CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, December 11, 2019

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened in Sheraton Orlando North in Maitland, Florida on December 11, 2019 at 9:00 a.m. (EST).

The following members of the Board were present:

Bo Rivard, Chair
Bette Brown (telephonically)
Blake Capps
Marc Dunbar
Reynolds Henderson
James Holton
William Kastroll
Carlos Lopez-Cantera
John Wortman

The following Citizens staff members were present:

Barry Gilway	Violet Bloom	Paul Kutter
Barbara Walker	Mark Kagy	Brian Weaver
Jennifer Montero	Michael Peltier	Elaine Thomas
Dan Sumner	Andrew Woodward	Huw O'Callaghan
Kelly Booten	Joe Martins	Bonnie Gilliland
Jay Adams	Brian Donovan	David Woodruff
Steve Bitar	Nancy Staff	Eric Addison
Christine Ashburn	John Schmitt	

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	FAIA
Kevin Tromer	
Dann Kriss	Guy Carpenter
Tamaa Patterson	Jefferies
John Generalli	Wells Fargo
Jason Kutz	Guy Carpenter
Adam Schwebach	Willis Re
Tyler Calderone	JP Morgan
Vince Jannetti	UBS
Margaret Lezcano	UBS

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens December 11, 2019 Board of Governors meeting. This meeting is publically noticed in the *Florida Administrative Register* and is recorded with transcribed minutes made available at our website. Please do not put this call on hold. Press *6 to mute your line and #6 to unmute your line. We will convene with roll call.

Chairman Rivard: In addition to welcoming everyone here, I want to welcome our newest governor, Carlos Lopez-Cantera. He has had an esteemed career in Florida as a dedicated public servant for the last fifteen years. He served in the Florida House of Representatives as the Majority Leader in 2010 through 2012. Then he was a Miami Dade Property Appraiser through a hard fought election. Then he was selected by Governor Rick Scott to be his Lieutenant Governor where he served. He's a great public servant of Florida. He knows Florida as anyone. It's also nice to have a board member from South Florida where we have a lot of policies.

Carlos Lopez-Cantera: Thank you for that introduction. Thank you to staff for doing such a great job in helping me get acclimated and thank you to my fellow governors who I look forward to working with.

Roll call: Chair Bo Rivard, Bette Brown, Blake Capps, Marc Dunbar, Reynolds Henderson, Jim Holton, Will Kastroll, Carlos Lopez-Cantera, and John Wortman.

1. **Approval of Minutes**

Chair Rivard: Our first order of business is approval of two prior meetings' minutes from September 25, 2019.

A motion was made and seconded to approve the September 25, 2019 minutes. All were in favor. Motion carried.

2. **Chairman's Report**

Action Item: Vice Chair Nomination

Chairman Rivard: One of the things I'd like to do is that there is an action item to vote on the Vice Chair. I was elected Vice Chair and served in that capacity briefly before I became Chair.

Dan Sumner: This Action Item is brought forth in compliance with Citizens Property Insurance Corporation's Plan of Operation, Section 6 (D) and requests that the Board elect one of its members to serve as vice chair of Citizens Board of Governors.

Chairman Rivard: At this point I open it up to any nominations for Vice Chair.

Blake Capps: I'd like to nominate John Wortman as our Vice Chair. He's been the President of three or four insurance companies and I think we're blessed to have him on this Board.

Bette Brown: I'll second that.

Chairman Rivard: I don't think we need a second on the nomination, but I do think we need to take a vote.

Dan Sumner: That's correct. A second is not required for a nomination.

Chairman Rivard: But, thank you, Governor Brown.

Reynolds Henderson: I'd like to make a nomination: Carlos Lopez-Cantera, who was our former Lt. Governor.

Chairman Rivard: So, we have two nominations. Are there any others? [no response] So we have two nominations. I think we need to have an election between those two. If both of the nominees want to accept their nominations, then we will proceed with the vote. I guess we will do that by a roll call.

Barbara Walker:

Governor Brown: Wortman
Governor Capps: Wortman
Governor Dunbar: Lopez-Cantera
Governor Henderson: Lopez-Cantera
Governor Holton: Lopez-Cantera
Governor Kastroll: Wortman
Governor Lopez-Cantera: Myself
Governor Wortman: Myself

Chairman, the vote four to four.

Chairman Rivard: I'm going to cast my vote for Governor Lopez-Cantera. Everyone on this Board is great and qualified. Under the Chairman's Report, I want to say that since our last meeting together, I had a chance to go to Jacksonville to spend a couple days over there with Barry and the team. It was really a good experience. I encourage you to do that. As Governor Dunbar said before, it's worth going over there and spending some time. You'll walk away very impressed, as I did, with the operation that we have. Without exception, every meeting I've had I was overwhelmed with the talent we have and the culture in place. You can tell the people are giving all they have. It's a well-oiled machine.

3. President's Report

Barry Gilway: Thank you, Chairman Rivard and members. Good morning Chairman Rivard and members of the Board. The primary focus of my report today is an overview of the 2020 planning process. Given that we have new board members, we've elected this year to really start with the fundamentals with the process to create a picture of how we come up with the operating plan and how that turns into the final budget. First step is to turn it to Kelly Booten, Chief of Systems and Operations, who will provide insight into the development of our operating plan and the identification of the primary areas of focus supported in the 2020 budget. This will be followed by a presentation of the budget itself, delivered by Jennifer Montero, Chief Financial Officer.

Exposure Reduction and Depopulation Opportunities Analysis

Before we review the budget, in the September Board meeting we committed to provide our recommended approach to determine if there are any exposure reduction and depopulation opportunities that can be identified for Citizens to further reduce its exposure-thereby reducing the financial impact on the State of Florida. There have been many studies conducted previously that were very comprehensive that addressed this area.

- Lasting Reform for Florida Property Insurance Market: published by The James Madison Institute in 2015
- A Public Policy Evaluation of Florida Citizens Property Insurance Corporation: published by the NAIC in 2015
- Residual Market Property Plans: From Markets of Last Resort to Markets of First Choice: published by The Insurance Information Institute in 2014
- Two prior studies were conducted by Florida State University's "Florida Catastrophic Storm Risk Management Center" initially published in 2011 with a follow up report published in 2013 on behalf of the Florida Legislature

While these studies were very comprehensive, they were all focused on reducing Citizens' size from the 23% market share, 1.5 million policyholders, and $512B in exposure that Citizens represented at the time the studies were conducted. While today, as Steve Bitar presented in the September Board meeting, we look more like a real Residual Market with only 4% market share and less than $107B in exposure. We still believe it is appropriate to examine what might be necessary to get Citizens' exposure to an even lower level and have this done by a third party. In Section 3 of your Board Book we have outlined a proposed scope of services that we believe could result in identifying additional opportunities conducted by an independent party. Our proposed questions do not specifically address Citizens' organization structure. We believe that is more appropriate for the legislature. They really address questions that determine if there are any inhibitors associated with reducing exposure further, if there are any market elements involved causing the changes, and if there are any recommended approaches. It's very broad in scope. We believe the study we're recommending is consistent with the objective that was laid out in Senator Brandis' request to reduce the size of Citizens at the lowest possible as level. Given Florida State University's excellent track record in this space and their prior studies, our next step will be to reach out to FSU to determine their level of interest.

Bette Brown: I know that since I've been on the board with Governor Scott and now with Brandis, we had a focus to make sure that we depopulate Citizens and give the opportunity to those companies that will write in Florida. When we do this, I have a question. Will we be looking at how the other state of Florida insurers are doing financially? We just had this issue recently and I want to make sure that we want to put Citizens out of business eventually, that we don't have any surprises out there waiting. Will that be part of this study?

Barry Gilway: Absolutely. I think if you look at the questions that are posed within the study, you'll see that there are a number of questions that are focused on an analysis of whatever recommendations are made on what they'll do to Citizens' capability to serve in its capacity –

being able to respond to any financial issues in the marketplace. I believe this proposed study is broad enough in scope to take a look at the overall Florida marketplace and understand what implications exist for Citizens given any changes in the nature of the profitability of the Florida domestic companies.

Bette Brown: Thanks, Barry. I think that's a great idea.

2020 Planning and Budget

Barry Gilway: Let me provide just a few comments before asking Kelly Booten to take over. Citizens is operating in a difficult market environment today. Virtually all companies continue to be impacted by excessive litigation that is clearly resulting in major financial issues in the market and more recently by increased reinsurance pricing. We were short last year going into it this year. We are going into additional uncertainty and we'll find out after the January renewals. Indications show that it will be a far more difficult reinsurance market, which means it will be more costly for Florida domestic carriers. As Jay Adams reported in the Claims Committee meeting, Citizens is showing the positive impacts of Assignment of Benefits (AOB) legislation, the Managed Repair Program (MRP), and new policy language, but we continue to experience very negative results in the Personal Lines Account driven by First Party Litigation in non-weather water claims. In order to analyze First Party Litigation Cost, Chairman Rivard suggested that I provide the Board with a breakdown of the $456M Losses and Loss Adjusted Expense (LAE) number that shows up in the budget. You all received that breakdown last week. When determining where litigation costs are heading, the exhibits provided show that only 10% of the Defense spend of $86M relates to 2020 costs and the balance relates to litigation from prior Accident Years. So 90% of that $86M is a done deal based upon the litigations in prior Accident Years. You're not going to change the $86M significantly. This number has dropped from $105M in 2018 to a projected $86M in the budget. The third quarter results for the Industry continued their negative trend with Florida Domestic Insurers showing a $378M Underwriting loss and negative net Income of $137M. This follows 2018 year end results showing an UW loss of $406M and Negative Net Income of $150M, and 2017 Year End Results of $434M in negative Underwriting Loss and $146M in Negative Net Income. I have focused on the Florida Domestic results as these companies represent 79% of the market and are the companies most likely to participate in Citizens Exposure Reduction Programs. The market impact is a continuation of increased rate filings by private insurers necessary to offset the poor industry results and an increase in the number of restrictive policy form changes to address specific issues such as Non-Weather Water losses. You're seeing an accelerated increase in policy filing language meant to address the non-weather water claims and reduced the exposure. One of the reasons we have been successful, prior to AOB, we had the $3K cap in place in our policy language. We also have the MRP we introduced. Other companies are introducing more restricted language, ranging from a limitation on the age of homes they will insurer to the geographical location – avoiding now places like Orange County and Seminole County. This clearly shows up in our annual rate analysis that compares Citizens' rates with companies writing in our key territories. Given our limited rate increases, it is impacting our competitive position in the market. Having said that, you will see in our budget discussion that we will be relatively flat from a policy count and premium standpoint, which clearly shows the resiliency of the Florida Domestic Market. FI was expecting 40,000 to 45,000 of the Florida Specialty policies but we didn't. It's in the 20,000 range. It really shows that the private market was about to pick up 80% of the business. The

Clearinghouse and Depopulation programs still have the intended impact of assuring that only the insureds that cannot find coverage in the private market are eligible for Citizens. I will open this up to questions before turning this over to Kelly Booten.

