

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE  
BOARD OF GOVERNORS MEETING  
Wednesday, March 16, 2016**

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened in Sheraton Orlando North in Maitland, Florida on Wednesday, March 16, 2016 at 9:00 a.m. (EDT).

**The following members of the Board were present:**

Chris Gardner, Chairperson  
Don Glisson, Vice Chair  
Gary Aubuchon  
Juan Cocuy  
Jim Henderson  
James Holton  
Freddie Schinz

**The following member of the Board was present telephonically:**

Bette Brown

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

Barry Gilway  
Barbara Walker  
Cindy McVay  
David Woodruff  
Jay Adams  
Mitch Brockbank  
Karen Holt  
Joe Martins  
Steve Bitar  
Andrew Woodward  
Kelly Booten  
Jennifer Montero  
Bruce Meeks  
Candace Bunker  
Violet Bloom  
Michael Peltier  
Dan Sumner  
Carl Rockman  
John Rollins

**The following people were present:**

|                  |                                     |
|------------------|-------------------------------------|
| Dave Newell      | FAIA                                |
| Greg Rokeh       | Watson Realty Corp/Florida Realtors |
| John Vaughn      | FNF                                 |
| Lisa Miller      | Lisa Miller and Associates, LLC     |
| Subhashish Dutta | Guy Carpenter                       |
| Travis Rosecrans | Guy Carpenter                       |
| Jamie Shreeves   | ITEL Laboratories                   |
| Coleman Cordell  | Bank of America Merrill Lynch       |
| Sharon Frawley   | Leard Associates                    |
| Mark Weinberg    | Citi                                |
| Henry Reyes      | J.P. Morgan Securities              |
| Rick Patterson   | Raymond James                       |
| Michael Briggs   | KPMG                                |
| George Smith     | Bryant Miller Olive                 |
| Doug Draper      | RBC Capital Markets                 |
| Rich Fidei       | Greenberg Traurig                   |
| Nicole Preston   | MacNeill Group, Inc.                |
| Kevin Stokes     | Guy Carpenter                       |
| Matthew Sansbury | Stifel, Nicholas, and Company, Inc. |
| Matt Williams    | Bank of American Merrill Lynch      |

**Call Meeting to Order**

Barbara Walker: Good morning and welcome to Citizens March 16, 2016 Board of Governors meeting. This meeting is publically noticed in the *Florida Administrative Register* will convene shortly with a roll call for a quorum. Citizens Board and committee meetings are recorded and transcribed minutes are available on our website. Thank you.

Roll call: Chairman Chris Gardner, Don Glisson, Gary Aubuchon, Juan Cocuy, Jim Holton, Jim Henderson, Freddie Schinz are present.

Barbara Walker: Bette Brown is intending to join by phone. You have a quorum.

**1. Approval of Minutes**

Chairman Gardner: Good morning, everyone. Thank you for attending today's meeting. The first item on the agenda is the approval of prior meeting's minutes.

**A motion was made and seconded to approve the January 19, 2016 minutes. All were in favor. Motion carried.**

## **2. Chairman's Report**

Chairman Gardner: I have very little except that I do want to acknowledge that Governor John Wortman is no longer with us. John has taken an excellent opportunity in the private sector, which makes me very happy for him and his family. John was a key contributor and had been on this Board for nearly five years. He served as Chairman of the Actuarial and Underwriting Committee (A&U) throughout almost his entire tenure on the Board. John was instrumental on serving the committee that hired Barry Gilway. John was also a moderator on our first depopulation forum. John always was the guy who pitched in and helped. He was a great asset and we're going to miss him. We wish John well and we hope we'll find a comparable replacement. That concludes my report.

## **3. President's Report**

Barry Gilway: Good morning Mr. Chairman and Board of Governors. In January Citizens achieved an unprecedented milestone, its lowest recorded count of policies in force since its inception in August of 2002 – 484,788 policies. Over the past three years since our peak of 1.5 million, we have been introducing a comprehensive set of initiatives that produced this result, obviously with strong support from this Board. A highly successful depopulation program simply exceeded far more than our expectations. With 26 insurance companies participating, we took out 277,000 policies in 2012, 365,000 in 2013, 416,000 in 2014 and another 273,000 last year. I would complement Steve Bitar and his team and Jennifer Montero for all of the work they've put into a highly successful depopulation program. The launch of the Clearinghouse in 2013 also had an impact. When the Clearinghouse started in 2012, we were writing 359,000 policies. That's 30,000 new policies a month. In 2015 that was already down to 125,000, or 10,000 policies per month. We accomplished that by creating increased competition for Citizens business in the private market. There are other factors of course that impacted this success. The effectiveness of the glide path in moving us closer to rate adequacy; new capital entering the market. You would have never guessed that the fourth largest company in Florida didn't exist four years ago. New capital entering the market has had an extraordinary impact on price competitiveness. There have been significant reductions in reinsurance costs. They have been astounding. I've never seen anything like it before in history. It's allowing private companies to be more competitive. Also, we've had a decade free from major catastrophes. I'm not going to spend a lot of my report, today, talking about our successes because the reality is that all of these successes are being challenged. Consolidated financials for 2016 show a net income of \$5.7 million. That's compared with a budget of \$177 million. Prior year we had a net income of \$351 million in earnings. There are two major negative surprises, both driven by a deteriorating legal environment for non-weather water claims on multi-peril policies. The unfortunate impact on Citizens policyholders will be premium increases in affected regions in 2017 and beyond and potentially fewer private market options that are available. The first issue is that 18 more cents of every premium dollar in the PLA are going to non-weather claims, compared to last year. The direct loss and loss expense ratio (LAE) has worsened from 56% to about 74% over the last quarter. The numbers are mindboggling and they're hard to understand because the rate indications show that Miami Dade has a 189% indication. That literally means we will have to triple premium that we are saving in order to break even. Broward is at 186% indication and Palm Beach is still at 165% indication.

The question Governor Aubuchon asked yesterday is what about the rest of the state. The rest of the state is currently showing a -10% indication compared to those outstanding numbers. However, frequency of these water losses increased from 3% to 9% over the past two years. There is no question in my mind in that by the time we create the rate recommendations for the rest of the state given those deteriorating financials and numbers, it's very hard to understand how -10% is going to be maintained. This experience is being driven by out of control litigation. It's out of control. Last year, we opened 8,070 new suits. That's 620 new suits per month. We have competitive intelligence that shows that two of the larger companies in Florida are experiencing exactly the same numbers. Two companies are receiving 12 new suits a day for water damages. This is not just a Citizens issue. Depopulation has exacerbated this issue and we're going to become a Tri-County company. I want to emphasize there is no private reinsurance placed in the Personal Lines Account (PLA). These numbers are about as pure as you can get. Here we are with no storm in the PLA and we're going to show a \$21 million net operating loss in the PLA. Sinkhole losses are also a factor in the PLA results contributing about one-fifth of the 74% loss ratio, primarily due to re-opened claims relating to pre-SB 408. The real good news, due to the good work by our Legal organization, we closed over 85% of those cases – about 2,700 of those cases. All private reinsurance applies to the coastal account and protects both multi-peril and wind. I do want to point out that the reinsurance was absolutely appropriate for 2015. A small budgeted operating income that was planned in the Coastal Account turned into a net loss due to significantly reduced revenue. We literally outperformed. We lost 100,000 Coastal policies in 2015 toward the end of the year. We are a victim of our own success because we did not have the same revenue level. Without a reversal of water loss trends, the financial and actuarial results have three major consequences. It is clear that we will have rate increases for most multi-peril products. The point I'm trying to get across to anyone who will listen is that this 10% is going to apply into the foreseeable future. Think about how many 10% increases you're going to have limited by the glide path in order to get to a premium level that's three times the current premium. As I indicated in a recent press release, in 2017 and continuing into the foreseeable future, Miami Dade as an average \$2,800 premium, and even with the limitations with the glide path, they're going to see the premium go up to \$4,000 over the next five years. It's simply not going to be affordable. The lack of operating income will over time put pressure on our ability to fund reinsurance programs without significantly impacting surplus. We don't have the right level of revenue and we still need aggressive reinsurance without impacting surplus. The poor loss trends are market wide. Given the deteriorating results, we're not going to be able to provide consumers with comprehensive coverage at competitive rates as they are today. Steve Bitar, Carl Rockman, and a field team, in preparation for this meeting, conducted a market analysis to find out what is really happening in the marketplace. One company is attempting to cancel 9,000 policies. Another company wants to eliminate 8,000 policies. A third company wants to release 7,500. These are initial numbers. Another company is requiring consent to rate forms to renew, upwards of +40%. Several companies are restricting new and renewal business. One company has recently shut down, particularly 12 zip codes in the Tri-County. Recent earnings reports from major companies speak to restrictions in Tri-County writings until the environment improves. Last week the Quasar or Industry results became available. Our analytics team conducted a high level review of the year 2015 results for the top 10 market share leaders in Florida. We added five depop companies that were active in 2014 and 2015. Only three showed modest improvement; four companies showed deterioration in excess of 50%. Keep in mind when you look at a composite, 100 combined in Florida is not a target. In a non-wind year, you have to set a target

