

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, March 3, 2021**

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened telephonically on Wednesday, March 3, 2021 at 8:30 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
Reynolds Henderson
James Holton
Will Kastroll
Scott Thomas

The following Citizens staff members were present:

Barry Gilway	Joe Martins
Jennifer Montero	Mark Kagy
Brian Donovan	Violet Bloom
Barbara Walker	Huw O' Callaghan
Jennifer Dilmore	Paul Kutter
Christine Ashburn	Karen Holt
Kelly Booten	Scott Crozier
Wendy Perry	David Woodruff
Belinda Miller	Ray Norris
Jay Adams	Eric Addison
Andrew Woodward	Chelsea Garfield
Jeremy Pope	

The following people were present:

Jim Kramer	Ernst and Young
Ken Thomas	Ernst and Young
Dave Newell	
Khapil Bhatia	

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens March 3, 2021 Board of Governors Zoom webinar that is publicly noticed in the *Florida Administrative Register* to convene at 8:30 AM. The minutes will be made available on our website from this recorded meeting. For those attending today's session through the public link, you are automatically in listen-only mode. Thank you to our speakers for identifying themselves prior to addressing the board. Chairman, we do not have any speakers today. May I proceed with roll call?

Chair Beruff: Please proceed.

Roll call: Chair Carlos Beruff, Vice Chair Carlos Lopez-Cantera, Bette Brown, Marc Dunbar, Lazaro Fields, Reynolds Henderson, James Holton, and William Kastroll. Scott Thomas later joins the meeting.

Barbara Walker: Chairman, you have a quorum.

1. Chairman's Report

Approval of Prior Meeting Minutes

Chair Beruff: Thank you. I'd like to welcome everyone to the first in-person meeting with some of my colleagues that I have been working with for a few months. It's a pleasure to meet you and talk without the Zoom lens. For those of you that couldn't make it, we appreciate your attendance, and I look forward to catching up with you in the near future. I think we'll start the meeting by entertaining a motion to adopt the minutes from the last meeting.

Bette Brown made the motion to approve the January 26, 2021 Board of Governor minutes. The motion was seconded. All were in favor. Motion carries.

Consent Item Index Process

Chair Beruff: We are now going to go to the Consent Agenda. Is there any member who wants to take anything off of the Consent Agenda . . .

Barbara Walker: Chairman, may I read through this quickly, please?

Chair Beruff: Of course.

Barbara Walker: Thank you. The action items that have unanimously passed through committee are Claims Legal Services, Water Mitigation Estimate Review, Audit Committee Charter, however, you stated you prefer to leave the Claims Legal Service as an action item to be addressed after the board listens to the Ernst and Young (E&Y) discussion. Additionally, those action items considered day-to-day operational are Lean, Agile, and Continuous Improvement Training Services; HR Leadership Council Subscription; and Employee Online Learning and Training Platform. The last item currently residing for consideration on the

Consent Agenda is the HRMS Human Resources Management System Consultant Services. Chairman, this concludes the list of suggested items to move from action to consent for board consideration.

Chair Beruff: Thank you. The chair will entertain a motion to approve.

Marc Dunbar: Chairman, this is Marc Dunbar. Can I weigh in on something real quick? Can we pull both the Claims items off the agenda? I appreciate you pulling the Claims Legal Services one off. It's more of a discussion on the mechanics of it, and it may be something to pose to Belinda [Miller]. I dialed in and listened, but I was in listen-only mode and couldn't raise an issue. I was trying to follow just the way those items got to the board, and I think we can cure it. But it doesn't seem like we followed our typical committee procedures to move those items through. Best from what I can tell from listening to it, the Chair made the motion, and it was seconded by a non-committee member. I'm not 100% procedurally, under Robert's Rules, I don't even think that's the right way to do it, but more importantly, from a historical, operational context, that's typically not the way things happen. Chairs don't make motions. Those items usually . . . The gavel gets passed and I didn't know that non-committee/non-board members made motions and voted on motions. I don't have a problem with the item. I'm just more concerned whether we had three attorneys dial-in and people are paying attention to the way we do things obviously based on their attendance and comments and I'm concerned about some challenges to any items being ultra vires because it didn't follow the historic procedure or establish procedures that we have. So, it's something that Belinda may want to look at it between now and when we get to those agenda items to make sure that there's not something we need to do as a full board to clean that up a little bit. And, this might go to Governor Brown's point later on, but I think you may want to look at having some sort of Governance Committee that can come up with a little better established procedures to make sure committees are operating in a uniform way because having gone through four committees to come to this board meeting, it seems like there may be some inconsistencies that need to be established . . . or some consistency needs to be established, particularly since we have new members chairing a committee.

Belinda Miller: Mr. Chair, I can address those concerns, which is that Robert's Rules does provide for the chair to make a motion in a small committee. We looked it up because I attended the same meeting that Governor Dunbar did, and that is provided for in Robert's Rules. Those appointed committee members are appointed by the chair . . . they are not board members. So, I assume you're talking about Mr. Palmquist's participation. Is that the instance that is being referred to?

Marc Dunbar: Yeah. It seems like he was making motions and voting on agenda items. I did not know that we've adopted Robert's Rules for small committee because, in the past, and other meetings I've been on, Dan [Sumner] would have the gavel be passed when there weren't sufficient . . . I mean I remember I couldn't second a motion because I had a conflict because my law firm represented an entity on a committee that was chaired by Gary Aubuchon, and Dan instructed him to pass the gavel to me so he could make the motion and then I passed the gavel back to him. Here's the thing: I don't care. Particularly since we had people dialing in, paying attention to our activities, I just want to make sure . . . again, this is why I think we ought to have a Governance Committee set up. If we're going to operate under the small committee rules of Robert's Rules, great. Let's go ahead and adopt it and clarify it in the rules of procedure, but I know that we've had under Dan's instructions, we've passed gavels and things like that. Again, I don't care. It's just I just want to make sure we're doing things correctly, so that some time down the road, we don't find out, you know, we could've cleaned something up and missed the opportunity.

Chair Beruff: Okay. Points well taken. We'll just adopt the small committee rules as they are part of our policy now.

Will Kastroll: Chairman, may I speak?

Chair Beruff: Who is this?

Will Kastroll: Will Kastroll.

Chair Beruff: Of course.

Will Kastroll: I just want it noted and for the record that we did follow the proper procedures during the Claims Committee.

Chair Beruff: Like I said, I've only been here for a few months. Maybe the policy exists, and we've just been following it. Have we always followed the small committee rules by Robert's Rules of Order?

Belinda Miller: It's not a separate . . . It's part of Robert's Rules. When you pull up Robert's Rules, it is an answer to a question even on the website. I don't think it's unusual; although, in legislative committees, I know they do follow a rule where the chair does not make the motion.

Chair Beruff: Right.

Belinda Miller: ...but it is allowable for an organization with a small committee, and it's almost a necessity because you only have three members of the committee.

Chair Beruff: I think for formal purposes, do we have to do anything to make it clear that we are operating under Robert's Rules of Order for small committees in the small committees?

Marc Dunbar: Typically, you do. There's some sort of resolution.

Chairman Beruff: I'd like to entertain a motion to make that the policy.

Marc Dunbar made the motion. Bette Brown seconded the motion. All were in favor of the motion to make the Robert's Rules of Order for small committees as part of the policy. All were in favor. Motion carries.

Chair Beruff: So, we now have a formal policy for small committees. So, I thought, Barbara, that we moved the claims (the E&Y discussion) . . . Did we leave pieces of it in?

Barbara Walker: No, sir. What we did was we moved the Claims Legal Services to the end, and Governor Dunbar wanted to add the Water Mitigation Estimate Review Services also to the end.

Chair Beruff: But, Governor Dunbar, if I can ask the question, did you want to move that because of the procedural problem or did you have a specific issue with the item? I don't care. I'm just asking because if we solved the procedural problem, then we can leave it on the Consent Agenda. But, if we have other issues, then I'm more than happy to put it later with the legal issues.

Marc Dunbar: No, I wanted to make sure it wasn't procedurally flawed. I'm fine with the item. I just wanted to make sure we are operating consistently.

Chair Beruff: I just want to make sure I took care of what you wanted us to do. So, put it on the consent and go ahead and read the Consent Agenda, please.

Barbara Walker: Yes, sir. I'll read each recommendation.

- The first one is **Lean, Agile, and Continuous Improvement Training Services**. Citizens' Staff proposes that the Board of Governors: a) Approve contracts with the fourteen (14) vendors identified in the Consent Item for Lean, Agile, and Continuous Improvement Training Services for a base term of three (3) years, in an aggregate amount not to exceed \$300,000, as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.
- The next one is **HR Leadership Council Subscription**. Citizens' Staff proposes that the Board of Governors: a) Approve the HR Leadership Council Subscription services contract with Gartner, Inc. for a term of three (3) years, for an amount not to exceed \$122,900, as set forth in this Consent Item; b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- The next one is **Employee Online Learning and Training Platform – Continuation of Current Services**. Citizens' Staff proposes and recommends the Board of Governors: a) Approve a three-year (3) contract with Carahsoft Technology Corp. for LinkedIn Learning Services, for an amount not to exceed \$140,425.20, as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- The next one is **Audit Committee Charter Review**. The Audit Committee recommends that Citizens Board of Governors approve the Citizens Audit Committee Charter as presented, and for the record, there were no changes.
- The next one is **Human Resources Management System Consulting Services – Authorization for Additional Spend**. Citizens' Staff proposes that the Board of Governors: a) Authorize an increase of \$250,000 to the previously approved contract amount of \$450,000 for the HRMS Consultant Services Contract No. 17-16-0017-00 with Cognizant Technology Solutions, resulting in a new contract amount of \$700,000 over the entire six-year contract term, as set forth in this Consent Item; and, and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- The last one is **Water Mitigation and Mold Remediation Estimate Review Services**. the Claims Committee recommends that the Board of Governors: a) Approve the Water Mitigation and Mold Remediation Estimate Review Services contract with Lynx Services, LLC (Primary Award) and The Fast Team, LLC (Contingent) for an initial term of (3) years and two optional renewal terms of (1) year, for an amount not to exceed \$3,026,180, as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.

Chairman, that concludes reading into the record the items that have been moved from action to consent or if they were existing on the consent.

Chair Beruff: Thank you, Barbara. I will entertain a motion to approve the consent agenda items.

A motion was made to approve the above said Consent Agenda items. Bette Brown seconded the motion. All were in favor. Motion carries.

Citizens' Economics/2013-3Q2020

Chair Beruff: Thank you very much. On to our first economic slide. So, I'm glad we're all here in person because I'm just old fashioned. It's hard for me to communicate. So, as you look at the situation we find ourselves in, this board has got a job to do that unfortunately has been thrust upon us by factors completely out of our control. We have to take control over them in one way or another. I asked staff to put together some numbers for us and then some definition that everyone here understands (pretty basic: premiums, losses, adjustment expenses, underwriting, net profit, etc.). If you can go to the next slide, please. Now I don't know the people who are on Zoom if you could see . . . Can they see my cursor or not? Maybe they can't on the computer.

Marc Dunbar: They can't see the cursor.

Chair Beruff: Okay, so if you look at the right column of the total column, in that seven-year period, we took in \$7B in premiums. Then you go item for item until you get to the redline and then you have a cumulative loss of \$689M. We lost on an operational basis two-thirds of \$1B. Now, I learned the business from Barry Gilway across the hall from me here, and I asked him when he was in the private sector how the gentleman that he was associated by name of Bill Berkeley bought insurance companies. And it's really pretty simple; not complicated at all. They would look for insurance companies that operated at 95. 95 translates into they make 5% on premiums – operational profit. So, they took \$100M in premium; they were looking for companies that were showing a \$5M bottom line. That's EBITDA earnings before interest, taxes, depreciation, amortization. If the company didn't have that kind of statistic, they weren't interested in buying it. Right now, we don't have that kind of statistic. That's pretty obvious. The last time we made money operationally was in 2014. Is that correct from the slide? So, the reason we make money is because we're taking the investment income out of approximately \$6.3B or more dollars and then taking that income and offsetting our losses with it. That is the problem in Florida insurance. We're just one of many that are having this significant issue. But we have to try to find a way to solve that problem or at least reduce it to zero because what we're doing instead of putting away significant sums for future impacts, we're continuing to live off the dividends that the money is paying. Nobody in this room would be able to tolerate that in their own personal life, and no business could live that way for an extended period time. Worse than that, if we had a 1-100-year event in the wrong markets, we would essentially wipe out if not a significant portion of our reserves. So, we're at a place that we have to make some, I think, we have to make some hard decisions or think about how to solve the problem. I've had the pleasure working with people in this room that are really smart, and they have ideas, I'm sure, and they have ways to try to bridge the gap and reduce our continued operational losses. You want to go to the next slide. It shows the whole industry, right?

Barry Gilway: This slide refers to the performance of the Florida Specialists.

Chair Beruff: So, it's basically your carriers in Florida. It shows you that collectively, they've lost \$1.12B on operations, right, in the same period of time. So, if we collectively don't fix the problem the insurance business has in Florida, and that has to do with primarily there is litigation which is causing the big run up in operational expenses but there's also a shortage of credit worthy domestic carriers in Florida. My concern with that, which would be all our concern, is that we have the privilege of taking all the failed companies' policies when they fail. So, when you add that potential problem to our own problem, you could find yourself with not enough money to take in all the business we could take in a 1-100-year event.

They would fail. They would be companies that would not be able to meet the requirements of their policyholders. Do you agree with that, Mr. Gilway?

Barry Gilway: Yes, Mr. Chairman.

Chair Beruff: So, our problem is not only ours but it's the ones that we may inherit in the case of a catastrophic event. And, obviously last year we're coming off a record year. Was it 30 named storms? They went through the Greek alphabet pretty much. So, it's concerning to me that we first of all find a way to try to get operationally to zero. If we get operationally to zero losses, that would be a huge win. But, at the same time, how do we get our brothers in this business to become profitable? That's going to have to be a legislatively driven agenda which Barry and Christine [Ashburn] are working on now, but it's going to need as much as possible your input and support to get it done. If you can go to the next slide. This is an example of a well-run insurance company, and this is what it should look like based on premiums and your operating profit. We should try to strive to figure out a way to get there. We also have a significant growth issue which everyone in this room is aware of. Our policy growth is really unsustainable. We just simply don't have the capital reserves to tolerate the policy growth. If we get to seven, we're going to get to 680,000 policies this year. We projected 630,000 policies as little as two months ago, and now we're looking at numbers closer to 680,000 to 690,000. Is that correct, Mr. Gilway?

Barry Gilway: Correct, sir.

Chair Beruff: So, the company simply cannot properly handle its own policy growth without considering the potential that we have of getting 50,000 to 100,000 policies thrown on our lap because of failures in our industry. So, we do have some headwinds and we need to try to all collectively . . . and I'm just glad to be here to listen. I'm just stating the problem and then we can talk about different ideas and solutions to it, but it's nice to have the majority of the board in the room so we can have a conversation. I don't know how to solve problems without communication. I just never figured that one out, and there's a lot of bright people that have ideas and we need to listen to them. The staff, I'm convinced, is capable of doing just about anything we ask them to that's legal [laughter]. I might add that. [laughter] So, with that opening comment, I'd like to listen to some ideas. I do have something that I'll present after we talk for a little bit about ideas, particularly one idea I have, which isn't popular among some people. But that's okay. [laughter] Again, I don't have the corner on a good idea, and it might not work. But it should be discussed amongst all the board members for their consideration. So, does anybody would like to add to the situation I've outlined and is there any disagreement with what I've outlined? Yes, please?

James Holton: One additional consideration I would add to the problems that you mention is that I am fearful based on some of the numbers that I have seen, and Mr. Gilway has shared with the other domestic carriers, that there is huge possibility of Demotech downgrading their ratings, which will, in turn, precipitate an automatic default with their lenders if they should have a mortgage. So, that even adds to the spiraling problem of various lenders rejecting carriers to be able to write the policies to back mortgages. So, in this type of situation, we're going to have a huge additional problem as well as a financial aspect of not being able to get credit on Wall Street adequate rate with the Office of Insurance Regulation (OIR) and so forth. So, this rating collapse could be a very serious problem in the next couple quarters.

Chair Beruff: Because those policyholders are going to have to roll to us.

James Holton: Correct. Exactly.

Chair Beruff: Because Fannie Mae and Freddie Mac are not going to say, “We were kidding about that requirement.” [laughter]

James Holton: Exactly.

Chair Beruff: Thank you for reminding me of that.

Will Kastroll: Chairman, may I speak? This is Will.

Chair Beruff: Mr. Henderson is going to speak and then go ahead.

Reynolds Henderson: I was going to add to Governor Holton with what he was mentioning with more of a question: how as the board can we protect as we take over . . . I mean, ideally, we really don't want to take over any of these insurance policies when somebody fails; however, when they fail, we're forced to take them over . . . and how do we come up with a model . . . and I would challenge staff, a model where we're a sustainable model. I mean because if we're taking over these failed companies and the policies are subpar. How do we as an organization get to a sustainable profit and loss (P&L)? That's a big challenge, in my mind, is that we're constantly battling this it seems like. It's a challenge, but I'd love to come up with some kind of policy where we could have a system in place to get it down. But I'm kind of mind boggled as to how we can do that in our current position.

Barry Gilway: Mr. Chairman, to address the comment. Governor Henderson, when we talk about a model, Kelly Booten and her team have done a phenomenal job, I think, of getting us prepared as respect, you know, in developing a model to intake policies. So, in terms of our capability to take in policies, book policies, process policies I think we are extraordinarily well prepared, and Ms. Booten has done an enormous amount of strategic planning with various scenarios that really would put us in a great position. The way we would have to handle that is really through CFO [Jennifer] Montero. The chairman yesterday asked us to put together some numbers, and with the help of Kapil Bhatia and Jennifer and Andrew [Woodward], we put a few numbers together in terms of what the impact might be. So, for example, if we grew by 750,000 policies, which is exactly the scenario that you and Governor Holton, you know, are referring to then we would have to . . . And if we had the current reinsurance program in place that would amount to a \$16.2B probable maximum loss (PML). That would be our total exposure if we were to grow. Now would we handle it that way? Of course not. Jennifer and the team would go to the market, and we would attempt to get additional reinsurers signed on so that, you know, our exposure is balanced. So, the model basically . . . the intake model has been established, and there's a long history of Citizens having to go through peaks and valleys associated with that. Jennifer also has had the experience, for example, back in 2011, I believe, Jennifer, where we literally placed the largest catastrophe bond . . .

Jennifer Montero: 2014.

Barry Gilway: 2014, excuse me. We placed the largest catastrophe bond – \$1.5B – that has ever been placed in the marketplace. So, the capabilities that Jennifer Montero and her team bring to the table with the help of Kapil Bhatia are pretty extraordinary in terms of responding to it. The issue is – this goes directly to Governor Holton's point – the issue is how do you get investors to come in and capitalize this marketplace? I'll be making comments later that basically shows through . . . and actually I'm quoting

Commission Altmaier . . . shows basically that on a total industry surplus for the specialist companies of \$4.2B, surplus was reduced by \$585M just through three quarters of last year. And the question of course, is how are you going to attract capital at a reasonable rate of return, you know, to supplement that surplus? That surplus has to be replaced just for companies to continue to write at the current level let alone, you know, increasing in any way the overall exposure that they're willing to take on the books. I don't have any direct information relative to the position of Demotech, but I would agree with Governor Holton that the year-end financials through three quarters showed a \$1.26B underwriting loss, and I think the expectation at year end is it's going to be worse with additional capital necessary just to keep status quo. I'll be spending some time a little later, Mr. Chairman, going through the whys of what might happen. It won't give you the solution of what you're looking for; it'll give you an explanation of why it is happening and some of the proponents. But your point is well made. I think we're prepared, you know, for any eventuality because it is a phenomenal team of both on the claims and the underwriting and the financial side with Ms. Montero, but it would be challenging. If we go to \$16.4B in PML, and you have to remember the entire Florida market is \$12B in premium . . . so, we're back to where we were in 2011, and in 2011 if we would've had a 1-100 storm then Citizens would have had an assessment load of \$11.6B. That's 100% of the total premium in place in the marketplace today and we can never get back. That's exactly why Chairman Beruff has been so adamant on this issue that we have to try to do everything possible to slow it down because we just can't allow us to get back to the point where we're 23% of the residential marketplace again. I don't have a lot of solutions. I will talk about some legislative solutions as will Christine because she is totally involved. By the way, even the Chairman has had extensive discussions with leadership, you know, in terms of making sure that they understand the magnitude of the situation that's occurring, and that we have to come up with some reasonable solutions from a legislative standpoint in order to fix this problem and that is where the solutions lie.

Chair Beruff: There was someone who wanted to speak after Governor Henderson.

Will Kastroll: This is Will Kastroll.

Chair Beruff: Go ahead, Governor Kastroll.

Will Kastroll: Thank you, Chairman. In all the slides you've put up, this is a question for Chairman or Barry, does that include our rate increase that's forth coming?

Chair Beruff: I don't believe it does. What we're looking at, Governor Kastroll, is the history from 2013 through 2020, so it would not include the rate increase that we proposed that still has to go to through the rate hearings and the final approval for adoption for August 1.

Will Kastroll: Okay. So, the biggest thing that we can do . . . one of the biggest things that we can do as a board is make sure that we have sound rates, and we have spent the last . . . And before you came on board, Chairman, we spent the last year and a half debating and talking and analyzing that and we actually made a decision and a pretty aggressive decision because of you Chairman . . . you've done a great job of saying, "Hey 6% isn't enough. We have to go a little bit higher just to be sound." So, we are doing a lot at the board level to make sure we don't get into that situation. Once those rates do come through, the Florida-based carriers will then be allowed to raise their rates as well and become actuarially sound. So, it's sort of like a snowball effect and we are the leaders of this, but once we increase rates everything will start to come into line. But we do, as Barry said, we do have a huge problem with the trial lawyers. They are just taking advantage – and I see it on the claims side – they are taking advantage of Floridians and

also policyholders day in and day out. That needs to be changed but there is nothing we can do about that. We can only show data to our legislative branch and show them and it's up to them to decide. Thank you.

Chair Beruff: Thank you for your comments. Anyone else want to speak on the subject?

Marc Dunbar: Chairman, this is Marc Dunbar.

Chair Beruff: Yes, Governor Marc Dunbar. Please, go ahead.

Marc Dunbar: There are a couple things that I agree with Governor Kastroll. We've got an obvious problem with the cost associated with litigating these claims and dealing with the trial bar and playing the whack-a-mole game with them. Some of the things that we could consider is taking advantage of our status as the insurer of last resort, the home venue privilege that we enjoy, and our ability to push the envelope as it relates to our form filings to attempt to change the litigation environment for our claims to force them into new and unique alternative dispute mechanisms where we don't have to litigate and spend tens of thousands of dollars just to get through a motion, a dismiss hearing in particular, circuits in the state. And, so one of the things that I would encourage us to look at is how we can really push the envelope in our forms to make claimants and their lawyers litigate in a more favorable environment for us and for the state to drive the cost down because we're . . . as we're about to discuss it later on . . . it's a big number we're talking about and it's a significant part of our overall spend. As matter of fact, it's enough to clear out the deficit that you've identified, Chair. It's something I'd like to see us do. The other aspect of it, and let's be honest, we've got a couple of members that have...one that served in the legislature and another one that was employed by the legislature . . . We all understand that the legislature moves from crisis to crisis. One of the things is that if we really want them to pay attention . . . We operate with a significant reinsurance without going to the market and it's called the assessment requirement. If we get hit by a 1-100 and a 1-40 based on what Barry laid out there, we're going to be in an assessment situation. But, if we didn't go to the reinsurance market and if we didn't protect surplus, and instead, said, "We're going to go bare this cycle," and look at the legislature and say, "You understand what that means? If we get hit and if all these other folks get hit, we are going to be assessing, which essentially is going to be a tax increase on the citizens of the state of Florida. It is going to compromise our state's bond rating and all those kinds of things." We are artificially pushing off that event every time we go into the reinsurance market and take up reinsurance capacity. Now, I'm a strong proponent of protecting surplus, but if you want to send a message to the state legislature and to the Governor, it might be worth us strongly considering, from a policy standpoint, going bare because that's going to send a message that how serious we are they need to act. The glide path is not sustainable. We understand that, and to Barry's point, we can't do anything to shore up the capital markets. The legislature has to do that but through systemic changes that they have to enact. The only thing we can do is try and create strong incentives and strong messaging in the legislature to change these laws and nothing would send a stronger message than for us to sit out the reinsurance market this season.

Chair Beruff: Thank you, Governor Dunbar. I'd like to make a couple comments. I think in any business you have to do the right thing. We always have to achieve or try to do the right balance, and my experience is when you don't follow those instincts, there are unintended consequences that you don't know what they're going to be. I certainly appreciate messaging with the legislature, but I think (my sense – I could be wrong) but my sense is that we have a little bit of wind at our back in the legislature this year. And we don't want to poke the bear. We've already got a certain amount of gravitas for our cause, and

I'd like to try to go that route this year anyway because the legislative season will be over April 30 and we're in it. Next year, if we don't have some results, we may have to go a different path. Mr. Gilway, would you like to add a comment to my comment?

Barry Gilway: Yes, Mr. Chairman, if I might. Let me hit the two recommendations or suggestions or comments. First, we have filed. There are three basic mediation/alternative dispute resolution (ADR) mechanisms. Jay [Adams] has employed one incredibly successfully. One of the reasons why our litigation rate is so much lower than it was previously really is the appraisal process which really is a method of mediation. The second is we have filed with the OIR previously alternative dispute resolution language that would give us more flexibility relative to employ mediation and that has not been accepted, at this point in time, by the OIR. That does not mean that we can't try under these circumstances to do it again. The second point I think is more relevant, and I would never in all good conscience recommend that we do not place reinsurance and put all Floridians at risk for a 1-100 storm. I think the implications of doing that and relying on a shock and awe scenario in order to shakeup the legislature, in my personal opinion, is just not the way, you know, to support the overall citizens of Florida.

Chair Beruff: Thank you. My significantly talented assistant prepared a little three slideshow that I want to share with you which is completely off topic, but I thought we would take and see what a decade does in history. So, if you look at the slide, there's a comparison of different companies and where they are in time a decade ago and today. First one – there's a reason I prepared this slide because it just goes to show you . . . But the point is that we all know, at least I take it for granted, a decade is nothing unfortunately. Look at what's happened in a decade and look at what's happened to companies that were . . . I think Exxon Mobil was the largest corporation at the time 10 years ago on a capital basis, and now it's insignificant compared to the corporations above it. If you look at the stock prices of those corporations in a decade, you see where the wealth has been created in this country and what drives that? All of those companies embrace change and have made change.

Barbara Walker: Can you advance to the next slide, Jennifer?

Chair Beruff: Now what I did was take some of the companies that were big ten years ago and have managed [audio silence] to not have done so well, but if anybody would've told me 15 years ago that Big Blue (what we used to call IBM) will be a fraction of itself and though it led in everything technologically it's basically a rounding error in net worth today to the other companies. But look at some of the companies at the top of this chart. Best Buy is a retailer; they embraced doing business differently. Walmart embraced doing business differently, and so did Target. Look what their stock prices have done. So, change is a constant, but you can see the difference in operations and in the models. For example, Tesla, as everybody knows – somebody could say that they know more about this business than I do that it is significantly overpriced [laughter] but [audio silence]¹

Will Kastroll: I think I lost audio.