Chairman Rivard: Okay, question? Governor Dunbar…

Marc Dunbar: We need to not forget to adopt the minutes. Is this the appropriate time to ask questions about Tab 3B the 2020 Planning and Budget? I'm not sure where we are. Or if that needs to wait until…

Chairman Rivard: You want questions on the Planning & Budget or….

Marc Dunbar: I don't want to jump ahead.

Kelly Booten: We're doing that next.

Will Kastroll: Thank you for your remarks. I think what we're seeing is what's often referred to in insurance companies as "aircraft carriers." They cannot turn on a dime, but they can move forward with a lot of force. The numbers you showed on the net income in the last few years, the Florida Domestic companies have lost a net income of $145M. That's the last three years and it's a consistent trend. If you forecast what the reinsurance rates will be, because there is no free lunch, the reinsurers will make sure they will get back any losses they may have accrued; I think we're going to see some tough times ahead for policyholders. As the aircraft carrier moves forward, we're going to see increased rates from domestic carriers. The facts are there. It takes Citizens a lengthy amount of time because of the legislative parameters we have to talk about and implement rate increases. Citizens will soon be a competitive marketplace for Floridians, and it's tough to change that. I would like to note that if we are trying to keep up with the other aircraft carriers, be financially responsible, and not have the negative income losses, then we need to start thinking about our rates. Thank you.

Blake Capps: Can you review for me the timetable for the next rate increase and when they would be implemented?

Jennifer Montero: The rates went in on 12/1. Then at the June board meeting we will come in with the rate indications for board approval to go to the Office of Insurance Regulation (OIR). We will then go to our normal schedule of 2/1. We just got one and we will have the next one in a year and two months from now. This one was delayed.

Barry Gilway: The overall increase, Governor Capps, is 3.2%. That varied significantly by territory but we have 150 separate territories. That was adjusted for the AOB. The initial indication was 8.6% but the improvement went to 3.2%.

Kelly Booten: This presentation is to explain how we get to our budget and how we are aligned with the financial planning process. This slide here is a pyramid of a hierarchal planning process showing that our strategic plan is the base for everything that we do. We have a rolling plan we update every three years. We are in the middle of updating it. The last time we updated it was in mid-June 2016. We will have a new version in 2020 to show to the board. To the right of the arrow there, it shows you all the things during our strategic planning: the financial management, what we do with projects, and how we create an annual plan. The next slide is a different representation of the planning process, but this is where the well-oiled machine comes in. We have what we branded what we call “enterprise rhythm,” which is Citizens way of planning on a quarterly increment. You can’t plan for a year and expect things to stay the same. We do it quarterly and this allows us an opportunity to re-adjust our opportunities and make changes. This allows us to deliver changes like changes in legislation that came in for AOB or specialty bulk intake. The next slide shows our 2020 enterprise strategic themes. This is created with the budget office and the planning office together with the Executive Leadership Team (ELT). We come up with themes that come out with our budget memo. This year we have four strategic themes:

- Strengthening Metric-Driven Decision Making
- Proactively Managing Claims and Litigation Avoidance
- Ensuring Scalability and Flexibility in our Operations to Optimally Serve Customers and the Florida Market
- Investing In and Leveraging Citizens’ Greatest Resource – Our Employees

The themes help us align our projects with what’s most important. The next slide is a representation of key strategic initiatives for 2020. On the left side of the slide are five goals in the strategic plan and the right side is a list of the “big rock projects.” These are the most important. Some of these are multi-year initiatives so you might see them repeated. This is all input into the budget. Jennifer is going to go over the budget.

2020 Operating Budget

Jennifer Montero: Some themes and drivers underlying the 2020 budget include:

- Stability in policy count
- Market uncertainty
- Reduced litigation rates on homeowners water claims (due to the AOB reform)
- Flat staffing model
- Carry-over impact from Hurricanes Irma and Michael
- Administrative expense management

The next slide is on the Direct Written Premium. We’ve predicted decreases in Policies in Force (PIF) to be less than 1%. It’s offset by a premium of 3% which leads to a total increase in premium of 2.5%. Premium ranges from \$815 to \$930. We came in here with \$873.4. The PIF range from 400K to 460K. Policy count and rates have remained relatively steady and includes the commercial lines account (CLA), and this is driven by overall increases in average premiums per policy. We’ve absorbed about 21K policies from Florida Specialty, of which 16K are assumed to renew in 2020.

Marc Dunbar: The ELT metrics that Barbara sent out at the beginning of the month, and I know the numbers aren’t going to be exact, but – I’m curious about this assumption because it obviously drives the overall budget. We are projecting a decrease in premiums in force, but all indications and everything that Barry said and everything that Will said, in the marketplace is telling us, we’re going to get an increase in policies. The assumption of Florida Specialty if you add those 16K policies with the policy count in the ELT report from October, it already is above the 432K that is on that line… um, and I'm just …,The concern I had when I saw this slide was, if we all collectively agree, we're probably going to get more policies. Why are we budgeting flat? And I'm sure there's a really good explanation, it's just didn't sort of make sense to me on everything we've been talking about.

Barry Gilway: I think for the last three or four years, Governor Dunbar, indications have been that Citizens will grow. We expected increased growth for at least close to four years. What we are seeing in the marketing is that there seems to be a movement where if a company restricts themselves from writings – you have a company like Heritage that's clearly saying it's moving out of the southeast. They restrict new business writings and renewals. They are moving away from the southeast and there are three or four companies like this. But, at the same time, you have other companies like Universal, for example, that is aggressively moving in to the southeast. They wrote the predominant of new business in the tri-county area. When we have a group – Paul Kutter, who is our true "rocket scientist" who's here today, and a part of the overall analytics team – take a hard look at what's happening from a new business count, how much business shows up in the metrics report, how much of this business we're losing on a monthly basis… and the reality is new business, although the last couple of weeks has ticked up slightly and we are also getting more business that is canceling and moving back into the private marketplace. We have not seen real indication of any substantial flow of business. We were surprised with the Florida Specialty. The fact that the marketplace picked up over 80% of that business (e.g., mobile homes and HO3) is very surprising. Then there are new players coming in bringing in new capital.

Chairman Rivard: On the Florida Specialty, it's great that we will not wind up with so many policies that we expected to. I know that we were talking about this issue. Do you know how many of those have gone somewhere or are there are a certain number that we don't even know?

Barry Gilway: It's a very good question and a question asked by the House when we did a presentation on Florida Specialty. We do not know where that business went. Steve Bitar did an excellent job reaching out to the private companies to see how much they picked up from Florida Specialty. What we did see is that while we picked up 21K – 13K were issued and the rest were bound. There is some lack of knowledge, yet, in terms of whether that balance of 8K policies will continue with Citizens or renew with Citizens. On the Florida Specialty business that we did pick up, these agents were given no time to react. The independent agents had 30 days to place 3K policies. I do believe that what will happen is that much of the business we did pick up from Florida Specialty, really, we will lose it over the course of the year as companies identify opportunities that might exist in the private market.

Steve Bitar: I did reach out to many of the active writers in Florida to see how many policies they took from Florida Specialty. With the 22K we received and the calls we placed, we can account for 50K of the 90K policies with affirmation that they've been picked up by active writers. That leaves about 45K unknown. That is where we sit right now. Governor Dunbar, with relation to your question, remember, we bound those 22K Florida Specialty policies effectively 11/1. The numbers you're looking at do reflect a policy count of all 22K plus what we had. Payment will be due on 12/15 and those that have not been paid will be cancelled. We can see that up to 8K come off the count and that gets back into the consideration.

Marc Dunbar: So the ELT numbers are a built in assumption of where we are today. If we get to the 16K in 2020 to the number we are budgeting on, it's still, though, would be higher than 430,704 which is showing right there. It's not like it's a significant move, but the number would be higher than 430K. The reason I ask the question is that if all the indications that the reinsurance market isn't going to be favorable for other companies and we believe the gap in premium will continue to increase with signs that we will see a meaningful population, from a prudent standpoint . . . it seems from a budgeting standpoint and we know indications who it will be more expensive to operate this year, I'm surprised to not see those assumptions built in there. We have policy makers out there looking at us to guide them on policies on insurance; we're telling them to be careful. They look at our budget and then wonder why our budget is flat. It seems like it's a bit of an inconsistent statement; while we're warning everybody out there, but we're budgeting like nothing is going to happen.

Barry Gilway: I agree with your overall assessment. We do use a range. That range is 400K to 460K. We give ourselves some room. From a budget standpoint, we believe that contained within the administrative part of the budget, we understand that the budget is an acceptable budget to respond to 400K to 460K. We tend to be very conservative relative to the overall budget and we tend to strive to maintain a consistent expense ratio relative to the industry. There is nothing easy within this budget but we don't believe putting a higher estimate – there is nothing that we've seen so far that technically indicates that we are going to increase. We are actually seeing a drop in overall new business. I would agree with you that it's totally contrary… I test Paul Kutter on this all the time. I look at our market analysis reports and they indicate a tightening. At the end of the day, I refer to the experts and the modeling that takes place in order to come up with a reasonable budget.

Jim Holton: Even worst case scenario if the financially strained companies go through solvency, the actual market share is not that great.

Barry Gilway: We follow every quarter the financial results of every major company. It's not our job to analyze the financial stability of these companies. That's for Demotech and OIR. We do look at which companies that might be interested in taking Citizens business. Which ones are strong enough that we can convince to take more? We have looked at the six or seven companies that look the weakest and the total market share of 3.2%. When you take a look at it from that standpoint, even if there were additional financial issues in the market, we don't think it'll be a major market upheaval.

Chairman Rivard: So, Kelly, were you finished with your presentation or, where were we?

Kelly Booten: We're in the middle with Jennifer and then I have a few more slides as well.

Jennifer Montero: Moving on to Losses and LAE. We do not budget for catastrophes (CAT) and developments in LAE. Loss in LAE ratios for non-CAT are expected to remain constant. Although the litigation rate and pending claim count rates are expected to decline in 2020 on the non-CAT claims, Citizens continues to adjust claims in prior periods with litigation rates were higher. Reinsurance and Investments – we put placeholders in the budget for reinsurance. We put $25M for the Personal Lines Account (PLA) and $100M for the Coastal Account. Those are both placeholders because we do come back to the board for the approval to go to market before we make the placement. We do expect these placeholders to be at the high end of the range given the reinsurance capacity and the hardening of the market. We do have a budgeted 2020 yield of 2.2% in invested assets. That's two basis points less than the projected 2019 in consideration of potential interest rate cuts and uncertainty in portfolio returns. The interest expense – we are wanting to call the $150M of pre-event bonds that mature on 6/1. We also have some June maturities of $335M. Finally, for the administrative expenses, the expense ratio is aligned with and comparable with that of the private market carriers in Florida at about 25% to 26%. Our budgeted expense ratio is 25.4%. Our headcount for 2020 is relatively unchanged. We have stable policy count revenue forecast, but it is flexible to accommodate market conditions. We do have a lot of turnover in certain areas and that remains a challenge, specifically in IT and Claims. We have a reduction in the contingent staffing, except in areas where rapid scaling is needed.

