

# Executive Summary

Claims Committee Meeting, February 23, 2021  
**Board of Governors Meeting, March 3, 2021**

## Claims Legal Services

In its normal business activities, Citizens regularly engages outside law firms to provide representation in claims-related pre-suit and litigation matters in the following five claims-related services areas: First Party Property, Third Party Liability, Subrogation, Collections and Appeals. These outside law firms were procured via three separate solicitations: RFP 15-0023, RFP 16-0009 and RFP 19-0007; and the firms awarded under each solicitation comprise the 100+ law firms that make up the Claims Legal Services Program.

This Executive Summary is provided in support of the request to increase the total contract authority for the remaining two (2) years of the seven (7) year total agreement by \$180,000,000 from \$350,000,000 to a total amount not to exceed \$530,000,000 as a result of increased outside counsel fees and costs associated with a rise in pending litigated claims primarily due to the impacts of Hurricane Irma in 2017.

### History

The original estimated cost of the contracts provided for approval to the Board on December 9, 2015 was as follows:

- 2016 - \$65,000,000
- 2017 - \$60,000,000
- 2018 - \$55,000,000
- 2019 - \$50,000,000
- 2020 - \$45,000,000
- 2021 - \$40,000,000
- 2022 - \$35,000,000

The basis for these outside counsel spend estimates was reflective of a reduction in litigated claims volume due to, as stated in the December 9, 2015 Action Item, “(1) the success of depopulation efforts resulting in reduced policy and claim counts and (2) the implementation of a robust attorney oversight process centered upon greater involvement of Claims Litigation Management, In-House Counsel and the establishment of a comprehensive vendor management program.” Although Citizens was experiencing a decrease in litigation at the time, it was noted in the December 9, 2015 Action Item that “these estimated figures do not account for a sudden anticipated increase in PIF count or reported claims that would likely result in the event of a large storm or series of storms.”

The steady decline in the number of pending and new litigated claims that Citizens experienced in the years prior to 2016 was not sustained, and in 2017, the State of Florida was directly impacted by Hurricane Irma which caused a large influx of claims related lawsuits. The following table shows the number of new litigated claims for each year, along with the number of pending litigated claims as of December 31 of that year.

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| Year | # of New Litigated Matters | # of Pending Litigated Matters |
|------|----------------------------|--------------------------------|
| 2015 | 7,437                      | 6,816                          |
| 2016 | 9,947                      | 9,433                          |
| 2017 | 7,475                      | 10,332                         |
| 2018 | 13,042                     | 14,727                         |
| 2019 | 9,509                      | 12,773                         |
| 2020 | 7,552                      | 12,706                         |

Per the table above, Citizens saw a sharp increase in new claims litigation after Hurricane Irma in 2017, along with a general increase in total pending claims litigation that began in 2016. The impact of the increased claims litigation was further evidenced by the need to procure additional outside counsel in 2019 through RFP 19-0007. As such, the volume of claims litigation resulting from Hurricane Irma has led to greater than anticipated outside counsel spend that was not accounted for in the original contract estimates provided to the Board in 2015

| Year | Estimated Spend | Actual Spend    |
|------|-----------------|-----------------|
| 2016 | \$65,000,000    | \$41,889,228.78 |
| 2017 | \$60,000,000    | \$58,699,719    |
| 2018 | \$55,000,000    | \$77,390,961    |
| 2019 | \$50,000,000    | \$93,762,250    |
| 2020 | \$45,000,000    | \$81,134,076    |

Although the number of new claims related lawsuits has decreased from its peak in 2018, Citizens continues to see a volume of pending litigation that is significantly higher than the total pending litigation experienced prior to 2016. Based on the aforementioned, Citizens is requesting that the Board approve additional contract authority in the amount of \$90,000,000 for 2021 and \$90,000,000 for 2022 to cover the two (2) remaining one-year renewal terms.

## Recommendation

The recommendation is listed in the attached Action Item.