that allows you to put appropriate dollars away. A target for a Florida domestic is probably between 75% and 85%. The composite combined ratio for the companies reviewed was 91.9% compared with a 2014 equivalent of 76.02%, almost a 16-point deterioration. While I am not attributing all of this deterioration to Assignment of Benefits (AOB), it is a crisis. From a loss standpoint, we are of course responding to this challenge as aggressively as we can while still attempting to keep pricing affordable for consumers. We took a leadership role during this recent legislative session to attempt to get meaningful reform. I want to personally thank all of the Board members who were actively involved on the behalf of Citizens but unfortunately no effective legislation passed this session. No AOB legislation passed this year. As you are aware, we have also been negotiating with the Office of Insurance Regulation (OIR) to get reasonable policy coverage changes to address the issue of late reported claims. We are currently averaging receiving claims 33 days after the event. We need help to get claims reported early. We are looking to get restrictions on permanent repairs until Citizens has a chance to assess the loss. We are looking for limitations on the scope of damage when collapse occurs. On the claims front, we will be launching a Contractor Repair Program that is being presented for your approval today. It will include certified contractors who provide warranty services. In the Consumer Affairs Committee, we outlined the "Call Citizens First" campaign. In the Claims Committee Jay Adams outlined the steps his organization has taken in litigation. We got some excellent recommendations from the committee regarding enhanced media visibility to the AOB issues. In summary we are taking aggressive action on all areas under our control to effectively address the AOB issue. We are considering future options that include mandatory managed repair, water exclusion language with a limited buy back, already approved for some companies, and further policy restrictions should our proposed, recommended language not be accepted by OIR. At all times we are focusing on getting non-weather claims and litigation under control while providing legitimate claimants with a fair and prompt settlement of their losses. These actions will improve Citizens' results. Under the current conditions, Florida domestics really only have three options. If you're a CEO running a Florida domestic company, you have to do one of three things given this deterioration. The first is to underwrite your way out of it, which is becoming more and more difficult given the extent of the deterioration. Second, which we know is occurring already, you reduce exposure. The third option, which is equally as onerous, is to increase rates. In order to protect their surplus, then owner will have no other option but to put in rate increases to improve capital.

Jim Henderson: Very good report, Barry. Actually development of this new reinterpretation of water damage and cause remodeling of what was intended to be our coverage is being reshaped and we're dealing with rates that are insufficient to cover this new interpretation. Yet, it sounds like the industry is moving aggressively looking at limitations of coverage or buy back. If they can't get that, they will vacate those policies. We suspect they would fall back to us for coverage in the Tri-County. There is a long history of a litigious environment where rates need to be greater than they are with that environment. Citizens can't even march toward those rates because of the glide path. Even when we can define the rate, we can't get there. We're providing the benefit and we can't get the rate. Now we're dealing with the potential cancellations by other carriers and we become the new home for that coverage. My comment for you and staff is to continue to look aggressively to protect this company against bringing in coverage unintended to be provided with an inadequate rate. We become the victim of that movement. My comment is to continue that focus. Let us know about migration of policies in that Tri-County area to us at

Citizens and the impact of that migration to this company. I know from the committee I serve on, there are a lot of good things going on. You have a good grip on how things need to get done.

Barry Gilway: We will keep the Board apprised of all of the activity, including the impact on Tri-County. I think you will see in John Rollins' presentation today a summary of the A&U presentation. We do intend to get more aggressive in reducing our own exposure. What we don't have the ability to do is manage the exposure of the industry. The impact on Citizens is going to be driven significantly by deteriorating loss ratios in the industry and the need for those companies to take aggressive action in order to protect their own position.

Chairman Gardner: I recall about a year ago Christine Ashburn presented an exhibit with John that said every 31-cents of every dollar went to water claims. Maybe my math is off. We know what that number is today. It's got to be higher, correct?

Barry Gilway: The last comparison we did in terms of the split of the dollar shows a deterioration of 36-cents of every dollar in the rest of the state to 56-cents of every dollar in the Tri-County. That did not include the results of 2015. I would say that those results have probably deteriorated in that we're probably spending more of every dollar on water damage claims.

Chairman Gardner: Is that raw loss or is that development that's contributing to the deterioration?

Barry Gilway: That's loss and LAE. The issue is if the development occurs, we come up with these 189% numbers. When they create the actuarial triangles and they start doing the analysis and they start assuming deterioration levels during the last five years, then that's what you come up with.

Chairman Gardner: I want to remind the Board that we are not purely in the windstorm business. We can expect a massive repopulation. We've got incredible adverse selection and we are the most competitive market in town. That's the scenario we'll find ourselves in shortly if these results continue.

Barry Gilway: I agree, Mr. Chairman. Steve has done a good job showing that our current competitive position – and while we're thrilled with the success of the Clearinghouse program – just one look at the Clearinghouse program shows you that only 12% of the business is declared ineligible because of the rate. That ineligibility is at 15% with Citizens. Now that we're down to 484,000 policies, our current book of business is at a point where we are highly, highly competitive compared with industry rates.

Vice Chair Glisson: Is there any indication that this issue is spreading to other parts of the state?

Barry Gilway: Absolutely. If you take a look at the frequency in the Tri-County area, I think the number we're using is 8.9%, frequency has now increased to over 16% in that area. The point being is that it was already high. In the rest of the state, that same frequency rate started out two years ago at 3%. The frequency now for water damage is 9%. The frequency and rest of state has

tripled. We're not seeing that, yet, in the indications coming through. The frequency in state is increasing dramatically.

Vice Chair Glisson: The bad actors are giving us about a one-year reprieve so they know they can spread this scheme throughout the rest of the state.

Juan Cocuy: Not to play "Monday Morning Quarterback," but with the shutouts from this past legislation, is there something we could have done differently, or is there something going forward to be a little more aggressive or persuasive to get these bills passed?