Kelly Booten: As a tie into the budget information provided by Jennifer, there is also an Enterprise Project Budget. We compile this each year as a subset budget; it's a cross-enterprise budget. Projects aren't always limited to one division so we have a way of representing on what we're working on collectively. The large majority of the costs show up in the resources needed to deliver the projects across the enterprise in both IT and business resources. The external costs are typically hardware and software professional services in order to deliver the projects. The next slide shows the investments by project type. We separate them out by mandatory, required, high priority, and operational. 68% of the costs are in the first three categories broken out by the type of resource. The next slide is the enterprise project budget. It shows by the division its primary budget drivers what their areas of focus are. Slide 15 shows alignment to 2020 strategic themes that we talked about earlier. 68% of the projects are aligned to the four themes and the remainder is critical operational projects. On the next slide is a representation categorized by run, grow, and transform. The transform are the transformational projects such as agency management, predictive analytics, self-service projects, etc. Grow are things that expand our existing operations such as adding another line of business to the Clearinghouse, adding a claims payment capability, etc. Run typically items are things we do each year. Slide 17 is the 2020 potential portfolio overview by support of key constituents. These are things that benefit our policyholders, employees, and agencies. The next slide shows the project portfolio by initiative type. This provides context year over year. The required projects usually have to deal with expiring contracts, software support out of license, etc. You can see the breakdown by view over here. This slide shows how we monitor this. During your visits, you saw a lot of the metrics that we track. We have a lot of strategic plans score cards. We have different quarterly score cards. We have ELT metrics and other monitoring mechanisms. In the next last two slides are detailed descriptions of key strategic initiatives in 2020.

Jennifer Montero: Behind that presentation is a spiral bound book. Slide 16 through 19 go over the statement of operations on a consolidated basis. You'll see the PLA, CLA, and Coastal Accounts. I want to hit a few key points. The Direct Written Premium is budgeted at $873M. We expect Net Earned Premium to be $591M. The Net Underwriting Gain is -$86M. The overall

Net Income on a consolidated basis is $71.4M. I want to point out that on the PLA we do have a net loss; this is about the fourth or fifth year in a row that the PLA has a net loss. It's -$26.9M. That's driven by rate inadequacy, litigation, and non-weather water claims. The CLA has a net income of $45.3M and the Coastal Account has a net income of $52.9M. I will pause to see if there are any questions about the Statement of Operations. [no questions] This concludes my report. It is an Action Item.

Chairman Rivard, Bette Brown, Blake Capps, Marc Dunbar, Reynolds Henderson, Jim Holton, Will Kastroll, Vice Chair Lopez-Cantera, and John Wortman all approved the 2020 Budget. Motion carried.

4. Chief Financial Officer Report

a. Finance Investment Committee (FIC) Report

Jennifer Montero: Yesterday, we had a FIC meeting. We have two items from that meeting for action.

b. Action Item: Investment Policy Changes

Jennifer Montero: Each year near the end of the year staff presents any proposed investment policy changes to the FIC and then to the board for approval. We work with our financial advisor Raymond James as well as ten external money managers to propose policy changes that will allow Citizens to take advantage of market conditions and provide additional diversification in incremental yield.

Chairman Rivard: For those of us who are new, how long, Kapil, have you been in this role at Raymond James? I know that you explained there are ten other companies that do that, but I'm just curious.

Jennifer Montero: Since 2005 Raymond James has been with Citizens as our financial advisor.

Chairman Rivard: Okay, great, thank you.

Kapil Bhatia: In addition to Citizens, we also work with the other large public entities nationwide, starting with the FL Hurricane CAT Fund, the California Earthquake Authority, the Wildfire Fund, and NTA in New York.

Jennifer Montero: It is competitively solicited at each renewal. Staff recommends an update to Citizens Investment Policies. Changes to all Taxable Investment Policies:

- Change the ratings requirement from average ratings of Baa2/BBB to minimum ratings of Baa3/BBB-
- Securities that have minimum ratings of BBB-/Baa3 shall not represent more than 7.5% of the Portfolio, with the securities of a single issuer representing no more than 1.0% of the portfolio

- Increase the maximum allowed municipal securities from 20% to 25% within the portfolio
- Increase the maximum allowed Agency MBS, CMBS, RMBS, CMO from 7.5% to 15% within the portfolio
- Allow credit cards under ABS guidelines and increase the maximum allowed ABS for prime automobile, equipment loan and lease receivables, and credit card receivables from 5.0% to 7.5% of the Portfolio for the Taxable Liquidity Fund and from 7.5% to 10% of the Portfolio for the Taxable Claims-Paying Fund and Taxable Claims-Paying Long Duration Fund
- ABS for prime automobile, equipment loan and lease, and credit card receivables shall use the weighted average life as the final maturity date with a maximum weighted average life of 3 years and 6 months for the Taxable Liquidity Fund, 6 years for the Taxable Claims-Paying and 10 years for the Taxable Claims-Paying Long Duration Fund

Changes to the Taxable Claims-Paying Long Duration Fund:

- Increase the final maturity of the Fund from 15 years 1 month to 20 years 1 month with no more than 10% of the portfolio consisting of securities, excluding securities where weighted average life is used, with a final maturity between 15 years and 20 years 1 month.

Chairman Rivard: For the benefit of the full Board, yesterday when our committee met on this, there was healthy discussion during the FIC about these items. It was helpful for me to understand that, from a process point, we do this every year. So, this is a normal practice but some of the particular things being recommended are different. Going forward we want to make sure we spend more time from the FIC Committee standpoint - spending time with Kapil and Jennifer to understand what's being proposed. And that's not a knock on anybody about how we got here, it's just looking forward so that we fully understand that. In particular, and not to necessarily go into all the minutia of what we talked about yesterday, but there were some things …and I think governor Dunbar brought up an excellent point that some of these recommendations might be good to just make sure that some of our appointing officers were aware of what's going on – in particular with SBA. Not that we need to replicate or do exactly what SBA is doing. We talked about that – it's apples to oranges to some degree, but there are some changes that raised a couple eyebrows at first blush so we had a good discussion about that yesterday. So just wanted you to be aware of that and so Kapil We can go through that and decide if we want to take recommendations.

Dan Sumner: We want to also note for the board that this particular item was passed under the board with no recommendation by the FIC. That's an important element.

Chairman Rivard: That's a good point. It's so we can have this discussion today.

Jim Holton: That's the point I want to make for the benefit of the rest of the board. The action item in the agenda says that the FIC did move and recommend the item. We did not recommend it. I think my exact words were "agnostic."

Chairman Rivard: It is before the board for consideration. I want to give you a framework for that. Another thing I discussed with Barry and Kapil this morning is that what I'd like to suggest going forward that we re-establish a practice that happened under CFO Atwater where there are quarterly meetings with the CFO and his financial team along with ours to discuss things like this. Citizens is an important issue for the state to understand what's going on. So just…to have that ongoing dialog, not that we don't have that dialog, not that we don't have dialog with them now, but maybe just to have a little more of a standing meeting. That's apparently something that's been done in the past and seemed to work well. I think it's a good idea to reestablish that practice, and I'd be happy to talk to the CFO about making some time to do that and get our guys together with his. But with that, I'll open it up for discussion and see what the pleasure of the board is for what we do on this today.

Jim Holton: It's a broad question for Kapil and Jennifer, but at first blush, the downgrading of securities that we can hold – is that an industry wide trend in terms of other governmental bodies such as Texas Wind that are comparable to us? Why the downgrade?

Kapil Bhatia: Thank you, governor Holton. It's not a trend. The trend in the marketplace is that as more and more corporate issuers are issuing debt for financial engineering, they have stopped caring about it, relatively speaking, for the ratings. There are fewer issuers as it is to start with to maintain diversification. Right now what we have in the Investment Policy is the average ratings of BAA2/BBB from Moodys, S&P, and Finch. Then we have an average rating, so there are already some entities that rate differently. You could have a BAA3 from Moodys and BBB+ from S&P. The average ratings will qualify it. So what we're saying is the "minimum rating." Instead of using an average we are trying to change the ratings to a minimum to allow more diversification for the portfolio while reducing the allocation of minimum ratings to 7.5%. Right now we have 20% and average ratings of BBB/BAA2. So, it's a marginal difference trying to get a large amount of issuers into it to bring more diversification. It's not a trend but as fewer and fewer companies are available to buy, that allows us to buy and reduce the overall credit risk of the portfolio.

Blake Capps: If we were to delay this until the next meeting, which would be in three months, can you quantify how much money is as stake in rough figures?

Kapil Bhatia: We estimate all of these changes, collectively, will bring a change of portfolio composition by 15%, so that's roughly $1B of our portfolio will be impacted from all of these changes. We expect the incremental income to be somewhere in the range of 20 to 30 basis points. We estimated that to be at 25 basis points as a midpoint, not knowing exactly with that rate going down. The annual increase of investment earnings we project will be $2.75M. If we delay it by a quarter it will reduce and if we use it by nine months or twelve months, that will be 75% of that so approximately that will be down by $220K a month, give or take; I'm just trying to do the calculations in my head.

Blake Capps: So, we're looking at $650K?

Kapil Bhatia: We expect $1.8M for the investment of nine months or $1.9M, somewhere in that range. Or closer to $2M, I think. It will take time to effectuate this. The reason we bring this back before the board after the hurricane season because it gives us an event free income because it is unlikely we will need the funds at the start of the hurricane season. If we bring it before the board in March, we may not want to do all these changes simply because we will be closer to the event, so it may be marginally more than the just the one…

Bette Brown: Let me see if I understand what's said, restating it in my words. You're marginally dropping the rating on our portfolio which will allow more inclusive investments to spread the risk over more. What you're saying is that the change in the rating allowance is marginal but will allow for more diversification which should protect our investments.

Kapil Bhatia: Yes. By reducing the ratings to BBB-, the minimal ratings, will allow us to increase the overall issuers. That brings the diversification. There is a reduction in credit quality by one notch; however, there is an increase in issuers to add the diversification. They should cancel each other. Overall, by reducing those credit ratings marginally and increasing the diversification should cancel each other and give us incremental income. It's a small portion of our portfolio. More corporate investors care about maintaining the investment grading. Anything below BBB- is a significant dropping. It's a crucial point to not go below BBB-. It does increase our credit risk but incrementally.

Reynolds Henderson: My question is related to fees. How much do we pay annually to get to this 2.2% rate of return?

Kapil Bhatia: Our fee is five basis points. That is one of the lowest fees. Most investment managers go through the RFP process and industry fees are significantly higher. There is a scale to it. If it goes above the threshold, then the basis points go down.

Reynolds Henderson: I guess my thought is that bank CDs are the same rate of return through this process. Minimizing the risk – I'm thinking about the best way to reduce risk.

Kapil Bhatia: Effectively bank CDs are short term and you have a rollover investment risk as the investment rates go down. They are not insured or backed by anybody over $250,000. So, for an institutional portfolio, bank CDs are not really a substitute.

