CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, December 16, 2020

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened telephonically on December 16, 2020 at 9:00 a.m. (EST).

The following members of the Board were present:

Carlos Beruff, Chair
Carlos Lopez-Cantera, Vice Chair
Bette Brown
Marc Dunbar
Lazaro Fields
James Holton
William Kastroll
Scott Thomas

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Kelly Booten
Jay Adams
Joe Martins
Violet Bloom
Dan Sumner
Brian Donovan
Andrew Woodward
Paul Kutter
Barbara Walker
Bonnie Gilliland

The following people were present:

Kapil Bhatia	Raymond James
Mel Montagne	FIRM
Jack Nicholson	FSU
Cassandra Cole	FSU
Charles Nyce	FSU
Patricia Born	FSU

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens Board of Governors webinar hosted through the Zoom platform – this meeting is publicly noticed in the *Florida Administrative Register* – to convene at 9:00 AM this morning. For any users who are attending today's session through the public link, you are automatically in listen-only mode. Citizens board and committee meetings are recorded with transcribed minutes available on our website. I would like to remind everyone that immediately following today's board meeting we will convene an FMAP Board of Governors meeting. Thank you for identifying yourself prior to addressing the board. For the record, there is one public request to speak today. Chairman Beruff, would you like me to proceed with roll call?

Roll call: Chair Carlos Beruff, Vice Chair Carlos Lopez-Cantera, Bette Brown, Marc Dunbar, Lazaro Fields, James Holton, William Kastroll, and Scott Thomas were present. Reynolds Henderson was absent.

Barbara Walker: Chairman, you have a quorum.

1. **Approval of Prior Meetings' Minutes**

Chair Beruff: Good morning. As this is the first meeting that I am serving as Chairman, I'd like to thank everyone. I'd like to thank Jimmy Patronis for giving me the honor of being the Chair. I'd like to go to the simple stuff and entertain a motion to adopt the September 23rd [minutes]. Get that out of the way.

A motion was made and seconded to approve the September 23, 2020 Board of Governors meeting minutes. All were in favor. Motion carries.

2. **Chairman's Report**

Citizens Property Insurance Board of Governors Mission

Chair Beruff: I like to go a bit off script now because this is the only opportunity we get to talk to each other of course under the Sunshine. And I don't know what everyone feels about this board and what our mission is and I'd like to try to figure that out amongst us. I have a distinct idea of what our primary responsibility is and that is that this insurance company should never become a burden to the Florida taxpayers. And, I'd like to know how everyone feels about that statement. I'd like to have a free forum: just talk as you feel fit. Let's do away with the formalities of asking for permission for this segment until it will get back into the business matters in a few minutes. Does everybody agree with the statement?

James Holton: This is Jim Holton – if I can make a couple comments?

Chair Beruff: Please. That's why I want to try to have a free-flowing discussion about that comment, and then we'll go to a couple others and then will get into the business aspects of this meeting.

James Holton: Mr. Chair, thank you for that. I totally concur with your statement. I think that Citizens was set up originally as the insurance company of last resort when people could not find insurance in the private sector. I think that we have gone a long way in fulfilling that mission, but unfortunately given the huge disparity in rates these days and cost associated litigation and the artificial glide path we have in terms of raising our actual premium rates, I think Citizens has become directly competitive with the private sector; and in so doing, it has essentially become a tax on all citizens within the state, by virtue of the fact that we are subsidizing Citizens' policyholders. I think we need to move in the direction of depopulating again and getting rates that are actuarially sound for this company in order that other companies can thrive and consumers in the state will have the most optimal choices for their homeowners and other insurances. So ultimately, I think that we are a tax and a burden on the state of Florida. We have the power of assessment which could dramatically impact every policyholder in the state and really put us into a bad financial position all around as a state and as a company; so, to your statement, I think that's a very good tone to move forward especially with today's agenda on rate filings and the issue of the Brandis proposal in terms of applying for actuarially sound rates to new policyholders. Thank you for the time.

Chair Beruff: Thank you, governor. Next?

Will Kastroll: It's Governor Kastroll. If I could . . . I agree with everything Governor Holton says, and I will add on top of that in addition to all of that we have a contractual obligation, legal obligation, and moral obligation to continue to pay claims and have great customer service as we've done all along at Citizens for the policyholders. So, not only do we have a responsibility to the state of Floridian taxpayers in Florida and the legislature, we also have a responsibility to the clients to do a great job of making sure we're making them whole and that the customer service experience is great. So, I just wanted to add an addition on top of what Governor Holton has said.

Chair Beruff: I'd like to interject before the next governor speaks. My second point besides not being a burden to the Florida taxpayers is second to always be able to provide our policyholders with the ability to quickly cover their claims. So, I think we're on the same page on the two items, Governor Kastroll. I agree with that is the second part of our mission, after the first. Next, please? Anybody that has a comment?

Bette Brown: Hi. It's Bette Brown. I'll jump in. Can you hear me?

Chair Beruff: Yes, ma'am.

Bette Brown: So, I served on the board for quite a while, and we've done a really good job of stewardship for the state, I think, and taking care of our clients and customers as well. I'm proud that we are able to assess current needs and changes, and we continue to do that. The market, the climate, and the appetite changes, and you're right. We need to not be competing with other insurance agencies; we need to be helping those who cannot get insurance otherwise. They need to pay an actuarially sound rate for that. Being on the board for seven years now, I've seen us move from depop to depop, and I'm proud of the staff the way they see it. I am proud of the board of the way they respond, and I think we're going to have a good healthy conversation today about how to respond with the changes we see coming down the pike. Thanks.

Chair Beruff: Thank you very much. Next?

Scott Thomas: Mr. Chair, this is Scott Thomas. If you can hear me, first I want to say, "Hello." It's a pleasure to meet everyone in person, or this is not in person but, through Zoom. This is my first meeting since CFO Patronis was kind enough to entrust this kind of responsibility. I appreciate this opportunity to work with everyone here. It's a great group of talent. One of the reasons I was interested and willing to accept this is precisely, Mr. Chairman, is because I agree with your comments. It seems to me in a macro sense that the way to minimize the burden on the taxpayers to ensure that we operate consistent with that original mission that we are the insurer of last resort, we're to fill a hole that's in the market, we're not a market participant in that sense. So, in addition to saying hello, I want to affirm for you that I do support your comments both in terms of the burden as well as the service we need to provide to our policyholders. So, I look forward to working with everyone.

Chair Beruff: Thank you.

Lazaro Fields: Mr. Chairman, this is Governor Fields. I wanted to just very quickly echo Governor Thomas' comments and everybody else who has spoken before me. I couldn't agree more with your comments, Mr. Chairman, as to what our mission should be. Obviously seeing some of the numbers in terms of populating in the number policyholders that were taken on – it seems that there is an uptick. I think my obligations with you all are to see if we can bring that trend down. So, with that, I'll turn it back over to you, Mr. Chairman. Thank you very much, and I look forward to serving with you all.

Chair Beruff: Thank you. Governor Dunbar? Governor Lopez-Cantera? Any comments?

Vice Chair Lopez-Cantera: I'll go after Governor Dunbar. Thank you, Mr. Chair.

Chair Beruff: He is sitting right here. I could touch him. [laughter]

Marc Dunbar: I'm just waiting for him to smack me. [laughter] I absolutely agree with the statements. Over the last three years or so that I've been on the board one of the things that has been worrisome to me is watching re-pop cycling, and unfortunately watching the way the Florida legislature has ignored some of our request to try and do some things that could help the private market be able to compete frankly. And so, I'm hopeful the legislature will look at some of the recommendations that will come out of this meeting and at other meetings. I hope that they will listen to some of the things that Barry [Gilway] has been testifying about the last couple years; the things the marketplace needs. I know that David Altmaier has been making a lot of suggestions; and, I view our role as both trying to maintain our standing as an insurer of last resort, meaning we don't compete with the private marketplace, and part of that in addition to making sure we have actuarially sound rates, is also making sure we do everything we can looking after the surplus we have, because if we aren't able to protect and maintain that surplus in the event that a couple of storms hit, we are going to be in the assessment situation. So, something in particular I'll point out for the new board members is staff has done a very good job on putting us in a position to where we have a surplus that can, I believe, survive a 1-in-100 and 1-in-40 (Barry, is that right?) and doing what we can to look after the surplus. That also means as we adopt this budget for this coming year, I would remind all the board members our duty as a fiduciary toward those funds. And, so we should be hawkish of watching the bottom line and the way we spend money and doing what we can looking at the operating dollars as well as the surplus because if we are not able to maintain it, we will be in a difficult situation, and more importantly, we are going to trigger the assessments. Those would be my comments, Mr. Chair.

Chair Beruff: Thank you very much.

Vice Chair Lopez-Cantera: I want to start first by welcoming Governor Thomas and Governor Fields to the board. I only see one of you, but I know Lazaro from before. Welcome to the board. It's sometimes hard work. Sometimes we have fun, and sometimes, we don't have fun. We might experience all of that today. I think I'm the only one on the board who was actually in the legislature, and voted on the statute that created the glide path many years ago. I don't want the board to ever lose sight we are a statutorily created entity, and though we may be more engaged on the issue on a day-to-day basis because of our responsibilities that have been entrusted to us by our appointing officials, the legislature still has the ability to make the changes that they see fit, and sometimes we may agree with it or disagree with it. All we can do is our very best to communicate that to the legislative leaders making the decision. I think this makes it a year that I've been on the board, and I've enjoyed the time I've been on the board. I do not ever forget that it is the citizens of the state of Florida who we are ultimately responsible to and I think it is our job to do whatever we can from a policy perspective in what we can control, to continue to depopulate Citizens and push as many policies into the free market as possible. Because we are a quasi-political organization, you can never take politics out of the process. So, you should never lose sight of that – we are a quasi-public entity and we are not a private insurance company. And with that, I want to congratulate Carlos Beruff on his appointment as chairman. It's all your fault now. [laughter]

Chair Beruff: It's either congratulations or condolences, depending on who is talking to me. [laughter] Thank you very much. So, to wrap up, I think we have a consensus among the members that our first primary mission is to never become a burden to the Florida taxpayers. Our second thing is to be able to deliver and honor the policies that we write in a complete and a quick manner to service our policyholders. To that end, this company has been incredibly well-managed by a very talented staff that is unfortunately trying to run a company where their hands are tied and so are their legs. Pretty hard to swim in that environment – some of it is the Office of Insurance Regulation (OIR) issues. We are going to hope that this board supports our efforts to talk to them over the next month, and that's why I've requested a meeting on January 26th to see how those conversations go. As I see it, and I'm going to make comments that I want you to say, "Carlos, you're wrong because I've been here for two years, three years," or in Bette's case "seven years" . . . and, I'm sorry, governor, I want to be respectful of everyone, I want everyone to please call me "Carlos." I like to be pretty informal. We're a group of people trying to do the right thing for the citizens. So, my perspective is that if we don't get some relief from the OIR, in addition to that, we're going to have to come up with a legislative agenda, which I'm sure you all know what that is. There is litigation that runs our costs up. Everyone on this phone call understands that we are operationally deficit. We don't make money on operations. That's clear and Mr. Gilway will expand on that thought in a little bit. The only reason we make money is because we make money on a $6.3B worth of cash that we've been able to accumulate. I don't think it's prudent to run any organization on good luck. It's a business plan that will eventually fail you. The other insurance companies in Florida – we've become the 800 lb. gorilla. We have more money and collected more surplus than all the other insurance companies in Florida. That is not what we were supposed to do. But, it's happened. So how do we get back to where Mr. Gilway drove down this business down to about 420,000 policies? That was a completely manageable amount that didn't wipe us out and that was impossible to ever go into our surplus or go into our reinsurance requirements to cause any harm to the taxpayers. What I see and what Mr. Donovan has shared with us is a graph for 2021 takes us somewhere north of 630,000 policies where we were 420,000 policies two years ago. His other chart shows us going as high as 700,000. I happen to think because I happen to be in one of the industries that affect our policies that it's going to be closer to 700,000 because we're having an incredible phenomenon in the housing business across the state because everybody's leaving wherever it was that they didn't like to be at because of the COVID experience we've all shared. So, if you populate to 700,000, Mr. Gilway will share with you what happens if we have some bad luck. I'd like to go ahead at this point and make a couple comments about the fact that, you know, we are in 91% of the circumstances, our insurance rates are cheaper than everybody else. That just doesn't make any sense. Because we're so well-funded and financially solvent, we should be charging a premium for people to buy insurance from us because they know we're going to cover their claims. Instead, we are 30% below instead of 10 or 15% above. I understand why that is happening – a lack of capacity in the insurance market partially caused by the fact of the legislature has put very difficult circumstances on what can be litigated and what can't be litigated. So hopefully, this group of people will have some impact because I don't think the legislature wants to be responsible for Florida citizens being unfairly taxed at some point because we have not run this business correctly and made it what it should be, which is the insurer of last resort. So with that, I think I'll turn over the podium to Mr. Gilway. He's going to walk us through a few details and then we'll get into the meat of the meeting and what we have – the action items we have today. Thank you.

3. <u>President's Report</u>

<u>Industry Overview</u>

Barry Gilway: Thank you, Mr. Chairman. [silence 20:00]

Bette Brown: I cannot hear Barry.

Barry Gilway: Excuse me. Thank you. I forgot the button.

Bette Brown: Okay good. I thought it was me.

Barry Gilway: Thank you so much. What the Chairman has asked me to do is take a look at two scenarios relative to surplus. Back in 2012, we were writing about $3.2 billion worth of premium; however, if we would have had a 1-in-100 storm at that time, we would have had an assessment load of $11.6 billion, so 3.5x the level of premium that we were writing. What the chairman asked me to do is just give you a quick look at what would happen from the surplus standpoint if we had one or two storms over a several year period and what the impact on surplus would be, because obviously the primary objective is to accomplish what we accomplished in 2015 which was to eliminate the potential for assessments completely. So, on the slide that you have in front of you (and I believe for those calling in it is on the website 04Dc is the number) so basically what we have here is simply a 600,000 policies example showing the three different accounts and the number of policies that we have in each account adding up to 600,000 policies. Today, as Governor Dunbar indicated, we're right around $6.5B in surplus, which makes us clearly the strongest company financially in the industry. So, what happens if we have a major storm? By the first storm we have here . . . and by the way, not unlikely . . . while we are referencing something similar to [Hurricane] Irma, if we would have had a CAT 5 storm such as

[Hurricane] Dorian and if Dorian would have continued from the Bahamas and taken the path that was originally anticipated (which means it crosses Miami and then really heads out to the West Coast and goes up the West Coast) what's the impact? Well, the first storm, we would be putting . . . we will be exposing about 54% of the total surplus in the three accounts and, in those scenarios, we would not have an assessment. There would be zero assessment. However, within a few years, given that we're only adding . . . next year, I think the projection is that we add $46M to surplus. Assuming we're adding at that level, if we had a second storm – just a CAT 4 storm – then we deplete surplus and our assessment load even after the second storm becomes $3.87B. So, we have assessments both in the Coastal and the Personal Lines Account (PLA). The second slide really gets concerning in that this is an example of what occurs at the 700,000 policy level, and I would agree with the chairman (our market analytics people do believe that given the current pace, a realistic numbers in the 690,000 to 700,000 policy range unless there are changes in the market conditions). So, under that scenario, again same storms, CAT 5 initially we actually, even on the first storm would have a slight assessment load in the PLA ($37M). But, overall, over three accounts, assuming we could combine accounts, we would have no major assessment. However, the second storm, what this is showing basically is that the same scenario there's significant assessments both in the Coastal Account and in the PLA. We would end up with close to $6B worth of assessments with the second storm. I do want to point out that these storms don't have to be concurrent. I mean that this is not a two [storms] in one year [scenario]; it literally [could be] storms that would occur over a two, three, or four year period. We really skated [by] with Dorian. That storm, particularly for Citizens, going across Miami, I think, the Tri-County alone we would have had over 275,000 losses even after the current, you know, level. Now, of course, we're down to 420,000, and we've dropped down from $512B in exposure down to initially down to $108B. We're already up to $137B-$138B with exposure, so that is changing. That is the first example that I have. Mr. Chairman, I can continue with my . . . unless there are no question, I can continue with my overview or I'll turn it back to you, sir.

Chair Beruff: Thank you, Mr. Gilway. I would like to add one comment, which is obvious to all the people on this call in this meeting. These charts do not take into consideration the very high likelihood that the insurance industry – many of them are in a precarious financial position and more than likely . . . one or multiple insurance companies will fail, which we will have to add and take care of. These numbers do not reflect any of that. So, what you're talking about could turn $5.7B into $11B, $12B, or $15B, so the effect is not only to the rate payers but to the tax rating of the state of Florida in general. So, unfortunately, though I would've enjoyed being on the board back in 2015 when things were really nice and simple, due to circumstances outside of our control, we are growing at a precariously dangerous rate; and, I'm not an alarmist. It's just look at the chart. The chart speaks for itself. Anybody can see it, so I want to take action now because the legislative season is around the corner; and the other thing I learned is that anything we do takes 18 to 24 months that has any significant impact on the insurance industry in general and on our business as the rates go into effect in August and then it takes 12 months for all the policies to circulate. So, we can't blow another season by not doing something and that's why I respectfully request everybody to be available on January 26th to have a follow up meeting depending on the whole success . . . my hope that the staff will be successful in multiple discussions they plan on having with OIR in that timeframe. So, Mr. Gilway, go back to you and go to your agenda.

Marc Dunbar: Can I ask a quick question?

Chair Beruff: Of course.

Marc Dunbar: So, Barry, take us through a scenario. If I wanted to set up an insurance company to take out from us . . . so say the legislature passes something spectacular that all of a sudden the investor says, "Okay, we'll invest in a Florida insurance company. We'll takeout policies from Citizens. From the moment, (just "crystal ball it") that decision is made, the OIR filings are made to set the insurance company, they approach us from a takeout standpoint, best case scenario, let's say something passes, let's say July 1, how long does it take for a takeout cycle to occur for it to actually hit us in a meaningful way to further protect our surplus and get it out of the "Oh my gosh! We have 600,000; 700,000; 800,000 policies."

Barry Gilway: Great question and the answer is a positive one because the impact is almost immediate because the way the depopulation process works. . . a company would approach the OIR. They present their financials that indicate that "we want to accept x-number of policies with x-number of premium." OIR would opine in terms of whether they have the financial viability to accept those customers. An assumption agreement, you know, is signed. Once that assumption agreement is signed, the exposure, both the unearned premium and the exposure, shift directly, you know, to that company. The Depopulation Program was so extremely successful, and I'll be commenting on that, during the time when there's a lot of capital in the marketplace and a lot of profitability, but that's why we saw such extreme improvement over such a short period of time. Heritage alone, as an example, picked up 250,000 customers. Our assumption agreement makes it so easy for companies to pick up business. I think some of the major changes . . . Jennifer [Montero] changed the system several years back to eliminate any ceding commission which basically would a company not only be able to pick up business, but we, from the assumption date to the end of the individual policy terms, we would service that business. There's no charge for picking up that business. As a business person, if someone offered me…here's free policies with no acquisition costs – and Florida Association of Insurance Agents (FAIA) would tell you that it takes five years for a typical agent to recoup the acquisition costs from an individual policy. So, the deal that we're offering even today under depopulation is considerable, and if we can get capital into the marketplace and if we can get the depop program going, then there could be very rapid improvement.

Marc Dunbar: So, can I ask a follow up?

Chair Beruff: Please.

Marc Dunbar: As sort of a leading question because knowing that, if the Florida legislature passes some reasonable reforms, it's likely that we can stem the tide on this re-population wave in a year or so… or in a storm season or so. We're stuck for this storm season basically. The market is what the market is. The legislature passes something and it goes in place July 1st. Investors look at it. Everybody and the reinsurance companies are able to look at it and say, "Okay. Yeah. Now the market softens and we can go through." This time next year we could have some of these policies returning back to the private markets if the legislature passes some reforms during this legislative session, right?

Barry Gilway: I would agree, Governor Dunbar. I think the impact . . . it all really relates to the overall profitability of the market and the accessibility to capital. Assuming there is capital, as there was in

2013, 2014, and 2015, you know, very clearly companies would be foolish not to jump in, and, you know, and accept policies. Frankly, they have their choice. I had discussions with the chairman already, and we're sitting here today with 532,000, I think, as of last week, you know, policies, but we have 18,000 policies under the brand new homes. We have another 180,000, you know, which are with roofs that are less than 20 years old and in good shape that should be writeable in the market. That's 200,000 policies that frankly . . . with reasonable capital for a company and with reasonable profitability, it's sitting there in the market for them to take. It's a matter of capital, to your point, getting the confidence through legislative action, I think, that companies can make a sustainable profit.

Marc Dunbar: The reason why I ask these questions for this foundation was for my fellow board members is that we have to communicate with our appointing principals. I know that the CFO is down at the Insurance Summit. He's been banging the drum for a number of months. I know that he's talked to the chairman about this issue. I know that he's talked to the Governor about it. But in reality, we need legislative leaders to take a hard and serious look at it. We have four members of the board that are appointed by the Senate President and the Speaker of the House. We have three members who are appointed by the Governor. It's really time for us to raise our voices to our appointing principals to try and get them to pay attention to this and make it a priority. This is something the Governor should incorporate in the State of the State and should put the weight to his office behind it to try and urge the legislature, but we have a new Speaker. We have a new Senate President. I would ask those that are on the Board of Governors that are appointed by the Senate President and House Speaker, particularly those with legislative experience, like Governor Lopez-Cantera and Governor Fields, to really try and raise your voices to those leaders to encourage them to pass some reasonable legislation. It's not just about what's happening in litigation issues and things like that. It is also about giving Altmaier some of the tools he's been looking for to make sure that money isn't leaking out of the top-end of the insurance companies as well as the litigation side. For whatever that's worth, I hope you guys will engage your appointing principals on the need for some legislative reforms.

Barry Gilway: Thank you, Governor Dunbar. I'll try to make this as brief as I can, but today, I thought it would be worthwhile to really focus on the underlying issue that really is the basis for virtually all of our discussions in the board meeting – today, it's about the Florida insurance market profitability and the market has severe profitability problems. Barbara, can you put that first slide up for me, please? The Florida property market was highly profitable in 2013, 2014, and 2015 as indicated on this slide. It was very profitable. It had combined ratios in the low 80s, and obviously during this scenario, as Governor Dunbar indicated, this was all about capital and excess capital frankly in the marketplace and deploying that capital. We became an excellent source of business on a very reasonable economic basis and we saw massive depopulation taking place during these periods of profitability. As I've indicated to the chairman, you know, from that point on, we've been relatively flat. You know, we've gone from 440,000 to 450,000 policy range, which, by the way, on a market share basis relatively consistent with some of the major residual market plans across the country. That is indicated, by the way, in the Florida State University (FSU) report that we'll talk about later. Things changed in 2016, and the market turned unprofitable. What is happening today? You know, given the unprofitability, companies are reeling. They are raising rates, and some of the numbers that you see are staggering, which, of course, is putting us in a more difficult situation. Even more importantly, they are restricting policy coverages. When they restrict policy coverages, it literally makes Citizens, even though we have some criteria within our policy forms, frankly that are somewhat restrictive from a water damage standpoint . . . then the more restrictive the policies get in the marketplace then the more opportunistic it is for people to come to Citizens. And, as I think we've all known, the vast majority of the large companies have withdrawn from the large geographical areas. If they haven't withdrawn, then they've reduced capacity significantly in the market. So, when you have unprofitability, in order to maintain, just the same level of writing obviously if you lose money then you have to supplement that money with additional surplus, with additional capital . . . so the struggle now with many Florida domestic companies is that the replenishment of appropriate capital in order to make the statutory obligations in order just to write what they're writing today. So, the first slide basically shows 2013 through 2015 as very unprofitable and then really going downhill from there, getting worse every single year. Then, of course, we were all shocked at the magnitude of the third quarter numbers showing $727M negative net income and a $1.62B underwriting loss within the industry. Under slide two, the only point I'm making here, and obviously we do not identify specific companies, but these are five of the largest companies in the Florida market place. The only point I'm making here is this is consistent across the market. This doesn't speak to management in any specific company. This is very, very consistent. I did take a look at the S&P numbers and literally in the third quarter, there were five companies out of the 63 companies that are covered in that S&P report that had any positive net income and nine companies that posted a $90M loss or higher. The issues for the companies were not different: storm losses; loss reserve development; social inflation is now a common word we're hearing (increase in severity and frequency of losses; the propensity of customers to put in claims). To put these losses into perspective, the total direct premium for the entire market is $10.8B. When you start talking about a $1.26B operating loss in nine months against a base of $10.8B, you can see the impact. Later, from Dr. Nicholson, you'll be hearing more about the surplus premium ratios and what is happening in the overall Florida market regarding premium surplus ratios and obviously some companies, as Chairman Beruff indicated, declining, you know, solvency of some companies in the overall market. Bottom line is when companies are high earning profitable – they wanted more and we were the perfect choice with the Depopulation Program and with the newly created Clearinghouse. We dropped 1.5 million [polices] and almost an absurd 23% of the market to 420,000 [policies] or 4% of the market. We're already up to 5% of the market. By the end of next year, we'll be well over 6%, you know, of the market. As indicated on slide three, Barbara . . . .

Will Kastroll: Barry, it's Governor Kastroll. May I interrupt you for a second?

Barry Gilway: Yes, sir?

Will Kastroll: I think it'll let you catch your breath, also. [laughter] One thing I wanted to add is that on the slide before – it did mention companies (I won't mention the company), but there is one company on there in that top five list that has recently been downgraded by AM Best from A- to I think it was a B or B-, and for those folks that aren't as familiar with the insurance industry, if you're thinking a B- in college or in high school or grade school is a good score (which in my case it was), a B- in the insurance score is a terrible score. It's an indication that there are very stormy seas ahead, very stormy seas. This happened before with a company that we can mention called Poe where they were AM Best A and all of the sudden, overnight, downgraded to B-, and then they went insolvent. And, I don't know how many policies Citizens picked up, but I think it was 100,000+ from that. There is small indication on this list of a major company in the state in Florida that gets downgraded by AM Best which is very, very alarming. So, I just wanted to add that to your presentation, Barry. Thank you.