Barry Gilway: To be fair, we sit here with the decision after we failed with legislation. We were recognized by the Governor's staff. We worked with the Governor's staff, and they were actively involved with this issue. We had other Board members, Governor Schinz, working directly with the Senate trying to get legislation through. I think we used the resources of the Board effectively. I think we worked effectively with the Governor's office. The CFO's office got directly involved with this legislation. Maybe what we could have done differently . . . we may have started our communication a little too late. We sent out a significant number of press releases during legislation, and those press releases focused on the 189% rate indication and the market activity that we're seeing. I think going forward with the recommendation we have from Governor Holton would have made a difference; I think we did take a leadership position this year in trying to get this AOB but I think we could have been more aggressive from a media perspective. We're already talking about billboards in south Florida. We can get more aggressive in our media campaign. I just don't believe we got the story across that this is a crisis. This is going to reverse all of the improvements we've seen in the marketplace over the last two to three years. We did not get that message across. I think if we did it may have been a different result. When you take a look at the influence of the trial bar on the legislature without any question whatsoever, their lobby was stronger than our lobby.

Jim Holton: I have one more suggestion that is an amplification of this. Perhaps the next step is – and I can help facilitate this if it's the pleasure of the Board – to convene a meeting with the Governor a blue ribbon panel statewide to investigate this with industry, the OIR, Citizens, other carriers, and even the Florida bar to discuss this very salient issue. That might get the media we need to look at this exclusively. I think you'll get buy in from all of the other branches within the government.

Barry Gilway: We agree, Governor Holton. In fact, you mentioned this a week ago and Dan Sumner has already taken action. Our first step there is to put together a panel, internally first, of plaintiff counsel and defense counsel that we're working with to determine what is the best way to really interact on the trial bar. Your idea is broader and I'm highly supportive of it.

Gary Aubuchon: There is an old saying in the legislature: "The game being watched is not the game being played." The more we can shift this from being a Citizens problem to this being an industry problem it can be a powerful lobby. I think during the off season it needs to be motivated sufficiently so that the legislature understands the issue and is being assaulted by multiple parties instead of just one.

Barry Gilway: I agree completely. I think the advantage that we will have now as of last week is for the first time . . . if you go back to one year, the Florida industry was showing an 82 combined ratio. It was a favorable and profitable industry. Today, that is not the case. Many of the private markets are going to be very aggressive; they have to be to protect their overall positions. I think the more we can get the industry to tell its story and laying out the fact that this is not a Citizens issue and more of an industry issue the better off we will be.

Juan Cocuy: Not only the industry but the consumers. If the consumers are being faced with severe increases, that's not going to be acceptable. That's where the pressure has to come from.

Barry Gilway: I agree, Governor Cocuy. The press releases need to reflect upon the consumer. For example, all of them have included the \$2800 increase in Miami Dade – up to \$4000, and that's with limitations of the glide path. I agree that we need to get to the consumers so they understand the long term impact of this.

#### **4. Chief Financial Officer Report**

##### **a. Finance and Investment Committee (FIC) Report**

Chairman Gardner: I have some brief housekeeping items from the FIC. This is not a Board action but I need to inform the Board that in 2013 staff evaluated the potential of selling four of Citizens SIB legacy assets and recommended that we continue to hold them. Since that time, we recovered \$200 million, including \$82 million in write-downs. Staff advised yesterday that the credit quality of these assets has decreased and the recoveries have slowed. The securities currently have positive mark-to-market value with over \$39 million. Staff recommends that this is an opportune time to sell the assets. The FIC authorized staff to work with the Financial Advisor to develop a strategy to liquidate these four SIBs at 80%-85% of their current market value of \$129 million. With that, Jennifer Montero and Kapil Bhatia are available to answer any questions.

##### **b. Projected 2016 Risk Transfer Program, Layer Charts**

Jennifer Montero: I'm going to give a quick overview of the current program and then I'll do an update on where we are in 2016. In 2015, Citizens transferred \$3.9 billion of risk through reinsurance in the Coastal Account. \$1.85 billion was transferred through traditional markets and \$2.05 billion was through the capital markets. Approximately \$1.7 billion of that coverage will expire before the start of this wind season, leaving about \$2.2 billion in carryover coverage in the 2016 season. The coverage consists of the following. We have about \$1.5 billion of the 2014 Everglades Re CAT Bond. We have \$300 million in the 2015 Everglades Re II CAT Bond. We have \$202 million of the 2014 multi-year traditional reinsurance. We have \$241.3 million in the 2015 multi-year traditional reinsurance. All of this carryover coverage is aggregate. An update on what we're doing now – earlier this month, we met with some of our reinsurers, specifically the multi-year traditional reinsurers. As you are aware, Citizens depopulation programs were extremely successful over the past few years. Our Probable Maximum Loss (PML) has decreased from \$24.52 billion in 2011 down to a projected \$8.19 billion for 2016. If you turn to the Coastal Layer

chart on page two behind tab four, you'll see that although we have more than \$2.2 billion reinsurance carrying over from prior years, we have no coverage below the 1-in-40 year event, except over at the CAT Fund coverage. Due to budget constraints and considerations of changes in our book of business within the Coastal Account, we are looking to revamp the 2016 risk transfer program with a focus on 2016 being a transition year. This year we've requested the multi-year reinsurers consider reallocating their capacity to the wrap-layer, which would attach it at CAT Fund attachment point with pricing to reflect the change in risk. We'd like to move the \$443 million of aggregate coverage down to the wrap layer to provide 100% coverage in that layer. This will allow Citizens to have coverage in the lower layer with a potential marginal increase in premium. However, this proposal to shift the capacity down to the wrap while keeping budgetary constraints at the forefront also means there will be considerable constraints on our ability to renew the nearly expired coverage on the remaining portfolios. If you recall, in addition to the expiring yearly traditional reinsurance limited \$982 million on the personal residential portfolio in the Coastal Account, we purchased \$430.5 million of commercial non-residential coverage in 2015. This was an increase from the \$164 million purchase during the prior year. This equates to that much more surplus being exposed in the 1-in-100 year event if we forgo this coverage in the 2016 wind season. We are currently working with our brokers to provide our exposure data to the reinsurers for modeling this proposal. We will be sending out a condensed submission to the multi-year reinsurers over the next couple weeks, and we will be coming back to the FIC and the Board for approval before any firm order terms go out. Additionally the \$1.5 billion of the 2014 in Everglades Re CAT Bond matures in early 2017, and that is before the 2017 hurricane season. We will be in position to redesign the 2017 program to fit the respective risk levels at that time.

c. Financial Statements, 12.31.15

Also behind tab four, you'll find the December 31, 2015 unaudited financial statements. Fiscal Year (FY) 2015 was marked with several accomplishments and challenges. We successfully eliminated risk of an assessment in a 1-in-100 year storm and we continue our success with depopulation. We also ended the 2005 emergency assessment and defeased the associated post-event bonds. However, 2015 also marked a significant increase in loss LAE activity, precipitated by a combination of adverse development on prior year sinkhole claims and non-weather related water losses. Although the increase in the loss LAE activity is considerable, it should be noted that the continued success of depopulation activity amplifies the impact of this loss activity in terms of net loss in the PLA and in LAE ratio. At year-end 2015, Direct Written Premium decreased by approximately \$816 million or 39% as compared to 2014. Likewise net earned premium decreased \$617 million, or 45%. These decreases are largely due to the successful depopulation efforts that transpired over the last year; however, there was a year-over-year decrease in ceded premium of \$274 million, or 60% due to a decline in the depopulation activity during the 4<sup>th</sup> quarter of 2015. Policies in force (PIF) at year end were approximately 504,000, which reflects a decrease of more than 157,000 policies (24%) compared to 2014. PIF decreased by more than 70,000 during the final quarter of 2015 alone. Although net losses in LAE decreased by \$151

