

**CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING
HELD TUESDAY SEPTEMBER 24, 2019**

A meeting of the Audit Committee of Citizens Property Insurance Corporation ("Citizens") was held at 2:00 pm on Tuesday September 24, 2019 in Maitland, FL.

The following members of the Audit Committee were present:

Governor Bette Brown, Chairman
Governor Jim Holton (telephonically)
Governor Marc Dunbar (telephonically)

The following members of the Board were present:

John Wortman
Blake Capps
Reynolds Henderson
Will Kastroll

The following Citizens Staff were present:

Jay Adams	Eric Addison
Steve Bitar	Violet Bloom
Tonja Bradley	Kelly Booten
Brian Donovan	Palicia Francis
Bonnie Gilliland	Barry Gilway
Mark Kagy	Joe Martins
Jennifer Montero	Michael Peltier
John Schmitt	Nancy Staff
Dan Sumner	Barbara Walker
Andrew Woodward	

The following were also present:

Brian Smith, Dixon Hughes Goodman (telephonically)
Matt Church, Dixon Hughes Goodman (telephonically)
Kapil Bhatia, Raymond Jones
Tamara Patterson, Jeffries
Rawn Williams, Jeffries
Coleman Cordell, Bank of America Merrill Lynch
Tyler Calderone, JP Morgan
Dave Newell, FAIA
Margaret Lezcano, UBS
Vince Jannetti, UBS
Mark Weinberg, Citigroup
Jeremy Gintir, Willis

Call Meeting to order

Barbara Walker took roll and confirmed to Chairman Bette Brown she had a quorum.

Governor Holton made the motion to approve the June 18, 2019 Audit Committee Minutes. Governor Dunbar seconded the motion. All were in favor. Motion approved.

CHAIRMAN BROWN: Joe Martins it is nice to see you, you are ready to give us your report I take it.

MR. MARTINS: Thank you, Chairman Brown. Good afternoon Governors. I would like to refer you to tab two of your books, and within that tab we have the assurance dashboard that includes the Office of Internal Audit, Internal Control and Enterprise Risk Management. I will start with an overview of the internal audit progress. Work completed during this period included 21 engagements on the plan, and since the last committee meeting, we finalized five engagements with six currently in progress and six others planned for Q1 2020. Some of the engagements that have been completed include work on the AOB Reform Implementation where we observed that in accordance with the provisions of House Bill 7065, diligent efforts were made to develop new processes and they should comply with the AOB reform bill. We further worked on Information Classification and Handling where we confirmed that, throughout the organization, management is well trained and knowledgeable in the requirements of this policy. With the Reinsurance Recovery Audit, our work indicated that there are effective processes and controls in place to ensure appropriate identification and collection of relative reinsurance transactions. With the Responsible Vendor Review scoring model, we provided consultant advice to assist the Vendor Management Office in the development of scoring schema to more effectively determine the qualification or disqualification of vendors to get a responsible vendor review. And lastly, we provided audit support to the Office of the Inspector General on a Claims complaint.

For this quarter we have six audit engagements in progress. These include the Claims Litigation Legal Billing audit; the Financial Services Advisory; Payroll Audit; Audit of Proof, Repairs; Systems Information Backup and Targeted Analytics on the Accounts Payable. And for the Q1 2020 period, we list the Assignment of Benefits Audit after the HB7065 implementation, the Cloud Readiness Audit and Employee Background Checks Audits, an advisory for Software Asset Management, the audit of the Remittance Processes and a project supporting the Identity and Access Management project. And lastly from the internal audit perspective, we are tracking seven open observations, none of which are high impact, and we believe that all open items are being worked on and Audit follows up monthly to assess progress.

The next item is Internal Controls, which facilitates the roll out of the Internal Control Framework. There are four process reviews remaining for completion of the ICF project. Control self assessments are currently in progress and will be completed by November 30th this year. Internal Controls monitors the completion of the control self assessments and assesses quality of management reviews. On page 8 I refer to the Enterprise Risk report. Enterprise Risk look at risk from top down and a bottom up perspective. Enterprise Risk facilitates interact and engaging, inherent and residual operational risk assessments and enable management to self identify and assess risks. During the last quarter of this year we will for the first time roll out the operational risk assessment process throughout the organization, and during that period we will train management and teams within the organization on the utilization of the Resolver Risk Management tool, and we will also be conducting residual risk assessments with management. And lastly, we still focus on the strategic risk. The beginning of the year we identified 17 strategic risks which are consistently being worked with management and the mitigation action is being changed as we progress. That concludes my report if there are no questions.

