

# INTERNAL AUDIT

Assignment of Benefits (AOB)  
Implementation Audit Report

May 14, 2020



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## Executive Summary

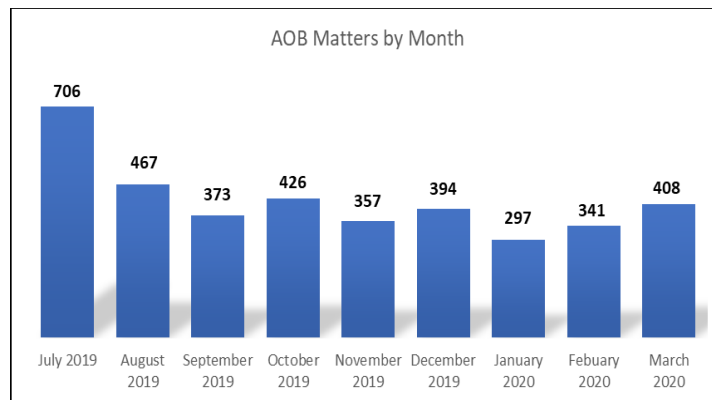
### Background

Assignment of benefits (AOB) refers to a contractual agreement that transfers the insurance claim rights or benefits, owned by the policyholder, to a third party such as a contractor, water mitigation company, roofer, or a plumber. The AOB gives the third-party authority to file a claim, make repair decisions, collect insurance payments and file suit without the involvement of the policyholder.

On May 23, 2019, AOB Reform Bill (HB7065) was signed by Governor DeSantis affecting AOB agreements executed from July 1, 2019. This bill places limits and requirements on AOB assignees, such as contractors, roofers and water mitigation companies, and establishes requirements for insurers for claims that involve assignment agreements. The legislation requires proper notice to the insured of AOB implications and strengthens consumer protections by tightening policy language for the execution, validity and effectiveness of the assignment of benefit agreements. The law also eliminates one-way attorneys' fees by establishing a formula to determine the award of attorney fees in cases between insurers and third parties in assignment of benefit litigation. The law is expected to curtail an exponential growth in AOB litigation and abuse that has contributed to rising insurance costs for Floridians.

In addition, under this AOB law, insurers are required to submit annual reports to the Florida Office of Insurance Regulation (OIR) for each residential and commercial property insurance claim paid under an executed AOB agreement. This requirement begins on January 30, 2022, which allows the OIR to monitor the effectiveness of the AOB reform. Citizens established a dedicated Claims AOB Project Team responsible for reviewing each new assignment of benefits agreement for compliance and responding to the AOB vendors regarding their submissions.

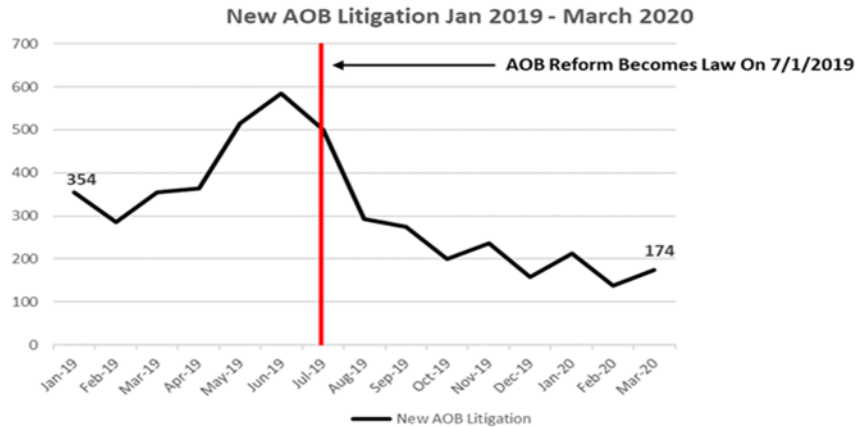
From July 1, 2019 through March 31, 2020, Citizens recorded 3,769 new AOB matters with a total AOB invoice amount of \$13.48 million. It should be noted that the volume of new AOB matters represents the number of AOB agreements recorded for claims that are not litigated matters. Of the AOB matters recorded, 1,660 (44%) were compliant with the new legislation, 1,078 (29%) were executed prior to July 1<sup>st</sup>, 634 (17%) were non-compliant, 391 (10%) were identified as pre-suit, four (4) were rescinded and two (2) are still in review. The graph below indicates that (from July 1, 2019) approximately 400 AOB matters were recorded per month.



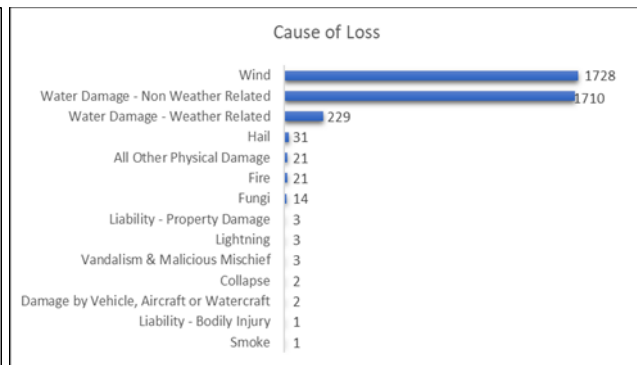
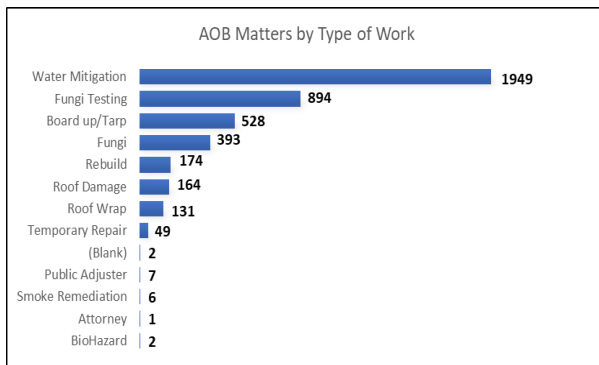