million when compared to 2014 the net loss and LAE ratio increased from 46% to 64% on a combined basis despite the favorable development in the Commercial Lines Account (CLA). As mentioned previously, the increase in the combined net loss and LAE ratio is largely due to litigated non-weather water claims, specifically in the Tri-County area along with adverse development of prior year sinkhole losses. Although Underwriting Expenses and Administrative Expenses decreased by more than 26%, the expense ratio increased to 22% which is up 4% from 18% in 2014. This is largely driven by the \$816 million decrease in written premium. As of December 31, 2015, Citizens was servicing more than 121,000 assumed policies. That's more than 24% of the PIF. Primarily as a result of the policies being serviced, driven by the volume of depopulation, our expense ratio increased. Simply stated, the denominator which is written premium is decreasing faster than the numerator, which is the Underwriting Expenses. While consolidated net income as of December 31 was \$5.7 million, the PLA and the Coastal Account reflect net losses of \$21.5 million and \$54.4 million. Several factors contributed to the net losses, including depopulation and an increase in the loss and LAE ratios in the PLA and Coastal Account. Finally, cash and invested assets of approximately \$13 billion decreased roughly \$529 million or 3.8%. This is primarily due to the year-over-year decrease in written premium and increase in loss and LAE activity. Despite the overall decrease in operating results, Citizens policyholder surplus of \$7.4 billion in claims paying capacity remain fundamentally strong and capable of meeting its policyholder obligations.

## **5. Chief Systems and Operations Officer Report**

### **a. Information Systems Advisory Committee (ISAC) Report**

Jim Holton: It is my great honor today to introduce to you and the Board our new technology industry advisor John Vaughn. John is the Technology Strategy Manager at Fidelity National Financial in Jacksonville for over nine years. He has a broad and in depth expertise in areas of IT. I think he'll be especially helpful with implementation of Enterprise Risk Planning (ERP) and our security platforms as we move forward with those issues. John is a graduate of Oklahoma City University and Emory University Business School. John, we welcome you and thank you for your service to Citizens and to the state of Florida.

Kelly Booten: On March 1<sup>st</sup>, the ISAC held a teleconference meeting and we introduced John Vaughn. We conducted our annual Charter Review, which is included behind tab five of the Board book. There were no recommendations for change. The ISAC was also briefed on the implementation of the recommendations by the third party Security Risk Assessment conducted by Buchanan, Ingersoll, and Rooney PC. In addition to that, we also have done contract reviews and looked at the data we collect to ensure that our confidentiality requirements are top notch and that we are reducing our risks for all third parties. We briefed the committee on successful implementation of the external website. On February 1<sup>st</sup>, we had a great internal team from Citizens, including the Communications Department and the IT Department – the new website is very user-friendly. It's built on new technology. It allows for more self service capability. Also, Doug Sherwood, Enterprise Program Manager, briefed the ISAC on the ERP project, the Enterprise Resource Planning. The initial five vendor demonstrations were conducted on December 18<sup>th</sup>. During the negotiation process, it was determined that some vendors had solutions that could

provide Citizens with a better value. An IT amendment was issued to allow vendor submissions of alternative proposals and responses were received on January 22<sup>nd</sup>. Based on the alternative proposals received, two additional demos were conducted, and with the conclusion of all demonstrations, the negotiating team has decided to proceed with focused negotiations with three vendors representing two products. Once due diligence has been completed and a single vendor/product has been selected, the business case presentation and recommendation will be brought to the executive team and to the Board for approval in the June timeframe. Curt Overpeck also briefed the committee on the Data Center Consolidation Project, our 2016 IT CAT Preparation, and the EverBank Consolidation, which is now completed. In addition, the ISAC recommends for Board approval a consent item that's included in the index tab behind tab 12 for Application Performance Management Software. I have no action items.

## **6. Chief of Internal Audit Officer's Report**

### **a. Audit Committee Report**

Juan Cocuy: Yesterday's Audit Committee Meeting – we took care of a couple housekeeping items. One of them was the approval of the Audit Committee Charter. There were no changes. Something we didn't report on was the annual evaluation of the Chief Internal Auditor, which I took care of a couple weeks ago. They're all high marks for our Internal Auditor, Joe Martins. We also introduced Karen and Mitch, who gave an excellent report on IT Security. Maybe, if we have a couple minutes, we can bring Mitch up to give us a summary of that because I know it's a high visibility concern of the Board. It would be time well spent.

Chairman Gardner: Joe, excuse me for a second. I was just reprimanded by the "Sargent at Arms" that I skipped the Claims Committee, so we'll hear that next. Jay, apologies to you.

[laughter]

Joe Martins: I wish to refer to you to tab seven in your books. At the Audit Committee Meeting, we mentioned that the Office of Internal Audit (OIA) delivered an Annual Report to the Board and reporting officers on February 15<sup>th</sup> as required by Citizens' statute. In this report, we provided a comprehensive summary of work done in 2015 and commended that work integrated at Citizens has a well-established functioning and controlled environment. The committee also discussed progress against audit work scheduled and results of audits that were completed. The chart on the first page represents the audit plan and includes 44 audit engagements of which 42% are in various stages of completion. The audit control framework initiatives are moving steadily on plan for the completion of 18 process and control reviews to date. This represents 31% of the process reviews throughout the implementation. These reviews involve fully understanding documenting and [unintelligible] and identifying key controls according to industry standards. To date 50 key controls have been reviewed and formally documented. We foresee that all process reviews have been completed by the end of 2017. Following your request from the committee, Karen Wittlinger, Audit Director, presented a complete list of audit work that focused on security within Citizens. I think what this proved is that across all aspects of IT, auditors had time to look at process and improvement of the security risk, with a focus on cyber security and risks that we may face going forward. Following that, we had Mitch Brockbank, IT Director for security, provide

a list of progress, since he joined three years ago, of how they have improved security and projects that are in process, in terms of development, a risk assessment, policies and procedures, and specific controls and oversight of compliance toward IT security. Every year, we are required to assist the current Audit Committee to review the OIA Charter. The OIA Charter was approved by the Audit Committee and the Audit Committee Charter is presented to the Board for its consideration. This review of the Charter did not reveal any specific need for revision. On page five, we provide a summary of the progress on the resolution control deficiencies. None of the issues are currently overdue and 13 open issues are minor in nature. This concludes my presentation.

## **7. Chief Claims Officer Report**

Gary Aubuchon: No everything is gloom and doom in the claims arena. James and I have been working in a joint initiative to introduce to the legislature a license plate in the Tri-County area that will say, "Water Everywhere but Not a Drop to Drink."

[laughter]

Gary Aubuchon: Any proceeds will offset any AOB claims.

Chairman Gardner: I like that because no one is buying Dolphins and Hurricanes right now.

Jay Adams: I don't know how I can follow that.