Marc Dunbar: I lost audio as well.

Violet Bloom: I'll let Barbara Walker know.

¹ Technical difficulties resulted in occasional audio silence.

Chairman Beruff: At the end of the day the company is worth it because of its ideas and what people think it's going to do in the future as opposed to what it is actually doing today. But the reason I bring this up is because if you look at our operational losses over seven years of two-thirds of \$1B (I remember when two-thirds of \$1B was real money) . . . we have our own dealer network. It's called 7%; it's our second largest operating cost, which is commissions paid to people who bring us business in a business that we're not supposed to be growing. We're supposed to be shrinking. My perspective is that over time, and I don't think it's a process that gets done in a month or in a year, but over a two-year period or three, you can implement a process where you can sell insurance directly to the consumer. There is certainly the horsepower digitally, and there are people doing that now. Mr. Gilway and I disagree on this; he's very, very adamant about it, but very respectful as I am with him. I think that if you do not change, you go extinct unless we become a stepchild of the government and are reliant on the taxpayers of Florida to always be there to bail us out. That's not what I signed up to be on this board to do. I signed up, like I told you in the December meeting, never to be a burden on any Floridian because of our failures of running this business. I'm only one vote of nine, so the fact that I'm chair means nothing except that I have one vote. It's important for us to discuss and that is a very realistic approach. Now there's going to be naysayers about you have to hire 500 agents and you got to do this and you got to do that, but the reality is other people are doing this. We're not the only people contemplating direct to consumer insurance. It's being done. We're not pioneers. If we do it, we're just going into something that already exist. I think Kelly has already done some due diligence on how that stuff works, and it's not popular amongst the insurance agents. But, our job, in my opinion, is not to be popular. It's to do the right thing, and 7% over the period of seven years would have produced \$490M in savings. I understand there would have been some cost, but if you do it correctly, we should have been ahead \$300M or \$350M over that period of that time. That and the legislative fix is the only way I think we're going to get back to a healthy insurance market in Florida. It shouldn't be easy to buy insurance from Citizens. We should be the last people that people come to for insurance. There is an exception; I'm very sympathetic to Monroe County because they do have a unique situation. So, I'd like to open to other board members first, and then to Mr. Gilway. Yes, Mr. Henderson.

Audio gap from 52:59 – 53:13

Reynolds Henderson: Kind of to what Governor Dunbar was saying, you know, lawsuits – why do people sue? They usually sue because they feel like there is a slow process, they're not getting heard fast enough . . . I look at it and say, "Our retail agents that sell the policies, are we utilizing them to get that message out. [audio silence]

Carlos Lopez-Cantera: The audio is coming in and out.

Will Kastroll: Mine, too.

Violet Bloom: I'm texting Barbara and letting her know every time it goes out.

[audio resumes]

Chair Beruff . . . but again how do you do that realistically since they're not our employees, right, so they don't have to do anything for us unless, you know, there's some way that you can put conditions in their commission agreement that makes them more responsible for the problem. But the litigation problem that we have, I think, it's going to continue to happen in spite of whether you have agents or you don't

have agents, and again, the 57% of our policyholders have mortgages and that's the requirement. That's why they get insurance. The other people do it because they're smart and they're careful. They don't have mortgages, but the mortgage standards are created by Freddie Mac and Fannie Mae. When they tell you, "This is what you got to have." So, it's very simple to create a template that says, "Take Template A to get the minimum insurance to get your \$385,000 mortgage. Now if you want Template B, C, or D and you want to pay more money, pick from this lineup." But it's really not that complicated a process. There is legislation statute to require . . . I recognize a required license insurance agent in order to answer questions and so forth, but, at the end of day, other people are dealing with those challenges too and going direct to consumer. I believe as we continue to evolve as a society more of us are going to continue to buy things directly like. My wife taught me how to buy things on the Internet, and now I mean I buy things on my phone. Most things that we do anymore are done through a digital platform than a decade ago. Maybe some of you in this room embraced it; I started embracing it maybe seven years ago. Again, I think it's a process; I'm not saying that . . . The house isn't burning down by any stretch of the imagination, but I think it's a direction that we should contemplate seriously because it is a significant cost to this organization that can make the difference between profitability and loss in the future, and more importantly, if everybody else is doing it 10 years from now and we're not, then obviously we missed the boat. Mr. Gilway?

Barry Gilway: Mr. Chairman, Governor Henderson has already spent some time with us bringing attention to the fact that, you know, the utilization of our customer direct program or interaction is very, very low today. But to your point, although as you and I have discussed many times, you may consider me an old warhorse . . .

Chair Beruff: We are old warhorses, so you're not alone. [laughter]

Barry Gilway: We're certainly not resistant at all to change. I do believe that you're absolutely on point that when you take a look at the new technology that's available really spending time over a period of time really focusing on developing a direct customer program . . . Kelly has done an enormous amount of work in this arena . . . developing a customer program where in effect we are putting the mechanisms in place so that the customer is far more comfortable and we have a far more flexible system to allow the customer to interact directly with us. It does not solve the "clearinghouse issue" and the role that the independent agent plays today and really acting as the first line of defense in terms of making sure that only those customers that fit our mission strategy and they deserve insurance but there is no market, come to Citizens. So, I think it's a combination of the two but we're totally supportive of, as we discussed with Governor Henderson, we're totally supportive of building out, you know, our customer direct program to make our systems far more flexible so that interaction is much more reasonable. We're not resisting your direction, Mr. Chairman; it's not our job to resist your direction. We do believe that we need to spend time building out our platforms as effectively as we can.

Reynolds Henderson: Chairman, may I speak?

Chair Beruff: Governor Henderson.

Reynolds Henderson: Mr. Chair, one last comment. Maybe an idea would be to have a hybrid model because it would increase competition in the retail agent, too, to let them know that we are serious about them becoming a larger player in this process because if they are not going to aid in reducing lawsuits,

then maybe we don't need them. However, it might be more of a transition type for us to get into this, too, if it goes . . .

Chair Beruff: . . . That is a perfect example of the dialogue I want to have because maybe that is a solution when you have both situations direct to consumer of those people that want to get on the computer to by their own insurance and not mess around with it and come directly to us; and, then there's the ones that go to their agent directly they've been using for 20 years who is a good guy who does the work. That may be part of solution if we can cut our cost by 50%. That's a significant impact and still have the best of both worlds. But again, I'm not going to be here in 10 years. I'm pretty sure of that, but I would hate to be reading the newspaper when I'm bored and retired after reading the obituaries and read that we're the only company in the insurance business in Florida who still not doing it like everybody else and we become the ward of the state. Anybody else? Governor Brown.

Bette Brown: Thank you. A couple things. I believe that, and I don't know if we can do this, but the first thing we can do is work on educating those who write the policies. I am not sure that when you buy an insurance policy from your agent you really know all the details, and this is not a criticism of them and the policies are difficult and complicated. I understand, but people don't feel comfortable with insurance and they're right away as soon as they have a claim, they're going to hire someone to help him jack it up. And so, that's a problem. They need to understand a little bit more about how insurance works and why we get it. So, maybe some education would be helpful and required when you sell a policy number one, and if truly our huge expenses are litigation-based (and they are) is there a way we can (I hate to even say this) add a fee to every policy to cover that? Can we do that? So, if my insurance for my home in Key Largo is \$3700, it's going to be \$3800 because of all the litigation. I don't think the public really understands that if I litigate a policy that everyone of us is ultimately going to be paying for it. So, it's just some education to those who write the policies and maybe there's a fee we can add. I don't know. I throw it out there, but Barry is not throwing things at me yet so maybe it's possible. I don't know.

Chair Beruff: I'd like to make sure if there's any other board member that has anything before Mr. Gilway because he can answer three things at once.

Scott Thomas: My apologies for being late today. I had some Zoom issues. I think it's an interesting idea and something worth exploring the direct to consumer. I was a little taken aback by the immediate direct criticism it got after being raised at the last meeting. There was an effort to "kill it in the womb" so to speak, but we start to kind of look at these ideas, but I think it's really . . . it's distinct from the litigation issue. The bottom line, in my view, is we have a fundamental problem which is this one-way first party attorney's fee shift. That just makes us such an attractive market for lawyers. And, to the education, they're busy educating like crazy with their advertising that insurers are bad and that we're out to save money and all insurers are out to short their policyholders as much as possible. So, I just think the litigation issue really can only be addressed ultimately in a successful way through legislative enactment because as long as we're facing first party one-way fee shifts and aggressive trial lawyers advertising like crazy pushing this sort of stuff, it's just a very, very big uphill mountain for us to climb. There are two different issues, but that's the only way you're going to address the litigation issue. We're almost as bad as PIP in terms of what we face in the legal field . . . these small claims that economically can't really be justified but they get inflated because of the attraction for trial lawyers. And that's where we are.

Chair Beruff: I think you're 100% correct. They are doing a much better job messaging an erroneously incorrect message because I think either Barry or Kelly gave me a statistic on how claims are paid and it's

just the claims are paid quite well and fast across the industry. So, the idea that the insurance companies are not paying is a fallacy, in the state of Florida anyway from the data I've seen. But they message, like you said, that your insurance is trying to shortchange you and not pay the full amount and all of that stuff. And we as an industry, are not doing a great job of counter-messaging the fact . . . the truth. Facts are facts. Numbers substantiate what I've been told, and we should be messaging that. I don't know how you would do that except in this industry group and put out advertising dollars to counter their messaging that some in the legal circles are circulating. Mr. Gilway?

Barry Gilway: Governor Thomas, I completely, 100% agree with you. I think ultimately the only solution to a change in the Florida marketplace is a major revision to 607.428 unless you have major revisions to the one-way attorney's fee statute, then the overall climate in Florida will not change. So, I think it absolutely is. So, I couldn't agree with you more. I did want to comment on a comment that Governor Brown made because, as Christine knows, in a draft copy of Senate Bill (SB) 76, your idea is right on relative to Senator Brandes' proposal. Senator Brandes has proposed that legislation be included basically to compensate for those individuals who litigate. We're not sure in terms of how that might work in a real-world environment, but the concept basically is that you have to pay for litigation. It's not part of a bill at this point but it is in the discussion stage.

Will Kastroll: Chairman, may I say something?

James Holton: One further comment on the attorney's fees. Can you guys hear me? I think even worse is that it's a situation where the tail is wagging the dog because the attorneys once they sign up a claimant, they completely take over the case. They prohibit the claimant from talking directly with Citizens, for example, and maybe adjusting the claim and getting it paid because honestly, they just want to jack up the fee. And, with the opportunity of the fee multiplier out there, it gets to an absurd situation. An actual Citizens case, and Barry knows it, I think there was an underlying roof claim of \$40,000 and the attorney's fees award was \$250,000. And you get a situation where a lot of the plaintiff's attorneys are saying, "Well the load start fee isn't enough. It isn't going to attract attorneys." Well, the average load start in Miami Dade County is \$600 to \$700, so in my neck of the woods, attorneys don't make that kind of money. And I know Defense Counsel don't make that kind of money. So, we're hearing a lot of stuff that's really inaccurate information out there, and I think we need more mechanisms as we have tried to do with the Contact Citizens First and this type of thing to allow litigants to talk amongst each other and get things settled. There's no other world out there where judges or lawyers don't encourage the parties to talk and try to settle a case. They do this in commercial litigation and in real estate and everything else. Why should there be any difference where there is a complete bar for a claimant talking to an adjuster about settling a case. You assign an attorney, and they won't even allow the adjuster to come and see the place without them even being there like that. It's a complete abuse of the system by unscrupulous attorneys.

Will Kastroll: Chairman, can you hear me? It's Governor Kastroll.

Reynolds Henderson: I totally agree with what everyone said and Governor Thomas about the legislation. That would be ideal, but to where Governor Brown's going, I think educating them and the best way to educate people and maybe with the tags and maybe with something but some way of truly telling them this is the reason . . . I mean everybody says, "Oh, yeah your insurance is higher because they get sued a lot." Well, that doesn't mean anything. I'm saying meaningful education so that people . . . I know that we're not going to combat all of it but we're going to still have to combat it because even if this gets changed, they'll find another way to continue suing.

Chair Beruff: Anybody else have comment before we move on? Governor Kastroll?

Will Kastroll: Can you hear me?

Chairman Beruff: We see you, but we can't hear you.

[1:11:38 Audio disconnect until 1:20:00] *David Woodruff with IT came back on with testing each line.*

Barbara Walker: Do you want me to do a quick roll call, Chair?

Chair Beruff: Sure.

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

Barbara Walker: You have your quorum again, Mr. Chairman.

Chair Beruff: Go ahead, Governor Kastroll.

Will Kastroll: Thank you so much, and Chairman, before I begin my comments, I think there were two other board of governors that were in the same situation as I was, so you may want to ask them if they have additional comments after I comment. I'd like to thank you for leading this discussion. My opinion on this is that I don't have a desire to turn Citizens into an "Apple" or a "Tesla." Those entities made revolutionary changes that will live for many, many, many, many years to come and enhanced our lives. We are, by statute, trying to be a simple insurance company. People come to us to buy insurance as a last resort. I don't have a desire to revolutionize the process, but I do have a desire to make it better. I think there are changes that we can make through Governor Henderson's comments that can easily be adapted. Insurance agents do have a contract with Citizens and updating their contract to reflect some things that we want those agents to do a little bit more of is very practical and good idea. If we spend an hour talking about agents' commissions or cutting agents' commissions, and as I've heard in this hour, it seems like all of the governors have said that yes that might be a good idea, but the real problem is litigation. I think we're looking at the wrong target right now and I think we need to focus on that litigation. If you do the quick math . . . Can you hear me now?

Chair Beruff: I can now. We lost you for just a couple words. Sorry.

Will Kastroll: If you do the quick math on cutting the agents' commissions and adding the expense that you would need to add onto Citizens (and it's been done before and it's been done by many insurance companies and it's been done by Citizens) you'll find that you're going to spend the same amount of money paying agents as you do for servicing policies inside. A direct reflection of this is just south of Tampa is USAA's Florida headquarters. They are in three massive buildings with insurance agents at those buildings, and USAA does a wonderful job of a direct-to-consumer model. They also spend a lot of money to do that correctly, and we are in the business of doing this correctly. I don't ever want to just cut cost. I want to make sure people have the right tools they need to buy insurance, place insurance, and help them with their claims. If you do the quick math on it, I think you'll find that we'll be spending the same amount of money as we are right now. But the problem is when the market does turn around (and it will),

we will reduce our policy count. It has happened in the past and it will happen in the future. All of a sudden, you'll have to lay off a tremendous amount of people, and you'll also have to plan to sublease that space. That's not the position we want to be in; we want to be nimble. The final point is that the one thing that agents do is we move policies out of Citizens. We actively move policies to other companies, and we love to move policies to other companies because, quite frankly, it's better coverage on the claims form and also its coverage that we have more direct influence on claims. That's one thing that maybe you're not adding into this equation is the job agents do to move policies out of Citizens. I appreciate the time. Thank you.

Chair Beruff: Thank you for your comments, Governor Kastroll. Any other members have comments on the subject? Governor Fields?

Lazaro Fields: Thank you, Chairman. I'll just say that what will drive the issue for me are two things. I think it'll be the long-term cost savings for me going to a direct-to-consumer model while also taking into account the cost, like Governor Kastroll said, that we will incur to have to build that out. We have to be cognizant of that as well because it's not free. It will cost us to do that. Secondly, and kind of a thought for staff, I always hear about how great our customer service is compared to other insurers in the state. I want to make sure that if we do build out a direct-to-consumer model that there will be no negative effects down the line in terms of customer service. I want to make sure we serve our policyholders and we serve the citizens of the state, but I want to make sure that if we go down that road that we're not going to be compromising in that area. I'll also make a comment. I understand Governor Brown's thoughts on that fee and educational fee, and I understand where she's coming from. I think I'm just uncomfortable, in essence, penalizing our policyholders for one of the problems that have not been fixed somewhere else. I'll just leave it at that. I don't know that our policyholders should be held to account for decisions that are being made or not being made 150 miles away from here. I'll just leave it at that. Thank you.

Chair Beruff: Anyone else before we move on?

Vice Chair Lopez-Cantera: I'd like to ask a question.

Chair Beruff: Yes. Is this Governor Dunbar?

Vice Chair Lopez-Cantera: This is the other Carlos.

Chair Beruff: Okay, Carlos, go ahead.

Vice Chair Lopez-Cantera: Thank you, Mr. Chairman. This question is for Barry. The cost of the commissions with the agents, is that factored into the rate filings?

Barry Gilway: Yes, it is. Our standard commission is roughly 7.2% for residential market, and I think Governor Kastroll would confirm this, market commissions are in the 10% to 12% range generally. If you do reduce commissions, there is certainly, to your point, a short-term impact. The reduction in commission goes into your rating algorithm and obviously lowers your overall expense load, which ultimately would reduce your premium. Your assumption is correct, sir.

Vice Chair Lopez-Cantera: And this may have been said but I may have missed it, what is the projected savings assuming we went to an entirely direct-to-consumer? What would be the savings?

Chair Beruff: I don't think we've addressed that in any detail at this point. At the end of the day, we have to go through the exercise and see what the other companies are doing. What I look at is simply technology and the pace that is moving at in the decade that I showed you in some slides. I respect Governor Kastroll's comments. I don't want to be a Tesla; I just don't want to be a dinosaur. I don't want to not exist, and I don't want the state of Florida to be the only way we get out of a jam we foresaw and did nothing about. So, if we continue to lose in a seven-year period two-thirds of a billion dollars, sooner or later you're going to start completely eating through the revenues and surplus that you've invested on. Again, it's just a bad way to run a business. I think we're running a business; that's what board of directors do. This is not a political body. This is a board of directors as I see it. It's our job to make us solvent. We currently operationally are just not solvent. A certain aspect of that is litigation but it's not all of it. We should do a comparison also. Is there any company out there in Florida making money in the insurance business?

Vice Chair Lopez-Cantera: I have a follow-up. Look, I'm the first one that gets on board with new ideas and bringing change and getting away from status quo and maybe looking at a pilot project either one county or a couple zip codes on this experiment may be worthwhile just to see what the cost would be. But I do think to Governor Kastroll's point the clear and present danger that we have as an organization is the litigation and we're going to be talking about the E&Y report at little bit later, so they make some very good points in there. If it's about, you know, getting us solvent, the issue for us that we can address and we have, as you said earlier, Mr. Chairman, the wind in our backs with the legislature potentially is to address the litigation.

Chair Beruff: I don't disagree with that at all. We recognize that. The point I've been trying to make is that we have to look at the future. You're right. The immediate problem that can be solved in the next 60 days could be a huge boost to us and to the insurance industry. The problem that I see is that we've been fortunate not to have a significant event, and running a company on "hey, we've been lucky" is not my idea of a well-run company. All I'm suggesting and I appreciate the conversation and Governor Henderson had I think a great idea . . . a hybrid way to implement change that doesn't negate people bringing us business and bringing commission but if a consumer is significantly sophisticated enough to buy his own insurance direct, why shouldn't we give him that privilege and open our arms to that possibility? I think we just have to look at all the problems long-term and not short-term. I think we have some long-term issues with our growth rate, both organically, and more than the organic growth is the failure of a bunch of insurance companies getting their credit standing upheld and as Governor Holton very clearly added to my earlier comments, those policies have to get sent somewhere else because their mortgage companies are going to say, "I'm sorry but you got to get a new insurance company because the one that you have does not qualify under our guidelines anymore." Again, it's redundant. I appreciate it. I think it's a conversation we've started. It's only a start. I agree with you, Governor Lopez-Cantera, that we should do some significant pencil pushing to get some numbers and some ideas. I'm perfectly comfortable that the staff has the expertise to start generating. . . I don't like to take the staff down a rabbit hole unnecessarily but maybe we can do it at small bites at a time so that we can get more information for our next board meeting and we can discuss it further. I'm glad the conversation is going on and I'm glad for everybody's ideas. Let's hope we have a 57-day success in litigation reform. Anybody else have any comments because I'm going to have to put us on hold again for five minutes. Barbara would like to change a computer.

Marc Dunbar: This is Marc Dunbar. I'd like to comment if I could. I wanted to wait until the end.

Chair Beruff: Yes, go ahead. And, as soon as you're finished, we're going to give a five-minute break. We have to change computers before Governor Brown's comments. Okay? Then we'll move on to the agenda. Go ahead, Governor Dunbar.

Marc Dunbar: A couple of comments and then a couple of questions for Barry. The first comment is that I encourage everybody, if you have it, to read the tax opinions that Dan [Sumner] secured for us for tax exempt status. I think it's important to keep those in mind because our ability to be a tax-exempt organization has a significant part of our ability to be in this marketplace. If you want to see us get wiped out from a business standpoint, do the math on our company if we weren't tax exempt. We need to be careful as it relates to the discussion on, you know, our quest for profitability. I'll leave that to Belinda and the legal staff, but I think it's worth everybody reviewing the tax opinions that govern us. The second thing is if we were going to invest time in a pilot project, I'd rather see all of our commercial policies through forms filings be dumped in [inaudible] litigation as opposed to civil litigation. I think we can do it. We have the privilege unlike the other insurance companies having home venue. Comparatively, our commercial market is softer than the residential market and I really think we should aggressively try to push the form filings to see if we can get ourselves out of expensive litigation and then let the rest of the industry worry about what they need relative to solving their litigation problems. I think that's an opportunity if we're going to be looking at sort of unique and creative ways to solve the fiscal consequences of litigation now. The last piece is really more of a question. I'm unsure as to whether we can move to a direct-to-consumer model without legislative direction. That's maybe a question for Christine or for Belinda or for Barry. But, before we go down too far down the road, and again, Chair, to your point of wasting staff's resources on something we might not be able to truly address, I'd encourage us to look at that. But, also, if we are truly going down this road, I think the board should have a vote on it because I share a lot of Governor Kastroll's concerns, particularly, as Barry pointed out, a savings in agent commission really doesn't help put us on any better financial footing because it's ultimately going to be picked up on rate making anyway. Before we go too far down the road, we probably should answer some of those questions.

Chair Beruff: Thank you for your comments, Governor Dunbar. We're going to put everyone on hold for five minutes, while we change computers.

Barbara Walker: We can finish this conversation and then do the changeover.

Chair Beruff: The conversation is finished. He made his comments.

Barbara Walker: I'm sorry. I thought he asked President Gilway to make a comment.

Chair Beruff: I'm sorry. I didn't hear that. Did I miss something?

Barry Gilway: I'm not so sure, Mr. Chairman. He's absolutely correct. Governor Dunbar is absolutely correct relative to the tax-exempt status. We have looked at many different alternatives that have been proposed over the years, and we are in a position where we cannot, you know impact the overall financial condition of any individual person or organization. From a tax-exempt standpoint, we always have to be very, very careful.

Chair Beruff: We're not going to shoot from the hip. No one shoots from the hip in an organization like this. We'll have to look at that at the time. You have a comment, Ms. Miller?

Belinda Miller: Yes, Mr. Chairman, the tax private letter ruling is based on the fact that Citizens is formed for the benefit of the public, and it is an integral part of the state. Governor Dunbar is correct. We certainly would not want to do anything that would jeopardize that, but I don't think it would be relevant to the issue whether or not we use agents or operate as a direct writer. I agree with him that it is important we save the state of Florida hundreds of millions of dollars a year by being tax-exempt. If they had to pay a private company for the same coverage, it would cost another 28% to 30%, and likewise, we save them money in reinsurance premium that would otherwise be required to be paid.

Chair Beruff: And, here in lies our problem. We're too competitive 91% of the time. We're the least expensive policy in the state, yet we're not supposed to grow. It's a bit of an oxymoron. You ready? We're going to take a five-minute break. We're going to change computers to make sure we don't have a breakdown in communications. Thank you very much. We will reconvene at 10:15 – actually seven minutes.

Testing audio between 1:39.33 and 1:46.40

Barbara Walker: Thank you very much . . .

Chair Beruff: Okay, everybody. It's 10:15. We will be reconvening the meeting.

Barbara Walker: . . . With roll call.

Chair Beruff: I'm sorry?

Barbara Walker: With roll call, please, to make sure we have a quorum?

Chair Beruff: Sure. Of course. I see everybody's face on here, so I figure they're all here.

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

Barbara Walker: Chairman, you have a quorum.

Role of the Board and Staff

Chair Beruff: Thank you very much. We're on to Governor Brown who wanted to make some comments today.

Bette Brown: Thank you. First of all, I want to say I've been on the board a while and this is one of the best discussions I think we've had. And I think super important for a board to be talking about issues like this as opposed to issues that are management issues. We're the wisdom supposedly. We're the experts, supposedly. We are mandated to come from all parts of business, and we are which is awesome because that gives us all something . . . we can all add to the ideas and the collection. So, I get chills thinking about

how good this conversation was, and not that I always agree and maybe I don't, but I mean everybody jumped in and that's what I think is our board role. This may seem mundane at this point because we really did a great job and we listened and all followed Robert's Rules. But I think it's worth saying that it's a very difficult time for us now. We've had difficult times before but now more than any. We have a state . . . we have an issue with net income. We have an issue with the rest of the state of Florida insurance. We have an issue with litigation. And, we have to do the right thing. To do the right thing, we all have to sort of follow the rules. So, I just wanted to make a recommendation that we do conduct our meetings just like we did today, following Robert's Rules of Order, and if there's a clarification that's needed as Governor Dunbar brought up earlier, then we clarify it. But the respectfulness today and that the great conversation is where we should be every time. Conducting some meetings, I put some notes here. I'd like for us to talk about it, and maybe adopt these ideas. Perhaps, as Governor Dunbar said, I don't believe we need a committee necessarily, but I do think it wouldn't hurt to have some training. I'm not meaning to be insulting to anyone, but a lot of us are new. Maybe we spend some time talking about how we bring things to the group. Maybe spend some time in training about how we . . . when we need information, how we get that information. I would suggest we go through Barry. That's what I always do. I don't call unless he says call Jennifer. I don't call Jennifer. I go through Barry because Barry is in charge, and so those are the kind of things that I think we should just remind ourselves that everything that we do for our board should be an open book. We need to be able to get information if we need it, but we also need to be respectful . . . I believe in the chain of command. To me, it's important that we do that, and it's awkward for, I think staff, to have. . . unless Barry indicates a direct communication, sometimes it's awkward for them because their boss is Barry. And Barry's boss is us. I don't mean to be oversimplifying things, but . . . again, I'll say I thought today's meeting so far has been . . . thank you, Chairman, handled lovely. And, I think we had some really good ideas, and I would suggest that we continue along those lines. I won't read this lovely one-pager to you, but I would suggest that you read it and let's all agree that we're going to follow Robert's Rules. We're going to be respectful. We're going to make sure that our communication is with the CEO of the company because we don't do the day-to-day management. We are the thinkers, and we just showed that we were the thinkers. As far as discussion and vision, you all do that as well. It's not our place to manage the day-to-day. It's our place to be there for you and help with direction if you need it. If we see something, just as Chairman Beruff brought up, that is our role. So, I'll get off my soapbox. I don't mean to be pontificating to you, but I think it's so important that we handle our meetings just as we did with this first discussion item. I would hope that we would adopt this going forward to make sure that we're clear and we are working together as a board team.

