

Executive Summary

Actuarial and Underwriting Committee Meeting, June 18, 2020

Board of Governors Meeting, June 24, 2020

Business Process Outsourcing (BPO)-Inbound and Outbound Call Center Services

Pricing Adjustments

Contract Number – 18-17-0013-01 Vendor – Y&Y Holdings, LLC (“Agility Marketing”)

Contract Number – 18-17-0013-03 Vendor – Faneuil, INC

Contract Number – 18-17-0013-08 Vendor – MacNeill Group, INC

Summary

To support and accompany the BPO-Inbound and Outbound Call Center Services Consent Item, a detailed summary has been crafted to provide further insight around requested pricing adjustments due to unforeseen market volatility. Approval of this Consent Item will allow Citizens to keep two active and one contingent vendor among a pool of outsourcing vendors to assist in maintaining business continuity in case of vendor failure or sudden shifts in the market (complexity of call types limits the ability to easily interchange vendors real-time). There are no minimum or maximum volume guarantees with any of the contracts, so it is beneficial to maintain an optimal landscape among vendors while Citizens utilizes the vendor’s services on-demand as business needs require it.

History

In 2017, Citizens issued an Invitation to Negotiate (ITN) solicitation and awarded nine vendors across five different call types. The various call types included the following:

- First Notice of Loss (“FNOL”)/Claim Inquiry Calls (non-CAT)
- Tier I Calls
- Tier II Calls
- CAT Response Calls
- Outbound Calls

Citizens executed contracts with seven of the nine awarded vendors where full terms and conditions were agreed upon by all parties. **For the purpose of this Consent Item, the pricing adjustments are only pertaining to FNOL/Claim Inquiry and Tier I call types.** The panel of vendors awarded for these call types are listed in the chart below:

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FNOL/Claim Inquiry	Tier I
Y&Y Holdings, LLC (Agility Marketing) ¹	MacNeill Group, INC ¹
Faneuil, INC	Y&Y Holdings, LLC (Agility Marketing)
BinTech Partners (Bankers)	Blue Cod Technologies (Xceedance)
Blue Cod Technologies (Xceedance)	BinTech Partners (Bankers)
Etech Global Services, LLC	

¹Primary awarded vendor

It is critical for Citizens to have an outsourcing operational model for FNOL/Claim Inquiry and Tier I call types to ensure appropriate scalability for catastrophe response needs, market fluctuations as well as greater overall business continuity. As of 2020, these two call types as outlined represent approximately 63% of the volume of calls outsourced to vendors (119,369 of 190,482 calls) under these contracts.

Daily support of FNOL/Claim Inquiry calls is essential to Citizens' business and meeting the needs of our policyholders 24/7/365. Based on historical experience and when contractually possible, Citizens has been best positioned to meet the essential needs of our policyholders when a primary vendor provides support for FNOL/Claim Inquiry calls as well as CAT Response calls. In this scenario, contingent vendors under contract are then utilized only if additional capacity is needed to support a catastrophic event. An outsourcing model as described ensures an active vendor is familiar and well-versed with Citizens' processes, procedures and technology throughout the year, reducing risk associated with a significant ramp-up of staffing within a relatively short amount of time.

On February 11th, 2020, Y&Y Holdings, LLC ("Agility Marketing") provided formal notification that a pricing adjustment would be needed due to wage/benefits competition, healthcare costs and compliance costs. Y&Y Holdings, LLC ("Agility Marketing") is an active, primary awarded vendor supporting FNOL/Claim Inquiry calls, primary awarded vendor for CAT Response calls and a contingent vendor supporting Tier I call types. Citizens presented a Consent Item during the March Board of Governors meeting requesting a temporary pricing adjustment through June 30th, 2020 and this pricing adjustment will remain the same under this Consent Item.

Per the March Consent Item, Citizens sought to identify more favorable pricing through an awarded contingent vendor willing to provide the essential call center services. Citizens engaged all contingent vendors in order to be fair and equitable in validating pricing along with existing contract terms. In addition to Y&Y Holdings, LLC's ("Agility Marketing") request for pricing adjustments, MacNeill Group, INC and Faneuil, INC stated their existing contract rate was not sufficient to offset

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their operational expenses. A decrease in call volumes in conjunction with changes in business models (e.g. moving from price per call to a price per hour model) along with increases in technology costs due to COVID-19 have resulted in declining revenue for these vendors to offset expenses. The vendors stated the negative impacts of unforeseen market conditions while maintaining the existing contract rate has resulted in a loss.

