

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE  
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING  
Tuesday, March 15, 2016**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North on Tuesday, March 15, 2016, at 2:30 p.m. (EDT).

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

Jim Henderson  
Chris Gardner  
Gary Aubuchon  
Bette Brown  
Fred Strauss

**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 (December 8, 2015)**

**A motion was made and seconded to approve the December 8, 2015, A&U meeting minutes. All were in favor. Motion carried.**

## **2. Action Item – Product Changes - Lender Placed Coverage (Personal Lines)**

CHAIRMAN HENDERSON: The Minutes are passed, thank you very much. Approved. The second item, Mr. Popko.

MR. POPKO: Thank you, Chairman Henderson and committee members. I have an action item to present. It is pretty straightforward, it shouldn't take too long here. Currently Citizens' underwriting rules do not recognize lender placed coverage which is also known as forced place coverage. We do not recognize those as a valid form of prior insurance. Furthermore, per our underwriting rules applicants without valid proof of prior insurance in effect within 45 days of the Citizens' policy inception date are subject to a 30-day wait before coverage becomes effective, and we apply a 10 percent premium surcharge for the first term of the policy. After taking a closer look at this specific segment of applicants who have had lender placed coverage and who otherwise are eligible for coverage with Citizens, we feel with proper underwriting that the 30-day waiting period represents an unneeded hurdle to preventing them from securing coverage with Citizens. Therefore, the staff proposes that underwriting rules be modified to allow lender placed policies to be accepted as a form of valid prior insurance. All accepted as valid prior insurance we will require that these applications be accompanied by a current four point inspection, which will confirm the electrical, the heating, the plumbing and the roof are all in good condition and the risk is otherwise eligible for coverage with Citizens. Are there any questions?

CHAIRMAN HENDERSON: Any comments by the Board members?

MR. POPKO: If I could read the recommendation.

CHAIRMAN HENDERSON: Please.

MR. POPKO: Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board approve the above proposal to modify the underwriting rules to allow lender placed policies to be accepted as a form of valid prior insurance, an upon approval appropriate underwriting rule changes will be filed with the Office of Insurance Regulation and system changes will be implemented to support these changes. CHAIRMAN HENDERSON: The recommendation is a motion before the committee. Do I hear a motion for approval?

GOVERNOR GARDNER: I move to approve.

GOVERNOR AUBUCHON: Second.

GOVERNOR BROWN: I so move, Bette Brown.

CHAIRMAN HENDERSON: And second, all those in favor, aye?

(Chorus of ayes.)

CHAIRMAN HENDERSON: Likewise against, having passed. Thank you very much.

MR. POPKO: You are welcome.

CHAIRMAN HENDERSON: The place to see the change in the recommendation, yet recognizing that coming out of a lender placed program, you know, that is coverage on behalf of the lender, not on behalf of the individual. And so I think the inspection that you are talking about is a really good move and a good

recommendation. Thank you. The next item, Karen Holt.

**A motion was made and seconded to approve the Staff's Recommendation for Action Item for Product Changes - Lender Placed Coverage (Personal Lines) and to present to the Board of Governors on Wednesday, March 16, 2015.**

**3. Action Item – Product Changes – Increased Cost of Construction (Commercial Lines)**

MS. HOLT: Good afternoon. So behind tab three is the first item that I will present and it is product change for increased cost of construction for commercial lines. As background, Citizens previously provided this industry standard additional coverage for increased cost of construction in its commercial residential and non-residential multi-peril programs, but removed it as part of the January 2013 filings to reduce exposure. The coverage is intended to assist with the additional costs of making required updates due to ordinance and law changes. In the event of a loss policyholders could be required to make various updates to buildings that are not currently covered by Citizens' commercial multi-peril policies. Just as a side note, this coverage is very similar to the ordinance and law coverage that is provided in personal lines and is standard policy coverage. Our proposal in consideration of the potential financial impact to condominium associations, small business owners and consumers in the event of a loss, staff recommends restoring this coverage to address additional costs that may be necessary to repair, rebuild or replace damaged property. Are there any questions?

CHAIRMAN HENDERSON: So there being none I guess the recommendation.