Chair Beruff: Thank you, Governor Brown. First of all, there is no reason why we can't disagree. We are individuals and we respect each other and even when we don't agree, I find that talking, people find solutions. I have never solved the problem without communicating, and that was to Governor Holton's earlier comments about the litigation inability of a claimant to discuss settlement with us directly because the attorney precludes him from doing that is obviously one of the reasons the costs balloon up is because two people can't sit in a room and have a decent discussion over a cup of coffee about what could be a very small amount of money but there are attorneys running up the fee. To that end, I'd like anybody who has any comments on Governor Brown's comments to join us. Then we're going to let Mr. Gilway make some comments of his own, but I'd like the governing board members to opine if you have anything to say to Governor Brown's comments, which I strongly support. Governor Henderson, please.

Reynolds Henderson: I thank Governor Brown for these comments. I think they're really good and well written. We've spoken about this before in the Ad Hoc Committee a little bit, too, but I think it's real

important that the new General Counsel have a strong handle on this; and, especially as new board members come in, education on this and their role and procedures and processes and all that good stuff.

Chair Beruff: Thank you, governor. Any other comments before we move on? Yes, Governor Kastroll.

Will Kastroll: I just want to make sure that I understand this correctly. I think it's really important what Governor Brown had said. So, if staff gets a request from a governor that is not the committee chair for that respective entity, they are not supposed to respond? They are supposed to go ahead and channel that through Barry, correct?

Chair Beruff: I'd like Governor Brown to address that.

Bette Brown: I am not sure about that detail. I would say, for me, I never go wrong when I follow the chain of command in any business dealings I do. So, it doesn't mean that I can't, I think it means that you call Barry so he's aware of your thoughts, and he tells you, "Call Jennifer or call Jay or call Belinda or call Kelly." That works for me, and that's what I've always done. I'm not trying to tell you maybe we need to talk to Barry and make a rule about . . . that's a courtesy, I think because he's in charge of the operations of Citizens. We're in charge of and have a fiduciary responsibility to make sure we help with the direction, and available for information, support the staff . . . but, we're not in charge of the day-to-day. So, I wouldn't call directly. I've done it and I shouldn't, but I wouldn't call anyone directly. I would call Barry and say, "Here's my concern." Every time I've done that (and I've done it many times), he says, "Understood. Let me talk to you about it or maybe you should talk to Jennifer. Let me have her give you a call." And that's good. I'm not precluding that you can call Jennifer directly. I don't know that I should have any position to say that (I would ask Barry or Chairman Beruff) but to me it makes more sense, and it has always worked in my 40 years of business that you go through the chain of command.

Will Kastroll: Okay, thank you for clarifying that. I agree with you. I think it's important for employees to hear that as well because I think it's very tough for them when they get a phone call from a governor or an email from a governor. It's a lot easier when they get an email or a phone call from Barry requesting them to do something. I agree with you, Governor Brown. I just wanted to make sure that we're on the same page. Thank you for your presentation.

Chair Beruff: Anyone else? Any other governor with comments before Mr. Gilway's comments?

Vice Chair Lopez-Cantera: I'd like to make a comment, Mr. Chairman. I've read Governor Brown's document, and I respect her position. She has the most tenure on this board. I've only been on about a year, but I do believe that if any board member wants to reach out and communicate with any member of the executive leadership team, they should feel comfortable that they can because it's not just Barry that serves at the pleasure of the board. It's the entire executive leadership team that serves at the pleasure of the board, so board members should have the freedom if they want to and expect that the communication internally will occur. Additionally, there was a comment or a paragraph where Governor Brown talks about document requests and that they should all go through the executive director. Was there any instance of something occurring that lead you, Governor Brown, to list this (number nine) in your manifesto?

Governor Brown: Not that I'm aware of, but I go through those topics, again, it's the chain of command type of comments that I am making. It's the way that I've done business and the way I've done business

on boards to make sure I let the guy in charge handle who's going to do that. I don't know of a specific one.

Chair Beruff: If I could interject, it's funny because this well-made point by Governor Lopez-Cantera because our mandate is that apparently the executive staff does report to the board in total. I guess my thoughts are . . . you can call . . . you can do whatever you want. . . you're all individual governing board members. But I don't find it offensive if I know, for example, that Ms. Booten has an answer for me that's quick – to pick up the phone and call her because we've been talking about things and Barry's been involved or Barry's been in a meeting or something and I pick up the phone and call Kelly. I guess the complexity of the call is what makes it complicated. To me any governing board member that has a quick question to any executive committee person that is not a big deal, I think should be able to make that phone call as long . . . obviously that the typical stuff – it's courteous and you ask. If it's a broader policy question where a lot of effort has to go into it, it should come to Barry as directed, so that Barry says, "Yeah, we're going to go spend 200 man hours trying to figure this out for governor such-and-such." I think you have to feel the circumstances, right? We shouldn't be . . . everything doesn't need to end up at Barry's desk if it's an insignificant question. You could call Christine and say, "Christine, how's that legislation doing and how can I help you?" That is additive to us being a productive organization. When it becomes more complex, I do think it should go to Mr. Gilway where it's going to suck up an inordinate amount of staff time. I'm not saying as board members that we don't have the right to request significant data and significant things we want to look at, but I think when it becomes significant, it should go through Mr. Gilway but that doesn't preclude us from calling anybody we want anytime we want over little simple things because it just seems . . . I don't like . . . I respect the chain of command but there's also flat line management which is sort of like . . . There is no sense in me asking a question if I know she has the answer, you know? It'll take her two minutes and then Barry has to take five minutes out of his life to take five minutes out of Kelly's life, so I hope (I don't know if I've added or subtracted from the discussion) but I just wanted to put my two seconds . . .

Vice Chair Lopez-Cantera: I want to thank you so much for what you just said. You crystallized the point I was trying to make that every governor should feel like they have the freedom, and since we have so many new governors on the board, it's important. I wanted them to feel like they could pick up the phone and call any member of the executive leadership team (ELT) and didn't have to call Barry, especially if it was something simple, even if it's a yes or no answer. It's actually probably more efficient than them burdening Barry with every single little detailed nuanced question that could occur. Of course, if it's a large task with a lot of man-hours that are going to be required and computations are going to need to be done, yes, of course, it should go through Barry because he'll be more efficient. But the governors should feel comfortable if they can call and they should when they want to call individual members of the executive leadership team because as the Plan of Operation states, they report and they are employees of the board.

Chair Beruff: Thank you, Governor Lopez-Cantera. Just as an aside, to finish that discussion, I think I've actually talked to Kelly. I said, "Kelly, if this is burdensome, let's talk to Barry about it, but if it's easy . . ." and then Kelly will tell me, "No, Carlos, that's no big deal. I can get that done for you in five minutes." I think that lays the tone but we're going to have Mr. Gilway wrap up. If there's any other governing board members who would like to comment?

Marc Dunbar: This is Marc Dunbar.

Chair Beruff: Yes, Mr. Dunbar. Go ahead.

Marc Dunbar: A couple things. The first one is can we put under new business the idea of a Governance Committee? There are some issues that I think would benefit. It relates some to this discussion but there's some other points that I'll bring up at that point. So, with your indulgence and I don't want to make the agenda longer, but if we could have at the end under new business a discussion on creating a Governance Committee to sort of memorialize some of these things as a permanent part of our operating procedures and also raise some additional operational issues that I'm a little concerned about.

Chair Beruff: We will bring it up under new business when that topic comes up and we can talk about it then. Be happy to.

Marc Dunbar: Thank you. Appreciate it. As it relates to the agenda item, Barry has told me on more than one occasion that my requests outpace the entire rest of the board combined. Barry and I have developed a pretty good working relationship and have had bumps in the road throughout. I think a lot of what Governor Brown laid out in her letter essentially is how I operate with Barry and the staff as best as I can. He's included in any communications I have with staff directly. But the one thing I would encourage all the individual board members, including the new board members, is that we have appointing officials that have put us on this board for particular reasons. Because of what I do and because of where I interact, I actually interact with the appointing officials probably more than most, and if we are asked questions or we are encouraged to find answers out by appointing officials, we shouldn't be afraid to try to move forward and get answers to some of those questions. However, you know, we feel like it's most appropriate within the bounds of our fiduciary duty of the board. I mean sometimes information requests aren't always pleasant, you know, but we are all trying to operate for the best of the organization, and as, Chairman, you pointed out, we should be able to have difficult discussions without them being personal. None of this is personal. This is all of us trying to move forward on requests to make sure this organization moves forward with integrity and operates properly within its role of the insurer of last resort in the state. I appreciate the dialogue. I think a lot of points that Governor Brown incorporated in the letter are very solid and we should be mindful of. But, to the points you made, we should be able to have access to ELT members for questions that we have if we think they can answer them quickly and try not to overburden them. But, if we got to burden them to get the answers to the questions of our appointing officials or to try and fulfill our fiduciary duty, that's our role. I strongly believe that, you know, our job as management is not . . . or I'm sorry our job as the board is not just to rubber-stamp management. We are on a quest for perfection and we're never going to get there, and the board's job is to help improve the organization. If it means that at different points in time we disagree with management, that's okay. It's not personal. It is about us trying to do what's best for the organization. Thank you, Mr. Chair.

Chair Beruff: Thank you, Governor Dunbar. Anyone else? Mr. Gilway.

Barry Gilway: Thank you for recognizing me, Mr. Chairman. I do want to make some comments. I'm in a very unique position in that with the Sunshine provisions that are in place, I hear from virtually all of you. I do not share that information, you know, as a result of the Sunshine Law; however, the conversation has been so positive and so constructive. I agree with Governor Brown to that effect that I don't want to turn the conversation into a negative. I would disagree with Governor Lopez-Cantera on one term he used. The staff does not report to the board; they serve at the pleasure of the board and the statutory reference is they report to the executive director and they serve at the pleasure of the board. Anyone on this board can make a decision on myself or on any executive and you can terminate our employment. That's your

right of the board, but they do report to me operationally. The distinction I do want to make, and I don't want to turn the conversation negative is that I would never attempt to get in the way of a board member and what I consider is probably the most professional staff that I've ever managed in my 50-year career. However, there's a difference between communication and direct involvement in management. When we have a board member who sets up a meeting with a direct member of staff and negotiates their termination without any knowledge of management, that is stepping over the line from my perspective. And, certainly, it is a very big distinction between, you know, a reporting relationship and the right to serve and the right to respond. To me, that's inappropriate. The second issue that I do want to raise, and Violet Bloom – our Chief HR Officer – made this comment, I believe, at the last board meeting. Please understand that any, any comments that move from an evaluation of a part of this organization to a personal attack on an individual is impossible – it's absolutely impossible – for each of you to understand the emotional impact and the morale issues associated with that. The last board meeting, we went from an evaluation to a personal attack. And, in my opinion, if I don't defend my individuals and my employees, they will have no respect for me whatsoever and they shouldn't. I don't want to come across like I'm preaching to the board. It's not my job to do that; but let me tell you something, it is inappropriate. It's inappropriate for any board member, in my opinion, to launch a personal attack against an individual within this organization, and I believe it's inappropriate (and you and I have discussed this, Mr. Chairman) it's inappropriate for that to occur, you know, on the board. I've talked to many of you, and you all feel exactly the same way that I do. In terms of the specific comments, I have a ton of detail. I have sheets and sheets of records request, and frankly the concern that I would express relative to the records request is the confidential nature of the records request. So, when I have a board member who basically requests that “you provide me with the name of all vendors what we have paid them, what the difference in their bid was to somebody else” – that to me, frankly, is going across the line. Are you entitled to that information? You are. You are entitled to any information that staff can provide you, but, you know, I would suggest, if we follow Governor Dunbar's comments and we set up a governance committee, we really need to understand and put in place the implications of putting highly, highly confidential information into a public document that can be distributed on a more broadly basis. And frankly, that is what is occurring today. So, I have sheets of information requests, and in some of them frankly cause me not to sleep at night if this information was ever released into public circulation. I'm going to stop there because I don't want to turn this conversation into a negative. I think the conversations have been exceptional and I do believe that the work that Governor Brown put into this – I really appreciate that. But I think there is a distinction and then I'll close. There is a distinction between discussing issues with the staff and getting directly involved in the overall management of the organization, and it is particularly concerning when evaluations of the organization get personal. The implications of that on the individual, when it's totally not merited, and the entire organization that reports to that individual are staggering. So, I'll close with that, Mr. Chairman.

Chair Beruff: Thank you, Mr. Gilway. I agree with pretty much everything you said, and I don't think you're going to disagree with my editing of your final comments as it belongs to data that a member requests; I think there is a process that has to be assured, okay, that what we typically call “confidential data” somehow be kept confidential. But I think a board member has a right to review that data. Now maybe the proper method of doing that is in our offices or some other manner where we know that the data can't inadvertently become public – not intentionally, because it happens. We've all had data breaches in our businesses. I know I have. So, there is proprietary things that I'm sure you're talking about that you don't want circulated in the industry for our own internal purposes, but I do think every member of this board should be able to review that with you or with Kelly or somebody if they so choose to. I think

what you're alluding to is that you don't want the stuff to go outside of the select few people that have the right to look at it.

Barry Gilway: That's correct, sir.

Chair Beruff: Okay, so with that edit, I 100% agree with everything else you say, and I think we will make sure that if this Governance Committee actually gets set up that we will address it appropriately. I certainly, as one member of this board, have no difficulty whatsoever with civil discourse but have absolutely no tolerance for uncivil discourse. I'm a pretty passionate guy. It takes time. I have to bite my tongue, but I appreciate it. We can move onto the next topic, then? It's back to you.

Vice Chair Lopez-Cantera: Chairman, no, I actually have a question.

Chair Beruff: Okay. I hate to ask.

Vice Chair Lopez-Cantera: What personal attack is Barry referring to at the last board meeting?

Chair Beruff: At the suggestion of getting some people not happy with what I'm about to say, I would like to move on. I really would. It's not productive. I mean Barry made his comments. I think we all recognize that sometimes we're not going to agree with how things are expressed, or we will take them differently than they were intended. But, at the end of the day, I would prefer to move on because there's no need to . . . unless there's somebody here . . . it doesn't matter. It's yesterday's newspaper to me, and I want to move forward, and I don't want to move back.

Vice Chair Lopez-Cantera: I understand that. Mr. Chair, but if I may?

Chair Beruff: Yes, sir.

Vice Chair Lopez-Cantera: So, I won't harp on the personal thing. I'm not there. If I was there during one of the breaks, I could ask him, and he could tell me, but I don't have that ability. I might have to call Barry and ask him. On the issue of the documents and he says he has a bunch of requests . . . let me rephrase the question. Does any member of the executive leadership team or Barry give documents to the members of the board that are not already a public record per Florida statutes or per the constitution?

Chair Beruff: I see Christine maybe has an answer. Mr. Gilway? Who wants to address Governor Lopez-Cantera's comment? Is that Ms. Miller?

Belinda Miller: Thank you, Mr. Chairman. There are documents that are requested that contain potential work product information relating to lawsuits. A board member is entitled to look at any document they want to. They are not entitled to share it with anyone outside the organization nor are they entitled to share it even with their own staff in a different business. I think that's the distinction. Any board member who wants to see a document the answer is yes, but we all have a duty to protect the confidentiality of documents that may have sensitive information.

Chair Beruff: The answer to Governor Lopez-Cantera's question is yes there are documents that are privileged that are protected from the Sunshine, correct?

Belinda Miller: Yes.

Chair Beruff: ...but they are, as I finished or added to Mr. Gilway's comments, always available to every member on this board and we're not going to stop that from ever happening as long as I'm here. But we also have to be careful that this proprietary information doesn't accidentally fall into the wrong hands, which is what I think what Ms. Miller and Mr. Gilway are concerned about, correct?

Barry Gilway: That's correct, Mr. Chairman. I think my primary concern is litigation-oriented materials that, frankly, are advising directly or indirectly the Plaintiff Counsel, relative to our overall position.

Chair Beruff: . . . we don't want to give our battle plans to the enemy, okay, but we will . . . we're all on the same side of the table together, and if we're curious as to what the battle plan is, by all means, we will make those things available to those people as long as they're very careful as to how they get handled, okay. Does that help clarify that, Governor Lopez-Cantera?

Vice Chair Lopez-Cantera: Can you hear me? Hello?

Chair Beruff: Yes, we can hear you.

Vice Chair Lopez-Cantera: I think I was muted by someone else for a second. I don't think that I've ever requested a document that wasn't a public record, but maybe this could be a topic for the potential Governance Committee that there be a rule that if any documents requested by a member of the board, that if it is not a public record (the moment that it is shared) that it just be defined as such.

Chair Beruff: We can come up with our own top-secret code obviously because we're allowed to. We'd never violate any rules. I agree with you. Maybe we stamp certain documents and say "For Board Members Eyes Only" or something so that we preclude anything from getting out that shouldn't get out. Does that help clarify the point?

Vice Chair Lopez-Cantera: Yes. I just want to make it clear that a public record is a public record.

Chair Beruff: Of course. Of course, it is. One hundred percent. So, anything that's public record, a board member should be able to get without hesitation, but the other documents we have to be careful with. I think we're going to move on now to . . .

Marc Dunbar: Mr. Chairman?

Chair Beruff: Yes?

Marc Dunbar: This is Marc Dunbar:

Chair Beruff: Governor Dunbar, please. Go ahead.

Marc Dunbar: So, I understand some of the comments that are laid out there. I appreciate the clarification that we're not trying to stifle public records. When I talked to Barry and Jay and others, when I asked for documents, one of the things that I do regularly ask for, is please don't create a document that you don't want to become a public document. I think that that's a good point, Mr. Chair, that public records are

public records. Whether they relate to bidding pricing or contracts that we negotiate or any of those kinds of things, those are public records that we're entitled to. As it relates to discussions that may bubble up at the board that's . . . we can split hairs over what is a personal attack . . . What's a constructive evaluation or whatever? We do have a clunkiness as it relates to the Sunshine Law that we don't have the ability to communicate with each other in a vacuum. So, sometimes things get communicated at the board level that we wish were not communicated at the board level, but we have no other choice. And it is important also because some of our other board members don't have the benefit of information that we have. And I can tell you only because it was the charge from both Governor Scott and CFO Patronis when I came on the board to take a hard look at certain aspects of the corporation that I have knowledge. . . that probably none of you have, right? And I can't pick up the phone and call you and say, "Hey I have these real concerns, but I don't want to air them out at a board meeting." My only mechanism really is to communicate with Barry, right, as best as I can try to let him know the concerns I have. Here's the problem, though. If Barry has a disagreement with me over them, and we are not making progress on trying to resolve some of those issues, eventually they're going to bubble up to the board because I will have no other choice except to communicate them broadly. And, at that point in time, those concerns that I've been trying to communicate to Barry and at the staff level, that are being ignored have to come to the board. If a staff member doesn't bring us accurate information and my only way to point out that the information is not entirely accurate is at a board meeting, I have to create... It's not personal towards the person, but we have no choice but to raise those issues, so the rest of the board is informed. Here's the critical part of it: we're about to choose a new General Counsel. The General Counsel and a few of your lawyers, so you understand what I'm saying, the General Counsel is the lawyer for the corporation. It is not the lawyer for management. It is the board's lawyer. As we move forward, it's important that the General Counsel understands that, and on a moving forward basis, correct some of the problems that we have inside the legal shop, which I'm not going to get into right now. I don't think it probably would be constructive for all the reasons that Barry raised and shared you have had requested. But it's going to be very important for us moving forward as we look at who the right General Counsel is that we understand part of the problem that existed in the organization (that continues to exist in the organization) is a function of a disconnect between that General Counsel understanding that they are the board's lawyer and not management's lawyer. They work with management, but their fiduciary duty and canons of ethics are attached to the board. Does that make sense?

Barry Gilway: Mr. Chair, one comment, please. Please indulge me.

Chair Beruff: Go ahead, Barry.

Barry Gilway: The issue, from my standpoint, is the General Counsel is a legal advisor to every single executive leadership team member. It's laid out specifically, as Governor Reynolds Henderson knows, in the overall position description. So, it most definitely is. The second point, and then I will close . . . the second point is, if I were to understand what the issues were, what problems are perceived to exist, then we have an entire team that can respond effectively and do an evaluation, and frankly, help the board in getting the right information. To the very best of my knowledge, there are no issues that I have been made aware of in the legal (in the litigation area). I have never had a complaint from the Senate, from the House, from the Governor's Office relative to our litigation and has so appropriately mentioned at the Claims Committee Meeting the results of our litigation organization are so far better than the overall industry, that if there is a problem that can be identified, I will guarantee you Jay Adams and Elaina Paskalakakis and the entire team will bend over backwards to try and give you the appropriate information

and correct any deficiencies that you believe exist. I'm not aware of them and none of them have ever been communicated to me directly.

Marc Dunbar: Chairman, I need to be recognized. Barry, the amount of conversations you and I have had, I'm frankly . . . Actually, I'm going to stop. To the board, when I came on, we sat down – Barry and I – and I went through some issues of concerns that were out there in the marketplace. Barry went to the Cabinet where Governor Scott raised issues related to what's going on in legal spending. As I have inquired during, you know, just trying to be constructive, we found a deficiency in the way appellate files were being routed. It has been tightened up. We have identified other issues inside the legal department that led to concerns. We had some looseness on the procurement side that have been tightened up, and so the fact that the statement would be “I had no knowledge” and “this is news to me” and everything like that, you know, in this is particularly for the new board members and I really don't . . . This is not the back-and-forth that I want to have because Barry, the amount of conversations you and I have had is . . . they don't need to be aired out here. But, I just hope that the takeaway from my fellow board members is that as it relates to the selection of folks (the elevation of folks) and the way people move around inside the organization, you should feel okay communicating with your fellow board members in the public forum concerns that you have or reservations that you may have without fear of insulting somebody personally and things like that because that's the only way we can communicate. Mr. Chair, I'm going to hold off anything else.

Chair Beruff: I appreciate that. I think you can have discussions that are uncomfortable in a civil manner, and at the end of the day, I believe if you have concerns that are not like . . . You know, Barry and I . . . the first time I got this idea about going consumer direct on insurance, he has disagreed with me. But I would say that he would still have a cup of coffee with me and enjoy the discussion we'd have on anything unrelated to Citizens. So, I think we have to move forward with that kind of idea. If you see a problem as a governing board (I'm not talking “you,” Governor Dunbar) – anyone here – any governing board member should be able to bring a problem that they disagreed on Barry's, you know, his conclusion differs from yours. There's no reason why you can't bring it to this board and should be able to and say, “Look, Barry and I talked about it. We disagreed. Here's my thoughts. Here are his thoughts. Here are the whys, pros and cons.” And we collectively agree and go on and forget about it. Have the discussion. I believe, in the short time I've been here, the staff members are responsive if we have a clear direction that we think we agree with. Hopefully, they'll agree with; we would like to have a staff always agree with what we want to do, but if not, it's still our job to direct the staff as we reach a consensus on this board on any one topic. With that, I think I will let you go into your President's Report because we obviously have quite a few things on the agenda to get through. Thank you, Mr. Gilway.

2. President's Report

March 2021 President's Report

Barry Gilway: Thank you, Mr. Chairman. Given the pretty extensive conversation that we've had so far, I can probably move forward with this a little more rapidly than originally intended; however, there are some I'll call “correlations” in here that I think would be particularly enlightening after some research that we have done. So, the bottom line is we all know where we were, and this follows basically, Mr. Chairman, your report. I did not know exactly where you were going to go with the report, as you know. However, I do believe you were going to outline the problem and you did explicitly, so my intent is to maybe add some perspective to why. How do we find ourselves, you know, in this situation that we do today? Jennifer, first slide. You've seen many, many versions of this slide. The Chairman is correct.

During (20)13, (20)14, and (20)15, extraordinarily profitable insurance marketplace. Extraordinary. As a result of that, people were lining up for business. It was a healthy market. That changed in (20)16 and where do we find ourselves today? Well, we find ourselves today, you know, writing an average of 3,000 net new policies per week, and actually that number is understated. The last couple of weeks that has been in the 4,500 range, so the pace is accelerating. To the point that was made, I believe by Governor Holton, that does not contemplate any potential rating adjustments from Demotech or from AM Best. Next slide, Jennifer. The only reason I bring up this slide is that there is a shift and that is previously it was residential. But it is now moving into the commercial arena, so you are going to see going forward given current conditions really exposure outpacing the policy in force. We did have one company that has announced basically the midterm cancellations of 500 policies that I believe about two-thirds of those policies are commercial lines and not personal lines. And we also understand that policies are going to be terminating another 200 to 300 commercial policies over the course of the next renewal period. The difference is that a commercial policy has a total insurable value (TIV) of around \$2M, whereas a residential policy has a TIV of \$220,000. The implications of that as you start moving to commercial is significant.

Next slide, Jennifer.

Chair Beruff: Can I ask a question. Are we statutorily required to write commercial insurance also?

Barry Gilway: We are, sir, yes. We are required to write commercial policies. Christine, what is the statutory limitations in terms of commercial?

Christine Ashburn: Can you hear me?

Chair Beruff: Yes.

Christine Ashburn: We have more flexibility in the commercial non-residential space, I believe. I'd have to pull the statute to double check it, but Belinda? Sorry.

Chair Beruff: We can't turn it down?

Belinda Miller: We have an obligation to write something similar to what the industry writes in both personal residential and commercial. There is some discretion in terms of the policy language in this kind of thing, but we have to get that approved by OIR.

Chair Beruff: So, if I translate that into "non-insurance guy," the contract for commercial insurance can have more language that might protect us then you can in the residential, correct? The OIR allows us more flexibility in that part of the underwriting?

Barry Gilway: That is correct and there also are some provisions for some commercial policies that allow them to be "A-Rated" which allows us, you know, to use specific rating on those policies, not just language. However, we do offer a base commercial policy form, so we basically offer the equivalent of an ISO base policy form as opposed to any form that is, you know, what would typically be competitive.

Chair Beruff: Within the letter of the law, how difficult can we make it? We want to stop policy growth.

Kelly Booten: I have the limits if that's what you're looking for.

Barry Gilway: Yes.

Kelly Booten: It's up to \$1M on commercial non-residential and \$2.5 on commercial non-residential multi-peril, and unlimited for commercial multi-peril and commercial wind. A-Rated is \$10M or over.

Chair Beruff: That's a lot.

Barry Gilway: It is, sir. I think the issue, which the other things that I absolutely believe needs to be discussed . . .

Chair Beruff: . . . I mean commercial shouldn't have the same protections as an individual consumer. I mean they're running a business to make money. If they got a pay insurance rates that are commensurate in the market, that's what they should be doing. We shouldn't be subsidizing them.

Barry Gilway: I could not agree more, Mr. Chairman. I think the issue that we have basically is that, you know, we have an overall statute that provides for coverage in the event that a commercial lines policyholder cannot get coverage in the private marketplace . . . then its Citizens. So, I think that the board over time, as the market gets more restrictive, I think that likely needs to have discussions basically in terms of what restrictions we put in place relative to the current mission/vision.

Chair Beruff: The only commercial policies that we're taking in are policies that are uninsurable at any price?

Barry Gilway: We have the same basic provisions. We are taking in commercial lines policies and fewer and fewer, by the way. I mean we dropped from 12,000 to about 739, you know, commercial policies, so over time, that has been an area in the industry that has been very, very, very competitive. As a result, we have dropped significantly in the commercial lines arena.

