

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE  
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING  
Tuesday, December 8, 2015**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North on Tuesday, December 8, 2015, at 4:00 p.m. (EDT).

**The following members of the A&U were present.**

John Wortman  
Chris Gardner  
Gary Aubuchon  
Bette Brown  
Jim Henderson  
Fred Strauss - *via telephone*

**The following Citizens staff members were present:**

John Rollins  
Barbara Walker  
Barry Gilway  
Curt Overpeck  
Dan Sumner  
Kelly Booten  
Jennifer Montero  
David Woodruff  
Christine Ashburn  
Jay Adams  
Steve Bitar  
Joe Martins  
Karen Holt

**Call Meeting to Order**

Roll was called.

**1. Approval of Prior Meeting's Minutes (September 29, 2015)**

**A motion was made and seconded to approve the September 29, 2015, A&U meeting minutes. All were in favor. Motion carried.**

## 1. Product Changes – Water Coverage

CHAIRMAN WORTMAN: The second item on the agenda is a product change regarding water damage wording, and we have heard about this for the last several meetings in terms of the impact of water damage on -- on our results, and the impact on premiums for our policyholders. And after a long look at some changes that might help this situation we are coming to the committee with some recommendations today that if approved we will take to the Board tomorrow. To kind of address the background and the changes recommended I will turn it over to John Rollins and Karen Holt for their comments. And I know John has some background material and Karen will give us an update on the changes requested. So John and Karen.

MR. ROLLINS: Yes, thank you, Mr. Chairman. This is John Rollins, Chief Risk Officer for the record. And I have asked at the request of CEO Gilway we discussed this issue and felt it would be good to just kind of rewind the tape a little bit and remind ourselves why we would come to you with a critical review of our policy language and some specific changes regarding clarifying the scope of water coverage. So I want to put up a couple of slides which are adapted from a presentation that I made to the Florida Chamber of Commerce Insurance Summit about a month ago, and in turn, are adapted from and I go back to data presented at the public rate hearing for 2016 rates which was conducted by the Office of Insurance Regulation in August. So if you look at the first graph, and I will go through this very quickly to not bury us too deep in the numerical details, but you may recall the blue bars on this graph took us from 2007 through 2014, in all counties except the three county, tri-county region of Palm Beach, Broward and Miami-Dade regarding the average annual the cost per insured policy or what actuaries call the loss cost per year for water claims, and you will notice that the blue bar is very consistent. Outside south Florida we, at the time of the rate hearing, had not really seen a problem so to speak in water claims trends, either in the claim frequency area or the claims severity area, and of course, frequency and severity together make up that loss cost, which is the kernel of what the consumer pays for insurance. Essentially the actuarial process is to take that loss cost, gross it up for expenses and charge it to the consumer with Citizens. In Citizens case we do not add a profit margin being a non-profit organization. However, the orange bars indicate the history of the last seven years for water case costs in the three county area. You can see that it has historically been much higher in south Florida and that reflects in part the density and demographics of south Florida, the fact that many of the homes are both higher value homes and older homes where there is deterioration over time and a greater risk for sudden and accidental damage covered in the contract, particularly in the area of water where pipe maintenance and aging is an issue. So it is not a large surprise that the orange bars are higher, but what really is alarming is the trend or the slope in the orange bars. And you see in 2013 and 2014, we saw a dramatic acceleration in water damage claim costs per policy per year, but seemingly confined to southeast Florida. So if you look at the next slide you can begin to see the impact unchecked on 2016 rates of simply accepting that trend rather than taking a critical review of the product and the claims process and the communications process regarding water claims as a whole. Had we not anticipated a multi prong strategy to address this problem we would have, using sort of natural actuarial science, and I would remind you, our rates are required to be actuarially sound by law except for the 10 percent annual cap on increases, we would have used a very troubling trend and that is represented by the dotted line here for the tri-county area. We would have fed some so very dramatic cost increases into the rate filing data and had been asking for a very, very high uncapped rate indications. The practical impact of that would have been that almost every customer in the state would be paying, in the tri-county region of the state, excuse me, would be paying 10 percent more right -- maxing out, if you will, paying 10 percent more for their insurance in the following year, whereas you see again, excluding Dade, Broward, Palm Beach, the trend would have been stable. There would not have been a significant increase in loss costs.

