

INTERNAL AUDIT

Automated Underwriting
Project Engagement

February 24, 2020





Executive Summary

Background

A core business function of Citizens is to underwrite personal and commercial line property and casualty insurance applications. The Underwriting department ensures that the policies written by Citizens meet eligibility guidelines, are insured at appropriate levels based on filed and approved rates and correspond to Citizens' role as Florida's insurer of last resort. The Underwriting Department is primarily responsible for validating risk eligibility and ensuring proper rating through the processing of new business, policy changes and renewal policies.

During 2019, Underwriting management began an initiative to adjust the personal lines Automated Underwriting process to improve loss frequency, ensure critical rating variables are accurate, and positively impact expenses. An Automated Underwriting (AUW) Taskforce of leadership representing 9 divisions was established to provide oversight and ensure underwriting guidelines are met and in alignment with Citizen's strategy. On October 1, 2019, Personal Lines Underwriting began a two phased initiative to streamline the (AUW) process within Citizens Policy Center Insurance Suite for personal lines new business policy issuance for efficiencies. The Phase I initiative focused on leveraging automation to provide objective underwriting decisions with less human review throughout the process expected to result in increased efficiency and reduced underwriting cycle time by spending less effort to evaluate personal lines new business applications.

Phase II will begin in February 2020 and will leverage and apply real-time predictive analytics for a multitude of uses within the Citizens Insurance Suite to further improve workflow efficiency, reduce risk, reduce expenses, and improve data quality. The analytics will include implementation of logic to determine the amount of additional underwriting review necessary based on risk characteristics.

Audit Objectives and Scope – Phase 1

Internal Audit (IA) was engaged by the project team to provide advice and project support related to controls associated with the streamlining of the automated underwriting back-end review process for new business applications.

- Review underwriting statutes and regulations to determine if there were any regulatory concerns with the streamlining of automated underwriting back end validation process.
- Perform walkthroughs of the new automated workflows to validate the informational messages for new business applications were accurate, appropriate and in alignment with project objectives for manual review.
- Determine if there is an adequate monitoring process in place to continually validate the AUW process and adjust when needed.



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Results

- The newly implemented streamlined AUW back-end validation process aligns with underwriting regulatory requirements.
- The informational messages for new business applications were appropriate and in alignment with project objectives for manual review.
- There is an adequate monitoring process in place to continually validate the AUW process and adjust when needed.

IA will continue to support the project by providing consultative controls advice as the project progresses.

We would like to thank the project team and management for utilizing IA advisory services.



Distribution

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The External Auditor

*Audit performed by Kay Weldon, Internal Audit Manager
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INTERNAL AUDIT

Claims Litigation &
Legal Billing
Audit Report

February 12, 2020



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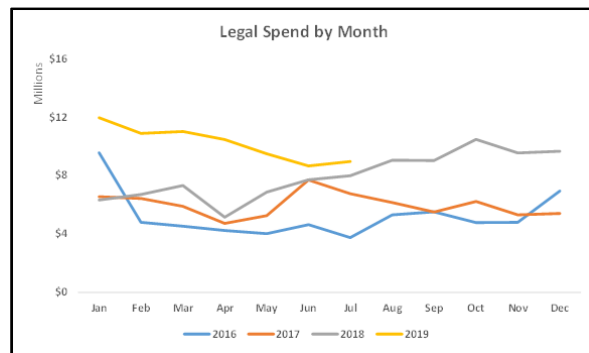
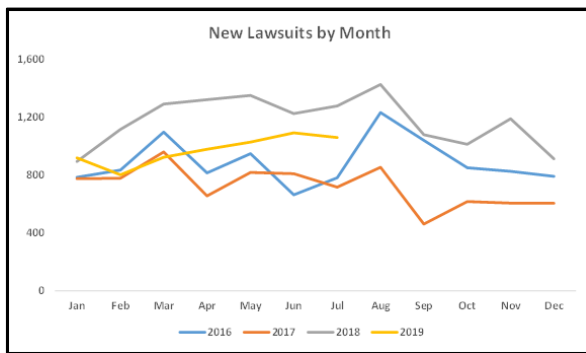
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Executive Summary

Background

Citizens relies on 100+ outside defense firms to provide claims-related legal defense counsel services. Citizens’ ability to manage complex legal bills submitted by contracted defense counsel representing Citizens in litigated matters continues to be an integral process in support of controlling costs and ensuring a strong financial operating environment. The Legal Billing, Claims Litigation and Claims Vendor Relationship Management departments, each perform important tasks in the oversight and governance for all litigated claims defense counsel expenses.



