

## CITIZENS PROPERTY INSURANCE CORPORATION

### MINUTES OF THE CLAIMS COMMITTEE MEETING Tuesday, December 8, 2020

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened telephonically on Tuesday, December 8, 2020 at 1:00 p.m. Eastern.

**The following members of the Claims Committee were present telephonically:**

Will Kastroll, Chairman  
Carlos Beruff  
Carlos Lopez-Cantera  
Jim Holton  
Jon Palmquist  
Jay Adams, Staff

#### **1. Approval of Prior Meeting's Minutes (September 8, 2020)**

**Chairman Kastroll:** I would first like to thank everybody personally for all your well wishes. I am at the tail end of a lengthy battle with COVID. I have been out for about three weeks, in and out of the hospital twice, and I am definitely on the upswing. I was very fortunate to get an experimental Eli Lilly antibody infusion about a week ago that really changed the course of my treatment for the better. I am definitely on the up and up, but as you can hear, my voice is a little hoarse. This is my first day back at the office, and I'm very glad to be here, very thankful, very blessed to be here. So, thank for all your kind wishes. We will go ahead and get started with the approval of the prior minutes.

**A motion was made by Governor Beruff and seconded by Governor Holton to approve the September 8, 2020 minutes. All were in favor. Motion carried.**

#### **2. Strategic Update**

**Jay Adams:** Good afternoon, Chairman Kastroll and committee members. I would like to provide an update on the Claim's Operational Consultancy and the Matter Management procurement in my update for today.

I will start with the Claim's Operational Consultancy. When Citizens began this engagement with E&Y, we requested a consultation relationship where we would meet regularly to go over any observations to achieve mutual approval and consent to move forward. Although E&Y provided weekly touch point meetings, there was never any collaboration with respects to reaching agreements on the work that was performed for the weekly review meeting. It did not become apparent until Citizens had conversations with E&Y at the conclusion of their work, that they were conducting an audit of Citizens instead of a consultation of the scope of work. After having that conversation, Citizens issued a written response to E&Y outlining the areas where Citizens felt that E&Y may not have a full understanding of the Florida market, as well as Citizens' processes and procedures. Following the receipt of our letter, Barry Gilway and Ken Thomas from E&Y had multiple phone calls discussing the draft report and Citizens' written response. These calls led to a meeting with E&Y to attempt to resolve the concerns raised in Citizens' written response so that a final report could be completed.

Citizens asked Joe Martins, our Chief Internal Auditor, to engage with E&Y as his team had conducted multiple audits on the litigation and claims legal billing and felt that he could bring some clarity to reach an acceptable outcome. After Joe met with E&Y, they indicated that they were working on a new executive summary that would include their observations. Citizens received that report late in the day Friday, and our team has not had the opportunity to get together to really dig into it and look for areas of agreement or any other areas of confusion or disagreement.

The second update that I wanted to provide is on the Matter Management procurement. During the September 2020 Board meeting, questions were raised concerning if the E&Y recommendation had been included in our pending procurement. In response to those questions, Barry Gilway requested that Kelly Booten, our COO, look at the E&Y recommendations with regards to the E&Y recommendations, along with the procurement that was actively underway. The following is what Kelly found. She indicated that the process that was used to validate the E&Y technology recommendations had been considered as part of the Litigation Management System solicitation, as well as recommendations to ensure that the scope of work was comprehensive so as to achieve litigation management objectives.

She went on to describe the processes and make recommendations as follows. She compared the E&Y technology recommendations and Citizens' response to the LMS solicitation specifications. She traced the recommendations back to the solicitation specifications, noting areas to consider during the negotiation or the demo phase. Some of the observations that she brought forward was an emphasis should be placed not only on the operational aspects of the system, but the holistic view from an analytical and decision support perspective. Close attention should be given to the data quality specific to the system, its integrations, and outputs, such as the analytics platform. The analytics platform, coupled with the Litigation Management System, should be utilized to gain insights for further innovation. Based upon the observations, increase the role of Chelsea Garfield, who is our Enterprise Business Solution Architect, to evaluate the entire solicitation instead of just the technology questionnaire. The negotiation phase is where the negotiators and their SMEs will be able to evaluate the solutions in more detail through demos and direct discussions with each vendor. The negotiation team will include a diverse team, including Chelsea. A strategy session will be conducted with the negotiation team to provide direction on the expectations of the Litigation Management program scope inclusive of the E&Y recommendations regarding decision support. A cross-functional program team will be established to implement the chosen solution and surrounding components, such as process improvements and data analytics.