Barry Gilway: Thank you, Governor Kastroll. For those who are not familiar, every company operating in Florida is rated today either by AM Best, and frankly, I believe there are six or seven companies that have the financial strength to even be rated by AM Best. The balance is rated my Demotech, and Demotech really has a different formula and are very, very successful in terms of their rating methodologies associated with the marketplace. But they need an A Demotech rating or a B or better AM Best rating in order to maintain their Financial Strength Rating (FSR), which is required in order to write any federally backed – any home with a federally backed mortgage. The downgrading of companies can be just as dramatic as the solvency issues as Chairman Beruff referred to. What we look at very, very closely is how . . . and it's not our job to do a financial analysis on the industry, but we look very, very closely at the financials of each company obviously because the more profitable the companies the better the target they are for us in convincing them to take, you know, more of our business. But, I agree with Governor Kastroll. That was a concerning, you know, announcement. It was a very well established large company that AM Best announced a downgrade. I do believe they retain their FSR rating at this point given that the requirements for AM Best are A or B. If we take a look at the next slide, Barbara: this just simply shows the depopulation policy count trend. The bottom line is that depopulation today given the lack of capacity in the marketplace has come to a screeching halt. Not only depopulation but companies that are participating in the Clearinghouse process where every policy is quoted by participating companies, and I believe, Kelly, it's 11 companies that potentially participate in the Clearinghouse program today. As a result, we're literally picking up (on the next slide, Barbara), about 3,000 net new customers per week. That's dramatic simply because we mentioned yesterday – or Chairman Kastroll mentioned yesterday in the Actuarial and Underwriting Committee (A&U) meeting yesterday – that our retention is 91%. So, we're not losing customers; they're not leaving us, and then, of course, we increase our new business from something like 7,000 to 17,000, you know, over a 12 month period. I'm going to skip the next section. I do refer to in the board books a couple of articles that I think might be interesting. They really refer to what Governor Dunbar was talking about and it addresses some of the areas that might be considered by the legislature . . . addressed by the legislature. Two articles, one by Scott Johnson in *Johnson Strategies* and another by the *Sun Sentinel* that I think are pretty educational in terms of what's going on in the marketplace. So Citizens will be looking for every option to continue to contain the exposure and then reduce the exposure. I have recommended to Chairman Beruff that there is a ton of ideas out there. Some of them will be presented within the FSU study. Some of them, I think, we can repeat history because, as we talked last night Mr. Chairman, we did have a very effective Depopulation Committee during the heyday of depopulation that really supported . . . we have presentations from some companies that really supported, you know, building a company from scratch based upon depopulation. There's some interesting ideas along those lines, but the approach that we would propose is that we do really emphasize the Depopulation Committee so that we're looking at every single area and, you know, we have a committee of the board that is really helping us a lot with which area would be the most effective to pursue with the greatest impact in the shortest period of time. On the litigation front, I do want to – if you can throw this out in front – Brian Donovan will be going into this in much more detail. Governor Lopez-Cantera asked for some information on litigation. This is not in response to this. Brian will be going into significantly more detail relative to the appraisal program across the entire book. But I do want to point something out here, and that is Jay Adams, Dan Sumner, Elaina Paskalakis and Steven Woods and their teams – they have done a truly amazing job reducing the number of claims that go into litigation. You can take a look at 3.5 years ago. Jay really started reinforcing way ahead of the industry, in my opinion. It doesn't really enforcing the appraisal program, which, of course, limits, to a large extent, litigation. Then, we have the advantage basically of House Bill (HS) 7065, and very clearly, you'll see from Brian's numbers it had, you know, a really incredible impact. Then managed repair . . . I appreciate Governor Holton's comments on the Managed Repair Program. While there are several examples of managed repair across the industry, I agree with Governor Holton's comments in a prior committee meeting. There are very few that are as effective as Citizens in terms of limiting litigation, you know, of following, you know, the implementation of the permanent repair section of the Managed Repair Program. So, I do want to compliment, you know, that team. Assignment of Benefits (AOB) is a good example. We just didn't implement the AOB Program. Jay basically took the AOB Program and created an organization in response to that. We've taken advantage of just about every aspect of the opportunities. This is the result. It's pretty staggering. If you take a look at the total cost of litigation, just three years ago, Brian, it was 52% – water damage claims going into litigation? I think your estimate this year, if I remember correctly, is 21% roughly. So, if you take a look at the difference between a litigated and non-litigation cases ($40,000 versus the $10,000) and then you apply it (and, by the way, this is very conservative; this is using a $10,000 claims number; I believe our number for next year estimated is $12,500 in that range); this is understated. But, $91M to $92M impact on reduced litigation . . . and frankly, that's a staggering number. The number Brian will present later is even more dramatic in my opinion. That's the overall view. We will be asking you for support for a budget that will be essential to provide extra policyholder support and claims service. I appreciate Governor Kastroll's comments yesterday in the meeting relative to our service. I do believe we have an exceptional reputation not only for policyholder service, but also for claims and claims management services. So, you know, we're presenting a budget. I do want to point out before we get into any budget discussion that we do not do a general year-over-year budget. We do a ground up budget. We have transaction-based models, you know, that literally tie-in the number of staff to the number of transactions in specific areas. So, it is a very sophisticated budget process, and I think Jennifer [Montero] and Andrew [Woodward] do a phenomenal job working with all the divisions in putting that together. But, I also want to comment on Governor Kastroll's point and that is, you know, we need to deliver good service. It doesn't matter whether we're a residual market or not. If you pay a premium, you're buying service. You're buying claims response. You're buying policyholder response. The reality is that every day we compete for talent, and we compete the talent in the private marketplace. We have to consider that basically when we're, you know, when we're providing you with staffing. Retention, by the way, has been excellent. The entire industry retention, by the way, employee retention and voluntary turnover has dropped like a rock obviously. We have gone from a high in 2012 from a 14% turnover, which was really a revolving door, down to the 7% level, which, I think, we should all be proud of. What's our bottom line? I can repeat some of the things that Chairman Beruff said. Citizens' rates are ridiculously high [misstated and corrected on the following comments]. We're competitive 91% of the time.

Chair Beruff: I think you wanted to say, "Ridiculously low."

Barry Gilway: I'm sorry?

Chair Beruff: I think you wanted to say, "Ridiculously low."

Barry Gilway: Oh.

Chair Beruff: Our insurance rates are ridiculously low.

Barry Gilway. Oh. Excuse me. Our insurance rates are ridiculously low. [laughter] Sorry. We're extremely low 91% of the time. Thank you. 91% of the time we're the most competitive company. Overall, we are 22% below the market. On a third of the parties, we're well over 30% below the market, and unfortunately, with all of the market upheaval taking place because of the overall profitability restrictions on geography, rate increases are going through the roof. Policy form changes are more restrictive than Citizens. It's just going to get worse because we are becoming more and more and more of a viable, you know, a candidate. As the market hardens, people are going to come more and more to Citizens and look for the opportunity, and that's why, I think, I agree with everything the board is saying, particularly with the opening statements of the chairman. We've got to do something. We got to do it and we got to do it quickly to have an impact. So, with that, Mr. Chairman, if there are no questions, we can move to the budget discussion.

James: I have one quick question, Jim Holton.

James Holton: Barry, thank you so much for those comments. The one thing I wanted to add to it, and it should be obvious on its face but to just to drive the point home for point of perspective, because of all the things in the private sector that are going on with Citizens' non-competitiveness, the 128% combined ratio . . . this is making it very difficult if not impossible for either startup companies or existing Florida domestic companies to raise capital needed to acquire new policies to expand their business. I know personally of several companies that have gone to Wall Street for either debt or equity and have been turned down wholesale, meaning that they are having to dip into their reserves which are getting even more and more cascading effect on them potentially spiraling to a dangerous level of a possible insolvency. So, we are seeing a perfect storm of a financial insurance crisis in the state, and indeed, in the entire Gulf State's region. I think we all have to be aware that as we deliberate and move forward and think what Citizens can do to ameliorate that situation. Thank you.

Barry Gilway: Any other questions for me before I turn it over to Jennifer Montero for the budget discussion?

<u>2021 Operating Budget</u>

Jennifer Montero: The document is on the screen, and it is also in the tab right behind Barry's President's Report. If you'll turn to slide one . . . the 2021 direct written premium is projected to be just under $1.4B and the policies in force (PIF) at year are expected to be more than 630,000, which is almost 100,000 more than in the projected year end 2020 PIF. We used two models to project the premium baseline model looks at the new policy count and renewal rate stay at the August 2020 levels through mid-2021 and then revert to the pre-COVID levels from March 2020. The growth model assumes new policy counts continue to grow in 2020 and stay at those levels throughout 2021, and the renewal rates remain high throughout 2021. The projection premium and policy counts were assigned a weight of 75% to the baseline model and 25% to the growth model. Slide three: Losses in loss expense ratios are expected to remain constant. The 2021 loss adjustment ratio (LAE) is projected to be 54.3% as compared to year end 2020 at 53.8%. The budget excludes catastrophes; therefore, we have not included any provisions for development on losses in LAE on prior year storms. Certain costs that were postponed in 2020 due to COVID may shift into 2021. Slide four, please: placeholders are used in the budget for private reinsurance due to the uncertainty of market conditions when we enter the market. A special board teleconference is usually held during the second quarter for the board to approve the reinsurance spend. The reinsurance placeholders included in the operating budget are $60M for the PLA and $150M for the Coastal Account. The private reinsurance includes both the traditional markets and the capital markets risk transfer. A yield of 2.3% on invested assets was budgeted for 2021. This is equal to the weighted portfolio income yield from October to December 2020. The rates are assumed to remain stable and the budget does not contemplate any potential realized gains. The interest expense considers the maturity of the $160M of the Series 2012A-1 PLA pre-event bonds in June 2021 and assumes no additional pre-event issuances or early redemption in 2021. Slide five, please: the expense ratio is equal to the underwriting and administrative expenses divided by direct written premium; therefore, Citizens grows, the direct written premium increases, and expense ratio decreases. Whereas, Citizens' policy count decreases and the direct written premium decreases, the expense ratio increases. Slide six, please: so, as you can see on slide six, when Citizens is large like it was in 2013 with over one million policies the expense ratio was lower at 16.7%. But, when Citizens is smaller like when it was in 2017 with only 440,000 policies, the expense ratio was higher at 25.3%. However, even with the expense ratio at 25.3%, Citizens was lower than the average private market expense ratio of 25.4%. As Citizens begins to grow again, the expense ratio is trending down and is expected to be at 20% at year-end 2021. Slide seven, please: the dark blue bars represent the underwriting expense and the light blue bars represent the administrative expenses. The direct written premiums are represented by the horizontal dash line. The underwriting expenses are variable and tend to increase and decrease with direct written premium. As the direct written premium declines, so do the underwriting expenses. Whereas the light blue bars are stable (or fixed costs) and do not tend to increase and decrease as much with regard to direct written premium. Slide eight, please: the major components of the budgeted administrative and other underwriting expenses are employee costs (which are 52%), contingent staffing (22%), software maintenance and licensing (7%), and other underwriting expenses (6%). Final slide, please: this is the 2021 budgeted income statement. It ties all the prior slides together and results in the consolidated 2021 net income of almost $46.9M. I'll pause for any questions before we read the action item to approve the 2021 Operating Budget.

Chair Beruff: Any questions or comments from the board? Go ahead, Mr. Dunbar.

Marc Dunbar: Okay. Just a couple questions. So, we're going to adopt the budget and that's going to set us in place for the next calendar year basically, right? Okay. So, from an administrative expense and plan, I'm talking about overhead inside the corporation to run just the staff and everything, what percentage of sort of fluff do we build in for additional hires that we may need I know we have contingent staffing but I'm talking about vacant positions and things like that. Can you can you give an estimate? I don't know necessarily which direction to ask – if it's Barry, Jennifer, or Violet. I know we have a certain number of vacant positions. I'm just trying to understand how much salary we have that is not on a warm body right now in the budget.

Jennifer Montero: There were only a few positions added to the budget this year. We've increased in the operating area – in Kelly's area – and if we do start to depopulate, we do expect to use natural attrition to come back down. We try to stay at the best place we can, and Kelly can speak to this, but right now she's kind of "robbing Peter to pay Paul" with her staff. She's taking people in certain areas to fill other areas, and then she has deficiencies in those areas. I don't think it was very many headcount.

Kelly Booten: No, it wasn't. Most of the contraction and expansion when we increase our PIF that we have, we do with outsourcing to vendors. As far as staff goes, because of the heavy lift in PIF, we've rearranged resources internally and have added six resources in 2021 to try to stay afloat of the projected increases in PIF. That is pretty low. Jeremy [Pope] also in the Call Center has I'm going to say eight or nine (and Jeremy can speak up as well because they take the first notice of loss, all the calls for the consumer . . . all of those things) . . . but, as far as vacancies, and I'm just speaking for Enterprise Operations which has a lot (and Claims is the other one that can have a lot of vacancies) . . . it's in the IT area where we have the most turnover; however, due to COVID and some of the changes we've made in being able to recruit people that might not be in the Jacksonville area, our turnover rate is lower than normal. And right now I'm going to guess there is probably about 10 vacancies. We used to run about 10% all the time; we'd fill and then another one would go. They're necessary positions.

Jennifer Montero: I got the numbers from Andrew Woodward. Thank you, Andrew. We had a total of 22 new positions added. Six were in Kelly's area, eight were in Jeremy's, and the rest were throughout the company at a total of $1.7M salary for the 22 with an average salary of $77,000.

Marc Dunbar: So, we have about $1.2M in salary to play with that are allocated to positions that aren't necessary filled. Now during the course of the year, how much do we typically hit that when we're moving people in and out? When we when we get to the end, do we spend $500K of that usually? $400K? Or, does $1.2M stay unallocated essentially inside the budget?

Jennifer Montero: It's $1.7M. Sorry.

Kelly Booten: I would also add that there is a factor that's applied to the IT area . . . .

Jennifer Montero: . . . yours is higher. There is a turnover factor applied to every area that counts so there is not fluff in there for salary.

Marc Dunbar: That's what I figured. Let me tell you why I'm asking. I don't want to alarm anyone by what I'm about to say. I want everybody to understand where I'm coming from. We're setting the budget for the year. I want to know whether or not we have the salary capacity to potentially add an Executive Leadership Team (ELT) position, and this is where I'm coming from. I talked to Barry about this and I talked to the CFO about this. We are at a place where as a corporation we are entering into a difficult cycle. I think we all acknowledge that, right? We have a succession plan in place for Barry that he has done a really good job communicating to the board in terms of what, you know, he has done to prepare us in the event we need to go through a successor. This board doesn't have the luxury of hiring a CEO because the CEO… Well, we do, but we have to get them confirmed by the Senate; and so, the mechanics of the last time around were very clunky because Barry was not a known commodity. It was a very long and difficult search and, of course, we had to go through (I wasn't on the board, of course) but we went through a hiring process and then rolled the dice on Senate confirmation. I think the board should consider (and I've done a lot of research reading management articles and things like that on organizations with complicated governance structures) of bringing in essentially what I would call a head coach in waiting at some point. This is not a tomorrow thing, so that person can train under the CEO for an indeterminate period of time. So, it's a known commodity to move through what is a complex approval process, which is what we have. So, what I would like to recommend is that we have sufficient budget capacity at some point in the future probably this year to consider the process of naming a head coach in waiting. They can train under Barry for an extended period of time and be a known commodity to the board, and more importantly, to the Senate when we as the board say, “Yes, we feel like we made the right selection. Now we're going to submit the person for Senate confirmation” if and when Barry decides it’s time. So, Mr. Chairman I wanted to raise it up because we know what the budget allocation is for Dan [Sumner’s] replacement. We know what Barry makes. We know that this is not an inconsequential budget amount. It’s for us to make sure we have a salary flexibility and consider, you know, during this year to go through essentially that process of looking at a head coach in waiting.

Will Kastroll: May I say something?

Chair Beruff: Who is speaking?

Marc Dunbar: Governor Kastroll.

Chair Beruff: Yes, please, Governor Kastroll. Before you start, can I ask Jennifer to put the last slide up because there are a couple numbers in there that I want to have available to discuss as to the comment that Governor Dunbar made, but, yes, you have the floor, Mr. Kastroll.

Will Kastroll: Thank you so much. So, we went through this I think two board meetings ago where we asked Barry to update the succession plan, which I think is a very smart thing to do for a company of our size and it was already updated. It just needed to be finely tweaked. We did that two board meetings ago, and in that, there is not just a head coach but head *coaches* [emphasis added] in waiting that were nominated. So, that's in there already. So, that’s my first comment. My second comment is I don't think this is helpful to continue talking about Barry's replacement when we already have a succession plan in place. It sends many mixed messages to employees at Citizens over leadership, and I’ve talked to employees at Citizens as I’m chair of two committees. And, as we continue to talk about this at the board level, they wonder, “Is Barry leaving?” And, I have not heard any indications that Barry is interested in retiring – and I could be wrong because I’m not involved with Human Resources, but I think if Barry were to decide to leave, he would go ahead and notify us and give us plenty of time. In event that he doesn’t, if something were to happen, we have that succession plan in place. So I think we need, in my opinion, bury this concept because it's not helpful to our organization, especially since we have a succession plan in place. All my opinion. Thank you.

Chair Beruff: Governor Brown, please.

Bette Brown: I agree, and I think Governor Kastroll said it well. I think we’ve beat this dead horse, and I think we have a plan. I understand where the comment comes from, but I still feel like we've . . . where Governor Dunbar is coming from, but I feel that we have a succession plan. We have several internal candidates, for lack of a better word, that I think have potential. And, I do agree. Barry leads well. His team leads well. We haven’t heard anything to indicate that Barry wants to retire anytime soon, and I would agree with Will. I think we can move on from that and focus on the issue at hand, which will be rates and making sure we're actuarially sound and not the cheapest guy on the block.

Chairman Beruff: I'd like to interject. Maybe I'm going to do something I shouldn't do because I was not involved in these previous discussions about succession planning and so forth. Governor Dunbar, I think, and if I'm not reading you right… as we do a budget once a year and you just want to make sure the succession plan that's been previously discussed is allocated for in the budget. Am I wrong about that?

Marc Dunbar: No. But, to amend that just real quick. This is the first time I brought this up. I mean Barry and I have lots of discussions over the years that have not happened at board meetings, and I think Barry understands fully where I'm coming on this. The succession plan update was not really ever discussed at the board meeting to the best of my knowledge. I appreciate that Barry has done the work not just for his position and Violet but for all of the ELT positions that there are succession plans in place, which is one of the reasons why the organization is run so well. But, when I first got on the board, the succession plan as I recall when Barry described it had three candidates on it. One of them is gone. We now are down to two, and for the board members that are new and for the board members that weren't in Tallahassee when Barry was hired the last time and sort of lived through past CEO searches and the politics that get involved and all of these kinds of things, I would hope you would understand that where I'm coming from is to protect this organization, to protect this staff, to give this staff confidence that there will continuity in leadership. For those that weren't around a decade ago or even before in the predecessor organizations, that's not the way things were. And I personally believe that as fiduciaries of the corporation and the people that care very much about the staff and the integrity in this organization that Barry frankly has built because, you know, these entities weren't always the pillars of integrity, we'll say (I don't mean to compromise anybody to suggest anything of prior people) but I believe that we serve everybody very well as a board to start to think about this. And if the succession plan is to be followed, then what's the problem with when we get to a place (and it's really a lot of time on Barry's timetable, the chair's timetable, and the board's timetable) going ahead and saying, "Yes, we're going to interview and we're going to tap this person to be the number two, so everyone in the world knows." And whether it is somebody on the succession plan or somebody outside the succession plan, we need to . . . we owe it to this organization to get that person in place, allow Barry to train them, allow the staff to work with them, allow the board to get to know them, so that when we choose to move that person in the CEOs position when Barry tells us he's ready, then we can confidently go to the Senate and know that we're not going to have the politics that have been played in the past with large organizations like this because it is going to be in the middle if the legislature doesn't get off their rear ends and do what they need to do, it's going to be in the middle of a very bad repop[ulation] cycle and a very bad insurance cycle in Florida potentially. And so, I hope – to Governor Kastroll's comments – and you know, I hope that you understand what I'm trying to do and what I'm trying to suggest is make sure we have the ability to do that. And, I will be encouraging us over the next year to look at that again. It is to create somebody who can train under Barry, that can work with the staff, that staff can get comfortable in, and that we can then evaluate and then feel comfortable moving forward for Senate confirmation. If we did not have to deal with Senate confirmation, I would not feel so strongly about this because then we know we control it, but we don't.

Vice Chair Lopez-Cantera: A philosophy that I believe in greatly is it's better to have something and not need it than need something and not have it. If this is the only opportunity we have to addresses this in the budget, I think it's a pragmatic and responsible approach because the fact of the matter is Barry is leaving. It's just a matter when. I mean at some point Barry's going to want to go fishing and spend time with family and not deal with the with the stuff that he has to deal with.

Chair Beruff: A little overrated. [laughter]

Vice Chair Lopez-Cantera: It's just the facts of life. Time rolls on. If 2020 has taught us anything, it's that we can expect the unexpected, so just to have this this placeholder in the budget doesn't commit the board or the organization to anything. But without having it, it eliminates a respected member of this board's ability to continue a conversation that, at the very least, is a healthy conversation to have about how to look towards the future. I don't think there's any problem with that and if you look at the members of the board, we have five new members of the board who have only been a member of the board of governors for one year or less. And, we don't know if there will be turnover going forward. There could be; that's up to the appointing officers. I think this is not a bad idea. It doesn't commit us to anything other than setting aside some dollars for something that could potentially be the will of the majority of the board going forward. Thank you.

Chair Beruff: Thank you very much, Governor Lopez-Cantera and Governor Dunbar. The reason I had the screen put back up here is because in an organization of this magnitude, the amount of money that would take to replace (or at such a time as Mr. Gilway decides he wants to go off and start walking on the beach with his lovely wife and keep eating too many cookies at lunch) I suspect it's inconsequential. I don't see that as being a precursor to being able what we need to when Mr. Gilway decides to move on. I also know you folks in this call certainly have more experience than I do with this staff. My very limited experience is that this organization has a depth to it. It has history to it. If Mr. Gilway comes to me and says, "Carlos, I'm done. I'm leaving on Monday," this place will continue running just fine for a significant period of time until his replacement were had. So again, Mr. Dunbar's comments are well taken, but I look at a sheet in front of me. When you talk about net income of $43M in it, and we got to have a meeting and say we are were going to make an allocation of whatever the heck we need to do it, it's inconsequential to the whole thing. I'm more focused on the fact if you look at this thing which is the reason I wanted to see it before Mr. Dunbar's comments was that I want to continue to bring up to the point that we are operationally losing money. Simply, we are not a moneymaking company. We are making money strictly on investments because we've been fortunate enough to sock away $6.3B/$6.5B in reserves that are earning an interest dividend for us. It's simply not the tolerable way to run things, which goes back to Mr. Dunbar's earlier comment, which are very on point. We as a board, every one of us who have friends in the legislature, have to bring to their attention the precarious position that they – not on purpose – have put us in over the last three years as the market has changed . . . the market is not the same as it was three years. We have to react. Running a company is always about changing course, and we were at a point now where we have to change course. And the only way . . . because of the type of business that we are that we can change course is to get the legislature who are our colleagues to understand they we're requesting something that benefits all Floridians to open up the marketplace by giving us an ability to charge more actuarially correct rates and not subsidizing our own business, and thereby making it impossible for market driven insurance companies to make money in Florida. So, I appreciate the discussion. I think that if Mr. Gilway wants to make comments, I'm happy to listen to him. But, when you have a business this big, whatever it is when we have to replace, we have to budget is a rounding error in this equation, I think.

Marc Dunbar: That is why I began a discussion the way I did. I knew we had the fluff. My worry was the last thing I would want to do was compromise particularly Kelly's operation because, as I read the budget, that's where I figured the bulk of the turnover was potentially going to be needed in the event nine months from now, Barry says, "You, now it's not a bad idea to hire an executive vice president," and then all of a sudden Kelly is strapped because she doesn't have any more of the growth mode. All I was wanting to do . . .

Chair Beruff: because since the person who doesn't understand this process, I don't know . . . But I would suspect at any meeting, we could amend this budget, right?

Marc Dunbar: I don't know. That's why I'm asking.

Jennifer Montero: The budget is just an estimate of what we know today. It's no problem to have a variance as long as it can be explained.

Chair Beruff: We could have a meeting next week and say, "You guys, we screwed up, messed up." Is it publicly okay to say that? [laughter] But, Mr. Gilway, if you would like to make some comments. I appreciate the fact that, as I anticipated, we can change this budget on a whim any time we want and the amount of money we're talking about is not significant enough to impact our bottom line.

Barry Gilway: Thank you, Mr. Chairman. I'll keep my comments brief. Number one, I really appreciate, Governor Dunbar, your comments. I truly do and I think getting prepared financially for any kind of a move is prudent. It's that simple. I appreciate your comments. I submitted my succession plan, you know, to the board. I have some exceptional talent that are developing, in my opinion, extremely well, you know. As you know, I have two candidates that frankly, exactly as the chairman indicated, that this place could run like a top if I had to, you know, for any reason (medical or decided to leave) . . . there's no question in my mind with the talented team that we have in place that the company would continue operating very effectively. I would be concerned not with the budgeting component, but I would be concerned with bringing in, you know, an additional individual at this point in time. To be open with you, I think it will be disruptive to the team, and I think it might not be consistent with the discussions I've had with, you know, my succession planning candidates who are both, by the way, going through some pretty darn extensive training. Kelly Booten is one of them and literally celebrated passing her first CPCU[1] exam. In addition, in her spare time, you know, she is following the CPCU route, and of course, as you know, the intent basically is to expand Jay Adams' responsibilities and broaden his overall scope. And, in the last two board meetings, we did expand Kelly's responsibilities significantly to give her more insight into those areas where she doesn't necessarily have the strongest background. So, the development plans are in place and they're working extremely well. I think at this point, you know, I propose we not bring in, you know, an individual in that place; however, I would never turn down ever an additional budget allocation, you know, on a contingency basis.

[1] CPCU or Chartered Property Casualty Underwriter designation is the premier designation in the property casualty insurance industry.

Marc Dunbar: And, to that point, and this again presupposes that I was recommending bringing in somebody in from outside, right? So, the last comment is exactly what I was looking for was giving you the budget flexibility if and when you're ready to have an EVP position that's there. And so . . . I mean no matter what happens, we know it's going to capture attention if and when, right? The board giving the flexibility to you to come to us and say, “Okay, it's time,” and already having it there alleviates us from having to explain salary, budget . . . because it's going to shine a light on the glide path. I would like to have the glide path adjusted in the AOB Bill, but it didn't. And, one of the things I caution legislature and you're going to pass piece of legislation's going to adjust the glide path, and everybody is going to focus on the glide path adjustment.

Chair Beruff: I certainly appreciate the discussion. I think that we understand what the parameters are. My concern is over the next five months or four months we have a very limited window in which we can change the glide path to the extent that this board is willing to take up some rather difficult choices if indeed the OIR does not help us with . . . There are ways to fix this place. One is what we can do with the statutory limitations we have; what we can do with OIR's blessing; and what we have to change at the legislative level. So, my direction that I think everybody on this board is of the same mind is to exhaust all three of those because of what we can do on our own we don't need anybody's permission. We can implement it quickly and start trying to put the brakes on our growth. Then what we can hopefully the staff will be able to generate some positive feedback from the OIR over the next five weeks. That's the second part of that puzzle and depending on how supportive they are of what we want to do, then we can at least find out what we need to try to get done in this legislative season. We missed this opportunity we're out for two years. This place can't tolerate the growth as it has for two consecutive years, not if we really want to do what's right for Florida citizens and make sure that we're not the only source of insurance in the state which we're fast becoming at the growth that we're experiencing. So, I'd like to go ahead and move forward with the next item on the agenda.

Marc Dunbar: But we have to adopt a budget, right?

Chair Beruff: Should I entertain a motion to adopt the budget with the understanding that from our discussion there is significant funds in the budget should we have a need to fill that position in this 12-month budget year.

Marc Dunbar: Well, hold a second. I want to make sure . . . because Barry's last comment . . . Barry, you said you'd like to have it. Would you like it? It's your choice. I'm prepared to make the motion to amend for the position to be in there, so you have that flexibility. If you don't want it, I won't make the motion.

Barry Gilway: I appreciate it, Governor Dunbar. I do agree with Chairman Beruff that I think there is sufficient flexibility should we need it.

Marc Dunbar: Okay. With that I'll move approval of the budget.

Bette Brown: Second.

Barbara Walker: Chairman, we do have a public speaker.

Chair Beruff: Before our vote . . .

Barbara Walker: Yes.

Chair Beruff: Excuse me. Please, the public speaker. You have three minutes. Please, join us and we look forward to your comments.

Mel Montagne: Am I on now?