CHAIRMAN BROWN: Thank you. Members, any questions of Joe Martins? Okay, then we will move on.

MS. MONTERO: Good afternoon. If you will turn behind tab three. In the materials you will find the June 30th, 2019 financial results and financial summary, which I will summarize now.

Despite the upward adjustments to loss reserves for Hurricane Irma during second quarter, which I will discuss shortly, operating results through the first half of 2019 compared favorably to operating results through the first half of 2018, largely driven by increases in net investment income. Consolidated direct written premium through the first half of 2019 was 442.8 million, which is 3.7 percent less than the prior year. This decrease is the result of decreases in combined policies in force, primarily commercial lines policies within both the commercial lines account and the coastal account. Decreases in policies in force were 2.2 percent for the personal lines account, 27.9 percent for the commercial lines account and 11.6 percent for the coastal account. Premium ceded for private reinsurance were 94.6 million at June 30th, 2019, compared to 88.6 million at June 30th, 2018. The increase in premium ceded in 2019 was the result of coverage purchased in the personal lines account during 2019, but not in 2018. Partially offset by reductions in premium ceded to the coastal account. Through June 30th, 2019, consolidated ultimate direct losses and loss adjustment expense related to Hurricane Irma increased 119.1 million largely as a result in increases in both late reported claims and loss severity within the personal lines account. The net impact of this increase after reinsurance reimbursements was 33.2 million. Most of the net development occurred within the commercial non-residential losses for which reinsurance has not yet and is not expected to trigger. Ultimate losses in loss adjustment expenses related to Hurricane Irma were 2.035 billion on a direct basis of which 783.1 million is recoverable through reinsurance. Ultimate losses and loss adjustment expenses related to Hurricane Michael were unchanged compared to December 31, 2018 and remain at 151.7 million. There were no reinsurance recoverables associated with Hurricane Michael as the loss in LAE attachment levels were not met. Current accident year losses in LAE unrelated to sinkholes and hurricanes did not experience meaningful variances from prior accident years and development of prior accident year losses in LAE was minimal. Although litigated non-weather water claims continue to be a dominant driver of loss in LAE activity within the personalized account, while still an issue, the litigation rate for accident years 2018 and '19 continue to show improvement in comparison to accident years 2014 through 2017. Within the commercial lines account volatility in older sink hole claims continue to contribute to material quarterly variances and loss in LAE ratios. While the loss in the LAE development within the commercial lines account are less significant to the accident year to which they relate, the diminishing size of the overall commercial line book of business levels leaves it more susceptible to material swings in the loss in LAE ratios as a result of development in prior accident years when the commercial lines business, book of business was considerably larger. Administrative expenses incurred during the first half of 2019, totaled 65.1 million which were 1.5 percent less than the same period a year ago, and 14.3 percent less than budget. Variances in contingent staffing was primarily due to a lower than anticipated need for independent adjusters that were engaged in response to Hurricanes Irma and Michael, as well as a higher than anticipated number of claims entering mediation. The expense ratio for the first half of 2019 was 25 percent reflecting point 5 percent increase from the same period a year ago, and a point 8 percent decrease compared to budget. Total investment income for the first half of 2019 was 88.7 million, which is 29.4 million or 50 percent greater than the same period a year ago despite a decrease of 815.6 million in total average invested assets over the same comparable period. Primary factors contributing to this increase were significant reductions in realized losses taken during the current period and increases in overall yields within the portfolio. Heading into hurricane season Citizens' capital position remains incredibly strong, supported by

a large level of surplus, highly rated invested assets and a robust reinsurance program. For the 2019 hurricane season our \$1.449 billion private reinsurance program consist of 899.4 million in traditional reinsurance and 550 million through Everglades Re, supporting our diverse claims paying capacity. And I will pause if there are any questions, that will conclude my report.