All of Kelly's recommendations have been incorporated into the solicitation process. We're still in the cone of silence for this solicitation, but we're in the negotiation phase with multiple vendors. Citizens will bring this to the March Claims Committee and Board of Governors for approval of the award. Chairman Kastroll, that concludes my presentation. Are there any questions?

**Chairman Kastroll:** Thank you, Jay. Governors, any questions? Okay. Thank you, Jay.

**Jay Adams:** Thank you.

### **3. Catastrophe Update**

**Craig Sakraida:** Good afternoon, Chairman Kastroll and Committee members. I just want to give a brief update for 2020, and what we've been through, an unprecedented year, a lot of responses, and not a lot of claims. So, I just wanted to touch base on a few things, high level, that happened this year.

Our 2020 catastrophe response really started out pretty early in the year with being focused on changes implemented for COVID-19 with the virtual on-boarding, as well as management of adjusters off site. For the catastrophe responses this year, we utilized our existing Managed Claims Model (MCM) adjusters and a few select staff members to respond to Hurricane Sally in Pensacola. And our MCM model, they handle the claim from start to finish, including all customer service aspects of it. All of the other smaller events were handled in MCM workflows without any deployments to areas outside of normal territories.

For the 2020 hurricane season, we tracked seven different events, starting right at the beginning on June 6 with Tropical Storm Cristobal, going all the way through about a month ago with Tropical Storm Eta. So, it was a busy year, an unprecedented year. Hurricane Sally naturally being the most wind damage that we saw. I will update some of the numbers. This was as of November 10. We haven't seen many more Tropical Storm and Hurricane Sally claims, with that number just increasing to 2,262 claims from the reported 2,138. We have seen a significant increase in the Tropical Storm Eta claims. This was after probably about two or three days of reporting when this data was put together, but we're over 3,400 claims for Tropical Storm Eta, primarily from the South Florida area.

Of the leading causes of loss, naturally wind was the highest one from the Hurricane Sally claims, water damage, weather related, was the next one, and then flood and rising water.

The other thing I wanted to touch on that has come up is Hurricane Irma update. As you know, there was a three-year deadline that we utilized for September 13, 2020 for the statutory reporting of Hurricane Irma claims. Of those claims, 64 percent of the claims reported during the 2020 year were represented by a Public Adjuster or Attorney, and as of October 30, 85 percent of the claims filed this year have been closed, and that number has increased to 94 percent.

This just kind of gives a small graphic of the incoming claim count for First Notice of Loss claims for Hurricane Irma, and you can see in March and April, there was a decline mainly with the lockdown and the COVID-19 changes that we saw. And then as the deadline approached in September, you can see that the numbers increased significantly. And in September, we had 411 and then after that date we've had 14 reported. So those numbers have dropped off based on the statute. So, we've seen quite an increase over this year and then the sharp decline right there at the cutoff period.

And, once again, even though the Atlantic hurricane season has already concluded about a week ago, we are already in our 2021 catastrophe planning and preparation, with our Catastrophe Coordinator meetings starting here in the next week through the middle of January to review any potential changes that we observed for our 2020 responses to roll into 2021. Our catastrophe testing modules and plans will be finalized in January with

target completion prior to June 1, 2021, and as well as our Master Catastrophe Plan will be updated with a target completion of prior to June 1, 2021.

And as always, we are ready in many form or fashion for any size event with a lot of our partners at our company. Our Communications department helps us out tremendously with the e-mail, press releases, the social media, and all the things that we do to make our customers informed of where we are, how to get in touch with us, and how to resolve your claim issues. Chairman Kastroll, that concludes my presentation. I'll gladly take any questions or comments from the information I provided.

**Chairman Kastroll:** Thank you, Craig. Any questions?

**Mr. Palmquist:** Craig, last meeting we heard a lot about the Xactimate Claims Estimate Mobile App that you are using. Did you have a chance to use that in any of the storms this year?

**Craig Sakraida:** No, Sir. We made the decision that we would not. With Hurricane Sally, we were able to really cover the ground with the resources we had that were currently working in our MCM workflows and not deploy any new resources to the area. And then with Tropical Storm Eta, it's really not the type of claims we'd want to run through the application itself. We have been testing the application in limited capacity with certain claims, and we plan another test at the beginning of the year with a pocket storm, but we have run some claims through it. It seems to work. Just wasn't the right arena to have those adjusters out there.

**Jay Adams:** We built that tool really for our Field Inspection Services team, and we never ran into a catastrophe that we felt that it was necessary to make that deployment. As Craig indicated, we are still testing and refining the tool, but we really would reserve that tool at this point for a Field Services deployment.

