

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other Committee Minutes**

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

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

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

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

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

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

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| <b>Item Description</b>         | The Actuarial and Underwriting Committee meeting Minutes<br>December 15, 2020  |
| <b>Purpose/Scope</b>            | Review of the December 15, 2020 Actuarial and Underwriting Committee to provide opportunity for corrections and historical accuracy. |
| <b>Contract ID</b>              | N/A  |
| <b>Budgeted Item</b>            | <input type="checkbox"/> Yes<br><input checked="" type="checkbox"/> No   |
| <b>Procurement Method</b>       | N/A  |
| <b>Contract Amount</b>          | N/A  |
| <b>Contract Terms</b>           | N/A  |
| <b>Committee Recommendation</b> | Staff recommends the review and approval of the December 15, 2020 Actuarial and Underwriting Committee minutes.                      |
| <b>CONTACTS</b>                 | Jennifer Montero, CFO<br>Kelly Booten, COO   |

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE  
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING  
Tuesday, December 15, 2020**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened by Zoom Webinar on Tuesday, December 15, 2020 at 1:00 om (EDT).

**The following members of the A&U were present electronically:**

William Kastroll  
Fred Strauss  
Carlos Beruff

**The following Citizens staff members were present electronically:**

Barry Gilway  
Jennifer Montero  
Barbara Walker  
Brian Donovan  
Christine Ashburn  
Kelly Booten  
Scott Crozier  
Karen Holt  
Jeremy Pope

**Call Meeting to Order**

**Barbara Walker:** Good morning, and welcome to Citizens' Actuarial and Underwriting Committee webinar hosted through the Zoom platform. This meeting is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. For any users who attend today's session through the public link, you are automatically in listen only mode. Citizens' Board and committee meetings are recorded with transcribed Minutes available on our website. Thank you for identifying yourself prior to addressing the committee. Chairman Kastroll, would you like for me to proceed with roll call?

**Chairman Kastroll:** Please, Barbara, proceed.

**Barbara Walker:** Thank you. Chairman Kastroll.

**Chairman Kastroll:** Present.

**Barbara Walker:** Governor Beruff.

**Governor Beruff:** Present.

**Barbara Walker:** Fred Strauss.

**Mr. Strauss:** Present.

**Barbara Walker:** Governor Henderson is not joining us today. Chairman, you have a quorum.

1. Approval of Prior Meeting's Minutes

**Chairman Kastroll:** Thank you, Barbara. Thank you everybody for joining us. We have an action packed hour ahead of us. I liken it to if you have an hour left at Bush Gardens and you wanted to ride all the great rides, that is where we are right now. We have a lot of activity to talk about and some interesting things to decide. **Our first order of business is to approve June 18th, 2020 prior Minutes. Do I have someone with a motion to approve those?**

**Mr. Strauss:** Mr. Chair, this is Fred Strauss, **I will move to approve the Minutes as presented.**

**Chairman Kastroll:** Thank you, Fred. Can I have a second?

**Governor Beruff:** **Second.**

**Chairman Kastroll:** I think that was Carlos. Thank you, Carlos. Any discussion on the matter? Okay. All those in favor of approving the Minutes say aye.

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor? Okay, **the approval of the Minutes has occurred.** And we will move on to point number two, the Chief Financial Officer's report. Hi, Jennifer, how are you? Are you on the line?

2. Chief Financial Officer Report

- a. Rate Indications/2021 Rate Filing/ c. Rate Structure Discussion

**Jennifer Montero:** I am, hello. I am going to turn it -- how are you?

**Chairman Kastroll:** I am great, thank you.

**Jennifer Montero:** Good, you look much better. Glad you are feeling better.

**Chairman Kastroll:** I feel a lot better. Thank you.

**Jennifer Montero:** Great. I am going to turn it over to Brian Donovan to go over the rate indications.

**Brian Donovan:** Here we go. Good afternoon, I am Brian Donovan, Chief Actuary at Citizens, and I will be going over our rate recommendation. So just kind of out of the gate, just an overview of what we are looking at. First off, we will talk about litigation rates. We have known for the past several years that the rising litigation rate has been like the main driver of Citizens' rate need, and what we are seeing first through the use of appraisal and now more recently with management and the impact of House Bill 765, we are seeing some very good results. Litigation rates continue to come down. So, we will take a look at that. That is a driver in this rate recommendation. Next, we will briefly talk about the reinsurance provision and, you know, basically how that compares to the industry. And then with this rate filing we are recommending, typically when we come with the rate changes we only talk about, you know, for each policy line, changing the territory base rates and rates and just basically changing the territory base rates. This time for HO-3 and HW-2 we are recommending updating all rating factors. The biggest impact of this is the wind mitigation credits. So, we will talk about that. And then good news on the sink hole front. Finally, Senate Bill 408 was passed in 2012 to address the runaway sink hole issue. Now that we have had eight or nine years to see the impact for the first time in Citizens' history, we are recommending a decrease in sink hole rates. And all of that rolls out to where Citizens' uncapped indicated rate change is 17.1 percent. After application of the 10 percent glide path, we have a proposed change of four percent. Just kind of a reminder, the way that the process works by statute, Citizens makes a recommendation to the Office of Insurance Regulation. At that point once we make the filings, the Office has 45 days to issue an order, and then the Office is the final authority on that. Citizens makes a recommendation, the OIR tells Citizens what, you know, what rates they will charge. And of course, with this filing, as always, we will ensure that no single policy on renewal goes above the 10 percent glide path. And as we always do with the filings, we will be providing the Office with both uncapped rate indications and the impact of the glide path as well. Currently, these rates proposed effective date is August 2021.