Now, the next slide, please. And this is a busy slide, but let me just give you the bottom line. In the tri-county area, and in particular in Miami-Dade County we show a histogram on the right there that shows we moderated the trends. We went to the Office in that public hearing and said we see trends that are troubling, we are going to use some management and actuarial judgment here and frankly anticipate that we are going to do something about this. We are going to deep dive into the causes in the claims area, the product language area and the area of communicating with our customer and getting in front of our customer and we are going to try to solve this problem, and therefore, we are going to moderate the rates that we are going to ask for. Even with that moderation we saw 85 percent of our customers as indicated by the top right histogram paying at least five percent more for insurance in Miami-Dade County than they would have had the water claims trends been stable in that part of the state. And you might ask, well, what if the water claims costs in the tri-county part of the state looked like they do in the rest of the state. So we answered that question, and the bottom right histogram shows that these same customers, 98 percent would have been paying a rate that is too high and would actually come down by five percent or more. So if you think about this as the swing, right, you could have a rate swing of a 10 percent increase charged to a policyholder that were we to sort of fix this problem, get a 10 percent decrease. So when I say a rate swing of up to 20 percent in 2016, for a Miami-Dade customer that is what I am talking about. And to give you an idea of the pocketbook impact, we have an average premium in Miami-Dade of about \$2,800, give or take a few bucks, depending on the product line. \$2,800, a 20 percent swing, the math is very easy, is well over \$500 per year. So we are talking about a pocketbook impact to every customer in the territory or the region both those that have filed claims and those that have never filed a claim. So the next slide, please, shows you that it the other insidious impact of this is that the premium dollar, if you will, is being eaten up by the large increase in multi-peril water claims in that region. So not only are the insurance consumers paying more, but we are building up less capital which becomes surplus in the financial statements and financially it is called surplus, but what I like to think of this money as is prepaid hurricane losses, right. We know we will get hit again. These are reserves for future severe events and they are not building up as fast. The contribution of those reserves is not building up as fast from the tri-county region even though that is the riskiest region in the state for wind, so that is the other insidious impact. And finally, the last slide, please. I will leave this with you, and this is just to remind you that we showed this at the rate hearing and we said we would love for that, the whole State Of Florida on the multi-peril side to be mapped in green, meaning the average consumer in those counties would be receiving a rate decrease. Unfortunately we cannot do that. We have blue which indicates rate hikes in Palm Beach, Broward and Miami-Dade, and once again, this is not wind only policies, it is not due to reinsurance costs, it is not due to capital costs, it is simply due to proper actuarial consideration of the claims experience in those counties. Wouldn't it be great if we could get those three counties, you know, sort of into the same color as the rest of the map. And what I am here to tell you, and I will close with, I will leave that on the screen and I will close with some data that perhaps should exercise us even more. Since that presentation was put together we have looked at the data from 2015, the first three quarters of 2015, which is early days. It is what we would call fast track data, it is on a calendar year basis and ultimately it will make its way into the rate filings we make in June through August of 2016, and that we talk about in a public hearing nine months from now. But really the scariest part of that data for me and the statistic I will leave you with is that in the rest of state, meaning everywhere except the tri-county area, meaning all the areas and only the areas that were mapped in green on that map, we have seen a claim frequency increase per policy per year. This is just the percentage of every 100 policies that file a claim for a non-weather loss shoot from 3.4 percent in 2013, to 4.9 percent in 2014, and here is the really scary number, 9.3 percent in the first three quarters of 2015. That tells us that this problem is spreading to the rest of the state and is becoming much more systematic and less regional. With that as background we want to take you through a big piece of what we think is the proposed solution. Citizens has a multi prong strategy to address this problem, including some changes in claims operations and claims

infrastructure, to set up triage teams, to evaluate litigated claims and ultimately to stand up a voluntary managed contractor repair program. I am going to let the claims committee discuss those things and, of course, Jay Adams, our chief of claims and Barry Gilway are here to talk more about that if you wish. There is also a tremendous communications campaign being launched by Christine Ashburn's area in communications and legislative affairs, the Call Citizens First Campaign. You will hear a lot about that and we heard something about that in the Consumer Services Committee meeting. Our contribution in the Actuarial and Underwriting Committee is to not only set the stage and remind everyone of the data, but to look critically at the product, itself, the product lines, convene a group of product experts, claims experts and legal experts and litigation experts to look at places where the coverage is being triggered on a tenuous basis or perhaps a dubious basis and then is being wedged, if you will, or expanded. The scope of coverage is being expanded to cover things that were never intended to be covered by the contract. So as Karen will itemize for you in just a moment, we are looking to tweak the language and to have the Board support to tweak the language so that we separate the wheat from the chafe with a scaffold, if you will, and do not penalize insureds that need a legitimate limit and a legitimate process to call us and get a legitimate claim resolved while addressing the areas that historically and data mining in the claims area indicates are ripe for abuse. And so with that, with your permission, Mr. Chairman, I am going to turn it over to Karen Holt to walk us through a few specific language changes that we would like this committee's approval for.