**Mr. Palmquist:** Okay. Thank you.

**Jay Adams:** You're welcome.

**Chairman Kastroll:** Great. Any other questions?

#### **4. Litigated Claims Update**

**Lisa Walker:** Thank you, Chairman and Committee members. I'd like to go over a brief summary of our litigation for year-to-date from January 1, 2020 through October 31, 2020. From January through October of this year, we were served with 6,270 lawsuits, averaging about 627 new lawsuits per month. This reflects a 26 percent decrease in the number of incoming lawsuits per month as compared to the same time in 2019, in which we averaged about 844 new lawsuits. The majority of our lawsuits so far this year have been in the Residential Catastrophe area with 3,163 lawsuits, or 51 percent of the claims, and the vast majority of the rest, 49 percent, were in Non-CAT.

As of October 31, our pending total of lawsuits was 12,376 lawsuits, and that reflects about a 6 percent decrease in pending as compared to the same time in 2019, and at that time, we had 13,147. At that time, our Non-Residential Non-CAT claims exceeded our CAT

claims, 52 percent to 47 percent. As has been the trend recently, 88 percent of the new, incoming Residential lawsuits arise out of the Tri-County area, and the slide shows the distribution, 88 percent in the Tri-County area, and the next closest is Central West Florida, including Tampa, the Tampa Bay area at 7 percent. The charts show by county, showing a significant number, 5,400 of those claims, in the Tri-County area as compared to the other areas.

In approximately 59 percent of the cases incoming for property, the Plaintiff was represented by either a Public Adjuster, an Attorney, or both. Most of them came in with a Public Adjuster at 41 percent, an Attorney at 21 percent, and having both represented at First Notice of Loss was less than 1 percent. That is an increase from 59 percent this year to 55 percent compared in 2019.

In 44 percent of the cases, there was no dispute from the insured or their representative prior to them filing suit. That's a pretty significant number that did not dispute or let us know in any way that they did not approve or agree with our representation of either the coverage or the damages in their claim.

And the majority of our lawsuits are coming in, 74 percent are brought within the first year of the First Notice of Loss. Our CAT claims come in sooner than that. They're coming in, CAT being the leading cause of loss for both new and pending lawsuits as of October. CAT lawsuits represent 51 percent of all incoming lawsuits, 47 percent of pending lawsuits. The CAT lawsuits do come in a little quicker than the rest of the claims, but still the majority of lawsuits are coming in within that first year.

For AOB lawsuits, we've seen a 15 percent decrease in the new, incoming lawsuits for AOB through October as compared to 2019. And right now, it represents 29 percent of the total pending, which is a 6 percent decrease compared to the same period last year. Non-weather water lawsuits represent 28 percent of new, incoming lawsuits, which is a 4 percent increase in distribution of new, incoming lawsuits as compared to 2019. And in terms of volume, the non-weather lawsuits currently account for 28 percent of our total volume, which is also consistent with the same time last year.

While lawsuits arising out of Hurricane Irma continue to represent the leading cause of loss in both new and pending lawsuits, the volume has continued to decrease over time and over this year. We do anticipate to continue receiving Irma litigation into the future. We continue to experience a declining trend in new, incoming AOB lawsuits, which we believe is attributable to the statutory changes. The distribution of the non-weather water lawsuits continues to rise as expected in the absence of other intervening CAT losses. The timing of lawsuits has continued to normalize pre-CAT pace with the majority of lawsuits brought on an average of within one year from first being reported, and CAT litigation is closer to the proximity of the date of loss. The majority of losses continue to involve insureds that were represented at the time the loss was reported, and almost half of lawsuits are filed in the absence of an insured disputing the Citizens' position at the time of the adjustment of the claim.

Now, there's also an Addendum that outlines the metrics that we've collected related to the multiplier, and since the last Claims Committee meeting, we have had six additional cases added to that report with the fee multipliers awarded in five of the six cases. And in

regard to the appeals of fee multiplier awards, for the most part, the courts are upholding the fee awards. However, there has been a recent opinion in the Third DCA that indicate the courts are reviewing such matters on an individual basis and are willing to limit the application of the multipliers.

And that concludes my presentation on litigation, are there are any questions?

**Chairman Kastroll:** Thank you, Lisa. A very nice summary and report. Any questions for Lisa? Okay. Thank you so much, Lisa. I appreciate you doing this.