MS. HOLT: Yes, I will read the recommendation. Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board approve the proposal to adopt policy changes to reinstate increased cost of construction coverage for Citizens' commercial multi-peril policies and authorize staff to take any appropriate or necessary action consistent with this action item, including filing with the Office of Insurance Regulation, system change implementations and other supporting activities.

CHAIRMAN HENDERSON: I would ask for a motion.

GOVERNOR GARDNER: Move to approve.

GOVERNOR AUBUCHON: Second.

GOVERNOR BROWN: I will second.

CHAIRMAN HENDERSON: Moved and approved, all in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Likewise against?

GOVERNOR BROWN: Aye.

CHAIRMAN HENDERSON: Having approved. I guess maybe comments and then certainly open the floor up for any comment held by the committee. In terms of moving to comparable coverages by industry this appears to be a good move. Is there an interior limit on this coverage that be being offered?

MS. HOLT: Yes, the limit is \$10,000 per building.

CHAIRMAN HENDERSON: Okay. Very good. Thank you, any other comments?

A VOICE: No.

CHAIRMAN HENDERSON: Being none, thank you for your presentation. Good work on it.

**A motion was made and seconded to approve the Staff's Recommendation for Action Item for Product Changes – Increased Cost of Construction (Commercial Lines) and to present to the Board of Governors on Wednesday, March 16, 2015.**

#### **4. Action Item – Product Changes – Water Product Changes Update and Proposal (Personal Lines)**

MS. HOLT: Okay, so moving on behind tab four, this is addressing product changes for water product changes. It is an update and a proposal and this does address personal lines. So first as background, at the December 2015, Actuarial and Underwriting Committee and the Board of Governors meeting, Citizens' staff presented an update on the dramatic increase in both frequency and average cost of water damage claims since late 2013, along with the summary of actions planned to address the issue. Recent actuarial analysis indicates that trends are continuing to worsen. So the following table that you will find on the first page provides a brief update on the multi-pronged response plan that we presented in December. So very briefly, the first item was comprehensive participation in industry wide data calls for regulatory and legislative analysis. Citizens has responded to a data call issued by the Office of Insurance Regulation and conducted detailed analysis of a sample of claim files and issued a white paper based on those results. The next item we have developed a voluntary manage repair program for water claims. That is being led by the Claims Committee and at this upcoming Board meeting there will be an action item presented for proposal of a vendor selection. The next item is implementation of a claims water loss triage team with litigation and non-litigation staff expertise applied appropriately. That restructuring has been completed. The next item is consumer education to Call Citizens First and communications showing the impact on rates of claims with representation at first notice. This is led by the Consumer Services Committee and the program has been eliminated.

A VOICE: Implemented.

MS. HOLT: Implemented, not eliminated, not yet, right. We think it is a good program. Brochures are being included with policy documents and ID cards have been rolled out along with magnets to help encourage policyholders to call Citizens. The last item is product and policy language changes to optimize the balance between responding to legitimate water damage claims and limiting abusive or fraudulent claims that drive up rates for many customers. So if you turn the page, phase one was approved at the prior Board meeting and that was to implement contract changes to address policy language that is currently being abused. Policy language changes were proposed and approved at the Board and prior to filing staff met with the Office of Insurance Regulation and discussed the proposed changes. Based on the feedback provided by the Office the following proposed changes were not included in those filings. The first was limitations on coverage for matching of undamaged items and the corresponding removal on the policy, of the policy sub limit for flooring. The next item that was not included was the requirement that mold inspections must be approved by Citizens and there the last item, the change to our option language to clarify that Citizens may complete repairs in lieu of payment. This change will be incorporated into managed repair endorsements at a later date. The following items were filed with amendments based on feedback from the Office. The first was a requirement to report losses within 72 hours. This was amended to include an exception for extenuating circumstances and a requirement that if the claim is reported to any third party claims expert the loss must be reported to Citizens immediately. The next item, temporary repairs and emergency measures additional coverage was filed with a proposed limit of