MS. HOLT: Hello. For the record, this is Karen Holt. John has pretty much gone through the introduction part of these documents behind tab two. So if you would like, if you don't mind I will just jump into the proposal and run through some of this and then I will take you back to the attachment A where the real detail is and then we will come back and read the actual recommendation. So the proposal outlines three phases from a product perspective. The first is to implement contract changes to address the policy language that is currently being abused, as John referenced, to expand coverage to losses that were not intended to be covered and were not really contemplated in the current rates. Those are the items in attachment A. We will run through those in a minute. Phase two is to evaluate and implement options on the product side to encourage consumer utilization of the voluntary managed repair program at the time of loss, and then phase three will be to evaluate potential product changes to encourage selection of the managed repair program at the time of policy] purchase or renewal and that could include premium credits or deductible forgiveness. That we predict will be a little bit down the line. So if you don't mind, turn back to attachment A and we will go through these and please interrupt me at any time if you have any questions. The first section, we have broken this into four sections. The first is duties after loss, and this really gets to the point that a lot of things are happening on claims before they are ever reported to us. They are attorney represented. Repairs are completed, and it gives us very limited ability to manage the claim effectively. So we propose that we introduce a special coverage amount and the amount to be determined based on discussions with OIR and data that will be revealed as we continue a very detailed claims audit that is underway. So the special coverage amounts, somewhere between \$2,500 and \$5,000 for emergency services and temporary repairs. The coverage will be available immediately to the policyholder and then upon reporting the loss to Citizens, if additional coverage is needed, it can be approved by Citizens to handle larger losses that need more extensive repairs. The second part of this section is addressing timely reporting of losses. As you heard repeatedly, the majority of losses, especially in the tri-county area are coming into us already attorney represented and frequently with the repairs already underway or completed. To address this issue we introduced, we recommend introducing a requirement that losses must be reported within 72 hours of when the insured knew or should have known that the loss occurred. Another change, to exclude coverage for permanent repairs that are completed prior to allowing Citizens to inspect the damage, and then finally, to introduce more industry

standard language that is a little bit stronger, excluding coverage if Citizens is prejudiced by failure of the insured to fulfill the duties after loss. Any questions or comments on that section? Okay.

CHAIRMAN WORTMAN: Questions, anybody, comments? Okay.

MS. HOLT: So the next section addresses another area of abuse within our contracts, and that addresses the matching issue. Florida has a statute governing matching that is very similar to other states that carry statutes, but our implementation interpretation of that statute are very different. And what we are finding is that we in many claims situations we are paying to re-tile entire houses or completely redo kitchens, and that is well beyond the intent of the homeowner's policy.

So we worked pretty diligently to introduce clear or to identify clear and enforceable language to place reasonable limits, but we found that concepts used in other states such as contiguous line of sight, things like that, end up being somewhat ambiguous and are probably going to land in constant litigation. So our recommendation is to modify the policy contract to clearly state that the policy covers only direct physical damage and does not provide coverage for cosmetic or esthetic differences.

To supplement that and to ensure that coverage is available to restore reasonable uniformity in appearance and not leave policyholders with things that look far different than prior to the loss, we also propose introducing a specific coverage limit.

Again, there is a range included here because we are conducting right now a very detailed claims study, a range of five to \$10,000 for matching as an additional coverage. Any questions or comments on that section?

A VOICE: None here.

MS. HOLT: Okay. The next section gets to replacement of entire plumbing systems, and again, this is an area where we are finding that the claims that we are dealing with are going well beyond the intent of the homeowner's policy. So there are several categories here and I will touch on each. The first is access to tear out and replace. Policies do typically provide coverage to provide access to tear out and replace and then put back the areas that are required to get to the cause of the loss. Our policy has older language that was never a problem until recent years that allows tear out and access to replace the entire system. So what we want to do, what we propose doing is modifying the policy language to include a limitation that coverage for tear out and replacement is available only to repair the portion or part of the system that caused the loss and not the entire system. The second section addresses collapse. Collapse is excluded under the policy as written, but there is an exception to the exclusion that is being used to create coverage for the collapse of pipes, underground pipes primarily due to deterioration or condition. This is not -- this is a maintenance issue and not intended to be covered by a homeowner's contract. We recommend expanding the current policy language to exclude collapse of underground pipes due to deterioration resulting from age or condition. The next item is kind of a unique scenario, but it is coming up more and more often. It is water backup claims where there is not actual physical damage, and begin, we find that we are being forced to replace entire plumbing systems in houses when a backup has occurred and there is no actual physical damage. So we recommend modifying the contract to address this. If the system is repairable by clearing the blockage, coverage will only be provided for the access required to complete the repair rather than to tear out and replace the entire system. And then the last item follows dealing with condition preventing repair. When the pipes are deteriorated to such a point that it is not possible to repair only the portion causing the loss, we recommend clarifying contract language to the original policy intent to address only the cause of loss and not the need to replace the entire system because of its age or condition. The maintenance issue requiring the rest of the system replacement should be the responsibility of the policyholder. There are additional contract changes

outlined. The first is putting some limits on mold testing so that mold testing is covered only when authorized or ordered by Citizens. The next item is to introduce an exclusion for the cost of water as a utility under personal property, except for the cost to refill swimming pools after a hurricane. Increased utility bills as a result of water leaks are being used to trigger coverage, and again, we are replacing entire plumbing systems. The next is a simple change to support the matching change and other changes. We want to eliminate the existing \$10,000 flooring sub limit that was introduced to address dropped object claims. That is no longer needed and with the introduction of the matching sub limit could introduce confusion, so we want to eliminate that. And the last is to shore up the our option portion of our policy language to more current ISO and industry language to clarify that Citizens has the sole discretion in determining whether to repair or replace damaged property and that Citizens may handle repairs in lieu of payment. This does not incorporate a change to procedure. It is a change to language that allows us to move closer to the industry. Those are all of the changes that we recommend. Any questions or comments?