Bette Brown made a motion that the Board approve the changes to Citizens' Investment Policy duration, credit quality and composition for the Taxable Liquidity Fund, Taxable Claims Paying Fund, and Taxable Claims-Paying Long Duration Fund (these changes will allow Citizens to take advantage of market conditions and provide additional diversification and incremental yield to Citizens' Investment Portfolio) and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Blake Capps seconded the motion.

Chair Rivard: From my perspective, all this discussion has been healthy. I think going forward I think we have a good path forward on how we approach these kinds of things. So, with that, Raymond James has a long history serving this role for Citizens. From what we've heard, it allows you flexibility to take advantage of diversity. There is incremental risk with that but I think we have a sense of scale of the upside and downside. I am comfortable with proceeding with this recommendation. We can always revisit. I'm confident in your commitment to this organization and your track record of doing so, and so with that I just wanted to add those comments. Unless there are any other comments or questions, I'd like to call for a roll call.

Bette Brown, Blake Capps, Jim Holton, Will Kastroll, Vice Chair Wortman, and Chairman Rivard approved the motion. Marc Dunbar, Reynolds Henderson, and Carlos Lopez-Cantera opposed the motion. Motion carried.

[15 minute break]

c. Action Item: Optional Redemption of Series 2015A Bonds

Jennifer Montero: Behind Tab 4, you'll see the action item for the Optional Redemption of Series 2015 Bonds. There is an executive summary along with the resolution and the action item. In 2015, Citizens issued $1 billion of Series 2015A pre-event bonds for the Coastal Account ($700 million of Series 2015A-1 Bonds are fixed rate bonds with maturities on June 1, 2018, 2020, 2022, and 2025; $300 million of Series 2015A-2 are floating rate bonds with maturities on June 1, 2018 and 2020). The Series 2015A-1 Bonds are callable six months prior to their respective June 1 maturities, or on December 1 of the calendar year immediately preceding the maturity date of the particular Series 2015A-1 bonds to be redeemed, at par, or with no additional premium. This was the first time that Citizens included an optional redemption feature for its pre-event financings. The purpose of the six month optional redemption feature was to proactively plan to minimize interest expenses in the event that Citizens does not need to draw upon the pre-event bonds at the end of the hurricane season. Citizens can optionally redeem the upcoming bond maturity at par on, or after, December 1 and save up to six months of interest that would be due for the period from the end of hurricane season on December 1 to the June 1 scheduled maturity date. This call option also provides flexibility, if needed, to call the bonds and issue long-term post-event bonds after an event. The same optional redemption was used in December 2017 for the $150 million Series 2015A-2 Bonds maturing on June 1, 2018 with the additional flexibility of calling the $150 million Series 2015A-2 Bonds maturing on June 1, 2020. The inclusion of the June 1, 2020 maturity in the optional redemption feature in December 2017 for the Series 2015A-2 Bonds was for a scenario in which Citizens did not require the additional liquidity or if the Federal Reserve started to increase the short-term interest rates. In December 2017, Citizens utilized the optional redemption feature to redeem the $50 million Series 2015A-1 Bonds and redeem the $300 million Series 2015A-2 Bonds due to rising short-term interest rates that increased the associated interest cost on the Series 2015A-2 Bonds. By utilizing the optional redemption feature for the $150 million Series 2015A-1 Bonds maturing on June 1, 2020, Citizens will save over $2.8 million in gross interest costs and $1.7 million in net interest expenses after adjusting for interest income. The notice of redemption of the notice of the bonds to be redeemed must be issued at least 30 days prior to the redemption date. Citizens plans to issue the redemption notice immediately following board approval and the bonds will be redeemed on January 10, 2020. Bond Counsel has prepared the Board Resolution with the redemption notices for the bonds to be redeemed.

Marc Dunbar made the motion that the Board of Governors approve the redemption documents and authorize staff to utilize the optional redemption feature for the $150 million Coastal Account Series 2015A-1 Bonds maturing on June 1, 2020 and to authorize staff to take any appropriate or necessary action consistent with this Action Item. John Wortman seconded the motion. All in favor. Motion carried.

d. Financial Summary and Statement of Operations

Jennifer Montero: I have the September 30th financials behind the next two tabs. Through the first three quarters of 2019, consolidated net income was $82.2M or $34.5M greater than the same period year ago with increases in net investment income driving the majority of the year over year increase. Surplus increased slightly from $6.2B in September 2018 to $6.3B in September 2019. Across all three accounts net losses in LAE remained relatively unchanged through the third quarter as compared to the third quarter of 2018. Net losses in LAE for Hurricanes Irma and Michael remained unchanged compared to the prior quarter. Consolidated direct written premium through the third quarter of 2019 was $662.1M, which is 2.6% less than the prior year. This decrease is a result of decreases in combined PIF, primarily commercial lines policies within both the CLA and Coastal Account. Decreases in PIF were 2.4% for the PLA, 24.4% for the CLA, and 10% for the Coastal Account. Premiums ceded through private reinsurers were $94.6M in September 2019 compared to $88.4M in September 2018. The increase in premium ceded in 2019 were the result of coverage purchased for the PLA during 2019 but not in 2018, partially offset by reductions in premiums ceded in the Coastal Account. As of September 30, 2019, consolidated ultimate direct loss in LAE related to Hurricane Irma remained at $2.035B of which $783.5M is recoverable under Citizens reinsurance contracts, with both the FHCF and the private reinsurers. A majority of the development that occurred during the second quarter occurred within the PLA and resulted from an increase in both late reported claims and loss severity, particularly in the southeastern region of the state. Ultimate loss in LAE related to Hurricane Michael remained unchanged compared to 12/31/2018 and remain and $151.7M. There were no reinsurance recoverables associated with Hurricane Michael as the loss in LAE attachment levels was not met. Current accident year losses in LAE unrelated to sinkholes and hurricanes did not experience meaningful variance compared to prior year accidents and development of prior year accident losses and LAE was minimal. Although litigated non-weather water claims continue to be a dominant driver of loss in LAE activity within the PLA, while still an issue, the ligation rate for accident years in 2018 and 2019 continue to show improvement in comparison to accident years 2014 through 2017. Within the CLA, volatility in older sinkhole claims continues to contribute to material quarterly variance losses in LAE ratios. While loss in LAE development within the CLA are less significant to the accident year in which they occur, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings in the loss in LAE ratio as a result of development in prior accident years when the CLA book of business was considerably larger. The reported loss ratio through the third quarter 2019 was driven by favorable development on outstanding loss reserves for older sinkhole claims. Administrative expense incurred through the third quarter of 2019 was $93.4M or 2.2% less than the same period a year ago and 13.5% less than budget. Variance in contingent staffing was primarily due to lower than anticipated need for independent adjusters that were engaged in response to Hurricanes Irma and Michael as well as higher than anticipated number of claims entering mediation. The expense ratio for the period ended in September 30, 2019 was 24.3% reflecting a 0.3% increase FROM THE same period a year ago and a 1.87% decrease compared to budget. Total investment income for the first three quarters of 2019 was $170.8M, which is $24.6M or 16.8% greater than the same period year ago despite a decrease of $772.4M in total average invested assets over the same comparable period. The increases in investment income were driven by significant reductions in realized losses, additionally holdings in tax exempt securities have declined resulting in a proportional increase in securities that generally produce higher yields.

e. Action Item: Independent CPA Auditing Services

Jennifer Montero: The final item that I have is an action item. On August 20, 2019 Citizens released Request for Proposals No. 19-0015 for Independent CPA Auditing Services. Responses were received September 26, 2019 from six (6) Vendors. All Vendors passed the responsive and responsible vendor review conducted by Purchasing and the Vendor Management Office. The six (6) Vendors were sent to the Evaluation Committee which consisted of members from Citizens' Executive Administration, Financial Services Controller Administration, and Financial Reporting. On November 12, 2019 at a Public Meeting for Intent to Award Contract, Dixon Hughes Goodman LLP was the awarded Vendor. The contract amount is $1,511,000 for the life of the contract including all renewals. It's three years with two one-year renewals. The price of the base years is $880K and the renewals are $631K. We do have additional professional services. The Vendor will provide Additional Professional Services as may be required by Citizens for Agreed Upon Procedures for financing purposes. Citizens compensation to Vendor for Additional Professional Services will not exceed 15% of the corresponding base annual fee.

Blake Capps: I have one question about procurement methods. When I think of procurement, I think of two words: best value versus lowest price. What is the controlling principle in deciding on a procurement?

Jennifer Montero: In this particular RFP, there were lots of different things like how big is the company, how big are the insurance companies that they audit, how many insurance companies they audit, how many Florida insurance companies they audit, etc. Prices are factored and get a certain score, but there are other things to consider. We look at who has the best value.

Marc Dunbar made the motion to approve the three (3) year base term contract in the amount of $880,000, and two (2), one (1) year renewal terms in the amount of $631,000 for a total contract of $1,511,000; and Additional Professional Services as required by Citizens for Agreed Upon Procedures for financing purposes not to exceed 15% of the corresponding Annual Fee for Independent CPA Auditing Services, ITN 19-0015 to Dixon Hughes Goodman LLP; and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. Reynolds Henderson seconded the motion. All were in favor. Motion carried.

5. Chief Systems & Operations Officer Report

a. Information Systems Advisory Committee (ISAC) Report

Jim Holton: I do want to make a comment about the cost we incurred for the data retrieval because I think there are ways to relieve those issues.

Kelly Booten: Good morning. The ISAC met via teleconference on December 3rd. I provided an update on IT Strategic Planning, which is also in alignment with the Enterprise Project Planning you heard about earlier. Some of the strategies that we are currently focused on are cloud strategy, identity and access management strategy, data and analytics strategy, and key talent strategy in partnership with HR such as our grow program, recruiting entry level positions in partnership with local universities and piloting strategic workforce planning initiatives. In addition to our Gartner EXP partnership, we are benchmarking IT costs and looking for ways to optimize costs while balancing this between investing in technology as we determine what projects to take on. We have already identified some quick wins and a roadmap for continuing this initiative. Robert Sellers provided a high level overview of Citizens IT security response to cyber security threats. Carlos Rodriguez gave an update on the identity and access management program. Carlos' presentation is in the ISAC material. Today, I have five action items for approval. Three of them were reviewed at the ISAC. All of them are behind tab 5.

b. Action Item: Amendment to Existing Agreement for Software Maintenance and Support for Customized Insurance Management Licenses and Successor Agreement for Software Maintenance and Support for Customized Insurance Management Licenses.

Kelly Booten: This one is a final amendment for Vertafore, which has a legacy repository of documents. This contract helps cover the documents and annotated notes which are proprietary to the system out that we can bring into Citizens for records retention for public record requests. It extends the licenses for a few remaining items for one additional year. This Action Item is seeking approval to amend Citizens' current contract with Vertafore, ending on March 31, 2020, to add $66,000 for data retrieval professional services beginning January 1, 2020. These professional services are required to retrieve Citizens' data from Vertafore's platform in order to sunset usage of the software. This Action Item also seeks approval for a 1-year successor contract with Vertafore for licenses from April 1, 2020 - March 31, 2021, not to exceed $51,000. The 1-year successor contract will be needed until the sunsetting process can be completed.