Chair Beruff: Now, it's growing again?

Barry Gilway: We have a concern given the current capacity issues in the overall marketplace. To date, we have not seen the growth in the commercial lines area.

Marc Dunbar: Mr. Chair, this is Marc Dunbar. Could I weigh in on a couple of these points?

Chair Beruff: Sure.

Marc Dunbar: So, to your point, we are writing commercial policies that are viable in the marketplace. One of the exercises that I went through with the CFO was a drive around looking at some of the places. I would encourage you to do this. Drive around your area. Drive around particularly down in South Florida and even go up to PC and drive around with the CFO. When you look at some of these places, you're going to with your eye and knowledge of real estate you're going to identify pretty quickly that a brand-new condo has the ability to be written in the commercial marketplace. The other thing that you'll hear from the private marketplace that it is a softer market and there is bandwidth there. The other part I think I would encourage you to look at is look at the litigation report that we produce monthly and the cases that we have when we litigate from commercial policies. They get very expensive. We have the

ability because of where we are relative to the commercial marketplace to additionally force these people that if they want to be commercially insured by Citizens, that they litigate on the form that we choose. Again, pointing out that we have home venue privileges. If we wanted to create a mechanism where DOAH (Division of Administrative Hearings) is expanded, as I've mentioned to some before, to where we litigated almost in an administrative format, we can do that with these commercial policies if we wanted to try and push the envelope on our form filings. So, all things I think we really should consider looking at even though it's a small part of our business, it is going to grow but the litigation side of it is quite expensive.

Chair Beruff: And why wouldn't we do that?

Barry Gilway: Mr. Chairman . . .

Chair Beruff: . . . I would take every advantage. I'd write the most one-sided contract that ever existed. If you can, within the letter of the law of course.

Barry Gilway: We do apply for home venues. Jay may want to comment.

Chair Beruff: Is that in the contract or do we have to apply when litigation starts?

Belinda Miller: It's simply a right that Citizens has as a result of case law and statute.

Chair Beruff: Okay, so we're not worried about having to litigate venue?

Belinda Miller: We do litigate venue, but we win.

[multiple speakers]

Chair Beruff: Can't we just put it in the contract, so you don't have to litigate it?

Belinda Miller: It doesn't need to be in the contract. It works now, but the risk of requiring insureds all come to Leon County is that the legislature may take another look at that. And I think what we have done in the past is we have used that provision judiciously, and for, you know, class action lawsuits and things like that, we move it to Tallahassee. For an individual who has an insurance claim if they're in Dade County asking them to come in Tallahassee is typically not . . .

Chair Beruff: I'm only talking about commercial policies. I'm not talking about residential. Commercial policies, to me, are businesses making money, okay? Or, if it's a condominium, they have other choices. The condominium law . . . If we are insuring condominium buildings, right, there's a whole group of lawyers specialized in how to sue, representing condominium associations, and you want to have as much possible controls in your agreement with them upfront and leave very little that can be decided at litigation if you can, including venue.

Will Kastroll: Chairman, Governor Kastroll. May I make a suggestion?

Chair Beruff: Of course, Governor Kastroll, please.

Will Kastroll: For the sake of time, do you think we could let the presenters get through their presentations and hold off questions until the end?

Chair Beruff: Absolutely. I'm the first one to have broken that rule but thank you for reminding me. Go ahead, Mr. Gilway.

Barry Gilway: Thank you, Mr. Chairman. I'll try and move rapidly. All this slide is basically displaying is that, and we've discussed it before, as we are now up to roughly 17,000 new business policies per month. The offset of course, is that we're not losing any renewals, so that really exacerbates, you know, the issue. Next slide, Jennifer. Before I switch gears and discuss litigation trends, I do want to focus on the impact on customers. We spent a lot of time on Citizens' competitive position, and it shows we're the most competitive carrier in the marketplace. The Chairman mentioned that several times 91% of the time, but I want to quote from an OIR report. OIR saw a dramatic increase in the number of rate filings approved with the rate increase of more than 10%, specifically of the 105 homeowner multi-peril rate filings, the OIR approved 55 for increases greater than 10% and 16 out of 64 filings, only six were improved for an increase of 10%. The issue really is not the 10% increases in the marketplace. It's really the outliers, and I do have some examples in the notes that I provided to the board. One company had six rate increases in 24 months with a cumulative rate increase of 48.7%. Another with four rate increases in 10 months with a cumulative rate increase of 50.3%. Yet another – two companies with three increases in less than two years with a cumulative rate increase of 29.1% and 26.96% respectively. This just simply intensifies the Chairman's position that we have to fix the overall rate issue and overall competitive position because it is broadening, and it is expanding. Next slide, Jennifer. The key driver, as was appropriately pointed out by Governor Thomas, is out of control litigation. I have a few exhibits that I want to focus on, and I don't want to steal Jay's and Elaina's thunder, but this slide simply shows that Litigation and Assignment of Benefit (AOB) and Non-CAT litigated claims count. Citizens has been able to stabilize litigation up to this point driven primarily by a significant drop in AOB that I attribute directly to a very aggressive program that was put in place by Jay Adams and his claims staff when we implemented AOB. We literally organized – or Jay and his team – organized around AOB and took full advantage of 7065. It also shows that while Citizens' litigation is stable and dropping slightly, the industry number continues to climb. Next slide, please. This slide is not easy to read. Again, I refer to comments made by Governor Thomas. It's hard to read, but what is interesting on this slide is if you take a look, we compared lawsuits by county in 2013 versus 2020. What you see is that while the Tri-County area continues to increase fairly dramatically, they are a lower percentage of litigation, and the reason for that is because the litigation is expanding north. Counties like Hillsborough are growing from 2,064 to 4,737 in the period. Growth in Duval has literally grown from 726 to 2,614 during the period. Next slide, please. I will not spend a lot of time on this simply because I believe that Jay and his team will be responding to this. This simply shows how dramatic the litigation rate has dropped. It's still horrendous. You still have a litigation rate overall of 20%. It's horrendous. It's not sustainable, but it was 50%. I'll comment more on that later in the correlation study that we developed. Next slide, please. Now, here's an interesting fact because if I were to ask each board member, "What has happened to their written premium over the course of the last five years," I think there would be a misunderstanding that the written premium has increased fairly exponentially. In fact, it's simply not true. The reality is, as this slide shows, (and I have significantly more information, but I won't get into that level of detail), but here we have average premiums for Citizens. What this does basically is takes the same policy . . . March Fisher's organization does the review of this. Until last year, the premiums were lower after five years and not higher. This is a good example of the average premium for Citizens for the same policy went from \$1,933 and even this year \$1,777. The premiums were not increasing for Citizens. Next slide, please. This is basically showing the Tri-County premium, and actually

this is the only area where we are seeing fairly significant increases in overall average premium. Litigation rates, as I'll comment on later, have been so high in the Tri-County. That has driven rates, and as a result of that, the Tri-County average premium has gone from \$3,000 to \$3,700 during that period. Next slide, please. If any slide is paid attention to in my deck, this is the slide. The first question I would ask if I were a board member representing in Dade County or Broward County is that I would ask the question, "Why in the world am I paying \$10,600 a year for an average Coverage A home of \$560,000 when someone in Duval for the exact same home (same construction, same classification characteristics) is paying \$3,120?" This study basically shows that in Dade County, this is for non-CAT water damage claims that represent about 78% of our annual claim count, this basically shows that in Dade County, the litigation rate is 53.3% and it also shows that the litigation rate drives severity, and it drives frequency. We're really talking about 6.7 customers per year that are putting in a claim in Dade County. Now, you compare that to that Duval on the other end of the spectrum and you have a litigation rate of 5.8% for the same water damage claim – a severity of \$7,380, a frequency of only 1.6. As a result, for a \$200,000 to \$300,000 home (average about \$249,000 as I recollect), you're only paying \$1,300 for a relatively small homeowner's, whereas in Dade, you're paying \$3,120 for that same home. Next slide, please. This speaks directly to comments that were made a little earlier by Governor Thomas. It's what I'll call the "expansion of the litigation schemes" that are occurring across the state. What you're seeing here basically is that where we started out is Dade and Broward and moved to a lesser extent to Palm Beach. What you're seeing is the litigation rate is now moving to the northwest, so we're seeing some western counties. You're seeing, as we've discussed in prior board meetings, the impact on the SOLO counties and Orange. The litigation shift is slowly occurring but surely north as some of these major firms who have creative a cottage industry associated with litigation are really expanding their operations; and, by the way, there are others that are enticed to do the same. Next slide, please. So, reinsurance pricing. Again, Commissioner Altmaier did a phenomenal job on the report that was just issued to Chair Ingoglia. This is simply restated what we all know and that's the loss development from Hurricanes Irma and Michael running at levels the industry simply hasn't seen. Quoting from Commissioner Altmaier's report and taken from OIR's Annual Reinsurance Data Call (ARDC), "Based on findings from the ARDC for the 2020-2021 year, the amount of 2020 reinsurance coverage purchased by insurers has increased an average of 15%." Now, why do they need it? Because they've lost surplus. So, they need to place more reinsurance in lieu of direct capital infusion into the company. That's the balancing act these private carriers are playing. The cost of reinsurance has increased by 54% from the 2019 figure. I will point out that when I came on board, as Jennifer well knows, back in 2011, we were talking about rate on lines in the 20% range. Today, we're talking about rate on lines in the 8% range. The scary part of that is that's where it could go. If you were at 21%, and now we were in the very favorable reinsurance market for many years, now we're going back up. Although the news in the initial discussions, as Jennifer knows, has been relatively positive, I think, with the reinsurers and particularly with the capital markets, reinsurance is going to remain a real problem. Continuing with the reference to the Commissioner's report, to quantify when carriers look back, it's loss development. We talked about this very briefly. It really is about loss development and the original loss pick that a company has. If you took a look at what I posted to my books in 2018 and you compare that loss a year later, then it increased by \$481M (again, total surplus in the industry: \$4.2B). If you move forward one more year, and that's now at \$682M, so you see this staggering increase in overall loss development but continues. The reality is the loss development of the industry for some companies has been in excess of 250% from the original loss estimate. The only point I would make, and I'm not defending the reinsurance industry (trust me), but the point I would make is that, how do you price a product at a given level when the ultimate loss expectancy is 250% higher than the algorithm used to price the business initially? It puts them in an extremely difficult position. It makes them more wary to provide capacity in the marketplace. If I were a reinsurer, I would charge more because of the uncertainty

associated with the ultimate loss. So, next slide, please. Here we get into a comment that we just started on, and I am almost through. You keep hearing the term “social inflation.” So, the question is, “What is ‘social inflation’?” This, in my mind, is a good definition of “social inflation.” The industry is basically turning a basic insurance product with specific loss responses into a maintenance agreement. This happens to be one example that we found. These are ads; there are hundreds of these on Facebook, YouTube, billboard ads, door hangers . . . where individuals go into the neighborhood and hang advertisements on the doors and say, “Bring me in! I’ll do an inspection.” Here we go. “One broken shingle or one tile equals one new roof.” I don’t know how you address this other than to basically address the issue relative to litigation. I use some other examples. We have files that are a foot thick from different social media mechanisms, etc., that refer to this. Next slide, please. I used this with the CFO last week; I was on a panel last week; I was privileged to be on a panel with the CFO. I used this. I think he was aghast. He has been a leader in really trying to raise this issue, particularly as a result of Hurricane Michael. But here you go: anyone around the table want a free Ruth’s Chris dinner? If you want a free Ruth’s Chris dinner, call the inspector, bring him in, you get a free Ruth’s Chris dinner. I won’t spend a lot of time on it but there are other elements in this slide that, you know, that just jump out (“The vast majority of our customers who file a claim get a full roof replacement through their insurance.”) You know, to us, it’s staggering. We’ve been very fortunate; we have not experienced to the extent the industry has – the roof claims that exist, primarily because, you know, we have such low market share and historically have been very profitable – SOLO counties. We have less than 1% market share in SOLO counties. We have this solicitation process that’s going on across the state and it’s becoming (I think we all see it) more and more common for people to simply accept this and not consider it bad. They’re taking advantage of their overall insurance company and it’s being pushed very aggressively by attorney firms, public adjusters, etc. I’m not suggesting that all attorney firms and all public adjusters are bad. I’m just saying that there are some bad actors that are really, truly driving this issue. Next slide, please. I won’t spend time on this. The Chairman did a great job. Slightly different group that he referred to earlier, but this is what’s happening in the industry and the financial trends for the selective Florida insurers – this happens to be the Guy Carpenter exhibit model versus what the Chairman used, which was the Willis model. Again, these are the points I referred to earlier. The net underwriting loss was \$1.26B through three quarters. I think we’re all waiting patiently to really determine what the final result will be. March 1 was the deadline date. After that date, capital cannot be, to the best of my knowledge, moved back into year-end financials. We’ll have to see what the end result is and the impact on the overall marketplace when all of those numbers come in and you get a response from the relevant rating companies. Final slide, please. I won’t spend a lot of time on this. This is just a small segment. Bottom line is that the state is shutting down, and they have to. They don’t have the capacity. They don’t have enough capital. In many cases, they don’t have enough capital to really focus on even writing the business they have. So, they are taking very restrictive actions. Governor Dunbar made an excellent point on the commercial. The same thing applies to the personal lines. We have over 20,000 policies now that are brand new homes on the books – brand new homes. Why does Citizens have a less than 10-year-old home on the book if we’re a residual marketplace? Because at this point in time, there simply is no capacity anywhere for these risks to go. It is a huge problem and every single day from Kelly and from Carl, I get constant updates on yet another company. ASI reported this week that they’re shutting down the state for new business. So did Southern Fidelity and Capitol Preferred for new business. We have an ongoing issue relative to the market capacity. It doesn’t at all, Mr. Chairman, answer any of the questions you have relative to “what are the solutions.” I personally believe that, and I’m not going to steal any of Christine’s thunder, I do believe that a step in the right direction, from my perspective, is the process that is incorporated within SB 76 so that we basically have the equivalent of a process relative to SB 76 or Texas Bill 542A, which basically lays out the overall process, at least, so that we have a very specific, a very identified pre-suit demand; we have a final

pre-suit offer; and then we have some way to address litigation costs associated with the end result depending upon the judgement or the settlement associated with the claim. Without that, we're not really talking any serious talk reform that would have an overall impact on the marketplace. With that, Mr. Chairman, I apologize for the length of my report, but I open it to any questions.

Chair Beruff: Just one quick comment. You did mention that we're not suffering much on that roof repair example, but obviously other insurance companies are, right? So, could you legislate that if less than 10% of the roof is affected, you can only repair it? Can you just add a definition?

[multiple speakers]

Chair Beruff: A roof is a very simple thing. You only have so many square feet: five thousand whatever. If that damage is less than 500 sq ft., you're not entitled to a new roof. You've got to fix it.

Christine Ashburn: Currently, you're required, from the legislative perspective, to offer a replacement cost coverage. The statute doesn't speak to specifically what the percent of the roof is damaged. . .

Chair Beruff: . . . No, no, no. My point is can you tweak the statute?

Christine Ashburn: You certainly could, yes.

Chair Beruff: Why don't we add that to our "to do" list?

Barry Gilway: There are proposals . . .

Chair Beruff: . . . Governor Holton, would you like to comment?

James Holton: Chair, to your point, I think there has been potential legislation proposed out there to actually move towards choices of actual cash value . . .

[multiple speakers]

Chair Beruff: . . . Appreciate that . . . The roof is 18 years old, and it's got a 20-year life, why are we paying for the whole thing?

James Holton: . . . And to me, choice ought to be exactly what every consumer wants. They want to pay less, and they actually insure for actual cash value (ACV). The legislature has not been willing to address this issue. I think it was in David Altmaier's report to get around potential opportunities to deal with that. I don't know what the final report showed. Maybe Christine can elaborate on that. That's something that really would be a first step for other states to do to address toward an option of ACV versus a replacement cost.

Chair Beruff: Thank you.

Will Kastroll: Chair, may I say something? Governor Kastroll.

Chair Beruff: Yes, go ahead, Governor Kastroll, please.

Will Kastroll: To piggyback off of Governor Holton's response, there is action in this term that Florida SB 76 could change the way insurance companies cover old roof replacements. So, this is something that is active right now. I don't know if "active" is in this week or if it's changed or not, but as of last week, this is something they were debating and talking about and maybe this could be a chance for Barry to – and maybe his team already has – but to dovetail on and write a letter to whomever he does, whether it's a lobbyist or Senators or Congressmen – to go ahead and say we support this or something similar to this so that they get some idea that Citizens is behind this as well. Thank you.

Barry Gilway: Thank you, Governor Kastroll. I think Christine can comment on that.

Christine Ashburn: Mr. Chairman, if it'll be amenable to the board's . . . These issues keep coming up. I'm fifth on the agenda. If you would like for me to quickly run through what's been filed and where things are and do my legislative update, I'm happy to do that now. I am doing an update on the agenda at some point during this meeting.

Chair Beruff: Okay. I'd like to try to get to the next thing before lunch.

Christine Ashburn: I am planning to cover all of these items in my legislative update.

Chair Beruff: So, we'll have our legislative update, and they'll tell us exactly where we are in the legislation cycle. Does anybody have any more comments on . . . Governor Henderson?

Reynolds Henderson: Just a question. Are we deploying or are subcontractors deploying technology – drones, etc. – to look at these roofs or any part of the property that's damaged so that we can efficiently get this done because the one thing I saw in Michael that's real clunky is that you had to get all these adjusters out there? They had to get a ladder . . . You can cover a lot of ground really quick.

Jay Adams: During Hurricane Michael, we leveraged aerial imagery that we received from the NICB through our GIS contract. We were able to get resolution in where we could make decisions on a lot of roofs without having to do in-person inspections. We did leverage drones for many that had trees or obstructions to do those reviews as quickly as possible.

Reynolds Henderson: Would you say that this was the high percentage was way more efficient than what we did in the past and we will be able to deploy more and more of that in the future? Would you say it really effectively, you know, helped us?

Jay Adams: Absolutely. So, we leveraged the same type of technologies during Hurricane Irma, and we refined those. And we will continue to leverage that information and technology as we go forward. Our goal is to do one touch on adjusting these claims so that we can get the consumer their check as soon as possible.

Reynolds Henderson: I guess the question would be is there some kind of way you can look in the same area . . . Have we reduced any lawsuits as part of that because it would be nice to know if getting to there with technology would be faster and getting a number out to people is getting them to not to go to lawyers so quick? That would be interesting to know.

Jay Adams: Without going into a lot of detail about this, the struggle the industry has with catastrophe is (Monroe County is a great example) we get up there and adjust those claims within 30, 60, 90 days of the landfall. Many of those consumers are still doing repairs, and we're three to four years out. The estimate that we provided back then is significantly different from what it is today. The cost of labor and materials have significantly gone up, especially in hard to reach areas like the Keys. Sometimes, that drives litigation because the consumer believes that we've tried to shortchange them. However, if the repairs were done at the time the estimate was written, it would have been adequate to cover all the repairs.

Reynolds Henderson: So, we're explaining that fully to them at the time, like, "The reason the number is this way is because your roof has an effective life of 25-30 years, and you're at year 22 or whatever."

Jay Adams: One of the things we really try to stress through the claims process is that your claim is really never closed. If you get a vendor, contractor, representative come up with an estimate that is different from ours, please contact Citizens back and give us an opportunity to re-inspect or readjust your estimate. In 49% of all lawsuits brought, the adjuster was never notified that there was any dispute.

Reynolds Henderson: So, again, back to the thing about retail agents, is there some way we can enhance that where they made it part of their process that they would do the follow up consistently so that we don't get into that situation? It's not for true discussion now. I'm just throwing it out there.

Jay Adams: Right. I will tell you that we do notice every agent for every claim when it goes out, especially for catastrophe so that they are aware that their customer does have a claim so that they can engage in the process.

Reynold Henderson: Okay. Thank you.

Chair Beruff: Anyone else before we move on? Governor Kastroll, I think you're muted on your end.

Will Kastroll: Barry, this is a question for you. I don't want to go back and belabor a point. As Governor Dunbar has said in the past and other board members as well and for clarification going forward, I was a little disturbed with how our Chief Counsel left Citizens. I do not want that to happen again. Barry, can you give us any indication of why he left and what we're doing to prevent that situation from happening again?

Barry Gilway: Governor Kastroll, like you, I do not want to revisit the information, but as I indicated in my earlier discussion, without any knowledge of management, a board member called for a meeting with a staff member directly, negotiated a termination to the extent that it was also advised when he would announce the termination not for cause. It occurred. My first notification is when I got a napkin in the mail . . . In the email from a General Counsel basically laying out the terms and conditions that have been negotiated and agreed to during that discussion. I reached out to Chairman Rivard, and Chairman Rivard asked if the General Counsel wanted to challenge that decision. I got back to General Counsel who said, "No." He did not want to challenge that position, and from that point on, Chairman Rivard basically stated that, "Let's move forward with the termination; however, we must be absolutely sure we are totally in compliance with the Plan of Operation and the statute and the program we had in place relative to termination. So, unfortunately, that's the way it occurred. The whole point in my discussion earlier is that, in my opinion, that's not an appropriate way, you know . . . that's not appropriate board involvement in management. If there's a discussion that needs to be held relative to the performance of one of my staff,

I always, always welcome any discussion or any concerns so that I can address them directly. I don't want to revisit that. I do appreciate you raising the issue, Governor Kastroll, because I do think when we do set up a Governance Committee that there could be some rules of engagement, if you will, relative to the interaction directly between board and the staff that I think would clarify going forward.

Will Kastroll: Thank you for your response. I'm a little taken aback and also sickened.

Marc Dunbar: Before you go too far on this, I need to weigh in, so, Will, just hold on hold on.

Chair Beruff: Hold on, folks. I'm still the umpire here.

[multiple speakers]

Chair Beruff: I'd like Governor Kastroll to finish his comment, and then . . . Believe me, everyone who wants to speak will always have an opportunity to speak at this board. I just want to keep an order. So, if Governor Kastroll is complete with his comments, then I believe that was Governor Dunbar, I think.

Belinda Miller: Mr. Chairman, may I interject one point?

Chair Beruff: Let me see if Governor Kastroll is finished. Governor Kastroll, are you complete?

Will Kastroll: No governor's name was mentioned during this, so this is not a personal attack on anybody. I just don't want it to happen again, and I don't think that's an appropriate thing to do. I don't even know if that legally is allowed, but I don't think it's an appropriate thing to do, and that is my opinion. Thank you.

Chair Beruff: Appreciate that. I'd like Governor Dunbar next and then Ms. Miller if she has a comment. Governor Dunbar was next. Again, I look at this all as yesterday's newspaper, which is used for wrapping mullet and that's about it. But if you want to continue . . . Everybody want to hammer this point, I guess, everybody is entitled to.

Marc Dunbar: My biggest point is . . . my biggest concern is making sure the fact record is straight, since I'm the only person with first-hand knowledge. I want to make sure that the fact record is straight on the way this went down. Barry had extensive knowledge of my concerns – my personal concerns. We had numerous conversations about it. They're not worth rehashing. Some of them were testy; some of them not testy. Some of them Barry apologized for; we moved on. I was encouraged by one of Barry's senior staffers to have a meeting with Dan, okay? I did that and during that time period, you have to understand, I hold Dan (and I told Barry this and I've told the CFO this and Dan certainly knows this) I hold Dan in the highest regard. I repeatedly use the analogy that he's a "Hall of Famer" in my book. We wouldn't have a tax-exempt status but for his genius. He served with my father when my father was in the CFO's office. My father was chair of the working group for Citizens in 2005. I have a lot of respect for him, and I always took the position that when it was his time, when he wanted to retire; he should be able to do that and set his own terms. When I had the conversation with him, I wanted him to understand the concerns that I had with regard to the legal department. And, folks, it's something that many of you probably are not aware of but we have a whistleblower inside our legal department. There have been serious allegations that have been raised, one of which was validated by our own internal audit about a bid that was not done correctly, and information was withheld from the board, okay. Dan, when we sat together and Barry

when we sat together, acknowledged that the legal department has not been managed hands-on as well as it could be, okay. So, this is not something about a board member just on their own went rogue. I was encouraged to do it by a member of Barry's own staff that didn't feel comfortable going to Barry because the organization operates a particular way. We don't need to air all this stuff out, but, you know, Will, since you brought this up, the fact record needs to be really clear. If a member of Barry's senior staff encourages you as a board member to go visit another staff member because of concerns about the functions of an executive – ELT itself – in the corporation as a whole, I hope you will go do that. Barry knows every concern and every issue that I've raised, and frankly the reason why we even got to this point was because Barry did not do what he needed to be done to manage the legal department and get things straightened out. This is not about trying to make it personal or anything, but you have to understand that when you start throwing a fact narrative out there that is just frankly not true, it needs to be corrected because we're a public body. So, you know, I hope that the rest of the board will appreciate that I'm trying to do what's best for the entity and I always acknowledge that I'm only one board member. I can't talk to you all and coordinate things like that, nor did I. So, I hope that sets the record straight and that we can move forward.

Chair Beruff: I appreciate that comment, and I think we should move forward.

James Holton: While I appreciate these comments, if the whistleblower statute is implicated or if there are confidentiality agreements in play here, we should not be discussing any of these matters at this juncture.

Chair Beruff: Yes, that's correct, of course. But I think it's two different matters we're talking about. It's just a commentary that there is a whistleblower action pending. But let's move on. What's the next topic? E&Y? Ready for that discussion? Is the E&Y individual here or on Zoom? How's that coming?

Marc Dunbar: Mr. Chairman, can I suggest that we take a break for lunch?

Chair Beruff: At the pleasure of the board, I'm happy to do that. Shall we reconvene . . . Does 12:30 give everyone enough time to take a break? That's 40 minutes. I have a consensus.

[BREAK]

Barbara Walker: Thank you for your patience. We are reconvening Citizens Property Insurance Board of Governors meeting with roll call.

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

Chair Beruff: Thank you. We're going to go ahead with the E&Y presentation. Gentlemen, welcome. The microphone is yours.

3. Chief Claims Officers Report

E&Y Final Report

Ken Thomas (E&Y): Thank you. We don't have a presentation. We were here to answer questions from the board.

Chair Beruff: Okay, then if you don't have a presentation, then we'll move on to Mr. Jay Adams' presentation.

Jay Adams: Good morning, Chairman Beruff and board members. I'd like to provide an update on the E&Y final report.

Chair Beruff: Excuse me, Jay. Something is wrong with . . . you're not coming across clear on the . . . maybe you should come a little closer.

Jay Adams: Can you hear me now?

Chair Beruff: Yes. There was an echo.