CHAIRMAN WORTMAN: Questions, comments? You know, it kind of just seems to me that we recognize this is a problem and what we have done is looked at the causes and then we have looked at options and now we are making some recommendations and this is part of the recommendations that deal with policy wording, and it seems to me that the intent is to update and clarify what the policy was intended to cover anyway.

MS. HOLT: Absolutely.

CHAIRMAN WORTMAN: And things like this need to happen over time just because things change.

MS. HOLT: That is right, and, you know, it is worth not again, I think John mentioned it, the goal was to, you know, we used the term, take a scaffold to the contract rather than a broad stroke and try to address the abuse while still leaving the coverage that is intended and is needed for catastrophic water losses. So with your approval I will go ahead and read the recommendation.

CHAIRMAN WORTMAN: Is there, I would seek a motion for approval unless, does anybody want to hear a brief overview from Jay on the claim changes.

GOVERNOR BROWN: I would like to ask a question, Chairman Wortman.

CHAIRMAN WORTMAN: Sure.

GOVERNOR BROWN: In the phasing of the proposal, are you going to discuss that at all at this point?

MS. HOLT: The product phasing or --

GOVERNOR BROWN: Yes.

MS. HOLT: We can if you would like to, absolutely.

GOVERNOR BROWN: I was just curious because I think your plan is good. I think that there is some education of agents needed.

I am so sorry that the time frame, I looked at the time frame and it seems to me there must be something we can do for some sort of an emergency.

MS. HOLT: Action between now, you are talking about a year's time?

GOVERNOR BROWN: Yes, and it is very true with a timeline to roll things out for policy. It is amazing to me how long that takes. I don't know, I understand what is required, I read the timeline, I understand how you have had to phase it in, but it seems to me there ought to be some mitigation or mitigating circumstances, whereby we could have temporary fixes prior to and I would like to talk about that.

MS. HOLT: Yes, and we do have some plans for that. John can speak to them.

GOVERNOR BROWN: Okay.

MR. ROLLINS: Well, one thing I would try to add some color to that question, Governor Brown, is we are absolutely on the same page with you. As you know, the nature of insurance is that even if we got approval to make these changes from the Office tomorrow, they would roll in at renewal over time. So in insurance you are always a year behind the curve, right, in terms of rolling things into the book. So put that aside for a minute. What we can control or ask for some assistance on is the timeline between coming up with the recommendations that as you said, Chairman Wortman, address the root causes. We can't address the legal system. We can't change the legal system. What we can do is modernize our policy to reflect the realities of the Florida legal system and how they have interpreted coverage language in the past, how quickly can we do that, Governor Brown, to your question. We are at the stage now where we think we know what will work and it is being supported by data mining, you know, in the claims files and we have got all of the subject matter experts kind of on the same page. Typically the timeline would be, the first step is obviously getting Board support. So we are coming to this committee. We are coming to the Board tomorrow. When we have the Board support we will -- obviously, the Office will hear that support. We will file the changes. We have met with the Office on a preliminary basis to walk them through some of the background here, and, you know, to be frank with you, we have met with each of you individually. We have also raised the general idea of coverage changes with other stakeholders in the system. So, you know, we are surfacing this at the fastest pace we can. The statutory and regulatory timeline is such that they will take a critical look and quite frankly, their reaction has been a little bit across the spectrum and it depends on the nature of the change. Some of the things we have looked at they have said we like the idea, we are concerned about the dollar amount. Other things we have said -- they have said we are not sure we like the idea, you know, we we have got to get this into a posture that doesn't come across as a limitation to a consumer's right to comprehensive coverage under the Florida statute, notwithstanding that this Board absolutely does have the statutory authority in our plan, authority in our plan of operation to offer a more restrictive policy, but again, the Office is very concerned with that balance. So we would file immediately or nearly immediately, I don't want to put too much pressure on you, Karen.

MS. HOLT: Not immediately.

MR. ROLLINS: But we would, and typically there would be a 45 to 90-day time frame, depending on the product line for the Office to discuss that with us and review it. This is obviously driven by, you know, their philosophy and basic agreement with us on where to land on each of these things as much as it is just the timeline and the work flow. So we would try to get an expedited resolution so that we could

achieve the roll out in the timeline that Karen is talking about here in terms of getting these things into the system, into production in the spring of 2016, rather than further on down the line. And that also brings up one more question, if I could. I have been, I opened with rate data and actuarial data. So the natural question after that is can you do that sort of in an interim mode between rate filings and that is a question we would also have to resolve with the Office, because I think in general you see a package of product changes along with a package of rate changes that is on an annual cycle and that is a tremendous effort. But we think we can attack these product changes on an interim basis according to the timeline that Karen has laid out, but we would need the Office to agree with us so that would not need to wait for the annual rate filing.

