

ACTION ITEM

CONTRACT ID	Board of Governors Meeting Minutes September 23, 2020
BUDGETED ITEM	N/A
CONTRACT AMOUNT	N/A
PURPOSE / SCOPE	Review of the September 23, 2020 Board of Governors Meeting Minutes to provide opportunity for corrections and historical accuracy.
CONTRACT TERM(S)	N/A
PROCUREMENT METHOD	N/A
RECOMMENDATION	Staff recommends the Board of Governors review and approve the September 23, 2020 Board of Governors Meeting minutes.
CONTACTS	Barry Gilway, President/CEO and Executive Director Barbara Walker, Senior Executive Assistant and Board Secretary

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, September 23, 2020**

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened telephonically on September 23, 2020 at 9:00 a.m. (EST).

The following members of the Board were present:

Bo Rivard, Chair
Carlos Beruff
Bette Brown (came later into the meeting)
Marc Dunbar
Reynolds Henderson
James Holton
Will Kastroll
Carlos Lopez-Cantera

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Kelly Booten
Jay Adams
Joe Martins
Violet Bloom
Dan Sumner
Jeremy Pope
Mark Kagy
Barbara Walker
Bonnie Gilliland

The following people were present:

Kapil Bhatia Raymond James

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens Board of Governors meeting. This meeting is publicly noticed in the *Florida Administrative Register* to convene at 9:00 am. So, we will begin momentarily. Today's conference is posted through the Zoom platform. If you are listed on the agenda, you should be logged into Zoom as a panelist. For any users who are attending today's session through the public link, you are automatically in listen-only mode. Thank you. For the record, Chairman, there have been no public requests to speak during today's board meeting. This meeting is publicly noticed in

the *Florida Administrative Register* with transcribed minutes available and recorded at our website. Chairman, would you like for me to proceed with roll call?

Chair Rivard: Yes, ma'am.

Roll call: Chair Bo Rivard, Carlos Beruff, Bette Brown, Marc Dunbar, Reynolds Henderson, Jim Holton, Will Kastroll, and Carlos Lopez-Cantera.

1. Board Ratification and Approval of Prior Meetings' Minutes

Action Item: Approve June 24, 2020 Minutes

Chair Rivard: Thank you, Barbara. Thanks to you and the whole team for putting the technology together to pull off this Zoom meeting. So far so good. I appreciate everyone joining in. I know there was a lot of work going into that to make that happen. So, good morning to everyone. Thank you for being on the meeting. We will, at this point, if you had a chance to review the minutes, I'd entertain a motion to approve the prior meeting's minutes.

A motion was made and seconded to approve the June 24, 2020 Board of Governors minutes. All were in favor. Motion carries.

Action Item: Ratify Two Retirement Plan Action Items (Roth Account Option and CARES Act Option) Due to Dropped Public Line

Barbara Walker: Pardon the interruption, Chairman, but at this particular board meeting, we do have an option on the table to ratify the action items amended in the last board meeting because those minutes – those public lines dropped during the board meeting. The public was unable to hear the votes on two items. Those items were the Roth Account Option from Violet Bloom and the CARES Act Option. Both of those were amendments to Citizens Retirement Plan and needs to be ratified at this time with those minutes' approval.

Chair Rivard: Thank you for that clarification. So, if we can have a motion to ratify those two items as well, that would be helpful.

Barbara Walker: May I take a moment to read the ratification?

Chair Rivard: Yes, Barbara, if you could read that, that would be great.

Barbara Walker: Staff recommends the Board of Governors to: a) Ratify the Action Item to Amend the Citizens Retirement Plan (Roth Account Option) that was originally approved during a public line disconnect during the June 24, 2020 meeting; and b) Ratify the Action Item to Amend the Citizens Retirement Plan (CARES Act Option) that was originally approved during a public line disconnect during the June 24, 2020 meeting; and c) Review and approve the June 24, 2020 Board of Governors Meeting Minutes as set forth in this Action Item.

A motion was made and seconded that the board approve to: a) Ratify the Action Item to Amend the Citizens Retirement Plan (Roth Account Option) that was originally approved during a public line disconnect during the June 24, 2020 meeting; and b) Ratify the Action Item to Amend the Citizens Retirement Plan (CARES Act Option) that was originally approved during a public line disconnect during the June 24, 2020 meeting; and c) Review and approve the June 24, 2020 Board of Governors Meeting Minutes as set forth in this Action Item. All were in favor. Motion carried.

Chair Rivard: Thank you, Barbara, for walking us through that.

2. Chairman's Report

Chair Rivard: For my Chairman's Report, it's going to be brief but I'm happy to be able to welcome aboard our newest board member. That's Carlos Beruff. Welcome, governor. Pleased to have you on board. I want to say a few things about Carlos. He's a very well respected businessman and leader in this state. He's a native Floridian and he's worked at the intersection of business and government for the majority of his career. As a resident of Manatee County since 1980, and has been a very successful real estate developer there in Manatee County. He's the CEO of Medallion Home Gulf Coast, which is an award winning homebuilding company, and during his more than 36-year career as a business owner, he has built over 2,000 homes, developed, managed, and owned dozens of other properties, employing thousands of people in the process. And, I think we can all realize that all of his homes require insurance. So, he certainly has a lot of experience in the industry and is familiar with lots of these issues that Citizens deals with. But, Governor Beruff also, in addition to his business career where he's been very successful, he's also been very generous with his time giving back to the state in many, many ways. He has previously served on the Board of Trustees at the State College of Florida, Southwest Florida Water Management District, also served as Chairman for Governor Rick Scott's Commission on Health Care and Hospital Funding, and most recently, he's served as the Chairman of Florida Constitution Revision Commission. That's an institute that's appointed and meets every 20 years to propose amendments to Florida's Constitution for voter approval, and all seven of the CRCs ballot amendments were approved in Florida by the voters in 2018. He's also a Commissioner on the Sarasota Manatee Airport Authority Board. We are very pleased to have you on board, Governor Beruff, and we'd be happy if you'd make a few comments if you'd like.

Carlos Beruff: First, I'd like to say thank you, Mr. Chair, for all of the nice things you've said and ignoring all the blemishes I have [laughter]. I certainly appreciate the introduction and the ability to try to figure out how to help all Floridians and continue to drive insurance costs down, which is the main thing we can help keep people's budgets in a realm where they can afford things, which is what I'm always after. Thank you so much.

Chair Rivard: Thank you and welcome again. That's it for my report. I just want to welcome our newest member on the board, and I'm going to turn it over to Barry for the President's Report at this time.

3. President's Report

Barry Gilway: Thank you, Mr. Chairman and board members. We live in interesting times, and during this period, I truly want to thank the Citizens team for doing what I believe is an extraordinary job

responding to all of the COVID issues, moving literally from a physical environment to a remote environment, and, by the way, improving the service status we're providing to, you know, Floridians during that process. It's also interesting that this is the time of year that we launch the 2021 Annual Operating Budget process. We work, obviously, way ahead of the game. This year is going to be more challenging. You can't rely really on past benchmarks or simple percentages to apply to prior budgets. It's a different environment. As I make this presentation, you'll clearly see we're going to grow. There is very little we can do about that in the short term. You can't rely on passed benchmarks relative to the overall growth. Some expense categories in the budget, which we will be presenting in December, will grow as they relate to policy count, subsequent claims, and litigation that follows. But, on the other hand, some of the other expenses will drop. Literally, this meeting is a great example. You know, we're saving travel costs. We're saving lodging costs as a result of operating in a virtual environment. Travel has almost been non-existent, and frankly, we're accomplishing very much the same thing under very different conditions, and we're saving money, frankly, significantly by doing so. When we start out with the budget process, we step back and take a look at and revisit Citizens' strategic themes and objectives really to make sure everything we're doing from an investment standpoint, people standpoint, technology, all of these issues are aligned appropriately with the current market conditions and the needs of the overall organization. So, we need an alignment. There are four categories that we really focus on this year. The first – and it will be an obvious one - identify and implement strategies that reduce Citizens' exposure. We're going to have to be even more aggressive than ever in this area. We are going to be growing because of market conditions and I will comment on that later. The reality is that we've got to look at every single option that is available to attempt to move customers back into the overall private market and assist the private market in getting healthy. We know a healthy private market reduces Citizens' size, and in an unhealthy private market, we're going to grow. Obviously, this is the reason we requested and the board approved the FSU study. But, we also got to look around and consider recommendations from board members, legislators, and others that might have some ideas in terms of how we can reduce the overall size and scope of Citizens over time. The second area we look at is really critical, especially this year, and that's to ensure scalability, flexibility, and resiliency in operations to optimally serve our customers. If you take a look at Citizens' history, there are two terms that always come to mind. One is "a roller coaster ride." The second is "whack-a-mole." When you take a look at Citizens, it is constantly changing. Our history shows that we are constantly impacted by market conditions. We grew dramatically overnight, and my staff will correct me on this, but I think we had to assume 360,000 customers overnight at the point of the POE liquidation. Following that we actually went through a strong period of depopulation. We dropped back down. Market conditions improved. Then, of course, we had a reversal. Then, we ended up peaking in 2012 at 1.5M customers. By the way, that's a level we never ever want to reach again. At that point, if we would have had 1-100 storm, Floridians would have been subjected to an \$11.6B assessment. We were 23% of the market. Governor Beruff, you can obviously relate to this. One out of every four homeowners had Citizens as an insurance carrier in Florida. I mean that's a staggering number and definitely a position we do not want to see ourselves again. But, we were able, frankly, though a favorable market – as a result of a healthy market – dropped down to the lowest level that we've seen since formation and that's 420,000 policyholders. So, what does this mean? It means we do our budget and we look at our operations. It means that we need to have a budget plan that's an operating model that's very, very responsive to a broad range of market conditions because it will change. The next one we look at is obviously cost ratios. The point I would make here is, and it's an important point, you have to look at loss ratios at Citizens in a different framework. We are a residual market. I had a great conversation the other day with Governor Dunbar, and he was talking about commercial risks. I'll talk about this a little later. The

reality is that there are times when commercial risks were very, very favorable in the overall marketplace. Today, they're not simply because the rate adequacy in the commercial line of business is not good. And, frankly, we have literally dropped down to a residual market level because of the types of risk that we currently write in the commercial area . . . the larger exposure that we have, you know, in that area. Of course, as you know, we are subject to different underwriting standards than the private market, and we're subjected to pricing constraints that the private market does not have to deal with. And, the fourth and probably the most important in my mind, is that we've got to invest in and leverage Citizens – I call it the greatest resource – and that's really our employees. By statute we owe our policyholders the same level of service that they are entitled to in the private market. That means that we have to attract the same level of talent that the private insurance market attracts. We're talking about professionals – lots of adjusters, IT professionals, litigation specialists, call center talent, underwriting staff . . . I could go on and on. This is a very, very complex business requiring talented professional staff. But, internally, we try to focus on employee training. We acknowledge the importance of retention. Today, our retention overall is far better than the market. We are running somewhere around 8.5% voluntary turnover compared to the market of 14%. That does not apply, by the way, IT or Claims because the retention ratio in both of those very critical areas is not good. In fact, in some cases, they are worse than the market. So, the bottom line is, as a Florida residual market, we still endeavor and are required, in fact, by state statute to deliver the quality service that is expected of us. In the interim, we are constantly improving our operations. I think most of you are aware that we have an Enterprise Portfolio Planning Index. Basically what this is, is an improved list of initiatives and projects that we have discussed that really allow us to improve the overall processes at Citizens. We never get to 60 on the list in a given year. It's impossible. You know, actively we're typically working on 10 of these. That's probably all we can afford with a reasonable budget and with current staff. But, every single one of these is designed basically to improve the overall strength of the company. In order to prioritize those, we obviously look at all of the internal costs, the external costs, make sure that what we're working on continues to be in alignment with where we're going overall as an organization. Obviously, we're driving the business now with that growth. Our growth depends entirely on the health of the overall private market. So, let's take a minute and review some of the market conditions. And, I know this is old news to many of you. Governor Beruff, you and I talked about this at some length in a recent discussion, so it's not really new news to you. But, the growth is becoming extraordinary. And, you can gloss over these numbers, but the impact that they have on the overall operations is significant. We're currently growing anywhere by 2,500 to 3,000 net new customers per week. So that's "net new." Last year at this time we were processing 7,700 per month roughly new business applications. Today, we're processing 17,691 new business applications per month. This is exacerbated because nobody is leaving because there is no capacity in the overall marketplace. Our renewal rate has risen from 83% last year to about 90% this year, which means obviously if we have a typical turnover of 10% that are moving into the private market – the getting opportunities in the private market – it's simply not happening under the current environment. So, the initial numbers, and this will probably change by year end and by December when we finally have something a little firmer, but right now we're thinking that the estimated policy count is going to roughly be 540,000 for the year end. That'll basically mean that we will have moved from a 4% market share in the state to a little over 5% market share in the state and will also mean in the Tri-County area – unfortunately, we're about 85% of where this new business is coming from – we'll be getting back up to that 16% to 17% market share range in Tri-County. As I'll mention later, Tri-County has been a major target for all the major companies to shut down business. We think in 2020 that we'll be in that 635,000 policy range. Obviously, that takes us up to around 6% share of the overall market. In the past, we've discussed a lot of the market place traditions.