Jim Holton: We had a discussion on this yesterday, and hopefully this price of the data retrieval will go down because it seems like these companies had their last shot getting a lot of money out of the company. We are potentially looking forward negotiate that going in to where the contract ends and we don't get hit with charges for data retrieval. It seems that this kind of money is a lot of money for doing something that's potentially anticipated. Is there a way to do this proactively?

Kelly Booten: Absolutely. Almost all of our contracts have this in it now. This contract was an early one. I think at the time everyone thought that we would never convert these records and would have been past the records retention period, and thereby, not need it. The other thing is that there is a need to get the annotated notes out of the documents, which was not anticipated. It's a little unique, but, yes, the recent contracts have that in it.

Jim Holton made the motion for the board to approve the requested amendment to Contract No. 19-18-2002-00, for a total amount not to exceed $66,000; approve a new successor contract with Vertafore, for a 1-year term of April 1, 2020 - March 31, 2021, for a total amount not to exceed $51,000; and authorize staff to take any appropriate or necessary actions

consistent with this Action Item. Reynolds Henderson seconded the motion. All were in favor. Motion carried.

c. Action Item: Oracle Fusion Managed Services

Kelly Booten: The contract is with GCOM Software. This Action Item is seeking approval of a contract amendment to begin Phase II, a contract with GCOM Software to provide Oracle Fusion Managed and Professional Services in support of Citizens' existing Oracle Fusion Enterprise Resources Planning (ERP) System. GCOM Software services will refine and improve system functionality of the ERP System. The ERP system supports the Human Resources, Finance and Accounting, Purchasing, Vendor Management Office, and Information Technology (Production Support) business areas. On March 18, 2019 Request for Quotes (RFQ) No. 19-5004 was issued for Oracle Fusion Managed and Professional Services. Citizens selected two vendors to execute contracts for a Phase I, one-month trial period to conduct health checks of various Oracle Fusion ERP modules. Upon completion of Phase I, the one-month trial period, GCOM Software was determined by Citizens to provide the best value. Upon Citizens' Board of Governor's approval, an amendment will be completed to enable GCOM to proceed with the Phase II, using GCOM Software services. The estimated contract amendment amount for Phase II is $2,000,000 for the base contract term. This Action Item is not seeking approval for the renewal term. A separate Action Item will be requested for any renewals and associated spend. If we need this service, we ask for it and get billed for it.

Marc Dunbar: Is the one we talked about?

Kelly Booten: This is.

Marc Dunbar: Do you want to go through the discussions we've had or give an overview? For the benefit of the board, this particular item and implementation of the cloud-based system was highlighted in some of the audit reports that were presented to the Audit Committee. There were a couple concerns that I had, and I raised and discussed with Kelly and Dan and Barry. We contracted for a thing. We thought we had it. We had a 60-day window to look to make sure the thing worked right. We released the vendor that was implementing the thing, and there was some follow-on stuff we need. One of the issues I raised is whether the implementer not give us what they contracted to give us during the ITN period and do we have recourse? We're about to spend money to continue, essentially, what we thought we were going to get. And so, what I want to do is lay that basis so that everybody understands the background for spending the money. It happens in software implement, very complicated, very big platform implementations like this, I understand things like this happen. There are contingency budgets for these, but one of the things that I wanted to make sure was that everybody knew that we're about to vote to spend money, which I'm in support, but wanted to make sure before we spent the money that we knew the decision making process that went in to bring this item to us as opposed to going against the prior vendor that didn't necessarily get us all the way to where we thought we were going to go. I'll let you guys elaborate on that.

Kelly Booten: So, when we solicited to get the implementation partner to implement this service, as you know, it was very complicated. There were many phases and brought this before the board every quarter, describing our process and the implementation. We implemented the financials first and got it up and running. All five phases were completed. The payroll modules, with one real subcomponent, which is the web clock, has been the most challenging. We escalated with the vendor. It's been software issues with maybe some issues in configuration from the original implementation partner but we did escalate it many times. We got through them. This was in 2018. We realized at that time that we will need additional services to help support the system going forward. This was not something of our knowledge base so we need help. We used contingency funds and brought it back to the board for consulting services predominantly in the IT space for technical support. We realized we needed more than that. The original action item did not use additional funds for the first year. As we assessed that vendor, we saw more needs and help. We get quarterly releases whether want them or not. We get to choose what we decide to adopt or not adopt. We needed help assessing those releases and helping supplement staff. One thing we've done since this procurement is almost on all of the larger implementations, we go ahead and budget for implementation services for the duration of the action item we bring forward. We've learned some lessons along the way with some of them.

Marc Dunbar: A lot of what we were getting to is the lessons learned. Kudos to Joe for doing their job and highlighting things we can discuss such as looking beyond 60 days in the contract. We looked at the response for our vendor program, particularly for these types of contracts. I'm used to ITNs, particularly in the state, where they say they can "get you to Mars" but you end up getting something that will only "fly you around the block." We can maybe incorporate DMS into our contracts for IT and technologies so you can see if Florida has a problem with particular vendors and may want to flag for us. The CFO is in the process of overhauling his system because he's dealing with these similar kinds of things. Kudos to Kelly, Dan, and Barry for the discussion yesterday and Joe and his team.

Blake Capps: About the contract term, the word "renewal" – just generally speaking, can you talk to me about what goes along with a renewal – why do you have these renewals often and these action items? Is it so you can pre-arrange the price per services on the front end at the renewal time?

Kelly Booten: The renewals depend upon the contract for the most part. It's a very large system, like our insurance suite, and we could be doing it for 15 years. You don't want to be doing a migration of something that big and massive that often. Then, there's a middle of the range. This one in particular – we don't have to use services here. For the five years, we can get out from under it any time. We just decided that we probably would have a different strategy five years out from now. But, it gives us the option. I'm not even asking for a spend on renewals on this one. Sometimes we come to the board with the renewals. It really depends on the contract – the structure of it, the size of it, and the market conditions Things change a lot and you want more flexibility with smaller terms.

Jim Holton made the motion for the board to approve the contract amendment for Phase II services to be provided by GCOM Software, through an amendment to Contract No. 19-19-5004-01, for a total cost not to exceed $2,000,000 for the five (5) year base term ending September 18, 2024 and to authorize staff to take any appropriate or necessary action

consistent with this Action Item. Marc Dunbar seconded the motion. All were in favor. Motion carried.

d. Action Item: Technology, Infrastructure, Software, and Professional and Staff Augmentation Services

Kelly Booten: This is an annual action item and sometimes a consent item depending on the nature of the contracts we bring to the Board annually that goes with the budget. All of the items in this action item are dispersed throughout the IT budget predominantly. This is asking for contracting approval in the amount of $18,022,337, as further described for the categories of infrastructure software and professional consulting services. The 2020 budget year is $14,833,702. A few of the contracts in here are multi-year contracts. In the Contract ID Section, the section lists Citizens' procured and the state procured contracts we intend to use. The funding I already mentioned. The contract amount breaks it down by category. There is also a breakdown in detailed paragraph for each type of expenditure for the major categories. There is a table that shows the contracts and the types of categories we plan to use those contracts. There is a 198-page spreadsheet that backs this up if you're interested.

A motion was made and seconded to approve this Action Item totaling $18,022,337 and authorize staff to take any appropriate or necessary actions consistent with this Action Item. All were in favor. Motion carried.

e. Action Items: Vendor and Contract Management System & Vendor Risk Management System

Kelly Booten: The next two action items did not go through the ISAC and it's for the Vendor and Contract Management Office. The first action item is for cloud services to provide the contract offering, contract management, and vendor management capabilities. The second action item is for cloud services that provide vendor risk management capabilities. The combined capabilities will be utilized by the Vendor Management Office (VMO) and other department and individuals such as Purchasing, Legal Services, and Contract Managers. Both action items resulted from ITN No.: 19-0012 for a Vendor and Contract Management System issued on May 14th. The solicitation in scope was developed in collaboration with Claims, HR, Underwriting and Agency Services (UAS), Purchasing, and IT. On June 20th, Citizens received 22 vendor responses. The evaluation team consisted of four VMO members and subject matter experts (SME). On July 30th, the evaluation team advanced 12 of the 22 responding vendors to negotiations. The negotiation team consisted of representatives from the VMO, HR, Purchasing, UAS, and IT. Negotiation team elected to negotiate with 10 of the 12 vendors who conducted demonstrations and presentations with these 10 vendors. The negotiation team subsequently focused on two vendors: CobbleStone Systems Corp for contract offering, contract management, and vendor management capabilities and Exiger LLC for vendor risk management. Negotiators participated in a half-day sandbox with CobbleStone Systems as well as a 30-day evaluation. Additionally, a Citizens SME met onsite with the University of Central Florida who has the CobbleStone Systems. Subsequently, on October 29th, the negotiation team recommended CobbleStone Systems and Exiger. And, Governor Dunbar, we did ask DMS about this one. They have issued two purchase orders to CobbleStone for two offices that have used them. One of them we have heard from in the last 24 hours, and they are very satisfied with the vendor. As described in the action item, CobbleStone Systems provides a comprehensive vendor and contract management system that will allow the VMO to replace and automate numerous manual tools and be a centralized repository for vendor and contract management information. The cost of the VCMS shall not exceed $1,087,687 for a five-year contract term, which encompasses the associated costs for implementation, data migration, software, support, professional services, and training. The requested contract amount includes a services contingency amount of $20,241 and a license contingency amount of $25,228 which would cover any ancillary services needed and any needs for additional users over the 5-year term. Funding for the Vendor and Contract Management System (VCMS) has been included in the 2020 Annual Operating Budget.

Jim Holton made the motion for the board to approve the VCMS contract with CobbleStone Systems Corp. for a 5-year term, for a total amount not to exceed $1,087,687, as set forth in this Action Item and authorize staff to take any appropriate or necessary actions consistent with this Action Item. Reynolds Henderson seconded the motion. All were in favor. Motion carried.

Kelly Booten: The next action item is for Exiger, LLC. As described in the action item, Exiger provides vendor risk management services and due diligence reports that will augment and enhance the vendor due diligence already performed by the VMO. Citizens currently use various resources and tools, such as an independent Certified Public Accountant, public websites, commercial websites, and Microsoft Office products, to identify, assess, and mitigate vendor risks. In 2018 the VMO performed a 197 vendor risk assessments and 89 assessments this year. The number of assessments varies from solicitations. The Exiger services will allow Citizens to streamline its vendor due diligence activities and obtain access to vendors' specific reports, which contain due diligence information. The cost of the VRMS product shall not exceed $314,462 for a five-year term, which encompasses the associated costs for implementation, software, report subscriptions, support, and training.