MS. HOLT: And I would add as part of what your question was, as John referenced in the beginning part of this document, there are other efforts underway. You know, one of the biggest efforts is the Call Citizens First. Where we are really working diligently to get in front of the agents and the policyholders to get the word out that, you know, if you call Citizens first you should get better service on your claim and it allows us to help.

GOVERNOR BROWN: Well, they should be accountable as well. I think that is really important and I know we have talked about how we could communicate that to them and how we could incent them maybe to become more accountable.

MR. ROLLINS: What is clear from the state is time is of the essence.

MS. HOLT: Yes.

MR. ROLLINS: We are behind the curve actuarially, that is a fact, and what is really scary is, you know, we are behind the curve and we are behind the curve, we are rapidly getting behind the curve in the whole state, not just in Palm Beach, Broward and Miami-Dade, given these initial frequency numbers. So we understand the urgency. Thank you.

CHAIRMAN WORTMAN: John, you mentioned about the spread of this interpretation to other I guess counties within the state. Does that spill over from looking at, I will use the word more liberal interpretation, certain provisions of the policy and what do other courts begin to pick up on that and use that same interpretation?

MR. ROLLINS: I am outside my expertise to answer the question from the point of view of what regionally which courts are becoming sort of the interpreters or the guiding interpreters of these issues. So we have case law that has expanded, for example, the interpretation of matching has upheld the fact that a sewer pipe collapse in your front yard equals collapse coverage under the policy and so on. Where those courts stand around the state, I am not terribly familiar with. What I can tell you is the claims are being filed and generated and litigated around the state at a greater rate than they historically have. We have talked about a litigation problem for some time in and CEO Gilway has some statistics on that as well, but I think the new news here relative to say the September meeting is we are seeing super regional. We are seeing this sort of spread around the state both in terms of the claims filing rate and in terms of the rate at which we are testing the waters in the legal system through litigation. And in terms of the claims generation process there are some anecdotal evidence and there is a lot -- the industry, the private industry has a lot of evidence right now that the claims solicitation process is spreading throughout the state. So you will hear from a private industry company about roofers going door to door in Jacksonville or Tallahassee and Orlando. Now, this isn't water so it manifests itself at Citizens primarily in terms of attacking and exploiting our water policy language, but in other areas of the state the private industry is

raising their hand and saying, we have got roofers going door to door saying I can get you a free roof, let me walk= around on your roof with marbles on my shoes, lift a few shingles and we will get you what you need. And so you have got some explanation and some outright fraud being reported and some of that is reported to the Division of Insurance Fraud and DFS in the private industry and that is metastasizing around the state as well. We are attacking what is driving our rates which primarily is water, and that water problem, if you will, is spreading around the state for us.

CHAIRMAN WORTMAN: Thank you. Any other questions?

A VOICE: I do have one, Mr. Chairman. Just a clarification, on the last bullet point our policy or our option policy language where it says it is a clarification that Citizens has the sole discretion in determining whether to repair or replace damaged property and that Citizens may handle repairs in lieu of payment. What is the distinction between that and a mandatory managed repair program?

MR. ROLLINS: That is a great question, and we did somewhat anticipate it. So I asked Jay to be here and pay attention and come up when that question was asked, because I am not equipped to explain the distinctions.

MR. ADAMS: And thank you, for the record this is Jay Adams. I knew Gary would be the one that would call this out, so we appreciate that. So what I would like to do is read you something that we have prepared here because I want to make sure that we cover our options. It is a little bit complex to understand and I want to make sure that I explain it as well as I can and then I will obviously take any questions. But claims is partnering closely with product to develop a multipronged approach to more effectively address non weather water claims. A claims quality assurance team has identified opportunities to improve our current policy language which the product team is addressing. Improving the policy language around these opportunities to improve will help us to enhance claims handling, help reduce the opportunity for fraud and abuse and help to provide stronger defenses when policy provisions are challenged in litigation. And really what has been happening is our policies are being expanded supposed to the gaps, right, and these are gaps in interpretation. And Governor Henderson, to answer your question, what we are seeing on the claims front is, you are seeing the fraud and abuse schemes migrate outside of the tri-county area. That is what seems to be driving it to us. We have not had any significant court cases or hearings or anything that has created adverse claims handling in those areas. What I really believe it is, is a lack of hurricane or catastrophe activity. These fraud and abuse schemes are set up ready to react to the next wind event and what they are doing is they are just mining and migrating northward to just create a new claims base in population. We have uncovered several fraud rings on the western coast of Florida which is brand new. We have not seen that in the past. So some of the drivers. As an operational enhancement our claims litigation team developed a triage team mid-year in 2014. This team reviews all new suits. This review allows the claims team to identify additional data points and trends that are not available solely by using the claims management system. These data points have helped to identify areas that need additional focus with non-weather water claims being the prime example. Applying the information gained from additional data, claims has implemented a dedicated team of adjusters that handle all the non-weather water losses. We provided and continue to provide training specific to this cause of loss to the team and have built strategies around many of the issues that we are facing, and many of those are the product language changes that Karen has mentioned previously. The dedicated focus is driving consistency in the claims handling resulting in identifying potential fraud and abuse more effectively and making appropriate referrals to our special investigative teams. The dedicated water teams help us identify the need for many of the product changes that Karen and John have brought forward today. A Board member raised a question at the September Board meeting regarding Citizens