Barbara Walker: Yes, Mr. Montagne, you're on now. *(Speaker Form provided as an attachment)*

Mel Montagne: Good morning, Mr. Chairman, board members, and Citizens staff. My name is Mel Montagne, and I'm the President of Fair Insurance Rates in Monroe, also known as FIRM. FIRM is a nonprofit formed in 2006 that fights for fair and affordable property insurance for the residents of Monroe County. Citizens is often considered the insurer of last resort, and for many in Monroe County, the only option for windstorm insurance. We pay very close attention to how Citizens recommendations will affect our residents. Also, just so everyone is aware, I'm also a licensed insurance agent that is appointed by Citizens. Thank you, again, for your time this morning. There are several things that I'd like to address. The first thing that I would like to address is the 2021 Operating Budget, and these are just general questions. I'm not expecting an answer or anything like that. They're just general observations. The expense ratio contemplates rent, and my question is what impact does and will COVID-19 have on this item going forward. Have you thought about moving the majority of the workforce to telecommuting, thereby, reduce your rent numbers? I know at our organization one of the things that we're looking at is moving a lot of our workforce to telecommute and get rid of some of our leased property. The second point that I would like to make – and this goes more to the overall admin expense – I would theorize that there is truly not a lot of new business being run by Citizens, meaning what is classified as new business is merely business that took a vacation from Citizens and is now working its way back. The reason I bring that up is has Citizens looked at that and seen that the majority of the information that they require to underwrite and service a property that they already have that information and that they could possibly streamline some of their operations to take advantage of already having that information, not forcing a lot of the back-and-forth that goes on with agents and with the insured. And the reason I say that is according to Dun & Bradstreet Citizens has a little over 1,000 employees, and when I back that number into the employee cost of $136.5M obviously could be some substantial savings even if you could shave your staff off by 3%. So, that's just the point I wanted to make. My second topic is on page eight of the 2021 Rate Indications PowerPoint . . .

Barbara Walker: Mr. Montagne. Mr. Montagne, we are at your three minutes and would you please hold your rate comments for when we get to the rate topic?

Mr. Montagne: I will. Thank you.

Chair Beruff. Thank you very much for your comments. I'm sure the staff is looking at all of those things, now that we're COVID professionals. Thank you very much. We'll get back to you when we get to the rate portion of our discussion. Jennifer, I think you want to read the motion for us to discuss for it to move forward on.

Jennifer Montero: Staff recommends board of governors approve the 2021 Operating Budget Action Item as presented and authorize staff to take appropriate and necessary action with this action item.

A motion was made by Governor Dunbar and was seconded by Governor Fields for the board to approve the 2021 Operating Budget Action Item as presented and authorize staff to take appropriate and necessary action with this action item. All were in favor. Motion carries.

Exposure Reduction & Depopulation Opportunities (FSU Study)

Chair Beruff: Thank you. Next topic.

Barry Gilway: Mr. Chairman, I believe the next topic is Professor Nicholson, you know, discussing the Florida State University . . . am I correct, Barbara?

Barbara Walker: Yes, sir. It is.

Barry Gilway: I think this is totally consistent with the discussions that we have been having. We went to the board, I think, three meetings ago and requested basically that we have an independent, outside look at both Citizens and aspects of the Florida marketplace and to make sure we were considering all of the potential exposure reduction and depopulation opportunities that might exist . . . this not only covered the internal operations at Citizens and any recommendations but it also considered legislative changes and any structural changes that might occur that might be opportunistic. The study was conducted by Florida State University (FSU), led by a team, and I'm going to introduce now Jack Nicholson – Professor Nicholson – Director of the Florida Storm Risk Management Center at FSU. I think we all know who have been in the business with for some time. Jack is primarily the CEO of the Florida Hurricane CAT Fund (FHCF) for the Small Business Association (SBA), and he served in that role from 1994 through 2016. I mean to admit personally of being a member of Hurricane Commission that I've learned an enormous amount from Dr. Nicholson. Jack, if you would, if you could introduce your team, and then present your findings. By the way, I do want to make one point. This is a 260- page document, and it's impossible to go through the level of detail, so this is a very, very high level. I've asked Jack to limit the time at a very high-level summary of this review. I encourage everyone, if they if they want any nighttime reading, to pick up that study. It is extensive. I think he did a highly effective job, so I'll turn it over to you, Jack.

Jack Nicholson: I want to start off by introducing our team. We have four members on our team. Dr. Cassandra Cole is a professor and chair of the Risk Management Insurance Real Estate and Legal Studies Department. Dr. Charles Nyce is an Associate Professor in the in the department, and they both are on the call today and will be making a presentation. Dr. Patricia Born is also on our team and she's a professor in our department. She is monitoring the call today. So, having said that, I believe both Cassandra and Chuck have divided up the presentation. We'll start off by introducing Dr. Cole to take over the presentation.

Cassandra Cole: Good morning, everyone, and thank you for this opportunity to discover some of the key points of our study. As Barry mentioned, it's fairly lengthy, and so in our presentation today, we're really going to focus on a quick review of the purpose as outlined by Citizens: a quick overview of the research that we conducted and then then try to spend the majority of the time reviewing some of our recommendations. Also given our time allotted, if you could please hold your questions until we reach the end of the presentation, we'd greatly appreciate it. Next slide. Citizens requested a scope of services indicated that the FSU research team would develop a set of recommendations that are really designed to accomplish a couple of primary goals within certain restrictions and boundaries. The goals were to reduce Citizens exposure in terms of both policy count and insured value and also to promote the private market retention of risk that has been depopulated from Citizens. In doing so, the kind of boundaries and constraints that we were supposed to work within is to make sure that Citizens maintains its tax exempt status, that it protects its outstanding bonds, that it has the continued ability to provide the same level of customer service that would be comparable to what the residential insured would receive in a private market, and then also that it retains its ability to respond to any type of significant market fluctuations that could lead to an influx of policies. In addition to that, our goal was to make sure that none of the ideas or recommendations that we develop conflicted with Citizens' mission as a residual insurer; and then finally, in thinking through some of those recommendations, to also identify what we foresee are major hindrances to Citizens of achieving its objectives. Next slide. Very quickly in terms of the research and analysis that we conducted, we did take an extensive review of Citizens past depopulation efforts as well as those of other states, including reviewing documents provided by Citizens on their depopulation efforts, articles that we were able to locate through our own searches, and then also a review of legislative actions. On the market research side, we took a look at some of the recent market trends and legislative changes. We conducted an extensive review of the academic literature and then also any other event researcher studies. We also spoke with a number of different individuals as outlined in the study. Those individuals work within several of the state agencies, also organization such as FAIA, and then finally representatives from insurance companies, reinsurers, agents, brokers as well as, modelers. Finally, in terms of the data that we took a look at, we were provided with a great deal of information from Citizens in terms of financial data; policy count; claims information. We also obtained information on private market insurers from National Association of Insurance Commissioners (NAIC); AM Best. We took a look at some of the ZIP Code and county level exposure data provided by the FHCF and then some of the analysis of proprietary data set from Karen, Clark and Company was used in some of the analysis. Next slide. Before we get into the actual recommendation section, here's a quick summary of some of the major hindrances that we were able to identify in our research with the single largest being the catastrophic risk exposure that's faced by the state. The volatility of the wind exposure create uncertainty for both Citizens as well as private market insurers, and in addition to that, we know as someone has already mentioned, that the population of Florida has continued to grow which is leading to even further development in terms of residential properties and this is adding to that level of uncertainty. In addition to that, the modeling industry is still relatively young and is continuing to evolve. The reason why that's a hindrance is because when we were talking about catastrophic losses, as you know, we're talking about very low frequency high severity losses which are already difficult and challenging to predict. In terms of investments within the state, it's important to consider that risk return tradeoff and a hindrance may be the fact that the return is just not significant enough at this point for private market insurers to take on the catastrophic risk of the state. As it relates to legislative, regulatory, and administrative actions, while we know that intervention has been necessary in the past to stabilize the market, from the perspective of private market insurers, this does add an additional layer of volatility in market uncertainty. Third-party involvement litigation and fraudulent activities all serve to really increase loss, cost and expenses related to claims, and this can serve as a deterrent to private market participation. In terms of rates, and this has already come up in discussions earlier today, the way that the rate structure is currently with the use of the glide path; it does make Citizens competitive with the private market, and that hinders its ability to function as intended as the insurer of last resort. And then finally, we recognize the importance of making sure that homeowners in the state of Florida do have access to affordable homeowner's insurance. However, as we discussed in the report, we do think that this issue of affordability needs to be addressed outside of Citizens. Next slide. So, in how we structured our discussion of our recommendations, we essentially developed seven distinct categories, and I'll just kind of run through these very quickly. But we do feel strongly that to be effective in achieving its goals of reducing its policy count and insured value in the state, that a multi-step process involving several different recommendations and approaches are going to be necessary. So, within category one, this would include any recommendations that focus on attracting new investors to the state. Category two focuses on approaches that increase the use of loss control, both by current residential property owners as well as builders that are involved in the construction of future residential property. Category three involves approaches that reduce system inefficiencies through actions such as expanding the use of managed-care programs. Category four look at approaches that increase the availability of quality data to stakeholders and that's really just designed to make sure that they have all the information that's necessary and a good understanding of the exposure that they base within the state. The issue of solvency has come up in discussions already and just making sure that there is a focus on maintaining the solvency of insurers and consider the development of alternative techniques to measuring for financial solvency of individual insurers as well as the Florida market overall. Category four[2] focuses on any approaches that move Citizens rates closer to being actuarially sound and also restrict access to Citizens. And then finally category seven is our catch-all category and that includes a variety of things that don't fit into the other six, such as the creation of a fraud database. Next slide. There was a graphic here that is not showing up, but essentially what the graph shows is Citizens kind of in the middle surrounded by bubbles that recommend other stakeholders or represent other stakeholders, and while during the course of this the months that we worked on this report, we gathered quite a bit of information and talked to a number of individuals. We do feel this would be a good starting point for Citizens, taking into account all the information gathered and would suggest conducting workshops with insurers, investors, legislators, and others to gain even more insight into what they identify, or think are some of the major challenges and concerns and that information should be incorporated and used throughout the remainder of the process. This would also be an opportunity for Citizens to share information about the Florida market and any changes that may have occurred within Citizens or the market that would be important for investors and private market insurers to be aware of. At this point, I'll turn things over to Chuck to into a continued discussion of our recommendations.

Charles Nyce: Thank you, Cassandra. I hope everyone can hear me. Yes. Picking up here. Cassandra talked about the seven different categories of approaches and ideas that we discussed; we ended up with 18 different approaches that are outlined in the report. This is the first and this kind of doesn't really fit in any one of those given categories but the idea that we had to have everybody – all the stakeholders – at the table and we all have to kind of agree on a path forward to get out of the situation

[2] Speaker goes out of sequence with categories.

that we can find the state of Florida's private residential insurance market in today. Next slide, please. So, the way we kind of approach thinking about these 18 different approaches . . . we thought about a timing approach of what steps would probably need to be done first. We heard earlier in the board meeting here about steps that Citizens can take to reduce its policy exposure. I think it's important to kind of think about if a policy is being pushed out of Citizens into the private market, is there a solid financially secure private market for that policy to land in? And that's where we start with here, thinking that our first initial step probably needs to be to increase the attractiveness of the private insurance market. A long-term stable reduction to Citizens exposure probably requires a strong solvent private insurance market to be able to receive those policies. To do that we think we really believe needs to increase the attractiveness of the Florida property insurance market. The ways that we can improve that attractiveness first is to try to remove or reduce that catastrophic risk. We talked about improving building codes; that's in our approach 2.2. We also talked about ensuring that any new construction that the private market is willing to or will provide coverage on that to ensure that any new construction doesn't go directly into Citizens. So, we talked about requiring proof of ability to secure a private market insurance (approach 7.3). Improving building codes, I think, is obviously an ongoing process; that's something that Florida has been one of the market leaders in and continues to do so. The second part here is increasing the information availability. I think from an investor point of you… the more information is available the more it reduces uncertainty. So, we can think about creating a database of residential properties for the state of Florida (approach 4.1). What we thought about here is making underwriting easier for insurers, both existing insurers and new insurers for the policies that are coming in the door. We also talked about the insurers understanding their own CAT risk, so developing new methodologies to evaluate those insurer risk profiles (approach 5.2). So, make them understand the true risk of the policies that they're holding. Then the third part here is thinking about the Florida insurance market as a system. I think we're always going to see here and there companies that struggle. Poe was mentioned earlier. I think we will always see bankruptcies occur in insurance. What we really want to avoid is problems that affect the entire market and conducting regular stress testing of the insurance market in Florida (approach 5.3) was designed to address that. Increasing the attractiveness of the market also involves encouraging new entrance: that could be whether we talk about existing national insurers who don't have any market share in the state of Florida (they are considered a new entry); whether it's getting existing companies to expand their footprint – to expand their market share (that could be considered a new entrance); we can also talk about new companies (insure techs – the ones that are popping up that are trying to disrupters within the insurance business). Any and all entrance into the market in Florida should be encouraged (approach 1.1).

Chair Beruff: Dr. Nyce?

Charles Nyce: Yes?

Chair Beruff: Carlos Beruff speaking. Thank you. Obviously, this is a very lengthy topic, and the report that you've made is significant. And one of the things that I've learned in a very short period of time I've been involved is that litigation is a significant problem in the state of Florida. So, my question, because I think it's in your report, is that you recommend setting up an insurance funded fraud division. Because my understanding is that fraud is not being prosecuted because quite frankly the State Attorney's Office and other agencies that have had the power to do that, have limited resources that they prefer to use to prosecute other types of crimes. Can you tell me about that, and if the fraud division were to exist, how big of an impact that would be on reducing the claims problems we have in Florida across the insurance industry?

Charles Nyce: Okay. If we can go to the next slide. That's where I was actually going to talk about that topic. I'll answer your question in a second. So, one of the things we talked about is improving the private market is increasing the footprint. . . increasing the capital, the surplus, the number of players that are involved, and that, I think comes in that adding the first initial step increasing the attractiveness in the market. The question that was just raised kind of gets into what we're referring to as the "environment." So, within the insurance environment that we see today – what are some of the issues we're running into? One of them is this third-party involvement; this fraud litigation . . . are all areas that we see that are really eroding the profitability of the private insurance market. We went back on our approach, which we refer to as approach 7.2 . . . we went back and looked at other states to see what they have done in the past with regard to this topic. And to be honest in our research, there aren't very many examples of property insurance fraud being a big issue for states. The bigger issues tend to be auto insurance fraud, and the two states that kind of stand out as states that had big fraud issues, addressed those issues in a manner, and then seemed to solve those issues were both Massachusetts and New Jersey. The way both of them did that was a combination of the insurance industry and the state working together. Both of them created what they called "fraud bureaus." We already have a fraud bureau in the state of Florida; they are assigned with working with property insurance. However, most of their work tends to fall within the workman's comp area and auto area. Property has not been a major focus for them. The way New Jersey and Massachusetts worked is the industry funded that fraud bureau. So, they were taking parts of a load that was added to the insurance premium and use it to fight fraud. The question is how much of the claims you're seeing are fraudulent? When we look back historically in Florida, we can look at sinkhole claims that occurred. Well, we can look at the reopening of the 2004 and 2005 storm claims that happened in 2007, 2008, and 2009. We can look at sinkhole claims that happened in 2010, 2011, and 2012. We can look at the AOB claims that occurred prior to the legislation that was passed last year. Those are all significant numbers: hundreds of millions of dollars if not billions of dollars in claims expenses that were incurred by the industry. So, creating a comprehensive fraud database, identifying the players that are consistently involved, identifying the law firms, identifying the contractors, managing that information, prosecuting those things . . . we're talking hundreds of millions of dollars or billions of dollars of savings that could be achieved. Again, is that going to apply in 2021, 2022, or 2023? I think so. I think of fraud as a balloon and when we squeezed sinkholes, we popped out AOB. When we squeezed out AOB, it's going to pop out somewhere else. That's why we talk about this comprehensive approach, getting all the stakeholders to the table and trying to negotiate a path forward. I don't think it's going to be easy by any stretch of the imagination. I think it's important to understand looking at all of these issues. This is something that came up a little bit earlier as well. I don't think any of us on the FSU team look at this as being a short-term fix. I think increasing the attractiveness of the market is going to take time. I think improving the environment of that market is going to take time. Up here, we talk about settling different claim processes, early offers, mandating early arbitration, updating or limiting the mandatory mitigation credits, creating a new mitigation credits study that's based on more recent data rather than day that's 20 years old . . . all of these things I think will help improve the environment but it's going to take time before investors are comfortable. If you look back on the previous slide, it really kind of gets at the hindrances number one and number two. This slide here we're really talking about hindrance number five: that the third-party involvement; the high litigation rates in the fraud. If you want to go to the next slide, once we kind we kind of figure out a way of improving the overall market whether it's both through the environment and also through attracting new investors, then we need to kind of share that information. This is where Citizens – a lot of what we talked about on the previous slides are outside of Citizens' control – they can participate but here we can start off . . .

Marc Dunbar: Dr. Charles [Nyce], I don't mean to interrupt. I'm sorry. This is Marc Dunbar. I have a question back on slide seven. The first one goes to the Chairman's point on insurance fraud and trying to incentivize in some form or fashion State Attorneys to take the SIU investigations in the Division of Fraud and actually prosecuting them. One of the things that I've discussed with some folks in the process is looking at the premium tax collections, and then so this is the . . . and I don't know if you can quantify this or if this is something that can be studied or modeled, but if we're generating roughly $886M in premium tax collections every year of which $630M are projected to go to general revenue contributions for use in the budget, if we were to take and ship the portion of that to State Attorneys for insurance fraud – so let's say we take 10% of it ($60M) and give it to the State Attorneys to really go after the fraud aggressively, dedicate those moneys for insurance fraud prosecution and then it rolls back into the insurance marketplace essentially by a decrease in fraud, is it possible to model how the elimination or decrease in fraud comes back to the state in terms of additional general revenue collections in other things because it frees up capital for other uses in Florida's economy? Do you understand what I'm asking?

Charles Nyce: Yes. So, yes, it is possible to model. We did not do that as part of this study. For any of these recommendations, we did not get down into the implementation costs and processes for any of these. These were all recommendations where Citizens would have to dig . . . do a little bit more due diligence on the actual cost and benefits of them. But yeah, it's those economic studies are often done to look at if we reallocate funds from one approach to another. What are the other possible benefits generated as overall savings to the state? It absolutely can be done, yes.

Marc Dunbar: To follow up, and this is probably for Barry and maybe Jack, I'd like in "tomorrow's news today"/ sort of "crystal balling" a little bit on what I think legislature may be looking at, I think it be great if we could get ahead of that and be able to qualify for the insurance committees what it would mean to have dedicated State Attorneys or folks in the statewide prosecutors office, since a lot of the fraud that is created is multi-circuit fraud. So, it doesn't necessarily have to be dedicated to the State Attorney's Office, but it could go to state-wide prosecutor so that you had dedicated prosecutors that are willing to pick up these SIU investigations. The laws are on the book. We know the laws are on the book. It's just they're getting a slap on the wrist, or they're not being really gone after with the full weight of the law. To have that analytics to be able to go to chairmen of insurance committees and into legislative leaders and say, "If you'll allocate what is a relatively inconsequential amount of this money that is collected off the back of the insured through the premium tax, you're going to see it come back in Florida's economy in two, three, four, or five times." Now, I know they don't like dynamic economic modeling in the Revenue Impact Conference, but we do have legislative leaders, particularly like Senator Brandes who get that. They say, "Okay. You were going to spend nickels over here to save quarters over there." So, I throw that out there, and I don't know if FSU is the right group that could do that for us, but I think it would be relatively inexpensive to do that for the legislature and get ahead of it.

Barry Gilway: For the record, Barry Gilway. Governor Dunbar, that's an exceptional recommendation. This has been a key issue for Jay Adams for close to four years now. I'm really focusing on, you know, on SIU organization and how we can get, you know, the State Attorney's office to really allocate the resources. I agree with Dr. Nyce. The reality is when we have met with State Attorneys, both Jay and I in Miami and Jay in Tampa, the bottom line is resource driven, right? They just don't have the resources to focus on property. They'd rather go to the big dollar items that are a little easier to . . . and they're working their tail off, but it's just a matter of resources. I think Jay could do an exceptional job leading because he has the staff. I think he could do an exceptional job in putting together a model that would say, "Hey, if we were to prosecute 'x' additional cases to conclusion, what would be the overall impact?" I think it's an excellent suggestion. We obviously have had some great successes lately with the Rubicon case. I think we arrested 44, but you got to do it in mass to make an impact. But I agree with your recommendation and I think it is something Citizens could entertain, you know, inside. However, we could also use outside resources if appropriate.

Marc Dunbar: That's what I was thinking. We're the one player in the marketplace that has the money that could do this, and essentially it helps with our depopulation agenda. But, more importantly, it can demonstrate a mechanism to lower insurance rates for the private market, which then puts more money in the pockets of the insureds and then dominoes across Florida's economy which will then bolster whatever the losses to General Revenue (GR) potentially. And, with the State Attorney and now as a Speaker of the House, he more than anybody understands prosecutorial resources and how to allocate that. If he agrees with this point, does it go to the state-wide prosecutor for a dedicated team that works all over the state on this and nothing else, or is it something that he would prefer to see as an allocation to the hot counties in the State Attorney's Office to give them the resources dedicated to that (you know, I certainly defer to him) . . . with his background, I think now is a great time if we can demonstrate and inform that the loss of GR, which we know is going to be very precious this year, is going to be offset by a more favorable insurance market and ultimately more dollars in the pocket to the insureds. If I could follow up on another point on this slide, and I actually thought, Chairman, that this would be a great hazing ritual for all of our new members because having read this study, I agree that it is [laughter] it will wear you out. On page 144 and 145, the approach 3.2 (beyond Citizens talks about alternative dispute resolution) and makes a recommendation in that bucket and there are a couple of questions that I had. In footnote 91, you have an example of Lemonade Insurance Company using AI to help evaluate and pay claims quicker. Is that in addition to an alternative dispute resolution, or are they just using that to try and screen in advance? I just didn't fully understand how that ties. Can you give a little more color that?

Charles Nyce: There are a couple things that appear. So, for those of you who don't have it right in front of you, approach 3.2 beyond Citizens: what we say is "different claims settlement processes such as alternative dispute resolution and early offers could be used to reduce the percentage of claims that are litigated or the dollar amount of claims. These processes may be useful for both Citizens and other insurers operating in Florida to limit claims cost and control fraud and abuses of the system." We put that footnote in there about Lemonade as an example. That's one of the things that some of these – we call them "disruptors" in the insurance industry. They've tried to change the claims settlement process, so that footnote was just added as an example. To be clear, even Lemonade will tell you, that only works for what they call "simple claims." If it's a more complex claim, it goes to a claim adjuster even for Lemonade just like it does for every other normal insurer out there. We were trying to talk about ways of thinking about things that have worked in other areas. Alternative dispute resolution has worked in a variety of insurance fields at reducing litigation. Early offers have worked in reducing litigation and reducing the re-opening claims in other areas as well. So, we were just trying to point out the opportunities that exist. Now we understand that some of these would require change in contract language and may differentiate Citizens or the other insurers from what's happening in the private market. So, to be clear, that footnote was just as an example of something like using AI in the claims process as an alternative, but other examples of alternative dispute resolution in early offers.

Marc Dunbar: Okay. So, do you have examples of insurers of last resort in other states like TWIA [Texas Windstorm Insurance Association] or Louisiana Citizens or anything on what their alternate alternative dispute mechanisms look like?

Charles Nyce: Yes. Cassandra Cole did a more thorough comparison of us with Louisiana. An easy example is in Louisiana, as an example, AOB is not allowed by the contract. So, there's no problem there with AOB. And, again, we can do a more thorough comparison of those different residual markets. Other residual markets – you have to remember that Citizens is unique. Originally designed, Louisiana Citizens was modeled after Florida Citizens, the model was prior to all the changes that occurred with House Bill (HB) 1A back in 2007. Most other residual markets are designed as residual markets of last resort. A lot of them use more bare-bones coverage policies. They don't offer the H03 policy. That's one way to incentivize policyholders not to end up in the residual market; that's not what we've done in Florida. So, there are lots of different comparisons that can be done there with different claims settlement price processes and other things to make us more of a market of last resort.

Marc Dunbar: So, to that point, and you had exactly on where I was going to go with this, so is it possible . . . we have the advantage of well-established home venue law and we also have the ability to do things in our contract that other insurance companies can't because we are the insurer of last resort. Is it possible to create essentially multiple policy lines where you can get a Hyundai and the coverage looks like "x" or you can get a Rolls-Royce but you're going to have to agree to alternative dispute process that we think will result in a lower cost for us from a defense standpoint and an accelerated resolution for the insured?

Charles Nyce: The short answer is yes, but I do want to caution about that. So, if you think about . . . we talked about earlier on this board meeting you talk about kind of what you want Citizens do. You want to reduce policy counts but you still want to provide the kind of customer service and coverages that policyholders in the state of Florida desire. So, a simple fix: sell bare-bones policy coverage and you will reduce your policy count in Citizens. The problem is that for the state of Florida and for many policyholders that may not be in their best interest. You may be forcing them into a private market that is not prepared to accept them or is financially insecure where a major event may end up with them going to Florida Insurance Guaranty Association (FIGA). That's the concern that we have in our kind of approaches that we talked about here – is that before we get to what Citizens can do to reduce their policy count, which is on my next slide which I'll get to in the next second, you kind of have to improve the private market to ensure that everything you push out of Citizens has a landing place. That's going to be something . . . that landing place is a functioning, viable, stable, solvent system. I only have a couple other slides. I want to get through these real quick. I'm happy to answer any more questions. The seven hindrances that Cassandra identify, all these things interact together. You know, we talk about the hindrance of not having adequate rates for insurers. That's hindrance number three. The problem is that if we want adequate returns and adequate rates, then rates are higher, which hits on hindrance six. Then, if rates are higher, that reduces affordability, which is hindrance seven. And, if it's not affordable, citizens are going to get upset (citizens of Florida, not the insurance company) and that's going to put pressure on legislative and regulatory administrative actions and that was all on the number four. This is why we try to emphasize; you need all the stakeholders at the table to negotiate a path forward. If you go to the next slide: so, within Citizens, you know . . .sorry, go to slide number nine, please. Thank you. Within Citizens once you have that path forward with a strong, solvent private market, this is where Citizens can really start to do a lot to reduce their policy counts, right? So, they can improve the quality of the existing policies. I mean, and again, this gets back to the questions we just talked about. And it may require changes in policy forms, but requiring policyholders to engage in loss control, expanding the number of inspections, doing more to reduce the exposure of the policies that are actually being held by Citizens. Cassandra mentioned this earlier: expanding in promoting the Managed Repair Program (approach 3.1). That will improve the body of the policies at Citizens and make them more attractive to takeout companies; encouraging the exit of those existing policies. We can talk about besides the pull-approach right that you have is a possible push-approach (approach 5.1) where Citizens has kind of taken some modeling approaches and showed that these packages of policies can really help diversify an existing insurer's portfolio (that's approach 5.1). Then, once the policies are out, make sure they stay out. So, we can work on keeping policies being . . . that were already taken out from returning especially within the first at three-year window (that was approach 7.1). And then, controlling the door – the new policies coming in – we're talking about modifying or eliminating the glide path (approach 6.1). If you don't want Citizens competing with the private market, let's charge rates that are getting back to what a residual market of last resort do that are higher than the private market. That's where we talk about approach 6.2 there – limiting the new and renewing policyholders. Run the policyholders through the Clearinghouse and make sure that if they can get a quote of 15% or less above what Citizens is charging then push them out into that private market. Then, if you go to the next slide, please. The final step – and this is where you're going to have to have all stakeholders, and policyholders are stakeholders, making sure they understand that the true cost of a catastrophic exposure and the changes that are going on in the market today . . . the benefits of having a private market of insurers and investors and what the advantages are to having that market working. Now, the problem is that a lot of the things we talk about here are probably going to require higher rates, and that becomes an affordability issue. Our final kind of recommendation here is to think about addressing affordability outside of the insurance arena. Let's not play around with the rates of Citizens or restricting rate increases with private insurers. Create a state-level program equivalent to Food Stamps – property insurance stamps – where it's going to be above the board. It's a clear and concise program that addresses property insurance affordability. You can make it means tested for those who cannot afford property insurance that we create a program that can help with that affordability. You know, all these things – all 18 of these ideas – I think need to work, we talked about this as a group, need to work together. Picking and choosing one approach here, one approach there probably doesn't get it done. It's going to take a concise, coordinated effort among all the stakeholders with all of these approaches coming into play. My final comment, before we get to questions, is we did consider a lot of other approaches, and all of those appear in Appendix M of our report. We can go to the next slide. I'll open it up to questions for Jack, myself, Cassandra.