[laughter]

### **a. Claims Committee Report**

Jay Adams: The Claims Committee met telephonically March 9<sup>th</sup>. We focused on non-weather and AOBs, the tornado claims, quality assurance redesign, and our vendor relationship group. I'd like to spend a few moments to talk about the non-weather and AOB issues that we're facing and some of the more specific results related to that. Some of the areas of concern are that we received more non-water claims in 2015 as a percentage of PIF than received in 2014, even though the total claims volume was lower during the same period. Claims litigation volume holds consistent around 600 new suits per month, even though our PIF are lower and the claims count is lower. The average number of days to report an HO3 policy has been 33 days for the first notice of loss (FNL). This makes it difficult for Claims to inspect the loss to determine the reason for the loss and the damage caused by the loss when permanent repairs have been completed prior to Citizens seeing the loss. The October 2015 OIR AOB data call showed the following trends when Citizens conducted a statistical data sample from the data. The prevalence of AOB on water claims, particularly litigated claims, is increasing in the Tri-County area. There is evidence that this trend is spreading to other parts of the state. AOB claims incur higher expenses than those claims without an AOB. The average cost of litigated claims is more than doubled than a non-litigated claim. There is a strong connection between the increases in litigated water claims and increases in AOB and their representation we're seeing at the FNOL. There does not appear to be a strong correlation between water loss claims and the age of the home. We're doing some things in Claims to help mitigate these factors. The claims divisions are working closely together to

develop appropriate strategies across the litigation, non-litigation, and SIU groups. We have a dedicated non-litigation on non-weather water items. We have enhanced training being conducted for the non-weather water staff teams on our best practices on estimating guidelines, policy language, and how to appropriately manage represented claims. We have enhanced SIU techniques for non-weather water claims and additional training for our staff. We're working with Product to work on product language changes to help eliminate any gaps in the policy language. Today I'm going to bring forth an action item on the Contract Manager Repair Program that we hope to roll this out in May, which will provide 24/7 support for emergency services, which includes mitigation, board-up tarping, entry removal, and a list of credential of networked contractors that can complete all repairs and provide a warranty to the policyholder. We've worked closely with agency and our communications group on the Call Citizens campaign that you've heard about. Up until last week, we've been working with the legislation in trying to get some AOB legislation.

i. Action Item: *Contractor Repair Services*

Jay Adams: Citizens' Claims Department seeks to augment its current service offerings available to its policyholders through the facilitation of a contractor network. This program will provide policyholders with licensed and credentialed contractors capable of providing Emergency Services and Contractor Repair Services. In order to achieve the most efficient and effective method of accomplishing this, Citizens intends to contract with a third party administrator that will provide services which will meet the needs of the policyholders. This program will be voluntary to all policyholders with eligible claims. Citizens intends to contract with a single Vendor who will be responsible for providing access to and maintaining a statewide network of licensed and credentialed Contractors capable of supporting the needs of the entire Contractor Repair Services Program and providing Administrative Services for services provided through its Contractor network. This is a budgeted item. It comes through our normal operating budget and these are paid under indemnity. The estimated contracted amount is \$15 million for the life of the contract. The term will be a five year with two two-year renewal options. Citizens issued an Invitation to Negotiate (ITN) 15-0011 for Contractor Repair Services. Responses were received and evaluated by an Evaluation Committee. Negotiations were held with a Negotiation Committee. The Negotiation Committee recommended award to one Vendor on February 24, 2016, Contractor Connection. **Citizens' Claims Committee approved and recommends the Board of Governors to approve the recommended award and resulting contact, including renewal periods for Contractor Repair Services, ITN 15-0011 to Contractor Connection; to authorize staff to take any appropriate or necessary actions consistent with this Action Item; and to approve this Action Item not to exceed \$15 million.**

**A motion was made and seconded to approve the Contractor Repair Services action item as stated above. All were in favor. Motion carried.**

ii. Action Item: *Sinkhole Engineering Services*

Jay Adams: The next item is Sinkhole Engineering Services. The Sinkhole Engineering Services program is intended, to provide a credentialed network of experienced sinkhole geotechnical engineering contractors. This is a budgeted item and is paid under LAE. The contract amount will

not exceed \$72 million. The intended contract term is three years, and at Citizens discretion, have one additional two-year term. A Request for Proposal for Sinkhole Engineering Services, RFP 15-0031 was issued on December 1, 2015 and a Notice of Intent to Award was published on February 22, 2016, with an intent to award contracts to seventeen (17) Vendors as listed on the attached notice. **Citizens' Claims Committee approved and recommends the Board of Governors to approve the recommended award and resulting contracts, including renewal periods for Sinkhole Engineering Services, RFP 15-0031 to the list of attached Vendors as set forth in this Action Item; to authorize staff to take any appropriate or necessary actions consistent with this Action Item; and to approve this Action Item not to exceed \$72 million.**

Jim Henderson: It's a big number to be approved. With respect to the billing, is each project on an agreed upon budget or hour upon execution with respect to a loss or sinkhole? How is that billing executed with the engineering firm?

Jay Adams: They have a Statement of Work (SOW) that's required for each job. The engineer does the evaluation and goes back to an individual claim. These are claims charges.

Jim Henderson: This is really a bucket of money for which we anticipate to not exceed?

Jay Adams: Correct. These are spent in our LAE.

Jim Henderson: I understand where it is spent, but it's premium dollar out of the same bucket.

Jay Adams: We base that number on where our productivity has been and tried to forecast where that has been over the SB 408. At the current rate of where we are receiving these claims, we will come close to that amount.

Jim Henderson: The other question is why 17 firms?

Jay Adams: When we did the RFP, we selected those that are eligible who have met the minimum qualifications. There certainly isn't enough work to spread among all of those, but it gives us enough in the roster if we need it.

**A motion was made and seconded to approve the Sinkhole Engineering Services action item as stated above. All were in favor. Motion carried.**

b. Action Item: *Claims Legal Services*

Jay Adams: This was approved by the Board last year. We've been trying to be inconclusive to allow a few more firms in. This contract is specifically set up to be our defense counsel. We're not asking for additional money. This is just to add additional vendors. This is a budgeted item and the funding for this is in our LAE. The term of the contract will be a five-year based term with two optional one-year renewals. On February 2, 2016, Citizens issued Claims Legal Services – Supplemental First Party Property RFP No. 16-0009. Vendor responses were due by February 19, 2016 and six proposals were timely submitted. The proposals were reviewed and scored by an

Evaluation Committee who recommended to award contracts to law firms on March 1, 2016. A listing of the firms recommended for award in the Notice of Intent to Award is available on the attached Attachment "A." **Staff recommends that Citizens' Board approve the recommended award and resulting contract(s), including renewal periods, for RFP No. 16-0009 for Claims Legal Services – Supplemental First Party Property to the list of attached vendors (Attachment "A"); authorize staff to take any appropriate or necessary actions consistent with this Action Item; approve this Action Item to utilize funds approved for RFP No. 15-0023 and add no additional cost to existing Annual Operating Budget approved for RFP No. 15-0023 at \$350 million.**

**A motion was made and seconded to approve the Claims Legal Services action item as stated above. All were in favor. Motion carried.**

Juan Cocuy: Before we go on, we neglected an action item from our committee. Do you want to do it now or later?

Chairman Gardner: Let's come back after Steve's report, and we'll take care of it.

## **8. Chief Consumer and Agent Services Report**

### **a. Market Accountability Advisory Committee (MAAC) Update**

Steve Bitar: The first update is from the MAAC.

Dave Newell: For the record, Dave Newell, Chair of the MAAC. We held our meeting yesterday, and like all of our meetings, it was pretty lively. Citizens updated us on a survey they just concluded on the top 25 submitting agents and the agent roundtable. 60% of the respondents are encountering restrictions and reduced capacity of private market insurers. 55% of the respondents indicated knowledge of private market non-renewal activity.

Vice Chair Glisson: Is there a trend? Can we look at how these numbers compare to previous years?

Steve Bitar: We actually conducted the survey for the first time as a result of some of this, but we'll continue to build it and will include it in our field analysis as well.

Dave Newell: Agencies with large books are trending down and signifying a movement into the private market. Work of the agency field team with current assignments is really active. An update on agent training activities - includes webinars and live education related to the deployment of the agent and agency appointment agreements. Before we get into that and into the recommendation, I want to say a few things I mentioned yesterday at the MAAC meeting. No one wanted to reopen these agreements, but unfortunately Citizens found itself in uncharted waters. Based upon recommendations by the Buchanan Ingersoll & Rooney, dealing with data security, these recommendations cannot be put in place without revising the agreements. FAIA and other associations made several recommendations to Citizens management teaming consideration and a number of appointed agents along with the size and scope of those agents. One of the key recommendations is training; you'll hear a lot about that. Agents can understand

the technology requirements and set them up to comply with them. I want to thank Citizens management for working with us and all the Board members engaged in this discussion. In saying that, we had a discussion about these agreements and we voted, recommending the approval to bring for approval today of the Agent and Agency Appointment Agreements based on their final decision. Staff also provided an update on the Clearinghouse and some of the policies are going through there based on renewal and new business. The last thing is Depopulation in 2015 with 273,000 policies was depopulated, and about 30,000 policies were being depopulated in February 2016.