\$3,000 with additional coverage available with prior approval by Citizens. All other changes were filed as approved by the Board. Staff is currently working closely with the Office to address concerns that policyholders remain adequately protected. Some language may be further amended to ensure appropriate policy safeguards. So phase two, as you will find on page 3 was to evaluate and implement options to encourage consumer utilization of the voluntary manage repair program at the time of loss. Implementation planning is underway and initial encouragement will be via policyholder mailers, agent communication and claims adjuster communication at the time of loss. Phase three was proposed to be discussed at a later date and we are here to discuss that, was to evaluate potential product changes to encourage selection of the manage repair program at the time of policy purchase or renewal. Premium credits and deductible forgiveness are examples of potential incentives at the time of purchase policyholders have the option to obtain the benefits by agreeing to use the manage repair network for losses that occur during the policy term. I have got a few notes here, I am trying to catch on. Before moving go on, I want to point out at the bottom of the page it references a table on page 4 that does provide a summary of the advantages and disadvantage of three approached that were considered. The deductible waive option is included in that table but it was eliminated due to concerns about the limited effectiveness. Now, as mentioned previously, we are working very closely with the Office of Insurance Regulation to arrive at a good balance on the policy changes we have proposed. We still believe that the changes that we proposed and filed strike a good balance between closing the gaps in the policy that are being abused and still providing appropriate coverage. So I will move on, and I am going to read two recommended options and then I am going to turn it over to John and potentially Barry for some additional information. So the first recommended product option is our preferred option, and assuming that staff and the Office are able to reach agreement on the current round of policy changes, staff recommends that Citizens offer a premium credit to policyholders who select the manage repair policy endorsement. And then additionally, because we cannot lose any time due to the increasing severity of this -- of the water loss issue, we are also going to ask for authorization to pursue an alternative proposal. If agreement is not reach staffed recommends a stronger incentive to encourage selection of the manage repair policy endorsement. This recommendation includes a coverage change to introduce a \$10,000 policy sub limit for water losses. The insured will be given the option to maintain existing coverage levels with no sub limit by selecting the manage repair policy endorsement. John.

MR. ROLLINS: So members, you have heard a summary of where we are from Karen, and if I could just help state the state of play for you and then I would like to bring up President Gilway to offer a few additional comments linking our situation in the product filings to our broader financial situation and potentially the private insurance industry's broader financial situation here in Florida and there are good reasons for that. A couple of timing issues bring are the reason why we are bringing you a somewhat unusual recommendation for a preferred option and an alternative. One is the Office has our filings that you authorized in December with some modifications as Karen said. We polished the edges, we met personally with the senior leadership at the Office in January, and decided to file most of what we originally asked you to authorize, but not all of it. Modifications were made to strip out a couple of items like matching cabinets and tile, limitations on matching, because we felt there was no -- no easy way to get to a place that was both consumer friendly and would also sufficiently discourage abuse while protecting legitimate claims. Other areas such as the three key elements which are the requirement to notify Citizens before a claim, before a claim is reported, and within 72 hours, the temporary and emergency services limit without pre-authorization from Citizens of \$3,000, and the tear out and replace language that limits the ability of a vendor to re-pipe the entire house based upon a break or a collapse in one small part of the system. Those things were filed with the appropriate language, linguistic modifications that the Office suggested to us. The issue is the Office is on those filings right now, they are working very hard and we are working very closely with them, but we ultimately do not know what the resolution will be. There has been a lot of back and forth trying to strike that balance and they have until I believe March 26th, to make their decision. Frankly, as regards to the financial situation of water losses, we don't have another three months to lose in terms of bringing this Board an additional option or an alternative option in June. We would like to ask you to authorize our preferred approach which is to use a carrot and only a carrot to incent policyholders to sign