So, I know this is not new news. I've reported on the overall industry financials many times. The financials, though, are not getting better in the private market. Financials for the private market companies are stressed. First half numbers – the industry – and we focus, by the way, on the Florida Domestic numbers and not the direct writers because that typically are the companies that we can work with to take our business and move our business back into the private market. But, they did have a net underwriting loss through six months of \$502M and a negative net income of \$227M: so, reduction in surplus and ongoing negative net income for the industry. The last session we talked about decreased reinsurance capacity. And, that's forced many companies to restructure their portfolios. We're all business people. We understand basically that companies are going to apply capital where they can get a reasonable return, and in this market, given those net income numbers for the last three years now – negative -\$700M, -\$350M, -\$350M for of the last three years – and, of course, the -\$227M of net income this year so far, the capacity has been withdrawn from the market. Many companies are restructuring. Now, what does restructuring mean? Governor Kastroll is probably the most aware of this I'm sure. It means basically that companies shut down. They will not write new business. They do not renew business. They are much more restrictive in terms of what they are writing. We got something from Carl Rockman this morning. He keeps me totally posted on what's happening. Again, we had another major company in the state this morning that announced, you know, for most of their program that they will not take anything less than older than a 10 year home. That will be hitting the press later today. You've got six companies of the largest companies in the state that publically announced they are shutting down new business in Tri-County, Central Western Counties, and more recently, as we discussed at the last meeting, the SOLO Counties (Seminole, Orange, Lake, and Osceola). The next issue, of course, is rates. Rate increases are occurring on an across the board basis. Rate increases are required, without any question, to keep these companies financially stable. But, with these rate increases, we're covering litigation cost increases and social inflation. And, I know we use the social inflation term consistently. What does it really mean? I've got a couple numbers here. The average cost of a litigated claim in Florida in 2012 was \$23,845. The cost today at the end of 2019 was \$48,800. You talk about the average cost of a claim is skyrocketing, and then you have on top of that, you have the propensity to put in claims. I've used these numbers before with Tri-County as an example, and this is consistent with companies operating in Tri-County and a litigation that is 8.6% times higher than the rest of the state. So, what does that mean? It means basically that for every litigated case that you have – 1,000 in Tri-County or in rest in state – you get 8.6% of Citizens number. Some companies, frankly, are higher than the Citizens number. Those are end-of-2018 numbers because many companies are filing for trade secret rules relative to the information that they provide to Quasar. But, rate increases are occurring across the board. They are more frequent, higher, the five largest companies have a rate cumulative rate effect from a low of 12.4% to a high of 28.3%. That is what the insured can typically expect: 12.4% to 28.3%. Now, I will say some of those rate increases do not include the reinsurance increases that are being filed independently at this point. And, other companies, as you know, have raised rates as high as 33.5%, and there are one or two companies that have more than one rate increase at the 30% level. This is making Citizens more competitive. Last year, and we'll talk about this in great detail at the December meeting, we did a comprehensive industry analysis on rate comparisons. In the primary markets, we found that we were the most competitive market 85% of the time. You approved as a board the procurement in the last session to do another review, we will use the August numbers. We will report those numbers in December. I would be very surprised if we don't find that we are the most competitive company in the 90% range. So, what's going to happen? We don't anticipate market conditions to improve significantly until at least the middle of 2021 when reinsurance capacity will be reevaluated. What I'm saying here is that the market is settled.

Companies know how much capacity they have. They know how much they can write. They are limited in terms of their writing currently. I don't expect a large amount of companies to open up dramatically before we really understand what the reinsurance market is going to look like next year. But, I've got to put on my marketing hat here for a minute. I think the question that Governor Dunbar asked me the other day is right on target, and it might not apply to commercial. I will tell you this. I think there is a huge opportunity. If you've got Citizens at 600,000 customers, within that book of business, there is an opportunity for takeout business. For those companies that have the capacity, well those companies that can attract the right investment in this state, there is an opportunity to come in and select the business that can be profitable either from rates standpoint, comfort standpoint, and enhance the opportunities for customers. I say that sincerely. I think there are opportunities out there frankly that are not being taken advantage of and probably need to talk more with investors and attempt to convince them that given the fact that rate increases are starting to hold. Some of the companies are coming closer and closer to rate adequacy. We're seeing some positive things that you heard in the Claims Committee meeting relative to litigation overall. It's unfortunately coming back now. It drops significantly, particularly in the Assignment of Benefits (AOB) area. AOB, by the way, for Citizens was down year over year by 57%, and for the industry, it was down by 47%. Now, it is climbing back. I'm not saying this is a long term issue. As Jay announced, we're seeing more and more water damage claims now that people are not as restricted. But, we don't expect the market to improve dramatically but we don't expect it to anticipate that it'll deteriorate. The exception to that are the obvious ones – Office of Insurance Regulation (OIR) or Demotech were to take action on companies financially, if we were to go through a very significant catastrophic (CAT) event, then clearly that would change the market significantly and we'd have to respond to that. We're ready to respond to anything. Meanwhile, we're continuing to improve the organization. All the committee meetings – many of you sat through the committee meetings. You're seeing a lot of the successes: Claims and Litigation, Managed Repair Program (MRP) improvements, Special Investigations Unit (SIU) success – I think we're blowing the industry away in terms of our leadership in SIU. The launch of the New Agency Platform . . . people don't really comprehend that we're dealing with 7,000 agents. We're not a typical company dealing with 350 to 400 prime agents. We're dealing with 7,000 agents. In addition, the reorganization is paying off. When we announced Kelly [Booten], the concept was basically to bring some divisions together and to get some synergy associated with the vision. She's already got initiatives on the way to take advantage of those synergies, so she's doing some exciting things that will play out during next year. Violet Bloom, with her facilities banner, is creating a whole new platform, and we're making decisions relative to what we will look like going into next year. We already have a test program, if you will, on a very temporary back to work program for people who really want to move into that direction – very limited at this point in time. Meanwhile, we're building the flexibility into our operations so that we can respond to any issue that arises. We want to respond to the growth efficiently and effectively and provide the right level of service. Our goal is ultimately that we want to be as low as we can be and we want to be as affordable as we possibly can be and we want to be as low as we can possibly be. We got down to that 420,000 level. We did a board report six months ago and we showed what we look like a residual market compared to some of the other markets. I think we were close at that 420,000 level as a pure residual market with 1,350 miles of coastline. We want to continue heading into that direction. I think the objective here will clearly be that we have to respond to the growth of the insured and work hard to get us back to a reasonable, residual market level, and we can argue what that might be, but a reasonable, residual market level over the long term. With that, Mr. Chairman, that completes my opening remarks. I'm more than open to any questions.

Chair Rivard: Thank you, Barry. Any questions for Barry at this point?

Marc Dunbar: This is Marc Dunbar. I have several but do you want to go through alphabetic order?

Chair Rivard: Just go ahead. I can see a list of people here so we can try to go that way. If we need to go back to alphabetic order, we'll do it.

Marc Dunbar: Barry, just a quick question on glide path. So, I was talking David Altmaier recently about how glide path may be able to stem the tide somewhat and the repopulation over the next couple years. In terms of pressing the Governor and the legislative leaders on glide path adjustment, is that kind of – do you do that as our top priority to try to impact things in the short term in repopulation? Or, are there some other things we should be focused on?

Barry Gilway: That's a great question, Governor Dunbar. Let me try to answer that two ways. This may seem like a misnomer, but right now I don't believe rate is the driver behind the growth. I don't believe it's the primary driver behind the growth. When we take a look at the Clearinghouse, for example, we're not getting any bids for any price. When we study the Clearinghouse – March Fisher does a great job in that area along with Carl Rockman's people – we're not just seeing anyone quote. The reason is that it's capacity, capacity, capacity. No one has the capacity to add risk. I think the primary thing behind the growth is definitely that. But, directly to your point, I think we have to get . . . we can't remain as competitive, you know, for the long term as we are today, Governor Dunbar. I think we would all agree with that. As rates are going up and we become more and more and more competitive, over time, today we might be the sole option; but, when it gets the point we're the only option purely because of rates, then growth is going to become exponential. Long-winded way of saying I agree with you. I do think that we have to address the overall rate levels that we're charging. As you know, we'll be talking about this at the December meeting. We will be presenting our rate program at the December board meeting. There are proposals out there to try and address the rate issue. I happen to be on the same page that probably you are and maybe Commissioner Altmaier. Personally, I believe the rate cap that we're under, particularly the way it's structured right now is going to be more and more of an impediment. You can't have the average rate of the industry going up by 20% to 25% and then you're restricted to a net increase of 3% to 4%. Obviously, over time it's going to put us in a very, very difficult opposition. It doesn't accomplish what Governor Beruff wants to do and that create a more favorable environment, but I do believe there are other issues that are there. I hope they come out of the Florida State University (FSU) study. I do think there are things that fundamentally have to change in the marketplace in order to reduce the overall rate level. We're trying to keep up with litigation costs. Frankly, and I don't have high expectations this year, but if we don't address the fundamentals of what's driving the base rate today, then, in my opinion, we're just not going to get to the point of having a highly competitive market. We're chasing costs at this point, and the industry has to do it if they want to attract investors if they want to come into this marketplace. I hope I answered your questions. I know I skirted it somewhat, Governor, but I do believe rate has to be addressed ultimately in the short term. In the long term, I think it's issues related to legislative change, public adjuster change, and multiples and all the other things we'll talk about that we need to address in the next legislative session.

Chair Rivard: Okay. More questions for, Barry, at this point?

Reynolds Henderson: Thank you. Barry, is any of this rate increase just the general rate increase of other insurers – does it have anything to do with the spike in lumber prices or is that temporary thing or they're not really related? Is it all litigation? What is the root cause?

Barry Gilway: Thank you, Governor. Number one, I really don't think it has anything to do significantly with overall construction pricing. I think the fundamental reason for the rate increases for right now – the first, really is in the reinsurance marketplace and the development that occurred in the overall reinsurance marketplace since [Hurricane] Irma has been staggering. When I read the reports, if a reinsurer had a \$100M in loss, if that was their first published loss following Irma, there are companies that have increased their reserve development but 250%. So, now they're going to their board and saying, "Guess what? It wasn't \$100M. It was \$250M." How does that play out in the industry? Well it plays out in the industry by reinsurers saying, "We can't live with this." For the last two years, what they have done in the last two years is increase pricing. So in our second year of increased pricing – last year there was significant pricing; this year it was even worse in the 20% to 30% range. So, I think what's happening really is that companies are responding to that. Reinsurance costs are a pass through, writing the rating algorithm. The first thing that's happening is that reinsurance pricing is impacted. The second thing is we're in our fourth period of negative net income. So, if you go back to [20]13, [20]14, and [20]15, this was an incredibly profitable industry. 2013, 2014, and 2015 – the industry knocked the doors off for net income. In 2016, it was stable. In 2017 – loss of \$350M. In 2018 – loss of \$350M. In 2019, loss of \$700M. So far, a loss of \$500M. Net underwriting loss of \$277M. I think the financial condition . . . it's really reinsurance cost. And, you really hit the nail on the head, Governor Henderson. It's litigation. It's litigation. I've been a broken record on this two board meetings ago. I quoted some numbers, so I'll speak from memory, but in 2013, there were 27,000 litigated cases. In 2019, there were 84,000 litigated cases. Some of that was Irma driven, you know, obviously. But, the overall level of litigation that's occurring . . . last board meeting, I mentioned the SOLO counties. I was confused. WE have very little business there. I was confused. Why are people leaving center state? Then, we looked at litigation and we found out that litigation in the center states has increased 581% since 2013 – almost a 600% increase in litigation. And, Tri-County in that same report showed that during that same period went from 10,000 to 25,000 cases. They weren't even the high percentages. It was really the central-western counties and the SOLO counties that were a higher percentage. I think we keep up with construction companies, Governor, but the primary drivers, in my opinion, are litigation. I think there are some real flaws in our public adjuster, loss consultant, trial bar system that I won't get into right now. I think there are some flaws that need to be addressed legislatively. I think the fundamentals of the AOB law . . . I promise myself I would not get into legislative recommendations, but I think without touching attorney's fees, if we would implement some of the standards relative to the AOB 7065, it would make a huge difference in litigation costs. I think there are some things we could do fundamentally from a legislative standpoint to impact the overall marketplace. I do believe through Xactimate and other mechanisms that we have we keep up with the overall increased costs. By the way, increased construction costs are a reason for reopened claims, and that does have an impact. We have to keep up with that and we have to make sure we're paying our customers the right amount. It is an issue but it is not one of the main drivers in my opinion.

Chair Rivard: Thanks, Barry. Governor Henderson, do you have more? Or, does that answer your question?

Reynolds Henderson: One last thing. Is there anything you think Citizens could better to preempt litigation?

Barry Gilway: Well, I think we're doing that now. I think one of the massive successes in our Citizens program, Governor, is the appraisal process. Jay Adams is the best in the business and has come up with some really exceptional – Jay and Elaina Paskalakis – they've done a phenomenal job. That's why I believe our litigation costs and litigation count dropping at a faster rate than the industry. A big part of it, for example, we implanted a year and a half ago was the appraisal program and that had a huge impact. One of the areas going forward would be a resolution process that could be recommended as an alternative to stop litigation. And, the other one we talk about all the time is that MRP – Managed Repair Program. What's really interesting is if you could compare the water damage claims that are handled through the MRP and the level of litigation on those claims – about 40% of them – and you compare that with the non-MRP, then the MRP litigation is virtually nothing on a comparative basis. So, we're always looking – to your point – we're always looking for any aspect of our business that could drive down litigation cost. We are looking now . . . we are working with Ernst & Young (E&Y) right now as part of a study to see if there are any areas they could identify that might have additional impact on litigation costs. That's part of the E&Y study that's going on now that we will be reporting in December.

Chair Rivard: Great. Thank you, Barry. More questions for Barry? Anyone?

Carlos Lopez-Cantera: I have a question, Mr. Chairman.

Chair Rivard: Go ahead.

Carlos Lopez-Cantera: Barry, based on the glide path and where Citizens rates are today and assuming private reinsurance rates were to stay at a constant and not increase – whatever they are today in 2020 – how many years would it take for Citizens to achieve parity?

Barry Gilway: I would have to give you a wild guess if you'll accept that.

Carlos Lopez-Cantera: How about an educated guess?

Barry Gilway: The educated guess is if right now let's assume for a minute that we are – I need to reach back in my mind to get Brian [Donovan's] latest numbers – let's say we are 18% below the industry right now. So, if we're 18% below the industry in the aggregate and if the industry is stable, although we have a 10% glide path, because of the structure of the glide bath, typically we're getting anywhere from, depending upon territory, 3% to 8%. So, to your point, it would take us four years at the current structure of the glide path, four to five years to get up to the parity in the industry . . . if we really got to the 10%, obviously with the numbers, 2.5 to 3 years to get us there. One of the issues that we deal with, as you're aware of, Governor, when you have a rate increase, it really takes you 1.5 years to have that rate increase impact your financials because by the time you introduce the rate increase and it hits every policy in your renewal cycle, which is 12 months, it takes a longer period. My rough, educated guess, Governor, would be something in the three to four-year range.