#### **5. Non-Weather Water, Managed Repair Program, & Assignment of Benefits Update**

**Michael Carver:** Good afternoon, Chairman Kastroll and Committee members. This is Michael Carver, Director of Claims. It is a pleasure to give you an update on non-weather water claims, the Managed Repair Program, and Assignment of Benefit initiatives here at Citizens.

On to non-weather water claims, we continue to experience increased volume of non-weather water claims. Through October 2020, 10,329 non-weather water claims have been received, which is an increase of 17 percent when compared to the same period in 2019. Claims started to spike in June. Through May of this year, we were receiving an average of about 883 non-weather water claims each month. Starting in June, claim reporting started averaging almost 1,200 claims per month. We took a look at this. We tried to narrow down why we were getting an increase in non-weather water claims, and determined it pretty much correlated with our policy in force growth and the tolling of Hurricane Irma claims, which was in the process of taking place.

As reported in the last Committee meeting, non-weather water claims usually fluctuates and represents about 44 to 50 percent of our claims, and plumbing leaks continue to be the most frequent cause of loss. And, of course, the majority of these reports are on the HO-3 form, with about 17 percent reporting on the DP-3 form. As reported to this Committee, incoming non-weather water claims follow the policy in force counts, and as reported to the Committee in the last Committee meeting, pretty much 90 percent of all of our non-weather water claims come out of the Tri-County area and Tampa.

Considering the increase in non-weather water claim volume and COVID-19 challenges, we continue to experience high customer satisfaction scores. In fact, during the last six months, customer satisfaction scores averaged 88.5 percent. So, when we look at the customer satisfaction, even in light of our COVID-19 delays to some extent, due to the customer not feeling comfortable getting out there immediately, and the fact that we've seen an increase in volume, almost 9 out of 10 customers are satisfied with our non-weather water service.

So, I will move on to the Managed Repair Program. So, regarding the Managed Repair Program, this program offers a valuable service to customers with eligible policies whose homes have been damaged by water not caused by weather. This program is offered to HO-3 and DP-3 customers. As the Committee is aware, this program offers customers the ability to benefit from their full building coverage limit in lieu of the \$10,000 water sub-limit as a result of product language that we have put in place back in -- I think it cycled through the end of August 2019.

So, when the policyholder chooses MRP, a Contractor Connection contractor is assigned, and the repairs start taking place to put the policyholder in pre-loss condition. And that also includes a five-year warranty workmanship on covered repairs. The other interesting thing, which is a benefit, is the program also offers the benefits of reducing overlapping claims when multiple claims are filed over time, while at the same time providing underwriting with proof of repairs to determine continued eligibility.

As previously reported at the September 2020 Claims Committee meeting, approximately 38 percent of our eligible policyholders accept our free water removal service, and about 28 percent consent to participation in the permanent repairs portion where we assign the contractor, and the contractor repairs the home up to the policy limit. In this program, just like in outside of the program, the non-weather water claims, Citizens completes service surveys on a random group of customers who use our EWRS, our Emergency Removal Water Removal Service, and the Managed Repair Program. And when we look back, the total customer satisfaction score on average for year-to-date in 2020 is 83 percent. For July, August, and September, this satisfaction rate increased to 87 percent, which we're real pleased about. So, 8 out of 10 customers who use our services, our free water removal service and our permanent repairs portion, were satisfied with the programs and the overall claims service.

Regarding Assignment of Benefits, as you all know, HB 7065 took place on July 1, 2019, and I think we reported that we stood up a special team to handle these assignments coming in and to make sure we were complying with the regulations that were put in place due to HB 7065. Since that time, the Assignment of Benefits team has processed 7,310 assignment documents. Through October of this year, 4,586 assignment agreement documents have been received, which equates to about 459 per month. For August, September, and October, average AOB receipts have jumped to an average of 574, which is consistent with our increase in non-weather water claim volume and policy in force growth. Of these, and I'll do just a few stats here, 89 percent of these agreements are related to non-weather water, 66 percent of all agreements received were compliant. And we're seeing as time goes on, as these AOB companies understand what the HB 7065 says and the requirements of that legislation, we're seeing an increase in compliant agreements. 58 percent were involved in emergency services and 45 percent were related to permanent repairs, and the three main work types that we're seeing with assignment agreements, 44 percent involve water mitigation, 25 percent involve fungi/mold testing, and then another 14 percent involve board-up and tarping.