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The graph below shows the number of new AOB Litigation filed between January 1, 2019 through March 2020. There is a 49% decrease in the number of new AOB lawsuits filed after HB7065 went into effect July 1, 2019.



The graph below shows the cause of loss reported for 3,438 (91%) of the AOB matters recorded were split evenly between weather related (wind and water damage); and non-weather-related claims. The graph below indicates that of the 3,769 AOB Matters created, the top three types of work performed under the AOB Agreements were 1,949 (45%) for water mitigation, 894 (21%) for fungi testing (pre and post mold testing), 528 (12%) for board-up/tarp and 393 (9%) for fungi (mold remediation).



### Audit Objective and Scope

The objective of this audit was to assess the readiness, adequacy and efficiency of AOB processes, controls and oversight procedures, to ensure the program is effective and department objectives are achieved and focused on an assessment of controls for the following areas:

- Review the AOB intake process
- Review the AOB compliance review process



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- Review the “Notice of Intent (NOI)” review and response process
- Ensure appropriate oversight of the AOB end-to-end process
- Validate the accuracy of AOB management reports and dashboards

### Audit Results

Our audit work indicated that management’s diligent efforts to develop and implement processes and procedures to comply with the provisions of HB7065 have been successful.

The following processes were implemented to support the HB7065 legislation:

- A dedicated Claims AOB Project Team was created to handle AOB receipts to ensure consistent processing and overall handling.
- Four AOB document submission methods (i.e. E-mail, Fax, U.S. Mail and Electronic Web Submission) were implemented to ensure that AOB agreements and other correspondences are routed and processed by the Claims AOB Project Team in a timely manner.
- The system enhancement of the AOB Matter Screen in ClaimCenter enables the Claims AOB Project Team to record and track AOB agreements for a claim.
- A Notice of Intent (NOI) Committee Roundtable was implemented to review the NOIs. The committee is comprised of key stakeholders from Claims Legal, Claims Litigation, Claims Governance and Appraisal business units. During the audit, Internal Audit attended and observed a NOI Committee Roundtable meeting. During the roundtable, members of the committee were very engaged providing their technical guidance, legal opinions and advice on how to respond to the NOIs in order to proactively address the AOBs.
- The AOB Executive Dashboard is used as an important tool to measure the effectiveness of the reform changes resulting from the legislation. A comprehensive data quality review process was implemented which consists of mapping the data flow from the data source to the metrics on the reports and definitions for each field. During the audit, Internal Audit validated that the data quality review process was adequate to ensure that the data reported on the AOB Executive Dashboard is reliable and accurate.
- An AOB quality assessment was developed to evaluate the accuracy of AOB claim file elements and to identify claims improvement opportunities including process changes and training. The AOB quality assessment is expected to be deployed in the claims quality system (Inpoint) in June 2020 contingent upon the completion of system enhancements required to include AOB adjuster activities in the quality assurance population.

Although Internal Audit did not identify any control weaknesses, we noted the following ClaimCenter system enhancements management should explore to help ensure relevant information is captured to augment reporting and monitoring capabilities:

- **Management should consider creating a data field on the AOB Matter Screen that auto populates the date the Notice of Intent (NOI) response letter is generated by the Claims AOB Adjuster in ClaimCenter.** Currently, the only way to determine if the NOI response is sent to the vendor and/or legal representative within the 10-day timeframe, is to



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review a copy of the letter in the claim file. By implementing a NOI response data field, management could increase efficiency by generating reports to identify AOB claim compliance with HB7065 provisions.

- **Management should consider creating a warning message on the AOB matter screen to ensure the specific data fields are completed by the AOB Adjuster before the information is saved in ClaimCenter.** During the audit, there were instances where the AOB adjuster did not complete certain fields under the Notice of Intent and AOB Contract Rescission selections on the AOB Screen, which could impact the accuracy of data reported on the AOB Executive Metrics report. Implementing a warning message on the AOB matter screen will help to ensure that the necessary information is complete, improving the quality of the AOB data reporting.
- **Management should consider creating an automated system generated manager review activity within ClaimCenter which requires the manager to review the NOI activities completed by the AOB adjuster to ensure the NOI response was sent within the 10-day requirement to comply with HB7065.**



## Appendix 1

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### Distribution

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The Honorable Jimmy Patronis, Chief Financial Officer  
The Honorable Ashley Moody, Attorney General  
The Honorable Nikki Fried, Commissioner of Agriculture  
The Honorable Bill Galvano, President of the Senate  
The Honorable Jose R. Oliva, Speaker of the House of Representatives  
  
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