Jay Adams: Back in December, I submitted the following document request from the board: the E&Y draft report dated 8/27/2020, the Citizens response to the E&Y draft report, and the E&Y final report dated 12/15/2020. I would like to start the discussion by discussing the accomplishment document that I sent to the board back in January. I've also included a copy of that in the binder for today as well. I want to do this to set the stage for discussion on the E&Y final report. Due to time constraints, I'm not going to go through this entire document, but I will try to summarize the important points. Back in May of 2014, Citizens began to transform the litigation process and structure with the following enhancements: the reorganization of a litigation organization that focused on scaling to appropriate spans of control for the management team, creating strategic claim file segmentation by cause of loss, creating a triage team for claim and suit evaluations, and the expansion of mock trial evaluations. We developed a formalized vendor operations performance management program focused on legal services that included a feedback loop from staff to Defense Counsel along with scorecards to provide pertinent metrics with respects to Defense Counsel and individual attorney performance. We did an expansion of claims legal for the number of in-house attorneys to provide legal advice and support to the Claims operations, with a focus on developing key strategies and initiatives to resolve claims without litigation or end litigation in the early stages. I'd like to recognize and thank Elaina Paskalakis, John Cipolla, and Steven Woods for leading us through these difficult and important changes. Prior to this reorganization, Citizens was often accused of settling all litigation claims after going through discovery and running up Defense Counsel bills without taking any of these through the trial process. The outcome of having that reputation is that it causes the plaintiff attorneys to generate large volumes of suits as they perceive Citizens as an easy target to accrue fees and costs. Part of Citizens reorganization was to change the perception and philosophy of how we handle litigation. The decision was made to defend all suits that were handled appropriately during the claim process and to force the policy in force language at the time of the loss. This has been a long-tail strategy; however, we have started to realize positive results by seeing reductions in overall litigation frequency. Barry spoke to many of those points earlier today. The first issue I would like to discuss is the overall delay in receiving the E&Y final report. Citizens contracted for a consultation engagement with E&Y in order to share information and work closely with them on their input without disclosing sensitive information regarding our litigation position and approach. E&Y actually approached the engagement as an audit versus a consultation and considerable time was taken in reaching an agreement on attorney-client privileged information that they had requested, and we felt that we could not provide. In addition, Citizens staff had a difficult time communicating Citizens' process and procedures and explaining the

significant differences in the Florida market compared to the environments they may have been more familiar with. As a result, when Citizens received the E&Y draft report, we did not agree with all the conclusions as outlined in the Citizens' rebuttal. Following the submission of the Citizens rebuttals, we attempted to hold multiple meetings to ensure that E&Y had the appropriate understanding of Citizens processes and procedures and make sure their observations from the file reviews were accurate. If you review the E&Y draft report against the final report, there are very few changes, indicating that they did not take Citizens' rebuttal into consideration nor the multiple meetings that we had. Citizens' litigation directors and claims legal reviewed the claims files that E&Y reviewed and found that E&Y did not have a full understanding of Citizens' processes, procedures, and organizational structure based on their final comments. E&Y's final report was based on their misunderstanding of these basic principles and basically their comments can really be distilled down into pretty much three categories. The first being there was no leadership involvement in litigation process, by not fully understanding Citizens' structure, E&Y was unable to identify when Citizens leadership was placing notes into the litigated file. Citizens' review of the files indicated that Citizens leadership was, in fact, providing direction on the litigated files. The next was litigation specialist does not own the file and is allowing Defense Counsel to drop all decision making which would include unnecessary work that could be leveraged to increase fee billing. Here, E&Y did not fully understand how Citizens segmented claims by cause of loss and that each cause of loss has its own respective strategy. Once the claim is segmented, the litigation specialist advises Defense Counsel of how to proceed with the litigation and sets the direction for the file and appropriates a budget. It's the litigation specialist's responsibility to drive the file forward and make sure that Defense Counsel is adhering to the strategy. The final category is focused on the need to speedily negotiate a settlement with the plaintiff. E&Y did not fully understand the Florida market with respect to how plaintiff attorneys are paid under the one-way attorney's fee statute. The plaintiff has no incentive to settle a litigation early as the longer litigation stays open, the more fees and costs accrue for the plaintiff. Citizens made multiple attempts to bring these issues up to E&Y for consideration so that the final report could be as accurate as possible. As mentioned at the beginning, Citizens contracted for a consultation where we intended to work with E&Y to make sure that all the underlying assumptions and data were accurate so that the E&Y recommendations could be meaningful and strongly considered. At this point, it should be clear that Citizens did not agree with the E&Y final report; however, we did review their information and look for areas that they either observed or where they made recommendations that we could look to use to make improvements to the overall operation. With that, I'd like to move into the actual E&Y final report update. And, as we move into this phase, at the, I believe, December board meeting, we were given instruction that we need to figure out how to take the E&Y report, distill it down, and look for any areas of opportunity that we could engage into the litigation process. That is exactly how we went back and looked at this. Matter of fact, to make sure that we were doing this appropriately, I asked Joe Martins, the Chief of Internal Audit here at Citizens, to engage with me so his team and my team combined. What we did was went through the E&Y current state observations as well as all the recommendations. Their final report really was broken down into two sections. One was really an executive summary, which is where this information came out from, and then the second section was really a basis of the file reviews and such they had done. We chose to focus solely on the recommendation section. So, I'm going to move to slide three, Jennifer. This is the E&Y current state observations, and what they did is they broke these down into multiple categories with multiple elements underneath each one. The categories were organizational structure and roles and responsibility, litigation management process, quality assurance, internal performance management, Defense Counsel performance management, and technology. Now these were just their observations, but we found a lot of good information where they had observed things that we could make improvements really easily in some of these pieces. Go on to slide four. In the appendix section, I took every one of these categories and every one of the elements and provided really a Citizens

response. But for the sake of time here, all I'm going to cover are the areas of the observations that we really felt had the most meat and where Citizens felt like they could make a change into our process. So, the first one is claims legal will develop a document that details the roles and responsibilities for each position and validate that each attorney is being utilized appropriately. Claims legal will develop performance management metrics to monitor and measure performance based on a feedback loop from the business unit they service based on topics such as responsiveness, communication, and responsiveness delivered to the QA program. As we've talked about on many occasions, we are still actively looking for a new Chief General Counsel. When that person is hired, I will work very closely with those folks. We had a recommendation that it would be beneficial to place claims litigation, claims legal billing, and claims legal under the leadership of the claims division. And, when our prior General Counsel was here, we worked together very closely on all litigation strategies and developments, and we met monthly to talk about any legal issues that came up through the litigation process that we needed General Counsel involvement. On page number five, the claims litigation will evaluate the current staffing model to determine the appropriate utilization of staff versus independent adjusters and validate that there is appropriate governance for litigation structure. One of the recommendations that E&Y made was it would be better to staff all of our litigation positions. We one hundred percent support and back that. We just can't find the resources for it. Matter of fact, when we use independent adjusters to try to fill these roles, we still struggle to find enough qualified people to be able to do that. Claims litigation agrees that there are data points that can enhance the assignment process and that will be incorporated into our matter management ITN as our current system really has a gap there. Claims litigation will review the guidelines and provide updates based on our processes to reflect that litigation team retains ownership of the claim, they are responsible for setting and approving the budget for Defense Counsel, and that claims legal has produced exemplars to support the current litigation strategies that will be delivered by Defense Counsel. Slide number six. We will review the legal billing QA process and we will move it out from under the legal billing team into the claims governance group that provides QA. That's a very separate business unit; they can review those files without having any metrics really tied to what the results are. That will be something that will need to wait for the General Counsel to come in before we implement that. Claims governance QA will review the staffing additions that will be necessary to conduct a more valid sample size as to the individual level and will conduct a cost benefit analysis. So, E&Y recommended that we do more file reviews; we absolutely agree with that. We're going to do a staffing model to see what it will take to get to that statistically valid sample. Claims legal designed a process to include a feedback loop at the attorney level from the client to establish a scoring mechanism that we can use as a performance metric. Slide seven. We are issuing a new matter management ITN and will include recommendations presented by E&Y. So, we have taken all of the E&Y recommendations with regard to the Matter Management System. We have leveraged our litigation team, our claims legal team, our legal billing team, our vendor operations, some of Kelly's IT folks, and we have made sure that we have a solicitation prepared to release that contains all of the recommendations to get the best Matter Management System available. On slide number eight here, we're going to just get into a little more detail because these are actually the improvement opportunities or recommendations that E&Y has made to us. This executive summary slide talks about, again, the categories: they are to enhance data driven segmentation and assignment models; reevaluate the roles and duties of key claims, claims legal, and litigation management resources; strengthen existing guidelines to promote effective management over litigated claims; improve Defense Counsel oversight and performance management; and finally, enhance Citizens litigated claims performance management practices. Now these, as I said, I'm going to go into detail, so I'm going to go over the first category and the first element. So, under the data driven segmentation, the first element recommendation was leverage historical claims in litigation data to develop analytical models that will drive assignment in support decision making. Citizens does not agree with designing an analytical model

to drive assignments to Defense Counsel. Due to the large volume of suits received, it would be careless to assign these to a limited number of Defense Counsel. Capacity and geography would need additional consideration, as well as management discretion for assigning to the appropriate firm. However, we are going to add the appropriate requirements to the matter management so that we have all the information to assist our claims management team in the assignment of those files. The second element under data driven segmentation is to develop analytical tools to support a future state segmentation model, including a complexity-based assignment model, a litigation avoidance predictive model, and a triage assessment decision support tool. Analytical tools cannot assess the risk associated with the Florida market conditions for litigation and could not anticipate the need for segmentation layers without the intervention of management; however, Citizens does support the need to collect additional information to help management make informed decisions. Again, that'll be a matter management enhancement. Citizens does not support a litigation avoidance predictive model as it could have unintentional consequences. Claims adjusters need to adjust claims based on the merit of the claim and policy language that's in force at the time of the loss. Generally, in Florida, the one-way attorney fee statute influences whether a claim will be litigated or not based on whether there's attorney representation or not. Citizens does avoid litigation when possible, by engaging strategies such as the Managed Repair Program, appraisal adjuster focused training on relevant topics. The purpose of the triage team is to focus on the non-litigated claim handling to validate if the adjustment was appropriate based on the policy in force at the time of the loss and to apply the appropriate litigation strategy based on these findings. When the decision supports that the adjustment was appropriate, Citizens' strategy is to defend our position to reduce future suits activity. Second category was to reevaluate the roles and duties of key claims, claims legal, and litigation management. The first element is to define the roles and responsibilities associated with senior counsel to promote consistency in tasks as well as to assist with the promotion of suit avoidance measures, including handling lower-severity litigated claims. This will allow for greater organizational efficiencies, as well as help manage legal spend. Claims legal operates in advisory role to the non-litigated claims, the litigated claims, and our Special Investigations Unit (SIU) teams. In this capacity provide legal advice based on specific claims which provide attorney-client privilege. If they were to adjust claims, we would lose attorney-client privilege. Claims legal, as it's currently organized, cannot litigate claims on behalf of Citizens and needs to continue to provide legal guidance in claim matters. In order to have Citizens' attorneys litigate on behalf of the policyholder, a separate captive firm would need to be established. If a captive firm is desired, a detailed cost benefit analysis would need to be conducted. The second element in that section – create a centralized litigation management unit within the claims organization to centralize the governance of Defense Counsel allowing organization to identify preferred business partners as well as compile and distribute key performance data of panel firms. Vendor operations currently handles the centralized governance of Defense Counsel and Citizens is currently evaluating what the relationship needs to be for claims legal, claims litigation, and vendor operations. Again, we are waiting for the new Chief General Counsel to make final decisions there. The next category was to strengthen existing guidelines to promote effective management over litigated claims. The element is revise provided best claim practices litigation and non-litigated liability and claims litigation legal service guidelines to drive improved efficiency, accuracy, and consistency in the management of litigated claims. Claims governance performs all quality assurance reviews against the best practices. The best practices are reviewed annually based on the quality assurance results in the areas that are identified that need improvement. However, claims governance does not conduct legal billing quality assurance reviews, as I discussed earlier. That is, again, something that we will endeavor to move over into our governance structure. Citizens will move the legal billing and quality reviews into the Claims governance team, and we will review and revise the legal service guidelines. The next category was to improve Defense Counsel oversight and management. The element is to develop a formal, rigorous and consistent outside counsel

performance management program that measures satisfaction with counsel performance as well as claims outcomes as well as adherence to Citizens' guidelines. Vendor operations has a consistent Defense Counsel performance management program that adheres to Citizens' guidelines. It is based at the firm level with individual attorney metric reporting. There are many factors outside the control to review pure outcomes to Defense Counsel matters to leverage as a performance measure. The new Matter Management System will contain more granular metric data that will be incorporated into that process. The next element is to enhance the defense firm prioritization model to assist with defense firm assignment by shortlisting the best firm suited to handle a particular matter based on jurisdiction, location, defense firms' capacity, historical performance, matter details, as well as considerations of any conflicts. The new Matter Management System will provide additional metrics that will help in identifying some of these areas, and Citizens has concern with limiting the number of Defense Counsel firms as that could create situations where Defense Counsel could leverage Citizens and make it difficult for performance management to occur. Citizens does not feel it is prudent to have a few firms with extremely large pending volumes of litigated claims. The next element was to enhance the quality assurance program to focus on impacts to litigated claim outcomes to help Citizens motivate consistent claim handler behaviors and adherence to guidelines. Citizens will review the claims governance quality assurance program to see if enhancements are needed and we will review the new Matter Management System for additional metrics that can be leveraged in the quality assurance process. Page 17. The next enhancement is to enhance the current performance management framework to leverage the use of outcome focused metrics and QA results to drive improvement at the individual, departmental, and organizational level. Citizens will review the current performance management framework for improvement opportunities with the new Matter Management System for looking specifically for expanded data metrics. Chairman, that concludes my E&Y presentation.

Chair Beruff: Thank you. Any comments to that report or is there any board of governors' member who would like to speak? Go ahead with your comments.

Ken Thomas: Thank you, Mr. Chairman. First, we probably should introduce ourselves. I'm Ken Thomas and I'm the government public sector leader for E&Y for the state of Florida, and this is Jim Kramer, who led our engagement with Citizens.

Chair Beruff: Nice to have you both.

Ken Thomas: Thank you. I guess my comment and what I'm trying to reconcile in my head is what I think I heard in the first bit from Jay was that we didn't understand Citizens. We didn't understand the market. We didn't understand what we were doing. In the second half, I heard, "We agree with you, E&Y. We're taking on board the recommendations either in part or to some degree." So, I'm trying to reconcile those two things. That really is it the crux of the issue that plagued this engagement – this advisory engagement – with staff. The disconnection between what we were trying to get to and the defense and at times personal attacks on our team as we were trying to get the information and work with the team. The reason that we were delayed in getting the final report is that at the last part of our engagement was to sit down with the litigation team and go over the draft report and fine-tune it and to understand, okay, "at a high-level that statement makes sense but here are the details in Citizens organization, our structure, our requirements, statutes that we would need to adjust that." And we tried three times to have that meeting, and we were never able to complete it. The best progress we made and the best meeting we had was actually after-the-fact with Joe and the internal audit group at the request of Mr. Gilway where we actually had a type of dialogue that we would normally have with any client on this type of engagement

to say, “This recommendation makes sense but here's the context that would work here” or “Here’s the priority or this would be something that we would do downstream” and some of the comments Jay made as it relates to the new General Counsel obviously pertain to that. But those are the only comments that I want to make. I think other than to say we stand by our work and our recommendations and we believe we have the both the understanding of the Florida market and insurance as a general industry to be able to do this work. In fact, we were hired and selected by Citizens to do this work over other companies. That’s my statement as leader in response to those comments. I’ll let Jim Kramer add any comments and any details or answer any questions you may have.

Jim Kramer: Thanks, Ken, and I just had a few comments. Thank you obviously, everybody, for having us in today. E&Y has conducted many similar types of engagements along these lines across the country. I've got 30 years of experience from a Claims management perspective, and I would call this a relatively standard engagement similar to many that we've done before. In fact, the statement of work lays out pretty clearly, they hired E&Y to look at the efficiency and effectiveness of the litigated claims management program. What I would say also as we fully understand Citizens’ structure, Citizens’ processes as it relates to litigated claims and the Florida marketplace. I would qualify that and say we never know as much as our clients do about the current state that they live in everyday: that’s to you, Barry, obviously to Steve, to Elaina, and the team that deals with litigated Florida homeowners claims every day. We would never presume to know more than the Citizens team. With that being said, we bring a broad range of what we consider the best practices that we can tailor to be effective in that marketplace, and I think I would just echo what Ken said when I heard the initial conversation about that we don't understand the structure or the processes of the marketplace. Obviously, we disagree with that, but I was struck by the same recount of and certainly when I first read the response to the report and then listened to it described earlier, there's broad agreement around our recommendations as well. And the last thing I would say is sort of that validation session that Ken referred to that we made a couple of attempts to have . . . we expect that there's going to be some level of disagreement, in some cases, just around strategy or the ability to execute something and we get that. Those validation sessions are meant to kind of work through those situations. For example, where should house counsel sit? What should their role be in terms of advising on specific cases versus more broadly around strategy or where QA can sit within an operation like Citizens when it might be restricted in terms of where that group can sit? We expect to have some level of disagreement and use those sessions to reform those recommendations in a way that is valuable to Citizens into something that you can actually implement, right? So, we take that very seriously when we consult with our clients in these regards, so I think that’s my statement. I’ll open it up to any questions obviously.

Chair Beruff: Thank you very much. Does any board member have a question?

Vice Chair Lopez-Cantera: I do, Mr. Chairman.

[inaudible]

Vice Chair Lopez-Cantera: But I’ll defer to Governor Holton. I can see him.

Chair Beruff: Okay.

James Holton: Thanks. One concern of ours now – I’m Chair of the Ad Hoc Committee doing a search for a new General Counsel – is to specifically see where you disagreed with Citizens’ performance of General

Counsel before and what they could do better now. So, if you can kind of distill that out for me, that would be helpful as we go through this process to kind of really focus on what your substantive recommendations are for what a new General Counsel could do better than what our previous one did.

Jim Kramer: One piece I would say around the role of a General Counsel and some of the recommendations that we heard alluded to in the last segment was around the role of Defense Counsel in managing litigated claims. You know, from our perspective, you know, there's an overspend on Defense Counsel. That's reflected in the stats that are published for everybody to see in the state of Florida on what the Defense Counsel spend is in ratio to total incurred relative to other carriers, and I think also when you look at the claims sample that we looked at (we looked at 50 files randomly selected to actually understand the role of the Citizens claim litigation team, house counsel, as well as Defense Counsel) a lot of our recommendations were around . . . I want to say that we saw some very, very good execution as well, right, some really good strategies and some good claim level management. But, broadly across the sample of claims and across our understanding of how Citizens manages litigated claims, there is an opportunity to better manage Defense Counsel once they are assigned to prevent suit filings when there is an attorney rep but yet, a suit has not been filed; and there's an opportunity I think to better train the Citizens claim workforce in terms of how to prevent attorney representation as well. We talked about some of the predictive analytics, right, to help determine strategies to reduce attorney representation, and you don't need to have a huge percentage impact. You knock down attorney rep by 5% to 10%, and that translates into incredible savings on the loss side because we all know attorney rep in suit file claims cost more at the end of the day. This is not just specific to Citizens or Florida; it's across all lines of business and across all jurisdictions. I also do think there's an opportunity to use the rich data that you have to understand among your Defense Counsel, both the firms and specific councils who typically drives better results, who creates better strategies. You've got a preponderance of data that you can look at to not necessarily auto-assign or restrict the amount of counsel that you work with but based on the fact patterns of the claim, "here are some attorneys that tend to drive better results on claims that have similar fact patterns." I would agree with Barry and the Citizens team that it's probably not good to use a model to say, "Okay, this claim is going to be automatically assigned to Ken," right, but to inform the folks that make those decisions: "Here are the two or three firms that you should consider, understanding the facts to the ground, the location may dictate otherwise," right. We may go away from that specific recommendation, but there's so much data that I think that could be mined to better inform that process. And I think ultimately hold defense firms and individual's counsels accountable for performance, right, and over time, if you identify those firms that consistently drive better performance you should be sending more claims their way. It's the same way you would view people in your businesses: you review claims adjusters who generally drives better results, right, for those that are struggling. We want to retrain them and then have them provide better quality work. The same process goes for the defense attorneys as well. I hope that answers your question.

James Holton: I specifically wanted some recommendations as to our own General Counsel. That was a broad sweep. Was there anything that you see you would expand or contract the role of what our General Counsel did before in his parameters of work.

Jim Kramer: I would say broadly, I think, there's an opportunity to look at the role of in-house counsel, right, and then we talk about where they sit potentially and what additional duties they can take on. Is there an ability – especially prior to a suit being filed – for them to be more involved in claims to potentially prevent those suits from being filed and drive that claim towards better outcome. I think it's a great learning opportunity, not just for the litigated claims teams, but frankly going back to why this claim

wound up the way it did to help inform the training of your core claim staff as well. So, I think, you know, broadly what's the strategy to do better around litigation prevention and then once a claim because litigated, what our strategy is on that file short of going to hearing?

James Holton: Thanks.

Chair Beruff: Next? Governor Thomas.

Scott Thomas: Thank you, Mr. Chairman. I don't want to get too into the weeds, or we will be here all night. But if I can just follow up on what you were just talking about – an area you identified was Defense Counsel overspend. What are the drivers of that overspend?

Jim Kramer: So, a number of things that we identified in the report and specifics are in there so you can look at that. So, I don't want to get into a lot of details either. But I think number one, in a number of cases that we saw in looking at specific files, you know, there was an opportunity to settle that claim that we saw for a specific amount that was later settled for much, much more or there was a settlement demand made by Plaintiff Counsel, yet it continued to be litigated or moved to the discovery process, driving Defense Counsel spend, right. So, I think there needs to be attention to number one does this need to go to Defense Counsel, number one. Obviously, if a suit is filed, it needs to go to the Defense Counsel, but then the role of the litigated claim managers efforts to control that strategy, right, to drive the results on the claim . . . typically when we see overspend on litigated claims, it is because the insurance carrier is not diligently managing that resource. In some cases, you know, work that could be done by the claims staff is done by Defense Counsel, right, or its deferment to Defense Counsel on that overall strategy without being sufficiently involved in what that strategy should be. I think it's broadly in some of those areas but it's also very, very specific files where you can see the failure to consider a reasonable offer, considering what the damages were and then ultimately paying more than that a month or two down the road.

Scott Thomas: Is the problem . . . I know you looked at some files . . . But is the problem there, for example, the rejection of what is later thought to have been a reasonable settlement offer, was a decision made by Citizens not by retained counsel, correct? Or are the scenarios where offers weren't relayed and things of that nature?

Jim Kramer: Yes, I don't want to say that that last situation never came up, but I would say it was typically . . . I didn't see any instances of where Defense Counsel was withholding information from Citizens, but we what we saw in some cases was a lack of clear guidance and strategy involvement from the Citizens claims resource over the top of that defense attorney. It was not always clear looking at the files where that strategy was coming from.

Scott Thomas: It's easy to look in hindsight to look back and say, "X-settlement offer should have been accepted." Are you talking about scenarios where . . . are we being critical of that decision at the time that it was something that objectively it should have been accepted? How do you make, in your analysis, how did you draw a conclusion that a particular settlement offer should have been accepted other than comparing it in hindsight with the final result of the case?

Jim Kramer: Number one, we saw it on multiple files. It wasn't just, you know, a needle in a haystack: so, multiple files where there was a clear settlement offer, supported by the facts of the case, right, based on

the evidence in the claim file, what the damages that actually were and ultimately paying a larger amount down the road. So, yes, of course easily “to Monday morning quarterback” say, “Well this specific settlement offer should've been accepted.” But we saw it across a number of different files and we certainly saw situations in that file sample where a claim could've been resolved short of them retaining an attorney in the first place. In some of these cases, if they hadn't retained an attorney or they presented a request for settlement based on the damages – the damages appeared clear in our view – and the settlement was rejected, sent to Defense Counsel, and then ultimately resolved for a much, much greater amount of money.

Scott Thomas: Last thing and then I'll let my fellow governors go. I don't want to take up too much time here. You did mention – one of the things that piqued my interest was (my handwriting is horrible) – strategies to prevent suit filing when the claimant has hired an attorney. What are concrete examples of that?

Jim Kramer: So, we provided some of that to Citizens in terms of file specifics (“Here's an example of a specific file of where that happened.”). But, where an attorney is representing a specific policyholder, right, and they've submitted evidence for the damages (the initial and any kind of supplemental request for damages) those damages appear to be reasonable in terms of the request for payment that were being made. Those requests were rejected by Citizens; ultimately, then a suit was filed. A Defense Counsel was retained, and when you obviously add up all the dollars, not just what was paid to the plaintiff and their attorney, but then Defense Counsel's fees, it's a significant multiplier in terms of what that initial valuation represented.

Scott Thomas: Thanks. I may have more, but I don't want to monopolize everyone's time.

Chair Beruff: Who would like to speak next? I see Governor Kastroll's hand. Go ahead, Governor Kastroll.

Will Kastroll: Thank you so much. I just have two quick questions. One for maybe the Chairman. I don't know if the speakers know this. Was there a board observer for this?

Jay Adams: Yes. Governor Dunbar.

Will Kastroll: Thank you so much. Then the other question I have is for the two speakers. Thank you so much for your report and your time and effort you've put into it. I really appreciate it. Have you guys done a similar report on any other Florida (because Citizens is a Florida domestic) have you done (in essence, a Florida domestic) have you ever done a similar report on other Florida domestics?

Jim Kramer: So, the answer is no in terms of a Florida-only specific insurer. We've done broad, property claims, what I would call efficiency and effectiveness studies for national insurers that included Florida but none that just only writes in the Florida market specific to Florida claims.

Will Kastroll: Okay. Thank you so much for your time.

Chair Beruff: Yes, Governor Fields.

Lazaro Fields: Thank you for being here. I wanted to follow up on Governor Thomas' question. So, you mention that there's instances or there are several instances where there was a disconnect between, it

seemed like, the claims adjuster or our claims representative I'll call it and, I guess, the Defense Counsel in the sense that a claim came in that should've probably been settled (again, it's hard – it's easy to "Monday morning quarterback") but should've been settled and then, I guess, was nevertheless shipped out to Defense Counsel and litigation ensued. My question is, was it your sense or did you get an idea if that is a . . . what can we do better? Do we need a point person, several more point people? Do we need to arm people with more authority? What can we do better? Because I think that's an issue that I've heard outside of this board from attorneys that I know. I just want to know what we can do better to make this more efficient.

Jim Kramer: So, it's a good question. We provide some specific recommendations that were referenced briefly in the presentation prior to us speaking. I do think, number one, the process is very complex: when a claim comes into the litigated claims unit, many, many manual touch points to ultimately land on the desk of the supervisor and then, you know, to a litigated claims adjuster. So, I think there's some process improvements that could be made. Number two, I think ultimately, you know, you're always trying to get better, right, and I know we certainly heard that from Barry and the team, right. We want to get better, and I think there's an opportunity at the individual level to give more, timely, and comprehensive, and qualitative feedback on what was done well on the claim and what wasn't. What we typically see at a lot of insurance companies, and I don't think Citizens is any different, is that qualitative type reviews, quality assurance process tends to be more process oriented versus outcome oriented, right. So, I think there's an opportunity to strengthen the quality assurance program, make it more reflective of a review of a recent claim, even open claims, and to give very concrete, qualitative, real-time coaching and guidance to the people who live this out every day, right. I used to be an adjuster. I used to know what it was to work a desk and have the phone ringing and a lot of things coming in, and then when I sit down and I received feedback about my performance, it's on 10 claims that closed three-quarters ago. I don't necessarily know why I made a decision I did, so I think there's an opportunity to make it more real-time, a little more comprehensive and qualitative-based and then identify training opportunities. Where can we get better? I think, you know, individual adjusters learn from real examples. "Here is an example of a claim that could've been handled better. Here's an example of a claim that was handled very, very well." So, you identify those resources that are struggling and get them training and show them what good looks like, right. We certainly make reference to that in the reports there if you want to read it in terms of very, very specific recommendations we can make around helping Citizens improve the results on those kinds of claims.