One of the interesting facts is notices of intent to litigate represent a little over 17 percent. Many of these are a result of denials where coverage was not afforded or the invoice for services exceeded the \$3,000 reasonable emergency repairs policy limit. And so that's an interesting fact. And two things, I think, that I can mention and I feel real comfortable about in looking at some of the agreements coming in and some of the invoices coming in today, is that it's clear to me that we've driven out some of the worst players in the market. Even though we have plenty more out there, we're not seeing some of the bad players out there where they would come in and litigate. Now they're more able to send in invoices that match the services provided in lieu of inflated invoices. So, a couple of things, I think the benefit so far that I can see is it's driven out some of the worst players, and costs tend to be moving more in line with that \$3,000 limit, and we're not getting a lot of these, even though we get some, we're seeing less and less folks send in outrageous bills basically

for these services provided. Here again, we pay for what services were completed at a fair price, but like I said, we are seeing that is coming more in line with the services provided.

And another interesting point is of the total assignments that I just mentioned, 31 percent are Public Adjuster represented, 30 percent are Attorney represented, and another 8 percent have both Public Adjuster and Attorney representation. Only 31 percent of all assignments received to date, or this year, did not have any sort of representation. So with that, Mr. Chairman, that concludes my presentation. I'll be glad to take any questions.

**Chairman Kastroll:** Thank you, Michael. Any questions?

**Governor Holton:** On the one hand, I'm very happy with the customer satisfaction rate that Citizens enjoys. On the other, it seems a little inconsistent that we have such a low participation in Managed Repair. I'd like staff to comment on that. My suspicion is that's probably a result of the very effective advertising that the trial bar does in this state, but I wonder if there's some way Citizens can counter that by making our customer base more aware of the Managed Repair services and how successful they've been in terms of customer satisfaction.

**Michael Carver:** Governor Holton, that's a good observation, and one of the things that we try to do is consistently, every single contact with the customer that is eligible for the program, we do everything possible to market that program and provide services under that program. One of the most recent things that we've done is at First Notice of Loss, if the loss is eligible for the MRP program, they're getting a letter and they're getting our official brochure outlining the program, and the letter just informs them about the program. So, we're always looking at ways to increase that participation. I would agree that you would think more and more folks would want to take on the MRP program, but one of the challenges, I think, is when we have the claims that are Attorney or PA represented, most understand that the contractor gets paid directly. And so, a lot of times they'll either settle for the ten or they'll basically try to go around that and, you know, litigate under their own devices about MRP such that it's not what we should be offering the customers and those types of things, but we're always trying to increase participation.

**Governor Holton:** Well, thanks, that's a good, positive step, and hopefully we can continue doing that and coming up with some more innovative ways of marketing that.

**Michael Carver:** I have no doubt going forward, I mean we've seen a linear positive trend line going in the right direction, and I firmly believe that we'll continue to see that.

**Governor Holton:** Thank you.

**Michael Carver:** Thank you.

**Jay Adams:** I'd also like to add to that in a number of the water claims, we believe that a large majority of those claims are manufactured claims. A lot of those have fraud and abuse. The folks that seem to have legitimate claims really do have a pretty high uptake of the program. But, again, due to the volume of the manufactured claims that come in with that, it continues to suppress that overall number. And it would be hard for us to be able to make any statements over and above the uptake rate that we have today, but we

do believe that to be a big piece of it. Mike Carver has also done an excellent job really redesigning the program from the ground up. We continue to listen to customer feedback. We look at those customers scores and take them serious. We listen to the contractors and what they tell us. And they've really built the program around trying to put the customer at the center of all this and be an advocate on behalf of them. So, the folks that are going into the program with legitimate claims really do seem to appreciate it, and a lot of those folks also tell us that they're willing to use the program again in the future if they were to have another water claim.

**Governor Holton:** Great. Thank you. I've heard horror stories about some in the private sector and some bad news reports on them, but everything I've heard about Citizens is outstanding, and kudos to you and your team for that.

**Michael Carver:** Thank you, Governor Holton.

**Jay Adams:** Thank you.

**Chairman Kastroll:** Any other questions?

## **6. Vendor Update**

**Greg Rowe:** Good afternoon, Committee members. So, the first item I would like to bring forward today is for our existing Appraisal Services contracts. Under these contracts, vendors provide experienced resources who perform various appraisals in the field and serve as our Appraiser under the pre-suit Appraisal claims process which is set forth under our policies. At this time, Citizens exceeded the original usage estimates under these particular contracts for a variety of reasons, primarily relating to the volume of claims moving through these particular teams. So as of now, we're really receiving approximately 5,860 assignments per year with current monthly spend trending at approximately \$1 million to \$1.2 million. That's around \$14.4 million annually. And in comparison, with the original approved spend amount, which was \$36.75 million, that was really based on an estimated 3,100 assignments per year. As you can see, we're approximately 2,700 off in our projections, and those projections really happened on the heels of no storm activity for a very long time, and over the last three years, we've had a higher than anticipated claim volume, and that's really the reason, I think, for the anticipated spend.