up for the manage repair program through a premium credit that they will see immediately. They would be locked into the manage repair program if and when they have a loss, but they would get a premium credit that is actuarially appropriate for that. If we feel that that will give us the sufficient take up rate that we need on manage repair and set manage repair up sufficiently for success along with limitations on the policy language that are already in place at the Office, already under review by the Office to limit the abusive claims, we feel like we can sort of get over the hump and collectively reach a tipping point in getting control of this problem with the non-weather losses. But if the Office decides not to allow the preponderance of the items and elements that we have filed we would find ourselves in a more difficult position and there would be with really no tools at our disposal to arrest or much less reverse the alarming financial trends we have seen in the frequency, average severity and average level of representation at first notice of many of the non-weather losses, particularly water losses that we have seen in the past two years, beginning in tri-county and now spreading throughout the state. And if that agreement is not reached we do think we need a stronger incentive and that would include frankly a carrot as well as a stick. The carrot would still be there in terms of selecting a manage repair policy endorsement and getting an appropriate rate for the use of manage repair, but the stick would be that if you choose not as a policyholder to collect manage repair under that circumstance, we would have to, and this is a very reluctant decision on our part, but we would have to pursue a sub limit on water losses for those insureds that do not and will not select manage repair even with an appropriate premium credit. We will know much more in a couple of weeks about, or less about how the Office stands on our current round of product changes which have been diligently pursued, researched and now are being negotiated with the Office. I would like to bring up President Gilway, because the bulk of his President's report tomorrow will deal not only with the details of the Citizens' financial situation, but our outlook and our view of the industry's financial situation. And what I would like to stress as he makes his remarks is whatever happens in these filings and whatever happens for us will not solve problems for the insurance industry in Florida, and will not necessarily be sufficient to avoid the threat to Citizens' progress in both eliminating assessment risk and in shrinking its size dramatically by over 70 percent, and I would like him to make a few comments on those issues and how they are linked.

PRESIDENT GILWAY: Thank you, John, and thank you, Board members. John asked me to pull a couple of numbers out of the presentation I will be making to the Board tomorrow morning. The issue is this, that as we all know, the dramatic growth of Citizens in the three or four years prior to our peak of 1.5 million policies in 2012, came -- came about frankly as a result of severe rate inadequacy. The reality is that Citizens was so much cheaper than anything else in the marketplace that, you know, the flow into Citizens literally was unabated. So we have an interesting scenario developing. Over the last two weeks as I believe you are aware, last week we finally had to admit failure in -- in as with respect to AOB legislation, and although many Board members got directly involved in those discussions and I appreciate that, at the end of the day the industry was not successful in really making any improvement in terms AOB legislation. Nothing was passed. That leaves us basically with a -- with a situation where we are highly dependent upon OIR to make some changes to stop the dramatic flow of AOB losses. I think the numbers, as we have quoted many times, we are receiving 620 new suits a month. There are two other companies that are receiving 12 new suits a day, and on a comparative basis that is roughly the same flow. So we have this AOB situation. Steve Bitar did a fantastic job of garnering his feel for us reaching out to members of ART, agency roundtable, and doing a market analysis to try and find out what was really happening in the marketplace. At the same time John provided resources through the analytics team to really take a look at and do a very high level view of the industry results that were released last week. So first on the competitive intelligence side. We know of at least three companies, one is, one in tri-county is canceling 9,000 policies. A second company is canceling 8,000 policies, a third company is canceling 7,500 policies. In addition, yet another company is sending out, they are sending out consent to rate forms in order to renew with increases that are at the 40 percent level, yet additional companies clearly showed that the one company shut down 12 zip codes in the tri-county area, another company shut down seven zip codes in the tri-county area, and this is really just the tip of the iceberg. At the same time looking at John Rollins, the analytics team, within John's organization, very interesting, we took a look at the top 10 market share companies in the state. Then we added