James Holton: Chair, this is Jim Holton. I have a question. Anyone can respond to this, and actually I've got a couple of questions. The comments from Governor Dunbar on the state-wide prosecutor, I think, were exactly on point. One other suggestion I had comes from an earlier meeting with Citizens was that we put some burden on Defense Counsel as well potentially bring Florida Statute 57.105 motions against a lot of these fraudulent kind of claims by certain, you know, plaintiff's firms within the state, which, for example, have three claims at one address to gross up attorney's fees. I know a lot of laws coming out of the Strems case. The Florida Bar is taking a look at that, but I think we need to set a tone with Defense Counsel to really go after some of these people rather than merely trying to settle a case. A vehicle for doing that is already within, you know, the Florida Statutes 57.105 motion for sanctions against attorneys and abuse of the process. Have you guys considered adding that into your arsenal of weapons to use in reducing litigation costs?

Charles Nyce: Jack, do you want to handle that, or do you want me to handle it?

Jack Nicholson: I'll say we haven't considered that specifically. Obviously, that falls under the inefficiencies that we're talking about in the state of Florida. I think that is where that particular issue would lie. We didn't expand upon that particular idea in this study.

James Holton: Gotcha. My next question was a more specific one. As you know, the impetus of this study was a request from Senator Brandis. Do you have that letter with you – the initial letter requesting your services?

Jack Nicholson: Yes.

James Holton: Can you comment specifically on some of the questions that Senator Brandis asked for you to study? I very much appreciate your broad report. I think it's very valid, but I'd like to know just from, you know, for my own perspective, there were specific questions and recommendations the Senator laid out. Can you be responsive directly to some of those for the benefit of the board, especially for the new members that were not totally familiar with the background of this study?

Jack Nicholson: Yes. Just to give a perspective on this, we were certainly aware of Senator Brandis' initial letter to Barry Gilway as well as Barry's response to the Senator. I think some of our – some of what Chuck referred to that we have laid out some of the things we considered and some of the things we didn't go forward with them. There were some of the critical aspects, and I'll just name a couple: creating a transition from Citizens to a reinsurer, for example (quoting a reinsurer or some other type of reinsurer), as well as providing a bigger a role of the service provider. Those are two examples. But those, to us, somewhat violated our role in this study in that they would change the mission of Citizens. We tried to stick within the overall confines and constraints that Citizens presented us with to begin with, so there are a lot of things that could have been done outside of the scope of this study. We actually did suggest some things that are beyond Citizens, but we tried to keep the role of Citizens as a residual market as opposed to shifting it to a reinsurer or shifting it to some type of service provider. That's the way I would answer that. I did have an extensive discussion with Senator Brandis, and we did talk about our major approach. Cassandra did go over those general categories and why that was important because this seemed to encompass the entire gamut in how to look at the particular issue today: exposure growth and what are some of the hindrances. And then, in those categories, what can be done? Then we narrowed it down to 18 recommendations. But, obviously, there can be a lot more, even in each category. You can go beyond what we just recommended. That really gives food for thought for that particular area.

James Holton: Hopefully, it was a point for future discussions as well about dramatic and bold opportunities, you know, for the benefit of the taxpayers of the state and policyholders as well to look at some of those suggestions as potentially "part two" to your study. As far as it went, I think it's very comprehensive and I complement your team on a tremendous job. But, hopefully in the future, one of those initial questions raised by Senator Brandis in a very forward looking way can really be brought to the table for good discussions as well. Thank you, Carlos.

Chair Beruff: Are there any other questions from the board? Hearing none, I want to thank you folks for your presentation today. We obviously have our hands full trying to get to the legislature in a very short period of time. We may kindly request that you help us with our efforts to explain your report when those of us who are neophytes in this business require it. Thank you. I want to wish you all a Merry Christmas, and I appreciate your attendance today. What is next on our agenda?

Barry Gilway: Section four.

Consent Agenda Items

Chair Beruff: If everyone can take a second, I'd like to do something unorthodox at the moment. I'd like to get an idea of how this board thinks and how it operates. There are significant, in your index, starting with C, because we already dealt with B, right? There are many things that have come up in committees that are being advanced to this board today that have been approved by committee. I'd like to know if anyone has any interest in taking and going through the index and saying that we should move to approve those action items in bulk and take out those items that you feel you have significant comments to make. Or does this board want to go item-to-item through the whole thing? Again, this is my first trip to this arena. In other boards I've served, there are many day-to-day things that are operational things, which I think are not significant in nature to take up your time. I want to know how you feel about that. I'm happy to go through every item. I'm committed to be here until 9:00 this evening. [laughter] It's certainly not a question of the time. It's a question of substance. I'd rather have more time to discuss those things that are substantive and not the day-to-day things that are operational for staff to move forward with but are really not significant to us. I'm happy to listen to comments from the board members at this moment.

Will Kastroll: Chairman, Governor Kastroll. May I speak?

Chair Beruff: Of course. Please. Thank you, Will.

Will Kastroll: I'm committee chair for two committees: A&U and Claims. Regarding Claims, in my opinion, we could go ahead and do a group consent on all of the items. On the A&U, there is one item that I'd like to pull out. It's actually your item; that's the item you can pull out. The other items we can do a consent by group, in my opinion. Thank you.

Chair Beruff: I want to make sure I hear from all the board members. I certainly respect the fact that you put in the time and effort in some of these committees. I want to make sure that we don't move forward unless you feel that it's prudent to do so.

Bette Brown: Chairman Beruff, it's Bette Brown. May I speak?

Chair Beruff: Yes, please, Bette. Thank you.

Bette Brown: You're right. Thank you for acknowledging that committee work is done. I think when I'm looking at the action item index, anything regarding product changes, and most important, rate filings, we should talk about. I think most everything else, and certainly my action item which is Mortgage Self-Service Portal can absolutely move forward for approval. But I think rate is huge, and anything relative to rate should be set aside.

Chair Beruff: Thank you, Governor Brown. Governor Dunbar.

Marc Dunbar: As it relates to the Audit Committee, the agenda item, I think that can be on consent. Also, for 9A and 9B related Legal Services Contract, which is basically an amendment, and the Commercial Business Insurance, I think those can be also.

Chair Beruff: Great. I hope someone is taking notes of all the consents that we have because I'm sure not. At some point, I'm going to make a very broad request motion to adopt all the things that the governing board members have felt comfortable to move forward with. Who else would like to comment? Carlos Lopez-Cantera – yes, sir? Sorry, Governor Holton.

James Holton: Certainly, as the Information Systems Advisory Committee (ISAC) chair, I do have a consent item. I also agree with Governor Kastroll regarding Claims. When it comes to the A&U item, I think those are so important that we need to discuss all of them, specifically as Chair Kastroll recommended, especially as I'd like to make a motion regarding the actuarially sound rates business coming up. So, I think there's special attention there because all of this is kind of the impetus of why . . .

Chair Beruff: . . . by the way, I 100% agree with all the comments the governors have made concerning the rates need to be discussed. That's why I'm trying to clear the field for things that are not contentious or day-to-day operational that that everybody already agrees is okay. So, thank you for that, and, of course, we will do that Governor Lopez-Cantera, I'd like that thank you so much for your thoughts on what items you think could move forward without the significant discussion.

Vice Chair Lopez-Cantera: Thank you. I think going forward having a consent agenda is not a bad idea. A litmus test could be things that passing through a committee but anything that had dissenting voting in a committee should, by default, be a discussion item for the board. And, to that end, the Reinsurance Advisory and Brokerage Services is an issue that I had intended on speaking about today. Obviously, we don't want to put the actuarial rates on the consent agenda. I think that's all I have. I do remember there was something that we asked to be provided to the board or provided before the board meeting, but I left my Claims binder at my house, so I don't have it.

Will Kastroll: I was going to jump in… and it was for the appraisal. Jay's got that information and he was going to present that in his presentation before we do the consent items or the voting items. He does have some pretty good information to share with us.

Vice Chair Lopez-Cantera: Mr. Chairman, we probably should pull that appraisal item as well.

Chair Beruff: Of course. Again, I have no problem . . . just trying to see if there's a lot of things on the agenda. Even in the future if we put things on the consent agenda, at the morning of the meeting, you can just say, "I want to pull this out. I want to talk about it." There's never an issue. As you know, running a business such as this that's regulated, many of the items that come before us are not significant to take up our time. I'd rather focus on the things that we should be paying attention to, so I think I've heard from all the board members. Does the staff . . . did they take diligent notes as to what we . . . and then of course will carefully read the correct motion to make sure that we did what you all want us to do. And then will take that off the plate and go straight to the hard stuff. Do you think you have a handle on that Mrs. Walker? [laughter]

Barbara Walker: It's possible. [laughter]

Chair Beruff: If it's okay with the board members, why don't we break? We have 11:35 on our clock, and shall we regroup at 11:45 to entertain this motion to clear up many of the things in the index? Does that make sense for everyone? I see a lot of nodding heads, so we're going to go and do that. We will reconvene at 11:45.

[break]

Barbara Walker: Very good. And, or those of you that are on the public line, thank you for your patience. I will do a quick roll call to make sure we continue to have a quorum.

Roll call: Chair Carlos Beruff, Vice Chair Carlos Lopez-Cantera, Bette Brown, Marc Dunbar, Lazaro Fields, James Holton, William Kastroll, and Scott Thomas were present. Reynolds Henderson was absent.

Barbara Walker: Alright, Chairman, we have a quorum.

Chair Beruff: Thank you. If you'd like to proceed with the direction we previously agreed to, we will listen quietly.

Barbara Walker: Thank you, Chairman. On the action items that have been requested to be taken off the agenda and treated as consent items because they do not require a detailed explanation to the board are as follows . . .

Chair Beruff: . . . one quick interjection: if we made a mistake, just pull it off. It's accidental and not on purpose. Okay.

Barbara Walker: Thank you, Chairman.

- The first one is the **Actuarial Consulting Services** and I will proceed to read the recommendation, so it is in the record. Approved at the December 15, 2020 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors A) approve the contract for actuarial consulting services with Insurance Services Office, Inc. (ISO) for an initial term of three years and for one two-year renewal term for an amount not to exceed $500,000 as set forth in this action item and B) authorize staff to take any appropriate or necessary action consistent with this action item. Just for the board edification, I will slightly pause between reading these if for some reason this one needs to be discussed. Thank you.
- The second one: **Property Characteristics Data Services**: Approved at its December 15, 2020 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors A) approve a contract with Insurance Services Office, Inc. for a five-year term with no renewals, for an amount not to exceed $4,894,176, as set forth in this action item and b) authorize staff to take any appropriate or necessary actions consistent with this action item.
- The next: **360Value-Replacement Cost Estimating Services**: Approved at its December 15, 2020 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors A) approve a six-month contract extension with Insurance Services Office Inc. for an amount not to exceed $490,000, as set forth in this action item; B) approve an increase in the total authorized contract amount from $5,102,006 to $5,390,000; and C) authorize staff to take any appropriate or necessary action consistent with this action item.
- Next: **Replacement Cost Estimating Services**: Approved at its December 15, 2020 meeting the Actuarial and Underwriting Committee recommends that the Board of Governors: A) authorize a contract with CoreLogic Spatial Solutions, LLC for an initial term of three years and two one-year optional renewal periods, for an amount not to exceed $ 1.7M, as set forth in this action item and B) authorize staff to take any appropriate or necessary actions consistent with this action item.
- Next: **Technology, Infrastructure, Software, and Professional and Staff Augmentation Services – Part II**: Approved at its December 8, 2020 meeting, the Information Systems Advisory Committee recommends that the Board of Governors: A) approve this Technology Infrastructure, Software, and Professional and Staff Augmentation Services – Part II Action Item totaling $11,185,785; B) approve the recently authorized alternate contract source 43230000-NASPO-16-ACS Cloud Solutions, for contracting pursuant to the previously approved action item for Technology Infrastructure, Software, and Professional and Staff Augmentation Services – Part I; and C) authorize staff to take any appropriate or necessary action consistent with this action item.
- Next: **Sinkhole Engineering Certified**: Approved at its December 8, 2020 meeting, the Claims Committee recommends that the Board of Governors: A) authorize the Sinkhole Engineering Services contract, RFP 20-0021, with Universal, SDii and Geo-Tech for an initial term of three years and an optional renewal term of two years, for an amount not to exceed $10,000,000, as set forth in this Action Item, and B) authorize staff to take any appropriate or necessary action consistent with this Action Item.
- Next: **Governing Risk and Compliance/Control (GRC) System**: Staff recommends that the Citizens Board of Governors 1) approve the recommendation of a contract to AuditBoard, Inc. as the primary vendor for a GRC Software Solution, at an amount not to exceed $1,700,000 over a 5-year base term and four 1-year optional renewal terms, and to MetricStream, Inc. as a

contingent vendor, as set forth in the action item and 2) authorize staff to take appropriate or necessary action consistent with this action item.

- Next: **BPO Call Center Services**: Approved at its December 15, 2020 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors: A) approve BPO-Call Center Services contracts with the vendors listed below for a term of five years, in an amount not to exceed $27,470,933, as set forth in this action item: MacNeill Group, Inc. • Xceedance, LLC • TMONE, LLC d/b/a Mass Markets • Etech Global Services, LLC • Cognosante, LLC • Gatestone & Co. International, Inc • Hexaware Technologies, Inc., • Rose International, Inc and B) authorize staff to take any appropriate or necessary action consistent with this action item.
- Next: **Mortgagee Self-Service Portal**: Approved at its December 10, 2020 meeting, the Consumer Services Committee recommends that the Board of Governors A) approve the Mortgagee Self-Service Portal contract with LenderDock, Inc. for an initial term of five years and an optional renewal term of five years, for an amount not to exceed $681,259, as set forth in the action item and B) authorize staff to take any appropriate or necessary action consistent with the action item.

Chairman, that concludes the list that can be voted on as consent item and can be taken off the action item list as directed.

Chair Beruff: Thank you, Mrs. Walker. Does anyone on the board, have any comments on the list we just read? Hearing none, the chair entertains a motion to approve the slate.

A motion was made and seconded to approve the above said consent action items. Motion carries.

Chair Beruff: It's about the reaching lunchtime here. If you've seen me, I don't miss too many lunches. [laughter] Does everybody feel 30 minutes, 45 [minutes], or an hour seem appropriate for everybody to get back and we can wrap up the important discussions we still have at the half? Does anybody have a flavor? I don't want to dictate. I can do 1:30, 1:45, or an hour, depending on the needs of the board members. I'm sorry, Bette, I cannot hear you.

Bette Brown: I just want to make sure we have time to conclude by 2:00. I have to jump off by 2:15. You've got us time certain from 9:00 to 2:00. We've got the majority of the agenda . . .

Chair Beruff: . . . if everybody wants to work through lunch, I'm okay with that. I've got enough reserves to last me through a month.

Will Kastroll: Let's keep going.

Chair Beruff: Okay. We're all good then. Let's keep going.

Marc Dunbar: In deference to Governor Brown, we want to take the items she cares most about to make sure we take care of them.

Chair Beruff: Governor Brown, if you'd like to make sure the most important items you'd like to address right now . . .

Bette Brown: . . . I think for everybody the most important item is the rates.

Chair Beruff: Okay.

Bette Brown: We do have time. It's 12:00. We have two hours. But maybe we can move that up on the agenda.

Will Kastroll: Chairman, it's Governor Kastroll. May we start with the A&U items, which are all related?

Chair Beruff: Of course. Let's go ahead and start with that.

4. Chief Financial Officer's Report

Actuarial and Underwriting Committee (A&U) Report

2021 Rate Indications

Will Kastroll: Thank you and I'm sure Jennifer is on the line as well. The A&U met yesterday. Thank you to the committee members. Myself, Chairman Beruff, Governor Strauss, Kelly Booten's staff, and Jennifer Montero – thank you for all your hard work. I appreciate it. We all appreciate it, and to all the staff and the employees. We have three items that we need to discuss, and I'm going to go ahead and move a couple of them around on the agenda. I'm going to go ahead and have Kelly talk about the actuarially sound rates, or excuse me, the rate structure discussion with Chairman Beruff. We'll just merge those two together. The Chairman has a recommendation that the A&U voted and approved on that is a little bit different than the rate structure that was discussed about in the meeting and all the information that you have. So, we will merge those two together. After we talk about that, then we will go ahead and talk about the actuarial sound rates for new business. So, with that, Jennifer and Chairman, go ahead and talk about the motion that we talked about yesterday, please.

Jennifer Montero: Thank you. After Brian [Donovan] presented on the rates yesterday, the Chairman had a motion to modify the action item. I'm happy to read it. The recommendation from A&U to Citizens Board: the Actual and Underwriting Committee requests that the Board of Governors A) provide staff provisional authorization to make a filing with the OIR, B) direct staff to discuss any areas that would optimize rates with the OIR, C) direct staff to report back to the board on what adjustments to the filing can be made, and D) provide clear direction to staff on how to proceed with the 2021 Rate Filing at the January 26, 2021 Board of Governors teleconference meeting, which will be scheduled.

Chair Beruff: So, if I can add to Jennifer's comment, the idea is that we have different understandings of what we can and cannot do without the OIR's consent or how they view what we're proposing. What I am, of course, advocating for is that we have truly adopt real actuarial tables so that our rates can increase in order to address all our competitive advantages that we're not taking into consideration when we're not posting our rates. The obvious advantage is that we are a tax-exempt organization. Because of our significant amount of capital reserves, we're not forced to buy reinsurance in the market like other insurance companies. So, it gives us a disproportionately a low rate, which is not helping us to increase our rates to bring back a healthy Florida insurance market and get us back to where we are supposed to be which is the insurer of last resort. So, instead of proposing a rate we wanted to . . . I requested the staff to go to the OIR and introduce different options that we think may help us to that end, and we prefer not to put it all out there because we want the staff to have the discretion to see how far the OIR will go in our support. Then, after that, we can have a more direct discussion at the January meeting, and then we'll know what we can do internally with OIR support before we can finalize the legislative things that Governor Dunbar so adequately started in his comments earlier in the morning that are necessary for us to absolutely stop in its tracks as fast as possible our growth. So, that's the reason the motion reads the way it does. Governor Dunbar and everybody, of course, will have all the time they want to discuss where we're at.

Marc Dunbar: Not wanting to get into the substance but into the procedure. Do you want me to make that motion for you? Because if you make the motion, you're going to have to pass the gavel. I'm just trying to understand procedurally, is it a motion that's in front of us, do we need to make a motion, are we having a discussion on the concepts?

Chair Beruff: Quite frankly, I just wanted to make comments for those members that weren't in the discussion yesterday, okay, to understand how that came about. As to proposing a rate, this rate, that rate, or the other rate, we don't want to box ourselves into a corner until the staff has had a chance to reach out to the OIR and then we have a broader idea of what they can accomplish. So, we're not doing anything essentially.

Marc Dunbar: Well, that's what I thought. When hearing everything, it sounds to me like we're . . . do you want a motion to delay the rate increase until we get the information back and have a special. . .

Chair Beruff: . . . that's what I would like for the board to consider. Yes.

Marc Dunbar: Okay. I'll make a motion for the purposes of the discussion if that's helpful to get us where the procedurally were we need to be quickly.

Jennifer Montero: May I clarify?

Chair Beruff: There's another Governor Kastroll . . . there's another issue with some other parts of the rate structure, which is not part of this motion, I don't believe, okay. I want to make sure . . .

[multiple speakers]

Chair Beruff: I want everybody to talk. Governor Holton, would you like to speak? Then, Governor Brown?

James Holton: Yes, sir. Thank you. A point of clarity here. I fully support talking to the OIR to see where we're at and what we can do. I just want to make sure that doesn't delude us, and I don't think it does based on the way we bifurcated these two discussions. If we so choose as to how we can move forward with adopting the Brandis recommendation in our second part of this discussion – is that my understanding? This deferral to OIR will not stop us from today moving forward with the Brandis?

Chair Beruff: Your understanding is clearly the same understanding Governor Holton.

James Holton: Thank you.

Will Kastroll: It's Governor Kastroll. May I jump in?

Chair Beruff: Yes, please.

Will Kastroll: Yes, so Governor Holton, we will talk about the Brandis as the next item after we get through the rates discussion and any action items. The thing that we are voting on, though, is the recommendation that was just read, I think it was read, but the recommendation from an A&U Citizens Board. I will read it. This is an action item. It's important that we do, in my opinion, vote on this because it gives a clear timeline of when we are giving the OIR a timeframe of deciding to help us with these rates and the rate structure and give staff at Citizens. So, we are delaying the vote, but we're putting a time horizon on it of January 26 because if we don't hear back from anybody or if we don't get clear indication, then we would proceed with a rate increase recommended by staff at that point in time. If we don't have a deadline, something has to happen. So, it was read before but it's a recommendation to provide staff provisional authorization to make a filing with the OIR, B) direct staff to discuss any areas that would optimize rates with the OIR, C) direct staff to report back to the board on what adjustments to the filing can be made, and D) provide clear direction to staff on how to proceed with the 2021 Rate Filing at the January 26, 2021 Board of Governors teleconference meeting to be scheduled.

Will Kastroll: That is the motion that I will make so we don't have to pass the gavel.

Chair Beruff: Thank you, Governor Kastroll, for the clarification. Yes, that is exactly correct. So, do I have a second?

Bette Brown seconded the motion.

Jennifer Montero: May I ask a clarifying question, please? This is Jennifer. I know that Governor Dunbar said postponing it, but we need to actually have provisional authorization to make the filing to go forward with the negotiation, so I want to make sure that's part A). I want to make sure that's still in there, so we know the direction to actually do the provisional authorization to make the filing to negotiate.

Will Kastroll: Okay, so I'll read it again. I want to make sure that the language is good. Maybe Dan [Sumner] is also on the call. I want to make sure the legal language is in there, but A) to provide staff provisional authorization to make a filing with the OIR. Does that satisfy the requirement that you need?

Jennifer Montero: Yes. That is correct.

A motion was made by Will Kastroll and Bette Brown seconded the motion for the Board of Governors to A) provide staff provisional authorization to make a filing with the OIR B) direct staff to discuss any

areas that would optimize rates with the OIR, C) direct staff to report back to the board on what adjustments to the filing can be made, and D) provide clear direction to staff on how to proceed with the 2021 Rate Filing at the January 26, 2021 Board of Governors teleconference meeting to be scheduled; and E) Authorize staff to take any appropriate or necessary action consistent with this action item.

Marc Dunbar: And maybe this is a question for Dan. I don't think a "provisional filing" is a thing. I think we make a filing and they react to it, right? So, what we're doing is we're gathering information, telling them what we want our rate filing to be, which is not unusual, and they're going to tell us what they think of it. And, then we're going to make our rate filing, right? So, I just from a legal standpoint I don't think there's such a thing as a "provisional filing" for comment.

Dan Sumner: It's not uncommon to make what's called an "informational filing," where what you're doing is putting something on the table to have as a platform to have discussions that we are talking about here. We use the word "provisional" to make it very clear that this is not the official filing and will not occur until after the board decision on January 23, but it is provisional in the sense that we are putting something on the table as a platform for discussion. Governor Dunbar, does that make sense to you?

Marc Dunbar: It does. I was just more thinking the 120 process. You make a filing and then it's rejected. You have the ability to go and challenge each other, etc. From an informational or whatever you want to call this, nothing binding is going to come back to us from OIR other than that we've looked at it; this is what we think. And, then it's going to come to us and then we will decide ultimately what we want to file, correct?

Dan Sumner: That's absolutely correct.

Marc Dunbar: Got it. Okay. Thank you.

Bette Brown: As a reminder, we make recommendations to OIR. They approve or disapprove. It's great to have a discussion and I'm glad we are, especially in today's environment, but it's not our final approval. It's OIR's final approval. It's just a point.

Chair Beruff: Correct. Thank you.

Brian Donovan: May I ask a clarifying question?

Chair Beruff: Yes, please.

Brian Donovan: So, just to be certain I understand with what Dan just said, when we technically when we make a filing, there's a process we go through. We upload all these files and we push a button and we get official filing. If I understand correctly, we're not going to do that process at this time. It's going to be informational/bilingual, share with them – not through the iportal system setup but just share it with them via email . . .

Chair Beruff: . . . correct.

Brian Donovan: . . . sit down and discuss it with them and then come back at the end of January to discuss with the board?

Chair Beruff: Correct.

Brian Donovan: Okay. Thank you.

Chair Beruff: Any other comment before we read . . . yes, Governor Lopez-Cantera and Governor Thomas after.

Vice Chair Lopez-Cantera: Governor Thomas, please. I'll go after.

Scott Thomas: Thank you much. Mr. Chair, this is a fairly tight timeframe we're talking about – 10 days. Do we have reason to believe that this sort of dialogue on an informational filing can be productive in such a short window?

Chair Beruff: We have reason to believe that they're listening to us.

Scott Thomas: Okay. Thanks.

Chair Beruff: Governor Lopez-Cantera.

Vice Chair Lopez-Cantera: Thank you, Chairman. So, I did my homework based on the presentation and the briefing that I got from Barry and the team earlier this week and then based on the board materials. But it seems like the A&U at the behest of you, Chairman, is calling a bit of an audible and that's okay as part of the process, but I would request, if possible, if there is a document that lays out what this audible is. It could be emailed to the board now, so that those who have access could see what is being proposed because it's one thing to listen to Will read it out, but I'm more visual in my learning. So, I'd prefer to see something.

Chair Beruff: First of all, I love the description that you had because it is an "audible." I couldn't come up with a better description, so I appreciate that. I'm sure the staff can send you the proposed motion right now because it exists, but just again to give you some flavor what we're trying to do is to see if some different ideas we've had will pass the scrutiny of the OIR. We've been led to believe that they have some flexibility that they want to show us and help us with, so we don't want to propose the historic direction until we push that envelope a little bit and get back to the board with more significant detail for that January 26 meeting.

Vice Chair Lopez-Cantera: I have a follow-up question. I understand the concept. What I'm more interested in seeing is what is it that we're going to be asking. I understand to say more actuarially sound rates or to be more competitive in the market but what does that actually look like?

Chair Beruff: Mr. Gilway, do you want to expand on Governor Lopez-Cantera's query?