Since January 2016, a total of 40,260 new claims-related litigation, specifically lawsuits, have been created, averaging 936 new lawsuits per month with a high of 1,427 (August 2018) and a low of 462 (September 2017). As of June 30, 2019, there were a total of 14,537 suits pending, which is consistent when compared to the same period in 2018.

The volume of litigated claims, coupled with an approximate 5% rate increase in February 2016, has resulted in an increase in defense counsel legal expenses by year, as shown in the table to the right.

Year	Defense Counsel Legal Expenses
2016	\$62.9 million
2017	\$71.9 million
2018	\$95.9 million
2019	\$117.0 million

The significant case load and increasing legal defense counsel expenses are placing pressure on existing processes which support these activities and affects staffing levels; the completeness and accuracy of reviews performed to ensure invoices are in accordance with contractual agreements and established guidelines; and management of defense counsel.

Audit Objectives and Scope

The objective of this audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage claims litigation expenses. The scope of the audit included an assessment of controls for the following areas:

- Oversight & management of defense counsel
 - Legal billing review and approval process
 - Legal billing quality assurance program



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- Defense counsel time analysis
- Defense counsel vendor management process
- Acuity User Access
- Legal support of claims litigation

Audit Results

Results from the audit work indicate that the Claims Litigation and Legal Billing departments have made improvements to address the increasing case load and legal defense counsel expenses.

Specifically, we observed:

- Management implemented a formal litigation budget approval process detailing projected costs by case, which enhanced components of overall financial control and expense oversight.
- Claims Legal Management reclassified a Legal Billing Manager position to an Assistant Director position in 2019 and expanded the position requirements, including being a qualified attorney. As a result, the newly appointed Legal Billing Assistant Director brings insurance carrier legal billing knowledge and experience and has been assessing and implementing operational measures to enhance the legal billing review process.
- Acuity User Access - worked with business unit to reassess and limit the number administrative users.
- The Claims Legal team provides adequate support to Claims Litigation and defense counsel. During the audit IA attended case conferences, round tables, pretrial and trial prep sessions. In these sessions the legal team was very engaged providing strategic and technical guidance, informational legal opinions and advice on matters and provided insight into aligning defense counsel strengths with opposing counsel.
- Claims Litigation management is piloting video trial prep sessions to reduce travel and related time expenses. As of this writing, expense reduction results were not available. However, we encourage management to continue to explore and analyze this expense saving measure along with balancing the value and results outcome.

Internal Audit noted the following:

- **Need to enhance vendor monitoring oversight.** Claims Vendor Management currently performs monitoring of daily cross matter defense counsel billing. The addition of monthly and annual aggregate defense counsel billing monitoring and reporting will provide more holistic insight into defense counsel aggregate billing practices and identify potential billing anomalies. Aggregate billing reporting will note additional areas of billing focus and provide an additional layer of assurance for defense counsel expense management. Management has prioritized the acceleration of the procurement of a litigation management system that provides such capabilities and best aligns with Citizen's needs



Appendix 1

Distribution

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INTERNAL AUDIT

Cloud Readiness
Audit Report

March 4, 2020



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Background

Citizens adopted a Cloud Strategy in 2017 to gradually transition from utilizing its own infrastructure to utilizing applications and infrastructure in the cloud. Citizens intends to leverage Software as a Service (SaaS) whenever possible to simplify IT, deploy quickly and rapidly scale to meet business demands. Many SaaS applications have been implemented over the past several years including Centerpoint, Clearinghouse, Microsoft Office365, Xactimate, myService, and TeamMate, as well as the Agency Management System which will be implemented in the near future.

For situations where Citizens manages its own software due to unique business needs, infrastructure in the cloud, otherwise known as Infrastructure as a Service (IaaS), will be utilized to host applications and data. This strategy will be implemented in a phased approach over the next five years.