policy Section I, conditions, Section I, error option, and we have commonly refer to that as our right to repair. This provision allows Citizens at our option to repair or replace any part of an item that is not damaged covered A property. I would like to point out exactly what this right to repair policy means. The policy begins with at the time of loss we give you or mail you written proof within 30 days after we receive your signed sworn proof of loss. That is a condition that we must meet in order to go down the path of doing the right to repair. The key is the policy provision begins with Citizens' receipt of a signed sworn proof of loss. Under Section I, conditions, the insured has 60 days after we request that in writing to submit a signed sworn proof of loss. So the clock starts ticking when we send the notice and then the insured has up to 60 days. The policy then proceeds to state, we may at our option repair any part of the item or the damaged property of like kind and quality. The fact is our policy does not give us] the right to repair. It does give us the right to repair. However, the current policy language regarding sworn proof of loss interjects at least 60 days into the process before the right to repair can be exercised. This is not practical for water losses given the need for immediate attention. Moreover, the practicality of exercising the right to repair provision is that with 24 percent of our non-weather loss claims having representation when submitted for their first notice of loss, the policy time frame for reporting is much too late. So most of those claims that we get for these already have representation, the repairs have already started and we are getting a claim that is somewhere mid stride. So our ability to do the right to repair is typically gone before we have the right to even elect that option. We believe that our current right to repair policy language is clearly not an ideal fit for addressing non weather water loss claims. Policy language that is more custom tailored to right to repair water losses is the most desirable long term solution. In the meantime we believe an important transitional step would be to implement a contracted manage repair program. Citizens is currently in the final stages of a solicitation where we will intend to procure an administrator for contracted manage repair. The program will provide statewide coverage to credentialed vendors that will be able to respond to emergency services such as water mitigation, tarping of roofs and openings and tree removal, in addition to completing all of the agreed upon covered damages to return the insured to their pre loss condition. This program will provide the insured with a warranty and the administrator will be responsible for any warranty work. Citizens intends to launch this program in the first quarter of 2016, as a voluntary program that will be offered on eligible claims during the first notice of loss and can be covered by the adjuster when the insured requests recommendations for contractors to complete repairs. We would like to of have the program as voluntary throughout 2016 to work out any issues with work flows or with the administrator to make sure that we have a solid program that we can deliver to the insured to provide the highest level of customer service. We do believe that the voluntary manage repair program will be attractive to many policyholders based on feedback that we have received from our sinkhole manage repair program. However, we face the likelihood of third parties discouraging participation as long as the program is voluntary. With that said Citizens would like to explore opportunities to make this program mandatory in 2017.

A VOICE: Jay, I guess to Governor Brown's comment regarding kind of plugging the doc. It seemed like the claims protocol of dealing with these claims and the environment that we can bring equity to the policyholder and yet equity to us, the carrier there, that your ideas there of trying to control that because if it – if it is getting out of hand in terms of unreasonable expectation about upgrading and changing and providing that which was not there, is there a way that we can have those claims within the process you are describing there to control them until the language in the policy has been modified to reflect our intent?

MR. ADAMS: So as we adjust claims, we adjust them to what we believe the intent of the policy is.

A VOICE: Yes.

MR. ADAMS: These changes that Karen is bringing forward are clarifications to those intent to help the wording.

A VOICE: Yes.

MR. ADAMS: So what happens today is we get challenged in appraisal and then we get challenged in litigation, and then the courts determine what the intent is when it is not clear. So we do adjust the claims as to the intent that we believe the policy holds. We are not always able to defend that based on the current policy language.

A VOICE: I presume that you are invariably placed in court to resolve that issue because the plaintiff or the policyholder is not accepting your interpretation obviously.

MR. ADAMS: Correct, correct. Most of these claims, as Barry and others have mentioned many times, come in represented for these non-weather water claims. Those claims that are coming in represented typically end up in litigation, regardless of how that claim is handled on the front end.

A VOICE: Yes. And no idea of mediation would really, would stem that or help control that process?

MR. ADAMS: So our best belief, the reason they end up in litigation is there is a plaintiff fee statute that applies when they get over to litigation. This allows the plaintiffs to be reimbursed for their fees. Prior to suit there is no statute or no provision to make payment to those. So when they come in set up for suit they typically go to suit and then we end up either in some type of settlement agreement or in a trial.

MR. ROLLINS: We did spend, and to add one bid of color, if I recall the September meeting we did spend a significant amount of time with you on the issue of appraisal language. So we have modernized and optimized our appraisal language to encourage alternative dispute resolution and we think we have it in a good posture right now, but right back to what Jay said, with 627.428, otherwise known as the one way attorney's fee statute, there is a tremendous incentive to go after that honey pot by suing Citizens and then obtaining that first dollar of judgment in excess of how we adjusted the claim, because once you do that you trigger an unlimited amount of attorney's fees going to the plaintiff's attorney.