Steve Bitar: I think Chairman Newell gave a pretty good update with regard to the history of where the agency revisions have come from. We spent about the last nine months reopening the agreement and working through the various recommendations. I'm happy to report that we have full support from the five associations, our agent roundtable, as well as the MAAC. I'm happy to take any questions before we go over the recommendation.

Jim Henderson: I applaud the committee, and therefore, we'd like to bring depth and quality to the agreement. Our representatives out there and our ambassadors are the agents. As we insist on them being high quality it reflects on us. Thank you for doing that. Ultimately, the policyholders are the beneficiaries.

Steve Bitar: We thank you and Chairman Holton from the ISAC for his leadership and guidance throughout this whole process. It's been a collaborative effort to say the least.

Jim Holton: Thank you, Steve, for the expeditious and timeliness of handling this. The one concern I had was having the MD&A being signed by third parties, such as cleaning service, which I thought was a bit onerous. Fortunately, with Steve's help and Legal Counsel, we were able to flush that out. This is the way the process should work and it worked well.

Steve Bitar: **Citizens' staff recommends that the Citizens Board approve the Agency Agreement and Agent Appointment Agreement as revised and authorize staff to take any appropriate or necessary action consistent with this Action Item, including formal noticing of agencies and agents, development of associated training and education materials, and related deployment activities.**

**A motion was made and seconded to approve the Agency Agreement and Agent Appointment Agreement. All were in favor. Motion carried.**

#### b. Clearinghouse Update

Steve Bitar: I sent a Clearinghouse update earlier this month. We have gone live since the last meeting on the HO6 policy form. I'm excited to see some activity there. We added two new carriers last week to the platform and we are up to 16 carriers on the Clearinghouse platform.

Chairman Gardner: Have you seen any increased activity?

Steve Bitar: We are. On the HO6 side, the results have been great. We are showing that 30% of the policies coming in are showing offers being made, which is much higher than the 12% to 15% on the HO3s and DPs. It is the first couple months, but as we add more companies, I expect that to increase.

Chairman Gardner: Juan, does Joe need to approach the Board for this?

Juan Cocuy: No. As I mentioned earlier, the Audit Committee ratified the charter. There were no changes but we need the Board to approve it.

**A motion was made and seconded to approve the Audit Committee Charter. All were in favor. Motion carried.**

## **9. Chief Risk Officer's Report**

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

Jim Henderson: This committee really is kind of at the cross-hairs of a lot of the coverage concerns about the new interpretations of water damage and class and language that really is the root cause of a reinterpretation of the contract initiative. John has a number of items to report on; some are housekeeping...\_ and also there's a really good comparison about some of the cause and effect in respect to language dealing with water that John can walk us through without maybe ducking our head, John... I want to compliment the staff on looking at options that deal with this coverage without just going to a total shutdown, reduce limits without consideration to the policyholder. I think you're doing everything you can to provide the coverage to those who are willing to comply to reasonable rules to deal with the intent coverage. Thanks for your good work on that I appreciate your efforts.

#### **i. Action Item: *Lender Placed Coverage***

John Rollins: I appreciate that, Governor Henderson. It's a large team at Citizens and a multi-disciplinary team that brings any recommendation regarding product or claims changes to the Board. It's not just my team. My team is fantastic, but it's also Product, Claims, and Legal all working together to synthesize the best that we can do in terms of recommendations and bringing those to you. I'd like to warm up with some consumer friendly product changes that represent more tweaks that could position our product a bit better to serve certain consumers. The first is a change in our approach to Lender Placed Coverage. Currently, Citizens underwriting rules do not recognize Lender-Placed coverage as a valid form of prior insurance. This is commonly known as Forced Placed Coverage. It is coverage placed by mortgage or a bank when no other property insurance exists. This is very stripped-down coverage. This does not include personal property or personal liability. 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 will become effective, and incur a 10% premium surcharge applied for the first policy term. There is a segment of those applicants who would be eligible for Citizens with proper underwriting and a property inspection to whom the current rule represents an unneeded handicap to getting comparable

coverage from Citizens that would be in a standard homeowner's policy. We can remedy that by modifying our underwriting rules in allowing Lender-Placed Coverage as a form of accepted prior insurance, but requiring applying for Citizen's insurance to be accompanied by a four-point inspection confirming acceptance of the property. **During the March 15, 2016 A&U Committee Meeting Citizens' approved and recommend that Citizens' Board approve the above proposal to modify the underwriting rules to allow Lender-Placed Coverage (personal lines) policies to be accepted as a form of valid prior insurance, and upon approval, appropriate underwriting rule changes will be filed with the OIR and the necessary system updates will be implemented.**

**A motion was made and seconded to approve Lender-Based Coverage. All were in favor. Motion carried.**

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

John Rollins: My next item relates to the increase cost of construction coverage in commercial residential and commercial non-residential multi-peril policies only. Citizens previously provided an industry standard additional coverage. It's similar to the law and ordinance coverage in a homeowner's policy that allows after a loss for the home to be rebuilt up to code if the building code has been changed. The increased cost of construction provides a similar coverage in commercial lines policies limited to \$10,000 of additional coverage to rebuild a structure after a loss to code. We removed this coverage as part of our January 2013 filings that was part of a package to reduce the overall exposure of Citizens and position our coverage as to be more restrictive in the private market. Remember at that time, with one million policies, the thought was that we want consumers to seek coverage in the private market because that coverage should be more comprehensive and more attractive. After a careful study, we considered the potential impact to condominium associations, small business owners, and the consumers behind those policies. We recommend restoring this coverage that maybe needed to replace or repair damaged property as needed. **During the March 15, 2016 A&U Committee Meeting Citizens' and A&U approved and recommends that Citizens' Board approve the proposal to adopt policy changes to restore Increased Cost of Construction additional coverage for Commercial Residential Multi-Peril and Commercial Non-Residential Multi-Peril lines of business and authorize staff to take any appropriate or necessary action consistent with this Action Item, including filing with the OIR, system change implementations and other supporting activities.**

**A motion was made and seconded to approve the Increased Cost of Construction product change. All were in favor. Motion carried.**

*iii. Action Item: Water Product Changes Update and Proposal (Personal Lines)*

John Rollins: The next item includes both an update on current progress and a proposal addressing Governor Henderson's opening comments regarding water coverage. This relates to personal lines only. At the December 2015 meetings, Citizens presented an update on the dramatic increase in both frequency and average cost of water damage claims since late 2013.