Concerning the litigation rate, we see in 2016, now, we have all known that this was an issue and a big driver of rates and we saw in 2016, we reached a peak where over one and two, 52 percent of every non weather water claim being reported to Citizens ended up in litigation. And just as a reminder, to settle a litigated claim is four to five times higher than a non-litigated claim. So, this was a huge dollar amount, a huge driver of Citizens' rates. Since then, we started implementing more of the appraisal process. And more recently with the MRP program and House Bill 765, we are seeing significant decreases. I mean, it's great news that we have gone from over 50 percent or one in two claims ended up in litigation to now just over 20 percent or one in five claims. While that is great improvement, it's still an issue. I mean, it's still driving the rates. It is still higher than what we would like to see. I mean, we have seen drastic improvement in southeast Florida going from 61 percent down to 26 percent, which is good news. But like I said, it's still an issue. The rest of the state has never reached the height of the southeast in terms of litigation rate, but it has kind of flat. It is something to keep an eye going forward. We can look at that litigation rate and decompose it and see what exactly is driving it, why is it going down. The litigation rate we were just looking at on the prior slide, going from 52 percent to 21, 21.4 percent, we can decompose that into the suits related to an assignment of benefit only. Then there are suits that have nothing to do with the assignment of benefits and typically have to do with the permanent repair. And then there are some claims that have both an AOB and a non AOB suit. And we can see the drastic

drop in the AOB litigation which is one of the main drivers of the drop in the litigation rate. In 2017 at its height 46 percent of HO-3 claims were being reported with an assignment of benefits. In the most recent year, it has reached a low of only 23 percent. So not only are half the number of claims coming in with an AOB, but then the percentage of those claims coming in with an AOB have less likely chance of going into litigation at a lower rate. So, that is one aspect of it. The other aspect, there has been a lot of discussion about our managed repair. As a reminder, it was July 1, 2018 the policy language changed, whenever a non-weather water claim is reported to Citizens the policyholder has a choice. The choice is to use Citizens' vendors and have access to full policy limits, or use their own vendor, in which case there would be a \$10,000 limit to permanent repair and a \$3,000 limit to water services. And the whole idea of this program as we have discussed at length was to avoid litigation, to avoid the middleman getting in the way. Just to work directly with the homeowner to get their problem resolved. And we see early results, now these results are early and it's undeveloped data and it will take a year or two or three to really see how this pans out. But this is what we would hope to see, and it is very promising.

For example, if we look at accident year 2019 for the water mitigation services, we see close to 30 percent, 28 percent of the people accepted Citizens' vendors. And of those we can look at the AOB litigation rate and those who did not accept litigation rate is 10 percent, for those who did, it is five percent. So that is very promising and that is what we would hope to see. We see a similar result when we look at the total litigation rate where we are at 9.6 percent of those who entered into the program and close to 26 percent who did. As I said, these numbers will develop, but this is what we would like to see. I mean, we see similar results with the permanent repair. This is a very promising sign, and we will obviously report back on this as these develop out. So, that is the discussion on the litigation rate. Next the reinsurance impact. Now, these numbers are from the hurricane season that just passed. And I guess at the end of the day, no harm, no foul. Citizens ended up purchasing less reinsurance than it would have liked to have purchased because of the pricing, but it had a similar cost in the provisions that we had last year. However, the takeaway from this point, we are often asked why Citizens' rates are so much lower than the industry. And one thing that we can easily point to and see the big difference is the amount of reinsurance that is purchased. If we were to redo our indications and use a provision, a similar provision in the indication that a private market company uses, our rate need would be two and-a-half to three times as much as it currently is. In addition to the base rate changes, territory base rate changes, we are recommending a change to all the rating factors. In particular by far, the biggest impact has to do with the wind mitigation credits. The current mitigation credits that we use are based on a 2002 study by Applied Research Associates who were commissioned by the OIR back in 2002. This has become outdated for Citizens' policies. It doesn't recognize the 2010 building code changes. So, Citizens worked with Air Hurricane Modeling company to develop new wind mitigation credits to consider all the up to date building codes, as well as the up to date, most up to date hurricane models. And what is the biggest impact of that?

The biggest impact is across, looking at this table, we have current mitigation credits and the year built going across the top which corresponds to the building codes. So, the big change with all the rating factors changes, it all rolls up, the crux of it is this. Currently if you are getting a 70 to 90 percent discount, this is the discount that applies to hurricane premiums. There are certainly policies that are actually getting 70, 80, 90 percent discount to the hurricane premium. What we found with the new study, that is too much of a discount. So, you can expect a rate increase. We will be giving less of a discount with these new mitigation credits with the current factors, 70 to

90 percent. The other end of the spectrum, if you currently have a wind mitigation credit of 60 percent or less, you will actually be getting more of a discount. I just want to point out that over 85 percent of our book of business does fall into this pre-2002 category.