James Holton: I don't want to belabor the point either, but I'm just curious and drilling down a little bit on your evaluation of a claim that could've been settled; what seemed reasonable from counsel was actually rejected and then ended up costing more. Can you give the metrics you were using to evaluate why that claim was reasonable at the time that differs from Citizens? Was it about scope? Was it the cost of work? Was it based on Xactimate estimating? What metrics are you using to determine that they rejected at an unreasonable or a reasonable demand?

Jim Kramer: That's a good question. So, we look at all of the information that is presented to us in the claim file, right. So, as you mentioned, the Xactimate estimates, what was submitted, any pictures . . . The team that conducted the review, they are ex-homeowner adjusters; there is one who lives here in Florida, so, they know the market very, very well. They also know Xactimate. They know how to measure a house. They've gone out and done this work before, so it's based on our experience, of course. It's based on the evidence in the information that is present in the file both qualitative photos, the estimates, any kind of counter estimates that come in, and we make that decision at the file level, and certainly there

were some situations and obviously the Citizens team, you know, has our individual comments relative to the files we did review . . . and like I said, a lot of really, really good work that was done but certainly opportunities to do better. So, we use our objective understanding of what's presented in the claim file based on our experience and certainly, yeah, we're looking at closed files. We are going back and seeing what moment of time: "It looks like we could have made a better decision on this claim." Understanding that everything happens over the course of a given day was there a reason why they didn't settle it at the time that wasn't clearly documented in the claim file notes. It's possible there was and there may very well be a valid reason. We're limited to the information that's provided to us in that claim file, and in some cases, you know, we have to make some subjective judgments because not everything is laid out there 100% in terms of what that thought pattern was.

James Holton: In that specific example, do you have the variance of what the claim was eventually settled for versus the original offer?

Jim Kramer: We do. I mean there's examples of one that was \$375,000 that went to \$550,000. There was one, I believe, that was \$40,000 that went to \$80,000. There are some very specific examples that I'm sure that the Citizens management team could provide for you if you wanted to look at that.

James Holton: Were some of those additional add-on attorney's fees and so forth in the final settlement?

Jim Kramer: First of all, yes, additional plaintiff attorney fees, right, that fuel that increase in the settlement amount. There's obviously a much larger defense costs on top of that as well, so we look at the total dollar spend, we look at what was spent prior to that initial offer and what was spent subsequent to that offer.

James Holton: Alright. Thank you.

Bette Brown: Thanks for coming today. It's probably in this report and I missed it. When you were looking at the claims, can you tell me what period of claims that you were looking at? How many were filed during that period as opposed to how many you look at? I'm just curious about those metrics, so was it 1%? Was it 10%? Can you throw the numbers at me?

Jim Kramer: Governor, I'd have to get back to you on the exact time period from which we pulled the file. We worked with the Citizens management team about what's a reasonable sample, right, in terms of what period you're going to look at. We are always guided by the facts; I don't want to review claims that were closed five years ago and don't reflect current activities, so these have been claims that would've been closed recently. So, if we conducted the review in June of 2020, which we did, my expectation is that these would have been the claims from 2019 and they probably closed by 12/31, possibly 3/31. So, we're looking at recent claims, but I'll have to get back to you in terms of the exact specifics of . . .

Bette Brown: . . . I'm just trying to get a handle on the number we've handled versus the number you've reviewed because . . .

Jim Kramer: . . . We've looked at 50 claims, right, so we would never claim that is a statistically representative example if we were to look at all the claims you've handled. We probably would look at a larger number, but we're limited by budget, of course, and timeline. But we always want to review some claims because our experience has been, and again, I've been doing this for a long time, is what's been

committed in writing around guidelines and how we handle claims and what the claims team would tell us: "Here's what I do day-to-day" and what Barry's team might tell us and here's what we think about . . . That's all great. Ultimately, the measure of carrier performance is what actually gets done at the claim file level. I just want to look at that level of execution across the file sample, however big or small it is, and it provides some very, very concrete recommendations back to our clients that are reflected on how they're actually handling claims.

Bette Brown: Okay. Thank you.

Jim Kramer: You're welcome.

Chair Beruff: Governor Thomas.

Scott Thomas: Thank you, Mr. Chairman. To return to some of your opening comments, and I don't know that I necessarily agree that Mr. Adam's presentation is inconsistent. I understand that there are some areas of fundamental disagreement, but not withstanding that, they've gone through the report to make sure they could cull from it any areas that are helpful, and they think can be beneficial. Are there, however . . . you've seen the response. You know what it is. Are there high level, qualitative differences that you think are being missed in the response that we should be looking at? In other words, some of it I get. For example, there is some small disagreement about whether we should use analytics to drive retention or whether we use analytics as a tool to help guide that. I get those kinds of things at the margin; there are certainly differences and I can read those. I'm concerned that, if, as a part of your review, there are, what we would call "above the line," you know, bold differences in what you've recommended than what Mr. Adams and Citizens don't agree with and not willing to look at or not going to implement. Are there other things that we say, "Wait a minute. Sure, there are 10 differences, but this one matters."

Jim Kramer: Ken, I'm interested in your comments in this as well. I don't know where there are bold, fundamental disagreements in terms of our findings and recommendations. If they are out there, I haven't seen them.

Scott Thomas: I'm particularly concerned about the idea of what's being implemented and what you guys have suggested and what Jay is looking to implement . . .

Jim Kramer: . . . I think there may be some disagreement about maybe prioritization and, you know. I know there were some comments that we're going to review this and we're going to consider these recommendations, so I don't know that that's a bold area of agreement that they're saying, "Yeah, we can't wait to implement this." I think, maybe, a way of saying, "Yeah, we're going to looking at this." And, to your point, maybe there is some stuff that we can take from this and implement, but there are other areas that perhaps we disagree.

Ken Thomas: I would say that, in general, we are in agreement. Citizens could use data much more effectively and much more than they presently are using it to make better decisions to where informed decision makers to make better decisions. There are some process improvements that could be looked at . . . Roles and responsibilities to be clearly identified and defined between functions and individual departments. But, in general, that was kind of the consensus when we had the final meeting with Joe Martins and the internal audit group is that what we were recommending (a large part) was consistent with some of his observations and recommendations in years past to the degree of accuracy between the

two or alignment. It was general, but I think, you know, Citizens does a lot of things well but there are areas for improvement. The real tension was in not the recommendation but the receptivity to recommendations and in the pushback against that. It wasn't really about the content; it was really about, you know, the challenge.

Chair Beruff: Any further comments from any board members?

Vice Chair Lopez-Cantera: I have some, Mr. Chairman. I have some questions for the gentlemen from E&Y.

Chair Beruff: Governor Lopez-Cantera, please go ahead.

Vice Chair Lopez-Cantera: Thank you. Mr. Thomas, is it safe to say that you now understand Citizens?

Ken Thomas: Well, I understand Citizens more, I think, is what I would say.

Vice Chair Lopez-Cantera: Understood. There's a potential savings listed in the report between \$11M and \$18M. Is that yearly or total?

Jim Kramer: I believe that's on an annual basis. If you stretch that out over a period of time it's going to be more than that from baseline.

Vice Chair Lopez-Cantera: Understood. And based on your recommendations and your understanding of the organization, how long could it take to implement the large recommendations that you're making? I'm kind of putting you on the spot, but I'm looking for a range.

Jim Kramer: Obviously, you need to hire a General Counsel, but I think most of this could be implemented within 6 to 12 months. I understand collecting and analyzing data and creating analytical models and testing and learning and refining them which is the right way to execute that will take time. But I do think all these recommendations could be fully implemented within 12 months, and some of it will take some time. Obviously, you're not going to see the results immediately, especially with trying to identify who your best performer defense firms are, and over time, looking at that panel and maybe updating that panel a bit will take some time to cycle through, but I think the specific recommendations that we're making no doubt those could be implemented within one year's timeframe. And that's probably generous. You probably implement them sooner than that.

Vice Chair Lopez-Cantera: Would you recommend that we drastically increase our defense litigation budget before we have a new General Counsel in place?

Jim Kramer: I think I would need to know what is constituted within that budget for me to respond to that accurately.

Vice Chair Lopez-Cantera: Well, it's in the agenda for today. It says later on in the agenda that they're asking for \$180M more in defense spending....for attorneys.

Jim Kramer: For in-house attorneys?

Vice Chair Lopez-Cantera: No, I don't think anybody in-house makes that much money. If they do, I'd like to know who they are. [laughter]. No, it's for outside counsel. \$350,000,000 to \$530,000,000. Would it be prudent to increase that and just write that check before we've implemented things that could be done in 6 to 12 months?

Jay Adams: So, for the record this is Jay Adams. That consent item agenda is for allocated spend to Defense Counsel. It is not budgeted as a budget item in our Citizens budget. It is spent at the claim level, and that entire consent agenda is specific to Hurricane Irma. That is where 100% of the increases come from. We haven't spent it yet, so . . .

Vice Chair Lopez-Cantera: . . . So just for Irma. More specific. Not Michael or Hermine, but Irma.

Jay Adams: The majority of the CAT litigation came from Irma, yes.

Vice Chair Lopez-Cantera: Right. So, then Ken, and I'm sorry I forgot the name of the other gentleman from E&Y, would it be prudent for us to allocate that money before having a new General Counsel and at least attempting to do some of these efficiencies that are recommended in your report?

Belinda Miller: Mr. Chairman, may I just say one thing? Citizens was served with over 800 lawsuits in the month of February, so the practicality of waiting until we can take into consideration all aspects of this report is not really going to work because we are the defendant. We have those cases pending against us now.

Vice Chair Lopez-Cantera: With all due respect to Belinda and Jay, Mr. Chairman, I asked the question twice and they've interrupted. They answered twice. I'd like to hear the answer and not be interrupted again, please.

Jim Kramer: I want to preface this and say we did not conduct any actuarial exercise into frequency and severity in terms of what's going to come out of Hurricane Irma and what the projected activity is going to be for suits and things like that. So, I don't think I'm qualified to tell you if that's the right amount. What I would tell you is I do think, you know, a new General Counsel could help implement some of the recommendations that we're talking about and a level of discipline that we're talking about at the file level from a qualitative perspective and from a selection of management of outside counsel and some of the strategy involved with the decision to retain specific counsel and then once that counsel is retained, you know, being more involved in consultative with regards to controlling that outside counsel as well.

Vice Chair Lopez-Cantera: I think I can read between the lines. I think I just have one more question, Mr. Chairman. E&Y mentioned . . . Ken, you mention that there was a meeting that you guys had requested, I think, to create the validation statements to help drop the validation statements and you had asked for that meeting several times. Did I hear you correctly that the meeting never occurred, or did it actually occur?

Ken Thomas: We attempted . . . The final stage in our engagement was to present the draft report and then work through the recommendations to refine and to make sure Citizens and E&Y were on the same page and that we were in general agreement. We had a meeting, we postponed it, and then we had another meeting. The tension between the Citizens teams and E&Y team prevented us really from getting through. We spent, I think, three hours and got through two of the recommendations, and it was more

of not refinement but of just absolute challenge of “we don't agree with what you're saying here; we object out of hand.” And, so we postponed that; tried it again and I was working with Barry at the time to try and work through this so we could get to an agreeable outcome between the Citizens team and in the E&Y team and to, you know, both look at language, look at prioritization, look at what goes on and off the executive summary . . . and, we never really completed that exercise and that's when we got involved with Joe and his team and kind of work through and actually had a very productive meeting in kind of working through those recommendations.

Vice Chair Lopez-Cantera: So, was it a deal breaker type of thing with whoever you were interacting with was just not going to accept, was just not going to engage and just drew a line in the sand basically and say, “We don't agree with you and there's no reason to talk about this”?

Ken Thomas: Well, there was some of that but there was some re-digging holes from previous conversations that had happened into some of the statements made that I objected to on the front end – “you don't understand the Florida market” and even being called incompetent more than once and, you know, when your professional integrity is challenged, that's certainly you can expect that your people will not take that well. It was my job to try and mediate through that, but at a certain point, if one side is not really willing to budge an inch and to kind of come and find a way through, you're just not going to get a way through. So, that's what we were experiencing.

Vice Chair Lopez-Cantera: Jay, what's the single greatest spend in the claims budget?

Jay Adams: Probably the independent adjuster contracts. I have to look to validate what that would be. Defense Counsel would definitely be in the top two for sure.

Vice Chair Lopez-Cantera: The adjuster – isn't that the item we approved in the January meeting or the December meeting that we increased it by \$35M? Or is that the appraiser umpires? Or am I getting that confused?

Jay Adams: I think that was the appraisal umpire piece.

Vice Chair Lopez-Cantera: So, the adjusters are separate?

Jay Adams: Right.

Chair Beruff: Governor Lopez-Cantera, do you have follow-up questions? I have a quick . . .

Vice Chair Lopez-Cantera: Yes, for Barry, I'd like to understand why this final meeting was such a contentious scenario. If we paid a quarter million dollars to E&Y to study our processes in something that cost a lot of money to the organization, why there was this lack of ability to find a compromise to find a recommendation for this board.

Chair Beruff: I agree. I'll let Mr. Gilway answer that momentarily. I have a quick comment . . .

Marc Dunbar: Chairman, before you wrap up . . .

Chair Beruff: No, I'm not wrapping up. I just want to get a quick comment out. In this back and forth that was occurring with the comment, something to the effect that "we've been doing it this way for years" ever come up? Did the comment ever come up from the staff that "we've been doing it this way for years and it works" comment come up?

Jim Kramer: I don't recall that specific comment ever coming up.

Chair Beruff: So, that wasn't an issue, then.

Jim Kramer: I can't speak for my entire team. Obviously, my team had conversations with Citizens as well. I do not recall that comment being made.

Chair Beruff: Okay, well that's a good start. Then, Mr. Gilway, do you want to answer Governor Lopez-Cantera's question?

Barry Gilway: Yes, if you don't mind a little clarification. I agree with the question that was asked by Governor Thomas and that is the approach that Jay and his team took to this as reflected in his report was not to focus on the areas where we had major dissent. It was to focus on those areas where we did believe that the input that was provided could be beneficial and could work effectively. Where the frustration occurred relative to the last two meetings that I personally attended it is that there are fundamental disagreements with the strategy that E&Y was recommending. For example, it was all leading to settle, settle, settle. And, as Jay has outlined several times, that that is not the Florida market. You make every attempt to settle, but the more you settle on these cases, the more cases you are going to bring into the door. If you write, and by the way after a significant triage process, if you have evaluated the case, if you're comfortable with your position, then you move forward and you drive it all the way to trial. And I think the fact that our trial results are 75% to 80% successful is reflective of the fact that Jay and his team have been taking a significant, very rigid approach to the evaluation of these claims and which ones we settle, which ones we do not.

Chair Beruff: I'm not trying to cut off your answer, but I want to try to be specific because what I heard from Governor Lopez-Cantera and the discussion we had here is that E&Y wanted to have with what I would normally call in this process is a closure meeting, where you sit down before the final report is issued and you sit down with your colleagues and you sit down and say, "Hey guys we agree with this, this, and this. Well, we can change the wording but we're still going to disagree here." And, that meeting didn't occur, or it did occur, but it was so contentious that it wasn't worth the time.

Barry Gilway: Mr. Chairman. . .

Chair Beruff: . . . I want clarification as to what happened. Did the meeting occur? I thought the meeting never occurred.

Ken Thomas: It occurred. We tried a couple of times. I mean, we just didn't finish; we ran out of time. We went three hours.

Chair Beruff: It did occur. You facilitated. You got involved and facilitated and it was a productive meeting.

Barry Gilway: Excuse me, Mr. Chairman.

Chair Beruff: I could be wrong.

[multiple speakers]

Barry Gilway: The process occurred this way. Ken and I worked very, very closely together. We had many conversations, really attempting to get everyone on the same page to make this process as productive as it possibly could be. The contention in the final two meetings that I attended, and Ken is correct, we attempted to go through all the key recommendations. There were recommendations, as Jay has outlined, that we simply do not believe are appropriate for the Florida marketplace. We cannot hire and get the resources for significant, you know, individuals – to hire, to replace adjusters. We do not agree that we should be far more liberal in terms of our overall settlement management processes. We do not agree that the claims legal organization – the highest paid attorneys that we have which is the only part of the litigation organization, by the way, which reports to Dan Sumner – should be involved with relatively minor claims. It is not an effective use of their time. I can go through a litany of areas where we just fundamentally disagreed with some of the recommendations that were made, and the discussion became heated because – and Ken/Mr. Thomas – I don't mean to be negative but we both know how negatively those meetings ended up being on both sides and the frustration from Jay and his team and the litigation team – we just didn't believe they were hearing us and we didn't believe they were listening. They kept repeating the same recommendations; although, the explanations as to why we were not in agreement was made multiple times. Yet, we still got the same recommendations. It turned into a very ineffective meeting because we were not willing to accept the recommendations, and frankly, I still would not accept the recommendations relative to engaging in a much more aggressive settlement strategy in the Florida marketplace because you are going to see the same level activity you saw four years ago when Jay made all the improvements that he referred to earlier on and that is we took on a much more rigid position in the overall marketplace relative to the settlement of claims. And, if we thought we were right and we know we're right and we validated we're right, we're going to move forward and we're going to take it all the way to trial. Jay has statistics that show the number of attorneys – when you force it to trial – the number of attorneys that drop the cases before the trial date because they have lost are staggering. We believe our strategy is working. All of our documentation shows that our strategy is working, and I think the contention came in . . . and trust me, Mr. Thomas and I had several conversations, and we thought we were on a good path to try to reach an overall agreement. I think Jay's final report, and then I'll be quiet, I think Jay's final report is right on. Basically, what he did, at the end of the day after a real struggle (and this confirms what E&Y is saying), we did look at this. We did look at recommendations. We did incorporate all of the thoughts relative to the Matter Management System that they came up with. We increased the scope of that to include those. At the end of the day, we will have a better organization. All you have to do is look at Joe Martins' report, you know, to understand that when solid recommendations are made in this company, it's a mandate. You will implement the recommendation and we will follow up on that recommendation. The conclusion here is frankly to get Joe involved, come up with a set of recommendations that we believe are supportable, that we believe are applicable to this marketplace, and then really have Joe track those recommendations to completion.

Chair Beruff: Thank you. Governor Dunbar . . .

Marc Dunbar: No, I'll wait until Governor Henderson goes.

Chair Beruff: Okay. I want to make sure I don't leave anybody out. Governor Lopez-Cantera, were you satisfied with the explanation that you were looking for?

Vice Chair Lopez-Cantera: I may have a follow up later, but I'd like to hear what Governor Henderson has to say.

Chair Beruff: You're good for now. Great. Governor Henderson, please.

Reynolds Henderson: I would just make the comment that I understand the frustration. However, our staff has to be professional. When we hear that they've [E&Y] been insulted by being called "incompetent" and been stood up at meetings or whatever it is, I'm just saying this organization has to have the highest professional standards. I have no reason to think you don't but I'm just saying I have to say that because it is important. There are two sides to every story; however, keep tensions down. Obviously, you report to us and we're going to make the final decisions no matter what E&Y says in their report. But we also have to have professionalism. That's all I'm saying.

Chair Beruff: I'm sorry, Governor Dunbar. We have Governor Fields who would like to make a comment. Would you like to hold your comment?

Marc Dunbar: I'll hold. No problem, Chair.

Lazaro Fields: Thank you, Mr. Chair. Jay, can you give me an estimate of the percentage of cases that are actually filed in circuit court or county court or whatever it may be? What percentage of those actually settle? I don't need an exact percentage, but you can give me a ballpark.

Chair Beruff: While he's looking for that, I want to make a comment. In the report, I read that you folks are advocating for more analytical processes to make decisions going forward. I read that there is some objection to the analytical side of it. I had a comment because industries change, and I believe this industry is changing and I believe that either we have to change with it or not and become extinct. I recall a movie that everyone here probably remembers called *Moneyball*. It changed Major League Baseball. Did anyone ever see that movie? Look at that movie because Major League Baseball today is an analytically, mathematically driven sport. It is no longer the guy who can find the pitcher in the corner who pitches the fastball at 105 mph. It is statistically driven, and it first started out in California and the Red Sox took it up and then they took it all the way up to win the World Series. So, mathematicians and analytics, if it's properly applied can solve a multitude of ills and take out the guesswork of processing things. It's an entertaining movie, and for those who are Brad Pitt fans, he's the coach. [laughter]. Mr. Adams, do you have an answer?

Jay Adams: I do. Governor Fields, for the month of December 2020, we had 60 claims settled through the alternative dispute resolution, which could be mediation or appraisal. We had six final summary judgements, 16 PFS, two went to trial, 308 voluntary settlements, and 308 where the plaintiff/attorney withdrew at the last minute.

Lazaro Fields: So, is it fair to say, then, I can't add that all up. I went to law school; I hate math. Can you give me your best estimate as to what percentage of cases that actually go to trial?

Jay Adams: Oh, go into trial? It would probably be a tenth of a percent or so. We probably, on average, handle less than 30 trials a year.

Lazaro Fields: So, 99 out of 100 cases that get filed get settled some other way. I think Barry's comments were that our trial success rates are somewhere between 70% to 80%.

Jay Adams: Correct.

Lazaro Fields: Thank you.

Chair Beruff: Governor Brown.

Bette Brown: Thank you, sir. Just a quick comment, and know I'm not trying to insult you by this. But recommendations are recommendations. When we get recommendations where we have concerns where we might have breaches or things that could affect the business, we really do need to pay attention to that and make changes. When we have recommendations that could save us money, that's also important. But we had a conversation about that. If you're managing a business and you figured out a way that is saving us money, again recommendations are good, and we appreciate those, and this gives us a chance to look at where we are. It doesn't necessarily follow that if we're doing things efficiently that we have to apply them. That's my only comment.

Chair Beruff: Governor Dunbar, I think, you're next.

Marc Dunbar: Sure. Thanks. Mr. Chair. I wanted to wait until the end because, you know, I was the board observer on this RFI that then became an ITN that led to where we are today. I spent a lot of time, as I mentioned prior, trying to get my arms around ways that we can have constructive improvements that ultimately result in us taking care of our insureds because at the end of the day that's what we want to be able to do if there's a valid claim. I want to highlight a couple of things that were identified through this presentation. Joe Martins being involved was very helpful. I think you heard, from Ken and I have certainly heard from Joe and his team, that some of the recommendations and some of the ideas aren't necessarily new. There has been a reticence to accept constructive criticism. We talked about it at the last meeting. I want to make sure that it's highlighted here, so that we understand from a behavioral standpoint that everybody should be on the same team. I view E&Y bringing constructive criticism to the organization just like I would view Joe Martins and his team bringing constructive criticism to the organization. You know, there is a frustration so much so that for the brief tenure that I had as chair of the Audit Committee we redid the position description so that we could bring somebody in who had actual litigation experience because our own claims litigation team would push back and tell our own people, "You don't know what you're talking about; therefore, we don't need to listen to you" and would slow-play recommendations and things like that. As we evaluate these – and more importantly, when we put it on the desk of the General Counsel – I hope he or she will look at them and spend some time with E&Y and see how to improve the organization. To the questions from Governor Thomas and Governor Fields and even to Governor Holton specifically, since you guys are attorneys, I'd encourage you to start to get on the monthly report that I receive related to litigation that goes on. It will help you better understand how we approach some of these things and may even stimulate your own questions because I can tell you from somebody who spends the better part of 15 years in the management of a law firm that had almost 50% of its revenue come from defense spending, an insurance company can get a marketplace reputation. To Barry's point, if it's "settle, settle, settle" you're going to get more claims. However, if you also have a

reputation that you're going to spend with Defense Counsel at all costs, Defense Counsel will modify their behavior as well. We need to look at that side of the ledger as constructively as we look at "settle, settle, settle" because there are examples where you can look at some of these large judgements over really small claims – where we've been hit with multipliers and things like that and you kind of scratch your head. I start to scratch my head when we have a claim that starts with one lawyer and then it's assigned to another lawyer and then they bring in a consulting law firm and then there is another lawyer that is involved at the end of the day – what's the logic? It's not for us to micromanage the litigation. That's why I'm hopeful that as we work through these recommendations from E&Y, we'll see some things, again, that are constructive for the organization because I personally believe that we can do it better. There are colleagues of mine in the marketplace who have commented since I've been on the board, "You guys need to get your arms around what's been going on with your Defense Counsel." I've had members of the legislature say, "You guys need to get your arms around what's going on with Defense Counsel." I know I've posed this question before: when was the last time you've fired Defense Counsel? It doesn't happen very often. Usually, we'll ask for a lawyer to be reassigned in a law firm if we find some abuses, or we won't send them additional cases. We are used in the marketplace as a calling card to go get other defense work. I think it would do a lot if we had a couple public sacrifices for underperforming defense law firms to say, "You know what? You're fired. You're not going to do any more work for us because we're not happy with your performance" to send a message out there to defense that we're "keeping an eye out on you." For that, I just wanted each of you to have the benefit and also encourage those who are asking questions to roll yourselves up because, you know, it's not going to get better. As it was pointed out by the Chair and Barry, we're going to get a lot more cases, I mean, a lot more policies. And, as we get more policies, we're going to get hit by another hurricane and claims are going to continue to go up. If you look at our litigation spend, our litigation spend is outpacing the policies that are coming in which means it's unsustainable. We can't continue to throw money at this at the clip we are if we are going to get a million more insureds. So, we really, really have to get our arms around this, you know, particularly for those of the lawyers that are on here, you know, I think it would really be helpful if you guys would lean forward because we are going to need your experience and your knowledge and also your relationships in the marketplace to investigate other ways that we can improve things. Thank you, Mr. Chair.

Chair Beruff: You're welcome. Any other comments? I believe that concludes this subject. Gentlemen, Jim and Ken, thank you so much for coming. We appreciate it. We hope that we can implement as much of your – of course, I'll give you a second, Mr. Adams – that we can implement as much as possible the things that will save us money and become better. I, for one, did not have anything to do with your engagement. I did read all of the report and the comments. I'm not a lawyer, but from my perspective, another set of eyes, even if they're not perfect, are good. Outside eyes are good for an organization. I personally have my company audited every year for the last ten years just for the outside vision, and we have implemented many changes over those ten years that have made us a better company and we are a fraction of Citizens. It might be an interesting idea for us to work better together, and a year from now, maybe have you come back and do another report to see how we're doing because at the end of the day, constructive criticism is positive for an organization. I hope the next time we can all have coffee together and not get contentious. Again, thank you for your attendance today. And, Mr. Adams, you have comments you'd like to add?

Litigation Matter Management System

Jay Adams: I do, Mr. Chair. Back in December when we were waiting for the final E&Y report, the board requested that we stop the forward progress on the litigation Matter Management System, which we did do. We rejected all bids and stopped. We're in a really critical spot and I need the board's backing . . .

Chair Beruff: . . . Is that an action item on the agenda?

Jay Adams: No, sir. So, we have not released a solicitation and I wanted to come to this meeting to have this discussion . . .