to that the top five depop companies that were not included within that, within that top 10. Here are the numbers. The combined ratio for those composite companies in 2014 was 76.02. That same combined ratio reported this year, last week, was 91.6. So in total, that is a 16 point deterioration in industry results in one year for the composite group that we looked at. Now, what makes that dramatic, it is a non-storm year, and even assuming rate adequacy, a target combined ratio for a break even for a typical company would be somewhere between 75 and 85 using our analytic, you know, approach. That means basically that already the industry is 11.6 points, you know, in the red, and that is simply going to continue given the flow of losses that are occurring. The issue is this. We are highly dependent upon OIR to make the changes that we are asking for. However, our ask of OIR is that they really take a hard look at what is happening from an industry perspective, because there is only one foregone conclusion, and that is these companies must increase rates in order to stop the attrition of surplus, you know, for these companies. So rate increases will -- will -- will be pursued aggressively by these companies in our opinion. In addition, we, of course, are capped by the glide path of 10 percent. So you are going to reach an equal, a problem with equilibrium here because you are going to have Citizens restricted in terms of getting the growth that we need. I believe we had a press release just a couple of days ago showing that we have an 189 percent rate indication for Palm Beach, we have 186 percent indication for Broward, we have 165 percent rate indication for -- for Palm Beach. The first one was Miami, excuse me, Miami-Dade. So we are limited in terms of our increases, the industry will have to file increases and there is absolutely no question in my mind that the progress that we have made, you know, relative to depopulation is going to reverse, but OIR cannot solve that simply by approving our, you know, our -- our proposals and they are going to have to take a look at similar proposals on the part of the industry and in our opinion if we are going to make any headway on this issue at all. Thank you.

MR. ROLLINS: Thank you, President Gilway, I will turn it back over to the Chair for commentary before we read the recommendation.

CHAIRMAN HENDERSON: Thank you, John. Gary.

GOVERNOR AUBUCHON: Just a quick one, Barry. What is the statewide indication for a rate increase?

PRESIDENT GILWAY: I am sorry?

GOVERNOR AUBUCHON: What is the statewide indication? You mentioned the tri-county area.

PRESIDENT GILWAY: Well, that is, yes, thank you, that is a good point. The statewide indication is minus 10 percent currently. So the rest of state is minus 10. However, one of the things that we need to look at is the frequency and rest of state, rest of state, I have a little cold, excuse me, over the course of the last two years has deteriorated from three percent to nine percent. So you can see that that minus 10 percent rate indication most definitely by the time we file for 2017 rates, clearly is not going to be -- that is not going to be an accurate depiction of what we expect.

MR. ROLLINS: I would agree with that and we would typically come to you with rate recommendations for the following year in June, and those recommendations are not yet complete but you recall the map from last year was green everywhere except tri-county, meaning we had actuarially stable rates or potentially some decreases in every county and then we had increases indicated in tri-county. We would love to sit here and say that at least things will get no worse than that, that that same map will hold this year. The trouble, as President Gilway said, is, we have got five years of actuarial data that is rapidly being polluted, if you will, by a much higher frequency within the past year or two of claims even around the state and the real question we discussed in December is how many of those claims will go into litigation given that a dramatic number of those claims already have an assignment of benefits in place, which was never the case prior to last year. Prior to last year

we had claim frequency, but all claims are not equal. If we had a three percent claim frequency and it was what I would call routine or natural claims, that is one thing. If the frequency increases to nine percent, that is something else, and if the frequency increases to nine percent and 36 percent of those claims already have an assignment of benefits in place, clearly they are being set up for litigation and do we have a dam about to burst upon us, and that is something we won't be able to say too much more about until we bring those rate recommendations. But we fear it.

CHAIRMAN HENDERSON: You know, a comment, and John, I don't know if you ever thought we would live long enough to be the oldest guys on the Board, you know, or sitting here. But I remember vividly in Miami proposing a water damage sub limit and the pitchforks came out and so --

MR. ROLLINS: Yes, sir.

CHAIRMAN HENDERSON: So I applaud you for keeping the consumer in mind and I think there is a lot of flexibility in this program. I think the cost of inactivity is extremely high. And so, you know, I am certainly a proponent of what you are doing and I really appreciate your approach. So we have got to work with our consumers to make these subtle changes and they are important. So good work on this.

MR. ROLLINS: Thank you, and that is why we have a little bit of a surgically crafted recommendation for you today.

CHAIRMAN HENDERSON: Sure.

MR. ROLLINS: If you would like me to read it.

CHAIRMAN HENDERSON: Please.

MR. ROLLINS: And thank you, President Gilway. Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board approve the following product options as described. The preferred option is if a preponderance of agreement on the current filing elements is reached with the Office of Insurance Regulation, Citizens will introduce a premium credit to policyholders, an actuarially sound premium credit I might add, as an incentive to select the manage repair endorsement, or the alternative is if agreement is not reached, Citizens will introduce a \$10,000 sub limit for water losses with the option for the policyholder to opt out of that sub limit and maintain all of their current coverage limits simply by selecting the manage repair policy endorsement. And then the second part of the recommendation, as usual, is to authorize the staff to take appropriate or necessary action consistent with this action item including the filings with the Office of Insurance Regulation and system change implementations and supporting activities.