CHAIRMAN BROWN: Members, any questions of Jennifer Montero?

GOVERNOR DUNBAR: Yes, this is Marc, if I could ask a couple of questions that would be great.

CHAIRMAN BROWN: Sure.

GOVERNOR DUNBAR: Jennifer, and maybe I don't know whether I am asking a question prematurely or not, but if you go to, I guess it is tab 3b, the financial results, if you go to the last page, page 5 that breaks up the administrative expenses. Let me know when you're there.

MS. MONTERO: The cash flow?

GOVERNOR DUNBAR: The page I am looking at is administrative expenses and I may have gone to the wrong tab. Maybe that is the financial summary, the next one.

MS. MONTERO: Okay, I am there.

GOVERNOR DUNBAR: Okay. I just want to make sure I am reading the columns right. I am looking at the insurance line. It says through June 30th, we spent 240,610, and then you jump over the comparison to last year it is 493,423. And we are budgeting 460, right, through year-end and with a total budget for 12 months of being 861. Are you following me on that line?

MS. MONTERO: Yes.

GOVERNOR DUNBAR: Okay, what I am wondering is, is it just a timing issue? Why haven't we spent \$400,000 on insurance? Are we spending less on insurance? Did we get some break or is it just a timing issue and the money just hasn't shown up through the six months and it is about to bump up? Do you see the difference I am talking about?

MS. MONTERO: Yes, I see. So yes, we paid only 240 year-to-date in 2019. For the first six months in 2018, we paid almost double that, 490, and right now our six-month budget was 460. So we are well below budget, I can get the detail for that. Most likely it is a timing issue of the payment not being made before June 30th, because we are budgeted to have 460,000 by June 30th.

GOVERNOR DUNBAR: Yes. And then I really was hoping at some point you could just come back and let me know. I am just curious if our premiums are what we are spending on insurance has dropped or something, and then ultimately what would drive that 12-month number down. I don't expect that you would know exactly what goes into that 240,610 right now, but it just seemed like it was an appreciable amount below what we budgeted. And then the other question that I have, and this may be for Violet, I am looking at the second line related to employee benefits. It says that we are budgeted 17.184 million that we should have spent through year-to-date, and we spent 15.7 million which is about 1.3 million less than we spent this time last year of 17 million on a total budget line of 22 million. The question is, what on employee benefits are we spending less on, or are we under budget or is this also a timing issue?

MS. MONTERO: Again, I can look into that. I would have to look at the detail and I can have both answered for you by tomorrow's meeting if that would be okay.

GOVERNOR DUNBAR: Perfect. Thank you very much, I appreciate it.

MS. MONTERO: Sure.

CHAIRMAN BROWN: Any other questions?

GOVERNOR DUNBAR: Thank you, Chair.

CHAIRMAN BROWN: I have one, and you said it early in your preparation and I didn't catch it. What was the net expense that we paid out for Irma after we got our reinsurance back? You gave us that number. I don't remember what it was.

MS. MONTERO: Right, so the development was 119. That is the direct, the gross just for the six-month period.

CHAIRMAN BROWN: Right.

MS. MONTERO: And then 33.2 of that was the net. The difference was picked up by reinsurance.

CHAIRMAN BROWN: So we had no expense.

MS. MONTERO: Well, 33.2.

CHAIRMAN BROWN: The 33, okay.

MS. MONTERO: Right. If it was in the personal lines account, remember in 2017 there was no private reinsurance in the personal lines account. It would just be Cat Fund.

CHAIRMAN BROWN: Gotcha.

MS. MONTERO: And in the coastal it is the Cat Fund and the sliver were both.

CHAIRMAN BROWN: I heard you say it, but it wasn't clicking. Thank you very much for that. Any other questions of Jennifer? Okay. Thank you very much.

MS. MONTERO: Thank you.

CHAIRMAN BROWN: We do have in our books the complaint management statistics. There is nothing there to discuss. Is there any new business to come before the group today? Then I will ask for a motion to adjourn.

GOVERNOR DUNBAR: Move to adjourn.

GOVERNOR HOLTON: Second.

CHAIRMAN BROWN: We are adjourned.

(Whereupon, the meeting was adjourned.)