Barry Gilway: Thank you, Mr. Chairman. This might be particularly relative for the board members who did not attend the A&U. This is the concept. The concept basically is that we are a solid 22% overall behind the market – below the market – from a competitive standpoint. We had discussion around numerous potential concepts that would "bridge that gap": today the filing at 3.7% clearly does not come close to bridging the gap, particularly when the private market, you know, is implementing rate increases ranging from the 10% to 12% level all the way up to 47%. So, we are increasingly getting more and more and more competitive in the market. The challenge here is are there any concepts/ideas that either we can bring to the table or the OIR can bring to the table that would potentially bridge that gap. Chairman Beruff mentioned a couple. We benefit from two major areas. We benefit from a number of expense related areas because of our tax-exempt status, because of our lower commission schedule, etc. that aren't contemplated in the rating algorithm we utilize . . . more importantly, there's a massive difference between our reinsurance spend, which I believe around 16%, compared with an industry that is spending 46-cents on the dollar for reinsurance. We only get to charge within our rating algorithm exactly what we spend, not a provisional number that might mirror the private market number. There are numerous concepts, Governor Lopez-Cantera, that we can discuss with them, and the issue that has to be resolved is whether there is regulatory authority to act on any of the ideas that are suggested or are there areas that really have to be addressed through statute. We've had numerous discussions on opportunities, but we have not come up with a full list of other areas that we want to develop simply because we don't want it to be limiting. We want our ideas in addition to OIR's ideas in terms of how we might bridge that gap.

Will Kastroll: To simplify this, if we don't get indications or clear indications that we can do any of this on January 26 whenever that meeting is scheduled, we can and will get a 3.7% increase because legally we can do that right now. So, that's sort of the point where we're starting at, but we think the A&U with the advice of staff we think there is a way we can increase that amount legally and to get to actuarially sound rates. But, if we can't, all else fails, or the time horizon doesn't work out for anybody, January 26th we'll be going to 3.7%.

Chair Beruff: I believe that's the worst-case scenario because that doesn't solve our problem. At the risk of making an analogy that may not be on point, I'm going to give you an example since all I know is building houses. We build houses, and every time we build a model, we get a significant discount from our suppliers and our labor because those models benefit them because we sell houses based on those models. We do not price the product based on the discounts that we get for building our models because they are one-time discounts. So, what we're having here as a corporation have discounts based on the strength that's been built up on our balance sheet. It shouldn't apply to how we figure our actuarial correct table should be. If they can't see the forest for the trees, we're going to have to try to show them; that's it's the only way we're going to make . . . and there's multiple steps that somebody . . . Dr. Nyce who spoke earlier today clearly said that this is a multi-year process that we're going to have to do and I'd like to get the process sooner than later because unfortunately for all of us on the board today, we're just at that point. We have to deal with the problem and as quickly as . . . even if we deal with it quickly, it's an 18 to 24 month time for us. Postponing it is not an option from my perspective. Mr. Kastroll and I agree, that, yes, on January 26, we have to adopt something, hopefully it'll be something in line with reality as opposed to this false premise we're running this company on where we're not properly, not moving the numbers up to the maximum allowable by law which is 10%. I hope I made an analogy that carries some sense.

Vice Chair Lopez-Cantera: During the briefing that I got from Barry and the team, they told me that the rates being proposed were at the limit of the glide path. Because I specifically asked for Commercial, the biggest being Commercial policies, even though it's a fewer number of policies, the disparity is huge. There weren't any adjustments available to us because through the calculations of this complicated glide path calculation, they were all at their limits for all policy types. Barry, are we truly at our cap based on the glide path based on what's proposed?

Chair Beruff: I'm going to let Barry answer that, but I'm going to interject because of the discussion I've had to give Governor Lopez-Cantera some background. What we're proposing is that we're allowed to use real facts as to what it would cost us if reinsurance alone is calculated into our cost because last year we had an unusual problem. Everybody on this board knows it better than I. We didn't buy sufficient reinsurance because the market had gone sideways on us, and it was terribly expensive. We made a decision not to go there and pay the exorbitant rate because of the significant reserves we had. As luck would have it, we were able to get through another season without a significant catastrophe. My first comments earlier this morning this is not a way to run a company on good luck, so we have had lots of good luck for a decade. But that luck is going to run out, and we as a board cannot ignore that sooner or later we have to be prepared for the ultimate 1-in-100 year storm and a secondary storm after that, not even in the same year, so that we do not become a burden on the taxpayers in Florida. OIR has got to understand that when we propose rates, they have to include what we should be buying in the market. Barry, the staff, and the previous governing board made the decision not to spend $60M last year. If you add that $60M into our rate base in 2021, then that percentage increase that we propose – does anybody know that number? It's not 3.7% is it?

Brian Donovan: No. It's definitely higher than that.

Chair Beruff: Okay. We can just stop the discussion right there. It's definitely higher than that, okay. We do not need to get into the minutia of the detail. What we're trying to convince OIR is to allow us to really put forward the true potential cost to run this business in 2021 if we do, indeed, have to buy reinsurance at whatever the reinsurance rates are in this particular next window. I forget. Who negotiates the reinsurance? Jennifer? So, Jennifer has the best idea of where the reinsurance market is today. I guess it fluctuates daily pretty much, right? So, I don't know if made my argument any clearer or not, Governor Lopez-Cantera. It's not that what we represented before is not accurate or wasn't pushing the limits. I just want to tell the OIR folks that they are not giving us the right formula that we should be proposing our rates on. We want to get them to the table, to let us use the right formulas, and then we can come back to this board at the end of January with hopefully a better idea. The other thing that makes no sense, and I'll share this with you, in any business, you have business that make more money and less money. If you're making more money in Area A and you're losing money in Area B, you don't go and cut the rate down in Area A. That makes no sense in any business because we're a statewide business. So, we have some areas because of the formulas that Mr. Donovan has to follow technically says were supposed to lower the rate, yet we're bleeding money in Area B. I don't know how that works in this world, but either I'll figure it out, or I'll say, "You got to change it because it's just not right." Your business should float completely across the whole span. We have to get to operational profitability to be a going business; otherwise, we're a public agency that going to rely ultimately on the taxpayers to bail us out because we didn't run the show correctly. So, Mr. Gilway, do you want to expand on that?

Barry Gilway: Governor Lopez-Cantera, directly to the question you have: yes. The information, you know, we filed (that Brian filed) is required by statute to file both capped rates and uncapped rates. The capped and uncapped rates we filed were rates that were consistent with prior practice, consistent with prior positions that have been taken by the OIR. So, what we're really suggesting at this point is that we have extended discussions to determine if a prior position that has been taken by the OIR, you know, if there is any potential for movement relative to those positions that were done the reply from a regulatory perspective that would allow us to adjust that rate. But the current filing is the accurate actuarially sound rate filing as previously, you know, filed and consistent with prior practice.

Chair Beruff: Mr. Gilway, I if I might ask you to, without giving up everything, have you had positive discussions with the OIR on some flexibility that they may be able to show us?

Barry Gilway: I’ve had direct discussion already with Commissioner Altmaier, and Commissioner Altmaier has indicated that he's going to be as receptive as he possibly can be, you know, to our discussions. The discussion I had with the Commissioner was very favorable, and he's very receptive to sitting down with us and discussing about what options might be available.

Chair Beruff: They clearly understand our dilemma?

Barry Gilway: They absolutely do. I'm sure, you know, they more than anyone, you know, given their responsibility for the financial position of the overall marketplace and approving these companies are well aware of the financial conditions in the overall market and they most definitely, since they approve all the rate filings, they're the most definitely aware of the competitive position of Citizens, you know, compared with a private marketplace. So, yes, they are intimately aware of the overall issues we’re facing in the marketplace.

Chair Beruff: Governor Dunbar has a comment.

Marc Dunbar: I just want to make of the motion because I thought the motion was a delay on our filing.

Chair Beruff: Let’s have Mrs. Walker read the motion one more time into the record.

Barbara Walker: And before I read it . . .

Will Kastroll: . . . email it to everybody first from Governor Carlos [Lopez-Cantera] asking, so it should be in email box.

Marc Dunbar: I have it. The question is having read it legally it doesn’t say anything. We really just are delaying . . .

Will Kastroll: . . . correct.

Marc Dunbar: I mean, I appreciate all the words and everything that are on there. I don't think that needs to be the detail of the motion. I think the delay enable staff to have a conversation with OIR and schedules the meeting. I think that my motion because having read . . . I just don't think it's stuff we need to . . .

Chair Beruff: . . . any way, we accomplish the goal is fine with me.

Marc Dunbar: For me, it's somewhat . . . and maybe it's form over substance or politics over substance because to those that are listening that are not part of the minutia of what goes on in an insurance rate filing, the take away is extremely simple which is we are going to explore every avenue possible to get this company on a path to actuarially sound rates. So, as a result of that, we are not going to make the filing we normally make. We're going to try to make a different kind of filing which is going to lead to higher rates in our book so that we are more competitive with a private market, and I don't want anybody to be confused, particularly the media as they write about this motion what we're trying to do in the message in what we're trying to say to the policymakers.

Chair Beruff: I have no pride in authorship here. I just want to get the message out. I think your comments are absolutely on point, so, of course, Governor Kastroll, I'd like to hear – I can't see you and I can't see your reaction. Governor Kastroll, I'd like to know if you're okay with Governor Dunbar's clarification.

Will Kastroll: If you want to add an "E" into there because I think we need the legal language . . . at least "B" as in "boy" least, and then "D" as in "dog" so we have a time horizon for it. But, if you want to add an "E" that this will increase rates above our standard recommendation of 3.71% across-the-board, that's fine with me. Add an "E" in whatever language is great with me.

Marc Dunbar: Will, so my problem with adding an "E" to Bette's point is that we're actually not doing anything definitive, so we're not really raising anything. I'm concerned about the confusion that could be out there in the court of public opinion over what we're doing because of what's written on this piece of paper because this is what people are going to look to as opposed to the words we're saying to try and explain all of this.

Chair Beruff: I think, and Governor Kastroll, I think, to paraphrase, I think your concern was to make sure that we had a finite date to act. So, maybe the motion that the board that the chair would entertain is one that says, "We are not moving forward with the rate filing today and to give the staff adequate time to meet and discuss all the potential possibilities with OIR and then we will meet and make that decision to file our rates on January 26." That would be my motion.

Vice Chair Lopez-Cantera: Why not just leave it simple? We're going to delay our rate filing and make that the motion and not even put any of the other things in there so that's not open to anybody else's embellishment.

Chair Beruff: If Governor Kastroll . . . Governor Thomas, if you want to make a comment, please?

Scott Thomas: I just want to make sure that this is for Dan to follow up on. Part of the motion from what the committee currently does is it authorizes the informational rate filing, which I understood to be sort of a necessary predicate to actually get the OIR to engage in discussion with us. And so, I don't know . . .

Marc Dunbar: . . . that was point B.

Chair Beruff: You can see Jennifer nodding yes. That is correct.

Jennifer Montero: We do need some direction so that we can go to the OIR and work with them whether it's informational filing, a pre-filing, a blend, call it whatever . . .

Chair Beruff: . . . so the motion needs to be expanded . . .

[multiple speakers]

Scott Thomas: . . .the email seems clear to me. It provides the direction and authorization for the staff. It provides a deadline. I'm not sure what the confusion is with the motion as emailed as is pending.

Chair Beruff: Okay. That's right because the motion has been expanded to include Governor Kastroll's January 26 deadline, so let's move on the motion. We do have a first and a second, right? I think Governor Brown seconded the motion.

Barbara Walker: I'm sorry. We have Mr. Montagne on the phone. He asked to speak publicly.

Chair Beruff: Let's get Mr. Montagne on the phone and give him his three minutes. Thank you.

Barbara Walker: Mr. Montagne, because you accidentally hung up, would you please submit your comments in writing to me at the email which you already have, and I will make sure that your comments get in the record. Thank you, sir. (Comments inserted below)[3]

> ***Mel Montagne:*** *I kept trying to speak but was not being heard.*
> *The additional comments that I wanted to make are as follows, I would like these read into the record is possible:*
>
> *My second topic is on page 8 of the 2021 rate indications PowerPoint*
> *My question is as follows:*

- *Why did you rely on one hurricane loss model (AIR) to determine that mitigation factors are misaligned and need to be recalibrated? Why did we not average results from the other 3 models?*
- *It would seem from page 9 of the same presentation that as homes move up in mitigation credits, they are being penalized which seems counterintuitive.*

[3] Speaker Request Form submitted by Mel E. Montagne.

My last topic is on page 5 of the executive summary

My question is as follows:

- *The summary states that RMS is now requiring Citizens to designate their model results as a trade secret. While I realize that this has no bearing on how the results are incorporated into the rate indication, then why suppress the data? And furthermore, if you let this stand then we can expect AIR and Corelogic request the same? These models and the base rates that they determine must be transparent for the sake of analysis. As we have seen in the past and we are now seeing with flood models that we in Monroe County are now analyzing, they are far from perfect.*
- *Staying on the models, does Citizens or the Commission on Hurricane loss projection methodology require each and every model to run projections on actual storms such as IRMA to determine how close they are to actual loss data? Since 2000 we have had approximately 124 named storms, tropical storms and tropical depressions which should supply enough data for each model to report how close their projections actually came to the losses. This would allow Citizens or the Commission on hurricane loss projection methodology to assign a confidence factor to each model.*

Thank you once again for your time today. Some of you who are new to the Board of Governors may not be familiar with the premiums paid vs claims disparity that exists in Monroe County. Insurance is a major contributing factor to our housing affordability, and we appreciate your attention to the issues that we feel affect our residents as well as all Citizens policyholders.

Bette Brown: You're going to call the question, but I had a comment. We probably could have made the motion to discuss and approve the rate filing on January 26. I think that's kind of what we're doing. But we have a motion and a second, so I guess you have to call it.

Chair Beruff: Governor Brown, just for clarification, the problem is we need to direct the staff so that's why the motion is a little more complicated.

Bette Brown: True.

Chair Beruff. We have to authorize them to do their job. So, other than that, you and I are on the same page.

Bette Brown: Okay. Perfect.

Chair Beruff: Mrs. Walker is going to have a roll call.

Barbara Walker: Governor Brown?

Bette Brown: Yes.

Barbara Walker: Marc Dunbar?

Marc Dunbar: Yes.

Barbara Walker: Governor Fields?

Lazaro Fields: Yes.

Barbara Walker: Governor Holton?

James Holton: Yes.

Barbara Walker: Governor Kastroll:

Will Kastroll: Yes.

Barbara Walker: Governor Lopez-Cantera?

Vice Chair Lopez-Cantera: Yes.

Barbara Walker: Governor Thomas?

Scott Thomas: Yes.

Barbara Walker: Chairman Beruff?

Chair Beruff: Yes.

Barbara Walker: Chairman, it's unanimous.

All were in favor of the motion. Motion carries.[4]

Chair Beruff: Thank you. Now we'll go into the discussion which is more of what Mr. Kastroll, if you want to lead that discussion on the new business.

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[4] (From page 40) **A motion was made and Bette Brown seconded the motion for the Board of Governors to A) provide staff provisional authorization to make a filing with the OIR B) direct staff to discuss any areas that would optimize rates with the OIR, C) direct staff to report back to the board on what adjustments to the filing can be made, and D) provide clear direction to staff on how to proceed with the 2021 rate filing at the January 26, 2021 Board of Governors teleconference meeting to be scheduled; and E) Authorize staff to take any appropriate or necessary action consistent with this action item.**

Will Kastroll: First, I want Jennifer to go ahead on what is being proposed. I think Jennifer lead that yesterday, but this is a plan that would changes rates just for new business and not for renewing business.

Chair Beruff: Correct.

Will Kastroll: So, just new business. Jennifer, please go ahead and explain it.

Jennifer Montero: Mr. Chair, it's actually Christine [Ashburn] who lead that part, so I'm going to turn it over to her.

Will Kastroll: Okay, I'm sorry. Christine.

Christine Ashburn: So, for just a quick bit of history and an overview of why we're here today and before Brian jumps into the potential impact of this proposal: so, prior to receiving a letter from Senator Brandis in June of this year, this issue of whether or not Citizens has the legal ability to charge an actuarially sound rate for new business was brought up by a sitting board member in 2011. We did seek an outside opinion and from legal counsel in December 2011 to see whether or not there maybe is some statutory authority – yes or no or in the middle – as to whether or not you could have a dual rate system where you continue to put the current policyholders on the glide path in the statute and charge new customers a fully, actuarially indicated rate. The opinion that came back at that time, which is in the board book and in the material online, did state that that the applicable statute would permit Citizens to charge new business new policyholders the approved actuarially appropriate rate while applying with statutorily mandated limit on increases only to renewing policyholders. In July 2012, the board did decide not to move forward with asking the OIR to consider actuarially sound rates for new business. For just a bit of history, in looking at the minutes, I believe it seemed at the time what I call a mixed bag where you might think that because we're not sound overall we've been discussing differing places have differing rate needs and it was a "mixed bag" of rates . . . some were going down and some were going up. They opted not to move forward with asking the OIR to consider it. Fast forward to June of this year, Senator Brandis did ask staff that we once again consider, you know, the recommendation to OIR that new customers be charged the fully indicated, actuarial rate. Following the receipt of the request, we did seek a refresher from outside counsel – the Radey Law Firm – to confirm that their legal opinion from 2011 had not changed, and, in fact, it has not changed. With that, I'll give it to Brian to walk through the numbers.

Brian Donovan: Good afternoon. This is Brian Donovan. We were asked to look at what would be the impact if we did charge actuarially sound rates for new business. I do believe there's a misconception that if we uncap or charge actuarially sound rates, all rates will go up, and that would get us closer to the market in terms of competitiveness. So, to take a look at first, we start here with the exhibit one that we would've seen in the last presentation. Long story short: what we will do is just kind a look at the policies at the bottom half of this exhibit. We have the policies broken by average premium, capped, uncapped by number of policies. What we can do at that point is, you know, segment them into those policies that would have an actuarially sound premium that is less than the capped premium – that is be decreased and then those that would have the increase. But, before I continue, let me put out what we're doing here. We are looking at our actual in-force book of business as of 5/31/2020. This proposal is not considering uncapping current business. It's talking about going forward with new business, charging the actuarially sound rates. In order to understand the impact that, we start by looking at our in-force book of business. Additionally, if we are going to start charging actuarially sound rates for new business, we have to be aware of the fact there might be segments where there could be incentives for policies to be canceled and re-written and get a lower price (so, just something to be aware of). By charging actuarially sound rates, we can see almost half – just less than half – 45.7% of the policies would have a decrease of -3%, while just over half (54.3%) would have an average increase of close to 22%. Out of the gate, less than half would be less than what we're currently charging and just over half would have a double-digit increase. So, we can dig a little further. Let's look at our homeowners – our HO3 and HW2 line of business (that's our dominate line of business) – and what would happen in that scenario. So, once again, we segment policies into decreases and increases. For decreases, this pretty much follows along with what we saw with total Personal Lines, where you have 42% of the policies would have a decrease of -3.9%, and 57% to 58% would have an increase of 25%. A couple things to just be aware of because we're contemplating this is that when we look at the decreases, in particular, when we look at the southeast, which is an area we identified as where we're 20% lower than the competition and it's the area where we are currently growing the most, by charging the actuarially sound rate there, 56% of policies would have a -4%. The rate would be cheaper for more than half the policies. That's something to be aware of. Then on the other end of the spectrum, if we look at the policies with the increases, we see, for example, in Monroe 88% of those policies – there would be a 43.5% increase in the average rate. That, in of itself, is something to be aware of, but to go a step further, keep in mind that these are averages. There's a wide range and there are outliers. You know, there are some policies that have 100%, 200%, you know, increase as new business. Others would be, you know, -40%, -50%. For Commercial Lines, you know, it's more in line with what I think what people would expect. Charging actuarially sound rate does pretty much, with a few exceptions, lead to, across the board, higher rates. You can see for commercial residential, it's close to 60% on average. Higher rate commercial residential is normally 77%. You get the idea. Commercial non-residential is closer to actuarially sound to begin with at this point, so that 8% and 18% increases. So, just to recap, you know, uncapping or charging actuarially sound rates for new business: Personal Lines – just less than half the policies would see a decrease and just more than half of them would have double digit increase. These changes are averages for personal lines. We saw the outliers as much as 200% if we were to charge actuarially sound rates for new business. For Commercial Lines, it's pretty much what you expect across the board – increases with a few exceptions. There are some territories . . . there would be some territories, some CRW condo rates where the rate would be more than 100% higher than what it is today. Ultimately, at the end of the day, Citizens recommends rate changes to the OIR. The OIR then makes final determination of what Citizens rate level is. As in prior years, any rate filing we submit to the OIR will include information on the fully indicated rates and the actual premium impact after the application of the 10% glide path.

Will Kastroll: Thank you for that summary. I just want to jump in and give my opinion before we have discussion on this. I'm very thankful that staff . . . and I'm also thankful that the Congressman Brandis suggested this. I think it's a creative idea, and we need creative ideas. The reason I'm not for this idea is that I don't like variable pricing or a high-level contract law type of business. Variable pricing works in the airlines. Variable pricing works in gym memberships. It doesn't work in insurance because people will get very upset that their neighbor has a different rate than theirs even though it's the same thing being insured. It also doesn't solve the problem at a 91% retention after five years we will still have 66%

of the policyholders renewed with us at actuarially unsound rates. I would rather try to fix this problem the way we're doing it with the previous motion and action item that we're going to come back and vote on in late January. That's why I'm not for this proposal, but I think it's a very creative and unique idea. Thank you.

Chair Beruff: Thank you, Governor Kastroll. Comments?

James Holton: I appreciate your comments, but I don't necessarily agree. I think that there is a potential temporary anomaly with these rates. As we saw, there will be maybe a first-year kind of disparity, but as Citizens gets to be actuarially sound, eventually that will even out in the marketplace and we'll have a true marketplace, not an artificially suppressed one. And I don't think there is any issue whatsoever in the bookkeeping techniques of doing this because the rate filings have a table 29, which applies an algorithm to do business that's capped. Then, all you got to do is remove the algorithm there. And I think taxpayers in the state realize that you're subsidizing a small number of policyholders here in citizens in Florida. I don't think that's inherently fair to all the taxpayers in the state. I think we are, in fact, suppressing the free market by doing what we are doing now, and this is driving companies out of business. It is jeopardizing our policyholders and other policyholders in the state with potential assessments. And, as I say, ultimately, is a tax on every taxpayer in the state, so based on the overriding evidence in favor of this, I think that I would definitely support this motion. Thank you.

Chair Beruff: I'm sorry. Governor Dunbar and then whoever is next.

Marc Dunbar: I agree with actually both of them, but I will tell you I am against this approach. I take it from a little different perspective. I had a long conversation with David Altmaier about when this was first proposed. Barry and I talked about whether or not this passes the rate discrimination, and at the end of the day, we are a statutory animal. And, we don't have the ability to pick and choose the statutes that we want to follow and not follow. That's for the politicians to decide, you know, whether they want to modify them or not. I respect Radey's opinion. I have some extremely close friends over there, and I called them and asked, you know, "Who reviewed this? Who reviewed David's opinion? Walk me through that you have absolute comfort that we don't open ourselves up to a rate discrimination lawsuit." Then I started to look at . . . do my own research and I just have concerns that there is no absolute certainty that when we do this, to Governor Kastroll's point, that a neighbor is not going to look across the street and attract housing community where they have the exact same houses, exact same floodplain, and exact same wind path, and one of them is paying $1,000 more just because they were fortunate enough to have private market insurance and then were unfortunate enough to have that non-renewed. And now they're back in Citizens a year after their neighbor. Even though rate discrimination lawsuit will wind up being litigated pretty quickly, every month that it delays our ability to pursue these other more creative options and to put them as part of our more permanent approach, I think would be unfortunate. I'm against this proposal. At the end of the day, and I talked about this with others, this is more of a politician's call than our call. The politicians have to realize that the walls they put in place constrain us and have consequences as it relates to their constituents that vote for them. I think the first motion in the approach that came out of A&U is great because it will essentially have OIR blessing all of the tools that we can use in the toolbox to push our rates up to an actuarially sound level without pushing what I think is an envelope that legally we just don't know what the answer would be. So, with that, I would be against this approach and favor the former.

Chair Beruff: Next? Governor Lopez Cantera.

Vice Chair Lopez-Cantera: Thank you, Mr. Chairman. I appreciate Governor Holton's passion and pursuit of this idea. What concerns me is the unintended consequences. I equate this to property taxes, where you have neighbors who look at their neighbors and see that they're paying a different rate while having a similar if not exact home because of the homestead cap. Then, the legislature created portability – or, I should say voters created portability through a constitutional limit that was proposed by the legislature. And it's the unintended consequences of approaching something like this that concerns me, and I think we should not lose sight of the fact that the legislature intended for Citizens to operate in an un-actuarially sound manner. I was there when this happened. I remember when we passed the glide path legislation. It was part of the debate . . . part of the discussion, but it was a political decision to limit the impact of the increase on the Citizens policyholders, the taxpayers of Florida, and constituents of those who were represented by the legislature of the time. So, a scenario that concerns me about this particular item let's say you are a Citizens policyholder. You sell your home, you buy a very similar home, intend to get another Citizens policy. Is that considered new business? Do your rates go up dramatically just because you changed homes? I asked Barry this and I think there was no definitive answer on this. I think to Governor Dunbar's point, the legislature's going to meet in a matter of months, and I would prefer the legislature pass some piece of legislation that specifically calls out this particular option as an option that this board can consider. And, I should have started this off as question for Barry and the team. I know that there are opinions that say this is allowed. Are there any opinions out there that are floating out there that say this is not allowed? Does that exist anywhere?

Chair Beruff: Mr. Gilway?

Dan Sumner: This is Dan Sumner.

Chair Beruff: I'm sorry. Mr. Sumner.

Dan Sumner: Governor Lopez-Cantera, I'm not aware of any opinion to the contrary.

Vice Chair Lopez-Cantera: Thank you.

Chair Beruff: Thank you. Governor Brown?

Bette Brown: Monroe County and the Florida Keys sort of lead Florida in all the things that happen to policyholders in Florida, especially when it comes to insurance and the cost of insurance. Because so many of our policies are . . . so many of our clients in Monroe County are in Citizens because it's the insurance of last resort, when they popped out due to depop and then popped back in, I'm concerned with Monroe County but also with other areas of the state, whereby, we did what they asked to . . . we depopped. We forced the depop. We encouraged the depop, and now we're coming back into Citizens and paying the higher rate. I get it, but it seems contrary to what we should be doing for those citizens. I certainly wouldn't want anyone to work the system either, but I think we should be cognizant in parts of the state where there's not a lot of choices . . . if a client did leave and come back, penalizing them as a new client when they might not really be a new client really should be something we should consider.

Chair Beruff: Thank you, Governor Brown.

James Holton: This is Jim Holton, if I can respond to a couple comments, I'd appreciate it.

Chair Beruff: Governor Holton, if there are any other governor who wants to speak, who hasn't spoken because I'd like to add some comments . . .Then, I'd like you to close, if that's okay with you, Governor.

James Holton: That's great.

Chair Holton: Thank you. Governor Thomas?

Scott Thomas: Mr. Chairman, I support the motion. I do so, beginning with the starting point that the opinion we have from outside counsel was accurate in its premises, which is that we can charge different rates for renewal policies versus new issuance without running afoul of restrictions on discriminatory rates; and two, that the glide path applies to renewal policies and not new issuances. In fact, if you take those (and I've not done my own analysis; I'm not second-guessing that) if you take that as true, in fact, we probably not only have the discretion to do this, but we are required by the text to the statue. Respect to Governor Lopez-Cantera, I wasn't there. I can't speak to whatever the intent of the legislature was, but I think the text of the legislature of other legislation doesn't indicate at all an intent we operate on a non-actuarially sound basis. In fact, the commandment is in 627.351 is it our rates must be actuarially sound with an exception, and that exception is the glide path. But the glide path fits as a bridge. According to statute, we have roughly from 2006 to 2010, we had capped rates. We were stuck at the 2006 rate. The glide path, it seems to me, is a bridge to get us back to actuarially sound rates. That's why the statute says, I think it's a subparagraph eight, that once we're back to actuarially sound rates in a given line of business, the glide path goes away. I don't think it was intended as some . . . from the statutory language that can be read as some perpetual limitation on our ability to comply with the original general mandate which is our rates must be actuarially sound. So, again if we take counsel's conclusions that we're not running afoul of restrictions on discriminatory rate practices and that the glide path applies to renewals, I think this is something we have to do. I don't think it's discretionary in my view. For that reason, I would support it.