For sink hole as I mentioned, we are recommending an overall sink hole rate change of minus 11.7 percent. Across the state it equates to a \$17 reduction, but certain areas especially, central west Florida, Tampa area where sink hole has been more prevalent. It is significant. You can see here especially in Hernando and Pasco there will be over an average of \$300 savings with this reduction in sink hole rate. So, SB 408 as I mentioned, it took, seven, eight, nine years for these things to go through litigation just to see how this would play out. At this point we reached a high of 4,500 claims being reported in 2011, to where more currently we are down in the 10s, like 50 claims, 35 claims. And so, SB 408 has done its job and as a result we can look to reduce sink hole premium. So, all that rolls up to this. This is Exhibit 1, summary of statewide indications. This is the same exhibit we bring to the Board each time we do the rate indications. And looking at the top third of the exhibit in columns 11 and 12, this is the policy line, personal lines policy forms. And the uncapped indication is 14.3 percent for personal lines. And after the application of the glide path the rate change would be 3.7 percent. Going to the middle of the exhibit for commercial lines, columns 11 and 12, we see commercial lines overall indication is 57.1 percent. After application of the glide path, we are at 7.8 percent. And at the bottom overall across the company, all lines combined, 17.1 percent rate need with a four percent rate impact after the application of the glide path. So often we are asked, well, 17.1 and why is this rate change not closer to 10 percent. And it can be seen, we do have segments of business that have negative indications and we don't take those we give the negative rate indications where indicated. For example, you can see over 100,000 policies have a negative indication. So, we are not raising those rates 10 percent. We are actually giving them the rates that are indicated capped below minus 10. Then you can see, most of the policies, more than half the policies in personal line have a 34.1 percent indication and they get cut off at 10 percent.

The reason why it is 9.4 and not 10 percent is because the buildup factors and the sink hole decrease are not subject to the cap. And you can see a similar with commercial lines and across the board. The bottom line is we don't get closer to the 10 percent because we do give the negatives where indicated. Every few years there is public discussion on what is the appropriate thing for Citizens to do. That is where we are currently at and that is what is baked into the recommendation. And so just looking across the distribution of policy changes. So here we have a histogram. This is for personal lines policies and the PLA account. And looking across the bottom you see the different buckets of five percent to 13 percent, zero to five percent. This just represents the changes for the policies in that bucket. For example, for homeowners, 59 percent of homeowners in the PLA will get a rate change between five and 13 percent. 11 percent of homeowners will be in the zero to five percent range, eight percent zero to negative five, 21 percent, negative five to negative 11. You get the idea, and you can see the same results for similar results I should say for the other policy forms. Basically, most insureds will be getting a rate increase. 70 percent of homeowners will be getting a rate increase, while roughly 30 percent will be getting a decrease and similar results for those other policy forms in the PLA. If we look at the same exhibit for the personal lines and the coastal account, you see similar results. The bucket is five to 13 higher than what we were seeing in the PLA. And that is driven by hurricane model results, the wind only policies. It's really the wind rate need that is driving those increases in these cases. So just how that looks across the state. So, this represents the multi-peril HO-3 policies.

You know, the darker the blue the bigger the increase. One thing that pops out that might be surprising, is we see Miami-Dade, our biggest county where we have the most policies is actually getting a slight decrease, minus .6 percent overall. And that is directly related to the dropping litigation rate. In the past several years Miami's rate kept going up. They had been getting close to 10 percent increase in the past several years, but with this drop in litigation it is appropriate to recognize that. The litigation rate has dropped from 50 percent to 25 percent, and that does make a huge difference in the rate need. One thing I would still point out though. Even though Dade is getting this overall slight decrease, they still have the highest HO-3 multi-peril premium in the state even after say Broward and Palm Beach get their increases, Miami-Dade will still have the highest premium. So, while progress is made with the litigation rate, the issues still aren't totally resolved. Progress has been made, but it is definitely – water is driving too much of the rate need in that area still at this point in time.

**Chairman Kastroll:** Okay, Brian, I will let you take a little breather here for a second. And I know, I think I heard even though she is on listen only, I think Governor Brown is on the call and I heard I think her cheer, she is in listen only mode being a Miami-Dade representative. Though that is news to delivered.

**Brian Donovan:** I hope she is as happy with the Monroe results. By the way, is there any questions at this point? I know there is a lot on the agenda, and I am kind of going through rather quickly. I am sure everyone is not bashful, and they will ask questions as they come up. So, moving on that is the multi-peril HO-3. If we move to the next slide, this is the wind only, the HW-2. And once again the darker the blue the bigger the increase. South Florida for the most part are getting increases, and Monroe we just mentioned is 7.1 percent is the recommended change. Outside of south Florida it is kind of a mixed bag.

**Governor Beruff:** Excuse me, Mr. Chair.

**Chairman Kastroll:** Yes, I think it was Carlos.

**Governor Beruff:** Yes, that is correct, thank you. It is nice to see you looking a lot better than the last time I saw you.

**Chairman Kastroll:** Thank you so much.

**Governor Beruff:** If I could ask a question. All the assumptions that you have been making are based on not to complete all the actuarial calculations without what reinsurance would cost us in the market if we had to buy it. Is that a true statement?