Jim Holton made the motion for the Board to approve the Vendor Risk Management Services contract with Exiger, LLC for a 5-year term, for a total amount not to exceed $314,462, as set forth in this Action Item and authorize staff to take any appropriate or necessary actions consistent with this Action Item. Reynolds Henderson seconded the motion. All were in favor. Motion carried.

6. <u>Chief Claims Officer Report</u>

a. Claims Committee Report

Will Kastroll: Thank you, Chair Rivard and Jay. Citizens Claims personnel continue to help policyholders with their claims from two monumental storms: Hurricane Irma and Hurricane Michael. They continue to do so with professionalism and empathy. Staff should be commended. Policyholders are being taken care of which is directly related to staff. In addition to helping the insured get back to where they were, Citizens is being very good stewards of the premiums and are fighting aggressively against fraud through their own internal procedures and policies and through their Special Investigation Unit (SIU). Year-to-date, they've roughly recovered $2.1M in these efforts. During our Claims Committee meeting last week, we voted and passed one action item and two consent items to bring to the board.

Jay Adams: We met telephonically on December 4th. I gave a strategic update on Hurricane Irma claims and new reports we received in 2019. The focus was on the geography of the state, where the claims are coming from, and the representation. The end goal of those claims is that they are being set up to move into litigation. Craig Sakraida gave us a great CAT update. Elaina Paskalakis gave us an update on litigation standings. Mike Carver gave us our standing on where we are with the water claims, the Managed Repair Program (MRP), and AOB. Greg Rowe went over our vendor program and the consent items that Mr. Kastroll mentioned.

b. HB 7065 AOB Metrics Update

Jay Adams: I have an update presentation on AOB and it really focuses on metrics. It's in your book. I'll ask the board for consideration of time. Would you like for me to go through this or leave it as an artifact for you to review?

Will Katroll: I think we reviewed it in the committee . . . unless, there are other board members who would like to hear it?

Jay Adams: The only thing I'd like to point out is that I'd like to echo the HB 7065. When we implemented that, we worked really closely with our metrics team reporting through Kelly Booten's group. I advised the Board that we were working on a long list of metrics. What we're trying to do is bring that before the Board on what information we're collecting that's available in case legislature asks any questions.

c. Action Item: Roof and Property Reporting Services

Jay Adams: The last item I want to talk about is an action item on roof and property reporting services. I want to give a brief explanation on what this is before I get into it. During a CAT, many roofs are damaged due to the high winds and debris. What this service does is collect aerial imagery and then there is proprietary software that has an algorithm that produces the dimensions of every slope. That software is also integrated with Xactimate. Xactimate is our estimating platform. What this technology does is gives us the availability to increase the productivity of the Independent Adjuster (IA). I've brought before this board many times that we've had many failures with IAs and those contracts during those CAT responses. With this type of technology, we will need less IA because they can produce so many more claims because they do not have to measure slopes on a roof. The advantage of the integration with Xactimate is that once that information is ported into the system, it's literally a push of a button and you have a complete estimate to write the roof. What this action item for is that we have a current contract with Geomni and they are a subsidiary of Varisk and Xactimate. They are integrated into the Xactimate platform to do exactly what I just spoke about. They were sued by EagleView, which is another corporation that provides the same exact service – the aerial imagery, the dimensioning and so forth – and they are integrated with Xactimate. EagleView field suit against patent infringement on Geomni and Geomni lost. This proposal today is to provide continuing services while the litigation plays out. This is a budgeted item because we do have a contract with Geomni. We are not looking for anything over and above what we already have. We are looking for a three-year contract term. We went back to our vendor office because we had a question during the Claims Committee on why we picked such a long contract term? EagleView would not negotiate a shorter term than three years. They were pressing us to move to a five year term. We did a single source to procure this because they are the only other corporation that is integrated with Xactimate to provide these services. They have a corner in the marketspace. We did procure this service.

Carlos Lopez-Cantera: This is the issue I brought up during the Claims Committee. I had a lot of questions on this and Jay was quick in response to answer many of them. There are a few questions I have that are outstanding. When was the procurement with Geomni for the loss estimating services? When was that procurement done with Citizens?

Jay Adams: I'm not exactly sure of the day of the procurement? The contract term was March 1, 2015 to February 29, 2020.

Carlos Lopez-Cantera: So the contract began on March 2015?

Jay Adams: Correct.

Carlos Lopez-Cantera: And at any point during that negotiation, did Geomni disclose that this potential litigation was forthcoming?

Jay Adams: Yes, they did. I went back and checked with that as well. Citizens was aware that there was an attempt for a patent infringement. It was pretty well known in the marketplace. EagleView was executing patent infringements against multiple firms that did the same type of thing. When we were going through this process, Varisk, as the parent company, and Xactimate, the company within it, and we need the software to integrate with Xactimate so that it does the end-to-end that we're looking for. When we were in discussions with Geomni, they were indicating that they thought they were going to win the litigation early on. They are still moving down the path of trying to appeal this to see they can get this back in their favor. What they led us to believe would happen is that they thought there would be some negotiated settlement where they would pay some type of ongoing royalty to EagleView to continue to use their product. That obviously has not happened and I think that's what they hope can still happen in the future.

Carlos Lopez-Cantera: What's the total contract amount for the overall estimating loss software with Geomni with us?

Jay Adams: I'm not 100% sure. I do not have that information available. It would not have exceeded this $4M mark. Whether it's Geomni's contract or EagleView's contract, we only leverage that only in a hurricane. We only use this when we need it. Even though we have a budget of over $4M, we may not use it if we do not have a hurricane. This year, we had no need to leverage that service.

Carlos Lopez-Cantera: This is not a service that we need today. We're out of the season, thankfully, today. We wouldn't need these services until next season or a storm event that produced a large amount of claims?

Jay Adams: Correct. If we had a big hailstorm in the spring, for example, we would certainly leverage this software so we don't have to dimension the roof. We would leverage it for any hurricane activity that we'd have.

Carlos Lopez-Cantera: We do need to use this service because of the overall contract? The have the leverage over us. They have us over a barrel because there is nowhere else to go?

Jay Adams: EagleView does, correct. They are the only other company that is integrated with Xactimate at this point. We reached out to Xactimate before we did a single source and asked if there was anyone else integrated with them or will be allowed to integrate with them. They said no.

Carlos Lopez-Cantera: And they have no plans to find an alternative source?

Jay Adams: I believe their Varisk Xactimate-Geomni plan is to be successful in litigation where they can continue to leverage their own product base.

Carlos Lopez-Cantera: How much longer is the contract with Geomni?

Jay Adams: It ends on 2/29/20.

Carlos Lopez-Cantera: 2020?

Jay Adams: Yes, sir.

Carlos Lopez-Cantera: The litigation took just under four years to get from the original filing to the jury of finding in favor of EagleView.

Jay Adams: Right.

Carlos Lopez-Cantera: So, even if they were even able to appeal, and maybe Counsel can answer this question because I'm not an attorney, but I'm pretty sure the federal courts don't move very quickly. What is the expectation that before this contract expires – the overall Geomni contract expires with Citizens – that they would have any answer from the next step in the court of appeals?

Dan Sumner: This case was tried in the New Jersey Federal Court so it will go to the Third US Circuit. I did research this. The Third US Circuit – the median time for review is 22 months. Obviously, it would take at least one term. Given their case-load, it would be a little less than two years. If I could, with regard to the approach, I would like to read the language we have proposed for the EagleView contract to deal with the fact that we have to buy this as a stop gap measure: “This agreement provides for compensation on a per report basis. The order of reports is at Citizens’ sole discretion and charges will be incurred under this agreement only for reports ordered. There is no assurance that any report will be ordered under this agreement. The price charge for reports ordered will be in accordance with the specific pricing in the paragraphs below which are a per unit price.” Obviously, to the extent that we do not have a hurricane and do not need this, then there will be no charges incurred. The reason we went to three years, as I understand how the negotiations went, that is the shortest period that they would agree to where there is no base charge. Under this contract, a base charge is something we very much want to avoid.

Carlos Lopez-Cantera: My issue is not with EagleView. My issue is with Geomni and whether or not they were negotiating with Citizens for this contract and service whether or not they were deceptive or withheld information that they knew could end up in this scenario for us where we now have to do a separate contract that will go beyond the term of the underlying Geomni contract.

Dan Sumner: With regard to the Geomni contract, it does speak to their inability to produce the contracted product. Obviously, that has occurred. They basically – it says paraphrasing that they’ll either find something for their customer or the customer, if they have to obtain an alternative, again paraphrasing, then obviously that would be where they could potentially have damages. We have notified Geomni and said we don’t have the service and we need it for our operations: “Are you going to provide us with an alternative?” As Jay indicated, that has not happened, so we notified them that we are proceeding under the alternative language in the contract to procure it our self and that, to the extent that had damages, that essentially that we would be invoking that provision. We will not have damages until we actually buy anything. But to the extent that we have to buy per unit usage of this service and there is a higher per unit cost, then we would certainly point to that contract and notice that we have given them. We would then assert that we are entitled to some kind of damages from Geomni.

Carlos Lopez-Cantera: Define “damages.” Is that above and beyond the actual cost of the service?

Dan Sumner: I think that, again, we’ll have to see where we were but in general, the damages would be the differential between what we would have gotten the services for within and the cost of the alternative procurement on a per unit basis.

Carlos Lopez-Cantera: And cost of additional use of our internal productivity of doing all this as well. Or, is it a straight pass through and they deal with each other directly?

Dan Sumner: I think because they are integrated I believe that what will happen it will show up in terms of our review of this imagery as it would have if we got it from Geomni. It will not be coming through Geomni. It will be through EagleView integrated. Is that right, Jay?

Jay Adams: Right. And it will be billed from EagleView direct. I want to follow up on something we talked about yesterday. When we did a single source, we did not do a solicitation as such, so it did not stretch out as a long period of time. Once we had a letter from Xactimate that they were the single source, we did post for single source according to the rules and then we started negotiating for the contract.

Carlos Lopez-Cantera: Winding to what you said before . . . they will be billing us, or will they be billing Geomni?

Jay Adams: EagleView will bill us for the usage of their product and it's already integrated. It shows up in in the Xactimate product. All that piping has been done. So, as soon as we order it from EagleView, they invoice us and then it automatically flows into us through our workflow on the estimating side.

Carlos Lopez-Cantera: In the workflow, I get that. What about the accounting side? How does that work with the Geomni contract? They're a vendor and getting paid for their services. EagleView is now a separate vendor that gets paid from the same budget line item, right?

Jay Adams: Ultimately, yes. We shifted the money we set aside for Geomni that was unused put it into this contract.

Carlos Lopez-Cantera: These services were built into the Geomni dollars already? It was all in. It was all encompassing. Would they bill separately for these services if it was Geomni?

Jay Adams: Correct. As we used these services, we got billed from Geomni. They only thing that's going on in the background is that there is an integration that these two providers go directly to Xactimate. That workflow – when we order an estimate – we can say to include the roof report. All that information is pushed into the estimate and sent back to us. Then we get invoiced on the – whatever the invoicing scheduling is – from Geomni for whatever used during that invoice period. The same will happen with EagleView as we moved forward.