Vice Chair Lopez-Cantera: Can I comment on that for a moment?

Chair Beruff: Can I make a couple comments and then go to Governor Lopez-Cantera? As the outsider most recent joining this board, first, I'm highly sensitive to Governor Brown and her district where she lives. I'm sure she got this, but I want to make it on the record: this simply doesn't apply to existing policyholders anywhere. So as long as the policyholders in Monroe County continue to keep their policies in force, they will have no . . . it'll have zero effect on them, other than our normal rate increases that we're working through. What we have here is an elephant size problem, and I've never been able to eat an elephant except one bite at a time. So, this is just one of the arrows in the quiver that we think we should implement so that we can start getting this thing under control because we don't . . . what can we do? Whatever the law allows us to do currently, which we now have multiple opinions on what we're allowed to do. Whatever the OIR – we'll see what they have flexibility with. Then, the last leg of that stool, is the legislature. We have zero control over what we can accomplish there. So, to the extent – Governor Lopez-Cantera's correct point as is Governor Dunbar's correct point is – this board can change policies anytime we want more or less legally. So, if we are, indeed, successful in large legislative accomplishments in this season, then we can go back and revisit what we're taking action on new policies. As to Governor Kastroll's point about the neighbors across the street from each other, this happens every day across the state of Florida as Governor Lopez-Cantera properly identified, where you have a person who has lived in their home for 10 years and it's homesteaded and it's capped at the rates. They can't go up, and the guy across the street buys a house and now that house costs three times and looks across the street - he's paying the new tax. This is really no different, as Governor Lopez-Cantera correctly pointed out. So, I'm inclined to move forward even if nothing else just because we have to start biting (take a bite out of this) elephant. If this helps, then and we can come back and revisit it, next year, depending on how successful or not we are with the legislature this year in trying to even the playing field to bring back a market driven insurance market in Florida. And now Governor Lopez-Cantera because I want Mr. Holton to close on the on the subject. Of course, anybody else can speak more. We'll be here all afternoon if you like.

Vice Chair Lopez-Cantera: I'll make this very quick. Just to the point of the glide path. That was a political decision, and that's why I think that there should be a decision made by those are elected/appointed to make these types of decisions because you cannot take the politics out of the process, whether it's here or in the legislature. And I can tell you from experience, the political aspect of an increase of any type of cost to any citizens of Florida is going to be something that weighs up on the minds of those who are elected to make these decisions. And this could be . . . I understand that Senator Brandis has a novel approach, but he is one of 40 in one chamber. There's still 120 other people across the hall that have to weigh in as well, and then you have the Governor at the executive level that would have to sign off on it. And, in my humble experience, asking those who are elected to office to approve things that increase the cost on their constituents is not usually an item that is received well.

Chair Beruff: And, Governor Lopez-Cantera, you are absolutely right. This is one of the reasons why we have to take on the responsibility that we do because, at the end of the day, we're trying to run a business with some very, very difficult constraints that we have to deal with. And we can only do what we can, and if they our hand is forced, then we have to do what legally is defensible which this action is according to what is represented on this board is legally defensible. And then maybe they can do the right thing and we can get all the problems we have fixed, then not have to have the new policyholders pay a higher rate because we can average it out over all the policyholders. And, with that, Mr. Holton, would you like to make . . .

Lazaro Fields: Mr. Chairman? This is Lazaro Fields.

Chair Beruff: Yes, please, Mr. Fields. Thank you.

Lazaro Fields: On the merits, I agree with Governor Holton's proposal. I agree with the comments you made, Mr. Chair, and the comments made by Governor Thomas. And there was a question earlier about whether there has been a legal analysis that potentially says otherwise as opposed to what the Radey Law Firm come up with. I read the legal opinion. As an attorney I understand the conclusion that they drew, essentially saying when you read the statute conjunctively, there's [unintelligible], so you can read a plausible conclusion that there is authority to uncap the rates. I would add, though, that, you know, if you read 627.351, it's pretty clear, and I think it's an equally plausible conclusion that says otherwise: "the corporation shall annually implement a rate increase, which, except for sinkhole coverage, does not exceed 10% for any single policy issued by the corporation." I think that's important. "Any single policy issued by the corporation" . . . it doesn't say anything about the issued by the corporation that's been in full force and in effect, essentially exclude the policy that's currently in force and effect, and thereby bifurcated into old and new policies. So, I think, unfortunately, like a lot of statutes, sometimes they're poorly drafted. This may be an example of one. But I think there is an equally plausible argument that this is not permissible under the statute because it says, "any single policy issued by the corporation." I don't want to talk about the rate discrimination issue. That's separate, but to Governor Thomas' second point, you know, I do have a concern about it. Nevertheless, I'm going to support the proposal. Thank you very much, Mr. Chairman.

Chair Beruff: Thank you, Governor Fields. I look forward to meeting you in person, sooner than later, I hope.

Governor Fields: Absolutely.

Chair Beruff: Governor Holton.

Governor Holton: Thank you, Mr. Chair. And thank you, everyone, for those great comments. The first observation I would make is the motion I'm proposing – we are asking OIR to consider this. We are not implementing this policy ourselves. If they have any concern about the rate discrimination issue, I'm sure they'll tell us that it's not permissible. I think we as a board have to take a first step as you've indicated and move this process forward. We've got to get off-center and be bold and take a leap and take some initiative here. To the specific points that were raised, we're all very concerned about what's happened in Monroe County. There are obvious issues down there, but from my – looking into the facts – there's really new business in Monroe County, most of those are renewals. Those won't be affected by this policy change if adopted by OIR. I don't really think that's a salient issue to point to a huge increase in Monroe County. We insure most of those folks there anyway, and most of our business is all renewal. And, OIR can give, as they have in the past, specific relief to Monroe County rather than other counties based on the equities with the filing. So, they have wide authority to do this. Secondly, as to the point as to there being a disparity between homeowners and so forth in the same neighborhood, well insurance, by its very nature, and this is true with homeowners' policies in every state, are at different rates. I mean there are no two homes alike that have the same rating characteristics in terms of age, roof, trees . . . all kinds of different things that go into the myriad of factors that go into that. I don't think that homeowners sit around and say, "What are you paying and what am I paying?" All homes are inherently different. I don't think that's a valid concern here. If that ever does become a valid concern, the legislature can specifically take that up again with amendments, or OIR could as well. I think we have a valid, legal opinion. It was the same opinion that was issued some years ago when this was tried. I don't' think this law firm would have put its name to it if they had any concerns, and it's a reputable law firm. I go back to the fact that if there are any concerns along this area it is OIR that will tell us we can't do this and not us to make that ultimate decision. So, with that said, again, in summary, I think all the factors and in the tone of the conversation throughout the day, I suggested that we take steps that we can ourselves and then we OIR to guide us on that pathway of getting rates actuarially sound. So, with that said, *I would support this motion and the way I wrote it was to suggest that we* *request OIR to approve our 2021 Rate Filings so that new policies will be calculated on actuarially sound rates while applying the statutorily mandated limit to current policyholders, which is basically lifted from the Brandis proposal and the rating opinion. If staff things that complies and gets this done, then that's the motion I would like to make to effectuate this proposal.*[5]

Chair Beruff: Governor Dunbar?

Marc Dunbar: Maybe I should've read it beforehand, but I think now that motion is inconsistent with what we adopted prior. And so. . .because you're actually wanting it . . . may I make a suggestion . . .

James Holton: . . . it's suggesting that that when they approve the 2021 rate filings, that they allow us to, you know, to essentially make it actuarially sound business. We're not . . . it's ancillary to the provisional rate filing we're filing now. I see your point, and again, I take no pride in authorship. I'm just trying to see that this gets done, and we ask for mission from OIR. But it's parcel of the rate filing.

Marc Dunbar: So, to that end, I think, then, maybe all of this is a moot discussion because I feel like we've enabled staff in the provisional filing to go to OIR with all of the creative tools in the toolbox is what I heard the Chairman say, which would include this, right? And so, they can come and say, "We like this, and we like this, and we don't like this one." So, if the concerns on rate discrimination – in fairness, I asked David Altmaier specifically, "Do you think this is going to be a rate discrimination problem because there is no reason for us to take a vote and then open ourselves up for a pathway for litigation, right?" I never got an answer. He said he'd get back with me. I talked to him multiple times. I still don't have a definitive answer on that. So, my only point is that I would say we table this motion because I think we covered it with all the tools in the toolbox motion that the Chairman put forward; and so, if they come back and say, "Yes, Citizens, we think you can do this, and this helps get you to the Chairman's point to closer level of a running a business profitably or at least close to the profit line," then I don't have a problem with that. I just think that all the tools in the toolbox should forward and not lock ourselves into something like this, which could potentially lead to litigation and then hold up all of the other tools from being implemented. That's my concern.

James Holton: I don't think they're mutually exclusive. I think we can take a strong stand at this point, and again, it's OIR that's ultimately going to tell us that we can or can't do it. If this Board sends a very affirmative statement to the OIR, the legislature, and to other stakeholders that we are taking an active stand in trying to do the right thing, I think it's going to have a lot more effect on getting OIR moving and the legislature paying attention and everyone in the state realizing that we're doing what we're supposed to be doing here at Citizens.

Marc Dunbar: The way I see it is, and just counting nose and everybody has spoken, it's four/four. It will die and then it's off the table; whereas, if we don't do anything, and we keep it as part of the Chairman's "all the tools in the toolbox," it does move forward and has the ability to come back to us when we have nine board members, hopefully, with Reynolds coming back. Then, it could be considered at that time.

[5] Motion was made but never seconded. It was called to vote by Vice Chair Lopez-Cantera later in the meeting and was tied four/four.

I'm just saying I'd hate for that tool to be taken off the table on a four/four right now. I'm just throwing it out there. It's your motion.

James Holton: It can be reconsidered. Again, I don't I don't see the problem. I mean you, know, four/four ties can be reconsidered when we take this up again. I think it shows a strong . . . at least we're on a tie vote. It shows a very strong tendency to move forward.

Chair Beruff: Governor Lopez-Cantera, you have comments?

Vice Chair Lopez-Cantera: I'm going to make a motion to call the question.

Chair Beruff: Okay. Then, we'll go ahead and call the question. I guess we'll do a roll call because we don't seem to have a unanimous consensus. If you would do that, Mrs. Walker, I'd appreciate it.

Mrs. Walker: Yes, I will. Thank you.

Barbara Walker: Governor Brown?

Governor Brown: [silence]

Barbara Walker: Governor Dunbar?

Vice Chair Lopez-Cantera: Bette is still muted.

Governor Brown: No.

Barbara Walker: Governor Dunbar?

Governor Dunbar: No.

Barbara Walker: Governor Fields?

Governor Fields: Yes.

Barbara Walker: Governor Holton?

Governor Holton: Yes.

Barbara Walker: Governor Kastroll?

Will Kastroll: No.

Barbara Walker: Governor Lopez-Cantera?

Vice Chair Lopez-Cantera: No.

Barbara Walker: Governor Thomas?

Governor Thomas: Yes.

Barbara Walker: Governor Beruff?

Chair Beruff: Yes.

Barbara Walker: Four/Four.

Chair Beruff: You have four/four as Mr. Dunbar correctly calculated earlier. Before the question was called, I was going to add that we could have – it is what it is now – but we could have just directed staff to make sure that in your OIR direct discussion that this was front and center to what we're trying to accomplish. But, since I think you're going to do that anyway, I appreciate the discussion. I appreciate the Governor Dunbar's comments because it was, to a degree, on point that we want the staff to clearly use everything we have to try to swallow this elephant that we have to deal with.   So, thank you very much. Now we go back up to item four I guess that we need to have action on. Where are we at? We have to get back on track and finish these agenda items.

Barbara Walker: We're back up to CFO Montero.

Will Kastroll: May I make a suggestion? I think Governor Brown has to leave at 2:00. Should we bump up any of her items up front?

Chair Beruff: Good suggestion. Governor Brown, what else would you like us to focus on before you have to leave in 45 minutes?

[silence]

Chair Beruff: Governor Brown, you're muted. We cannot hear you.

Bette Brown: I have nothing I need to speak about. Thank you very much.

Chair Beruff: I just wanted to make sure. Very appropriate. Thank you, Governor Brown, for that.

Bette Brown: I appreciate it.

Chair Beruff: I will go to Jennifer and keep nibbling away at what we've got left to do.

Marc Dunbar: I don't know how many agenda . . . I'm trying to count them up, but now that we've taken care of Bette's item, can we meet can we consider a 45-minute lunch break or something? I don't know how many items we have. It seems like we still have a lot.

Chair Beruff: We took care of Governor Brown's concerns that she wanted to be involved in. It's up to the rest of the board. Little things like this I'd like to be as flexible as possible. I'm happy to take a 30-minute break if that meets with everybody's more or less concurrence, or we can just keep working, either way.

Scott Thomas: Just a quick question: I think we were originally noticed to go from 9:00 to 2:00. Does this create any sort of notice issue? Do we need to extend the meeting in some fashion?

Vice Chair Lopez-Cantera made the motion made the motion to extend the meeting to 4 PM at an abundance of caution. The motion was seconded. All were in favor. Motion carries.

Chair Beruff: Let's break for 30 minutes and get back together at 1:50.

[break]

Roll call: Chair Carlos Beruff, Vice Chair Carlos Lopez-Cantera, Bette Brown, Marc Dunbar, Lazaro Fields, James Holton, William Kastroll, and Scott Thomas were present. Reynolds Henderson was absent.

Barbara Walker: Chairman, you have a quorum.

Action Item: COVID-19 Business Exceptions

Chair Beruff: Thank you. We're going to walk through some other items that we think can be done rather quickly so that we can concentrate on the two or three items that would need more discussion. That'll start with Kelly. It's your turn.

Kelly Booten: . . . the remaining items that we need to cover today. We are going to defer the 2021 Product Changes until the January meeting because two of the three items go with the rates. The next item is the COVID-19 Business Exceptions. As you know an authorized Citizens has been in a moratorium on cancellations of non-renewal payment or non-payment until December 31st. We are recommending that we lift the moratorium and change the approach to be only in a hardship case where we allow exceptions of very rarely, quite frankly and start continuing normal business exceptions February 1st. So, that gives us time to do the noticing and all the things that go with the pick back up of cancellations and non-renewals. We would still offer for hardship cases the payment arrangements that we've created as a result of COVID, but, in general, move more forward with our normal processing. Unless there are questions, I can read the recommendation.

Chair Beruff: Governor Lopez-Cantera has a question.

Vice Chair Lopez-Cantera: Thank you, Chairman. Can you expand a little bit more on how Citizens historically and traditionally defines hardships?

Kelly Booten: Well, this definition – we really didn't have one to go with us; we allowed exceptions or really any reason. This is trying to get a little bit more consistent with other language that we've been in emergency orders, so it's a little more stringent. But I will say that we don't validate this, and we do take it on good faith when the policyholder states that they have hardship.

Vice Chair Lopez-Cantera: How many policies are currently delinquent?

Kelly Booten: We have in the pool of policies 30,000. As of November 30th, payment exceptions have been made on 30,799 policies, which is 6.04% for a total of $24,559,518. Some of that would have been normal payments that are delinquent in the normal course of business, and they are mingled together, so you can't really tell how many of them were due to COVID versus late payment. It's in that range.

Vice Chair Lopez-Cantera: Compared to December of last year, how many were delinquent December of last year? That should give us a good indication of what the Delta is.

Kelly Booten: Yes, and I have that number. It's about half of that.

Vice Chair Lopez-Cantera: So, about 15,000 customers who have a hardship now.

Kelly Booten: No, the hardship . . . it's not all hardship because some people's policies need to cancel, but they just haven't told us they need to cancel. We've been sending out reminders and we've asked for them to contact us and we've also worked with agents and provided agents lists to work with our consumers so that those consumers can get payment arrangements. Out of all of those who have been reached out to 405 have reached out to us and made payment arrangements. The remainder . . . we do not know if it's truly due to a hardship or the policy needs to cancel because they found coverage elsewhere.

Vice Chair Lopez-Cantera: So, if we pass this item, we're not moving to cancel 30,000 policies, are we?

Kelly Booten: We will send notifications of cancellation. We have sent balance due statements, and we will move forward with the cancellation process if we do not hear from them. If we hear from them that they have a hardship case, then we will entertain payment arrangements that are agreeable.

Vice Chair Lopez-Cantera: Is there any way to stagger it so that we're canceling the oldest ones first so that we don't send 30,000 notices for cancellations and potentially put 30,000 property owners into the market without coverage at once during the holidays.

Kelly Booten: That would be a little more difficult to accomplish because the system will automatically take off and send the cancellation notices. We would have to intervene and come up with a method to stagger that.

Vice Chair Lopez-Cantera: Just because we're in the holidays and since we're going to be meeting on the 26th, I make a motion to defer this item until the January 26 meeting.

Chair Beruff: Governor Lopez-Cantera, will you allow me to make a comment?

Vice Chair Lopez-Cantera: Absolutely. You're the chairman.

Chair Beruff: No. I understand. I just want to not answer your question. Maybe we would consider we should consider sending the notice after the 5th or 10th of January.

Kelly Booten: Yes, that that would be the recommendation I would make.

Chair Beruff: I'm as sensitive as anybody else, especially if I grow white beard, I'd look like Santa Claus. [laughter]. I am very compassionate about this time of the year with the kind of year that many people had, so I don't see that it would be a big detriment for us to postpone us taking this action to January 10th that way people don't have to deal with that additional stress in their life over the next three weeks. Does that seem something more palatable to you, Governor Lopez-Cantera?

Scott Thomas: Isn't that the timeframe – that the 30 days notices would go out?

Kelly Booten: Yes.

Chair Beruff: See, everyone is as considerate as we are. We're all on the same page.

Kelly Booten: The notices would start in January with a 30-day advance notice for a February 1 effective date.

Chair Beruff: Does that alleviate everyone's concerns? [silence] Anybody have any more comment?

Marc Dunbar: One quick question: do we have any insureds that are not paying us that have a claim pending?

Kelly Booten: When we get a claim, that the first thing we do . . . is take the policy premium out of the claim payment.

Chair Beruff: Hearing no more discussion, we'll entertain a motion to approve.

A motion was made to a) Approve lifting the moratorium on cancellations and non-renewals effective February 1, 2021 and resuming normal notices; b) Authorize continuation of monthly payment arrangements to policyholders who enroll in by January 31, 2021; c) Authorize new monthly payment arrangements after January 31, 2021 only to those policyholders who continue to experience job loss, loss of income, or monetary loss directly related to Covid-19; d) Authorize staff to take any appropriate or necessary action consistent with the COVID-19 Business Exceptions – December 2020 Action Item to include system change implementations, updates to supporting documents or forms, sending letters and notices in advance to affected policyholders and agents, and other relevant activities; and e) Authorize staff to allow additional time or underwriting flexibility for those existing policyholders who have been directly affected by the COVID-19 Virus and continue to experience hardships as described in this document. Lazaro Fields seconded the motion. All were in favor. Motion carries.[6]

[6] Note that the motion as never read openly during the meeting.

Kelly Booten: I believe that concludes my report.

Action Item: Appraisal Services

Chair Beruff: Mr. Adams.

Barbara Walker: Jay, you're muted.

Jay Adams: Sorry, there was a delay. I have one item that I need to cover that was called out of the agenda. During our Claims Committee, a comment was made at the appraisal process is a cheaper alternative, and a question was asked to show what the savings would look like. Barbara, could you please show Brian Donovan's actuarial assessment of what that is. I don't want to get too far in the weeds with these exhibits. We can certainly ask Brian to weigh in, but I do want to point out what Brian concluded from his research. He specifically said that in this appraisal action item that asks for an additional $36.7M spend, and he said the spend for appraisal has resulted in a $259M savings from litigation avoidance. For water claims, the estimated savings is $6,920 for each claim the enters appraisal. For Irma, which would be wind claims, the estimated savings was $12,009. And then we estimated that it cost around $1,500 for a claim to be appraised. So, if that satisfied the questions that were raised, I'd like to read the action item for the appraisal services. But, let let me give a quick background. So, this is a contract that we currently have. An appraisal is an alternative dispute resolution methodology that we leverage. During Hurricane Irma we anticipated that we may have as many as 20,000 claims going to litigation based on the current litigation rate back in 2017. What we did as a strategy whenever we received an estimate from the policyholder or a request to re-open a claim with any significant difference in what was either paid or estimated by Citizens and the insured or their representative, we went ahead and moved those into the appraisal process. Appraisal is binding. Citizens is responsible for paying our appraiser. We estimate that to be on average about $1,500. If the appraisal process, meaning our appraiser and the insured's appraiser cannot come to agreement, we call on an umpire, and the insured and Citizens split the cost of the umpire fee. That fee typically ranges somewhere between $3,000 and $5,000 in total. So, Citizens would have another $1,500 to maybe as much is $2,500 for the umpire. Once the umpire makes the decision, he sets the amount of the loss and that decision is binding, meaning that it will not be litigated in the future. When we set up these appraisal contracts, certainly didn't anticipate receiving 70,000 claims from Hurricane Irma. We certainly didn't anticipate an additional 10,000 claims moving through that process. However, since Hurricane Irma, that program was so successful, we went ahead and decided that we would leverage that same process for any of the claims that we have. What we're asking for is additional spend for contract . . . so, we're asking for an additional $37M in contract spend, and this additional approval spend would result in the total approved aggregate spend not to exceed $72,750,000 for the four-year base term in the three one-year renewal terms. If there are no questions, Chairman, I would like to read the action item.

Chair Beruff: Questions from any of the board members? [silence] Please read the action item.

Jay Adams: Thank you. The Claims Committee recommends that the Board of Governors: a) Authorize up to $36 million in additional contract spend under the Appraisal Services contracts, RFP 15-0022 for a total approved aggregate contract spend not to exceed $72,750,000, as set forth in this Action Item, over the total life of the contract; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Marc Dunbar: Real quick – Jay, I noticed that we have three under contract and four contingents. Will this money roll over into contracting with a contingent provider or will this money go primarily to the three that we're under contract with?

Jay Adams: It currently goes under the three that are under contract. This contingency will come online if we need it for productivity where there is a performance issue with the other vendors.

Marc Dunbar: Got it. Thank you.

Marc Dunbar made the motion to a) Authorize up to $36 million in additional contract spend under the Appraisal Services contracts, RFP 15-0022 for a total approved aggregate contract spend not to exceed $72,750,000, as set forth in this Action Item, over the total life of the contract; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. James Holton seconded the motion. All were in favor. Motion carries.

Barbara Walker: Next up would be Violet Bloom.

Violet Bloom: Good afternoon, for the record, Violet Bloom, Chief Human Resources Officer.

Chair Beruff: Ms. Bloom, can you hold on one second?

Marc Dunbar: I'm sorry. Is Jay done? Is that it? He wasn't going to give a Claims update or anything?

Marc Dunbar: I'm not sure if Jay . . .

Chair Beruff: I'm sorry. I should have been clear. We're not addressing items we don't think need significant discussion, so we can move quickly.

Marc Dunbar: So, we're moving through items that we're voting on but we're still going to have additional . . .

Chair Beruff: Yes.

Vice Chair Lopez-Cantera: Just for clarification, is Jay coming back, or is he done?

Chair Beruff: No, he'll be back. He will be back. Go ahead, Ms. Bloom.

Action Item: Stop Loss Coverage for Medical and Prescription Drug Coverage

Violet Bloom: Thank you. For the record, Violet Bloom, Chief Human Resources Officer. Behind tab seven, there are three HR items. The first one is for a new contract for Stop Loss Coverage for Medical and Prescription Drug Coverage. The recommended vendor is HCC Life Insurance Company. The funding is included in the annual operating budget. The coverage is placed through our competitively procured insurance broker Mercer. The estimated cost of the stop loss coverage is through HCC Life Insurance for the contract period January 1 through December 31, 2021 is $862,627. This represents a reduction of approximately 10%. The action item requests approval for a contract award to HCC Life Insurance Company to provide stop loss coverage for catastrophic claims as needed through the self-funded medical plans and prescription benefit program. If there are no questions, Chairman, may I read the action item?

Chair Beruff: Is there any question? [silence] Please proceed.

Violet Bloom: Great. Staff recommends that Citizens Board: a) Approve a contract for Stop Loss Coverage for Medical and Prescription Drug Coverage with HCC Life Insurance Company for a term of one year, beginning on January 1, 2021 and ending on December 31, 2021 for an amount not to exceed $862,627, with authorization for adjustment should employee enrollment differ, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

A motion was made to a) Approve a contract for Stop Loss Coverage for Medical and Prescription Drug Coverage with HCC Life Insurance Company for a term of one year, beginning on January 1, 2021 and ending on December 31, 2021 for an amount not to exceed $862,627, with authorization for adjustment should employee enrollment differ, as set forth in this Action Item; and b) 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: Retirement Plan Administrative Services Agreement

Violet Bloom: Thank you. The next action item is it contract amendment and it involves additional spend. It is for Retirement Plan Administrative Services Agreement. The vendor is Massachusetts Mutual Life Insurance Company ("MassMutual"). They were recently acquired by Empower Retirement. The reason for the contract amendment is due to planned participation and stock performance that was higher than expected. The funding is included in the budget. Funding for the service was previously provided through the contributions from plan participants. The Citizens Retirement Committee is recommending that Citizens begin funding the cost beginning January 1, 2021. The Board of Governors previously approved a contract with MassMutual for an initial term of five years and a renewal term of two years. The contract commenced on May 12, 2016 and is set to expire on May 31, 2021. The action item is requesting a two-year contract renewal. The current contract fee is .07 of plan assets. Effective January 1 staff negotiated a flat fee of $35 per individual account. With the two year renewal, Citizens expects that the seven year contract amount will not exceed $650,000. The board previously authorized an amount of $500,000. The entire $500,000 has not been spent; and therefore, this action item is requesting an additional $150,000 and spending authority. The annual fee would be approximately $90,000, which represents a reduction of approximately 15%. The new method of fee generation is aligned with current industry standards. The services provided by MassMutual under this contract are essential to the proper operation and administration of Citizens retirement plans. MassMutual has performed these services to Citizens satisfaction throughout the contract term. Chairman, if there are no questions, may I read the recommendation?

Chair Beruff: Any questions? [silence] Please read the recommendation.

Violet Bloom: The Retirement Plan Committee recommends the Board of Governors: a) Approve an amendment to the MassMutual contract for Retirement Plan Administrative Services Agreement to: (i) Restructure the annual fee to $35 per account effective January 1, 2021, and provide that Citizens will pay the fee directly, (ii) Renew the contract for a two-year term commencing June 1, 2021, (iii) Increase the not-to-exceed contract amount over the entire 7-year term from $500,000 to $650,000; and (iv) Acknowledge and approve the assignment from MassMutual to Empower Retirement; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Marc Dunbar: This is Marc and I move for approval. Please extend my thanks to the Retirement Committee.