Carlos Lopez-Cantera: Thank you. No more questions, Mr. Chair.

Barry Gilway: Thank you.

Chair Rivard: Good thanks. Governor Holton, I can't see you but do you have any questions?

James Holton: I'm on audio alone, but I have no question at this point. Thanks.

Chair Rivard: Just want to check. Thanks. Anyone else?

Will Kastroll: Yes, Chair Rivard.

Chair Rivard: Yes, Governor Kastroll, please.

Will Kastroll: Thank you, Barry. Very concise. Can you explain briefly what Citizens plans are to discuss with private insurance companies to take out business? The domestic insurance companies in Florida are stretched so thin in terms of personnel. They often need to be guided, giving solid, good ideas. I know through the Clearinghouse and through actuarial data – just provided claims data – someone can go to them and explain to them and their investors what the opportunity is in the next year. I think that will help. Can you explain briefly what your plans are? Thank you.

Barry Gilway: I can let you know what we're doing now, Governor, and then what we have in mind. Number one, we have a little known individual running around in the state –Norm Graham. Norm's entire job, and he does a great job with it, he is constantly calling on the private companies, sitting down with their senior management, letting them know what's available, you know, on our book of business and what specific opportunities are available. I do believe that going into 2021, and that's what I was really referring to earlier, we could do more. I think there's opportunities within the book of business to basically get more refined relative to what the strategy is and do more in terms of identifying specifically a book of business. Right now, we say, "A book is open to you. You can choose what you want." Then, it's really up to them on the data search and select. We might be able to do more, in my opinion, Governor, more explicitly provide to them but what business out of that 600,000 policies might fit within their strategy, within their price range, within the risk characteristics that they're look for. The second element of this is really talking with investor groups, and I do that personally on a fairly regular basis. I will address groups of 7 to 10 investors and my pitch is always what I'm pretty much giving you over here with my marketing hat on: this is the overall climate in Florida and this is where the opportunities might be. I will say this. I don't want to give away anything. David Altmaier – I haven't had any specific discussions with David on this but I am aware of right now, and this is a good sign, right now there are at least two companies looking for certificates of operation in the state, which means investors are willing to put in additional dollars. One of them is focused on one class of business doing the takeout. There are interested parties already that are looking for opportunities. My commitment to a couple of the lobbyists and to the companies themselves is we'll work as closely as possibly as we can with them and with the OIR to make sure that the process goes as smoothly as possible. By the way, we open up our book and make sure they know what's available on the overall book of business. I will tell you this. March Fisher and the analytics team, I think everyone in the state would virtually agree with this, we do a phenomenal job in terms of market analytics. We slice and dice our business and we probably do a better job of taking a look at every other company and their market position. We have to because we look at other markets and say, "Where might be the opportunities? Where are the top ten companies that may have capital available to pick up new business?" We're looking at that constantly,

Governor Kastroll. I have not had a chance with the Chairman about this, but my other recommendation will be in December to restart the Depopulation Committee (Depop). We had a Depopulation Committee, and really for four years, there has been no movement at all relative to Depop to speak of, and I think it's time to . . . we consolidated that with the Finance and Investment Committee (FIC) as an addendum because there was no activity. But, I think going back and doing what we did previously, Governor, would really be a good opportunity so that we're not missing any opportunities, getting all of your recommendations – from board members and others relative to any opportunities that might exist. Today, I think Norm is doing a great job reaching out to companies. We have other plans to intensify that and maybe open up the Depop Committee, formalizing that a little more so that we get more discussion going and get more input from other parties. We do have good plans. That's really my first point in the opening. We really have to focus much more intensely on Depop and inviting investors in, working with investors to pull capital into the state.¹

Will Kastroll: Thank you, Barry, and if I can be of help to form the Depop Committee, just let me know.

Barry Gilway: You'd be a superb addition to that committee given your role in the independent agency business. We would welcome your help.

Chair Rivard: Thanks, Barry. Anymore questions for Barry before we move on? [silence] If not, we'll move into the CFO's Report. I'll just turn it over to Jennifer [Montero] at this point and take us through that.

4. Chief Financial Officer's Report

a. Financial and Investment Committee (FIC) Update

Action Item: Reinsurance Advisory and Brokerage Service

Jennifer Montero: Thank you and good morning, governors. For the record, Jennifer Montero, Citizens Chief Financial Officer. Behind tab four, you'll find an executive summary and action item for Reinsurance Advisory and Brokerage Service. Since inception, Citizens has procured qualified reinsurance brokers to provide Reinsurance Advisory and Brokerage Services, which include advising and assisting Citizens on all matters in the traditional market related to the transfer of risk of loss from catastrophic events. These brokers have assisted Citizens to plan its annual Risk Transfer Program that spreads the insurance losses from catastrophic events globally and reduces the probability and amount of assessments on Florida policyholders by eliminating the amount of surplus that is exposed to these losses. Additional services provided by the reinsurance brokers, including brokerage administrative services and program analytics. Brokerage administration services include contract and coverslip drafting and administration; marketing and syndication of CAT reinsurance programs; administering escrow of ceded premiums, ceding commissions, and ceded loss payments associated with traditional reinsurance. Program analytics include CAT modeling and meteorology; stochastic reserve estimating; catastrophic risk exposure; and evaluation of risk transfer. Pursuant to Section 287.057, Florida Statutes, on July 1, 2020 Citizens released Invitation to Negotiate (ITN) No. 20-0006 for Reinsurance

¹ The Depopulation Committee is anticipated to be populated with board members and staffed with ELT to convene in the first quarter of 2021.

Advisory and Brokerage Services. Vendor responses were due by July 20, 2020 and three vendor responses were received. The responses were reviewed and scored by an evaluation team who recommended all three vendors advance to negotiations. On September 2, 2020, the negotiation team recommended an award to the vendor that provided the best overall value to Citizens for Reinsurance Advisory and Brokerage Services, Willis Re. The contract will have a three-year term with two one-year renewals. Renewals are optional at the sole discretion of Citizens. The contract amount is \$17M for the life of the contract including both renewals: \$10.2M years 1-3 and \$6.8M for renewal years 4-5. This action item seeks board approval for Citizens to enter into a contract with Willis Re for Reinsurance Advisory and Brokerage Services. Willis Tower Watson and Aon have announced plans to merge and the merger is under regulatory review. However, we do not believe the merge will affect our relationship with or the services provided by the current Willis Re brokerage team. I'll pause here, Mr. Chair, for any questions before I read the final recommendation.

Chair Rivard: Any questions for Jennifer at this point? [silence] Okay, please proceed with the recommendation. Oh, I'm sorry.

Carlos Lopez-Cantera: I have a question, Mr. Chairman.

Chair Rivard: Okays, yes. I saw you jumping in. Go ahead.

Carlos Lopez-Cantera: Thank you. Jennifer, after we discussed this at the FIC, I thought about it over the last couple days and it just didn't sit right. I have a couple more questions. If I recall correctly, you said that this contract was for Willis Tower for \$3.4M per year. Is that correct?

Jennifer Montero: That's correct.

Carlos Lopez-Cantera: And I remember you telling us the rankings for Willis was first and Aon was second. Guy Carpenter was third.

Jennifer Montero: That is correct.

Carlos Lopez-Cantera: I don't know . . . I don't recall if I asked how much, and I know you told it's based on value and not on price, but what was the price at Aon?

Jennifer Montero: \$2.9M. That's off the top of my head. Let me double check but I'm pretty sure that's what their price was. Yes, it was a total of \$14.5M, so it was \$2.9M per year.

Carlos Lopez-Cantera: \$2.9M per year. So, that would be a savings of \$500,000 per year, potentially \$2.5M savings to the company.

Jennifer Montero: Correct.

Carlos Lopez-Cantera: If I recall, one of the values that gave Willis the better score was their price, or lack thereof, for what they charge if no reinsurance is placed?

Jennifer Montero: If no reinsurance was placed, Willis' price was \$400K per year and Aon's was \$750K per year.

Carlos Lopez-Cantera: And if I recall correctly, I think it was Governor Dunbar who asked what the likelihood of not placing reinsurance was and the answer was very low.

Jennifer Montero: Very low. We would always make the attempt, Governor, and it would come to the board to make that final decision.

Carlos Lopez-Cantera: Right. And as we discussed, the FIC, Aon is in the process, and as you stated in your opening statement, that Aon is in the process of purchasing Willis.

Jennifer Montero: Correct.

Carlos Lopez-Cantera: Correct. So, we have a scenario where Aon, who is buying Willis, offered a price that is \$500K less per year. Is there any scenario where – and I don't believe Aon is buying Willis and doing a multi-billion dollar deal just to extract \$500K more per year from Citizens Property Insurance – but is there a scenario where if Aon does purchase Willis where Aon would become the company we are contracting with by default where they would give the price they originally given and then we could save \$500K or \$2.5M potentially on this contract?

Jennifer Montero: It's a completely different team of who the Aon group is that responded to our solicitation than the Willis team, and they . . .

Carlos Lopez-Cantera: . . . if Aon purchases Willis, then it becomes Aon, does it not?

Jennifer Montero: If they buy the reinsurance part of it. The problem with that is right now they're looking at anti-trust with that and that might be a spinoff which we discussed at the FIC as well.

Carlos Lopez-Cantera: But that is speculation. That is speculation. Nothing has come from the Justice Department. There has been nothing from government stating that. That is pure speculation from analysts on Wall Street, if I'm not mistaken.

Jennifer Montero: Yes.

Carlos Lopez-Cantera: Right, so what I'm looking at is the bottom line. We have the second place company that offered half a million dollars less per year cost to this company. We went with the more expensive option because it's supposed to be a better value. And now, the second place finisher is going to be the first place finisher, and by default, we'll end up with the more expensive contract.

Jennifer Montero: Well, if the merger goes through and we don't have our same team, we have the right to cancel that contract and solicit out again. We are going through team . . . as I mentioned before, it's an overall . . . the scoring was based off firm profiling experience. Their key personnel qualifications carry a whole lot, same market access and brokerage administration, program analytics. Program design and case study and the team that was presented with Willis outscored that the team was with Aon.

Carlos Lopez-Cantera: Understood. Who is our current team right now?

Jennifer Montero: We have co-brokers. It's Willis Re and Guy Carpenter.

Carlos Lopez-Cantera: Willis Re and Guy Carpenter. How much is that contract per year?

Jennifer Montero: That contract per year is \$3M. It's one

Carlos Lopez-Cantera: . . . So, in that contract, each broker is making . . . I apologize for speaking over you. Please finish.

Jennifer Montero: \$1.5M each for each year.

Carlos Lopez-Cantera: Right. So, right now, we're paying \$1.5M per broker. And, we're about to start paying, if we approve this, \$3.4M per broker.

Jennifer Montero: Let me explain how the brokerage works. The reinsurer is the one who pays the brokerage to the reinsured broker – the reinsurer does. We're calling this a "fee" but really it's commission sharing. What happens is the, depending on the market whether they are a US market or a European market, it's 10% to 15%. Basically, what we negotiated is that they give us all their commissions back in the form of reduction premium and then we give them a fee back. For example, in 2020, our placement in the traditional side was \$661M. The commission for that should have been \$6.973M but we paid \$3M back. \$3.9M of that was a reduction in our premium. It's more of a commission sharing. It's not a . . . it's written up in the contract to be a flat fee with them giving back all the commission with a reduction of our premium.

Carlos Lopez-Cantera: Right.

Barry Gilway: Governor, can I offer one point of clarification? You indicated \$3.4M per broker. This contract is for a single broker. It's not for dual brokerage.

Carlos Lopez-Cantera: No, I get that. But, if each broker was willing to make \$1.5M previously, now they're going to stand to make \$3.4M.

Barry Gilway: But only one will make \$3.4M. There will be only one broker.

Carlos Lopez-Cantera: Right. I get that.

Barry Gilway: Okay.

Carlos Lopez-Cantera: I just think it would be reversed economy of scale for us. Then, with all these questions hanging out there about Willis and Aon, there is nothing here that says we have to approve this now, right? After the exercise we went through in June, we learned we don't even go to market for reinsurance until June.

Jennifer Montero: No, no. We go to market usually in March. This contract . . . the current contract expires by the end of the year.

Carlos Lopez-Cantera: So, we could push this off to the December meeting?

Jennifer Montero: We could.

Carlos Lopez-Cantera: And then see how this Aon purchase of Willis Reinsurance plays out a little further.

Jennifer Montero: I don't know if it'll make any progress. It's been kind of locked up for quite a bit. But, we technically could wait until December, but that would be . . . after that, we would have no contract. We would have no brokers.

Carlos Lopez-Cantera: Right. Well, I just feel like we could squeeze a little more out of them – that \$3.4M versus \$2.9M and save the company some money.

Chair Rivard: Governor Dunbar is trying to jump in. Carlos Lopez-Cantera, are you okay if we move on to other questions?

Carlos Lopez-Cantera: Absolutely, Mr. Chairman. Thank you.

Chair Rivard: Governor Dunbar?

Marc Dunbar: Thanks, Mr. Chair, and thanks, Jennifer and Barry. I know we've had a long chat about this as well. Just going to the Willis team, can you remind me again this last placement how the . . . how it worked between the brokers and who was most successful for us?

Jennifer Montero: Yes. I have that.

Chair Rivard: Jennifer, while you're looking for that, if you could also address for the rest of the board members who may not have listened in on the FIC meeting, the team that did the negotiations and the review of all of this to come up with the scoring just so everyone understands the process and who is involved and what you're recommending. I would appreciate you doing that.

Jennifer Montero: Absolutely. The evaluation team was made up of myself (Chief Financial Officer), Andrew Woodward as our Controller, March Fisher as our Senior Director of Corporate Analytics, Paul Kutter as our Director of Actuarial and Data Science, and our Chief Actuary Brian Donovan.

Chair Rivard: Thanks.