Citizens, with this increased claim volume, has been using these Appraisal Services in responding to late First Notice of Loss claims from prior CAT events. These are claims that come in after one year of the landfall of the particular event. These late reported claims just pose a variety of complex challenges, as you can imagine, with the investigation and valuation of the reported damages. These Appraisers in this program are really best suited for these complex types of claims due to their previous experience handling wind damage and other associated costs with repairs.

This workflow that we have in place today where the late First Notice of Loss claims come through the Appraisal process really has saved the company money in a sense in that through the Appraisal process or through assigned release, those claims conclude in that business unit without going to litigation.

In response to the increased assignment volume for our Appraisal teams at Citizens, this particular Action Item is seeking for approval for an additional \$36 million in contract spend, which covers the last six months of our current renewal term, as well as the remaining two one-year optional renewals. So, that is where we're at on this, Mr. Chairman. I will pause for any questions or clarification before I read the recommendation.

**Jay Adams:** Greg, could I add just a little clarity as well? Back during Hurricane Irma, we anticipated or forecast that we might get as many as 20,000 litigated suits before the claim duration would end. We wanted to be proactive and put forth a strategy where when we received any type of reopened claim request or we got an invoice from the customer or one of their vendors that was significantly different from what Citizens had provided, what we elected to do is move those claims over into Appraisal. And the reason that we did that was twofold: One, Appraisal is binding, which means at the end of that process, that claim is ineligible to be litigated. And No. 2, the Appraisal folks, as Greg just mentioned, really are the highest-caliber Adjusters that we employ and they're the best suited to really work through those disputes. So, when they were unable to do that, we just moved it into the Appraisal process, and that actually shuts the claim down. And another positive around that is it prevents the protracted litigation. Typically, Appraisal resolves itself within 90 to 120 days, and claims that move into litigation typically pend somewhere in the neighborhood of about 400 days. So, we significantly increased our utilization of Appraisal during Irma and we ran close to 10,000 claims through that process that Greg and his team had not forecast for because we hadn't had a hurricane in so many years.

**Chairman Kastroll:** Thank you, Greg. Questions before we read the Action Item?

**Governor Lopez-Cantera:** I have a question, Mr. Chairman. Walk us through one of these appraisals, Greg, just for those who aren't familiar.

**Greg Rowe:** Yes, sir. Actually, Craig Sakraida would probably best serve. That actually falls under his department. So, Craig, I don't mean to put you on the spot, but would you be willing to walk through that process for the Committee?

**Craig Sakraida:** Sure. What happens, whether it's handled in the Appraisal through a formal Appraisal process or through the means of these late notice claims is we get notice that there's a significant difference in our initial adjustment of the file and what the customer or their representative is presenting. So, we review the file, we name our Appraiser, who goes out and investigates the loss, and these Adjusters are very highly-skilled, trained, they understand how to work through the disputes, and if we can't come to an agreement after our evaluation of it and their Appraiser's evaluation of it, or just our evaluation, maybe we did miss something, then it goes to more of a panel with the Umpire. So what we do is we try to use these Adjusters in a manner where they can go out and inspect the loss, a fresh set of eyes on it, did we maybe miss the analysis on the roof, is there additional water damage in the home that's a result of the covered cause of loss, and really put it together and say is there really a \$60,000 dispute here or maybe we just have some scope items and a little bit of pricing differences. And oftentimes what happens is we come to a fairly decent agreement on a lot of these with the majority of the players. The late notice claims, we definitely leverage the policy duties and any prejudices. You know, if a claim is filed two and a half years later, it's difficult for us to determine when the damage may or may not have occurred.

What these Appraisers do is they are very good at documenting the file to help support anything that goes on in a future manner. So, it really is best for us and it's best for the consumer so that we can properly document the file, because we try to handle everything as good as we can on the front end, but there are times when we do miss some things, or the Adjusters don't look at it with a fresh set of eyes. So that's what we've really used this for, to streamline the process, save some money, and in the end this is the best group of people that we have to utilize this, and they've been really onboard since the Irma onset of all this, you know after four to five months the claims will start to reopen. So, they've been dealing with this for quite some time and we've had some fairly good results. So that's the process in a nutshell, Governor. Is there anything further?