Marc Dunbar made the motion to a) Approve an amendment to the MassMutual contract for Retirement Plan Administrative Services Agreement to: (i) Restructure the annual fee to $35 per account effective January 1, 2021, and provide that Citizens will pay the fee directly, (ii) Renew the contract for a two-year term commencing June 1, 2021, (iii) Increase the not-to-exceed contract amount over the entire 7-year term from $500,000 to $650,000; and (iv) Acknowledge and approve the assignment from MassMutual to Empower Retirement; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. James Holton seconded the motion. All were in favor. Motion carries.

Action Item: Executive Search Services

Violet Bloom: Thank you. The final item is related to the search for the Chief Legal Officer and General Counsel. Governor Holton, Chair of the Ad Hoc Committee, has a report to share.

Chair Holton: Thank you, Violet. The Ad Hoc Committee has met twice. It consists of myself, Governor Reynolds Henderson, and the Chairman. After much deliberation and discussion, we thought the most prudent course in working with staff was to engage a private executive search firm to help us in selecting a new General Counsel. And, to that end, Violet has an action item recommendation, so I will turn it back over to her.

Violet Bloom: Thank you, Governor Holton. This action item is for a new contract for executive search services. The vendor firm is DHR International, Inc. Funding is included in the annual operating budget. Citizens issued a request for proposal RFP No. 20-0041 for Executive Search Firm Services for Citizens' Chief Legal Officer & General Counsel. The proposals were reviewed and scored by an evaluation committee, who ultimately recommended awarding DHR International, Inc. The contract amount is for 30% of the first-year salary, not to exceed $105,000. The contract will continue for the length of the DHR International's two-year guarantee. The guarantee provides for a replacement search at no additional cost other than out-of-pocket expenses if the selected candidate ceases to be employed with Citizens within two years of his or her start date. This action item seeks board approval to contract with the DHR international, Inc. for the provision of executive search services. The scope of the contract is to recruit and submit candidates for the position of Chief Legal Officer and General Counsel. Chairman, may I read the recommendation?

Chair Beruff: Questions? I'd like a clarification but, basically, it's 30% up to $105,000, and that's it?

Violet Bloom: That's correct.

Chair Beruff: That's the worst we're going to pay?

Violet Bloom: That's correct.

Chair Beruff: I'm fine. Are there any other questions or comments? [silence] Please read the motion.

Violet Bloom: Staff proposes that the Board of Governors: a) Authorize Citizens to contract for Executive Search Services with DHR International, Inc. in the amount not to exceed $105,000 for a term expiring after DHR International's two-year guarantee, as set forth in this Action Item; b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

A motion was made and seconded to a) Authorize Citizens to contract for Executive Search Services with DHR International, Inc. in the amount not to exceed $105,000 for a term expiring after DHR International's two-year guarantee, as set forth in this Action Item; b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Violet Bloom: That's it for HR. Thank you.

Chair Beruff: Thank you.

Barbara Walker: Dan Sumner is now up, sir.

Action Item: Legal Services Agreement - Bush Ross, P.A.

Dan Sumner: Good afternoon, Mr. Chairman and board members. I have two items under tab nine for action items. The first is for Legal Services Agreement with Bush Ross, P.A., a firm out of Tampa. There were engaged for two very unique legal engagements where we did not have anyone already engaged for this expertise. The first case was a product liability case brought by a policyholder against a furniture company and other individuals following a house fire and Citizens was joined to that suit. The Bush Ross firm has succeeded in having Citizens dismissed from that suit. There will be no further legal services needed and the total spend there was $13,000. We have an ongoing case, which is a case of first impression where Citizens has brought a suit for injunctive and other relief against an insurance adjuster who engaged in repeated instances of obstruction of Citizens' ability to carry out its Claims responsibilities. This case is Citizens vs. Scott Thomas. That, in this case, is critical to our ability to make sure that our claims personnel can do their job without inappropriate intrusion. We've already spent $63,000 on this case. We will continue to pursue this to judgement. There really isn't an opportunity for settlement in a case like this at this point. We are bringing this to the board because it is likely that the overall spend will exceed $100,000 – we're at $76,000 right now. Therefore, we will need board approval. With that explanation, Mr. Chairman, I can answer any questions, or I can read the recommendation.

Chair Beruff: Any questions from the board?

Scott Thomas: Just for clarification – So long as that Scott Thomas is not me, I'm all for it. [laughter]

Lazaro Fields: Very quickly – where are we in that litigation? Are we in discovery?

Dan Sumner: We are in discovery. As a matter of fact, today, they had a motion to compel the appearance for deposition of the defendant, which tells you a lot about the way that this whole matter is going and the way that we have had to deal with this individual throughout the adjustment process.

Lazaro Fields: Appreciate it.

Dan Sumner: Staff proposes that the Board of Governors: a) Ratify the Legal Services Agreement with Bush Ross, P.A. for the duration of matters assigned and for an amount not to exceed $250,000, as set forth in this Action Item; b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Chairman Beruff: I have a quick question. What is the chance of recovery?

Dan Sumner: Well, I think at this point, that our objective is to obtain injunctive relief, perhaps some fees, and cost. But, at this point, what we are intending to do through this suit is to eliminate the obstruction to our ability to do adjustment in these cases. This individual has a substantial caseload, and this is something that was occurring on a very regular basis. The purpose of the suit is to eliminate the behavior, which keeps us from being able to do our job in the Claims realm.

A motion was made and seconded to a) Ratify the Legal Services Agreement with Bush Ross, P.A. for the duration of matters assigned and for an amount not to exceed $250,000, as set forth in this Action Item; b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Action Item: Commercial Business Insurance

Dan Sumner: The next item is our Commercial Business Insurance. It is comprised of our commercial auto (we have 49 cars for our traveling fleet, mostly in Claims), our general liability coverage, our property coverage, our Worker's Compensation, employer liability, our umbrella policy, over [unintelligible] million, and our financial institution bond/crime (which is for the people who handle money). The only point I would make because it's something I think all of you and your business will take note of, for the upcoming year Citizens Worker's Compensation experience modification factor is .81, which is outstanding. The total premium for this package is $312,908, which is a 15% reduction from last year. I will entertain any questions that the board may have.

Chair Beruff: Any time you can save me 15%, there shouldn't be much questioning. You want to read the motion?

Dan Sumner: Staff proposes that the Board of Governors: a) Authorize the purchase of Commercial Business Insurance for Auto; General Liability; Property; Workers Compensation/Employer Liability; Umbrella (GL; Auto; Employer Liability); and Financial Institution Bond/Crime coverage for a one-year term beginning on January 1, 2021 and ending on December 31, 2021, with Liberty Mutual and Crum & Forster insurance companies for a total annual premium of $312,908.00, as set forth in this Action Item; b) Authorize $20,000 in contingency spend for unanticipated premium changes resulting from an insurer audit primarily related to workers' compensation. With our current expense modification, I'm not sure if that's a likely thing, but something you would normally do; and c) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

A motion was made and seconded to a) Authorize the purchase of Commercial Business Insurance for Auto; General Liability; Property; Workers Compensation/Employer Liability; Umbrella (GL; Auto; Employer Liability); and Financial Institution Bond/Crime coverage for a one-year term beginning on January 1, 2021 and ending on December 31, 2021, with Liberty Mutual and Crum & Forster for a total annual premium of $312,908.00, as set forth in this Action Item; b) Authorize $20,000 in contingency spend for unanticipated premium changes resulting from an insurer audit primarily related to workers' compensation. c) Authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Chair Beruff: Back to Jennifer. Thank you for helping me get through the easy stuff. Now we'll get back to the hard stuff.

Action Item: Reinsurance Advisory and Brokerage Services

Jennifer Montero: Thank you, Mr. Chairman. If you go back to section four, behind the second subtab, you'll find an executive summary for Reinsurance Advisory and Brokerage Services and an action item. During the September 23, 2020 Board of Governor's meeting, staff recommended an award to contract with Willis Re for Reinsurance Advisory and Brokerage Services for an initial term of three years, and for two one-year renewals, for an amount not to exceed $17M, or $3.4M per year. Due to the uncertainty regarding the pending merger of Willis Re and AON, Citizens' board instead approved a one-year extension of Willis Re's current contract, which expires December 31, 2020, for $3M. However, for various reasons, there were no more renewals available for the current contract under Chapter 287. Staff is recommending approval of a new one-year contract, with no renewals, for $3M as an alternative. The services will include comprehensive Reinsurance Advisory and Brokerage Services consisting of access to all traditional risk-transfer markets, brokerage administration services, program analytics, and an annual risk-transfer plan. I'll pause for any questions before I read the action item.

Chair Beruff: Governor Lopez-Cantera.

Vice Chair Lopez-Cantera: Thank you, Mr. Chairman. It was because of your focusing on the $2.1M number that we were talking about during the committee meeting, I wanted to ask Jennifer is this $3M number based on a single broker amount in the current contract for Willis?

Jennifer Montero: No. We actually . . . last year . . . for the former contract, the one that's expiring, it was co-brokerage and they each got $1.5M. I mistakenly assumed that it meant the sole broker would get $3M. But, when they were negotiating to get sole broker, they negotiated that price down. And so, Governor Dunbar, with my advice that it was $3M for sole brokerage, that's where he put the $3M, which was under the $3.4 per year that was under the new solicitation. The original award was asking for $3.4M per year.

Vice Chair Lopez-Cantera: Right, and then when . . . after the board meeting in September when the issue of the merger or the purchase of Willis by AON came up that precipitated the board recommending to go with an extension and then because of the various issues with the current contract in 287 then, I'm assuming, you approached Willis and negotiated per the current ITN the one-year contract at $3M.

Jennifer Montero: We reached out to . . . after talking to the purchasing department after the board meeting knowing that we could not extend the current contract and knowing that the board direction was no more than $3M, we did reach out to Willis to work with them to see if they were able or willing to do a one-year contract for up to $3M and they were.

Vice Chair Lopez-Cantera: Did you reach out to AON or Guy Carpenter at the same time when you were making this big change from what the original ITN document proposed?

Jennifer Montero: No because the direction was not to reach out to AON or Guy Carpenter. The award was for Willis Re and the direction was for only the Willis Re contract.

Vice Chair Lopez-Cantera: Right. Right. But so, we didn't even reach out to AON or Guy Carpenter to find out, even though they were responsive on the ITN, this award of this contract that we're being asked approved today as per the ITN and not per the previous or currently in force contract . . . so, AON nor Guy Carpenter who did respond to the ITN were approached to see if they would offer a similar or even better deal?

Jennifer Montero: No because Willis was offered the award as the best value to Citizens overall. It wasn't based on price.

Vice Chair Lopez-Cantera: Yeah, but that was based on multiple years with multiple renewals. This is a one year straight shot $3M offer.

Jennifer Montero: I don't know that . . . I'd have to check with the evaluation negotiation team, but I don't know that would change their mind if it's only one year. I think the best value . . . I was one of the evaluators and one of the negotiators, and, in my opinion, and I'm just one of many, it was in my opinion that Willis, even if it's just a one-year term, would have still won over the best value for Citizens overall.

Vice Chair Lopez-Cantera: But that's speculation. We don't know it, right?

Jennifer Montero: Well, we have most of them on the phone. We could ask them.

Vice Chair Lopez-Cantera: What concerns me is that one of the other companies that responded to this ITN . . . I'm concerned that we could be opening ourselves up to some sort of protest because they weren't given an opportunity to make a case for the one year $3M contract or potentially one year $2M contract or $2.5M contract. That's why I'm asking about this.

Jennifer Montero: Well, the purpose of this request was to find an alternative that matched – that mirrored – the best with what we could with what the board directed us to do, which was to extend Willis a one-year contract not to exceed $3M. Because we couldn't extend that contract, we thought the best thing to do exactly what the board did based off our award what we requested from the board was to do a one-year contract with the awarded company – Willis – to match as the closest alternative we could to do exactly what the board had directed us to do.

Vice Chair Lopez-Cantera: Right. The board directed you to execute a one-year renewal for the current contract that is in force, so that is expiring. And then, in the interim, you guys figured out that was impossible on what the board voted on and that's why we're back again now in December.

Jennifer Montero: Correct.

Vice Chair Lopez-Cantera: So, if Guy Carpenter or AON is on the phone, any of their representatives, and willing to say on the record now that they don't have an issue with not being approached, that will suffice and that will settle my concerns.

Barry Gilway: Governor Lopez-Cantera, two days ago, I had a lengthy meeting with the chairman of Guy Carpenter and the senior management committee of Guy Carpenter, and they confirmed to me that they no intention of protesting the procurement.

Vice Chair Lopez-Cantera: Same with AON?

Barry Gilway: AON was not a current vendor, and we had not had prior relationships with AON from a brokerage services perspective. So, no, I did not reach out AON.

Vice Chair Lopez-Cantera: But they were responsive in this current ITN?

Jennifer Montero: Yes, they were.

Vice Chair Lopez-Cantera: Right. So, you said they're on the phone, Jennifer. Is there anyone from AON who wants to chime in?

Jennifer Montero: No, no, no. I didn't mean the brokers were on the phone. I mean the evaluation and negotiation committee. I have Brian Donovan sitting with me. Andrew Woodward is on the phone. Paul Kutter is on the phone. That's four of the five.

Dan Sumner: Mr. Chairman, I think there would be Sunshine issues if we try to reconstitute the evaluation committee without notice and have them discuss this.

Chair Beruff: I agree with that. I want to make sure every governor has a chance to make a comment. Does Mr. Dunbar have a comment you'd like to make?

Marc Dunbar: My only suggestion, if this works (and I'm looking at Barry from a timing standpoint) to help to Carlos' point, could we defer to January to know AON's answer? Will that give us time to get a contract on reinsurance or is that too late?

Jennifer Montero: The contract expires December 31st.

Marc Dunbar: I know that, but we're not going to be doing anything in those three weeks to be in the marketplace, right?

Jennifer Montero: We actually have a meeting Friday – a kickoff reinsurance strategy meeting.

Chair Beruff: I was not involved in any of this. I want to understand how we get . . . we had a sole provider somewhere along the line offered to provide the services for those two point something million dollars. Did I understand that right?

[multiple speakers]

Chair Beruff: Okay, then I didn't understand that right.

Marc Dunbar: We had a multi-year award. I was concerned because we had one party who came in second place acquiring the book of the party who came in first place. We were in a co-brokerage arrangement before.

Chairman Beruff: One party bought out another party.

Marc Dunbar: Correct. And, we used to do two brokers, and this time we're only going with a single broker. Now, we're not splitting the business anymore. My concern was there's a Department of Justice review from an anti-trust standpoint of that acquisition. I saw from the trade publications senior people with the one we're contracting with starting to leave because they're being acquired, etc. etc. I wanted to make sure Jennifer had her team in place. I didn't think it would be good to do a multi-year contract. It led to a series of questions, and I looked at the contract. I didn't realize that we had contracted the two brokers with each of them giving them a single broker bid. When I found that in our contractor database, I sent an email to Jennifer early in the morning before the committee meeting: "What was the redacted number?" She didn't have a lot of time. She reacted on memory. She said $3M. I went in and said, "We already knew they would contract with us as sole broker at $3M for a year. Why don't we just do that, so that we can let the Department of Justice complete its review? Let the acquisition go through to make sure the team stays in place." That was my motion. Then afterwards, we found out that under the redacted box it said $2.1M and not $3M, which lead to all of the 287 and the thing that got us essentially where we are today. The board approved unanimously, let's spend $3M on Willis for a one-year contract. I do understand Governor Lopez-Cantera's point about potentially creating a protestable [sic] event, etc., but Barry's already confirmed with one of them. My thinking was that we confirm with the other one and we essentially solve our problem and move on. I don't know if that helps, particularly for the new members.

Chair Beruff: I know a little bit but not enough. [laughter]

Barry Gilway: Thank you, Mr. Chairman. A couple points – number one, there's been a prior reference to the $2.1M. However, I do want to bring to your attention that number was five years ago. Under completely different circumstances, it is impossible to believe, frankly, that any of these brokerage services would provide the same quality level of services at that rate today. So, that's one. Secondly, we're probably entering one of the most difficult reinsurance environments in history. The word is that we're going to get another 10% to 15% increase in reinsurance rates which is going to exacerbate the problems we're talking about today. It is essential that we start moving forward with a broker to establish strategy, so they can start reaching out to the appropriate markets and start laying the groundwork. Willis was shown to be the best value, and there were five or six evaluators, Jennifer, that were involved in the overall process. Our team has absolute confidence that Willis is the appropriate party to move forward with. It's not just a matter of dollars. It's really a matter of total value and relationships that they can bring to the market. So, my strong suggestion is that we move forward with the proposal.

Chair Beruff: The only issue is that there could be a potential challenge, and that's a risk we'll have to take. If someone will make a motion to approve, we can move forward.

Vice Chair Lopez-Cantera: So, we're not going to entertain Governor Dunbar's idea of waiting a few weeks?

Chair Beruff: Based on Mr. Gilway has represented . . .first of all, my understanding is that it's a one-year contract. I have enough confidence in the staff that I've gotten to know that this contract will be bid off of aggressively. Next year we'll have multiple people who will have plenty of time to give us proposals. Will that be a true statement, whoever is in charge of that department?

Jennifer Montero: The competitive solicitation will go out July 1, 2021, which is the same time period this one went out.

Chair Beruff: So, that will go out and we'll start this process all over again. This is a very short term, and in the term of a business this size, it's a short-term contract as I see it. There is no argument that the value is there; the only argument is whether or not we have a challenge. I'm willing to take the risk that we'll get a challenge. That's my opinion and I'm only one vote. Let's make a motion, and if it doesn't carry, we'll go on to the next one. Not a lot of risk here, I don't see. Do I have a motion or not?

A motion was made Governor Holton to approve a contract for Reinsurance Advisory and Brokerage Services with Willis Re for a one-year term, with no renewals, for an amount not to exceed $3.0 million, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. Scott Thomas seconded the motion. Motion carries.

Financial Statements

Jennifer Montero: The next item is the financial statements. They are behind the next tab. The materials I'll be discussing are 3Q2020 Results of Operations and Financial Position which provides and overview of Citizens unaudited financial position, including cash flow, invested assets, and surplus, as well as operational results for the period ending September 30, 2020. While the document titled 3Q2020 Results of Operations and Financial Position – Commentary provides commentary, discussion, and analysis of those operating results and financial positions. I'll be providing a summary of information contained within the commentary document. As of September 30, 2020, Citizens continues to remain on a strong financial footing with consolidated cash invested assets $8.8B, reflecting an increase of $70M relative to December 31, 2019. The increase in the consolidated cash and invested assets was driven by net cash flows provide by operations but partially offset by the January 2020 bond redemption and scheduled June 2020 bond principle repayment. Consolidated surplus at September 30, 2020 was $6.49B or $130M more than December 31, 2019, and was largely driven by consolidated net income of approximately the same amount. Direct written premium through the third quarter 2020 was $880.0M or 33% greater than the same period in 2019. This is a result of an increase in new policies written in Dade, Broward, and Palm Beach counties, along with increases in renewal rates largely due to temporary deferrals of payments and cancellations and certain underwriting procedures in response to the COVID-19 crisis. As of September 30, 2020, consolidated ultimate direct losses in LAE related to Hurricane Irma were $2.160B, which is unchanged from the prior quarter, and of that amount, $879.8M is recoverable under Citizens' reinsurance contracts with both the FHCF and private reinsurers. Consolidated ultimate direct losses in LAE related to Hurricane Michael were $149.9M, also reflecting no change from the prior quarter. There were no reinsurance recoverables related to Hurricane Michael as the attachment levels of the reinsurance arrangements were not met. Total losses and LAE associated with Hurricane Sally and other minor storms in 2020 were $36.3M as of September 30, 2020 with Hurricane Sally comprising approximately 98% of total losses and LAE. There was no reinsurance recoverables related to these 2020 storms as the attachment levels of the reinsurance arrangements were not met. Current accident year losses and LAE unrelated to sinkholes and hurricanes did not experience meaningful variances from the prior quarter and development of prior accident year losses and LAE was minimal. Although litigated non-weather water claims continue to be a dominant driver of loss and LAE activity within the PLA, the litigation rate trend for accident years 2018, 2019 and 2020 continue to show improvement in comparison to accident years 2014 to 2017. Within the CLA, losses and LAE related to sinkhole claims were relatively unchanged; however, volatility in older, non-sinkhole claims have the potential to contribute to material quarterly variances in the reported loss and LAE ratios in future periods. Administrative expenses incurred through the first three quarters of 2020 of $93.7M were $0.3M more than the same period in 2019 and $9.7M (9%) less than budget. Variances in contingent staffing from budget were primarily due to lower-than-anticipated needs for independent adjusters as well as a higher-than-anticipated number of claims entering mediation. Through September 30, 2020, Citizens' expense ratio was 20.3%, reflecting a 4.0% decrease from the same period in 2019 and a 4.9% decrease compared to budget. Total investment income was $207.7M, or $36.9M greater than the same period in 2019 while the total average invested assets declined $351.4M, or 4%. The relative decrease in earned income was principally driven by declines in rates of return within 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 net realized gains as portfolio managers sold securities that were held in positive mark-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. With 2020 drawing to a close, Citizens continues to maintain a strong financial position, despite a moderately active 2020 hurricane season and operational impacts associated with COVID-19 and the effects it's had on policyholders. If there are no questions, that concludes my report.

Chair Beruff: Thank you. Does the board have any questions? [silence] Hearing none, we'll move on to the next item.

Chief Claims Officer's Report

Claims Operational Consultancy Update & Matter Management Procurement Status Update

Jay Adams: Thank you. Good afternoon, Chairman Beruff and committee members. The Claims Committee met via Zoom on December 8, 2020 at 1:00 pm. During that meeting, I provided a strategic update that consisted of the Claims Operational Consultancy and the Matter Management Procurement. I'd like to provide the board an update as both of these items were takeaways from the September board meeting. I'll start with the Claims Operational Consultancy. This project is still a work in process. Citizens believes there is still no meeting of the minds with regard to the full understanding of the final product from Ernst and Young (E&Y). We expected that we would have this final report last week, and we did receive it late last night. Me and my team have not had an opportunity to go through their report to be able to understand where we are. What I would like to do is bring this back to the March Board of Governors meeting. I will let this board know that I have partnered with Joe Martins, our Chief Auditor, and he is going to work with us on any of the recommendations that we feel that need to be implemented. He is going to provide a management consultancy with us and provide oversight and governance around whatever the results are of this report. The second update that I want to provide is on the Matter Management Procurement. During the September 2020 board meeting, questions were raised . . .

Marc Dunbar: Chair, I have a question on the first one.

Chair Beruff: Governor Dunbar has a question. Go ahead.

Marc Dunbar: I don't mean to interrupt your flow, Jay. Were you done with the E&Y update?

Jay Adams: Yes. We really don't have an update to provide for today.

Marc Dunbar: Okay. And your recommendation is that this rolls to March because there is not a meeting of the minds?

Jay Adams: Citizens received their final report last night after 5:00 pm. We have not had an opportunity to go through it. I've set up meetings already through the month of January to start working our way through this and putting together the project plan with Joe and his team.

Marc Dunbar: Okay. So, I'm a little frustrated. For the benefit of the new members, and I apologize, but I've got to take you through a little bit of history, so you understand where we are. When I came on, as part of my initial interview both with the Governor and with the CFO there were issues that were raised at the time about the litigation climate as well as litigation expenses inside Citizens. It's something that Barry knows I've been laser-focused on, since I've been here. It led to a request for information that I was a board observer on. It led to a contract with Ernst and Young. The idea was to bring in somebody that could take a look at our operations and maybe make some recommendations… and validate some things we're doing and provide some constructive criticisms. It wasn't an audit. It was intended to be a look-in.

Jay Adams: Right.

Marc Dunbar: There are a number of people, both appointing officials, people outside that have . . . Jay, you do a great job. I've told the CFO and many others that I have absolute 100% confidence. If we ever get hit by a catastrophic event, that I sleep very well at night knowing you are in charge in Claims. I want you to understand that this is not directed at you at all. So, I don't want you to take this, you know . . . but, ultimately, everything reports up through you, so I'm going to somewhat vent my frustration to you. Claims litigation has been a subject of external criticism by folks that I value their opinion. It has been the subject of internal criticism of people that I value their opinion. I have sat with you, Jay, and Barry and Elaina, and I have had my own concerns that I've raised in terms of things that have happened inside claims litigation management that have been atypical. I have been met with, you know, for most part defensive responses. The audit team has been met with defensive responses. E&Y has been met with defensive responses. I've read documents that Barry and I have talked about where we have responded with things where I know for a fact are not true as a matter of law. And, this should have been closed out. This should have been closed out before we go and re-up our claims litigation system, which we are now going to be voting on in the March meeting. I know we have talked about that we have . . . we sought their input before they looked for a system on whether or not we should be doing anything inside of our litigation management system. But now we are matching up their recommendations with the same board meeting where we are going to be voting on a litigation management system where at the same time we could be voting on a General Counsel. The bottom line is this – and I know I'm just one member of the Board of Governors – but there have been repeated problems and reticence inside claims litigation to criticism and transparency, in my opinion. And, Jay, it ultimately, you know, comes to you. And this whole idea we have to have Ernst and Young agree with us or we have to have a meeting of the minds on their views – I just fundamentally disagree with. I don't care who it is. I know my own . . . the audit team inside the Director of Audit – we're having to turn over every rock to find an auditor with experience in litigation background because our own folks don't respect our own audit team to go in there because they haven't litigated cases and don't have that experience: I've heard that over and over and over again. I've had my experience challenged: I've never litigated a defense case so what could I possible contribute to the improvement of litigation inside of claims of this operation? I'm very, very frustrated that this can has been kicked and kicked and kicked, and now we're going to wait for a meeting of the minds of this. And I'm not happy at all about it. There is no reason we should be in a situation, Mr. Chair, at all, and so, I've sufficiently vented. I'm not happy.

Barry Gilway: Can I make a few comments, Mr. Chairman?

Chair Beruff: Someone is going to have make a few comments because I don't understand. I want to understand it totally, which means this may need to drag on for a while. Maybe your comments will clarify the comments that Mr. Dunbar . . . I'm just very, very intently listened to.

Barry Gilway: As we all know, the litigation climate in Florida is totally unique, and it is horrendous for every single company in the marketplace. Every company has a major litigation problem, so I think we can all agree we can start with that premise. We also agree that with you, Governor Dunbar, that although E&Y had almost no Florida litigation experience and were not familiar with the Florida marketplace, that given their extensive capabilities on a national basis, that without any question, they could contribute real value to an evaluation. I have been personally involved in this now for the last two or three months because we did not seem to be making the progress that I would have liked to have seen we make. I've had personal discussions, as you know, with Ken Thomas from E&Y who has been directing this. The fundamental issue from my standpoint is this: one, they have made recommendations that we absolutely agree with and I think would be highly beneficial. They raise from organizational redesign recommendations that we would certainly support, and we would intend to move forward with . . . but, there are recommendations that they made that are not consistent either with Citizens' structure or the marketplace. For example, a recommendation that we discourage the use of independent adjusters for legal counsel in the state and that we hire our own staff given the overall, you know, verities of the marketplace – we don't agree with that overall recommendation. So, there are some recommendations that we do agree with. There are other recommendations that we do not believe reflect a really good understanding of the marketplace. It has been a struggle with E&Y frankly because, although this was a consultancy, it was never handled as a consultancy. There was virtually no discussion back and forth, and the reality is, it was handled as an audit. Now, I think you know this well and certainly Joe Martins does, if you go back to Joe Martins review that he'll present a little later, you will see virtually no recommendations made by Joe that are outstanding. So, we're always open to recommendations that make absolute sense. I suggested, in this case, that if we had two differing opinions, E&Y and individuals within the Claims organization, that the best approach would be to engage – with Jay Adams' support – that the best approach would be to engage Joe, who, as you know, has done previous audits. The staff, although is a lengthy one, was to get Joe Martins directly involved in the E&Y process, and to be frank with you, he has been fantastic. He has made enormous progress. It has resulted in E&Y changing several of the recommendations as a result of Joe's input and Joe's review. At the present time, the process has gone on way, way too long. But, the end result, as Jay indicated, we just got the final report because there have been so many revisions. I can assure you that any sound recommendation that's brought up through that report, we're going to respond to aggressively. We have the same concerns. I will make one more point. You saw the litigation numbers. We've discussed them over the course of the last two days during committee meetings and in this meeting. Our litigation numbers have been outstanding. The approach we have taken to litigation has literally outperformed the industry relative to our ability through different mechanisms to reduce the litigation percentage. So, on one hand, I agree completely with where you're sitting in terms of this has to be a frustrating exercise. It is for me also. But, at the same time, I also have to reflect on Citizens' litigation performance, and frankly, its performance that supersedes the industry standard in Florida. I do understand your concerns, Governor Dunbar. I truly do. It has taken way too long. But, I do believe with Joe Martins involved, who reports to you directly, if we give him a role relative to really ciphering through this and determining the appropriate recommendations to move forward with and then working with the claims organization, you know, to implement those recommendations and make sure they're implemented effectively, I think we'll be on the right track.