CHAIRMAN HENDERSON: We have a motion for approval and we will get into discussion.

A VOICE: @29:30 Mr. Chairman, I would move we approve.

A VOICE: I would second that motion.

CHAIRMAN HENDERSON: Prior to voting then, any other comments on the motion?

A VOICE: @29:42 I do have a question. If the rate in which the policy is based is already actuarially unsound, then can you still apply an actuarial discount to somebody who accepts managed care?



MR. ROLLINS: Excellent question and that is, there is a mathematically proper way I would say to consider that in the rate indications, and ultimately there is a balance there between properly accounting for the revenue that would go away due to the selection of a certain group of policyholders for the manage repair endorsement. And I am trying to say this in non-actuarial language. Keep the rates actuarially sound overall while also properly discriminating and classifying policyholders who selected the endorsement versus policyholders who did not. And there is an accepted method of arriving at a manage repair policy endorsement premium credit accounting for the fact that some sub populations of Citizens, not all, but some types of policies and some risk classifications within Citizens currently do not have adequate rates. But that would be a subject of much discussion and craftsmanship on the technical side between our actuaries and those of the Office.

A VOICE: @31:07 Thank you.

CHAIRMAN HENDERSON: I guess the same comment that this endorsement assumes that it would not be altered, mitigated or rendered ineffective by others, by the courts, by interpretation in order to award someone that credit. So I think there is something very simple about a limit that perhaps, again, this is beyond my pay grade and maybe this committee. There is look at something there where we know the boundaries, what we are offering, you want coverage beyond that you would have to pay for it. So again, so what am I suggesting is that perhaps information back to us in terms of the effectiveness of that language, does it really constitute that credit that we are offering out there. So are we inducing people into a program that we are not sure that we can in fact keep them in that program effectively going forward.

MR. ROLLINS: So I make two comments which only partially asway your concerns because none of us can see the future in terms of the way the judicial branch will interpret the policyholders selection of manage repair endorsements because that really hasn't been tested. One is we are not on the -- on the subject of how we are incenting it, what premium credit we are giving, we are not totally treading new ground here, because there are a couple of, is it just one or more than one in the market that does have a robust manage repair program on a voluntary basis and does have a premium credit out there on the street. So, in other words, it is a problem that the Office has tackled before. Those manage repair programs that are in use in the private industry now, frankly Citizens is not as nimble as the private industry in terms of being able to set these up quickly. Why, because we have procurement requirements and other things that the private industry doesn't have and we also always proceed very carefully as a company with the responsibility to over even at this stage over 500,000 Florida households and a company that gets over 28,000 first notices of loss. So yes, we are very deliberate but I would point out that there are manage repair programs working successfully in the private insurance industry now that are generating claims, resolving those claims and so far have passed the test in terms of keeping consumers happy, discouraging abusive claims. It is well known antidotally that some of the consortiums of bad actors that are targeting certain neighborhoods know to ask that they not target certain homes that have certain insurers. So it is known out there that some insurance manage repair programs sort of work better than others in the form of keeping the bad actors out of the space. So we are not 100 percent treading new ground going down this path, but we have to evaluate what works in the private industry and then we have to evaluate it through a very different lens, given our public responsibility, and also given the technical side, Governor AUBUCHON, as you mentioned with respect to the fact that we are on a glide path and we can't achieve rate adequacy immediately for every elements of the book of business, but we will do that. And I would turn, if you turn to page 4 of the item you will see a table of sort of pros and cons there regarding various options for encouraging manage repair. I don't want to read through that right now but I think it is good background for you. It basically represents our --

GOVERNOR AUBUCHON: Thank you, John.

MR. ROLLINS: So you can kind of see.

GOVERNOR AUBUCHON: I think you had adequately addressed that, and I think Chairman Gardner's comment is you really are trying to provide coverage when needed to the policyholders and we applaud you for that, support you in doing it, so.