CHAIRMAN WORTMAN: Thank you.

GOVERNOR GILWAY: Excuse me, Barry Gilway for the record. The only thing I would like to add is we have had serious discussions as to whether we can incorporate, you know, an interpretation of the current policy language and be far more restrictive in our interpretation. The issue at this point, of course, is that when we do that it is driving litigation. So, you know, I mentioned the numbers, you know, many times, you know, we are currently experiencing 800 plus new litigated cases per month. So a much more stringent interpretation of our policy language, fighting more cases, in other words, is just simply driving, you know, more and more litigation in the front door. You know, we have gone from a 6,300 litigated cases two years ago to 600 last year, to, excuse me, the year before, to 8,600, 8,400. It looks this year like we are going to be average, you know, close to 1,000 litigated cases per month coming in the front door. So you can't staff fast enough to handle the number of cases that are coming in

the front door at this point. So the reason I am so committed to this policy language changes is this is the only way that I can see to get in front of the attorney and the public adjuster, and that is really you create an enforceable, enforceable policy language that requires the insured to, you know, gives them flexibility to make temporary changes or repairs, you know, within reasonable parameters, and then it enforces the fact that they have to come with Citizens before they make permanent repairs. So we can, you know, you can -- Jay's interpretation I believe of right to repair is right on. Right to repair language as it is written today really does us no good because it doesn't accelerate the claims management process. In fact, it might elongate the claims management process. This policy language I think is extremely well written and it gets us in front of the attorney and it gets us in front of the public adjuster and it requires and it is enforceable. I believe it is enforceable. So I think step number one in my opinion is to do this to your point, Governor Aubuchon, no one has successfully launched a mandatory manage repair program in the state. OIR has not approved the mandatory program. There are three or four voluntary manage repair programs where you can elect voluntary manage repair for a discount, five percent, 10 percent, but mandatory manage repair has never been tried, you know, in Florida. It has never been supported by OIR in the past. I am not aware by the way of anyone who has actually filed for a mandatory, you know, program. So in my opinion this is the absolute first step so that we get enforceable language in the policy and then we can base the contract to repair program, you know, on that language and have that contractor repair program respond to that language. So I believe the way they have got it laid out I think is it has taken a lot of forethought and I think it is very well designed at this point.

MR. ROLLINS: And if I could just add one more bit of color. None of this is mutually exclusive with a larger issue you have all been hearing about, which is the issue of assignment of benefits and assignment of benefits reforms. There is a lot of legislative discussion and industry coalition has had -- has made a push for a more comprehensive legislative solution which would clarify what the extent of the ability to assign post loss benefits under the policy. To be clear, we think assignment of benefits is a tool in the tool kit which is being used as an accelerant, as an incentive for vendors, remediators to get -- to solicit the insured and get in front of the claim before we can, and then get an attorney involved who is primarily interested in triggering that attorney's fee statute.

These reforms put us in the proper posture to adjust the claim, to tell the policyholder to call Citizens first and get that communication out there, and then also to execute on our voluntary manage repair program. Assignment of benefits reform addresses an issue where the courts have said under current law we cannot stop, no one in the insurance industry can stop the ability of the insured to assign unlimited on a pretty much unlimited basis their post loss benefits. So assignment ever benefits reform is a necessary condition for solving this problem, but it is not a sufficient condition. The sufficient condition as Barry Gilway says, is to take the first step and get our language in the right position so that the contractor repair program will work and the education campaign will work to enforceably get us in front of the policyholder in advance of those who leverage assignment of benefits or any other technique.

CHAIRMAN WORTMAN: Any other questions, comments? Could we get a motion?

A VOICE: So moved.

GOVERNOR BROWN: Second.

CHAIRMAN WORTMAN: We have a motion to support staff's recommendation and a second. Further discussion? Hearing none, we will call the question. All in favor of supporting staff's recommendation on the wording for the water damage situation, please say aye.

(Chorus of ayes.)

CHAIRMAN WORTMAN: Opposed? Motion carries. Thank you. Thank you, John, Karen, Jay.

**A motion was made and seconded to approve the Staff's Recommendation for Product Change for Water Coverage and to present to the Board of Governors on Wednesday, December 9, 2015.**

## **2. Product Changes – FHCF Reporting Enhancements**

MS. HOLT: Great, thank you. Moving on to tab three.

CHAIRMAN WORTMAN: Yes, we will go to item three, which is reporting to the Florida Hurricane CAT Fund.