Jennifer Montero: Governor Dunbar, for 2020, Willis placed 77.55% of our entire placement. In 2019, they placed 72.89% and in 2018, [silence]

Marc Dunbar: I lost the audio. But, the Willis Team has had the most success placing for us, correct?

Jennifer Montero: That is correct.

Marc Dunbar: Okay. Okay. I mean I share – and we’ve talked about it both offline and at the FIC meeting – I share Governor Lopez-Cantera’s concern about what could possibly happen because we don’t know. We don’t know what’s going to go on in the Department of Justice with the anti-trust review and I agree. I’m not wild about having somebody who bid \$2.9M and back into \$3.4M by virtue of some mysterious blessing out of Washington, DC. And, I was looking at the contract, and I know I swapped emails with you entirely too early this morning and I apologize, but I was looking at the Willis contract and it does give us the ability under renewals I think to extend for one more year because the contract says that combined renewals shall not exceed the original term. And, under the procurement code, when there are things beyond the control of the contracting parties, you know, government and who they are going to award – sort of like a bid protest – you have the ability to do rolling six-month renewals to get beyond uncertain events. And, there’s also a provision in the contract that allows us to designate a sole broker and you helped me out with what the fee would be if they were declared our sole broker which would be \$3M. And so, maybe – I throw this out there for discussion and for the board – and, Governor Lopez Cantera, this would be helpful. I’m not sure what you’re line of thinking is but would it be possible – and maybe I’ll make this into a formal motion – for us to extend one more year, declare them as our co-broker, pay them the \$3M, and then see what happens so we know when we go to the market this time next year with a little more certainty and that’ll save us a few hundred grand, and more importantly, Jennifer to you, we get the team that has demonstrated success for us and the team your team wants to work with.

Chair Rivard: Marc, can I ask one thing? You said “as a co-broker.” Did you mean as the sole broker?

Marc Dunbar: Yes. Yes, designate them as the sole broker as we’re allowed to do under the contract.

Chair Rivard: And, again, just for the benefit of the board, at our meeting the other day, we discussed all this. But, there is a potential acquisition happening here with our number two and number one ranked respondents. So, that was discussed. There is uncertainty with all of that. One thing that was made clear coming out of the committee was that if we do proceed with staff’s recommendation, that there would be language in the contract with Willis that if the deal does go through and if it turns out that the team that we’re hiring gets spun off or we no longer have that team, then we would have the unilateral ability to cancel the contract and go out to bid. So, that’s sort of the context of what we’re talking about in case you’re not familiar. Anyway, that’s an interesting idea, Governor Dunbar. So, that was a motion. I don’t know if there’s a second to the motion or if there’s additional discussion.

Carlos Lopez-Cantera: Mr. Chair, I think that’s a great compromise. And, based on our fiduciary responsibility to Citizens as a company and to Citizens of Florida, it wouldn’t save us the \$500K for the first year but it would save us \$400K. It would give Jennifer the team that she prefers working with, and it would buy us a year to figure out what’s going to happen with this merger. So, I think it’s a fair compromise and I second that motion.

Chair Rivard: So, we have a motion and a second. Again, one of the important things in this was the, as you’ve heard mentioned, the teamwork and the individuals that Jennifer and her team are accustomed to working with and that certainly went in as a major factor to the some recommendation. So, rather than moving into another direction, this option would preserve that team, let that smoke clear from this

transaction whether it happens or not and what the ramifications are . . . generally, my understanding is that you want this contract to be multiple year contract so that the team has some security and you're not renegotiating every single year. In this event, we're just extending the existing, making this whole broker. I think this is a smart compromise as well, Governor Dunbar. Any other comments for Jennifer?

James Holton: Mr. Chair, I just have a couple quick questions regarding to the whole matter. One, just going back a little bit but it's germane to the whole motion, what was the theoretical basis of wanting only one broker as opposed to two as has been in Citizens' past?

Chair Rivard: Jennifer, would you like to respond to that?

Jennifer Montero: It's the efficiency of just dealing with one rather than . . . it could be very confusing having two. The original point was to try to have some competitiveness there having two different people bringing two different ideas to the table. It turned out not worth having the trouble of having the deal with two brokers.

James Holton: I guess the original thought was the maybe formerly different brokers had different relationships, but I guess in a more consolidated world now one broker can do the function of multiple brokers in that type of situation. That was my main question. Chair, my other question is more technically – what would be – speaking theoretically (I think this is a good motion) – what would be the real touchstone of being able to opt out if we lost the team? What does that mean exactly? The lead person involved or does that mean for the entire team? What did the committee have in mind in the opt out language in the even to a merger shuffling around personnel and maybe assigning Citizens a different team or whatever. Do you have any language for that or is this preliminary?

Chair Rivard: In the meeting we just discussed this conceptually. I'm not sure if the language has been drafted, yet. Jennifer may want to speak to that or Dan. I'm not sure it has been crafted, yet. The idea was discussed at the committee meeting.

Jennifer Montero: There has been preliminary language that's been drawn up that's part of the solicitation to make sure that those who respond are in agreement with the base language, but it has not been complete.

Chair Rivard: We'll certainly track that and I think will have a tight paragraph written to that effect to make sure it's consistent.

James Holton: Mergers and acquisitions can take . . . as you know there are a lot of uncertainties out there post-merger with the way companies do things and in spinoffs and "this and that." I certainly think we need to make sure that we have the right team in place that we're comfortable with and that does the best job for Citizens that does not attempt to play around with the contract.

Chair Rivard: Along those lines this idea of doing it for the one-year renewal would also minimize the risk of that.

James Holton: Yup.

Chair Rivard: If there were any issues with that, it'll be one year rather than three years.

James Holton: Yup.

Chair Rivard: Thank you, Governor Dunbar.

Marc Dunbar: One follow-up to Governor Holton's question. Dan and Jennifer did a good job for the existing contract. In the procurement, there is a clause in there that speaks to if there is a substantial interest in the voting chairs or the controlling vendor, then they have to get our written approval before the contract will move over. So we have that base language that's in there and the idea would be to supplement it with specific language, so Jennifer can make sure it goes to the team she works with and not just the voting control at the top because what I saw is that there are a number of people at the top of Willis that are already leaving, and I was worried that was going to affect our ability to move in the marketplace. Jennifer reassured us that the team itself doesn't have anyone else who has announced that they're leaving, so we're going to try to beef up that particular clause in the contract moving forward.

Chair Rivard: Okay. Well, again, I think this is a good compromise. I think it avoids the situation of us pushing it into December and being without a contract because we're getting into the season of reinsurance with that. Are there any other questions or comments from the board, or if not we could call the roll. Okay. Barbara, can we please call the roll?

Barbara Walker: Governor Beruff?

Carlos Beruff: Vote to approve.

Barbara Walker: Governor Bette Brown?

[silence]

Barbara Walker: Governor Dunbar?

Marc Dunbar: Approve.

Barbara Walker: Governor Henderson?

Reynolds Henderson: Approve.

Barbara Walker: Governor Holton?

James Holton: Approve.

Barbara Walker: Governor Kastroll?

Will Kastroll: Approve.

Barbara Walker: Governor Lopez-Cantera?

Carlos Lopez-Cantera: Yes.

Barbara Walker: Chair Rivard?

Chair Rivard: Yes.

All were in favor of the motion to approve a one-year extension of the current reinsurance brokerage contract. Motion carries.

Chair Rivard: Okay. Thank you. Dan Sumner may want to jump in here. Dan?

Dan Sumner: Yes – just as a procedural . . . I want to make sure that it's clear. The action item, as I understand, was not approved. An alternative motion was made which was approved and which was solely to extend the existing contract; so, we will be under the existing contract. There was no action taken on the action item. I want to make sure that is everyone's understanding.

Chair Rivard: Okay. Yes. Thank you for that clarification and that is our understanding. Thank you, Dan. Okay, Jennifer, do you want to proceed?

Financials

Jennifer Montero: Thank you. For your reference, the materials I will be discussing are located behind the second and third tabs behind tab four in your books: the document entitled “2020 Results of Operations” provides an overview of Citizens unaudited financial position including cash flows, invested assets, and surplus as well as operational results for the period ending June 30, 2020. The document entitled “Q2 2020 Results of Operations and Financial Position Commentary” provides commentary, discussion, and analysis of those operating results and financial position. I will be providing a summary of the information contained in the commentary document. As of June 30, 2020, Citizens held consolidated cash and invested assets of \$8.86B marking a decline of \$200M from December 31, 2019. The decline in total invested assets was largely due to the January 2020 bond redemption and scheduled June 2020 principal for repayment. This is partially offset by cash flow and operations consolidated surplus as of June 30, 2020 with \$6.49B or \$130M more than December 31, 2019 which was largely driven by consolidated net income of approximately the same amount. Direct written premium for the first half of 2020 was \$552.6M or 25% greater than the first half of 2019. This is a result of an increase of policies written in Dade, Broward, and Palm Beach counties along with increases in renewal rates largely due to temporary deferrals and cancellations in certain underwriting procedures in response to the COVID-19 crisis. As of June 30, 2020 consolidated ultimate direct losses in lost adjustment expenses (LAE) related to Hurricane Irma were \$2.16B which was unchanged from the prior quarter, and of that \$879.8M is recoverable under Citizens reinsurance contract with the Florida Hurricane Catastrophe Fund (FHCF) and private reinsurance. Consolidated ultimate direct written loss in LAE related to Hurricane Michael for \$149.9M also reflecting the change from the prior quarter. There are no reinsurance recoverables related to Hurricane Michael as attachment levels of the reinsurance arrangements were not met. Although litigated non-weather water claims continue to be a dominant driver of loss in LAE activity within the personal lines account (PLA), the litigation rate for accident years 2018 and 2019 continue to show improvement in comparison to accident years 2014 through 2017. Within the commercial lines account (CLA), losses in LAE related to sinkhole claims were relatively unchanged;

however, volatility in these outstanding sinkhole claims have the potential to contribute to material quarterly variances in the reported loss and LAE ratios in the future. Through the first half of 2020, Citizens' expense ratio was 21.6% reflecting a 3.4% decrease compared to the same in 2019 and a 3.4% decrease as compared to budget. Administrative expenses incurred during the first half of 2020 of \$65.7M were \$0.6M or 1% more than the same period in 2019 and \$6.8M or 9% less than budget. Variances in contingent staffing from budget were primarily due to lower than anticipated need for independent adjusters as well as a higher than anticipated number of claims entering mediation. However, it is anticipated that this variance will contract over the next two quarters. Total investment income was \$141.8M or \$22.5M greater than the same period in 2019, while total average invested assets declined \$351.4M. The relative decrease in earned income was principally driven by declines in rates of return within the money market funds as well as reductions in tax exempt holdings resulting from the scheduled maturities of certain outstanding bond obligations. The decrease in earned income was more than offset by an increase in that realized gain as portfolio managers sold securities that were held and positive market-to-market positions through the active management of invested assets. In January 2020, \$150M of the 2015A-1 Series Bonds were redeemed at par resulting in a \$1.5M gain that was included in net realized gains. As of June 30, 2020, Citizens net unrealized gains on its investments were approximately \$310M. Total assets in surplus remain well positioned to meet any potential claim payment obligations that may arise due to hurricanes and continued growth in Citizens' policy count. If there are no questions, that concludes my report on the financial statements.

Chair Rivard: Okay, thanks, Jennifer. Are there questions at this point? Any questions for Jennifer? [silence] Okay.

Action Item: Actuarial Consulting Services

Jennifer Montero: Great. Behind the last tab in tab four, you'll find the executive summary for an action item for Actuarial Consulting Services. Citizens is requesting approval to extend our existing contract with Insurance Services Office (ISO) for six months for actuarial consulting services. This extension is authorized and in accordance with Section 287.057, Florida Statutes, and will be on the same terms and conditions set forth in the existing contract. These services supplement the in-house actuarial staff with a scalable and flexible outside resource. The support includes, but may not be limited to, a peer review of the Citizens' annual reserve report and ad hoc actuarial-related projects. The annual peer review of Citizens' in-house annual reserve review consists of examining and providing an opinion with respect to Citizens' methods and final selections for all reserving segments, including any independent reserve study on any segment requested by Citizens. The annual peer review is due on February 15, with ISO providing a written acknowledgement that the methods and final selections for all reserving segments have been reviewed and deemed reasonable, and that ISO has no outstanding issues or concerns. It's their Confirmation of Determination. ISO will provide the final and formal peer review report that sets forth the results of the Reserve Peer Review ("the Final Report") which will be included in Citizens' final year-end reserving report. The Final Report must be signed by an accredited actuary providing his or her opinion as to the reasonableness of Citizens' carried reserves. Citizens initially procured these services from ISO in 2015, through an Invitation to Negotiate (ITN) No.:15-0024 for a base contract term of three years and a two-year renewal term. The original contract is set to expire on February 1, 2021 before the completion of Citizens' annual financial statement. The extension will not require additional spend authority. The requested six month extension will be from February 1, 2021 through July 31, 2021. This Action Item seeks Board approval for extending the current contract with

Citizens' vendor Insurance Services Office (ISO). This extension will allow ISO time to complete a peer review of the 2020 year-end claim reserves. In addition, the extension will give Citizens sufficient time to complete the new solicitation for Actuarial Consulting Services. Citizens' issued Invitation to Negotiate (ITN) No. 20-0001 on May 12, 2020 to replace the current expiring contract and is currently in the negotiation phase of this solicitation. I'll pause for any questions before I read the formal action item.

Chair Rivard: Are there any questions for Jennifer? [silence] Okay, please proceed.

Reynolds Henderson made the motion that the Board of Governors authorize the contract extension with Insurance Services Office (ISO) for an initial term of six months, as set forth in this Action Item and authorize staff to take any appropriate or necessary action consistent with this Action Item. Marc Dunbar seconded the motion.

5. Chief Operating Officer's Report

a. Information Systems Advisory Committee (ISAC) Report

Chair Rivard: We will move to Governor Holton and Kelly [Booten] can lead us into the next item.

James Holton: Kelly did a great job conducting the first Zoom ISAC. It was a tremendously and seamlessly. I will yield to her for the actual report on what happened at the meeting.