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other Increase total contract authority**

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

**Previous Board Approval** \_\_\_\_\_

**Other** \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

| Item Description          | Claims Legal Services   |
|---------------------------|---|
| <b>Purpose/Scope</b>      | This item seeks Board approval to increase the total contract spend to cover the remaining two (2) years of the seven (7) year total agreement from \$350,000,000 to \$530,000,000. As addressed in the accompanying Executive Summary, this increase in authorized spend is necessary to cover fees and costs associated with a greater than previously anticipated Claims related outside counsel spend as a result of the increased volume of pending litigated claims due to the impacts of Hurricane Irma. |
| <b>Contract ID</b>        | Claims Legal Services<br>RPFs 15-0023, 16-0009, and 19-0007<br>Multiple Vendors   |
| <b>Budgeted Item</b>      | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No<br>Funding for these contracts is included in the 2021 Annual Operating Budget and will be paid as a Loss Adjusting Expense (LAE).   |
| <b>Procurement Method</b> | The contracts that make up the Claims Legal Services Program were procured via three (3) separate solicitations.<br><br>On August 12, 2015, Citizens issued Request for Proposals 15-0023 for Claims Legal Services. Vendor responses were due by September 15, 2015 and 110 proposals were timely submitted. These proposals were reviewed and scored by an Evaluation Committee who recommended to award contracts to 110 law firms on November 10, 2015.   |

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|  | <p>On February 2, 2016, Citizens issued Request for Proposals 16-0009 for Claims Legal Services – Supplemental First Party Property. Vendor responses were due by February 19, 2016 and six (6) proposals were timely submitted.</p> <p>These proposals were reviewed and scored by an Evaluation Committee who recommended to award contracts to six (6) law firms on March 1, 2016.</p> <p>On March 13, 2019, Citizens issued Supplemental Claims Legal Services RFP 19-0007. Vendor responses were due by April 15, 2019 and twenty-one (21) proposals were timely submitted. The proposals were reviewed and scored by an Evaluation Committee who recommended to award contracts to twelve (12) law firms on June 5, 2019.</p> |
| <p><b>Contract Amount</b></p>          | <p>The estimated cost of these contracts provided to the Board in 2015, 2016 and 2017, including renewals, was as follows:</p> <ul style="list-style-type: none"> <li>• 2016 - \$65,000,000</li> <li>• 2017 - \$60,000,000</li> <li>• 2018 - \$55,000,000</li> <li>• 2019 - \$50,000,000</li> <li>• 2020 - \$45,000,000</li> <li>• 2021 - \$40,000,000</li> <li>• 2022 - \$35,000,000</li> <li>• Total - \$350,000,000</li> </ul>   |
| <p><b>Contract Terms</b></p>           | <p>The contract term for those contracts procured under RFP 15-0023 had a base term of five (5) years, which expired on February 3, 2021 and included two (2) optional, one-year renewal terms available upon mutual agreement of the parties. The contracts procured under RFP 16-0009 and RFP 19-0007 mirrored the contract term awarded under RFP 15-0023 with a February 3, 2021 expiration date and two (2) optional, one-year renewal terms. Citizens executed the first one-year renewal option for contracts procured under all three solicitations on February 3, 2021.</p>  |
| <p><b>Committee Recommendation</b></p> | <p>Staff proposes that the Claims Committee review, and if approved recommend the Board of Governors:</p> <ol style="list-style-type: none"> <li>a) Authorize the recommended increase of the total contract authority by \$180,000,000 to cover the last two (2) years of the seven (7) year total agreement from \$350,000,000 to a total amount not to exceed \$530,000,000, as set forth in this Claims Legal Services Action Item; and</li> <li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li> </ol>  |

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| <b>Board Recommendation from Committee</b> | If approved at its February 23, 2021 meeting, the Claims Committee recommends that the Board of Governors:<br><br>a) Authorize the recommended increase of the total contract authority by \$180,000,000 to cover the last two (2) years of the seven (7) year total agreement from \$350,000,000 to a total amount not to exceed \$530,000,000, as set forth in this Claims Legal Services Action Item; and<br><br>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. |
| <b>Contacts</b>                            | Jay Adams, Chief Claims Officer<br><br>Belinda Miller, Chief Legal Officer and General Counsel - Interim   |