This is staggering and threatens all progress being made in reducing the size of Citizens in creating private market options for consumers. The rate making statute in Florida is long but I can sum it up in one sentence: Consumers should not pay a penny more than they have to for coverage. Rates in the state are made on a cost-plus basis. We don't charge market-based rates. As go the cost drivers so go the rates. We presented an update showing the frequency and severity of the increases that will drive increases in our rates. We have evidence that shows the industry is experiencing the same things we are; the industry's rates can go up higher or the industry could underwrite its way around problems with cost driver's claims. It will not be friendly for Florida's consumers. We have a multi-pronged response plan. You've heard about our comprehensive participation with the legislative process. You've heard from the Claims Committee about our development and solicitation about the Voluntary Managed Repair Program. You've heard about Jay Adams' reorganization of the Litigation and non-Litigation teams to triage water claims and to put us into position immediately respond to a FNOL. You've heard about the Consumer Education Campaign from Governor Schinz's Consumer Services Committee. Product changes are only one part of a multi-disciplinary approach but they are a critical part. We have already come to you in December with a slate of product changes and the guiding principle here has been to use a surgeon's scalpel and not a meat cleaver to modify coverage so that abusive claims are discouraged, legitimate claims are protected and the policyholders are protected in the case of a legitimate water claim. These policy language changes include timely notification of a claim at Citizens. The original filing as you authorized included a 72 hour notification provision except during certain emergency circumstances. This language was modified slightly after consultation with the senior leadership of OIR and Citizens. We met with them in January and we softened and polished the edges. We filed it on February 9<sup>th</sup> and the OIR needs to make a decision on or around March 26<sup>th</sup> under Florida law. In addition to that filing, there were a couple other elements: limits on emergency services and temporary repairs that were not pre-authorized by Citizens. We have a \$3,000 limit on emergency services currently under file and under review by the office. Once again, this is not a sublimit in the strictest sense; it is a limit to pre-authorization by notifying Citizens of the claim and requesting additional coverage. Finally, we filed a slate of changes intended to address coverage triggers such as collapse of a pipe or water backup and the allowance to tear out and replace the entire system which contributed to the cause of the loss. We have a lot of claims where the entire house is being re-piped. Cabinets are being reinstalled. Floors are being reinstalled. We are getting a claim with a bow based on a small collapse of one of the pipes. Our policy language currently does not delineate between replacing the part of the system that caused the loss and replacing the entire system that caused the loss. So, it's being abused in some cases. I want to point out that you authorized a couple things that were not filed after significant consultation with the office. There are limitations on what we call "matching." Matching is the provision in a policy that allows the insured to request that all the cabinets match color and appearance when part of it has to be replaced with the water loss. After consultation with the OIR, there was no way we could modify our language that was restrictive in coverage. In summary, these elements were filed with polishing the rough edges, continuing to work with the OIR to make it as consumer friendly as possible but to discourage abusive claims. At this moment we continue to work with the OIR and we anticipate some strong language that gives us what we need to make a difference, particularly the managed repair program that you heard from the Claims Committee, for success. If we stand up a managed repair program, it's going to have appropriate language behind it. What we'd like to bring to you today as a new action item is a proposal to evaluate additional potential product changes directly related to encouraging the

policyholder to select the managed repair program at the time they buy the policy. We have two product options for you, an alternative approach and a preferred approach. The reason for this is that it depends on the outcome of the filings. This Action Items seeks Board approval for Citizens staff to implement Product Changes to encourage selection of the Claims managed repair program at the time of policy purchase or renewal. **Staff recommendation (preferred approach) – assuming 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 Managed Repair Policy Endorsement. The alternative is that if agreement is not reached, Staff recommends a stronger incentive to encourage selection of the Managed Repair Policy Endorsement. This recommendation includes a coverage change to introduce a \$10,000 policy sublimit for water losses. The insured will be given the option to maintain existing coverage levels with no sublimit by selecting the Managed Repair Policy Endorsement. Item (b) is to authorize staff to take 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.** We discussed this at the committee yesterday and we feel it's appropriate to include the friendliest option.

Jim Henderson: I think staff's recommendation is the best attempt that we know to keep in place coverage for legitimate claims. It's not the easy route but at this point it does provide coverage. Hopefully, we won't have to go through a scalpel approach. There is risk associated with having the limits process in place for further interpretation and inadequacy of rates. With all that said, this is the best route to go to keep coverage in place.

John Rollins: As President Gilway pointed out, many insurers and carriers in the market including some of our strongest depopulation insurers and very active writers do have a sublimit on water losses already in place. This is not breaking new ground. The issue has been this has been approved for older homes. We feel like Citizens is in a different position regarding the effective book of business. We feel like the easiest route from a regulatory perspective would be to try to do what the private industry has done with a meat cleaver approach with a blanket coverage, but we don't think it's as fair to our book of business. Over 40% of our book of business is homes that are 40 years older. That is why we're taking a staged-approach.

Chairman Gardner: In 2012, we tried to introduce a sublimit, and there were a lot of angry people at that meeting. I appreciate that we're sensitive to the consumer. I think that we're offering a fair choice option. We're not attempting to restrict any coverage in the event of legitimate claims. We're just trying to prevent abuse.

Vice Chair Glisson: I'm assuming we're going to allow agents to push this premium reductions to the consumers. Point of sale is where this is going to happen, correct?

John Rollins: The agent is really in the driver seat. There is background in your item here regarding multiple options. One of the reasons why we're grabbing at the premium credit is that we're trying to look at this from the agent's point of view. What tools can we equip the agent with at the time of sale? We feel that the premium credit will make the difference on the bottom line.

**A motion was made and seconded to approve the Water Product Changes Proposal as mentioned above. All were in favor. Motion carried.**

*iv. Action Item: Property Characteristics Web Services*

John Rollins: I have two action items that relate to continuation of solicitation of services. We use significant volumes of underwriting data on each policy at new business time and at renewal. Examples of data include fire protection, class, building code effectiveness grade and other geographic data systems data based on a map. We also use wind only territory information which is specific to Citizens. For the past five years, Insurance Services Office, Inc. has provided these services to Citizens. The current contract with Insurance Services Office, Inc. expires on May 15, 2016. Citizens issued an Invitation to Negotiate (ITN) # 15-0027 on August 26, 2015. On September 30, 2015, Citizens received one response, from Insurance Services Office, Inc. (ISO). The recommended contract is for three years, with an optional two year renewal, at Citizens discretion. The total amount of the contract, including the renewal term would be not to exceed \$4,006,847. **The A&U recommends that Citizens' Board approve the recommended award to Insurance Services Office, Inc. and resulting contract, including the renewal period, for ITN No. 15-0027 for Property Characteristics Web Services as set forth in this Action Item and authorize staff to take any appropriate or necessary action consistent with this Action Item.**

**A motion was made and seconded to approve the Property Characteristics Web Services action item. All were in favor. Motion carried.**

*v. Action Item: Replacement Cost Estimating Services*

John Rollins: The next action relates to a similar type service continuation. This is regarding replacement cost estimating services. Accurate cost estimating is critical for underwriting, premium development, and establishment of a reinsurance program. Citizen's agents and underwriting staff uses a third party application software program and costing model. This service must have the ability to calculate lots of different replacement costs and residential high value, commercial vs. non-commercial, mobile homes, etc. We rely on database and user submitted information about the home that goes into this software. Examples include square footage, year built, quality grade, etc. to come back with an actual cash and cost value. The current provider is Xactware Solutions and the expiration of that contract is May 14, 2016. We issued an ITN No.:15-0026 on September 29, 2015 and on October 27, 2015 we received three responses. One solution was moved forward to negotiations, with a subsequent recommendation by the negotiation committee to award the contract to Insurance Services Office, Inc. and its wholly owned subsidiary, Xactware Solutions, Inc. The contract term is three years with an optional two-year renewal. **The A&U recommends that Citizens' Board approve the recommended award to Insurance Services Office, Inc. and resulting contract, including the renewal period, for ITN No. 15-0026 for Replacement Cost Estimating Services as set forth in this Action Item and authorize staff to take any appropriate or necessary action consistent with this Action Item.** The total contract amount is not to exceed \$5,102,000, including the renewal terms.

**A motion was made and seconded to approve the Replacement Cost Estimating Services action item. All were in favor. Motion carried.**

Chairman Gardner: We have about 15 to 20 minutes left. Would you like to take a quick break or continue?