Will Kastroll: I agree with governor Lopez-Cantera's response, I disagree with our business practices. If I were running that business, I would not run it that way. An insured tech insurance provider scours through our meeting meetings and tires to duplicate what they do and we have a better bidding option going forward. All that being said, our insured need this service, especially at a time of a hurricane. The last thing we want the insured to do when a storm hits for them to climb up on a ladder or for our public adjusters to climb a ladder and try to assess the roof. There is a lot of liability associated with that. This can be done with technology. It's a needed service. Without it, our insured will be delayed payment. I agree with you that their business practices have been less than forthcoming, but it's something Citizens needs at this moment.

Chair Rivard: It sounds like from Dan's explanation that we've done everything we can to put them on notice and that there are other options for recourse and damages we can pursue.

Marc Dunbar: I agree with governor Kastroll said. The only concern I have in all of this that I don't remember when it came to the board. Maybe there was this knowledge of litigation on the technology, and the only thing I ask on a going forward basis is that on a technology product to make sure that warranties are covered – that they have everything sewn up with the ability to use it – and please let us know going forward on all agenda items. . . I don't want to make a blanket statement. I don't think it's fair as a board to find out about things after-the-fact. There are two items on this agenda that I don't think convey where we were relative to the relationship to the vendor. We want to help make sure that this is operational, but at the end of the day, as we talked about yesterday, is that we are the ones voting on spending the money. When our appointing principals are looking at us asking why we voted on something and then they find out about this stuff after-the-fact, we look like we are not doing our job. I would ask that you err on the side on giving us everything, so we don't bog it down.

Jay Adams: One other piece of information. When this solicitation was moving forward, Geomni was upfront that there was a lawsuit potential in their future. They also were very upfront that they were trying to acquire EagleView. My understanding is that during that process the Federal Trade Commission stopped it from happening. Then this is what caused this infringement to move forward. It was in a stall period if I recall.

Carlos Lopez-Cantera: I recognize the value of this technology and how it helps the customers, the process, and efficiency. What I really dislike is that we have no choice but to accept this scenario because we are locked into this broader contract that only has one service that works with it. We basically have no choice but to approve it. I want to see accountability and consequences for Geomni in the future. I want them to be on a list. If they ever bid on something in the future, whether we are sitting in these seats or someone else – they are made aware that this happened with this company the last time we did business with them.

Reynolds Henderson made the motion for the board to approve the recommended action to contract with EagleView Technologies for a three (3) year period for roof and property reporting services for an amount not to exceed $4,208,300 and authorize staff to take any appropriate or necessary action consistent with the Action Item. Marc Dunbar seconded the motion. All were in favor. Motion carried.

7. Chief Underwriting and Agency Services Report

a. Actuarial and Underwriting Committee Report (A&U)

John Wortman: The A&U meeting was held on December 3rd. Three key points at the meeting – Scott Crozier, Vice President of Underwriting and Product Development, gave an update on topics facing our product activities. Three key things we talked about were the increase in home sharing and how do you insure container homes. We talked about water control devices that are new. We reviewed the charter, which we are required to review annually. We did review it and there were no changes. We did approve it for the coming year. There was one action item that was brought to the table by Steve and it relates to reallocation of some budget items.

b. Action Item: Agent Management Services

Steve Bitar: I'm not here seeking additional funding. This is simply a reallocation of funds. I think the best way to explain this is to turn to page two of the action item. You'll see two matrices. The first one was originally approved by the board in April 2018. The ten-year cost that was previously approved are broken down into subset of categories:

Ten-Year Costs Previously Approved by the Board

Software Licenses and Subscription Services (Vendors: Salesforce.com, Inc., Jitterbit, Inc.)		$7,669,632
Implementation and Support Services (Vendor: Vertiba, LLC)		$3,758,789
Implementation (includes a 30% contingency)	$1,777,830	
Support Services	$1,980,959	
Total Ten-Year Cost (2018-2028)		**$11,428,421**

What we are seeking today is seeking the reallocation of funds within the implementation and support services category. We are building "a spaceship to Mars" and we worked with our VMO and our Legal Office to really build in some safeguards and measures to ensure that when we utilize an implementation partner that we do so appropriately and that we're getting what is that we bargained for. We went through the process with our implementation partner. We built in a proof of concept whereby a deliverable will need to be reviewed by Citizens relatively early on in the life of that relationship with that partner. We decided we wanted to get out of that relationship and move forward without the implementation partner. This is why we appear before you today. That $3.758M – what we seek to do is reallocate those funds as detailed in second matrix:

Requested Reallocation of Ten-Year Costs

Software Licenses and Subscription Services (Vendors: Salesforce.com, Inc., Jitterbit, Inc.)		$7,669,632
Implementation, Ongoing Support Services and/or Additional Software Licenses/Subscription Services		$3,758,789
Less Costs Incurred (Vertiba, LLC)	$252,000	
Remainder Amount Requested for Reallocation (vendors to be determined using contracts described herein)	*$3,506,789**	
Total Ten-Year Cost (2018-2028)		**$11,428,421**

We have made one payment thus far with the implementation partner: $252K. The remaining funds from that $3.758M we seek to reallocate toward a series of contracts that we approved through Citizens that will allow us to use various licensing, contingent staffing, etc. to meet the needs without the implementation partner. I do want to note that we did receive a financing bill from the implementation partner and we are disputing that final bill at this time. Once we come to a resolution the dispute process has culminated, we will take that final payment, deduct it from that $3.506 and add it to the $252K but it will not ultimately exceed $3.758M.

Marc Dunbar: So, we contracted with them and getting rid of them. We are still disputing what we are going to pay them and we are using the money to grab people off state term to fulfill what we want, right?

Steve Bitar: Basically, yes, state term as well as some licensing. We planned on using licensing from the implementation partner that we do not currently have, so we also need to procure some licensing to allow us to do the work that we had originally pledged toward the implementation partner.

Marc Dunbar: I'm going to assume we're not going to use this partner again.

Steve Bitar: Correct.

Marc Dunbar: And we let DMS know what we had a less than favorable experience just for whatever reason?

Steve Bitar: We will be more than happy to, at the culmination of the dispute, and provide a summary wherever Vendor and Legal would like us to provide that.

Marc Dunbar: And this is the reason why I say this and starting us working with DMS: We procure quite a bit of services and if you don't do good work for us, I would like for all future vendors to know that we have no problem [inaudible 2:27:17] everywhere. So, deliver us good service. So, for whatever it's worth, that's Vertiba, LLC?

Steve Bitar: That is correct.

Marc Dunbar: Good, okay, thank you.

John Wortman made the motion for the board to approve this Action Item totaling $3,506,789 for the contracts 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. Bette Brown seconded the motion. All were in favor. Motion carried.

c. Market Accountability Advisory Committee Report (MACC)

Dave Newell: For the record, Chair of the MAAC. We met telephonically on December 5. We had an update from Carl Rockman, Senior Director of Agent and Market Services. There was a lot of discussion about Florida Specialty. Some of the uptick in agent and agency count was due to Citizens appointing several agents and agencies that had Florida Specialty business but had not contracted or appointed with Citizens. We went over a review of performance violations and late submissions. Citizens keeps us abreast of that and to make sure agents take sure those two metrics and how they underplay with underwriting and potentially leads to suspension of their appointment with Citizens. We heard a lot of discussion about outreach this past year and their plans for the future. One thing I mentioned, and several on the committee acknowledged this, when Florida Specialty went into receivership, there was a lot of us that are in the industry that reached out to Steve and his team and talked about potential plans. A lot of the MACC talked about that working relationship that was being built, especially when they were going to expedite the appointment process. It could be lengthy when you get appointed to a carrier, so Citizens put together a plan and it worked very well to get those agents appointed so they can conduct that business and move that business from Florida Specialty into Citizens. Lastly, they talked about doing background checks and the ability to do that as far as their agency force. They will look at that in 2020. I will not belabor the Florida Specialty thing, but we did hear a lot of discussion about it. Steve brought us up to date on the number of policies and how the receiver was able to work through some things and helped with premium allocations back to Citizens. For those in the industry, and a few of us sitting around here, have been through some of these. Unfortunately, that process used to have a long tail to it. With Citizens engaged in the process and based on lessons learned, that process has gotten smoother. The consumer is not waiting on return premium and getting those policies in force. The other thing you don't see often is the ability of Citizens policies – they certainly accepted and extending when those premiums could be paid – 12/15. That was another thing that was helpful when trying to move 90,000 policies in 30 days. There were some agents that had more than 10,000 policies. It's a heavy lift in today's world but technology helped with that. The communication part of this whole process with Christine's team and Barry's leadership – there certainly was a lot of interaction with our groups and others, the agency force, learned this information were able to advise our members and agents going forward. I applaud Citizens for taking this on, and hopefully this will not happen again. But, if it does, we have a good template.

Jim Holton: I want to ask a little about some of our products. I know coming out of Irma, there was a lot litigation on the concurrent causation issues. I heard some novel ways of the trial bar trying to get exclusions covered. I'm curious if our language in our policies in the preamble a lot of the ACC language for the exclusions.

Steve Bitar: I have not seen any challenges come our way specially. I think we're solid there. I'll look to Dan and Christine to see if they've seen anything . . . no, we really haven't on where our policy language stands. I'll be happy to take that as a takeaway.

Jim Holton: Some of the exclusions have the actual ACC anti-concurrent causation preamble and some of the older polices don't.

Steve Bitar: I will take this as homework to make sure that our language is in there, and if not, then I'll build that language.

Jim Holton: I would encourage you to interact with our legal counsel all around the state because some of them are hearing things at the trial level that doesn't get to the appellate level that point toward trends that could be problematic.

Steve Bitar: Dually noted; thank you for the tip.

8. Chief Internal Audit Office (OIA) Report

a. Audit Committee Report

Joe Martins: At the Audit Committee meeting, the Chief of Internal Audit presented progress against the 2019 plans, for audit, internal controls and enterprise risk, and noted good progress. I'll start with the overview of the audit progress. We've completed six engagements since the last meeting and have 10 currently in progress. Following the last meeting, we've had completed Bulk Intake Florida Specialty (project advisory); Financial Services (process advisory); Independent Adjuster Day Rate Invoice Review; Payroll (audit); System and Information Backup (audit); and Targeted AP Analytics (audit). Opportunities for improvement were noted in the Payroll audit and the System Information Backup audits. We are currently tracking seven open items and none of these are high impact. With Enterprise Risk, we are going from top down and bottom up. The ER continues to facilitate interactive and engaging inherent (IRA) and residual (RRA) operational risk assessments to enable management to self-identify and assess risks that may impact the ability to achieve business objectives and to determine the effectiveness of mitigation plans in place to reduce the risks. We also continue to roll out the Internal Control Framework (ICF). Internal Control continues to monitor the control of the completion of the self-assessments on an ongoing basis. By the end of this year, 82% of the completed control designs would have been assessed. Once the key controls and the related process flow is documented, the control life cycle is typically performed annually and spends over five major categories. These include defining the scope of the review, developing updated new or updated current process documentation, testing key controls, improving on controls tested, and understanding the risk posed deficiencies left unresolved. The Internal Audit and Plan & Budget was presented to and approved by the Audit Committee. The plan was developed to be flexible, and within this plan, we identified seven specific themes. The plan was completed with Citizens strategic goals and objectives. This plan throughout the year will be flexible. We will work in a rolling risk assessment as well as a rolling audit plan. Every quarter, we bring new orders that we intend to do for the future quarters within the year to the Audit Committee for approval. The seven specific themes that are identified include corporate expense management, reliance on third parties, corporate effectiveness, fraud detection and deterrence, innovation and systems conversion, security and privacy culture, and regulatory support. At the moment the plan provides a healthy mix between assurance (audit) engagements and consulting (advisory) engagements. For 2020 the plan includes 59% audit and 41% consulting engagements.

