness primarily. And the format we are going to follow is we will discuss the background for each of these, the risk posed, insurance concerns and expectation for coverage, the research that Citizens has conducted, and finally, things to consider. There are 46 total slides. I am going to go through these pretty quickly. If you have any comments or questions, please feel free to interject as we go.

The next slide for the water control devices, there is Telematic. Background, so there are several water control devices. They are basically smart devices or telematics that have emerged the last few years in the marketplace to include here in Florida. And overall some insurance companies are providing discounts for either active or passive devices. And I will speak momentarily about the differences between those two.

Slide five, so passive devices. Basically, these alert a homeowner to a possible leak. It is very similar to a smoke detector where you get some sort of audible sound should there be water detected somewhere, much as you would if there was smoke detected from a smoke detector. One of the challenges with this technology is the sensor has to be installed by near every piece of plumbing in the house in order to have maximum effectiveness. And you will see an image at the bottom of a sample. I believe in this case it is a product -- excuse me, provided by a company known as Roost.

Slide six, active systems are similar to the passive ones in that they alert a homeowner to detection of water leakage, but they also provide a pretty critical extra step, which is they will automatically stop the water flow. They are significantly more expensive than passive devices, but that savings can be realized by the water flow being stopped to the individual as well as to the resulting loss, and therefore, the claims damages that may need to be made. There is a sample at the bottom of this page.

Slide seven, there are several risks that water control devices pose. The one I am going to focus on here is the one that is in the center, the data privacy concerns. Because this is Telematics and a lot of data is provided electronically ostensibly to the insurance company or to a third-party that may monitor for them. There are challenges that would be posed, such as how do you maintain data security, how do you prevent or mitigate hacking. And one of the challenges or risk posed to Citizens would be, is a potential benefit to the insured of offering a discount worth the potential risk we would take on if we

were unable to properly safeguard their personal identifiable information.

Slide eight, insurance concerns and expectations for coverage. Devices are becoming more and more popular; they are becoming advertised within the market. But a key part to this is, despite all the benefits, we see very limited to no value in reducing fraudulent water claims. So for instance, it would be very easy to disable an active system, or if you had a passive device, to just move the sensor off the ground and let your plumbing flow after it has been broken to flood all over the place and then put the sensor back down on the ground and pretend that, you know, it never detected it in time.

The next slide, the research that we have conducted. We have seen at least 10 Florida domicile companies that started offering discounts for these devices. What we are noticing though is it is primarily being marketed to preferred risks and those with higher values. So not your typical residual carrier which has been a niche that essentially Citizens fulfills.

The next slide, again, to reiterate one of the things that we were talking about for considering is the water control device credit and appropriate fit for Citizens' book of business. And that is one of the questions that we are now and will continue to monitor.

All right, do you have any questions? I am going to move on to home sharing. Slide 12, home sharing and there are several of the companies of the many that are out there are listed on that top bullet are becoming more and more popular. They are really prevalent in vacation and tourism areas, such as Florida. They are also in some high rent areas such as New York and San Francisco. It is a very easy way to supplement one's income.

Next slide. One of the strongest differences between home sharing and complete rentals, home sharing is typically realized when someone rents out a portion of their home, a bedroom, a bed, a floor in the house or so on versus the complete rental is when somebody basically shares the entire home.

Slide 14, so there is risk for both the homeowners and to the renter or the traveler and you will see the sub-bullets on this slide. A key thing to be aware of is homeowners may be offering homes in violation to clause, ordinances and/or bylaws. There is the potential legal risks that could be assumed by both the renter, the traveler and the insurance company involved.

Next slide, insurance concerns and expectations for coverage for home sharing. Essentially the risk of severe damage to property is low in these scenarios, but the liability concern does pose a greater risk.

Slide 16, Citizens' research. Really covered restrictions generally exclude business pursuits, property of a renter or a boarder and short-term rentals, and contract changes are being evaluated now and will continue to be evaluated going forward.

Next slide, things to consider. This peer-to-peer or sharing economy is, booming may be too strong a word, but it is becoming more and more popular almost daily. And a key thing with this as well as these other emerging topics is how well or how does this fit with Citizens' statutory purpose. And that is something again that we are able to continue to consider. All right, pending any questions on home sharing, I will move onto marijuana.