Kelly Booten: Good morning. The ISAC met via video conference on September 8, 2020. The report and the action item are in your board material. I briefed the committee on the status of IT-related audits and advisories as well as the IT Grow Program. The audit results are included in Joe Martin's audit report. The IT Grow Program is a partnership with Florida State College in Jacksonville (FSCJ) to prepare students for jobs in application development in IT security and risk. The tailored curriculum of this specialized program is designed to meet the unique requirements of Citizens and was developed partly in response to ongoing difficulty in staffing hard-to-fill IT positions. Robert Sellers provided an Enterprise Resiliency Program update. His report included updates on business continuity, disaster recovery and IT CAT response. Robert and Carlos Rodriguez, Director IT Risk & Security, provided an IT Security & Risk update. The report focused on the goals of the IT security program, major improvements made in each goal area. Sarah Harrell, Director Enterprise Programs, provided a status of the Identity & Access Management Program, one of the major implementations we have going on with the IT Security Program. This multi-year implementation is progressing according to plan.

Action Item: Technology Infrastructure, Software, and Professional and Staff Augmentation Services – Part 1

Kelly Booten: Finally, we have one action item to cover today. It's in section 5A of the board materials – for Technology Infrastructure, Software, and Professional and Staff Augmentation Services. If you first turn to the executive summary history section, I will provide a background for the timing of this request. Since 2009, Citizens has annually requested board approval for technology goods and services via a single Action or Consent Item. Historically, we have requested and have presented to the Board in December along with the annual budget seeking contracting authority for the following calendar year. However, this year, Citizens is taking a two-part approach in an effort to provide further lead-time,

transparency, and opportunity for review and questions by the board in alignment with the board's request during the March 25, 2020 board meeting. This current Action Item (Part I) is primarily focused on anticipated purchases in January – April 2021. Our approach is to bring this forward two meetings in advance. A second item, part two, will be primarily focused on anticipated purchases in May – December 2021 and will be presented at the December 2020 Board of Governors Meeting. Part one is primarily purchases that are required to run the business for the calendar year and anything that will expire prior to April. Part two is primarily for project spend and is still under development because we have not quite finished the budget process, yet. It also includes purchases in the latter half of the year. Now, I will turn to the Action Item. This item requests contracting approval in the amount of \$15,397,676 under the following three spend categories: Infrastructure, Software, and Professional and Staff Augmentation Services. The estimated contract spend is \$6,453,422 for Infrastructure, \$5,210,321 for Software, and \$3,733,933 for Professional and Staff Augmentation Services. The Action Item also includes more detailed breakdowns of anticipated expenditure within each of these categories. Contracting approval is requested for the list of contracts as supplied within the Action Item. These contracts are existing Citizens-procured contracts and State Term Contracts and Alternative Contract Sources approved by the State of Florida Department of Management Services. Funding for the requested contracts in the amount of \$13,147,754 will be included in the upcoming 2021 budget request that will be submitted to the board for approval in December. For purchases having a contract term extending beyond 2021, funding for subsequent contract years will be budgeted in the appropriate budget year. There are an estimated five multi-year purchases, which is the delta between the budgeted amount and the requested contract spend amount. So, if there are no questions, Chair, may I read the recommendation?

Chair Rivard: Let's just see if there are any questions. Does anyone have questions for Kelly at this point? [silence] Okay, go ahead, Kelly.

Carlos Beruff made the motion for the Board of Governors to approve the Technology Infrastructure, Software, and Professional and Staff Augmentation – Part 1 Action Item totaling \$15,397,676 and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Reynolds Henderson seconded the motion. All were in favor. Motion carries.

Kelly Booten: Governor Rivard, can I throw in one little ask? It has to do with the COVID reporting that I'm doing at the board's request. We really don't anticipate any expenditures, and so the report is a blank report. Would it be okay if I stop doing that report, and if we would have something that's necessary between now and the next board meeting, I would send the report on an exception basis? We don't anticipate anything.

Chair Rivard: That's fine. We appreciate you doing the reports up to this point, but just let us know if there are any expenditures. Otherwise, I think we can all do with less reports. That's fine. Thank you.

Carlos Lopez-Cantera: Mr. Chair?

Chair Rivard: Yes?

Carlos Lopez-Cantera: While the subject is up, if we're not anticipating anything else, why don't we just end the emergency item that was approved in March?

Kelly Booten: That's fine. I'm perfectly fine with that.

Chair Rivard: We can certainly deal with that. Is there a motion to do that or do we need to lay any groundwork here for new board member. Kelly, if you want to walk us through just for the record what was approved and what we're terminating at this time?

Kelly Booten: What was approved was an emergency action item for expenditures that went along with Emergency Order 2052 of the Governor. So, what we would be requesting here is to end the approval for that emergency action item.

Chair Rivard: Now, we're back under our normal processes for expenditures.

Kelly Booten: Correct.

Carlos Lopez-Cantera: I'm sorry, Mr. Chair, but would this be more appropriate under new business or can we take it up right now?

Chair Rivard: I say let's take it up right now.

Carlos Lopez-Cantera made the motion to end the Emergency Action Item approved during the March 25, 2020 meeting titled "Emergency Response COVID-19 Public Health Emergency Multiple Contracts and Vendors" as they need to provide goods and services for Citizens emergency response. Reynolds Henderson seconded the motion. All were in favor. Motion carries.

Chair Rivard: Kelly, again, thanks for keeping us updated on those reports and thankfully there were not many instances where you had to use that authority. Hopefully, it was helpful for you to have it at your discretion.

Kelly Booten: We appreciate it. Thank you.

b. Market Accountability Advisory Committee (MAAC) Report

Chair Rivard: At this point, we're going to have, if I'm on track here, Dave Newell will give us MAAC report.

Dave Newell: Thank you, Mr. Chair. For the record, Dave Newell, the Chair of the MAAC. On behalf of the committee, I welcome Governor Beruff to the Board of Governors. We held a teleconference on September 19th. Our primary agenda – we'll go over in a second – but just like any other committee those agendas can be found on Citizens website under the MAAC reporting. We had a nice update because it was shortly after landfall with Hurricane Sally from Kelly, Christine [Ashburn], and Jay who provided the committee an update and Citizens response to Hurricane Sally. I thought I'd interject a little bit. My day job is with FAIA and we had a team of six folks from the office go over to Pensacola yesterday. Barry mentioned some of the cost drivers and many of the agents, which there were over 30 of them yesterday – we're already seeing just an overwhelming response to AOB contract being presented to policyholders even prior to the carriers and the agents knowing about the claim. So that's

certainly happening and hopefully some of that will curtail. But, I just want to point that out on something that's already taking place over in the Pensacola area. The MAAC reviewed the charter which we do on an annual basis, and we approved it with no changes. Kelley Booten provided an update on the FSU study – provided an overview, background, and scope of the study – and talked about the timeline forthcoming in the December meeting. A few of the MAAC members were interviewed and provided input into those recommendations. Agency Management Services – Carl Rockman, Senior Director of that platform – provided an update on agency and market related topics along with stats, education, and new [inaudible] system in market trends. Barry did a “whale of a job” of giving an overview of the current state of the market here in Florida for the property side of the business. Lastly, the committee, for informational purposes, reviewed the depopulation and clearinghouse statistics, and there is an October depopulation for personal lines that has been approved by the OIR. With that, Mr. Chair, that ends my report. Thank you so much.

Char Rivard: Thank you, Dave. Does anyone have questions for Dave? [silence]. Okay. We appreciate it, Dave. We will move into the Claims Officer's Report. Governor Kastroll, as chair of the committee, please lead us in that.

6. Chief Claims Officer Report

a. Claims Committee Report

Will Kastroll: Thank you, Chairman. I appreciate it. Our committee met in a very successful meeting about three weeks ago, and not much in terms of any motions or actions that need to happen today. But, I do want Jay to do a brief update on what's going on. Just a quick note of celebration. We have passed the hump day of hurricane season, which is usually around September 10 or so. We are past that day. It's 2020. You will never know what will happen next, but it is nice that the weather is cooling down a little bit. Hopefully, we will get out of this season without any substantial hurricanes or make our loss ratio a little bit better and make everyone's life a little bit easier and hopefully Floridians won't have a lot of damage to their homes.

Chair Rivard: I do want to just make one comment. Hurricane Michael did hit on October 10. So, in Panama City we will not be comfortable until at least the 11th.

Will Kastroll: Understand. I apologize and I feel for you guys.

Chair Rivard: No, no, no. I was just trying to give some levity.

Will Kastroll: As I know, getting directly hit by hurricanes a lot of times people forget about the areas that are hit. My heart goes out to those guys, and I know Citizens has acted very well there. But, the majority of Florida has done pretty well, and let's continue to cross our fingers. With that I will turn it over to Jay right now.

Jay Adams: The Claims Committee met via Zoom on September 8, 2020, and we really just provided a brief update to the committee. Some of the items we discussed . . . we've partnered with Xactware, and these are the folks that we write our estimates through to redo some new software that gives us enhanced ability to be able to work in a detached environment and in response to a CAT. This

application also is very menu driven to make sure that the adjuster or the inspector is able to make sure that they get all the proper scope items needed to convert that into an estimate. Craig Sakraida, our Claims Litigation Vice President, provided an update on our preparation really with regards to how we're dealing with COVID-19. He also provided some updates on Hurricane Irma and Tropical Storm Isaias. Elaina Paskalakis, Claims Litigation Vice President, provided an overview of litigation results and trends. She spoke briefly about the fee multiplier awards and pending lawsuit financials for lawsuits received. Michael Carver, Claims Director over non-weather water and Managed Repair Program (MRP), provided updates on those programs along with the AOB. And, thankfully for this particular meeting we did not have any action items that needed to be brought forward. Chairman, that completes my report, if there are no questions.

Chair Rivard: Any questions for Jay?

Jim Holton: Just one quick question or more of a comment. Thank you, Jay, for that. At the committee meeting, there was a good update on the fee multiplier attorney's fees in Florida. I would urge forward, as we move closer to the legislative session, to have Citizens engage with that dialogue because I think the fee multiplier needs legislative reform here in Florida, and I recommend that we support adopting a standard as we move forward. Just a comment.

Chair Rivard: Okay, thank you, Governor Holton. Anything else for Jay while we have him? Governor Dunbar?

Marc Dunbar: I just have one quick follow up. I know we are still waiting on the E&Y report. Can you give the board an update on sort of where things are and when we can expect that?

Jay Adams: We are currently working with them to make sure everyone is on the same page and fully understands Citizens' litigation processes and procedures. We are working with them on some confidential client attorney privilege information, and that really created the delay in the overall report being ready for the board meeting at this particular time. We are hopeful that we will have an opportunity to meet with them and go through all of the questions and concerns that both sides have and are able to work that out. We will be able to bring a full report back to the board in December.

Marc Dunbar: I'll throw this out there, and this is pretty much more for Governor Kastroll as for everyone else on the board, I still have concerns, and I know I talked to you and Barry and we swapped some emails about it, but I have some concerns moving forward with some litigation system with us not having that concluded. And, I know there was some input that was provided, but I still feel like we've got to have that report done before we can really go and evaluate the system that we need or for what would feel make me feel comfortable moving forward with it. The other thing that, in light of the announcement at the end of last week or whenever Barry sent it out, Dan is a lead on the evaluation of the litigation management system, but it's going to be a system that's going to be put in place for a new General Counsel to look after. And so, Governor Kastroll, I know that you are designated as the board observer, but I want to make sure, because obviously this is the only way we can communicate, I want you to understand those concerns that are out there as you move forward. I would really consider holding off a bit to make sure you have your new General Counsel in place and see the E&Y report concluded before we wind up making a decision on a pretty important piece of our litigation infrastructure and litigation management system. So, for whatever that's worth, I personally don't feel

comfortable moving forward on that until we have the other pieces, and particularly for Governor Beruff who is new, in the solicitation report we get, at the end of the month, the items that we have in procurement. And, when I saw that we were moving forward pretty quickly on that matter, I swapped some emails with Barry on it, we do have time. We have that in existing litigation management system. Jay, correct me if I'm wrong, but we have 18 months. So, it's something to think about as we move forward? And, Governor Kastroll, I want to give you the benefits of that since this is the only way we can come communicate.

Will Kastroll: Governor Dunbar, thank you for that input, and I will make sure that I circle back with Jay to make sure we address those concerns as best as we can regarding the contract. I don't have any knowledge or expertise on the new General Counsel or the entities, so I don't know what's going on there. But, I assume that we're in good hands with Barry in the hiring process in finding a successor there. I'm sure if we cannot find the appropriate person in time, then then we can lean on our current General Counsel on a consultation basis to help us out through that time. But, again, that is outside of my expertise but thank you for those comments.

Jay Adams: For the record, this is Jay Adams. So, Governor Dunbar, we did receive a preliminary report from E&Y specific to the current meta-management platform. When we entered that engagement, we made a request from them that they provide that information to us first and foremost because we alerted them that we are in the process of moving forward with a solicitation. They did provide an initial response and we went back and checked that against our solicitation requirements. And, they made no recommendation that were not already incorporated into the solicitation. At the conclusion of when they have completed all of their work requirements, they also sent us some additional information on Acuity, the current meta-management system. We, again, checked that against the requirements that we have there, and our requirements for the solicitation process are stronger than any of the recommendations that we received from E&Y. So, from a requirements perspective, we feel that we are in pretty good shape. I just wanted to inform you of that piece.

Marc Dunbar: I remember that we discussed that prior but you'll remember it's sort of a somewhat counterintuitive that you are bringing someone in to evaluate your litigation management and then you ask them for input on your procurement upfront before they have a full understanding of your organization. And so, while their input on an RFP and certainly their input on Acuity (while Acuity is viewed as generally helpful) but if they do not know how we are using it, I do not know they can completely advise what is relative to that procurement. I will give you a good example. This comes from prior audits that I have read from our internal team and also from conversations that I've had with Joe Martins. I know that the functionality aspects of Acuity that we have turned on and others that we haven't, and in terms of E&Y making recommendations as it relates to that functionality, or more importantly, as to our internal processes, to me, would be germane to a new General Counsel who may be coming from another insurance company that has particular views on how they handled it or used a particular litigation management system. So, I think while it was good that they did a review on the front end, they still don't have a report of all of the review because it hasn't been completed yet. So, for whatever that's worth.