Chair Beruff: . . . I think my comments for the board is that given all the facts that you have, your procurement – what is it? FSP? You're going to put out a proposal, right?

Jay Adams: Right. An ITN.

Chair Beruff: An ITN. So, your ITN is better now than it was several months ago.

Jay Adams: For sure.

Chair Beruff: More comprehensive.

Jay Adams: Yes, sir.

Chair Beruff: Okay. So, I certainly support you moving forward and putting it out now that it's more comprehensive. I hope that next time that we have this kind of a process that the consultants that we hire support the ITN that you put out, but I think it's a better product. I had a brief discussion. Was the delay worth it? I think the delay in putting the ITN out was worth it because you got a better process to go through. What do you want us to do other than tell you that I personally think you should go to the street with it?

Jay Adams: I'd just like board agreement that we can move it forward.

Chair Beruff: Mr. Gilway, do you want to give me direction, so we don't violate any policy?

Barry Gilway: Mr. Chairman, my recommendation, given that this has been an ongoing issue and it's so critical, is that we ask for a vote from the board, you know, in order to determine if we can move forward with this solicitation, so it's clear.

Chair Beruff: Barbara, will you call the roll, please?

Lazaro Fields: Mr. Chair, can I just ask for clarification on what is it that we're voting on?

Chair Beruff: Yes. They were working on an ITN . . . What does that stand for?

Jay Adams: Invitation to negotiate.

Chair Beruff: Okay. There you go. So, they were working on updating our computer capabilities in the legal system – in the Matter Management System. We paused in September because we were in the

midst of those gentlemen's report. That report had implications on what they were going to request in the market. They've expanded on what they're trying to get – what they're trying to purchase. And we're ready to do that. So, I think we end up with a better product than we would have been six months ago. Okay? Governor Holton and then whoever next.

James Holton: I just want one clarifying position. I fully support moving forward with the ITN, but one of the gentlemen said today that they thought these processes they recommended could be implemented within a year. I'm just concerned, given the ITN going out now, that's not enough time. I just want to have Jay and Kelly comment. It seems unrealistic to say that today you can do all these changes in a year when we're going to have to tailor-make the ITN to perform some of these recommendations.

Jay Adams: The ITN will take about six months to issue/conclude and then we'll have to bring it back before the board for approval to move forward. Then we have to convert all of the data in the old system into whatever the new system is. The current vendor that we have has an upgraded system that we have not moved to and they recommended a 10-month conversion timeframe. That is to go from their own system. It might take as much as a year to 1.5 years to fully implement a new Matter Management System with all of our correct data.

James Holton: That's precisely what I thought and why I asked the question. Someone wouldn't tell us that they thought they could do this within a year starting today when we're not even going to be finished with the ITN.

Chair Beruff: I've gone through two large computer updates when I was at the Southwest Florida Water Management District. One was \$15M that turned into \$75M and one was \$10M that turned into \$20M. What I learned from that process is that you get what you insist from the contractor. If you get what they want to give you, they'll drag it out forever, but it doesn't give you any more the longer it takes. The process – you need to drive that boat and not let them drive the boat. I really don't think we have two years to mess with implementation. By the time we implement it, it'll be outdated. I prefer to spend more money and get it done quicker because your cost-savings is being expedited. So, if the difference between a low bid of \$300K and the other guy can deliver six months sooner, I'll spend the money – my personal opinion. I don't know how this board feels about that comment.

Vice Chair Lopez-Cantera: Just to be clear, Jay, maybe you can answer this question. The recommendations made by E&Y weren't all about the litigation management software that is being contemplated in the ITN, correct?

Jay Adams: That is correct.

Vice Chair Lopez-Cantera: Some of those recommendations had to do with the organization and just restructuring and how we do things as it relates to litigation.

Jay Adams: Correct.

Chair Beruff: Correct.

Vice Chair Lopez-Cantera: To Governor Holton's point, because of the procurement rules and the way ITN works, it could take a long time for that portion of it . . . It's my understanding that the ITN already

contemplates the recommendation, so the other recommendations that could be done in six to 12 months maybe they could be.

Chair Beruff: Yes, it's a parallel course. Thank you for bringing that up. We don't stop implementation of everything that could be implemented without the ITN update, or the product of the ITN.

Jay Adams: So, next steps for us would be, if the board agrees with the presentation that we brought today on those recommendations, Joe Martins, his team, and my team will get together and we will build an action plan with a timeline associated for all the operational changes that we can implement. The systems changes will be 100% based on having a new system in place. We will not wait to get a new system to implement all the operational changes.

Chair Beruff: Perfect. But you're asking for a voice vote from the board is to go and do your ITN.

Jay Adams: Yes, sir.

Chair Beruff: And this board member is requesting that you keep that ITN short – implementation 12 months and not 18 or two years. If you have to throw more money at it, you'll get the money back the faster you implement it.

Jay Adams: Understood. We have our ITN ready to release. We were waiting on this board meeting for a board vote to be able to do so.

Marc Dunbar: I was going to ask Jay the question that Joe is going to be involved and his team will be involved in this ITN evaluation, right?

Jay Adams: Absolutely. They've been involved in the drafting of the new version.

Marc Dunbar: That's great. The other thing, Mr. Chair, since this is a new ITN, I would suggest a board observer on this. I'm sure he's going to hate me for suggesting this, but I think Governor Thomas, particularly based on his questions and his legal background, might be a good board observer for the ITN. It was very informative to me to go through the process with Jay and his teams on the last one. I learned a lot about the operation, and I think this is a very important matter. Since it's inherently legal, it seems to me that someone with litigation experience may be valuable as a board observer to the ITN.

Barry Gilway: Mr. Chairman, just one comment. The choice of a board observer on any procurement is purely up to the chairman and the assignment of the chairman. The board observer today is Will Kastroll as the Chairman of the Claims Committee. That would require you to make a change if that recommendation moves forward from Governor Kastroll to Governor Thomas.

Chair Beruff: So, can two . . .

Marc Dunbar: So, hold on a second. This is a new ITN, right?

Chair Beruff: Stop. Let me finish. First of all, this is a legal ITN. I don't think Mr. Kastroll would take offense . . . Will, you're not a lawyer, are you?

Will Kastroll: No, but I was looking forward to being the board observer on this.

Chair Beruff: I respect that. I know what I don't know and I'm not a lawyer either. So, for me to get involved in anything that relates to legal stuff, I prefer to have an attorney. If Mr. Thomas is willing to take on the role, I would kindly request that he take the role. I'm sorry that there can't be two. We make the rules as we go, so why can't we have two people?

Belinda Miller: We can't because of the Sunshine.

Chair Beruff: Forgot about that. Mr. Kastroll, it's nothing personal. If I have a dermatology problem, I go to a dermatologist. If I have a cardiac problem, I go to a cardiologist. If I have a legal problem, I go to an attorney. I would prefer if Mr. Thomas is willing to take on this assignment – that he be the gentleman on this. Mr. Thomas?

Scott Thomas: Mr. Chair, I'm more than happy to do what the Chairman's pleasure is on that. It's not something I'm seeking.

Chair Beruff: We appreciate you taking it on, Mr. Kastroll. We appreciate your offer, but that's what I'd like to do.

Will Kastroll: Well, I serve at the pleasure of the Chairman.

Chair Beruff: This is sort of the specialty thing and I'd rather have Mr. Thomas who is an attorney and foolish enough to volunteer under pressure. What's the next topic?

Barbara Walker: Chairman, would you like for me to take a vote? May I read a quick recommendation that I just drafted?

James Holton made the motion for the Board of Governors approve moving forward with the Matter Management System ITN and authorize staff to take any appropriate, or necessary actions consistent with this action item. Lazaro Fields seconded the motion. All in favor. Motion carries.

Chair Beruff: What's the next topic?

Barbara Walker: Chairman, we are now on tab three, the Chief Financial Officer's Report.²

4. Chief Financial Officer's Report

Finance and Investment Committee (FIC) Report

Lazaro Fields: Mr. Chairman, the FIC met yesterday. We had a market update from Kapil Bhatia with Raymond James and Ms. Montero presented her Risk Transfer financial update. With the chair's indulgence, Ms. Montero would like to present that to the board.

Risk Transfer Program

² Meeting went out of sequence from agenda.

Jennifer Montero: Citizens' statute requires that the board make its best effort to procure CAT reinsurance to cover the 1-100-year storm at reasonable rates. The analysis to purchase reinsurance is evaluated by staff and Citizens financial advisor each year and the resulting recommendation is made to the board. Central to Citizens goal in reducing exposure by extension is reducing or eliminating the likelihood of assessment burden on Florida taxpayers is the transfer of risk through reinsurance mechanisms, accomplished through participation in the Florida Hurricane CAT Fund (FHCF), traditional reinsurance markets, and the capital markets. The proposed 2021 risk transfer program for the Coastal Account incorporates strategic elements from prior risk transfer programs, which include: risk transfer alongside the FHCF, transfer single occurrence and annual aggregate risk in order to protect surplus. Citizens plans to transfer exposure in the amount of approximately \$1.715B to the global traditional and capital markets in 2021 for the Coastal Account. The total amount of surplus exposed for a 1-in-100-year event in the Coastal Account would be approximately 40%, or approximately \$1.163B. The proposed 2021 risk transfer layers for the Coastal Account are as follows:

- The Sliver Layer will sit alongside the FHCF. It provides approximately \$133M, in excess of \$582M, of annual, per occurrence coverage which covers personal residential and commercial residential losses and would work in tandem with the mandatory coverage provided by the FHCF to include the co-payment of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market.
- Layer 1 will sit above the Sliver Layer and the FHCF. This annual, per occurrence layer provides \$100M of coverage of personal residential and commercial residential losses and will attach after \$715M of losses. This layer will be placed in the traditional market.
- Layer 2 of this program will sit above Layer 1. This single-year, aggregate layer provides \$250M of personal residential and commercial residential losses and will attach after \$815M of losses. This layer will be placed in the traditional market.
- Layer 3 of this program will sit above Layer 2. This single-year, aggregate layer provides \$250M of personal residential and commercial residential losses and will attach after \$582M of losses. This layer will be placed in the traditional market.
- Layer 4 of this program will sit above Layer 3. This single-year, aggregate layer provides \$382M of personal residential and commercial residential losses and will attach after \$815M of losses. This layer will be placed in the traditional market.
- The two Capital Markets Layers sit above Layer 1 and alongside Layers 2, 3, and 4. Each layer is \$300M, for a combined \$600M of capital markets risk transfer placement split into two tranches covering multi-year, annual aggregate personal residential and commercial residential losses and will attach after \$2.014B of losses.

The proposed risk transfer program for the 2021 Personal Lines Account (PLA) also incorporates elements from prior the risk transfer programs. Citizens' strategic risk transfer plan for PLA is similar to the Coastal Account and considers the transfer of risk in order to reduce the amount of surplus exposed in a 1-in-100-year event. Citizens plans to transfer exposure in the amount of approximately \$926M to the global traditional reinsurance and capital markets in 2021 for the PLA. Based on the proposed 2021 risk transfer program, the total amount of surplus exposed for a 1-in-100-year event in the PLA would be approximately 68%, or approximately \$1.164B. The proposed 2021 risk transfer layers for the PLA are as follows:

- The Sliver Layer of this program will sit alongside the FHCF. It provides approximately \$166M, in excess of \$726M, of annual, per occurrence coverage which covers personal residential losses and would work in tandem with the mandatory coverage provided by the FHCF to include the co-

payment of the 10% of losses not covered by the FHCF. This layer will be placed in the traditional market.

- Layer 2 will sit above the Sliver Layer and the FHCF. This layer will provide \$760M of coverage from the capital markets and traditional markets, as follows:
 - A Capital Markets renewal risk transfer placement of \$110M of coverage placed in 2020 through Everglades Re II. This multi-year, aggregate layer provides coverage for personal residential losses and attaches after \$1.198B in losses.
 - A Capital Markets risk transfer placement of \$250M of multi-year, aggregate coverage for personal residential losses and will attach after \$1.198B of losses.
 - A single year per occurrence placement that will provide \$250M of coverage for personal residential losses and will attach after \$726M of losses. This will be placed in the traditional market.
 - A single year aggregate placement that will provide \$150M of coverage for personal residential losses and will attach after \$726M of losses. This will be placed in the traditional market.

Staff will work with Citizens' traditional and capital markets teams, as well as its financial advisor, to evaluate available options, relating to the structure, terms, pricing, and other relevant matters with regards to structuring the 2021 risk transfer program. Staff will provide a recommendation for approval to the board of governors at a special board teleconference in May. I will stop there for any questions.

Chair Beruff: Thank you. Are there any questions? Is this an action item?

Jennifer Montero: No.

Chair Beruff: Great. Next.

Marc Dunbar: Jennifer? Can I ask a question?

Chair Beruff: Governor Dunbar, yes.

Marc Dunbar: Can you give us the sound bite. We're going to go to market and hopefully spend around "x" to protect "x" amount of surplus? I know I've asked that in prior years.

Chair Beruff: \$1.7B we're going to go to market. Is that right?

Jennifer Montero: For both accounts, it's \$2.642B of coverage with an estimate cost of about \$240M. That's based off of what we think the increases in the reinsurance market are today. The June renewal may be different. Right now, the capital markets are very good. We have lots of capacity there, so that's where we'll also be placing those CAT Bonds.

Chair Beruff: So, to regroup, Governor Dunbar, it's \$2.6B (round numbers) and it's going to cost us \$240M.

Marc Dunbar: Thank you, Chair.

Chair Beruff: Next.

FQ2020 Financial Statements

Jennifer Montero: Next are the financial statements. Those are also found behind tab three. I presented these to the Audit Committee yesterday. So, there are two documents. The first one is titled “4Q2020 Results and Operations and Financial Position” – provides an overview of Citizens unaudited financial position, including cash flows and invested assets and surplus as well as operational results for the period ending December 31, 2020 – and a document titled “4Q2020 Results and Operations and Financial Position Commentary” – provides the commentary, discussion, and analysis of those operating results and financial position. I’ll be providing a summary of the information contained within the commentary document. As of December 31, 2020, Citizens held consolidated cash and invested assets of \$8.7B, a decline of \$133M from the prior year. The majority of the reduction in cash and invested assets was due to the January 2020 bond redemption and scheduled June 2020 bond principal repayment. Consolidated surplus as of December 31 was \$6.4B, or \$124M more than the prior year and was largely driven by consolidated 2020 net income of approximately the same amount. Consolidated direct written premium net year end in 2020 was \$1.2M or 34% greater than year-end 2019. This is the 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 payment exceptions and deferral of certain underwriting procedures in response to the COVID-19 crisis. As of December 31, 2020, consolidated ultimate direct losses and LAE related to Hurricane Irma were \$2.27B, reflecting a \$110M (5%) increase compared to 2019. Of the \$110M of adverse development, \$73M is within the PLA, with the majority of the development related to LAE costs. The Coastal Account experienced a total of \$35M of adverse development, with the majority of this development (\$31M) on Coastal residential claims (the indemnity side). The CLA experienced \$2M of development. The primary driver of the development for the PLA and Coastal residential claims was an increase in the ultimate litigation rate increase from 17.7% to 21.8% in the PLA and increase 10.2% to 12.0% in the Coastal Account. Of the \$2.27B of Hurricane Irma ultimate loss and LAE across all accounts, \$935.8M is recoverable under Citizens’ reinsurance contracts with both the FCHF and private reinsurers. Consolidated ultimate direct losses and LAE related to Hurricane Michael were \$150M as of December 31, 2020, reflecting no change from 2019. There are no reinsurance recoverables [sic] related to Hurricane Michael as the attachment levels of the reinsurance arrangements were not met. Total losses in LAE associated with Hurricane Sally and the other minor storms in 2020 were \$51.6M as of December 31, 2020, with Hurricane Sally comprising 97% of the total losses in LAE. There were no reinsurance recoverables [sic] related to these storms as the attachment levels of the reinsurance arrangements were not met for these either. Current accident year losses and LAE unrelated to sinkholes and hurricanes did not experience meaningful variances from the prior quarter as development of prior accident year losses and LAE was as expected. 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 these 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 in 2020 of \$124.5M were \$0.5M more than administrative expenses incurred in 2019 and \$9.4M less than budget. Variances in contingent staff from budget were primarily due to lower than anticipated needs for independent adjusters within the litigated and disputed claims area. For the year ending December 31, 2020, Citizens’ expense ratio was 20.3%, reflecting a 4.0% decrease from 2019 and a 5.1% decrease compared to budget. Total investment income in 2020 was \$266.6M, or \$16.8M greater than in 2019 while average total invested assets declined \$250.5M (3%). The decrease in earned income of \$27.4M was principally driven by significant reductions in interest rates during 2020 as well as reductions in tax-exempt holdings resulting from the scheduled maturities of certain outstanding bond obligations. However, 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 to align portfolios to take advantage of market conditions. In January 2020, \$150M of the 2015A-1 series bonds were redeemed at par, prior to their scheduled maturity date, resulting in a \$1.5M gain that was included in net realized gains. With the close of 2020, 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 has had on our policyholders. If there are no questions, that concludes my report.

Chair Beruff: Any questions? Hearing none, we'll go on to the next item.

Jennifer Montero: Thank you. That concludes my report.

5. Chief Operating Officer Report

Depopulation Committee Report

Kelly Booten: My mic was not on. We finished the Depopulation Committee meeting after the Clearinghouse update, and the next time, we'll pick back up with depopulation.

Market Accountability Advisory Committee (MAAC) Report

Kelly Booten: The next topic is MAAC. I'm subbing for Dave Newell today. That committee met on February 17th. They were briefed on the agency management statistics, provided a market update, the end to the COVID moratorium plan, agency performance management metrics, an overview of the Citizens Learning Center for Agents, and agent training we have going on as well as agent outreach. Christine provided an update on the legislative session, which she is up next to talk about. That concludes my report.

Chair Beruff: Thank you. Christine, you're up.

6. Chief Communications, Legislative & External Affairs Report

Legislative Update

Christine Ashburn: Thank you, Mr. Chairman and board members. There's been a lot of discussion already today on some of the legislative items that are out there already this year. As you're already aware, the 2021 session started yesterday and will run through April 30th. Quickly, I don't have a written report because things change so quickly. I just want to provide you with an update on two key pieces of legislation that are in the legislature that are related to Citizens. They seem to attempt to tackle two problems. Senator Boyd (Chairman Boyd) and Representative Rommel are looking at market solutions related to some things, and I'll walk you through those quickly, and then Senator Brandes has filed recently late last week Senate Bill 1574, which is specific to Citizens and some of the issues we've talked about and depopulation and other areas. So quickly, Senate Bill (SB) 76 and House Bill (HB) 305 both seek to fix the attorney fee multiplier issue that was caused by a Supreme Court decision in 2017 that I know Elaina and Jay have reported on – the multiplier cases and what the impact has been on Citizens in the Claims Committee. It would take us back to the pre-Joyce [Joyce v. Federated National] decision of (20)17 of use rare and exceptional when you can't find competent counsel for complex claims, it seems that since that

case, our data shows it's being used more frequently (although, not all the time) as a number of cases, it's not out of control, but Jim, you referenced one earlier, it can be pretty egregious when you have a smaller indemnity with a really significant fee when you have a 1.5 or 2.0 multiplier on the attorney's fees. It would also change the claims filing deadline for hurricane claims from three years to two years and expand that to all property claims. Right now, there's a three year for hurricane claims and two year for sinkhole claims filing deadline. Everything else reverts to breach of contract, which is the statute of limitations of five years. Just quickly – the data we have from Hurricane Irma where we had 75,000 claims is pretty amazing. While we received the lion share of all of our claims in 2017 as you would imagine you would, following an event, only 10% of those claims came into that door represented a FNL. In 2018, 40% of the claims we received from Hurricane Irma represented as FNL. In 2019 and 2020, that number was 60%. It's worth noting that 54% of our Irma litigation – those claims represent FNL. The goal would be to try to shrink that time after a hurricane, after an event, or after a loss, you have to report it to the company. There is also a proposal, I think that Governor Holton also alluded to this that earlier we had a brief discussion, to allow carriers to only offer actual cash value or roof schedule on roofs over ten years old, which bases it on roof type, so the depreciation schedule would be different for a shingle roof versus a metal roof which may last longer. Today, carriers are required to offer replacement cost coverage but can also make actual cash value available. I think the goal would be, while roofs have not been our source of pain, we talked some about the roof litigation that the market has seen in the central Florida counties and candidly we know we're growing in those counties. So, it could become our problem if the market is not fixed there. One difference between the bills – HB 305 does not currently address the one-way attorney's fee statute, but SB 76 does. Barry alluded to it earlier. It seeks to put some Texas style reforms to first party, which outlines what you have to do before filing a claim – notice, pre-suit notice and demand – and then changes the fee structure so that there could be some opportunities under which the carrier would not be liable for the first party/plaintiff fees at the price of \$1 like we see today. I do believe you'll see some effort and something similar in Rep. Rommel's bill if that ever gets moving. There has been some talk about that; we'll have to wait and see. Neither bill is being heard this week, which is why I'm able to be here with you all. So, jumping to Senator Brandes' bill, SB 1574, this bill really does attempt to give more teeth in certain areas for Citizens specifically, making it harder to remain under the cap. I will run you through those ideas right here. It requires new business, homes valued over \$700,000 and non-homestead properties to be charged an actuarial sound rate by Citizens. It requires that the proof of homestead – you must have proof of homestead to remain eligible for the glide path. It would increase the Citizens policyholder surcharge based on the number of policies within Citizens, currently that's a 15% surcharge by account no matter the policy count. If this legislation were to pass, if Citizens grew to be between 1M to 1.5M policies, that surcharge that is the first layer of assessment would be 20% per account, and if we went over 1.5M policies, that surcharge would jump to 25% per account. Barry alluded to this earlier. There is an effort, and I think there is technical issues we need to work through with Senator Brandes and our actuarial team to try and get at the fact that if we are unable to fully recoup our legal costs through rates (and we have to figure out the logistics on how that would be done with the actuaries) then we would be allowed to surcharge our policyholders, maybe a little bit to your point about charging \$100. There is an attempt to get a concept of, if we are not able to fully recoup because of the rate cap our legal fees because of litigation, this will give us the opportunity to charge an extra amount on top to not have a deficit in what our spend is. It does allow the qualified surplus lines insurers to doing takeout offers with strict requirements for certain policies only to stay versus go related to that \$700,000 demarcation. It would change the renewal business threshold Clearinghouse which is currently zero. If you get an offer through the Clearinghouse for renewal that is a penny more, you do not have to go. It would change that to be what the new business requirement is, which is 15%. You would be treated the same at renewal as new business at the Clearinghouse. It would also apply 15% threshold to depopulation

offers. If you receive a depopulation takeout offer today, you can reject any and all of them that you receive as a consumer. This would require that you would become ineligible for Citizens if you receive a takeout offer that was within 15% of your Citizens premium at the same time. Of course, we cannot force a consumer to choose that company, but we would be required under this bill to deem them ineligible and not renew them. It also establishes that Citizens shall pay agents a reasonable commission but shall never pay more than the average commission paid by the top 20 insurers writing in the state. That is something that Senator Simmons tried to do awhile back. As you know, our commissions are lower than the private market, and it is my understanding in drafting this bill, Senator Brandes asked staff, "Show me everything that's been tried before. Let's put it all in there and see what sticks." I don't know if that is a significant item as it relates to our structure because our structure is below the private market already. With a that, Mr. Chairman, I'm happy to answer any questions.

Chair Beruff: So, am I to understand that the commission portion of that – we pay less than anybody else?

Christine Ashburn: Correct.

Chair Beruff: And we can continue to do that.

Christine Ashburn: Correct. Exactly.

James Holton: Thanks for that, Christine. It was a very enlightening report. I would like to add to her report that the Joyce decision that she referenced by the Florida Supreme Court – it's not the court now today, which, I think, is much better constituted than it was then, but that's a political question for greater minds than mine. But that decision radically diverged from that national standard and the federal standard for allowing judges to discretionarily award attorney's fees. That's a very good move for the Florida legislature and for us in this board to push for that to get back to where most of the country and the federal government is in terms of attorney's fees. As to actual cash value, all of us are used to – basically, if we get in a car accident, to get the depreciated value of the car. There is no logical reason, in my mind, to not offer those kinds of policies for roofs as well. As a single or a double, if we can't get all the reform, let's get what we can get.

Christine Ashburn: That's right. As much as we can get.

Chair Beruff: Anybody else? You complete, Christine?

Consumer Services Committee Update

Christine Ashburn: Yes, Mr. Chair. The only other item under my report for my area is Governor Henderson . . . We met – the Consumer Services Committee met recently with the new committee. No action items for that committee. Jeremy Pope, Vice President of Consumer Policies and Services, provided an overview of all of their initiatives in his area that touched the consumer and then I did the same for my area for public outreach, education, and communication with agents. We did have a meeting in the interim before this meeting. That concludes my report.

Chair Beruff: Great. Thank you. Next up is . . . Jay, I thought we'd did you already.

Jay Adams: I'd like to be done. [laughter]

7. Claims Committee Update

Jay Adams: The only thing that I have in this section, unless Chairman Kastroll would like to speak.

Chair Beruff: Is there someone who would like to make a comment? Chairman Kastroll, please proceed.

Will Kastroll: Thank you, Chairman, I appreciate it. I'd like to thank the Claims Committee, members Reynolds Henderson, Scott Thomas, and John Palmquist for serving on the committee. We held our meeting last week, and we accomplished a lot. We already approved the action item, unanimous consent – one of the items and Jay is going to talk about the other item on there. He is also going to talk briefly about some of the Claims litigation accomplishments. We had the E&Y report on our agenda, but we already talked about that, so we won't reinsert that. Also, Jay, I think Christine is going to talk about an update on a question Governor Henderson had during our Claims Committee meeting. I'll turn it over to Jay. Thank you.

Jay Adams: Alright, thank you, Chairman Kastroll. The only other thing I want to cover today is the Claims Legal Services. This was a consent item that was pulled this morning to be discussed during the Claims Committee. This is specifically for Defense Counsel spend. We had previously requested \$350M of spend authority on these contracts, and these contracts are not budgeted like in Jennifer's budget – it's part of the LAE or the claims cost. All of these contracts accrue spend against individual claims. We are asking for \$180M additional spend over the next two years to the end of this contract period. The reason we're doing that is strictly because of Hurricane Irma. When we set up any of these contracts, including independent adjusters or any of the claim contracts that are dependent on claim volume, we never include any CAT calculations in that because we went 10 to 12 years and had zero CAT. In any given year, Irma ended up to being close to 80,000 claims. But, in the last couple years, we haven't exceeded 4,000 to 5,000 claims. So, for that reason, what we do is if we run into a situation with a storm where we're going to run out of money on a contract, we just bring it back to this board and ask for the additional spend. Ultimately, that's what this is for. I'll be glad to answer any questions that the board may have.

Chair Beruff: [inaudible]

Jay Adams: Yes, sir.

Chair Beruff: . . . Because of Hurricane Irma?

Jay Adams: Yes, sir. We received . . .

Vice Chair Lopez-Cantera: I can't hear what the Chairman is saying.

Chair Beruff: Sorry, I'm not green.

Jay Adams: So, since Hurricane Irma made landfall in 2017, we've received 15,629 lawsuits and none of that was accounted for in these base contracts. That's what this additional \$180M covers.