Background. As you are likely aware there are conflicting laws between states, federal governments which pose a host of challenges and it is difficult for insurance exposures due to lack of market capacity.

Slide 20, the risks again conflicting laws are a big part of that. Although a lot of

states have legalized marijuana in one form or another. It is still prohibited by federal law. And in the end, most committed carriers are not insuring dispensaries or other marijuana related businesses.

Slide 21, some additional risks. It is hard to price. There is the risk of buyer in large part due to the heat lamps that are used to help germinate and keep the plants growing. And because of the federal violation, the statute is largely a cash business which really increases the risk of theft.

Slide 22, the insurance concerns and expectation for coverages. Under commercial lines the most likely exposure here in Florida would be for medical dispensaries. There also could be and this wouldn't fit into Citizens really, but agricultural coverage would be a need likely as well.

On the next slide for personal lines, a lot of folks would look at this or may look at this as their marijuana being personal property and would expect coverage for theft or damage from anything else, such as fire or water damage.

Slide 24, in our research, the commercial lines generally green houses, farms, contraband are either all ineligible or excluded, and while medical dispensaries may be eligible, theft and liability are excluded.

Slide 25, for personal lines, again, there could be that expectation that marijuana would be covered as personal property, but of course, criminal acts are excluded. Federal versus State legality.

Slide 26, things that we are considering. A fair question is what makes marijuana any different from any other prescription medication? And that is something that could potentially be challenged in the courts, but for the time being we see it as something different and right now we do not insure marijuana.

All right, pending any questions we will move on to actual cash value for roofs. Slide 28, for actual cash value or ACV, at the risk of insulting anyone's insurance intelligence, I just want to reiterate that it is paying a depreciated amount for the roof in the event of a covered loss. The depreciation is based upon the age and the condition of the roof at the time of the loss relative to its value if it were brand new. If you look in the center of the slide you will see a calculation, RCV minus depreciation equals ACV and then an example. You get a \$10,000 roof that was aged and conditioned it would be \$4,000 less in value. The ACV settlement would be just \$6,000.

Slide 29, ACV roof endorsement has been adopted by most homeowner carriers in Florida, but as an option, not as a requirement. And the reason for that is Florida statute requires insurers to offer full replacement cost coverage for their homeowner policies. It's not the case for the dwelling program, but it is for the homeowners' line.

On slide 30, risks. Citizens has essentially become the primary option for risks with older roofs as the private market continues to restrict roof underwriting. Essentially, we are being adversely selected again when it comes to roofs that are older and less pristine condition.

Slide 31. How to reiterate that, continue to offer replacement cost value on older roofs is going to exacerbate adverse selection and may promote more moral and morale hazard.

Slide 32, insurance concerns and expectations for coverage. Insureds expect to be completely indemnified in the event of a roof loss. They are looking for their insurance company to buy them a completely new replacement roof. You will see at the bottom of

this slide the potential for additional litigation and there is a couple of little bullets there for to you to look at.

Slide 33, our research shows that some of the carriers that offer an ACV roof endorsement as an option give them a small premium credit. Typically, less than five percent.

Slide 34, Florida Statute requires the replacement cost option I mentioned earlier. It is interpreted that a company cannot require ACV roof for eligibility for a homeowner policy. We could theoretically offer it as an option, but not require it.

Slide 35, again, with our role as a residual insurer does an ACV roof endorsement comport with corporate and statutory directives. That is something that we are and will continue to consider.

Slide 36. Failure to adopt an ACV roof, again we are looking to continue to adverse selection, in the worst case means it would be an increasing drain on our surplus. All right, any questions? I am going to move to our last emerging trend which is container homes and businesses.

Slide 38. Shipping containers are being used with more and more frequency to build homes and businesses. It's really becoming common in a lot of areas due to cost effectiveness, actually for a host of different reasons.

If you go to slide 39 I am going to show you a few examples. Here is a food court like area at Channel Side in Tampa. A place to stop before you go and watch the Lightning play.

And slide 40, is a home that is going to be completed in Tampa.

Slide 41 has a pretty wild looking one that is being constructed in downtown Jacksonville.