(Governor Bette Brown joined the call.)

Chair Rivard. Thank you, Governor Dunbar. And also, welcome to Governor Brown who has joined the

Zoom call. Let us know if you have any questions. We are going through the Claims Report now, and so are there any comments questions for Jay at this point from any of the board members?

Carlos Lopez-Cantera: The E&Y report . . .I'm going to guess that's the Ernst and Young report? Jay said that there is a draft.

Jay Adams: They did produce an initial report to us. We are in the process of going back with them, making sure they fully understand all of the procedures and things that Citizens has in place because we didn't get a chance prior to them submitting their draft to us to really sit down and go through and make sure that there is equal understanding from Citizens and E&Y with respect to all the information that they gathered.

Carlos Lopez-Cantera: When can we expect that the board will see a copy of the report?

Jay Adams: Our plan is to resolve these issues in the next couple of months and bring the report to the board in December.

Carlos Lopez-Cantera: When is it anticipated that the litigation management software procurement action item will be brought forward?

Jay Adams: I believe that is also scheduled to come in December.

Carlos Lopez-Cantera: So, we're going to get the report around the same time that we have to approve the software, or will there be some lead time for us to review this report that we paid Ernst & Young to do?

Jay Adams: The report is not going to give you any more insight into the management system outside of what I've already discussed today. Their recommendations were not as strong as our recommendations that our team put together in the management solicitation.

Chair Rivard: I think, Jay, to the extent that you can get documents for the board to review ahead of time so that we are not receiving information and then making decisions about that at the same meeting (up against a deadline) would be appreciated and helpful. It sounds like you're going to work through some of these issues so that you may have the ability to do that before the December board meeting. Of course, always, the board can choose to vote or not vote at the board meeting if they are not comfortable with it, yet, and if they have not had a chance to review those documents; and, it sounds like from what Governor Dunbar was saying with the existing contract, we aren't completely under the gun. We do have some time for this. And, in light of this General Counsel situation, that could be another reason why we might need to push this out longer or not. We will see. I just think that what would be most helpful is that, as soon as you are able to provide the reports to the board, do so, and in advance of the December board meeting. Just so you know, we will, under new business, I intend to address the General Counsel situation in the process going forward for that. So, by the December board meeting, I think we will certainly have made some progress along those lines as well. So, I think a lot of this is fluid. Always the earlier you can get information to the board if there's a recommendation asking for a vote it would be helpful.

Carlos Lopez-Cantera: To Barry's point earlier, on the drivers of rate, we made a big point about litigation, and I think giving this board ample opportunity to review that report before we make any decision as it relates to the subject matter of litigation should be very important because Barry told us earlier it's very important.

Chair Rivard: Understood. Litigation is a huge issue in this is an important one that we make sure everyone has all the information that they need to make these decisions. I think that will happen. Anything else from other board members? [silence]. Jay, anything else from you?

Jay Adams: No, sir. That concludes my presentation

Chair Rivard: Thank you for the report. Violet Bloom, you're up next.

7. Chief Human Resources

Action Item: Employee Benefits Consulting and Brokerage Services

Violet Bloom: Good morning, Chairman and Board of Governors. For the record, Violet Bloom, Chief Human Resources Officer. Today, I will present five items behind tab seven that are needed to continue vendor services for our employee benefits program. I do want to take this opportunity to thank the board for their ongoing support of our benefit program. Barry and I had the opportunity to meet with most of you prior to this meeting to go through our strategy and plans for 2021. We really appreciate your support. Our employee benefits are rated number one by employees as the number one satisfier that drives their engagement. Your support really means a lot. The first action item is a one-year contract renewal. It's for Employee Benefits Consulting and Brokerage Services. The contract number is 1919000400. The recommended vendor for renewal is Mercer Health & Benefits, LLC. It is a budgeted item and the funding is included in the annual operating budget. The contract amount is \$175K. The renewal is for January 1, 2021 through December 31, 2021. The purpose of this action item is to seek board approval to renew the current contract with Mercer to provide employee benefits consulting and brokerage services for all health and welfare plans offered to Citizens employees from January 1, 2021 through December 31, 2021. I'll pause there for questions.

Chair Rivard: Thanks, Violet. Any questions from the board? [silence]

Bette Brown made the motion for the board to approve a contract with Mercer Health & Benefits, LLC for the renewal term of one (1) year, beginning January 1, 2021 and ending December 31, 2021, for a total amount not to exceed \$175,000, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Marc Dunbar seconded the motion. All were in favor. Motion carries.

Action Item: Medical and Prescription Drug Coverage Administrative Services Only (ASO)

Violet Bloom: The second item is also a one-year contract renewal. This is for Medical and Prescription Drug Coverage Administrative Services Only (ASO). The contract number is 1616000100. The recommended vendor is Blue Cross Blue Shield of Florida, Inc. ("Florida Blue"). It is a budgeted item and

included in the annual operating budget. The administrative services fee is \$44.29 per employee per month from January 1, 2021 - December 31, 2021. Total renewal term estimated cost is \$562,305. The purpose of this contract seeks board approval for renewing the current contract with Florida Blue to administer all services needed for Citizens self-funded medical plans to be offered to Citizens employees effective from January 1, 2021. I'll pause there for questions.

Marc Dunbar: Thanks, Violet. This one will go for this one and the next few. I am always trying to find where the fees are and trying to make sure that the ones that are placed on our employees we fully understand because it winds up being very aggressive. This one says that Citizens cost for administrative services is \$44.29. There are no other fees associated with it that are born by the employees participating in the plan?

Violet Bloom: We work with Mercer and their actuary takes into consideration these ASO fees as well as projected claims costs. Based on that information, Mercer comes up with projected costs for the year. We then share that cost with employees. In the past we shared it at 80/20. As you know, this year the intent is to not increase employee premiums and continue at the same rates as last year. Did I fully answer your question?

Marc Dunbar: You did. And I just want to . . . and this one is more on administrative services fees, and I just wanted to make sure that there is no component of the administrative services fee that is being passed on to the employees. It is being born by the corporation entirely, right?

Violet Bloom: Because it is part of the total cost that is calculated for medical insurance for the year, it wouldn't be accurate for me to say employees are not incurring any of it. It is part of that total cost the actuary takes into account. Employees' percentage is slightly less than 20% of that total medical cost.

Marc Dunbar: Okay.

Violet Bloom: We shared those premiums with you when we met.

Marc Dunbar: Right, right. Just as we look at it in a going forward basis, in particular as we go into next year, again, since these type of administrative fees are very aggressive obviously when they're hitting flat with lower earners, trying to identify them in ways that we can mitigate that on the lower wage folks and winds up giving more money in their pockets than higher wage folks obviously. So, over the next year, can we try to identify all of those opportunities, so, particularly when the chair looks at salary increases and things like that, you're also able to look at enterprise wide fee reductions or fee transfers from the employees back into the corporation as part of the overall pay package as opposed to it just being a salary increase because then that way we are able to hit the rank and file. Does that make sense?

Violet Bloom: Absolutely. We appreciate that direction. And I know our director of rewards is listening and probably clapping loudly, so thank you.

Marc Dunbar: Thanks a lot. I appreciate it.

Chair Rivard: Thanks, Governor Dunbar. Any other questions or comments for Violet at this point? Okay. You can read the recommendation.

Carlos Beruff made the motion to approve a contract with Florida Blue for a term one year, beginning January 1, 2021 and ending December 31, 2021, for an estimated amount of \$562,305, dependent upon employee enrollment, as set forth in this Action Item; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Marc Dunbar seconded the motion. All were in favor. Motion carries.

Action Item: Dental Insurance Coverage

Violet Bloom: The next item is for Dental Insurance Coverage. The contract number is 2020500200. The recommended vendor is MetLife. This is a continuation of services and the funding will be included in the annual operating budget. This coverage is placed through our competitively procured insurance broker Mercer. The incumbent provider for this coverage is MetLife. Mercer negotiated on Citizens' behalf and obtained competitive quotes. Mercer's recommendation was to continue employee dental insurance coverage for 2021 with MetLife. As you know, that is also consistent with the strategy that we shared with the board members who try to minimize disruption for our employees this year. The estimated cost for the contract year of January 1, 2021 through December 31, 2021 is approximately \$846,208. This represents a 2% decrease or approximately \$18K from the current year. The purpose of the action item seeks board approval for a contract award for a dental plan program to be offered to Citizens' employees, effective January 1, 2021. I'll pause for questions.

Chair Rivard: Are there any questions? [silence]

Bette Brown made the motion to approve a contract with MetLife for an initial term of one year, beginning on January 1, 2021 and ending on December 31, 2021 for an estimated amount not to exceed \$846,208, depending upon employee enrollment, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Reynolds Henderson seconded the motion. All were favor. Motion carries.

Action Item: Basic & Voluntary Life, Basic AD&D, Voluntary AD&D, and Long-Term Disability

Violet Bloom: The next item is for a new contract for Basic & Voluntary Life, Basic AD&D, Voluntary AD&D, and Long-Term Disability coverage. The contract number is 2020500300. The recommended vendor is CIGNA. It is for a continuation of services and the funding will be included in the annual operating budget. The item is placed through our competitively procured insurance broker Mercer. Mercer negotiated on Citizens' behalf and obtained competitive quotes to continue employee life and long-term disability insurance coverage for 2021 with no increase in cost. Estimated cost of Life and Long-Term Disability Coverage through CIGNA for the contract period of January 1, 2021 through December 31, 2021, is approximately \$827,027. To Governor Dunbar's earlier question, Citizens pays for basic life insurance of 2x employees' salary up to a maximum of \$500K, and Citizens also pays for basic accidental death and dismemberment in the same amount. Employees can choose to select additional coverage at their cost. The base term is January 1, 2021 through December 31, 2021. The purpose of this action item is approval for a new contract award for CIGNA to provide Basic Life,

Voluntary Life, AD&D, Voluntary AD&D, and Long-Term Disability insurance to be offered to Citizens' employees, effective January 1, 2021. I'll pause there for any questions.

Chair Rivard: Any questions? [silence]

A motion was made to approve a contract with CIGNA for an initial one (1) year term, beginning January 1, 2021 and ending December 31, 2021, for an estimated total amount not to exceed \$827,027, depending upon employee enrollment, as set forth in this Action Item to authorize staff to take any appropriate or necessary action consistent with this Action Item. Bette Brown seconded the motion. All were in favor. Motion carried.

Action Item: Short Term Disability and Family Medical Leave Administrative Services Only

Violet Bloom: This is a new contract for Short Term Disability and Family Medical Leave Administrative Services Only. The contract number is 2020500300. The recommended vendor is CIGNA. This is a budgeted item and is included in the annual operating budget. The procurement method used was an invitation to negotiate. The only response received was from CIGNA as the administrator of the self-insured short term disability plan because the short term disability plan needs to be aligned with the long-term disability plan. We really believe that's why CIGNA was the only vendor that responded. We do plan to do a full solicitation next year for an integrated disability plan, which would combine long-term disability, short term disability, and life insurance. The estimated cost of short term disability and FMLA Administrative Services for the contract period of January 1, 2021 through December 31, 2021 is approximately \$61,235. The short term disability cost and FMLA cost is covered by Citizens. The base term is January 1, 2021 through December 31, 2021. I'll pause for questions.

Chair Rivard: Any questions? [silence]

A motion was made and seconded to approve a contract with CIGNA for a one (1) year term, beginning on January 1, 2021 and ending on December 31, 2021, for an estimated total amount not to exceed \$61,235, dependent upon the number of employees, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Violet Bloom: Thank you.

Chair Rivard: Thank you. Next up is our Inspector General. Mark Kagy, it's your turn.

8. Acting Inspector General

a. IG Overview

Mark Kagy: Thank you and good morning, governors. For the record, I'm Mark Kagy, Citizens Acting Inspector General. If you follow some of the discussions through the Audit Committee between myself and Governor Dunbar, you'll know the IG's Office has been making efforts to increase awareness of the office as well as Citizens' complaint hotline and website TellCitizens.com. As part of that awareness, I want to take an opportunity to introduce myself to the new board members and also to provide a brief

overview of my role and function of the Office of Inspector General (OIG). Our 2019 annual reports can be found under tab 8B in the materials provided. Much of the Information shared during my presentation will be included in that report as well for future reference. We can begin on slide one. A little bit of background – we have been in existence for about six years. Citizen statute was modified in 2013 and the OIG was created with the purpose of promoting accountability, integrity, and efficiency. This is very much an oversight function. In 2014 Bruce Meeks was hired as Citizens’ first Inspector General who thereafter hired me as Director of Investigations. Mr. Meeks ultimately retired, and on February 2, 2018, I began serving as Citizens acting Inspector General. The office is handled by the Inspector General as a senior management position. Citizens IG structure is unique. The IG is appointed by the Financial Services Commission. That’s the Florida cabinet; these are your Florida statewide elected officials, the Governor, Chief Financial Officer, Attorney General, and Commissioner of Agriculture. As the statute states, “IG shall report to and be under the supervision of the Chair of the Board of Governors.” You’ll notice that the Inspector General does not report to the Executive Director, and there is specific note that the corporate staff cannot impede OIG from carrying out its functions. This structure is intentional. It is designed to maximize independence and promote objectivity and impartiality. The independent structure is critical ensuring that the OIG can function without undue influence. Although we are independent, we are administratively housed in Citizens. It’s simply not practical for us to have our own HR department, IT department, procurement, and finance department. So, we are administratively housed within Citizens. On the slide you’ll notice that I broke the number one rule of all slides in conducting presentations, and I apologize but I did put way too much information onto one slide. This is a direct copy and paste right out of the IG staff statute for Citizens. It outlines the functions and the responsibilities, and I want to highlight some of the key things you see through there. I’ll take you through a couple of these: fraud waste and abuse, malfeasance, management misconduct, violation of corporate policies . . . These are all things we investigate and we work to prevent. The OIG has a role in security, ensuring ethical behavior of staff and vendors . . . That part is important. It establishes some of the responsibility and oversight of Citizens’ vendors. Compliance – you’ll see that word a lot in the IG statute. As a corporation and government entity, Citizens has an extensive list of compliance responsibility. We are fortunate. We have a very robust compliance office, and the OIG serves with multiple other officers to accomplish many of those compliance goals and requirements for the company. Evaluating the activities of the senior management team and any records of discipline, issuing in providing reports communicating results – these are all important functions. I’ll call out here to item J. This is important: providing the Executive Director with independent and objective assessments of programs and activities. It is not enough to simply investigate. We have a responsibility to report on our findings to the Executive Director so that improvements can be made. One of my points of emphasis for the OIG is that we be able to provide our objective analysis and objective review. But, overall, responsibility for effective change lies with management. It’s important that I’m able to study, evaluate, investigate, and report, but my recommendations go to the corporation for improvements to be made. For example, and I have to tell people this all the time, but the OIG does not make any personnel recommendations as a result of our report. We simply gather the facts and report on those so management can make the most informed decision. Our investigative work is probably the most visible part of what we do. That’s the thing that everybody attributes to our functionality. But, if you go back to that slide with too much information, you’ll notice that it spoke of a lot of other things: investigations, reviews, evaluations, projects, assessments . . . and in totality, there are nine different activities that the OIG can take and nine different functions. Here on the slide these are our investigative activities. Obviously investigation is the foremost product that we produce. That is our highest level of review. On occasion, it is necessary