**Brian Donovan:** Yes, this is all based on what we actually spent for reinsurance.

**Governor Beruff:** Right. What you spent, but not what we -- the free market or the other people have to spend, because we are in the unique position of having \$6.3 billion in reserves through an element of good luck for over a decade, right?

**Brian Donovan:** That is correct.

**Governor Beruff:** Okay. And the others that are our competitors have to buy reinsurance in order to meet their credit rating standards, correct?

**Brian Donovan:** That is correct.

**Governor Beruff:** So, the rate increases that you are representing are not accurate if we factored in the true cost of what we have to be in the market.

**Brian Donovan:** That is correct.

**Governor Beruff:** I am 100 percent correct, right?

**Brian Donovan:** With one caveat. It is 100 percent correct, but then there is also the capping on top of that, right.

**Governor Beruff:** Right, right. That is the statutory cap.

**Brian Donovan:** Right.

**Governor Beruff:** But right now, what we should be advocating for is putting in the right elements into the actuarial tables to come up with what we should be asking for so that we could get closer to the top caps from my perspective. The second thing that doesn't come out in all these discussions that I have seen, is that there is no connection between operating profits when you take out investment profits. We are operating at a loss, at least that is my understanding, right. This business operates at a loss when you take out the element of the \$6.3 billion and its earnings, is that a true statement?

**Brian Donovan:** That is correct.

**Governor Beruff:** So, I don't know how you run a business where you are relying on the amount of capital that you have assembled to run and cover the cost of operations. It is just not a good way to run a business. Now, unfortunately I find myself in a unique position because I have never got involved in a business where I am trying to downsize the business. I have always been on the opposite where I want to grow the business. Growing this business is detrimental to the taxpayers of Florida in the case of a catastrophic event. Would that not be the truth?

**Brian Donovan:** Oh yes, certainly we dodged a bullet when we had 1.5 million policies.

**Governor Beruff:** And all of this has manifested itself essentially the last 24 months. The growth in Citizens has manifested itself in the last 24 months. So up until 24 months ago from an outsider's perspective we were doing the right thing. We had it, we had a viable insurance company that we were supposed to be the insurer of last resort for citizens in Florida, right? Now we are offering insurance rates at 30 percent below our competitors, and in 91 percent of the case according to somebody's numbers, we are below. So, we are not the insurance of last resort, we are the insurance of first resort and growing rapidly, disproportionately to the market. So, we have some issues that can't continue. So, my comment is what I have just said and then later I will make a motion as to how we try to proceed, because what happens today will go on to the Board



meeting tomorrow. So I want to make sure that it relates to the actuarial numbers that are used are best indicative of what it would truly cost us to operate if we operated without the convenience of the taxpayers or first my understanding of Citizens, if we had a catastrophic failure, the business policyholders get hit with 15 percent premiums, and then the next set of policyholders in the state is another one and then there is a third layer. But at the end of the day, it all falls on the shoulders of the Florida taxpayers which is exactly what I never want to be a part of. I am sorry, Mr. Chair, that was a bit long winded.

**Chairman Kastroll:** It was very insightful, thank you.

**Governor Beruff:** Thank you.

**Brian Donovan:** So, this is exactly what you were just talking about. So, what we have done to compare our rate, Citizens' rates to the private industry, private companies, we take our in force book of business and we re-rate it with the competitor's rates just to see where we compare. With this map you can see the lighter the color, the lower Citizens average rate is compared to the average competitors. I think it is a little clearer if we look on this map. This is exactly what you just said, Chairman Beruff, 91 percent of Citizens' HO-3 policies are charged less than the average competitor's rates. And you can see in southeast Florida it is around 20 percent less when we do that. Then the last graph, and this also relates to exactly what you just said, this is a graph that we provide each year, each time we do this indication. Where does the premium dollar go? This represents from the PLA in calendar year 2019, for every dollar that was earned, this is where it went and you can see 52.4 cents went to water claims, which as I mentioned earlier, that is too much. You know, as compared to say 14.4 cents that went to all other claims. Meaning everything is not water, sink hole or hurricane. And you get the gist of it. Yes, it is 1.2 cents for sink hole claims. It's not a coincidence of lowering sink hole rates, 16.5 for others. So, you get the idea. Risk transfer cost, 16 cents per dollar. That is just the calendar direct what went out the door. And it is kind of to your point, like a private company would have spent three to four times that much. But when we add all this up, and this is what I just said, it doesn't add up to a dollar. It actually adds up to one dollar and 14.6 cents. So basically in 2019 in the PLA there was an underwriting loss of 14.6 cents for each dollar earned.

**Governor Beruff:** Excuse me, Mr. Chairman, may I speak?

**Chairman Kastroll:** Please.

**Governor Beruff:** We are not charging enough premium just to cover operating expenses.

**Chairman Kastroll:** I would agree with you. Brian, if I can ask an additional question. Why then are we content with 3.7 percent rate increase and it should be a 14.6 percent rate increase, but I do understand that we have a 10 percent cap. So why wouldn't be advocating more for a 10 percent cap so we can be actuarially sound and not put the citizens of Florida in jeopardy if there is a storm?