MR. ROLLINS: We -- we don't want to, and I am reminded of the movie Apollo 13 where the little nerd turns to the flight director and says, about shutting down the ship, he says, Gene, from my chair this is the last option, and I feel like that guy, you know, in even recommending as an alternative that we take a step to sub limit water damage losses, because that is a meat cleaver, not a scalpel.

CHAIRMAN HENDERSON: Good comments, any others?

A VOICE: None.

CHAIRMAN HENDERSON: Staff with a vote, all of those in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Those opposed?

GOVERNOR BROWN: Aye.

CHAIRMAN HENDERSON: Approved. Thank you very much.

**A motion was made and seconded to approve the Staff's Recommendation for Action Item for Product Changes – Water Product Changes Update and Proposal (Personal Lines) and to present to the Board of Governors on Wednesday, March 16, 2015.**

##### **5. Action Item – Property Characteristics Web Services**

MR. ROLLINS: Thank you, Mr. Chairman. If it please the committee, I have two other items that I am going to bring to you today, and they are both related to solicitations. Our director of underwriting business administration, Chiniqua Maddox, works with Tom Popko and I and she is the one who is going to present by phone a summary of two solicitations. The first solicitation we would like to bring to the committee for approval is our property characteristics web services that we procure from an external vendor. And I would like to turn it over to Ms. Maddox to explain the solicitation and the action item.

MS. MADDOX: Good afternoon, Chairman Henderson, and committee members. Can you guys hear me okay?

CHAIRMAN HENDERSON: Yes.

A VOICE: Yes.

MS. MADDOX: So for the record this is Chiniqua Maddox. There are certain action items that I would like to discuss today. The first action item can be found under tab number five, property characteristics web services. A critical part of property, properly developing premium is the ability to identify adverse specific underwriting data associated with the specific location. As part of its underwriting process Citizens utilizes web services from a third party vendor to automate the identification of location related characteristics such as how

protected a home is in case of a fire or how effective the building codes are in the specific neighborhood. Additionally, we use the web service to determine the wind eligibility of a property based on the location's address. For the past five years Insurance Services Office also known as ISO has provided these services to Citizens. The current contract with ISO expires on May 15, 2016. Citizens issued an invitation to negotiate ITN number 15-0027 on August 26, 2015. On September 30th, 2015, Citizens received only one response back from ISO, the incumbent vendor. The evaluation negotiation team upon reviewed the ISO response capable of meeting our required services. In antis -- it is anticipated that this contract will have a three-year base, with one optional two-year renewal which may be exercised at Citizens' sole discretion. The estimated cost of this contract including renewal is not to exceed \$4,067,847. The cost of these services are included in and approved in the 2016 annual operating budget for the other underwriting expenses. Any questions before I read the recommendation?

CHAIRMAN HENDERSON: Any questions?

A VOICE: None.

A VOICE: @38:42 Yes, I have got one. Did you say \$4,067,000, because the print says 4,006,847. Perhaps I misheard you.

MS. MADDOX: Yes, I spoke incorrectly. You are right, \$4,006,847.

A VOICE: Thank you.

MS. MADDOX: You are correct. Thank you for catching that. Any additional questions? Okay, the action item is as follows. Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board approve the recommended award to Insurance Services Office and resulting contract including the renewal period for ITN number 15-0027 for property characteristics web service as set forth in this executive summary, and authorize staff to take appropriate or necessary actions consistent with the action item.

CHAIRMAN HENDERSON: You have heard the recommendation. Do I hear a motion for approval?

A VOICE: Move to approve.

A VOICE: Move to approve.

GOVERNOR BROWN: So moved.

A VOICE: Second.

CHAIRMAN HENDERSON: All those in favor, aye?

(Chorus of ayes.)

CHAIRMAN HENDERSON: Opposed?

GOVERNOR BROWN: Aye.

CHAIRMAN HENDERSON: Passed, thank you. We move to the next action item.