to do a lower level review of investigative work. Sometimes it is not appropriate to put forward the full amount of resources into a better understanding of a particular situation. These investigative inquiries can often turn into investigations once we learn more information. Or, they can also be closed and reported on similarly with investigations. Investigative work is typically a reactive project. They are most commonly associated with complaints received within the office. Here are some substantive projects that we do. These can either be proactive or reactive. The OIG periodically conducts compliance reviews, which seek to evaluate the corporation's compliance with a particular set of regulations. Process reviews are efforts that we take to assess a certain business process. This is really kind of our "outside the box" look at a particular process to see if there's a better way to build that mouse trap or more recommendations we can make to improve our process. Finally, these are our administrative projects. These are a little bit lower in nature. They include administrative closures. I tell people all the time that we document every single complaint that comes in and every single correspondence that comes in and gets documented. Sometimes there's just not an avenue to take anything any further. You'd be surprised at some of the stuff that we get. Apparently, there's an insurance company in Michigan that has Citizens as its name and occasionally we will receive their complaints. There is really not much that we can do with that other than just to report back to the complaint that you have the wrong guy. There are consultation services that we do. The OIG office is always open for any type of question that may be asked. I'll group opinions in this group as well. Often times, I will always tell people that I understand the notion of that it might be easier to ask for forgiveness later than for permission on the front end. Here at the OIG's office we don't abide by that. I would much rather have people call Ask for opinion and ask for consultations about a particular issue. Then, we can work to move forward in the most appropriate way. Finally, you'll see referrals. This is a big one. Referrals here happen quite a bit. We'll get into that in a little bit later. These are matters that don't really rise to the level of an IG review; these are the things that are more appropriate addressed by other business units in Citizens. For example, if someone wants to contact us and complain about their claims payment amount or if someone wants to contact us to address a concern that they may have with an agent or an agency that does business with Citizens, there are offices here within Citizens that handle that business day to day. That is a more appropriate level of response there, so our office will forward these concerns as referrals to those offices. But, because I do like to stay informed on anything that comes in to our office, we do require that they respond back to the IG's office with a documented response of their actions taken so that we may review that with any additional questions that may be necessary but ultimately goes to the file. For those of you who have been counting, I've just gone through eight activities. I've informed you that there are nine activities. The IG statute does allow for audits to be conducted by the Office of Inspector General. That structure is very similar to what you see in OIA's structure as well and also authorizes them to do investigations as well. Joe Martins and I have gone through the process of creating a corporate policy that basically outlines that, although they do have investigative experience there (and I have served as an auditor previously), that our expertise lies in investigations and audit respectively. And, unless there is a need to do some type of check and balance, typically we're going to stick to our areas of expertise. The statutes do require that both offices cooperate and coordinate all of our activities, and I would suggest that we do that very well. We have a very good working relationship with Mr. Martins and his staff. Audit is the ninth activity there. Complaint process: a lot of people would like to understand what the complaint process is and how things come in. Citizens has a long-standing complaint recording hotline and website called TellCitizens.com. We're currently trying to up the awareness of this product. This is a reporting platform that's operated by a third-party. They provide a 24/7 call handling services. TellCitizens.com is administered by the IG's office, and all complaints are received by my office. Complaints can be

anonymous. TellCitizens.com does have an option to submit anonymous complaints. Complaints are assigned a PIN number that they can use to either go back in to the website or call the hotline number. They can use that PIN number. We have the ability to ask additional questions and type out some comments. It allows us the opportunity as investigators to interact with and work with the complainant who chooses to truly remain anonymous. So again this is an opportunity to communicate with them and ask more questions. We also receive phone calls, emails, and, back when we did such things, we do take walk-ins. From the very front end of the process, all complaints are documented and categorized. I also conduct a review to determine if the complaints meet the requirements of Florida's whistleblower act. Citizens has a triage team. This is fairly unique to a lot of IG offices. For reference, the positions of the triage team are listed there for reference in order: Mark Kagy, Joe Martins, Nikki Smith, and Nancy Staff. The triage process is outlined in the corporate policy. The process is to identify the best ways to address concerns and the appropriate business unit to assign the matter. There are some situations which will automatically prompt an OIG investigation. These include whistleblower complaints or specific investigative requests. For example, if the Chairman of the Financial Services Commission representative requests an investigation, obviously it's appropriate to not have those go through a triage process. It's more appropriate for the OIG to independently determine that an investigation is necessary. Back on that slide that you saw with too much information on it, the phrase "independently determined by the IG" gives me quite the leverage to review a situation and make a determination as to whether or not an investigation is necessary. I do have that leverage when necessary. But, these are the exceptions to the rules. Most complaints do go through the triage process for the appropriate disposition. Confidentiality of investigations: this is the most asked question. "Is this confidential?" Answer is maybe. There are three primary situations in which our work remains confidential and exempt from public record. I've listed those here with references. Misconduct complaints in all information obtained as a result of an investigation – they are confidential and exempt until case closure. At that time the report is issued and our documents become a matter of public record. Identifying public information of an alleged victim of sexual harassment is confidential and exempt. Notice the word "alleged." These do not need to be proven instances of sexual harassment. My understanding is that this is done so that as to not discourage individuals of reporting sexual harassment. Additionally, identifying information of a whistleblower is confidential and exempt. There are exceptions to this. If there is a specific threat to the health or safety of anyone, then certain law officials may need this information. I am authorized to provide that information. There is also a clause there that talks about the Inspector General may deem the disclosure absolutely necessary during the course of the investigation or the review. The third option/the third exemption is that a whistleblower can also provide a written consent to release their identity. Here on slide 11, let's talk about our investigative considerations. A lot of people just hear the word investigation. They really don't understand how we do what we do and the considerations that we take forward. I wanted to provide a little bit of detail on how we do that. The first thing we're always going to do is identify the applicable governing directives. This sometimes isn't easy or easy to get to. These are all the rules, laws, policies, and procedures that play. These are the guard rails that guide staff actions and activities. It's the rules that we're expected to abide by, and they can be considerable especially when you get into contract stipulations. Even supervisor directives – a supervisor will send out an email that guides the staff actions and I need to see that email and I need to understand the intent of that email. We're going to create a documented investigative plan. We're going to interview staff. We're going to obtain as much documentation as we can. Incidentally one of the things that we put into place when we created the Inspector General's office is that there is a standard contract language that requires vendors to cooperate with our investigations and provide documentation that we deem appropriate as

necessary. What we don't want are vendors to fail to cooperate with our investigation, so we had that language put in there and for reference or why he has similar language as well. We use the term supported or not supported. The typical allegations will read as "John Smith harassed Jane Doe. The allegation is supported." This simply means a violation has occurred and that an activity has happened that is in contrast with those guidelines. The IG's office does have an opportunity for legal review. The OIG is an entity that although we are administratively housed here within Citizens we often have interest that might compete or might contrast with the corporation as a whole. For that reason it can be necessary for the OIG to maintain legal counsel separate from Citizens' office of General Counsel. We have retained external counsel, which is contractually prohibited representing Citizens in any manner. That's done in order to prevent any conflicts of interest. That legal counsel reviews our work. They meet with me periodically to provide any other counsel that is deemed necessary. It helps with legal sufficiency for our reports. The last two pieces of this report or on the slide are pretty important. The goals here are to fact find and maintain objectivity. The quality of the investigation is one that is free from preconceived notions and only seeks facts. There are no agendas at the OIG other than to find the truth of the matter. My predecessor had a flair for simply stating, "My client is the truth." And, that is entirely what his concern was and that is what our entire concern is. What I tell people is, "I will work..." especially with subjects who often feel like they are targeted. What I tell everyone, especially those subjects is, "I will work just as hard to prove the allegation as I will to disprove the allegation." Again there is no agenda here. At our core we are independent, objective, balanced, fact based, and impartial. Final reports: How do we issue these final reports? Our final reports are our responsibility for affecting change lies with management and the corporation. Our final reports go to the Chair of the Board of Governors, the Executive Director, the Executive Leadership Team member of the business unit that might be affected, Citizens General Counsel, and our Chief Human Resources Officer. We also provide notifications to the subject of the investigation, the complainant . . . those notifications simply state that the case is closed and what our findings were. There is nothing worse than being the subject of an investigation and never hearing back about what the results were, so we do provide those notifications. We have a couple charts here that outline a comparison between the issues that come in the office and it's a comparison between 2019 and 2020. You'll see the word "matters" or "issues." You'll notice that I do not use the word "complaint." A lot of times you'll hear me use "matters" or "issues"; sometimes I use the word "correspondence." We all know what a complaint is but we don't know what categorizes as a complaint. The office receives a lot more than just complaints. We receive notices. We receive digital notes. We receive, "Hey, I got something to tell you, but I don't want to file a complaint." We receive all sorts of information at the office, and this shows the comparison of numbers through the last two years. A couple callouts here: you can see the numbers bounce up and down each month. You'll see a significant increase around May; you'll see a pretty good jump here. I believe this is related to Governor Dunbar's recommendation that we raise the profile of TellCitizens.com. I've seen a significant uptick in the number of issues in matters that are coming into my office. We will go into those in a little more detail here in just a minute, but you can see our 2020 numbers have already passed 2019 numbers due to incoming correspondence. This is a breakdown of the last five years in comparison of the types of matters coming in and what the subject is or what the overall concern of those are. We attempt to categorize every single thing that comes into the reports so that we can report on that. You'll notice here in 2020 we've had a sharp increase in the "other" category. This breaks another cardinal rule that your largest category should not be the "other" category. This increase is due to an additional correspondence that is more appropriately addressed by other business units within Citizens. I gave the example of the claims amount considerations and the agency concerns that we refer to other business units, so you'll see a bump here. What we're doing

here is . . . For example, one of the things that we put on the website is our fax number. In the last few months we received 20 faxes. I don't think the OIG's office received any faxes in the history and every single one of those faxes came from mortgage companies seeking to obtain information from policyholders. And, those get referred to our customer experience group. We are working with our website team. I am in constant communication with Jeremy Pope and the customer team to find ways that we can strategically advertise what it is that we do at TellCitizens.com. We do not want to be a filter for other concerns that could cause undue delays. That is why you see a little bit of an uptick there. As we refine these processes which are already in place, that number will go down in the next few months. Here on slide 15 is the last chart. These are all of the divisions; we want to know... We track everything. We want to know in concerns, which divisions are experiencing upticks. We want to keep our eye on that. There are a couple callouts here that you would expect to see. First of all, Claims has always been a unit with the largest matters received. This is to be expected. First of all claims is our largest division, not just in staff but also in vendor staff as well. It's also a critical subject matter involving claims payments and amounts. Obviously that is a concern of many and they're going to keep an eye out on that. The other call out there is the Customer Experience group. I hope you'll bear with me a little bit. When we try to compare 2020 and 2019, it became apparent it was more difficult when the corporation reworked and things started moving around. It got a little bit tricky because of all the office movement and all the functions stayed but the reporting structure was different in the naming of those offices was a little bit different. There is a little bit of apples to oranges comparison. For example, Enterprise Operations – that is a new umbrella that didn't exist in 2019. It currently houses Underwriting and Agency Services as well as Systems in Operations. That is Kelly Booten's world. The customer experience group is a new organization. I don't want you to see a jump in that and think there are any concerns there in that group. We are refining this process, and we are making sure the reporting of these numbers make sense as we compare year over year. Simply put, I always tell myself what I tell myself in an elevator if I had 30 seconds with them and if I wanted them to have a take-away about what the OIG is. This is what I hope you guys take away and what I hope you remember is that the Office of Inspector General is an independent investigative entity which is administratively housed within Citizens. Our job is to help Citizens operate with accountability, integrity, and efficiency. We do this by conducting objective, fact-based analysis and developing impartial reports. And this is our final slide here. This is our contact information "nowhere to go" is a theme that staff will see more and more as our TellCitizens.com awareness campaign moves forward. Obviously a lot of that campaign is going to be paused while we work from home. When staff returns, you're going to see more of TellCitizens.com awareness but not just in break rooms but also in workspaces. Vendors will see that as well. Our contact information is here. If anyone has any questions, this is how you get a hold of me. Mr. Chair, I really appreciate the opportunity to present before the board today. This concludes my presentation, but I am available for any questions that the governors may have.

Chair Rivard: Thank you, Mark, for that report. I can tell all the board members who may not know you as well as I have gotten to know you that Mark does a great job. I've had an opportunity to work with him a little bit. He's a real professional who handles himself well and takes this all very seriously. I appreciate everything that you do Mark and I have a lot of confidence. With that if there are any questions or comments, please speak up.