Chair Beruff: None of those were accounted for?

Jay Adams: No, sir.

Chair Beruff: How many have already been adjudicated?

Jay Adams: I do not have that information. Obviously, some of them have been.

Chair Beruff: Because you've already spent that money, right?

Jay Adams: Right. This is to help carry out the rest of the two-year contract.

Chair Beruff: Someone calculated that this is what we need to finish out the litigation for Hurricane Irma which was 3.5 years ago?

Jay Adams: Well, this carries us across all Defense Counsel for all litigation, including Hurricane Irma.

Chair Beruff: But Irma is the cause of the spike.

Jay Adams: Yes, sir.

Chair Beruff: Okay. Is that an action item?

Jay Adams: Yes, it is an action item now. I believe I need to read the action item. The Claims Committee recommends that the Board of Governors authorize the recommended increase of the total contract authority by \$180M to cover the last two years of the seven-year total agreement from \$350M to a total amount not to exceed \$530M as set forth in this Claims Legal Services Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item.

Chair Beruff: Governor Kastroll, this came out of your committee and it was approved, correct?

Will Kastroll: Unanimously.

Chair Beruff: Great.

Chair Beruff: The board will entertain a motion to approve.

Bette Brown made the motion that the Board of Governors authorize the recommended increase of the total contract authority by \$180M to cover the last two years of the seven-year total agreement from \$350M to a total amount not to exceed \$530M as set forth in this Claims Legal Services Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Carlos Lopez-Cantera seconded the motion.

Marc Dunbar: Jay, I went into the contract database, and I noticed that it looks like our agreements with the law firms are expired. Is that accurate and we're now in the two one-year renewal portions?

Jay Adams: I think that is correct, yes, sir.

Marc Dunbar: Okay, so I want to make sure that I understand what we're doing. We budgeted initially for the first five years because we went to contract with these law firms for a five-year period for three procurements, right?

Jay Adams: Right.

Marc Dunbar: Okay. So, now, in order to pay for the next two years, this is what this money is being allocated for, correct?

Jay Adams: Correct.

Marc Dunbar: Okay. So, we have two one-year renewals that are built into everybody's contract but currently all of our Defense Counsel contracts have expired.

Jay Adams: Well, they've all been renewed in the renewal cycle. The base contract expired.

Chair Beruff: The base contract is what Governor Dunbar is referring to.

Jay Adams: Yes.

Chair Beruff: He's correcting that statement. We're into two one-year extensions – the first of the two-year extensions. Governor Dunbar, are you and I on the same page?

Marc Dunbar: You are, Mr. Chair. So, I want you to follow my logic. We're about to bring in a new General Counsel. I personally, and I know the motion is before us, so we'd have to amend the motion or withdraw the motion, whatever, I think it would make sense for this board to consider the one-year extension. Let's give the money for one year and then let the next General Counsel come in and decide whether they want to rebid the legal work because we're going to have all these analytics. We're going to have the E&Y report, or we can come back this time next year and then approve the second year. We're being proactively being asked to approve two, separate one-year renewals right now when I think the better idea is for us to do the one-year renewal and then come back and revisit the second one-year renewal after we have a new General Counsel that can help us through it.

Chair Beruff: Does Governor Brown want to amend the motion?

Bette Brown: No.

Chair Beruff: Okay. We have a motion and a second that we need to vote on. I'm not objectionable to what Governor Dunbar is suggesting; I just didn't think about it quite frankly. What is the pleasure of the board?

Vice Chair Lopez-Cantera: I'd like to be heard on this item.

Chair Beruff: Go ahead.

Vice Chair Lopez-Cantera: Just to be clear, I read the action item. I just want to get clarification from Jay. The first renewal – of the two year – had already been executed because it had to be done by February. One-year renewal has already been executed. Is that correct?

Jay Adams: I believe so, yes.

Vice Chair Lopez-Cantera: So that means the second year has not been executed and is still pending.

Jay Adams: Correct.

Vice Chair Lopez-Cantera: Then, I think to Governor Dunbar's point from earlier that it's not for us to micromanage litigation. It isn't. But it is our responsibility to say, "enough is enough." \$350M budgeted over seven years turns into \$530M and to not at least entertain Governor Dunbar's recommendation to commit the \$90M for the one additional year, which is a lot of money. I mean 15,629 lawsuits and \$180M, that's \$11,500 per. Jay doesn't even have the number of how many are left. We're being asked to budget \$180M of this organization's money without even getting a simple answer of how many lawsuits are left. That's a lot of money. I would hope that this board would think, "What would my presiding officer want me to do? Would my presiding officer want me to write a blank check of \$180M to these attorneys, or would my presiding officer or my appointing officer (I should say) want me to ask some more questions and figure out before we spend \$200M – figure out what's going on here?" We just got this whole report that says our litigation management system needs to be revisited, and we're about to write a check for \$180M toward the same system. At the very least, we should entertain what Governor Dunbar is saying and just do the one year because we are committed to the one year because we cannot make the changes in less than a year but definitely not commit to the second year because all these law firms that gave these estimates that added up to \$350M, at some point, they had to expect that a storm was going to hit the state of Florida . . . And now, to come back and ask for \$180M. That would be irresponsible for us to do.

Chair Beruff: Thank you, Governor Lopez-Cantera.

Will Kastroll: Number one, we need some permanency; we've been pushing this item off quite a bit for some time. Two, the E&Y report was a good report. I have some doubts on some of the things inside the report, but Jay did do a good job; Barry did a good job of pulling things out that need to be changed where they think. But, at the same time, we have about six or eight other reports that show accolades of our Claims management. We have not highlighted those. We have not had time. The E&Y report seemed to have consumed most of the time, but our claims team is doing a very, very good job and is recognized in the industry as doing a good job. Could we do better things? Absolutely. We are embracing that, and we have always embraced that to get better and better every day. But we need some permanency. There is a motion on the floor to go ahead and approve that and I would support that motion. Thank you.

James Holton: Mr. Chair, I have interest in Mr. Dunbar's motion. I ask Belinda for clarification. I think he can make a motion and if seconded it's a permissive amendment, correct, under Robert's Rules?

Belinda Miller: My understanding is that if a motion is pending only the person making that motion can change it . . .

Chair Beruff: . . . I think he's capable of making an amendment.

Belinda Miller: I don't think you can have more than one pending at the same time. I may be wrong about that. I would say that we have signed off only on the one year for renewal on law firm contracts. The new General Counsel can come in and make decisions before the second year.

Jay Adams: Another point worth making here is that we're not required to solicit these legal contracts. We just made the decisions since the Claims organization is bound by all other contracts to be solicited that we would also solicit the legal. I don't know if that helps in the decision making.

Chair Beruff: Again, I'm no expert on Robert's Rules of Order and that's why I turn to Governor Brown because I was pretty sure she would have to amend that motion. Or, we would have to act on that motion and start all over again, which is fine. I'm going to vote nay.

Scott Thomas: Mr. Chairman, I supported this in the Claims Committee. I suspect that I'm going to support it again today because there are certain premises that I understand to be underlined. One is, correct me if I'm wrong, what we're talking about here is that there are two different things. One, the individual one-year extension is to bring the original contract from five to seven are totally distinct from this, which is about an authorization to spend no more than "x" amount of dollars. In other words, this, in no way, shape, or form commits to anyone exercising the seventh-year option . . . the second option, correct? If we bring in General Counsel and General Counsel says . . . The second thing is that there is a misperception here that it's \$180M to fund two years of litigation. What I understand is that we're really funding the shortfall that's caused by the prior years' expenses that far exceeded what was expected. For example, in 2019, we estimated back in 2015, we were going to spend \$50M and instead we spent \$93M. So, it's not that we added up and have 15,000 claims and those 15,000 claims are going to cost us \$180M. We're talking about an overall spend over a seven-year period; it looks like \$180M that's estimated. The last thing I understood is that the real reason for that underestimation – and I don't know if I all agree that it's all Hurricane Irma because the reality is that we have more claims . . . We're on a path of depopulation . . . If you look at the estimates that were given to the board back 2015, it was a declining claim expense. So, I appreciate that there's clearly been a substantial increase caused by Hurricane Irma, but I think the overall increase in claims is part of that. But what we're talking about with Hurricane Irma is specifically when these RFPs or whatever you call them went out, we were not asking firms to budget. We were not budgeting for CAT losses. To the extent that we have increased expenses because of Hurricane Irma, it's not that somebody mismanaged these claims – maybe they did and maybe they didn't – but that's a different issue – it's that we have more claims than we expected to have than we used as our estimate because didn't factor in CAT losses. With those three premises, if those are all accurate, I'll continue to support this.

Chair Beruff: I'd like to add to Governor Thomas, thank you for clarifying it because now I'm in support of the motion because we're not extending contracts. We're just authorizing the spend.

Jay Adams: Correct.

Chair Beruff: I think the clear thing in here is that we're okay with one-year. We just don't want to wrap ourselves around for the second year. I will call the question.

Marc Dunbar: Before we call the question, I have a question. That's why . . .

Chair Beruff: Governor Dunbar, I think you got what you wanted, which is that we're only extended for one year with any contracts with any legal services, correct, Mr. Adams? And, within that period of time, the General Counsel will be hired, and he will have part of the pow-wow that goes into the next year's. Unless I'm missing something, I think we've accomplished a goal.

Marc Dunbar: No, no, no. I agree. I was looking for a quick clarification on a moving forward basis. I appreciate what Governor Thomas said and it helped crystallize things in my mind. That's what I was asking to begin with. The question I have is, when was the decision made to approve the one-year renewal that we are already under? I don't remember that coming to the board. I'm fine with it but we never considered that extension. I don't remember voting on an extension – the one-year. Maybe, Jay, you can tell me when we did and what board meeting that was just so I know for the next time when it's coming.

Jay Adams: When we initially presented this to the board, we got approval for the full seven-year term and the full spend.

Chair Beruff: But you need more money.

Jay Adams: But we need more money, so we're back today.

Chair Beruff: So, for clarity purposes, just so we're clear on what we're about to vote on, okay, we're asking you, the staff, to stay on the one-year extension that you granted and not go on the next one without us knowing about it, I think is what we're clearing, right?

Marc Dunbar: Yes, Chair. That's my point. Thank you.

Chair Beruff: Is that okay, or do we need to amend something to do that?

Bette Brown: Chairman, may I speak?

Chair Beruff: Yes, ma'am.

Bette Brown: I think we already approved the seven-year contract.

Chair Beruff: I understand, but that was five years ago. We also didn't know five years ago that we'd have to spend \$180M more. We also didn't know 12 months ago or even six months ago – I don't know when Kelly and her team started doing the ITN; I suspect it's been going on for more than a year to upgrade the financials, the litigation software?

Marc Dunbar: There is one thing you got to understand. There is no scenario we could have approved seven years; we would have violated a procurement code by doing that. You can't proactively approve a renewal when the contract is initially awarded. That is basic procurement stuff. I hope we didn't do that because that would be bad. You have to do the renewal at the expiration. There's a window. There's a renewal clause in the contract and there is no way we could have tripped a renewal clause under the contract in the first month. It would have violated our procurement rules.

Chair Beruff: Mr. Gilway.

Barry Gilway: We did approve the contract plus the extension at the initial approval date.

Jay Adams: On December 29, 2015, the board authorized \$350M in total estimated contract spend from 2016 to 2022. I have a list of how much we approved year over year for that \$350M.

Chair Beruff: So, Mr. Dunbar, again, I'm not the expert on procurement, was the term of that contract approval five years with two one-year extensions?

Jay Adams: Yes.

Chair Beruff: Okay.

Marc Dunbar: And that is not consistent with the way it's supposed to be done under Florida procurement rules. The contract expires. During the renewal period, it's brought back to the deciding official, and then they decide whether they're going to renew or not. You can't do it that way.

Chair Beruff: No, no. What you're saying is that somewhere along the line we should have renewed for one year and we didn't do that, or we haven't done it.

Marc Dunbar: We are at that point. You can look at in our contract database and you can see all these contracts expired as of February 1st. The new contract has not been uploaded nor has the date been adjusted. If, in fact, we do have two years left, it should reflect that, but that would have meant that we went on a seven-year contract. But I'm just telling you...I hope that's not what we did because that's not correct. The question that I would have now is have all these law firms signed a contract in February and what's that contract say – is it a one-year contract?

Kelly Booten: Yes. It's a one-year contract. This is Kelly. Let me weigh in here a second. Initially, there was a five-year (and I have people listening to this and they can verify what I'm saying) initially there was a five-year contract that was signed. So, we were up for the two one-year renewals, realized we needed more money, realized the renewal expired in February. So, a one-year renewal was signed. We haven't signed both. We knew we were bringing it to the board at this meeting.

Chair Beruff: Does that help clarify the situation, Governor Dunbar?

Marc Dunbar: That sounds like following the law, which is somebody made a decision to extend and we're essentially ratifying that decision as the board currently. Frankly, it should have been brought to us before but whatever. We're ratifying that. We're all fine with the one-year. I want to make a motion right now that if it's appropriate that the second-year is not executed until it comes back before the board and we have a report from the new General Counsel who can make the decision on whether s/he wants to keep all of these law firms or whether they want to go through a new procurement process when we get the new claims litigation management system stood up. So, as it relates to that seventh year, if we need to make a motion to ensure that there aren't contracts executed before the board and new General Counsel weigh in, I'm happy to make that motion.

Chair Beruff: We still have the original motion and a second to vote on. I think we're good. It may not be as good as everybody wants it to be, but I think Mr. Adams, and everyone understands what we're really doing here. Let's just call the question. You want to poll the board, Barbara?

Vice Chair Lopez-Cantera: I'd like to debate on this motion.

Chair Beruff: Go ahead and debate.

Vice Chair Lopez-Cantera: Thank you, Mr. Chairman. I would urge this board to vote down this motion and entertain a new motion that ties the hands of the organization to come back to this board before the renewal of the next year because what we're doing here is, we're authorizing the spend for the two years so they can go ahead and approve the second year without coming back to the board because . . .

Chair Beruff: . . . Governor Lopez-Cantera, I certainly understand your point. If the staff were to do something like that after this discussion, they'd have, from this Chair, significantly bigger problems.

[multiple speakers]

Chair Beruff: . . . At the end of the day, I serve as an appointee and I have to trust that we have trust relationships that we build in these organizations and if that trust was violated, it would not be a pretty thing. I think the motion is fine the way it is. I think the staff has some very clear direction. We're in agreement that we're going to carry things. I respect what you're trying to do, but unless we all die and this recording gets burnt up, it's pretty clear what we've asked to be done. I'd like to close today.

Vice Chair Lopez-Cantera: . . . Mr. Chairman, frankly, I still don't know what's being done here. I understand that we're authorizing a spend of \$180M beyond a \$350M approved. I still don't understand the mechanism of the accountability on this money.

Chair Beruff: To Mr. Dunbar's point, we're ratifying an action that's already been taken that extended a contract for one year. I think the staff knows that before we extend it for a second year that this matter will be brought before us, and it will be brought before us after the General Counsel has been hired and retained and has his/her input into how they want to manage the business. I think it gives us everything we want. Though it might not be as tidy as I like, but there is a very clear record of what we've all agreed to here.

Vice Chair Lopez-Cantera: Mr. Chairman . . .

Chair Beruff: . . . We can agree on a handshake.

Vice Chair Lopez-Cantera: We can make it as tidy as you'd like. All we have to do is entertain a new motion and get it tidy.

Chair Beruff: I made the decision to close the debate and call the question. Go ahead, Barbara.

Barbara Walker: Chairman Beruff?

Chair Beruff: Yes.

Barbara Walker: Governor Brown?

Bette Brown: Yes.

Barbara Walker: Governor Dunbar?

Marc Dunbar: Yes.

Barbara Walker: Governor Fields?

Lazaro Fields: Yes.

Barbara Walker: Governor Henderson?

Reynolds Henderson: Yes.

Barbara Walker: Governor Holton?

James Holton: Yes.

Barbara Walker: Governor Kastroll?

Will Kastroll: Yes.

Barbara Walker: Governor Lopez-Cantera?

Vice Chair Lopez-Cantera: No.

Barbara Walker: Governor Thomas?

Scott Thomas: Yes.

Barbara Walker: Motion carries.

Bette Brown made the motion that the Board of Governors authorize the recommended increase of the total contract authority by \$180M to cover the last two years of the seven-year total agreement from \$350M to a total amount not to exceed \$530M as set forth in this Claims Legal Services Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. The motion was seconded. Chair Carlos Beruff, Bette Brown, Marc Dunbar, Lazaro Fields, Reynolds Henderson, James Holton, and William Kastroll, and Scott Thomas approved the motion. Vice Chair Carlos Lopez-Cantera voted against the motion. Motion carries.

Chair Beruff: Thank you so much. Next topic.

Belinda Miller: Mr. Chairman, we are at 3:00, which is the advertised time for the meeting to end.

A motion was made and seconded to extend the meeting time. All were in favor. Motion carries.

Will Kastroll: One more item from claims. Jay, does Christine have that information for Governor Henderson that he requested at the Claims Committee meeting?

Christine Ashburn: Yes, I do, Governor Kastroll. Mr. Chairman, I will make this very brief. I know we've had a long day. Governor Henderson asked at last week's Claims Committee meeting what efforts have we undertaken to get Citizens' customers to call us first and not seek a public adjuster or an attorney immediately. I've created a slide show; I do not need to go through the slides. We have a robust program, many touch points, including the policy packet at renewal, an ID card. We've mailed magnets in the past. We can always do more, Governor Henderson, and I think with the influx of new policies and with us starting to see representation at FNL creep back up again, my team is going to brainstorm and further expand and reinvigorate that campaign to continue to hammer the message and also truly to begin, again, really encourage folks to use managed repair when they have a water loss. In the sense of time, would it be okay if I don't go through the slides?

Reynolds Henderson: What I was going to say is thank you. Just email them out to everybody. Thank you, Governor Kastroll, for pushing that.

Will Kastroll: Thank you, Christine. Chairman this ends my report.

Chair Beruff: Thank you so much Governor Kastroll. Governor Holton.

8. Chief Human Resources Officer Report

Ad Hoc Committee Report

James Holton: Thank you, Chairman. The Ad Hoc Committee has met twice, and I will let Violet go through the timeline that we decided on. We are acting swiftly and decisively to acquire the new General Counsel. With your permission, I'd like to recognize Violet.

Chair Beruff: Go ahead, Ms. Bloom.

Violet Bloom: Good afternoon, Chairman Beruff and Board of Governors. There are actually no further updates since the email I sent on February 18th. If you'd like for me to go through it, I can. But, if in the interest of time you just want to refer to the email...

Chair Beruff: . . . in the interest of time, unless someone wants to reread the memo, we'll skip it. [silence]

James Holton: That concludes my report.

Chair Beruff: Very good. Thank you.

9. Chief of Internal Audit Report

Audit Committee Report

Bette Brown: In the interest of time, I'll defer to Joe and he can give us a quick update of what we talked about with our lovely Audit Committee yesterday.

Joe Martins: Thank you, Governor Brown. Mr. Chairman, good afternoon, governors. I also have a short slide show which I will defer and do a very quick presentation. At the Audit Committee meeting, we noted satisfactory progress for the 2021 Audit Plan. Also included in your pack, is our Annual Report and that is for your reference. As per statute, we have to provide that report to the legislature, which is the members of the Financial Services Commission (members of the Senate, Speaker of the House, Representatives) and then also the board and the Executive Director, which we've done. A copy of that is in the back. We finalized two engagements which we presented to the Audit Committee. The first one was Contingent Workforce Practices audit, and the second was a report provided on internal project IT Security and Risk Incident Response Exercise that the organization had. We have five control deficiencies that we are currently monitoring, one of them is deficiencies referring back to the OIR report but also following up on behalf of them. We have two high-impact internal issues, both of them we refer back to the Office of Foreign Assets Control (OFAC) audit, and it's good to report that significant progress has been made to the effective the business units throughout the completion of the series of the risk assessments and developing and sustaining the scope initially required to develop the appropriate OFAC program that addresses most of the issues that were identified. We also managed the Internal Controls Team. This team continues to work closely with business units ensuring the Internal Control Framework (ICF) remains current and the annual control self-assessments are completed properly. During 2020, 102 primary controls were assessed by management. Results from these control assessments indicated that 93 of them out of the 102 operated effectively. For the nine outstanding, the issues that were highlighted were minor and the concerns were rectified. Respective to Enterprise Risk Management (ER) facilitates, enables, and partners with business areas to deliver forward- looking and insightful risk perspective, and in February of this year, ER facilitated 2021 risk assessment with the ELT. The results from the assessment are being confirmed with each risk owner and action plans are being recorded with the complete lists of these risks will be provided to the committee at the July meeting. Thank you, Mr. Chairman. That concludes my report.

Chair Beruff: Thank you, Mr. Martins.

New Business

Chair Beruff: We're on to New Business, which is where we're going to discuss the Governance Committee. Is that correct?

Marc Dunbar: That was my hope, Chair. I'll do this very quickly. Here's my request. We have a little bit of confusion on how things move through committees, how you get things assigned to committees, and whether or not the chair is going to hear the item or not hear the item. There is nothing in our . . . We don't have any bylaws. We don't have anything that guides us outside of our Plan of Operation. One of the other things that concern me was we have not adopted pursuant to the Sunshine Law the requisite policies and procedures that are needed for public testimony. In order for us to have limitations on public testimony and things like that, we have to have promulgated policies and procedures. So, my thinking was that we have a Governance Committee that can look at the function of the board and board committee so that there is clear guidance for the board member like myself who tried to suggest an item for committee discussion, suggested a committee to go to, but then, you know, went to another committee, and then that chair didn't know, and he didn't want it on the committee. So, we weren't even able to deal with it at the committee level, which lead to us dealing with it for 2.5 plus hours today. That's nobody's fault, but I think it would benefit from a look, particularly with the new members that we have

to refine how the committees operate, what are the governance rules, you know, around them, how do you put items on the agenda, you know, what's the appropriate way for things to flow. Also, once the committee does its work, to the point that, Chairman Beruff, you've made, have a clear process around the consent agenda. None of that is found in our current plan or procedures. We haven't looked at our plan or procedures in a long time. The way the statute works is we suggest modifications to that – the Plan of Operation – to the Governor Cabinet if we want and they can adopt them, but the other thing we have the ability to do is that we have the ability to create some bylaws that would govern and structure the committees and things like that without having to go through that process. I think that would do us all well, particularly since we do have new faces. I guess it would be in the purview of you, Chair, to create a committee or to not create a committee. I can make a motion. I don't know what your pleasure is, but I think the organization would be served better if, at a minimum, if we do have to adopt some policies and procedures around public testimony because I wasn't able to find them anywhere and I don't want to get hit for attorney's fees under the Sunshine Law for not having those in place.

Chair Beruff: Mr. Gilway.

Barry Gilway: Mr. Chairman, just one clarification. Although it was not an Audit Committee Report, we just completed the market conduct review, that was extended at the cost of \$374,000 and 2,580 man-hours of work. The primary reason that was extended was a request made by Governor Dunbar to the Office of Internal Regulation in order to review in detail the Plan of Operation and to come up with exceptions to the Plan of Operation. I do want to point out that this was extensive. It was an expensive proposition. I think the OIR did an extraordinary job in bringing down the cost associated with this review, but we pay for both the market conduct review that is done by an outside firm...

Chair Beruff: So, they didn't find anything faulty with our process?

Barry Gilway: No, sir. That's my point. I did provide to the board, you know, a copy of the market conduct review, which really gave us exceptional results relative to claims management, claims handling, and, by the way, compliance with Plan of Operation.

Marc Dunbar: Mr. Chair, market conduct review is a normal part of having an insurance company. I wasn't saying that we're out of compliance with our Plan of Operation. What I suggested was that we have some absence in the Plan of Operation, and I don't even necessarily know if these need to be in the Plan of Operation. We don't have basic things on how you function the committees, and I thought it would be helpful to have some of those items. But, again, at a minimum, we need to adopt the guidelines for the Sunshine Law issue.

Belinda Miller: Mr. Chair, we do have in one of our board approved policies some discussion of how public testimony will be allowed, but, of course, there is always room for improvement.

Bette Brown: A little bit different topic than what Marc is talking about this morning – my intent was to make sure that all of our board members are – especially our newer board members – educated on all those processes, not just the Sunshine (which is important) but getting reports, who should get reports, when to get reports, how we work in committee, being recognized when you talk to the chair . . . Those kinds of things are super important. We might take it a little bit further, but at least have some time where the board members can get some clarity around that and what's expected. I agree on a committee

if Marc has questions on that. I don't think we need to rewrite rules because we're operating under Robert's Rules of Order.

Chair Beruff: Governor Holton.

James Holton: Mr. Chair, I see nothing wrong with having bylaws for this board. I think those are ancillary to the statute; they're certainly not prohibitive. It'll give us clarity to what Bette wants. I would be supportive of a Governance Committee if it would write a set of bylaws, operating how committees are set up and procedures and policies and probably do that in conjunction with the new Counsel coming in to create those bylaws. I see nothing to lose by doing that and everything to gain with clarity. I would be in support of a Governance Committee.

Chair Beruff: I think the keyword out of that is "in conjunction with the new General Counsel." I think to Governor Dunbar's point we'll go down that path but wait for the new person to be here so that we can go down that path together instead of creating a path and then have to change three, four, five months from now. The only recommendation I make when we get there is that those bylaws become a policy reviewed annually because we've all joined boards that have existed 10 to 20 years and then no one remembers what the policy is because they just got on last week. When and if we adopt these bylaws, they need to be brought up for every future board on an annual basis, so they are clear. The new guy on the block knows what the rules are. Governor Dunbar, I think, if you're okay, we're going to direct staff, or, in this case, Ms. Miller to come up with stuff for our July meeting and by then we should have a General Counsel and maybe we can start implementing either July or at our fall meeting and put everything in place. Does that make sense to you?

Marc Dunbar: Sure. So, the question is will it work through a committee process? Or, are we going to work as a full board on bylaws? Because the mechanics of the full board going through a bylaw drafting exercise...I've done that before and that's... you want to bog a meeting down...

Chair Beruff: I don't think the board needs to do anything. I think the staff needs to come up with the bylaws for us to review and edit, so nobody on the board has to do anything.

Marc Dunbar: No, that sounds good, Chair.

Chair Beruff: Ms. Miller will generate something for us to review and have it prepared for the July meeting.

Marc Dunbar: As it relates to the Sunshine Law, if I could, that's a more pressing matter. We're supposed to have the policies and procedures out there to advise the public on the how to do it – it includes the limitation on testimony and things like that – I really particularly, again, since we have attorneys starting to talk to us and people are starting to pay attention to, I think, a little bit more of what we're doing, please double-check the Sunshine Law because I don't think what we did was in compliance. I think we have exposure there and I think we can clean it up pretty easily by putting something in place for the May meeting for us to adopt before the next committee meetings start.

Belinda Miller: I'll be happy to review it and suggest additional changes, but we do have the board of governors' procedures, calling meetings, and workshops on our website. It does allow for public comment. Governor Dunbar is correct. We need to make sure that it has everything required by the Sunshine Law. I'm confident it did at the time, but it may need to be updated.

Chair Beruff: We'll edit it if need be; we we'll have it done before May on just that one issue. Is there anything else? Are we done?

Meeting adjourned.

FINAL