MS. HOLT: This one will be a little bit quicker. And just for clarity, this is looking for approval to file an application change. There is no change to premium or rate. It is a very minor change, but we are required to have Board approval to file any form changes. So as you may be aware, Citizens picks up a good bit of its reinsurance coverage from the Florida Hurricane Catastrophe Fund. As part of this coverage we are required by statute to identify and report eligible residential buildings in our commercial programs. Our personal lines reporting is very clear. Commercial, because we have residential and non-residential, we do have to report the residential portion and then we pay reimbursement premium for which we obtain available reinsurance coverage. As we have moved forward over time our commercial occupancy information has strayed a bit due to statutory intervention and just changes in the market from the CAT fund, the FHCF's interpretation of residential standards. So we currently collect commercial occupancy information at the building level in a single eligibility, eligibility occupancy reporting table that is used to determine rating and eligibility. We believe that it would be more clearly and more effective in our reporting to separate and introduce a new table to capture the Florida Hurricane Catastrophe Fund reporting elements so that we -- they are not overlapping. We have been trying to extrapolate the answers and it is a little bit difficult. So we recommend that we clarify the current eligibility occupancy table definitions to effectively distinguish Citizens' rating and program eligibility data from that used for FHCF reporting and create a separate FHCF reporting table to capture the detailed information to be used solely for that purpose. The new table will be required for all commercial residential risks and non-residential mixed occupancy buildings currently identified as containing any residential occupancy. Any questions on that?

CHAIRMAN WORTMAN: Do you want to clarify your recommendation and we will go from there?

MS. HOLT: I can do that. So the proposal is in order to better support the insurer reporting requirements of -- I can't talk today, of FHCF, Citizens recommends the described enhancements to the data collection structure. Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board approve the above proposal to implement enhanced data collection for commercial risks and authorize staff to take appropriate action to support this recommendation, including filing with the Office of Insurance Regulation and system change implementation.

A VOICE: So moved.

A VOICE: Second.

CHAIRMAN WORTMAN: We have a motion and a second to support staff's recommendation. Discussion? It seems reasonable to me. All in favor signify by saying aye.

(Chorus of ayes.)

CHAIRMAN WORTMAN: Opposed? Motion carries. Thank you, Karen.

MS. HOLT: Thank you.

**A motion was made and seconded to approve the Staff's Recommendation for Product Change for FHCF Reporting Enhancements and to present to the Board of Governors on Wednesday, December 9, 2015.**

### **3. Actuarial Consulting Services**

CHAIRMAN WORTMAN: The final item on the agenda deals with the actuarial consultant and I will turn it over to John.

MR. ROLLINS: Thank you, Mr. Chairman, if it is your pleasure I will take item -- this is tab four in your book. This is a solicitation for continuation of service in actuarial consulting services. Simply put, Citizens requires access to an external actuarial consulting firm. Now, you have heard me brag on our actuaries, I think we have some of the best actuaries in the business and they handle all of the day-to-day actuarial work within Citizens. However, there are certain cases where we need an external resource to generate both capacity to handle unusual actuarial demands that are not currently resourced, but more importantly, to perform certain required independent reviews, such as the peer review of annual loss reserves required by our independent auditing firm according to accepted auditing standards for government entities. So for the past five years we have had a contract with Insurance Services Office Consulting to provide these services to Citizens and the current contract expires in the first quarter of 2016. We addressed this with an ITN, 15-0024, in August. Seven firms responded, six firms qualified as responsive and the evaluation team selected three firms to move to negotiations, and based on these negotiations staff has determined best value is to select Insurance Services Office as the external actuarial firm once again for a recommended contract for three years with an optional two-year renewal term and your action item will show a maximum expenditure over the five-year potential term of \$550,000. The recommendation is that the Actuarial and Underwriting Committee approve and recommend that the Board approve the award of the actuarial consulting services to Insurance Services Office and authorize staff to take appropriate necessary action consistent with the action item.

CHAIRMAN WORTMAN: Discussion?

A VOICE: Move to approve.

A VOICE: Second.

CHAIRMAN WORTMAN: Further discussion? Hearing none we will call the question. All in favor of staff's recommendation signify by saying aye.

(Chorus of ayes.)

CHAIRMAN WORTMAN: Opposed? Motion carries.

**A motion was made and seconded to approve the Staff's Recommendation for Actuarial Consulting Services and to present to the Board of Governors on Wednesday, December 9, 2015.**

MR. ROLLINS: Thank you, Mr. Chairman, we appreciate it and have no further items for your consideration.

CHAIRMAN WORTMAN: The next item on the agenda, is there any new business to come before the committee? Is there any new business? Hearing none I would just like to thank staff. I think the water damage issue is a complex issue. It is not an easy fix and you have spent a lot of time on it, that is pretty obvious and the coordination between the functions vary within your organization is apparent and needs to happen, so good luck. Good luck with the OIR, too.

MR. ROLLINS: Thank you for your support and clarity in this committee.

CHAIRMAN WORTMAN: Any other item to come before the committee? Hearing none I would entertain a motion to adjourn.

A VOICE: So moved.

A VOICE: Second.

CHAIRMAN WORTMAN: All in favor.

(Chorus of ayes.)

CHAIRMAN WORTMAN: Meeting adjourned, thank you, committee.

(Whereupon, the meeting was concluded.)