The remaining awarded vendors have confirmed contractual pricing with no changes but have limited scalability (in case of a catastrophe response) or Citizens program knowledge (Tier I experience) which introduces risk in transitioning vendors during storm season.

FNOL/Claim Inquiry Call Type:

Vendors	Current Price Per Call (range depends on monthly volume)	Proposed Price Per Call (range depends on monthly volume)
Y&Y Holdings, LLC (“Agility Marketing”)	\$5.21 - \$5.50	\$8.90 - \$9.40
Faneuil, INC	\$4.55 - \$5.07	\$10.60 - \$11.25

Tier I Call Type:

Vendors	Current Price Per Call (range depends on monthly volume)	Proposed Price Per Call (range depends on monthly volume)
Y&Y Holdings, LLC (“Agility Marketing”)	\$3.95 - \$4.17	\$8.40 - \$8.87
MacNeill Group, INC	\$5.00 - \$5.50	\$6.15 - \$6.65

The State of Florida Department of Management Services provides guidance in Purchasing Form PUR 1000 as to when pricing adjustments are allowed in state contracts. The provision reads as follows:

Equitable Adjustment. *The [State] may, in its sole discretion, make an equitable adjustment in the Contract terms or pricing if pricing or availability of supply is affected by extreme and unforeseen volatility in the marketplace, that is, by circumstances that satisfy all the following criteria:*

- (1) *the volatility is due to causes wholly beyond the Contractor’s control,*
- (2) *the volatility affects the marketplace or industry, not just the particular Contract source of supply,*
- (3) *the effect on pricing or availability of supply is substantial, and*
- (4) *the volatility so affects the Contractor that continued performance of the Contract would result in a substantial loss.*

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Market Volatility

Consumer & Policy Services staff partnered with Citizens' Vendor Management Office (VMO) to validate if the vendor's claims of market volatility and unforeseen increases in operating cost warrant a pricing adjustment. Discussions occurred with each vendor to determine the rationale behind their request. In review with independent industry sources, including a Gartner Analyst with Business Process Outsourcing expertise, Citizens believes market volatility has increased across multiple areas since vendors originally submitted pricing (32 months ago).

Each vendor provided detailed explanations and market-based information to support their positions including data on employee wages. Vendor responses to the four-part PUR 1000 criteria are outlined below:

(1) the volatility is due to causes wholly beyond the Contractor's control,

Vendor responses for criteria (1):

- Wage increases related to rising healthcare and state minimum wage regulation were unknown when contract pricing was submitted
- Multiple new competitors within the region impacting staff recruitment and retention
- Increases in technology costs for supporting remote staff in a business model not previously considered

(2) the volatility affects the marketplace or industry, not just the particular Contract source of supply,

Vendor responses for criteria (2):

- Fixed costs remain unchanged while technology costs have increased across geographic regions in supporting remote staff
- Increased pressure on vendors to accommodate flexible staff schedules requiring additional staff to handle lower volume

(3) the effect on pricing or availability of supply is substantial, and

Vendor responses for criteria (3):

- Wage increases impacting retention rate of trained staff
- Costs of recruiting, training and retaining staff remotely coupled with lower call volume resulting in an operating loss

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(4) the volatility so affects the Contractor that continued performance of the Contract would result in a substantial loss.

Vendor responses for criteria (4):

- Wage increases affecting retention rate of trained staff impacting ability to provide services while meeting contractual Key Performance Indicators (KPI)
- Costs of recruiting, training and retaining staff remotely coupled with lower call volume resulting in an operating loss