**Brian Donovan:** Yes, that is a great question, and this exact question comes up every few years. I have been at Citizens for 13 years and it does come up and it is a good question that needs to be discussed. I guess when you talk about actuarially sound rates which is what the statute directs

us to do subject to the glide path. There is really two components of that. One, first off, that means you collect exactly what you should collect, not more, not less. Obviously, we are not collecting enough in the aggregate, but there is two ways that that is measured. One, in the aggregate, but then two, individually when you look at the different segments. So, it is kind of this tension or this balance. On the one hand, yes, we are not covering cost that is strong argument for taking 10 percent across the board. The downside, the counter argument to that is, well, you are building subsidies into the rates. We know there are segments that have minus 20 indications and we are going to raise their rates 10 percent. That is the only way to get closer to the overall 10 percent. I don't think that there is the correct answer. It needs to be discussed and, you know, decisions made, you know, in that regard. But yes, so currently what we do, we do give the decreases. We don't give full decreases; we cap the low at minus 10. So that is not statutorily written, but that is after these discussions with the Office and others over the years. Where we landed was, all right, we cap above at 10 percent by statute, we cap below by minus 10 percent to kind of balance that. So that is where we are at this point in time, and if you would like to have that other discussion, which is sounds like we are and should, then, you know, by all means let's have that discussion and get all the appropriate people involved with that discussion.

**Governor Beruff:** Mr. Chair, if I could speak?

**Chairman Kastroll:** Please.

**Governor Beruff:** So, you said this comes up for discussion in previous years, you have been here 13 years. And how have they handled it in the past?

**Brian Donovan:** A public discussion with people making their case one way versus the other, and then ultimately, I think it has been sided in the past was voted on and decided at the Board level before it got to the Office if I recall correctly, we can double check precisely how that happened. But I do remember very vividly when Citizens' rate freeze was lifted, I don't know if you notice, it's kind of history. Citizens' rates were actually rolled back and frozen from 2007 to 2010, when rates could not go up at all. Starting in 2010, the rate freeze was lifted, that is when the glide path went into effect and that is when these discussions started to happen. And as I recall it was typically handled at the Board level and there was direction from the Board to not just take 10 percent across the Board.

**Governor Beruff:** Mr. Chair, if I can continue.

**Chairman Kastroll:** Please.

**Governor Beruff:** So, the other thing that I have come to understand about how this business is run, is you have different areas of Florida, and in some areas, you may see a rate decrease, yet you can't increase the rate even though there is other areas that are more exposed for litigation and other purposes. So, you have to lower your price in an area where you are making money for lack of a better term, and not be able to cover the increased cost in other areas because the statutes that exist prevent you from doing that. So, it is at the least we have to advocate with our colleagues in the Legislature that you can't have it both ways. If you make us lower rates in one area because we did our job correctly, you have to be able at least allow us to raise our rates in the areas where we have not been able to get a handle on it, or the growth is disproportionate

because they are preventing other insurance companies to be market players because there is no capacity in the system. We are an 800-pound gorilla and everybody else is chimps and that is not going to work. So I think to the Chairman's comment, I think we have to start trying to advocate strongly to use all of the costs that would really inure into the actuarial tables to try to go in front of the OIR and advocate for significantly larger premium increases, because we don't want to be the insurer of first resort, we want to be the insurer of last resort, because that is what I thought the mandate for this place was. Now, if somebody tells me differently, then I am happy to listen.

**Chairman Kastroll:** And when you add on top of that, if we raise our rates three percent, it doesn't incentivize any of our competitors to decide to jump in and insure some risks in some areas where they wouldn't want to insure risks. So, by raising rates at a higher rate and be actuarially sound, it is the other companies out there, the private companies which we really want the business in place with, an opportunity to grab some more business in those areas. So, by keeping rates artificially low it doesn't help out the private companies that should be getting this business.

**Governor Beruff:** I agree with that.

**Chairman Kastroll:** Okay, Brian, I am sorry.

**Mr. Strauss:** If I may speak?

**Chairman Kastroll:** Yes, please, Fred, Mr. Strauss.

**Mr. Strauss:** The points that have been brought up are very good points. And as Brian pointed out, they are topics that have been discussed and brought up before. In fact, these markets of last resort, these residual markets across the country often face similar issues and similar problems with their rates becoming too competitive. I have been on this committee since 2002, and when the statute first was created there was a comparison of competitors rates and an average of those rates used of the top competitors in each area to determine the rates that Citizens would use. It became a little onerous and it became questions of whether rates were actually being used by the voluntary market or not. As a result, the statute changed, and when it changed it created the actuarially sound, and then as rates began to rise after the freeze, there were questions about the glide path and should policyholders be forced to take the increase all at once. When that was first discussed the thought might be, maybe instead of taking the decreases, instead of taking increases on policyholders with decreased indications, that we try to hold those rates flat until we were able to catch up and then spread that, spread it more appropriately. That was not something we were able to achieve. At that time, and I apologize, I don't remember if that was OIR or how that came about, but the direction was to try to hold those policies flat and not give them the decreases if they had an adequate rate overall. So there have been several iterations, and as Brian pointed out we tried to do things at different points in time to try to get a more adequate rate. At one point in time the producer of record was in charge of moving policies back and forth, and if they didn't like a voluntary market carrier, they wouldn't necessarily move it over. The statute changed and traded the 15 percent differential in rates that a policy must move the rates within 15 percent of Citizens. Given the differential that exist now in many territories, to your point, there is a difficulty in moving policies from Citizens out to the voluntary market. Because of the statutory components and the behavior that currently is out there with pricing pressures on the voluntary market, it makes it very difficult for Citizens to continue its decline. But many of these

issues are more statutory in nature than actuarial in nature. What I have heard Brian talk about is it is utilized the expenses that Citizens has to include the reinsurance expenses that Citizens has and incorporate those into his indications and then use the statutory component of the glide path which is getting us from that 17 down to the four percent. So, in many respects from an actuarial perspective, it is as if Brian's hands are tied. Not to put words in your mouth, Brian.