Slide 42, the risks. These from what we understand are both difficult and expensive when you have to repair when you have a partial loss because it is one integral system is a container. So it is really tough to cut out and weld another section back into it, and we are not really sure what the performance in a hurricane is with these. Although initial information suggest that they actually could be pretty solid.

Slide 43, concerns and expectations. Most likely risk is unable to value these things properly and our ability to repair them. There may not be many contractors who are skilled at this or are effective at it. The materials may be tough to get and there is just not a lot of experience right now in the industry.

Page 44. As I just mentioned the lack of experience. We were unable to identify any admitted insureds that are writing homes and/or businesses currently.

On slide 45, things to consider. How would a container, home or business fair in a hurricane, what about another type of loss like a fire or water losses. How does this fit with Citizens' statutory purpose? Again, an ongoing and consistent theme.

Pending any questions, I would like to thank Karen Holt and her Product Development team for preparing this for us. And that concludes the Annual Market Research Update.

Chairman Wortman: Sounds to me like the container homes will be coming to Citizens.

Mr. Bitar: Not yet, Mr. Chairman, not yet. Although I think with all the topics that

Scott brought up today, these are trends that we are monitoring within our division to try to see what is happening and obviously where Citizens fits and how we should respond.

So that is really why we wanted to bring these topics to the A&U today and we commit to do that on an annual basis to kind of keep you abreast of the market research and analysis that we are systematically performing on a regular basis.

Chairman Wortman: You know --

Mr. Bitar: If we do make a proposal in that direction, we will bring it to you, Mr. Chairman.

Chairman Wortman: Yes, I think that is very positive on your part to look ahead. You know, then you stay ahead of what is happening on the street and I think that is great. Thanks, Steve.

Mr. Bitar: Thank you.

Chairman Wortman: And Scott.

Mr. Crozier: Thank you.

Chairman Wortman: Any other questions on the Annual Market Research Update? We will go to item three which is the A&U Charter Review by Steve and I will turn it over to Steve.

3. A&U Charter Review

Mr. Bitar: All right, Mr. Chairman, thank you. As you know the Actuarial and Underwriting committee does have a charter in place that was approved by the A&U. We have committed to bring that charter back on an annual basis just to refresh it if necessary and to make any updates.

At this time there have not been any requests for updates whatsoever, but we do want to at least look at it on an annual basis and certify it for the upcoming year. At this time I will open the floor to see if there are any suggestions for changes. If not, we can move forward with ratifying the charter for the upcoming year.

Mr. Strauss: Steve, this is Fred. I notice that there is a date on the bottom of December 3rd, 2019. And I was trying to see if there were any changes that were made from last year's. It doesn't appear that there were, is that correct?

Mr. Bitar: That is correct, sir.

Mr. Strauss: Thank you.

Chairman Wortman: Steve, do we need a motion to move this forward another year?

Mr. Bitar: Yes, sir, we would need a motion and a second in order to ratify the charter and have it applied to the upcoming year.

Mr. Strauss: Thank you, Mr. Chair. This is Fred. I would make the motion to ratify the Citizens' charter for the Actuarial and Underwriting Committee as presented for the upcoming year.

Governor Kastroll: I will second.

Chairman Wortman: We have a motion and a second to approve the charter for another year. Is there any concern or negative with the motion? Hearing none, the motion carries and we will move forward to 2020.

A motion was made and seconded to approve the A&U Charter for 2020 on Tuesday, December 3, 2019.

Mr. Bitar: Thank you very much.

Chairman Wortman: Okay, with that we will move to the action items and again I will turn it over to Steve.

4. Action Item: Agency Management System Subscription Services, Professional Services and Staff Augmentation for Implementation and Ongoing Support

Mr. Bitar: Thank you, Mr. Chairman. The last item that you have behind tab four is an action item that I am bringing forward. I do want to state that we are not seeking any additional funds whatsoever. We are simply seeking to reallocate funds that were previously approved to different categories of spend.

On April 11th of 2018, we brought this contract forward to the A&U and ultimately the Board. The Board did approve the contract spend of a total of \$11,428,421 associated with the implementation of our Agency Management System.