9. Chief Human Resources Report

a. Action Item: Professional Recruitment Services

Violet Bloom: The first item is for Professional Recruitment Services. This is a multiple vendor award. Funding is included in the Annual Operating Budget. The estimated contract amount (inclusive of all contracts) is $375,000 for the recommended base term of the contract (five years) and $375,000 for all renewals, for a total of $750,000. This Action Item requests Board approval for a multiple vendor contract award, creating a panel of vendors that can assist with sourcing candidates for various hard to fill positions, needing specific skills, across the organization. No costs are incurred with these contracts unless Citizens engages a firm who successfully provides a candidate that is hired as a Citizens employee. The base term for each indicated vendor's contract is five (5) years, with the potential for optional renewals for two (2), two (2) year and one (1), one-year renewal periods Citizens issued a Request for Proposal No. 19-0006 for Professional Recruitment Services. Responses were received and evaluated by an Evaluation Committee. The Evaluation Committee recommended award to nine vendors.

Marc Dunbar made the motion for the board to approve the recommended vendors for award listed above and resulting contracts for Professional Recruitment Services, RFP 19-0006, in an amount of up to $375,000 for a contract period of a five year base term, and an additional $375,000 for the optional two (2), two (2) year and one (1), one year renewal periods for a total of $750,000; and authorize staff to take any appropriate or necessary action consistent with this Action Item. John Wortman seconded the motion. All were in favor. Motion carried.

b. Action Item: Stop Loss Coverage for Medical and Prescription Drug Coverage

Violet Bloom: The second action item is Stop Loss Coverage for Medical and Prescription Drug Coverage. The recommended vendor is Florida Blue. It is a new contract to continue services. Funding is included in the Annual Operating Budget. Estimated cost of Stop Loss Coverage for Citizens' self-funded Exclusive Provider Organization (EPO) and Preferred Provider Organization (PPO) medical plans and prescription benefit programs with Florida Blue for the contract period of January 1, 2020 through December 31, 2020, is estimated at approximately $ 947,621. If I may put this in context, the projected total cost for medical benefits for our employees is $15.7M. Citizens portion of the cost is $12.4M. The stop loss expense is included in that total cost This Action Item represents a new contract award to Florida Blue to provide stop loss coverage for catastrophic claims as needed for the self-funded Exclusive Provider Organization (EPO) and Preferred Provider Organization (PPO) medical plans and prescription benefit program to be offered to Citizens' employees, effective January 1, 2020. The term is January 1, 2020 to December 31, 2020. Mercer Health and Benefits, LLC, Citizens' competitively procured Employee Benefits Broker and Consultant, reviewed the quote received from our incumbent provider Blue Cross for stop loss coverage against the benchmarks from their stop loss center of excellence database.

A motion was made for the board to approve the contract with Florida Blue for Stop Loss Coverage for Medical and Prescription Drug Insurance Coverage for the period of January 1, 2020 through December 31, 2020 in the approximate amount of $947,621 and authorize staff to take any appropriate or necessary action consistent with this Action Item. John Wortman seconded the motion. All were in favor. Motion carried.

Chairman Rivard: We are getting short on time, so we need a motion to extend.

A motion was made and seconded to extend the board meeting by another 30 minutes. All were in favor. Motion carried.

10. <u>Chief Communications, Legislative and External Affairs Officer Report</u>

a. Consumer Services Committee (CSC) Report

Bette Brown: We hadn't met for about a year so it was an interesting meeting. The purpose of the CSC is to make sure that we have tools for customers to make it easier for them. We communicate with agencies and clients. The committee is doing a great job of that. In this meeting we talked about customer experience. Jeremy Pope talked about it. We got a claims update with Jay and the issue with Florida Specially with Steve. It was an interesting meeting. If you have issues where you find people who need more understanding or tools to help with that, this is the group to help. It's been beneficial for our reputation. I think we lead the industry with communication in taking good care of our clients. I'm proud to be involved.

Christine Ashburn: I think you covered it. With all of the coverage and concern about the claims handling for Hurricane Michael, Jay provided a good update. Hurricane Michael was a small event for us as we do not write a lot in the Panhandle. We do have about 3,500 policies and we have about 250 claims open. Some of them are newer claims and we are thankfully part of the crisis that we are seeing in the private market.

11. <u>Consent Agenda Items</u>

Dan Sumner: I would like to move on and ask to move forward on the consent items. We do have those with the exception that are individually pulled out. Would it be the will of the Board read the highlight of each of the consent items or read just the action?

Marc Dunbar: I had a question on the Deposition items and Business Insurance. The idea of trying to flat fee some of this stuff to lower costs, I full support. In addition to flat fee and their ability to travel and appear, are we doing the same thing with counsel? We have adjusters coming in and flat feeing their appearance, but are we doing the same thing with the lawyers who are showing up with them? Or, are they going to run an hourly clock? If we don't flat fee the lawyers, why since we are flat feeing our witness?

Dan Sumner: That's a good question. Let me look into that. As far as these witnesses who are no longer affiliated with us, there is obvious reason to flat fee that. With regard to the lawyers, let me look into that and get back with you; that's a good point.

Marc Dunbar: For the business insurance one, it's really a practical one. I'm seeing a 17% decrease and work comp is at a 22% decrease, but our business auto is a 12.7% increase. I'm curious to know if we've had any accidents. Why is our auto going 12.7% and the rest is going down? Or am I misreading this? If I'm reading it correctly, can we ask somebody else, maybe for a better deal?

Dan Sumner: With worker's comp, it's something you have to work at and we're pleased with that. On the business auto, if I recall correctly, I believe we have more cars. I don't think we had a significant number of accidents. I believe our exposure number went up on that.

[inaudible audience member]

Marc Dunbar: For the record, Kelly Booten will follow up on this. If we have more cars, then I'm curious as why we have more cars. Are we getting a discount if we're bundling with Zurich? Did we do a competitive solicitation?

Dan Sumner: What we've done with all of these is that under the procurement procedures under 287 , the agent is procured and then the agent does a diligent search. Obviously, we cannot go directly to insurers ourselves. We get multiple quotes from each of these. I think that with regard to Zurich, it's not a package. We've had good luck in them being aggressive in pricing our products. They align well with what we need. They have not always gotten all of these. I think it's a consequence Zurich got all of them.

Marc Dunbar: So, Gallagher's the one that went out and hustled for us, right? And so we're comfortable that Gallagher hustled our Business Auto as best as they can? I see nods but is Arthur Gallagher here?

Dan Sumner: I don't believe they are here. We get multiple quotes and we always take the best quote.

Marc Dunbar: So, 12.7% increase is the best we can get?

Dan Sumner: That's the best we can get.

Marc Dunbar: Okay, I just wanted to check.

Chair Rivard: As to how we handle the consent items, unless the board disagrees, if we can have an abbreviated statement for the purpose of time and if there is any item we need more time for discussion, then just jump in. Barbara, please proceed.

Barbara Walker: Thank you, Chairman. There are seven consent items:

- **Remittance Processing System.** Contract 18-17-0008 Vendor: RT Lawrence Corporation. It is recommended that Citizens' Board: a) Authorize an amendment to Contract 18-17-0008-00, to allow for the purchase of additional user licenses, system improvements/training and disaster recovery services in an amount not to exceed $ 76,000, as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.
- **Contractor Managed Repair Program, Contractor Repair Services Program.** ITN 15-0011 for Contractor Repair Services Program Vendor: Contractor Connection. Citizens' Claims Committee approved and recommends the Board of Governors: a) Approve the amendment to the current contract for the Contractor Managed Repair Program, ITN 15-0011 for the Contractor Repair Services Program to include a $325.00 compensation resulting from each Emergency Water Mitigation Service not being contracted; and b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.
- **Deposition Guidelines**. **Compensation for Civil Proceeding Preparation & for Travel) – Deposition Guidelines Independent Adjusting Services** – Non-Litigated/Catastrophe,

RFP 17-17-0006; Independent Adjusting Services – Catastrophe RFPs 17-17-0020, 18-18-0027; Fast Track Adjusting Services – RFP 18-18-0025; Field Inspection Services – RFP 18-18-0023; and Commercial Adjusting Services – RFP 15-15-0018. Citizens' Claims Committee approved and recommends the Board of Governors: a) Approve contract amendments to the six contracts listed above, adding a flat fee of $525.00 for time spent preparing for attendance at a civil proceeding; b) Approve the contract amendment to add a flat fee of $525.00 per day to be paid for time spent traveling to and from and testifying at a civil proceeding; and c) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.

- **Security Services, Tallahassee.** Vendor: Allied Universal (f/k/a US Security Associates, Inc.) It is recommended that Citizens Board: (a) Approve the expenditures for Security Services in Tallahassee to Allied Universal for the term of February 1, 2020 through November 30, 2020 for the total amount of $96,400; and (b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- **Employee Benefits Consulting and Brokerage Services** – One-Year Contract Renewal
- Contract Number: 17-16-0018-00 Recommended Vendor: Mercer Health & Benefits, LLC. Staff recommends that Citizens' Board: a) Approve a one year contract renewal from January 1, 2020 through December 31, 2020 with Mercer Health & Benefits, LLC for an amount of $175,000; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- **Human Resource Management Services HRMS Consultant Services –** Amendment to Contracted Rates Contract # 17-16-0017-00 Vendor: Cognizant Technology Solutions U.S. Corporation. Staff recommends that the Citizens Board of Governors: a) Approve an amendment to Contract # 17-16-0017-00 for the addition of consultant positions and rates consistent with this Consent Item; and b) Authorize staff to take appropriate or necessary action consistent with this Consent item.
- **Business Insurance** – January – December 2020 renewal period 17-16-0023-00 ARTHUR J. GALLAGHER - AGENT OF RECORD. It is recommended that Citizens' Board: a) Approve the purchase of the 2020 Corporate Insurance policies (Business Owners, Workers' Compensation, Business Auto, and Financial Institution Bond) as described above for a total premium of $366,963; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Barbara Walker: All of the above are included in the 2020 budget.

Marc Dunbar made the motion for the Board to approve the Consent Agenda items. John Wortman seconded the motion. All were in favor. Motion carried.

<u>New Business</u>

Meeting adjourned.