**Governor Lopez-Cantera** Follow-up, Mr. Chairman?

**Chairman Kastroll:** Yes. Please go ahead, Carlos.

**Governor Lopez-Cantera** Thank you. Is there any analysis or study that's been done that shows a correlation between savings to the company versus these Appraisals, these Adjusters, and if you quantified the savings? Because this is asking for twice the amount of money that was budgeted for four years now to cover about, if my math is correct, about two and a half.

**Jay Adams:** What I'd like to do first is clarify what Craig meant by a savings. Any claim that goes through the Appraisal process, it costs us about between \$1,500 and \$1,800 dollars for the Appraisal and upwards of maybe \$2,000 to \$2,500 to go through the Umpire process if the two Appraisers cannot work that out. I believe the savings that he may have been alluding to was if a claim actually makes it over into litigation, we now have our own Defense Counsel cost, and then we would also owe fees and costs on any award to a Plaintiff Attorney. And that is where the significant savings occur.

**Governor Lopez-Cantera** I understand that, can it be quantified? Like we're spending an additional \$15 million here, but that would justify a savings of anything over \$15 million. That would make sense.

**Jay Adams:** Right. I don't have a specific number, but I can refer back to the comments I made a little earlier around Hurricane Irma. Our Actuarial group determined that they believed we would get as many as 20,000 litigated claims out of Hurricane Irma, and as I mentioned, as soon as we realized that there was any kind of dispute or significant dispute, we moved it into the Appraisal process. So, we cut the number of lawsuits, we believe, down by at least 10,000 with regard to Hurricane Irma. I don't have an average number that I could give you. That's something that we could provide at a later date. But it's significantly cheaper to run things through the Appraisal process than through the litigation process. If you would like, I can certainly have our Actuary put together an exhibit that we can send you after this meeting.

**Governor Lopez-Cantera** Sure. And I would suggest that that be ready for the full Board meeting when this item goes before the full Board. Another follow-up, Mr. Chairman?

**Chairman Kastroll:** Please go ahead.

**Governor Lopez-Cantera** Thank you. Jay, you said that each one cost about \$1,500 to \$1,800?

**Jay Adams:** That's for hiring our Appraiser, yes.

**Governor Lopez-Cantera** Right. So, this number, based on the projection of 5,860 assignments, it would come out to about \$2,500 per assignment. Is there something that the additional \$900 to \$700 would go towards, like administrative cost, overhead, profit?

**Jay Adams:** We have to hire an umpire. So, the process works such that we get an Appraiser, the insured gets their Appraiser. If they can come to an agreement, the claim just settles. If they are unable to, then we have to hire an Umpire, and we split the cost of that Umpire fee. And they can range, again our part being about \$2,500, they can be as high as \$6,000 or \$7,000 at times.

**Governor Lopez-Cantera** So this amount covers the whole kit and kaboodle, all parties involved?

**Jay Adams:** Correct. And also, as what Craig and Greg have mentioned, we also have those folks go out and do some inspections and other activities that are in this Appraisal contract that they're not acting as the Appraiser. So, we do have some additional costs in other areas of that as well.

**Governor Lopez-Cantera** Understood. Thank you, Mr. Chairman.

**Jay Adams:** Thank you.

**Chairman Kastroll:** Thank you, Carlos.

**Mr. Palmquist:** Mr. Chairman, this is Jon Palmquist. Can I ask Jay a follow-up question, please?

**Chairman Kastroll:** Go ahead.

**Mr. Palmquist:** Jay, in your comments a second ago, you mentioned that it's cheaper using Appraisals, and I assume by cheaper, you're referring to the actual cost, what we call LAE expense?

**Jay Adams:** Right.

**Mr. Palmquist:** Do you have a sense for whether there are any savings on the indemnity side as well that aren't reflected in your Executive Summary?

**Jay Adams:** So, what we are hopeful for is that on any individual claim, we are writing for the appropriate adjustment. When the insured or their representative does not feel that it is representative of their loss, we offer Appraisal under the contract, and, of course, anybody can litigate if that's what they choose. We are hopeful that at the end of that process, that they are getting a fair settlement. In the Appraisal process, Citizens is not directly engaged in setting the loss. So, the Independent Appraiser that we hire, or if it

goes to an Independent Umpire, those folks are actually setting the amount of the loss. If it goes into litigation, we either are reaching a settlement agreement with a Plaintiff attorney, or that case is being tried and the court system is actually setting the amount of that loss. So, when we talk about cheaper, we really are only focusing in on those Loss Adjustments Expenses.