**Brian Donovan:** Well, I wouldn't disagree to a large degree.

**Governor Beruff:** Mr. Chair, if I may add to Mr. Strauss comments.

**Chairman Kastroll:** Please, please.

**Governor Beruff:** I want to say Brian's hands are tied and so are his feet. It is a very difficult challenge that we have to try to address and we have to address it because of the other thing that I have learned in my very short stint in this high paying job I took, we have another disadvantage in this business that whatever it is we implement could take 18 to 24 months to actually have an impact in the market. So, if we don't take action rather rapidly, not because it hasn't been tried, but it is really manifested itself over the last 18, 24 months, that the growth is unsustainable at the rate that we are growing policies. Though I sure would have liked to have joined the Board in 2015 where it was pretty laid back, but the growth in policies is now at -- how many policies do we currently have?

**Brain Donovan:** 540,000.

**Governor Beruff:** 540,000. We had 420,000 18 months ago. I am sorry, I don't know who to direct my question to. I am happy to do that to whoever raises their hands.

**Barry Gilway:** Mr. Chairman, Barry Gilway for the record. We reached a low point of 420,000 about 18 months ago. The first growth we have had in three years was the Florida Specialty insolvency. We added 20,000 at that point which took up us to 440,000 and we have been on a steady growth trajectory since that time.

**Governor Beruff:** So, the point is, is as unfortunate as it is for lazy guys that would have liked to take the easy path, I happen to join the group where you people have been on the group for a while. Well, we have a challenge that is facing, 520,000 policies. Brian's charts conservatively project growth by the end of 2021 to 630,000 policies. We know that there is two or three different graphs that Brian as produced that show policy growth to 660 or 670,000 policies by the end of 2021. After that I happen to be in an industry that is significantly impacting the growth rate of policies which is at best on a -- on a path I have not seen in my lifetime due to this phenomenon that has occurred in the housing business by the pandemic where people are just flocking into the state of Florida purchasing homes. And it is not just my company, it is my peer group. I think that you could see easily enough the policies at the end of 2021, somewhere between 690, 720,000 policies. At that point and Mr. Gilway, if you would like to share with this group, what happens if you have two 1- in-100 year event in the same year, what that does to us and how we go negative on our surpluses, and the fact that we then have to go and assess the taxpayers of Florida, plus what is not taken into discussion in any great depth is that those of you -- everybody in this call and everybody in this room has acknowledged to me that there is significant providers in our

industry that are on a life line financially. Those fail and we have to absorb those policies. So, we simply can't continue, combined with the fact that whatever we do is going to take 18 to 24 months to have any significant effect on us, we have to take action. That is why I think you all are aware and I will make the rest of the Board aware tomorrow, that I have requested a special meeting in January so that we can decide what direction to take before the Legislature session starts. If Mr. Gilway wants to go ahead and go into a little bit of detail on our situation as we grow to 700,000 policies.

**Barry Gilway:** Mr. Chairman, if I might.

**Chairman Kastroll:** Yes, Barry. Barry, before you jump in Chairman Beruff just for structural purposes, are we going to have a rate structural discussion or is this prior to that?

**Governor Beruff:** I am sorry, I didn't quite get that question.

**Chairman Kastroll:** So, on the itinerary for today there is a rate structure discussion action item.

**Governor Beruff:** Yes, sir.

**Chairman Kastroll:** And you are talking about that. Is that what we are talking about right now or is this something before that?

**Governor Beruff:** Yes, sir, I am talking about the project motion to move to the full Board tomorrow, what we intend to advocate for. And I will make the motion when the Chair instructs me that he is open for the motion.

**Chairman Kastroll:** Thank you, go ahead, Barry.

**Barry Gilway:** Thank you, Mr. Chairman. Do I have that slide that we can pull up? Thank you. We are going to present a slide. Chairman Beruff requested an overview of what the surplus implications are of growing to 600,000 policies. And in the alternative at the 700,000 level and I would agree with the Chairman that that is a more likely scenario. And we took a look at the impact of the \$6.3 billion in surplus given a couple of major storms. The first scenario that we have is really not -- it would not be an unusual scenario. We are basically describing what would have happened if a Dorian would have continued on its original path. In other words, a Cat 5 hurricane hit in south Miami. Dorian was heading for south Miami, and then the process would have had it come across the state and go up the western side of the state. If that would happen, then the losses are estimated at \$7.3 billion. A second storm, not necessarily in the same year, but a second storm impacting that same surplus, we just took as an example a Cat 4 storm similar to the Miami hurricane in 1926. Neither of these scenarios, you know, would be unusual scenarios given, you know, the current activity. What this slide shows basically is that the result of those two storms, after the first storm there would be no assessment impact because we would have sufficient surplus and reinsurance placed in order to offset an assessment load.