Additional Information

While reviewing the application of the State of Florida Purchasing Form PUR 1000 criteria to the vendor pricing adjustment requests, the VMO researched to see if there were any comparable state or industry contracts. The VMO did find Florida state contracts, for example, with the Department of Economic Opportunity, Florida Virtual School, and Department of Health. While the contracts are all applicable to call servicing, the specific call types and agreements were not directly relatable to Citizens, such as in comparison to Citizens' lower call volumes, high speed of answer requirements, longer call handling time, pricing models and call complexity. However, the VMO was able to obtain information from the Texas Windstorm Insurance Association (TWIA), which has a contract similar to Citizens in scope, call type and services. The contract encompasses FNOL/Claim Inquiry calls, 24/7/365 coverage and addresses CAT response scalability while utilizing the same policy administration system as Citizens. TWIA's agreement represents a close contractual comparison given the similarity of services provided in policyholder support and catastrophe response. TWIA's per call rate is in-line with what is being presented by Citizens' vendors for calls with a similar average handle time and overall complexity. In addition, Louisiana Citizens Property Corporation has a per call rate in-line with the proposed pricing being requested by Citizens' vendors.

Recommendation

Citizens is requesting pricing adjustments while options are reassessed within the market over the next eighteen months through a new solicitation. Assuming favorable pricing/terms are obtained, Citizens will present their award recommendation to the Board of Governors for further approval. Otherwise, Citizens will request the Board of Governors to extend the pricing adjustments through the base term of the contract (expires January 30, 2023 for Y&Y Holdings, LLC ("Agility Marketing"); MacNeill Group, INC and Faneuil, INC on April 5, 2023). In the interim, Citizens will continue to monitor market volatility to identify opportunities to lower pricing with the above-mentioned vendors.

Citizens Actuarial and Underwriting Committee recommends that Citizens Board of Governors:

- Approve contract amendments for pricing adjustments as follows: Y&Y Holdings, LLC ("Agility Marketing") for FNOL/Claim Inquiry price per call range of \$8.90 - \$9.40 and Tier I price per call range of \$8.40 - \$8.87; MacNeill Group, INC for Tier I price per call range of

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\$6.15 - \$6.65; and Faneuil, INC for FNOL/Claim Inquiry price per call range of \$10.60 - \$11.25; resulting in additional costs ranging between \$451,172.88 to \$1,122,002.16 over the next eighteen months, as further set forth in this Consent Item; and

- b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.

CONSENT ITEM

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CONTRACT ID:	Business Process Outsourcing (BPO) – Inbound and Outbound Call Center Services Contract Amendment #1 for Pricing Adjustments Contract Number – 18-17-0013-03 Vendor – Faneuil, INC Contract Number – 18-17-0013-08 Vendor – MacNeill Group, INC Contract Amendment # 2 for Pricing Adjustments Contract Number – 18-17-0013-01 Vendor – Y&Y Holdings, LLC (“Agility Marketing”)
BUDGETED	Yes. Funding was included in the 2020 Annual Operating Budget.
CONTRACT AMOUNT	The pricing adjustments requested under this Consent Item are not expected to increase the original approved BOG amount of \$47,850,803. This Consent Item will result in additional costs between \$451,172.88 to \$1,122,002.16 over the next eighteen months, should Citizens initiate these on-demand services based on business need.
CONTRACT HISTORY	<p>In the last six months, three vendors have approached Citizens with pricing adjustments due to unforeseen market conditions. Initially, Y&Y Holdings, LLC (“Agility Marketing”) requested a pricing adjustment, which was presented during the March Board of Governors meeting. At that time, Citizens advised that services would be explored through all awarded vendors to determine more favorable pricing. Citizens staff has since engaged all awarded vendors, with the above-mentioned vendors requesting pricing adjustments.</p> <p>The existing contracts were approved by the Board on December 13, 2017 and executed as follows: Y&Y Holdings, LLC (“Agility Marketing”) on January 31, 2018; MacNeill Group, INC and Faneuil, INC on April 6, 2018. The award was divided into five call types:</p> <ol style="list-style-type: none">1. First Notice of Loss (FNOL)/Claims Inquiry Calls2. Tier I Calls (Basic Support)3. Tier II Calls (Specialized Support)4. Catastrophe Response Calls5. Outbound Calls <p>For the purpose of this Consent Item, the pricing adjustments are only pertaining to FNOL/Claim Inquiry and Tier I call types. As of April 2020, these two call types as outlined represent approximately 63% of the volume of calls outsourced to vendors (119,369 of 190,482 calls) under these contracts.</p> <p>The contract award under ITN No. 17-0013 provides for primary and contingent vendors in a ranked order for Tier I call type with MacNeill Group, INC awarded as primary and Y&Y Holdings, LLC (“Agility Marketing”) ranked second as a contingent vendor. Y&Y Holdings, LLC (“Agility Marketing”) was awarded as primary for the FNOL/Claim Inquiry call type with Faneuil, INC being the next ranked contingent vendor.</p>