**Mr. Palmquist:** Thank you.

**Jay Adams:** Let me make one other comment. When a claim goes into litigation, we have Defense costs, and that is a Loss Adjustment Expense that we have to bear. When a settlement is reached and if it's more than, you know, one dollar over what we had already paid, Citizens is then required to pay any associated fees and costs, plus whatever the award is. All of the fees and costs and the award are counted as indemnity. Without going into a real deep discussion, I would like to just focus that the savings are we defer having Plaintiff Attorney fees and costs and our Defense Counsel cost in lieu of the cost that we have to incur for the Appraiser and/or Umpire.

**Mr. Palmquist:** All right. Okay. Thank you.

**Jay Adams:** You're welcome.

**Chairman Kastroll:** Any other questions before we read the Action Item? And, Jay, I would like to just reiterate what Governor Carlos just recommended, that for the next Board meeting, you have Actuarial quantify.

**Jay Adams:** I will do that.

**Chairman Kastroll:** Okay. Please proceed with reading the Action Item.

**Greg Rowe:** Yes. Thank you, Mr. Chairman. Staff proposes that the Claims Committee review and approve for consideration by the Board of Governors to authorize up to \$36 million in additional contract spend under the Appraisal Services contracts, RFP 15-0022, for a total approved aggregate contract spend not to exceed \$72,750,000 as set forth in this Action Item over the total life of the contract, and authorize staff to take any appropriate or necessary actions consistent with this Action Item.

**A motion was made by Governor Holton and seconded by Mr. Palmquist to approve and recommend Board approval of the Action Item for Appraisal Services, RFP 15-0022. All were in favor. Motion carried.**

**Chairman Kastroll:** All right, Gentlemen and Ladies, we have eight minutes. We have one more action item to go through, the Sinkhole Engineering. It's simpler than the one we just went through. So, Greg, go ahead, you're on.

**Greg Rowe:** Thank you, Mr. Chairman. The second and final Action item I have today is, indeed, for a continuation of service for our Sinkhole Engineering Services contracts. I'm sure many of you can remember ten years ago in the state, major sinkhole issues that we and other carriers were experiencing. Ten years ago, the Board approved contracts for 21 Sinkhole Engineering vendors, and when those contracts concluded in 2016, there had

been over 11,000 assignments completed, with a total contract spend of approximately \$98.6 million. Rewind five years ago, these same services in the continuation, the Board approved contracts for 17 Sinkhole Engineering vendors, and these contracts will expire in March 2021, and as of the end of October, a little over 500 assignments have been completed under these contracts, with a total spend of approximately \$4.3 million. So, as we can see, over the past ten years, the sinkhole dilemma has certainly worked itself out through this program.

But despite reducing the claim volume, the need to retain these Sinkhole Engineering contractors remains. On June 18, Citizens issued an RFP for Sinkhole Engineering Services, and three vendors responded and all three were recommended for award, on August 18, 2020. All three of these vendors have certainly worked in the past for us in this particular program and based on the volume that we've seen with the decreased standpoint, we certainly believe that over the next five years, these three vendors can handle that particular volume. So, Mr. Chairman, again, I will pause there before any questions before I read the recommendation.

**Chairman Kastroll:** Any questions? Okay. Please read the recommendation.

**Greg Rowe:** Thank you, Mr. Chairman. Staff proposes that the Claims Committee review and approve for consideration by the Board of Governors to authorize the Sinkhole Engineering Services contract with Universal, SDii, and Geotech for an initial term of three years and an optional renewal term of two years, for an amount not to exceed \$10 million as set forth in this action item, and authorize the staff to take any appropriate or necessary action consistent with this Action Item.

**A motion was made by Mr. Palmquist and seconded by Governor Holton to approve and recommend Board approval of the Action Item for Sinkhole Engineering Services, RFP 20-0021. All were in favor. Motion carried.**

## **7. Addendums**

**Chairman Kastroll:** For those folks who want to read some exciting items after the meeting, the Recovery Cases of Interest and the SIU is a great read, and I don't say that sarcastically. It's a wonderful thing to see our dollars used in this fashion to go ahead and fight all the legal activity that can and will be going on in any claim. Thank you for all your effort there, Citizens' staff.

## **8. New Business**

**Chairman Kastroll:** Any new business for the Claims Committee? Okay. Thank you so much. I want to wish everyone happy holidays and time with your family. It's a very wonderful time and we live in a very wonderful state. I wish everyone happy holidays as they enter into this very festive time.

**A motion was made by Governor Carlos Lopez-Cantera to adjourn. All were in favor. Motion carried.**

[Meeting adjourned]