However, if that second storm hit then we would be in the scenario where we were assessing over all three accounts. We would be assessing a total of \$3.87 billion. We then extended the presentation to slide two, which really represents what happens in the likely scenario under the

current market conditions of 700,000 policies. If we had 700,000 policies after storm one, then we have again, we have not -- we would not assess. However, the second storm that we are describing, we would have almost a \$6 billion assessment potential. I think as everyone on the call knows, you know, back in 2012, we actually had an assessment potential of 11.6 billion. I believe the number at the time was that over \$1,000 per customer in the state of Florida. So, the intent here is just to show basically the impact of the ongoing growth. Today as the Chairman indicated, we are growing at the rate of an additional 3,000 net customers per week. 10,000 plus customers per month. And that trend in our estimation is likely to continue as Brian, you know, has indicated at least through 2021 under current market condition.

**Governor Beruff:** Mr. Chair.

**Chairman Kastroll:** Governor Beruff, I wanted to add something to Barry's first.

**Governor Beruff:** Great, thank you.

**Chairman Kastroll:** We currently are at 91 percent retention ratio which by our industry standards and best practices for insurance companies is the top 25 percent for insurance companies. If you are in the business of wanting to renew policies and having great customer service, which by the way, we have great customer service at Citizens, and we pay our claims, the problem is we don't want any more policies. So, if you are in the business, an insurance company had a 91 percent retention ratio, that is very, very good. The problem with the retention ratio being that high for us, is if you run a retention calculator and I will just make it simple with 100 policies, at a 91 percent retention ratio and building their home, moving away, very few people non renew because our pricing is so good, in five years you would still have 62 policies of the 100. So, you could say as a percentage of policies so we still have 62 percent of the business at a 91 percent retention ratio. And this is very alarming because people aren't going to leave Citizens to go to private companies when our rates are this depressed or non-actuary. That is what I wanted to add. Thank you.

**Governor Beruff:** If I may add to Mr. Gilway's comments. And what we are looking at is strictly our own organic growth. It doesn't take into consideration the failure of another carrier that we have to absorb. So even this is potentially a best case scenario in the event of these two storm events. If we have to absorb 200 or 300,000 policies over that same period because other carriers failed to have the necessary finances to meet their claims, this becomes a very conservative estimate of what we will have to assess our customers in the state of Florida and the residents in the state of Florida. So again, I wish we had three years to deal with the problem, but we really don't.

**Barry Gilway:** Yes, Mr. Chairman, we agree completely with the overview that you provided. The bottom line is we are competitive over 91 percent of the time. A year and-a-half ago when we did the competitive analysis, I think we were competitive 80 percent of the time. We have a situation in the overall marketplace where the overall profitability has dropped dramatically as I will be discussing at the Board. You know, the third quarter numbers were a \$726 million net operating loss, and a \$1.3 billion underwriting loss for the industry. And as I think, as Chairman Kastroll knows more than anyone, this is creating a situation within the marketplace where private carriers are simply not responding. They don't have the capacity to respond in the marketplace. It's also

exacerbating the situation, because if a company takes action against a customer and non-renews that customer, that customer will go to the private market and likely be faced with a 30, a 20, 30 and even 40 percent rate increase, whereas Citizens, if they come to Citizens, they would actually be getting a substantial decrease. So, it puts us in an untenable situation from a competitive standpoint, and puts us in a position frankly without closing, I would call it a gap between ourselves and the private marketplace where we just simply will have no choice but to grow the business. We are totally supportive of the direction, you know, that you are heading in closing that overall gap. And frankly closing that gap really is the only alternative in my mind to slowing down the overall growth.

**Chairman Kastroll:** Barry, I will just add one thing to the data you just gave us. I think you mentioned a few years ago we were 80 percent competitive. I will assume at the same time we were 80 percent was our retention. If you ran the same numbers, just for the record, you had 100 policyholders at an 80 percent retention ratio, after five years we would only have 33 policyholders. So, you can see the difference between running at not just the 91 percent and 80 percent, how that impacts significantly on retention of an insurance company. And if we can get back to actuarial sound rates, I think our retention, and again, I want to be very clear. Our retention for customer service that should be outstanding and it is outstanding. The customer service at Citizens is one of the best, I will put them up against USAA insurance as the best customer service models in the business and it is very innovated with our water claims management. So, we should have that wonderful customer service. But you can see going from 100 to 33 is a lot different than going from 100 to 60 over five years and that is where we need to be in my opinion. Barry, do you have anything you want to add?

