



## **Dashboard**

### Appendix 1 – Strategic Risk

During the first quarter the Executive Leadership Team (ELT) assessed and prioritized 17 strategic risks.

<b>2020 Strategic Risks</b>		
<b>Risk Title</b>	<b>Risk Description</b>	<b>Rating</b>
Rate Differential	Citizens' competitive position in the market may be impacted by the combination of the statutory rate glide path of 10%, increasing litigation and approved rate increases for other Florida insurers leading to repopulation.	High
Claims Abuse	Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.	High
External Influences	Uncertainty related to external events, including new or changing laws and regulations, and changing market conditions that require rapid adjustments where Citizens' mission and operations are disrupted resulting in a potentially significant financial impact.	High
Litigation Management System	The outcome of the solicitation of the mission critical litigation management system, which is required to effectively manage litigation cases, may result in data conversion challenges and significantly impact internal and external resources.	Medium
Market Dependence on Reinsurance	The financial model of the Florida domestic property insurance market has a high dependence on the pricing and capacity available in the reinsurance market.	Medium
CAT Response	Failure to have adequate resources to respond to a major catastrophic event.	Medium
Data Security and Privacy	The growing sophistication and variety of cyberattacks may adversely impact the organizations' performance and reputation.	Medium
Talent Management	Ability to acquire, retain and develop critical talent to achieve strategic objectives.	Medium
Vendor Management/Oversight	Given Citizens' reliance on vendors, it is critical to ensure an appropriately right-sized vendor base, validate a vendor's capability to fully perform the contract, and adequately monitor vendor relationships, performance, and contract compliance.	Medium
Managed Repair Program	Failure to fully implement the Managed Repair Program as an acceptable alternative customer solution in support of the insurance contract.	Medium



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### Appendix 1 – Strategic Risk (continued...)

<b>2020 Strategic Risks</b>		
<b>Risk Title</b>	<b>Risk Description</b>	<b>Rating</b>
Product Offerings	Failure to have insurance products that balance the needs of the market, consumers, and Citizens.	Medium
Leveraging Data and Technology	The ability to leverage data and new technology in pace with market demands and expectations of Citizens by its stakeholders to ensure delivery of strategic initiatives.	Low
Assignment of Benefits	Failure to be fully responsive to House Bill 7065, AOB Reform, may result in reputational damage as Citizens is in the forefront of this effort.	Low
Ability to Adapt to Changing Revenue	Ability to recalibrate and reprioritize administrative expenses to adjust to premium fluctuations, while maintaining required capabilities.	Low
Compliance with Laws & Regulations	Unintentional acts or decisions by the company that are not in accordance with rules and regulations may result in regulatory, civil or criminal penalties and reputational damage.	Low
Ethics, Integrity, Conflicts of Interest	Violation of Citizens' code of ethics, commitment of illegal and unauthorized acts, management fraud, employee fraud or situations where multiple, conflicting interests could possibly corrupt motivation or decision-making may result in criminal charges, reputational damage or financial loss.	Low
Underwriting Data Integrity	Inaccurate assessment or classification of the risk caused by either out of date or inaccurate underwriting information, or not reviewing renewal risks periodically resulting in incorrect underwriting decisions or unintended consequences on depopulation.	Low



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### Appendix 2 – Overview of Top 4 Strategic Risks

Upon request from the Committee, Enterprise Risk presents a short description of the first four strategic risks on the listing provided above in Appendix 1. It is our objective to present all the Medium and High rated risks to the Committee over the next three meetings.

#### Rate Differential

The result of market changes may make Citizens a more competitive insurer in the overall Florida marketplace as Citizens cannot statutorily keep pace with the same level of rate increases as the private market. Citizens is required by state law to submit a slate of actuarially sound rates to OIR annually for approval while complying with a legislative glide path that caps rate increases at 10 percent, excluding coverage changes and surcharges. As rate increases occur in the private market, the rate differential will continue to grow leaving Citizens with more competitive, lower premiums resulting in repopulation.

- *Risk:* Citizens' competitive position in the market may be impacted by the combination of the statutory rate glide path of 10%, increasing litigation and approved rate increases for other Florida insurers leading to repopulation.

#### Claims Abuse

Claim abuse schemes evolve slowly over time and are difficult to identify in the short term. Citizens is committed to fighting property insurance fraud, waste and abuse as an integral part of our mission to serve the people of Florida. Citizens continually assesses and pursues opportunities to strengthen our corporate control environment by mitigating the potential for fraud, waste or abuse, and integrating internal control measures into the organizational culture. Citizens has a specialized team of investigators who detect and investigate fraud. The Special Investigations Unit constantly educates claims and underwriting staff about how to identify signs of fraud and assist agents with procedures for reporting suspected fraud. During 2020, additional focus will be placed on employing predictive analytics to provide early indicators of potential claim fraud activity.

- *Risk:* Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.

#### External Influences

The financial stability of Florida's property insurance market is challenged by market wide issues as well as water loss claims and litigation stemming from Hurricanes Irma and Michael. Instability in the market has a direct impact on Citizens as our mission is to provide insurance protection to Florida policyholders who are entitled to but are unable to find property insurance coverage in the private market. Citizens continues to closely monitor market conditions to ensure that we are well prepared to provide coverage when needed.

- *Risk:* Uncertainty related to external events, including new or changing laws and regulations, and changing market conditions that require rapid adjustments where Citizens' mission and operations are disrupted resulting in a potentially significant financial impact.



*Audit Committee Meeting, March 24, 2020*

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## *Dashboard*

### Litigation Management System

Claims Litigation and Claims Legal Services currently utilize the Acuity system to manage a large volume of claims related litigation. In 2020, plans are to procure a Litigation Management System, a web-based SaaS solution, for use by both internal and external stakeholders to more effectively manage litigated claims and associated litigation billing. Unlike other systems utilized by Claims, the Litigation Management System requires separate interfaces and permissions for internal Claims and Legal staff and external counsel to provide a secure environment that both parties can access to collaborate on the handling of litigated claims as well as an integration with outside counsel billing systems to allow for submission and review of electronic legal invoices.

- *Risk:* The outcome of the solicitation of the mission critical litigation management system, which is required to effectively manage litigation cases, may result in data conversion challenges and significantly impact internal and external resources.