**A motion was made and seconded to approve the Staff's Recommendation for Action Item for Property Characteristics Web Services and to present to the Board of Governors on Wednesday, March 16, 2015.**

**6. Action Item – Replacement Cost Estimating Services**

MS. MADDIX: Okay, the second item can be found under tab number six, replacement cost estimation services. Underwriting premium development and reinsurance all critically depend on accurately calculating each property's estimated replacement cost value or actual cash value. Citizens' agents and underwriting staff need third party software to accomplish this. The software service relies on database and uses submitted information about the home including but not limited to square footage, year built and quality grade to calculate an estimated replacement cost value and its applicable and actual cash value. These values are then used to determine the appropriate coverage for the policy or the Coverage A. For the past six years Xactware, Incorporated has provided these services to Citizens. The current contract with Xactware expires on May 14th, 2016. Citizens issued an invitation to negotiate ITN number 15-0026 on September 29th, 2015. On August 22nd -- 27th, 2015, Citizens received three responses from vendors that weren't evaluated and scored. One solution was moved forward to negotiations with subsequent negotiations committee to award the contract to Insurance Services Offices, ISO, and its wholly owned subsidiary, Xactware Solutions. It is anticipated that this contract will have a three-year base with an optional two-year renewal which may be exercised at Citizens' sole discretion. The estimated cost of this contract including renewals is not to exceed \$5,102,006. The cost of these services is included in the approved 2016 annual operating budget for other underwriting expenses. Any questions before I read the recommendation?

CHAIRMAN HENDERSON: None.

MS. MADDIX: Okay. The action item is as follows. Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens' Board approve the recommended award to Insurance Services Offices and resulting contract including a renewal period for ITN number 15-0026 for replacement cost estimating services as set forth in the executive summary, and authorize staff to take an appropriate or necessary action consistent with this action item.

CHAIRMAN HENDERSON: Thank you. Having heard the recommendation, a motion for approval?

A VOICE: Move to approve.

A VOICE: Second.

CHAIRMAN HENDERSON: Made and approved. All those in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Likewise, opposed. Having passed. Thank you very much.

**A motion was made and seconded to approve the Staff's Recommendation for Action Item for Replacement Cost Estimating Services and to present to the Board of Governors on Wednesday, March 16, 2015.**

MR. ROLLINS: Thank you, Chiniqua. And Mr. Chairman, if you would allow me one additional comment on the solicitations just to kind of brag on the team we have here. This was really a multi-disciplinary success in

the sense that a large team of business users worked not only with us but with the vendor management office which you have heard a lot about from Kelly Booten to achieve contractual savings that we feel on an apples to apples over apples basis against the previous contracts adjusted for our size will likely exceed \$3.7 million between those two contracts over the five-year period. So from my chair it is certainly an example of the vendor management office working with the business users to really leverage our existing relationships and achieve some savings at the time of solicitation, and it was fun to watch that process may out. I think it is going to be very good for us and the environment we are in and of course those services are used to underwrite every single policy. So consumers critically depend on them and I would like to express my appreciation to that larger team.

CHAIRMAN HENDERSON: We appreciate the work extended. This is a great remainder as our top line shrinks, a lot of our expenses do not. So certainly managing the company as effective as we can, we appreciate all that you do to help accomplish that.

MR. ROLLINS: That concludes my report and list of items, Mr. Chair.

CHAIRMAN HENDERSON: Great. Any other comments by the committee?

A VOICE: @44:47 Yes, I just want to thank Governor Henderson for agreeing to serve this committee. We do very important work here. It is complex, and I appreciate your willingness to serve. You did a great job today, so thank you.

CHAIRMAN HENDERSON: Thank you, and as I told you, I really do appreciate that doubling of the pay.

A VOICE: We will keep it coming.

CHAIRMAN HENDERSON: It is something about that zero basis that always comes up with the same answer, doesn't it. But anyway, it is a great service, really you spend more time working with John and staff and if you – if you are a disbeliever about those individuals and very passionate about working with Citizens you have not met some of these people and I suggest you do that. They really do care a great deal about what they do and how they do it, and thank you, John. Any further comments? Motion to adjourn?

A VOICE: So moved.

A VOICE: Second.

CHAIRMAN HENDERSON: Thank you very much.

(Whereupon, the proceedings were concluded.)