[unknown speaker]: Let's keep going.

## **10. Vice President of Human Resources Report**

### a. Action Item: *Professional Networking Services*

Violet Bloom: The action item is Professional Networking Services. The recommended vendor is LinkedIn. Funding is included in the 2016 Annual Operating Budget. LinkedIn was originally a single source purchase approved April 2013. Additional services were added to the contract in November 2013. Recruiting procured another contract with LinkedIn for 2014 and 2015, again utilizing single source. Staff is requesting additional spending authority for a two-year contract with LinkedIn. The contract amount is \$174,209. It includes multiple services, with the most notable service is the corporate license for two years. The contract term is April 9, 2016 through April 9, 2018. The scope includes functionality for both Citizens and job applicants. The most notable is the ability to list jobs and search the LinkedIn database for candidates. In accordance with the Citizen's Purchasing Policy, Citizens will utilize a purchase order in the total amount of \$174,209 to be paid in equal quarterly payments over the two-year contract period. **Staff recommends that Citizens' Board approve the two-year contract spend authorization of \$174,209 to LinkedIn as set forth in the Professional Networking Services Action Item and authorize staff to take appropriate or necessary action consistent with this Action Item.**

Chairman Gardner: I want to make sure that this won't be redundant with recruitment expense.

Violet Bloom: In 2015, 19 of the applicants who were sourced who identified themselves as being sourced through LinkedIn were hired. If we used an outside firm to identify those candidates, including myself, we would have spent close to \$300,000. There is a net savings.

**A motion was made and seconded to approve the Professional Networking Services action item. All were in favor. Motion carried.**

## **11. Vice President Communications, Legislative & External Affairs Report**

### a. Consumer Services Committee Update

Freddie Schinz: I want to thank everyone and wish Christine a nice vacation. I want to bring us up to date on the Call Citizens First program that we have along with the ID cards. I want to thank staff for the good job and the graphics provided. I think this will help a lot of our customers, especially in the Tri-County areas. I hope it is well received so they can understand that they call Citizens first to keep the insurance down.

Steve Bitar: The Consumer Services Committee met March 7<sup>th</sup> and received many updates. It received an update on the successful launch of the new Citizens website on February 1<sup>st</sup>. I hope you've had an opportunity to see it. The second thing we talked about is the Call Citizens First Campaign which is aimed at reminding policyholders of the importance of calling Citizens first following a claim occurring. A major component of that is the implementation of a policyholder ID card. Starting February 29<sup>th</sup>, every policyholder will receive an ID card that has their policy number and 24/7 claims call number. For one year, we'll produce those for renewing policyholders. In addition to that, if you look at the inside pockets of your books, you'll see the postcard and magnet produced by our Communications team. These started going out last Friday and we are doing a pilot program with these magnets; they direct consumers to call Citizens first. We have instructions in Spanish as well so that our Tri-County recipients heed the warning in the notice to give us a call first to file a claim. We'll send these in Miami-Dade only, first, with approximately 42,000 going out over a staggered four-week period that started last Friday. That updates the Board on the Consumer Services Committee. We will do a soft launch for telephone payments in April. Currently, customers can pay online or by check. We will expand that to telephone payments.

#### b. Legislative Update

Candace Bunker: For the record, I'm Candace Bunker, Manager of Legislative and Cabinet Affairs. I will be presenting this update on behalf of Christine Ashburn. As you are aware, the 2016 Legislative Session concluded last Friday. Approximately 1,800 bills were filed during the session and 279 of those bills passed. Of the bills that ultimately passed, only one has significant impact on Citizens operations. I will briefly outline the key provisions contained in HB 931 sponsored by Representative Kathleen Passidomo (R-Naples). Committee substitute to committee substitute HB931 makes the following changes to Citizens:

- After January 1, 2017, a Citizens policyholder will be provided with all take out offers when one or more companies has expressed an interest in assuming the policyholder's policy.
- Requires the policyholder to receive information in a uniform format that they can use to compare takeout offers to each other and to the coverage the policyholder has with Citizens. The policyholder must receive the estimated renewal premium, the renewal coverage, including an explanation of differences, and a comparison of both the premium and coverage to the premium and coverage of the Citizens renewal policy.
- Provides the consumer representative serving on the Board of Governors with the same exemption from the conflict of interest statute as is provided in current law to the other members of the Board of Governors with insurance expertise.
- Allows additional entities to receive underwriting data for the purpose of analyzing risks for underwriting in the private insurance market and prohibits the use of this confidential information for soliciting policyholders.
- Provides that an agent with Citizens must keep, at all times, an appointment with one admitted carrier either writing or renewing business in Florida in order to be appointed with Citizens.

- Amends Citizens rating statute to require that Citizens consider the results of the public model in combination with private model results in lieu of using the public model as the minimum benchmark in establishing Citizens rates.

It's important to note that the bill does not include the two provisions triggering the Governor's veto last year. These were the limitations on takeout offers to two times per year and allowing a policyholder to retain eligibility for Citizens through the Clearinghouse if the insurer increases its initial premium by more than 10% over its original estimate during the 36 months of the takeout. We fully anticipate the Governor letting this legislation to become law this year. Now that the 2016 session has concluded, focus will now shift toward the upcoming elections. There will be roughly 50 new legislatures after the election, with 13 new Senators and 37 new House members. Session concluded earlier due to the early start this year. Legislative and External Affairs will focus on legislature district offices, meeting one-on-one with legislatures and conducting office hours. During office hours, we meet individually with our policyholders in a legislature district office and addressing questions or concerns they have regarding their Citizens policy. This opportunity has become a valuable asset in identifying the type of Citizens issues legislatures are hearing from their constituents.

Jim Holton: One comment to Candace and Christine as well – you both know the importance of starting early for next session. I would encourage Citizens with the industry engage the public relations campaign to get constituents and legislators to get some meaningful legislation done. This is how reform is done throughout the state. We need to get that work done now.

## **12. Consent Agenda Items**

Barbara Walker: Today we have four

- **Infrastructure Software – Application Performance Management. The requested spend authority will be used to purchase software licenses and maintenance utilizing the GSA contract number 252-GSA Schedule 70. Total requested total spending authority: \$506,500. The Citizens ISAC and Citizens Board is requested to review and approve spend authority in the amount of \$506,500 for this purchase.**
- **Non-Litigated and Litigated Claims Management Adjusting Services RFP 15-14-0019 for multiple vendors. This agenda was originally approved at our September 2015 Board meeting. Citizens' Claims Committee approved and recommends the Board of Governors to approve amendment of the Contracts for Non-Litigated and Litigated Claims Adjusting Services to add a line item fee of \$90.00 for assignments involving Third-Party Water Mitigation Review; authorize staff to take any appropriate or necessary actions consistent with this Consent Item; and approve this Consent Item subject to the approved contract budget of \$500,000,000.00.**
- **Kronos Annual Support and Professional Services. The broker is for Kronos. Staff recommends that Citizens' Board approve use of the GSA contract with Immix Technology, Inc. (GS 35F-0265X) and spend authorization as set forth in this Consent Item and authorize staff to take appropriate or necessary action consistent with this Consent Item.**

- **Commercial Banking Services Contract Renewal Contract 11-10-0005-00 - Wells Fargo Bank N.A.** It is recommended that Citizens' Board approve the renewal for one, two-year renewal period for the Commercial Banking Services Contract 11-10-0005-00 above; and authorize staff to take any appropriate or necessary action consistent with this Consent Item.

**A motion was made and seconded to approve the consent agenda items. All were in favor. Motion carried.**

**New Business**

Meeting adjourned.