Chair Beruff: Governor Dunbar, you're going to have to dumb it down for me. I'm a numbers-driven person. Where's the disconnect that I'm missing?

Marc Dunbar: I'll dumb it down and I'll be very candid. We spend $50-80M in litigation yearly, and while we may have success on the backside with trial victories or whatever, external, the industry does not think that that the way we do claims litigation is helping the overall marketplace. That's marketplace players talking to me.

Chair Beruff: We're not doing enough litigation?

Marc Dunbar: It's our approach. I mean, we have some instances . . . and, I get the monthly reports and there are sometimes that I go through the 40 plus page report, and I'm scratching my head on how in the world can spend $300,000 on litigation and appeal a $5,000 driveway crack that we could have solved and then dismiss the appeal? That's just one thing. I don't know the weeds of it. What I do know is my personal experience and the experience of some of our internal staff as well as people on the external is that we have a unit over there that does not play well with others, okay? It just doesn't. And I don't expect . . .

Chair Beruff: I'm sorry. Doesn't play well inside our company?

Marc Dunbar: Both inside and external.

Chair Beruff: Okay.

Marc Dunbar: And, we need to have an understanding that if someone external comes in and makes a criticism, whether it's constructive or destructive, we still need to know what it is. I don't think it's for management's job to say, "We don't want you to make that comment because we don't agree with it." I think that's for the board to decide, particularly when the board authorizes the expenditure for an item. We just paid $250,000 for somebody at FSU who has lots of recommendations. We're not necessarily going to agree with all of them. But, if management decided that they're going to sanitize that with only the recommendations that management agrees with comes to the board, it has the tendency to prejudice our ability to steer the ship. What I have been trying to do is to figure out inside that $50-85M spend. It's on that LAE side. It's not in Dan's budget in terms of corporate litigation. It's over there on the claims side. That's still a giant number. It's a giant number. And If we could spend money smarter . . . I mean appraisals worked and we've done a whole bunch of other things. That's what I'm saying. This is not directed at Jay at all. We've had a lot of successes. But I can tell you right now that Elaina has not been playing well. I don't think she's played well with me while I was on the board. This process has not gone well on the E&Y side. I know internally there have been issues. And I just, Jay and Barry, I ask that you please internally take a hard look at that. Because our senior managers, particularly the ones that are potentially being groomed can't always take the position that "my way is the only right way and anybody who criticizes my way is wrong." I mean, the one instance that we talked about where, you know, through questions . . . I found there where 20 appeals were potentially going to move with one lawyer to a shop that was much smaller than what she was leaving from and that was going to happen if I wasn't made aware of it or I didn't stumble across it. It was just going to happen over on the claims litigation side. The reaction was not one of "oh thanks, yeah you're right." It seemed to be more of an annoyance. I don't like that this has to be aired out here. But, to your point, and to crystalize it . . .

Chair Beruff: . . . it's the only time I get to talk to you guys.

Marc Dunbar . . . right, exactly. This is just a tip of a much larger iceberg that I've experienced the last three years here. It is claims litigation is a kingdom, that does not like criticism, and we need to be more open in there. This should have been done a long time ago. We should have constructive recommendations that can go along with when the Executive Committee or the special committee, whatever, interviews for a General Counsel candidates, the new General Counsel needs to know what the environment is inside Claims Litigation because I think the new General Counsel should have a hand in looking internally at that organization, having somewhat of a level of oversight because, right now, I don't think we are doing best by our insureds and I don't think it is reflecting well for us long term if we repopulate.

Chair Beruff: Where is that chart that shows our litigation? Is that complete? That chart is total claims including payoffs, correct? That chart that says we saved $91M, correct? Does that include what Governor Dunbar is talking about?

Barry Gilway: The $90M Exhibit and the $252M Exhibit that Brian referred to includes the litigation. The only point…

Chair Beruff: I've got to understand things the way I understand them. What Governor Dunbar is talking about, is that bucket of money – the bucket that shows that we reduced litigation from fifty something percent to twenty something percent. Is that yes or no?

Barry Gilway: Yes. The claims going into litigation – it's a different issue.

Chair Beruff: A long time ago, I realized I couldn't run my company on whether or not everybody gets along. I've got to look at the numbers a lot. I want to make sure…

Marc Dunbar: Litigation avoidance is what you're. . . there have been a lot of successes over the last three years on litigation avoidance. To keep us out of litigation, but once it gets into litigation, that's a big number. It's a big number, and that's what I've been focused on.

Chair Beruff: Okay, that what I've not seen.

Barry Gilway: Governor Dunbar is correct. I believe the number last year was $107M in defense costs. So, it is a…

Chair Beruff: So, this is not the number we're bragging about. This is the cost we incurred last year outside defense counsel that we hired to litigate claims.

Barry Gilway: It's a cost associated with a pending – close to 13,000 pending claims and the cost associated with an entry level of about 830 new litigated cases per month coming into the system.

Chair Beruff: Right. I got it. So, that's where we're talking about that our internal people are or are not cooperating with the hired people we have in the field?

Marc Dunbar: So, E&Y is looking at that: that $105M bucket because we did a request for information. In the external industry, there are criticisms with what we do with that $100M. Right? So, again, going back to when I was interviewed, it was, "Take a look at that. Try and figure out what's going on there. Try and make that number smaller", what are we doing… because one, if we litigate the wrong cases and we get bad press, then it affects the whole industry. But the other part about it is if we litigate cases we shouldn't, we're slowing down paying our insured. That's obviously a whole different kind of problem. So, we're trying to figure out what's going on and it's been a challenge. There are audits that go back several years, and Barry is well aware of them, that have been critical of Claims Litigation. We've made significant improvements. I can see that. There have been significant improvements in trying to get rid of bad counsel and things like that. But what I've experienced is that there is, I think a little bit of we're resting on our laurels. We can't get any better; and therefore, we're going to be defensive of what we have in place. In addition to that, our claims litigation system that we've got a contract with Acuity, when we contracted with Acuity several years ago, we were probably 90% of their book. We basically made that company, when we contracted with them to come in and do our claims litigation management. And, then when the audit team went in there during the roll-out and has looked at it, they have evaluated certain capabilities inside of Acuity that our Claims Litigation team doesn't completely utilize that would give them more transparent look of what's going on. It would also help our audit team look at "why that defense counsel," "why this," "why that" "was their efficiencies in the billings" . . . all of that kind of stuff. There has been a reticence to utilizing some of that data, instead defaulting to practices that predate a lot of that technology. We still do some things – some very old excel databases and some other stuff that we are not maximizing the technology that's available, which is why I wanted Ernst and Young to have gone through the process, and whoever comes in to oversee this – the new General Counsel – because I don't want to presume that Acuity is the right system, even though Acuity has now been accepted in the much broader marketplace because we haven't necessarily been using Acuity to its maximum capabilities. As you start to twist some of these knobs, there is definitely internal reticence to turning any of them as evidenced by what E&Y has been experiencing. I talked to them one time. I was on one call with Dan, Barry, and company to try and see if I could, you know, help out. It was clear on the E&Y side that there was a personality conflict on our side. And, I said, "Look, guys. You need to work it out and have deferred because it's not our job as board members to get involved."

Chair Beruff: If there's this much discussion on this particular issue, I would imagine staff is pretty focused. The question I have is how do you measure if we're making improvements? Dollars and cents are simple: "we were at this and now we're at this." How do you measure other than fast results?

Barry Gilway: There are extensive reports, Mr. Chairman. It would take us a day to go through the individual reports to monitor the overall progress. I think the best thing I can say is this: I concur with your concerns; however, we differ greatly in terms of the overall impression of how our litigation organization is operating and how effective they are. I believe in Elaina Paskalakis and her team, particularly, given the pending count of 13,000 – it used to be close to 15,000 - but the closing ratios are bring it down now . . . and, by the way, close to 900 new litigated cases coming in, I think they're incredibly effective. However, I do want to make this point. I concur with your point on E&Y. While I disagree completely with several of the observations that were made, I personally do, the reality is they are the pros and there is no question they have made recommendations that we absolutely should respond to. The reason we got Joe Martins involved, frankly is to give you a direct contact through the Audit Committee to make sure that we're responding effectively to recommendations that are made, you know, for improvement made by E&Y. I can guarantee you that those improvements – those recommendations – will be followed up on.

Marc Dunbar: . . . and I talked to Joe. The one thing I want to put out there that is frustrating is that we need the organization to play well with others. We spent four months, I believe, over debate on whether things were subject to attorney client privilege, on whether they could be provided to E&Y, all of the different things to try and protect that data, which I have been very much a defender of since I came . . . I don't want any documents created for me that would compromise privilege or shed light on any litigation strategies or anything, but when I ask to look at it and I went through the documents and we talked about this, some of the things we said we couldn't provide to them because they were attorney client privilege were very basic public records. And, again, these are small vignettes of a bigger problem. That manager has got to play better with others. I, as one board member, need that communicated, and if we have got to do some kind of training or whatever . . . that's just not acceptable. That level of delay over basic things that you have to get involved in and that I have to get involved in led to us not having the report that I was told at the September meeting we'd have.

Chair Beruff: Governor Dunbar, did you get the report?

Marc Dunbar: No.

Barry Gilway: We only received the report last night from E&Y. The claims organization simply . . . by the way, that report . . . I understand that report from Joe, in a discussion just two days ago, that report contains a significant number of revisions from the original assessment.

Marc Dunbar: But the document you CCed me on – the response to the initial draft report, which I believe predated the last board meeting, you know, I mean, I can see from that document when we me I told you, I had to stop reading. All we're doing is basically trying to change the mind of a group that... just… let the report come out to the board. So, we've been fighting and holding this report to try to get them to re-write it and that's what's frustrating.

Barry Gilway: For clarity, Governor . . .

Chair Beruff: I don't want to go around in circles. . . we have a board meeting on January 26. We have a pre-report that you obviously got a hold of, right?

Marc Dunbar: Months ago.

Chair Beruff: We now have a report that we got yesterday. My suggestion is that everybody get a copy of the final report, and for those who want to review the previous report, and then let's put it as an agenda item to discuss at the January 26 meeting. To the extent between now and then, the staff has plenty of time to look at the report, digest that report, decide what it thinks it wants to implement, and then the board will look at it and say, "Yes we agree with what you want to do, or in addition to that, we want you to do x, y, and z." I also think, maybe wrongfully, that we're about to hire a new General Counsel. Does that department report to that individual? No, that's claims. That's a whole different ballgame. That's where my confusion lies. This will have nothing to do with the new General Counsel's job.

Barry Gilway: Governor Dunbar is correct in that the General Counsel will be responsible for the overall strategic direction of litigation; however, the litigation organization reports as part of the claims division.

Chair Beruff: Okay, but you still have the General Counsel over the whole thing?

Barry Gilway: General Counsel has strategic direction over it.

Chair Beruff: The report is timely in the sense that you have a General Counsel that's going to join us, right, and he'll have this beautiful report that says everything that's wrong he'll need to fix, plus, or whatever the staff dictates, "You know we don't agree with every recommendation"; and then this board will hear that out and say, "Yes, we agree with this and we do agree that some of these things really aren't really appropriate for us." Then, you act and go on. Is that okay with everybody?

Barry Gilway: I support that totally. I think ultimately if we present the final report, you know, which includes numerous clarifications, if we present the final report, and then if we have any disagreements with the final recommendations, we can certainly outline those to the board.

Chair Beruff: That's all we want is transparency. For the board members who want to see the pre-report (I'll be right with you, Governor Lopez-Cantera. Thank you for raising your hand.), we'll go forward. Now I'd like to hear comments. Governor Lopez-Cantera, please have the floor.

Vice Chair Lopez-Cantera: We did discuss this at the September meeting. I revisited the minutes. There was discussion about how Jay and his team were going back and forth with E&Y. And, after the passion that Governor Dunbar has shown on this, and frankly, I thank him for his efforts on this matter because litigation, I think, is the next big item that this board should address because I have heard from the private industry as well that many times Citizens will fight something they shouldn't and other times they won't fight things they should. If I understand this correctly, we're going to get the final report distributed to us, and if we'd like, we'll get all previous versions of that draft report that were shared with staff along the way, so that we can make our own conclusions as to what they recommended at one point and what staff maybe pushed back on. But, at least we'll have a full, broad picture understanding of this issue. That's my question.

Chair Beruff: Perfect. Thank you very much. As an aside, we have so much litigation that anybody – we're human beings making judgments every day, okay. And, the people we hire are making judgments every day. I'm not trying to belittle the situation because I think it's one of the biggest situations we have to deal with, but we have to look at the broad base and that is 15,000 litigated cases and made mistakes on five or 10 or some miniscule percentage. Yes, they were big mistakes. Spending $300,000 defending a $5,000 claim is a big mistake, okay. There is no question about that. But, when you're dealing with those kinds of numbers, you want to try to find a way to create a control so that doesn't happen again, now that you realized that it happened once. But, at the end of the day, we're going to make mistakes and all we can do is try to get better at it so it doesn't continue to happen. We should discuss the report that we spent a quarter million dollars to get prepared because the last I checked that's real money. Everyone should have the benefit of discussion at the January 26 meeting. Is there an action item here or is this just a discussion?

Jay Adams: It's just a discussion item – an update for the board.

Vice Chair Lopez-Cantera: When will those documents be distributed, Mr. Chair?

Chair Beruff: To Governor Lopez-Cantera's point, if the staff would be kind enough to distribute the documents to all board members who asked for it in both the pre and the final and we'll go from there.

Barry Gilway: Mr. Chair, the only suggestion, if this is acceptable to the Chairman and the board, we just need a few days given that we only received the report yesterday. I have not had a chance to review it. Neither has Jay in detail. If you could just give us a few days in order to, you know, make any comments relative to that report before we distribute it to the board.

Chair Beruff: I support distributing it to the board whenever you get to it with no edits. We want to see the raw data. We'll take your comments into consideration. We hired an outside agency to create a report; we ought to get the report the way it's written with whatever comments you want to make, and then any other person on the staff, unless someone disagrees with that. I'm willing to discuss that further. Anybody have any problems with that?

Vice Chair Lopez-Cantera: I think there should be no editorialization. I'd like to see the report distributed as soon as possible. We can set aside time at the next meeting so that Barry and Jay can make their comments, but give us an opportunity to digest it on our own. Then, you guys make your case for where E&Y screwed up or where they were wrong or where they were right. Give us the opportunity for us to make our own judgment calls first.

Chair Beruff: Thank you, Governor Lopez-Cantera. I think I made that pretty clear. That's the direction I asked for the staff to follow. Mr. Dunbar?

Marc Dunbar: The only thing I want to add and double check, so we're slotted to. . . .[inaudible until mic is turned on]

Vice Chair Lopez-Cantera: Marc, we don't hear you well. At least I don't.

Marc Dunbar: Sorry, I hit the wrong button. I'm looking at the calendar. We have already ranked the respondents to the Claims Litigation Management System Software ITN. And, by the calendar, it shows we're going to announce an award in January and then the board is going to vote on it in March. I have been raising over the last few months that it seems a little bit putting the cart before the horse for us to award something without knowing what it is that we might need to fix. Can I make a recommendation to staff that we announce some delay because I know, Jay, from the last board meeting we have 18 months left on the contract or something like that? Can we delay the litigation management award announcement until after we're able to, as a board, review the E&Y comments, think about it, and see whether or not we actually do want to move forward with an award or if we're going to modify the ITN, pull it back or whatever. I throw that out there because it seems like, you know, you're buying a piece of farm equipment without knowing what you're going to plant.

Barry Gilway: Governor Dunbar, I'll turn it over to Jay, but just a couple of comments. Number one, the first thing we asked E&Y to look at was the scope document associated with what's going to be required in a new Matter Management program. We included all the recommendations in terms of the scope document that came out of E&Y. We went a step further. The bottom line is that we asked all of our IT people – Kelly took the lead – and we had her get involved directly to make sure that, although Steven Woods who works for Dan and Elaina and the whole team – although they had evaluated, you know, all the scope requirements for the Matter Management System, we then asked Kelly and the IT organization to take a look, also. They also weighed in. I think the position we're taking is that the scope of the Matter Management System as outlined in the procurement, you know, clearly incorporates the E&Y recommendations and suggestions. Jay, I don't know if you have any further comments on that.

Chair Beruff: Can I just come in here for a second? Are we concerned that company that we're choosing for this next level of management doesn't have the capacity to do it, or are we concerned that we're engaging a company that doesn't have the full scope that we want it to do?

Marc Dunbar: It is more the latter, but what I'm concerned about from Audit is making sure we have a system that is in place so that when our auditors or the Auditor General or whoever needs to come in and check on things that we have a system in place that is delivering the reporting mechanisms to make it easier for them to come in and double check. It might be different than the way litigation team uses that system currently. I'll give you an example. When our audit team has gone in and done some audits and has asked for the generation of data out of Acuity, the data is not given to them in that fashion using that capability. Instead, it is generated by litigation management and Excel and other things. I know we're kind of getting into the weeds, but what I'm suggesting is that we wait and make sure that we see the report before we, as a board, make this decision. And in all due respect to management, I know you guys are doing your job and you do your job well in procurement, but as I pointed out before, the board is the one that makes the expenditure decision. And so, what I'm asking is that you just hold off because I don't think the board is ready to make an expenditure decision because we haven't even seen the report before you announce an award. Does that make sense?

Chair Beruff: So, the company we're looking to hire in January may not have all the bells and whistles that we want because we haven't seen the report? It's not that we doubt that the company doesn't have the capacity. Is that a true statement? We do not doubt the capacity of the company to do whatever we ask them to do, but we don't know what to do because we haven't gotten the report.

Marc Dunbar: Our audit team is not 100% sure. In talking to Joe yesterday, and I don't want to put Joe on the spot . . .

Chair Beruff: Our audit team is not comfortable that it has all the details [on the Litigation Management System] to give us the product we want.

Marc Dunbar: We want to make sure we have that, yeah.

Chair Beruff: I'm going to jump off the ledge, here. Now, if you hire the company with the caveat that they'll have to change and add any of the recommendations and actions that we get out of the report, are we achieving the same thing? Can't we add scope to the contract after we review . . . I'm just talking out loud here. Can't we hire the company and say, "Oh by the way, we've got this report. We may want you to do six other things." Or, is that not possible?

Dan Sumner: I think to answer your question and to what Governor Dunbar has said, even though I can attest to the fact that a lot of work has gone into this procurement, it does not make sense for the evaluators to make a recommended award to bring to the board when the board is not ready to receive that recommendation and have that recommendation that they need because the board still has to approve that contract, and if the board is not ready to do that, then essentially, you have an award that is not going to meet the needs of the board. So, it seems to me that Governor Dunbar has a very valid point that… Once you make the award, you lock in what is coming to the board.

Chair Beruff: Mr. Sumner, I appreciate that. That's sort of what I was looking for. The best thing to do is to follow Governor Dunbar's recommendation and postpone the award, until we get the . . . I was just seeing if you could do one and then turn around and add to it after the fact. Your comments are guidance in that particular arena.

Barry Gilway: The only thing I think we have to be aware of, Mr. Chairman, is that everyone anticipates the same length of time. This is probably the most important . . . I agree with Governor Dunbar. This is probably the most important procurement that we'll make for a long time because it revises, potentially, the entire litigation system. This system will take anywhere from 10 to 12 months to implement from the day the award is, you know . . . so, we just have to keep the time associated with that in mind when we're going through this process.

Chair Beruff: In the building business, we say, "Measure twice and cut once," so I say we take another month and deal with it in January.

Vice Chair Lopez-Cantera: Something I think that needs to be noted by yourself, Chairman and the new members, is had not Governor Dunbar brought this up today, this would have happened and we would have been forced to be married to this vendor and this contract. The only reason I bring this up is because Governor Dunbar has brought this up at previous board meetings. He raised red flags about this particular "cart before the horse" situation manifesting itself, and had he not said something today, it would have happened. It's almost evidence of a board member bringing up a very valid issue on a contract still has 18 months to go. It's not like we're going to be out in the cold with no system to service us, but he brought this up. Had he not . . . let's say he had COVID-19, God forbid and he wasn't here, this just would have happened. He brought this up before. He brought up this timing issue. It was, frankly, disregarded, and I think that is a point that you, Mr. Chairman and the new board members, seriously need to pay attention to in how this board is sometimes treated and concerns of this board are sometimes eventually disregarded or ignored because had not Marc brought this up today, it wouldn't have happened. I think that's very important.

Chair Beruff: Anyone else have any comments?

Barry Gilway: My comment, Mr. Chairman, is that the recommendations of this board are never disregard – ever disregarded. I think we have an entire history of responding effectively to the requests and requirements of the board. We have . . . if you talk to every single board member, they will tell you that staff respects their recommendations and responds affectively to their recommendations. In Joe Martins' report, I turn back to recommendations from the Office of Internal Audit, and I think there were zero outstanding recommendations: multiple recommendations made; multiple recommendations implemented. I do have to disagree, Governor Lopez-Cantera, that we ignore the requirements of the board because that has never happened in my 8.5 years here.

[multiple speakers]

Vice Chair Lopez-Cantera: Today is a perfect example of that occurring. Governor Dunbar brought it up again, today. Not the first time. . . this is the second or third time that he brought up this timing issue. Had he not brought it up again today and had not Chairman Beruff addressed it from a pragmatic and realistic and responsible perspective, it would have just happened. And, that would be a perfect example of a member of this governing board's concerns and frustrations not being addressed. This is not my issue. This is Marc's issue. He's very passionate about it. He's the one who has done the homework on it, and frankly, I think that should be acknowledged.

Chair Beruff: Thank you. I certainly listened to the comments. I'm going to listen to Mr. Adams and Mr. Holton. I'd like to hit Mr. Holton first.

James Holton: Everything I've heard, I appreciate the work that Marc has done. I think in this one instance, he has some valuable points. I don't think there is any blame to ascribe to the board to the staff or to anyone. I think there has been a series of potential miscommunications with E&Y. I cannot comment on the effectiveness or validity of the report until I've seen it, but in my eight years of experience on this board, every procurement I've been involved with has gone very smoothly. Staff has kept me and other board members that I'm aware of well advised. I do not think that this has been a systemic or continuing problem at Citizens. I think this is a unique situation. I think in this instance we do need all available data, but I don't think this should reflect negatively on the staff at all.

Chair Beruff: Thank you, Governor Holton. Mr. Adams?

Jay Adam: Thank you, Chairman. Just for the record, the award for this procurement was set to go off in November prior to this board meeting. Governor Dunbar did ask that we postpone that, pending this E&Y report. We posted that the award would move out to a timeframe in January. We did honor his request. We can certainly move it again, honoring his request. I'd just like to echo Barry's concern and a little bit of Governor Dunbar's. There is a significant timeframe to convert . . . if the incumbent vendor were to win the award, we'd have to do a conversion there as well. Part of the reason we were struggling with reporting that might be available – that Governor Dunbar was speaking about – is because the system that we're currently in under contract – they are no longer doing any new development for that. We are in a lockdown mode currently, unable to do . . . because we cannot expand the system. The longer we stay with this system, the longer we will be lagging in information.

Chair Beruff: Mr. Adams, I don't want to interrupt you, but I get it. It's common when you no longer have software that's no longer being supported. It's old. You can't rely on it. At this juncture this board wants another month to take a look at it, so I'd rather just move on to something else, okay? What else we got.

Jay Adams: That's all I got.

Audit Committee Report

Joe Martins: Thank you, Mr. Chairman. For the record, I'm Joe Martins, Chief of Internal Audit. I'd like to refer you to page one of the executive summary. I will be brief. At the Audit Committee meeting, we noted satisfactory progress against the 2020 plans for audit, internal control, and enterprise risk. And we presented progress made in the last quarter. We also presented a copy of the 2021 Office of Internal Audit (OIA) Strategy and Plan and the 2021 Office of Internal Audit (OIA) Budget for approval by the committee. The plan follows a risk-based approach which provides for the most timely and comprehensive scope of audit, risk, and control coverage. The 2021 Budget for Citizens OIA was approved at $3.33M as compared to $3.06M budgeted for 2020. Budget increases mainly relate to the increase in staffing cost and the procurement of the GRC system. The Internal Audit finalized five engagements last quarter. I'd like to highlight the Office of Foreign Assets Control (OFAC) audit which we assessed Citizens screening practices. Our work indicated that although OFAC screening is being done, there remains an opportunity to improve and strengthen Citizens' screening governance and control activities to ensure comprehensive OFAC screening is conducted going forward. For Quarter 1 and Quarter 2, next year we have 14 engagements scheduled, which include seven audit engagements, two advisory engagements, and five project support advisory engagements. Within that is the claims litigation work that we envisioned and which Mr. Adams mentioned. For control deficiencies as Mr. Gilway mentioned, the organization is very effective in focusing on control efficiencies and the organization is tracking forward with new observations. All observations have been resolved. Two of those observations are high impact open items relate to the recent OFAC audit and focus mainly on the development of a former OFAC sanctions compliance program and tightening the OFAC screening practices at Citizens. Mr. Chairman, that concludes my report for this meeting.

Chair Beruff: Is there anything else, Mrs. Walker, that I need to address?

Barbara Walker: No, sir.

Chair Beruff: Any new business? (Hearing none) I entertain a motion to adjourn this meeting. Thank you, everyone, for putting in a long day. I really do want you to have a wonderful holiday season with your families and Merry Christmas. We all get in line quickly for the vaccines so we can go back to a normal life in 2021. Thank you.

Meeting adjourned.

CITIZENS
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SPEAKER REQUEST FORM

Please complete this form if you wish to speak on a proposition before the Board or wish to designate a representative to speak on your behalf.

Meeting Date: December 16, 2020

Name: Mel E. Montagne

Title: President

Address: 713 Caroline Street Suite C

City: Key West State: FL Zip: 33040

Email Address: firmkeys@gmail.com

If dialing in, please provide your landline phone number (not cell). This will ensure a clear line into the teleconference.

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Representing: Fair Insurance Rates in Monroe

1. I wish to speak on the following matter(s):

   Agenda Item/ Proposition(s): 2021 Operating Budget, Annual Recommended 2021 Rate Indications

   I ☐ SUPPORT ☒ OPPOSE ☒ Information Only

2. I am designating the following person to speak on my behalf:

Submit this form to barbara.walker@citizensfla.com Contact# 850-445-9645