In June 2019 the Cloud Foundation Project was launched. The objective of this project was to develop and implement appropriate governance, foundational components and processes to establish a state of 'cloud readiness' for Citizens to begin utilizing IaaS in the cloud. Switching to the use of IaaS in the cloud will allow Citizens to eliminate the need for maintaining excess capacity and the related cost, while having the ability to immediately activate as much additional capacity as needed for whatever business situation arises. This flexibility is the primary driver for Citizens' transition to the cloud.

Audit Objectives and Scope

The objective of this audit was to assess the current state of Citizens' cloud readiness to ensure the protection of Citizens' and customer information, and to avoid or minimize business disruptions as additional cloud services are implemented.

The audit focused on the key characteristics of a well-designed cloud adoption program, including: cloud governance; security; cloud architecture; cloud migration; cloud operations; cloud service providers; cloud financial management; cloud skills; and organizational change management.

Management's Assessment and Reporting on Controls

Internal Audit (IA) provided IT management an opportunity to share known control weaknesses and their plans to remediate them. This process is intended to foster an environment whereby management and staff conduct periodic proactive reviews of controls and are aware of the risks to the business. It also enables us to focus our audit efforts on areas where they can add value to the organization.

At the start of the audit IT management informed IA that the Cloud Foundation Project was still underway and therefore, some of the governance, foundational components and processes that were planned to emerge from the project, were not finalized yet. IA advised IT management that those components which were still in progress would be evaluated appropriately.



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Audit Results

Our audit work indicates that management's efforts to establish a state of cloud readiness are well underway.

Cloud governance is provided by the IT Governance Committee (ITGC), which serves as the steering committee for strategic cloud decisions and the Architecture Review Committee (ARC) which evaluates the technical viability of new cloud services before they are activated. Cloud security principles have been adopted as well as a Data Loss Prevention (DLP) Strategy. A cloud architecture has been created which accommodates a preferred cloud service provider, additional cloud service providers as needed, and systems and applications which cannot be located in the cloud. The need for a cloud operations policy to manage applications and infrastructure is recognized by IT leadership and now that foundational components are in place, a cloud operations policy and procedures will be developed.

The SaaS framework process will serve as the basis for cloud service provider management. The framework has been refined to align with the scaled agile methodology and further refinements including additional contracted service level details are planned.

A financial model was created that includes on-premises and proposed cloud expenditures to help quantify the return on investment. A method to account for annual budget and ongoing expenses related to variable costs is being considered.

Under the leadership of the cloud program owner, a cloud knowledgeable team has been assembled to support the program. The Enterprise Technology Architect is effectively Citizens' cloud architect and the author of the current cloud strategy.

Training for cloud team members on the cloud service provider was obtained during the Cloud Foundation project. A 'sandbox' cloud environment for Citizens personnel to acquire necessary knowledge and familiarity with the cloud has been activated. Additional training opportunities for cloud team members will be determined during the cloud implementation phase. Other significant organizational change management components such as communications and user training will also be required in the cloud implementation phase.

There is an opportunity to improve cloud governance through the creation of a cloud exit strategy for services or applications that are located in the cloud. A cloud exit strategy assists in mitigating the risk associated with adverse events that may interrupt cloud services.

Management Response: *Management concurs that more direction and detail is needed regarding the development of exit strategies for each cloud service that Citizens leverages. We will address this need going forward from two perspectives: 1) Specific Guidance within our Cloud Strategy 2) Define detailed plans on a service by service basis as part of their implementation. Citizens' cloud strategy will be updated to provide more direction, define the elements needed within a cloud exit strategy, and articulate the areas that should be considered when creating the*



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exit strategy. We will create a “Cloud Exit Strategy” deliverable for the Cloud Foundations project specific to the cloud service provider for IaaS services. The above activities will be completed by 4/30/2020.

We also noted that management will be continuing with the remaining elements of its cloud strategy by replacing technologies or platforms which cannot be migrated to the cloud, migrating the disaster recovery environment, migrating the development environments and finally migrating production to the cloud.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.



Appendix

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