I would like to turn you to page 2 if you would and you will see a matrix. It identifies the categories of spend that were previously approved. In the first matrix you will see what we had approved for software licenses and subscription was roughly \$7.669 million, and then we had for implementation and support services with the vendor Vertiba, of roughly \$3.75 million and that is broken down into implementation, \$1.77 million and then support services, \$1.98 million for a grand total that was approved of \$11.428 million roughly.

What we are requesting is what is in the second matrix as outlined. No change whatsoever to the software licensing. However, what we would like to do is reallocate the funds that were tied to implementation and ongoing support. We have terminated our arrangement and contracted with Vertiba. We are in the process right now of settling up the final bill which is in dispute at this time. We have paid them \$252,000, and we will be making them a final payment at some point once the dispute is resolved. In essence what we are looking to do is take the unspent funds and move them to -- reallocate them if you will, so that we can use them for support and ongoing work that we are going to move in-

house instead of working with an implementation partner.

So you will see that we have reallocated the funds to roughly \$3.506 million and the asterisk that we acknowledge is that once we have settled the disputed final bill, that will come out of the \$3.506 and be added to the \$252,000. We will close out what we owe to Vertiba and the remaining funds not to exceed the previously approved amount would be reallocated for us to be able to do the development in-house and bring on the appropriate resources and reallocate those funds accordingly.

Ultimately we are not seeking any additional spend, simply a reallocation of the funds that were committed to the implementation partner that we had originally selected, and we have decided to move that work in-house instead and ultimately leaving the final spend at \$11,428,421.

Mr. Chairman, if it is all right with you, I would be more than happy to read the recommendation.

Chairman Wortman: Any questions before Steve moves to the recommendation?

Governor Henderson: Yes, Mr. Chair, this is Reynolds. Do we feel, Steve, that this is going to save us money or what is the reasoning behind -- behind getting rid of the vendor and bring it in-house, if you would just give me a little background there?

Mr. Bitar: Sure, Mr. Governor. We worked very closely with the vendor on the original implementation, and we just felt that moving the work in-house is probably more prudent for us. The partnership didn't move as smoothly as we had liked. We did terminate the contract without cause, and we are in the dispute process right now. I don't want to go too deeply into the rationale behind it. But suffice it to say the entire team here at Citizens felt it necessary to move away from that partnership and for us to bring the work in-house. We do feel that there will be a savings when all is said and done by doing this, so we are excited about that. And I will tell you that the work that we have done in-house so far without the implementation partner, has far exceeded any expectations that we had and any deliverable that we received when we were working with the implementation partner. We are very excited to be moving in this direction. We do feel that the bottom line will be a win/win for Citizens across the board.

Governor Henderson: Great, thank you.

Chairman Wortman: Thank you.

Mr. Bitar: Yes.

Chairman Wortman: Any other questions? If not, Steve do you want to move to the recommendation?

Mr. Bitar: Yes, sir. Staff recommends that Citizens Actuarial and Underwriting committee approve this action item totaling \$3,506,789 for the contract listed in the contract ID section for the remainder of the 10-year term previously authorized by the Board 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 other questions? If not, do I hear a motion to approve the recommendation?

Mr. Strauss: Mr. Chair, this is Fred, I would make a motion to approve the recommendation as presented.

Chairman Wortman: Thank you, Fred. And there is a motion to approve. Do I hear a second?

Governor Henderson: Yes, Mr. Chair, this is Reynolds, I will second.

Chairman Wortman: We have a motion and a second. Is there any objection to the motion? Hearing none, motion approved, Steve, and your recommendation is approved.

A motion was made and seconded to approve the Staff's Recommendation for the Agency Management System Subscription Services, Professional Services and Staff Augmentation for Implementation and Ongoing Support action item on Tuesday, December 3, 2019.

Mr. Bitar: Thank you very much, we appreciate it.

Chairman Wortman: The next item on the agenda is any new business. Do I hear any new business? Hearing none, I would entertain a motion for adjournment.

Mr. Strauss: So moved.

Governor Henderson: Second, this is Reynolds.

Chairman Wortman: We have a motion and a second to adjourn. Any objection to the motion? Hearing none, thank you, Steve, and staff and committee members. The meeting is adjourned.

(Whereupon, the meeting was adjourned.)