Bette Brown: Mr. Chair, I have a question. Mark, it's Bette Brown, that was a really great report. Thank you. It's really concise, but very informative. I was so glad you answered the question on page 14. Out

of curiosity I see that we have a category on that slide 14 for misconduct. Just give me an example of what that might be. Is it kind of a catchall?

Mark Kagy: It can be. These are large umbrella categories. Under the misconduct category, falsification, fraud, and improper conduct . . . that's your catchall. Also misrepresentation and misuse of property . . .so people are misusing Citizens in a wrongful way . . . other violations of laws or rules that may not be in policy . . . retaliation and theft. Those are the categories that fall underneath that misconduct category.

Bette Brown: Thanks.

Chair Rivard: Any other questions for Mark? Okay. Mark, thank you. I appreciate the report. I do want to let the board members know that I received some information during that report that Jay Adams wanted me to pass along. The timing for the matter management system solicitation will not be coming to the board until March of next year. That helps a little bit with making sure we have the information that Governor Lopez-Cantera was talking about well in advance of the time of solicitation that will be brought to the board. I just want to make sure everyone understood that clarification. Next, we're going to ask for Joe Martins and Governor Dunbar to lead us into the Internal Audit Report.

9. Chief Internal Audit Officer Report

a. Audit Committee Report

Marc Dunbar: Joe, go ahead and proceed.

Joe Martins: Thank you, Governor Dunbar. For the record my name is Joe Martins, Chief of Internal Audit. I would like to refer you to the Office of Internal Audit executive summary which is behind tab nine of your pack. At the committee meeting, I indicated that 53% of the 15 projects scheduled for the period April 1, 2020 to March 31, 2021 have been completed. Since the previous meeting, we've completed eight engagements. These include an audit of the Agency Management System, and on page 2, we did an overview of the recent Disaster Recovery Exercise, and advisory project for the Executive Leadership Team recruitment and selection, and an audit of the policyholder claims experience. Internal Audit periodically reviews procurements which could be considered sole source or single bids such as RFP-005. We did an audit of controls of implementation management reports and an audit of the third-party access control. And lastly on page 3, I mentioned the audit controls in place for wire transfer/ACH services following an appointment of a new vendor in 2019. At the bottom of page 3, I report that there are 10 audit engagements in progress. On page 4, I list another three engagements scheduled to commence during the third quarter. With regard to the control deficiency resolution, Internal Audit is tracking for new observations, none of which are high impact. In general the business units have been doing a stunning job in addressing identified control failures and all the issues were resolved by the end of July. On page 5, I presented an update on progress from the Internal Controls Team. Through various touch points in the business areas the Internal Controls Team continues to ensure that Citizens internal control framework standards are followed and that control assessments continues to add value and strengthen Citizens control environment. As of August, 120 primary controls have been recorded across 71 business processes. Annually, business units complete self-assessments for every document under primary control. With the CSAs, they evaluate the adequacy of control design in the effective execution

of control. Issues are identified and are recorded and correct of action plans are implemented. The internal controls team provides selective quality control reviews to show the standards have been made. Today 10 quality reviews were completed across a broad-spectrum touching Claims, Legal, Financial Services, and Enterprise Operations. On page 6, I continue the update that ensures progress in Enterprise Risk team. Enterprise Risk continues to mature ERM throughout the organization with facilitated interactive operational project and scenario-based risk assessments and training. This enables Risk Champions and management to self-identify and assess risk that may impact the ability to achieve business objectives. As of August, a total of 385 operational risk have been identified and assessed across the organization. At the request of management, ER facilitated two cross functional risk assessments. The first assessment looked at several emerging or present risks from COVID-19 occurring concurrently with the tropical cyclone season. The second assessment focused on the rollout of the new agency management system called myAgency and the types of risks that should be monitored and managed. Thank you, Mr. Chairman. That concludes my report.

Chair Rivard: Thank you, Joe. Any questions for Joe? [silence] We appreciate your report. Next up we will have the Chief Legal Officer and General Counsel Report. So, Dan will take us through his report.

10. Chief Legal Officer and General Counsel

Action Item: Cyber Liability Insurance

Dan Sumner: Good morning, Mr. Chairman and members of the board. I have two action items this morning. They are both under tab 10 and they are both with regard to corporate insurance. The first is for Cyber Liability Insurance. We have been buying cyber liability insurance for five years. This covers the risk of financial loss from a data breach or from some other cyber event. We have been using Beazley Group for all of those years, and the recommended vendor for the upcoming year is Beazley. The total premium is \$106,250, which is a 5% increase over last year, but there are a couple things I want to mention to show that that premium is very stable. First of all, between this year and last year, our total coverage is \$10 million but the retention held by Citizens has gone from \$500,000 to \$100,000. Also, there are some limits with regard to breach response activities with regard to legal services that might be needed for \$5,000 retention. With regard to other breach activities such as computer experts, public outreach, and other matters of that sort and which retention is only \$20,000. This policy is very favorable for Citizens, and it would be in keeping with our desire to be well protected. With that, if there are no questions, I will read the recommendation.

Chair Rivard: Any questions for Dan? [silence] Please proceed.

Reynolds Henderson made the motion for the board to authorize the purchase of Cyber Liability Insurance for a one-year term beginning on October 1, 2020 and ending on September 31, 2021, with the Beazley Group for a total annual premium of \$106,250.00, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Marc Dunbar seconded the motion. All were in favor. Motion carried.

Action Item: Directors & Officers/Fiduciary Liability Insurance

Dan Sumner: The second insurance coverage is for Directors and Officers Liability Insurance. I want to make a couple of quick points on this. The first is we have been buying Officers and Directors Liability coverage for a number of years. For those of you who are new to the board, one of the things I want to emphasize is that Citizens has a very, very strong immunity provision which protects the board members and staff from liability, and that is our principal protection – Citizens Statute 627.3516S if you need to reference that. However, there is one important exclusion from that immunity and that is corporation. This exclusion is only for the corporation. The board members continue to be immune, but the corporation is not immune with regard to the issuance or payment of debt and of course that is a major function of Citizens. The corporation is a named entity under the officers and directors liability coverage. It is very important that we have this additional coverage, and the coverage we are proposing is \$20M. That would basically be an initial layer of \$10M with Starr Surplus Lines Insurance Company and a second \$5M layer with Argonaut Company and a third \$5M layer with QBE Insurance Corporation all of which are rated A-excellent with AM Best. The total premium is \$261,476, which is a 13% increase over last year. I would note that unlike cyber liability, the officers and directors liability line has been hardened. There has been less interest by carriers covering that right now. Some of that I think is attributed to COVID-19, but I think this market has hardened and this was our best price available. This was really the only complete quote that we got. That is a package for officers and directors liability that we are putting before the board. And, I would be happy to read the recommendation if there are no questions.

Chair Rivard: Any questions for Dan? [silence] Okay, go ahead, Dan.

Marc Dunbar made the motion to authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2020 and ending on September 31, 2021, with primary coverage through Starr Surplus Lines Insurance Company and excess coverage with Argonaut and QBE, for total coverage of \$20M with a total annual premium of \$261,476, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. The motion was seconded. All were in favor. Motion carries.

Chair Rivard: So, now we're going to hear from Jeremy Pope, our Vice President of Customer Experience. Jeremy, welcome.

11. Vice President, Customer Experience

Action Item: Business Process Outsourcing (BPO) – Call Center Services

Jeremy Pope: Thank you, Chairman, and for the record, my name is Jeremy Pope, Vice President of Customer Experience. Today, I'm bringing one action item for the board's consideration related to our BPO outbound and inbound call center services. This item is located within tab B. As the Board is aware, in June, we received approval for temporary pricing increases for our call center services contracts through November 30 of this year. In July Citizens released the new competitive solicitation via an ITN solicitation to determine if we can attract more favorable pricing and terms compared to the current pricing and terms we have established today. We are currently in the evaluation phase of the solicitation and the public award activities are scheduled to wrap up in November 10. Today's action item is specifically a request to extend the temporary price which is set to expire November 30 through January 31, 2021. This extension will allow staff to bring forth the recommendation at the December

Board of Governors meeting once all procurement activities have been concluded. The requested extension will allow staff the appropriate time to execute new contracts should better pricing and terms be negotiated and approval granted during December's meeting. Finally, the extension will allow Citizens to provide the contractual formal notices to current active vendors that we will be transitioning services to a different vendor or vendors if appropriate. The extension of the pricing will not increase the original maximum spend authority originally granted by the board. Chairman Rivard, this concludes my summary of the action item, I'll pause for any questions before proceeding to the recommendation.

Marc Dunbar: I just want to let Barbara know that on the website, you cannot see this agenda item. You can if you download the packet, but you may want to check the notice that's on our website because this doesn't show. The question that I have, Jeremy, relates to our conversation about the MFNs. Can you just update us on the vendors?

Jeremy Pope: Absolutely, Governor Dunbar. Through your request and guidance, if you recall back in June, there was a price increase request from three different vendors. Today's request includes only two vendors, but both of the vendors today excepted the most favored nations clause in the amendment of the contract. That third vendor did not, and we have no active work with them at all. That is why you see a reduction with a number of vendors moving forward today.

Marc Dunbar: Thanks for your work, Jeremy, on this.

Chair Rivard: Any other questions for Jeremy on this item?

Carlos Lopez-Cantera: I have a question, Mr. Chair. Jeremy, do you remember if this item passed unanimously in June?

Chair Rivard: Barbara, can you check on that?

Barbara Walker: Yes, I'll check on that and get right back.

Chair Rivard: And while she's checking on that, I want to check and see if Barry is on the line. He was having technical problems. Barry, are you on the call with us?

Barry Gilway: Chairman Rivard, can you hear me?

Chair Rivard: Yes, sir.

Barry Gilway: I am having technical difficulties, but I am on the line.

Chair Rivard: While Barbara is looking for that, I'm not sure but I think you wanted to make a comment on something else while you had been kicked off. Would you like to do that now or would you like to wait until after we finish this item?

Barry Gilway: I'm sorry, Chairman Rivard, I may have missed it. What kind of comment were you looking for?

Chair Rivard: I was under the impression that you wanted to make a comment on something, but if not, then never mind.

Barry Gilway: No, I am fine. I had comments earlier but the time has passed and I think the questions were responded to just fine.

Chair Rivard: Okay, very good. While Barbara is looking for that vote count at the last meeting, are there any other questions that we can get to for Jeremy at this point? [silence] We'll just be standby for a minute. Or, Governor Lopez-Cantera, do you have any other

Carlos Lopez-Cantera: I just want to be consistent. If I voted against the price increase I remember asking questions about it, but I don't recall if I voted against it. I just want my vote to be consistent. That's it.

Marc Dunbar: Carlos you voted in favor of it after you agreed to the amendment or you seconded it in the motion to amend to put in the MFN language. It says, "All were in favor to approve staff's recommendation with the following amendments."

Carlos Lopez Cantera: Okay, that answers it. Thank you, Governor Dunbar.

Chair Rivard: Okay, if not, then Jeremy, read the recommendation.

A motion was made for the board to approve the extension of current pricing adjustments from December 1, 2020 to January 31, 2021, as follows: (i) Agility Marketing for FNOL/Claim Inquiry calls at a price per call range of \$8.90 - \$9.40 and Tier I calls at a price per call range of \$7.97- \$8.40; (ii) MacNeill Group, Inc. for a Tier I price per call range of \$6.15 - \$6.65; and (iii) resulting in additional costs up to \$100,000 as further set forth in this Action Item; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. The motion was seconded. All were in favor. Motion carried.

Chair Rivard: Thank you, Jeremy. I appreciate that.

New Business

Chair Rivard: I have a new item that I want to bring up and that is the upcoming departure of General Counsel Dan Sumner who has been General Counsel for about 10 years. As of January next year Dan is going to be leaving Citizens. Dan, I want to thank you for your service and for your temperament. There are many, many great things about Dan Sumner. As I mentioned earlier, I've had the opportunity to work with Dan. He's a good lawyer and he's a good man. He's done well for Citizens during his tenure, most of which preceded my role here. I really appreciate Dan as a person also and as a General Counsel. Thank you for your service, Dan. We wish you well. You can't leave yet. You're stuck with us still through January. I just want to thank you for everything that you do. I also look forward to advertising and finding a new General Counsel. I would like to name an ad hoc committee to work with Barry and staff to come up with a process for doing that. As we've heard throughout the meeting, litigation is such a big part of what we're doing, and having a new General Counsel is an important role. I'm going to request that Jim Holton, who is an attorney, be chairman of this ad hoc committee. I would also like to

ask Governor Henderson to serve on the committee as well as well as Governor Beruff. If you're all willing to serve in that role, I'd really appreciate it. I would also suggest that perhaps, in October that you can work with Barbara on a schedule to have a first meeting to talk us through to figure out how you want to proceed with this exercise. It really is important and I'd appreciate if all of you would serve in that role.

Carlos Beruff: Free to do so, Chairman.

James Holton: Likewise.

Reynolds Henderson: Looking forward to it.

Chair Rivard: Is there any new business to come before the board? Thank you all for a great meeting. Thank you to the tech team. Thank you all and Governor Beruff, welcome. Looking forward to having you. Do you have anything to add, Barry?

Barry Gilway: I've been working with Dan for eight years and he has been an absolute privilege and a North Star for this organization. I just echo your comments, Mr. Chairman, that he has done a very excellent job for us.

Will Kastroll: I want to highlight and celebrate some success. I know I received this in the mail and it is the Florida 500. Our very own Barry Gilway is in there. You can see his picture in there. It highlights him as a top 500 business leader in the state of Florida, and it also highlights his service in the Vietnam War. The thing that I think is important about this it's not just Barry's service to Citizens but how he and his staff have responded in the last six months. You can insert any of the senior level staff into the Florida 500 book here and be well represented with the other business leaders in Florida. It's been a very trying time and the employees of Citizens have really responded well. The staff at Citizens with the leadership of Barry and his executive team has really embraced change in this marketplace. They have done a great job.

Chair Rivard: Thank you, Governor Kastroll.

Meeting adjourned.