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Currently, Y&Y Holdings, LLC (“Agility Marketing”) and MacNeill Group, INC are active vendors providing an essential function in supporting Citizens’ policyholder and agent community by allowing business continuity through scalability, should Citizens experience any needs for increased Tier I call support. Y&Y Holdings, LLC (“Agility Marketing”) provides FNOL/Claim Inquiry calls, while Faneuil, INC is not currently providing support.

The attached Executive Summary provides more details of the market conditions that have led to the requests for pricing adjustments.

Due to the recent market volatility and the desire to determine whether more competitive rates are available, Citizens intends to issue a new solicitation for these services in the next eighteen months. If more favorable pricing/terms are secured, Citizens will transition services to the new contracts based on business need.

CONTRACT TERMS

Each contract has a five (5) year base term through January 30, 2023 (Y&Y Holdings, LLC “Agility Marketing”) and April 5, 2023 (MacNeill Group, INC. and Faneuil, INC.), with available renewal options of an additional three (3) year renewal term, and then a final two (2) year renewal term. Citizens has the right to terminate the contracts without cause upon 30 days’ notice.

PURPOSE/SCOPE

This Consent Item seeks approval from the Board of Governors for contract pricing adjustments with Y&Y Holdings, LLC (“Agility Marketing”), MacNeill Group, INC, and Faneuil, INC. The pricing adjustments will allow Citizens the time necessary to issue a new solicitation for these services to seek more favorable pricing. The pricing adjustments are as follows:

Tier I Call Type:

Vendors	Current Price Per Call (range depends on monthly volume)	Proposed Price Per Call (range depends on monthly volume)
Y&Y Holdings, LLC (“Agility Marketing”)	\$3.95 - \$4.17	\$8.40 - \$8.87
MacNeill Group, INC	\$5.00 - \$5.50	\$6.15 - \$6.65

FNOL/Claim Inquiry Call Type:

Vendors	Current Price Per Call (range depends on monthly volume)	Proposed Price Per Call (range depends on monthly volume)
Y&Y Holdings, LLC (“Agility Marketing”)	\$5.21 - \$5.50	\$8.90 - \$9.40
Faneuil, INC	\$4.55 - \$5.07	\$10.60 - \$11.25

Due to the length of time needed to secure more favorable pricing and/or terms through a new solicitation, award vendors, and obtain Board of Governors approval, Citizens is requesting pricing to remain in effect over the next eighteen months.

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PROCUREMENT METHOD	<p>This contract was originally procured pursuant to Invitation to Negotiate (ITN) No. 17-0013. The ITN resulted in the award of primary contracts to the top ranked vendors and included the right for Citizens to pursue additional contracts with contingent vendors, in ranked order, in the event additional vendors are needed due to volume, performance, or it is otherwise in Citizens' best interest.</p> <p>Y&Y Holdings, LLC ("Agility Marketing") is the primary awarded vendor for FNOL/Claim Inquiry calls and Faneuil, INC is the next ranked contingent vendor.</p> <p>MacNeill Group, INC. is the primary awarded vendor for Tier I calls and Y&Y Holdings, LLC ("Agility Marketing") is the next ranked contingent vendor.</p>
RECOMMENDATION	<p>Citizens Actuarial and Underwriting Committee recommends that Citizens Board of Governors:</p> <ul style="list-style-type: none">a) Approve contract amendments for pricing adjustments as follows: Y&Y Holdings, LLC ("Agility Marketing") for FNOL/Claim Inquiry price per call range of \$8.90 - \$9.40 and Tier I price per call range of \$8.40 - \$8.87; MacNeill Group, INC for Tier I price per call range of \$6.15 - \$6.65; and Faneuil, INC for FNOL/Claim Inquiry price per call range of \$10.60 - \$11.25; resulting in additional costs ranging between \$451,172.88 to \$1,122,002.16 over the next eighteen months, as further set forth in this Consent Item; andb) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.
CONTACTS	Jeremy Pope, Vice President of Customer Experience