**Barry Gilway:** No, I think really referring back to Governor Strauss' comments. You know, we find ourselves in a very different position as Chairman Beruff indicated earlier. The conditions have changed dramatically in a 24-month period. We were in a position where Citizens had some natural impediments that basically caused independent agents not to place business with Citizens. We have a lower commission rate than the competitors. I think based upon our recent surveys, maybe a two point differential in terms of overall commission relative to the market. So, we have a lower commission rate. And by the way, I agree completely with Chairman Kastroll's comments on service, but I think Chairman Kastroll would also say we are probably the most difficult company to place business within the market because of the Clearinghouse. And the mechanism there basically requires us to ask questions for any company that will – is willing to participate up front in the Clearinghouse mechanism which basically shops the business before it comes to Citizens to make sure it meets the 15 percent threshold that Governor Kastroll was referring to. So, there are natural impediments, and that is the reason we say that after massive depopulation we stayed at a 420,000 level. However, under current market conditions the entire picture changes. And I would agree with Chairman Beruff that, you know, it calls for a far more drastic look in order to -- in order to contain the business at reasonable levels so we do not get ourselves back into a situation where we are an assessment position. Jennifer worked hard, you know, to get us out of an assessment position, I think in 2015, Jennifer, and we never want to return for the sake of all Floridians, back to that position. Thank you.

**Chairman Kastroll:** Thank you. Barbara, I don't know if you are on the line still. Do we have a procedural item with the committee where we are going to go past 2:00? Do we have to call for any motion?

**Barbara Walker:** Yes, yes, sir. If we could just motion to extend the meeting.

**Chairman Kastroll:** Do we have a time horizon for it or just extend the meeting?

**Barbara Walker:** You can just extend it, sir.

**Chairman Kastroll:** Okay. **I'll make a motion to extend the meeting past 2:00 today. Do I have a second?**

Mr. Strauss: **Second.**

**Chairman Kastroll:** Thank you, Mr. Strauss. All those in favor.

**(Chorus of ayes.)**

**Chairman Kastroll:** Okay, motion has passed, thank you. So, let's get back to Brian or Christine, I think you wanted to go ahead and actuarially sound rates for new business. Is that correct Brian?

**Brian Donovan:** Yes, that is correct. The next thing we were asked to look at, what would it look like if we had actuarially sound rates for new business.

**Chairman Kastroll:** Okay.

**Barry Gilway:** Mr. Chairman, Brian. I believe we need before we move on, I believe we need to address the action item for basic rates. So, I think you may have a comment here.

**Governor Beruff:** Is the Chair ready to entertain a motion on the rates?

**Chairman Kastroll:** Yes, please.

**Governor Beruff:** Thank you. I move to approve the rates proposed with a comment that or an amendment. I will read it out loud. The Board provides provisional authorization to make a filing with OIR. The Board will give staff instructions on the areas of discussion with OIR to optimize the rate progress in this filing. Staff is directed to report back to the Board what adjustments to the filing are being made to optimize the rate progress. And the Board will decide whether sufficient progress has been made for final authorization of the filing. If sufficient progress has not been made, the Board will then direct staff to continue discussions with OIR. Staff would inform OIR the Board authorization to file is provisional and the filing is not ready for OIR action until final authorization from the Board. That is my motion.

**Mr. Strauss:** Pardon me, I am trying to digest. I think I got it. What I am processing right now is whether -- I can see where that would easily be a motion before the Board. I am trying to understand how that is a motion here where we put contingencies on the Board approval. So,



from what I hear you saying, if I may, we are recommending to the Board that the proposed rates be filed and that –

**Barbara Walker:** Mr. Strauss.

**Mr. Strauss:** Yes.

**Barbara Walker:** May we just hold comment until we get the Chairman back, please. He was kicked off of Zoom.

**Mr. Strauss:** Certainly.

**Barbara Walker:** Thank you.

**Chairman Kastroll:** Sorry about that everybody. Governor Beruff, I got the first minute and-a-half of your presentation.

**Governor Beruff:** Okay.

**Chairman Kastroll:** I don't know what happened.

**Governor Beruff:** No worries. Like I said, I sort of ad libbed. So it is kind of hard for me to recreate it. Are you talking about the one that I read into the record?

**Chairman Kastroll:** Correct.

**Governor Beruff:** Okay, all right. So I am happy to reread it. I will read it from the beginning.

**Chairman Kastroll:** Thank you.

**Governor Beruff:** So, the motion is the staff's recommendation with the addition of what I am about to read, and to Governor Strauss' comment, it's just to be clear, it is a motion to send to the Board tomorrow for them to consider whether or not they like it the way I proposed it, okay.

**Mr. Strauss:** I understood it that way.

**Governor Beruff:** Yes, sir.

**Mr. Strauss:** Yes, if I may. In my opinion –

**Governor Beruff:** Of course. I am the amateur. I will listen to experts every day of the week.

**Mr. Strauss:** Thank you for the compliment. We won't debate whether or not I qualify. It was more of a procedural question that I had.

**Governor Beruff:** Yes, right, right.

**Mr. Strauss:** And it sounds like the motion that you read is directing the Board of Governors to consider a policy. And the policy seems to be coming from this committee. And I am wondering if it's better that historically, policy has been set by the Board of Governors working with staff and then the implementation of that comes to the committee if I am understanding the way we have done it.

**Governor Beruff:** Not having the history, I understand what you are saying.

**Mr. Strauss:** So, in essence, for us to propose, as an example, that the staff move forward with the rate change, then the Board has the opportunity to discuss and decide based on all the facts that were presented here.

**Governor Beruff:** Correct.

**Mr. Strauss:** And we could make a recommendation that things be looked into to try to get to an actuarially sound rate at a faster pace. I think that the tool of using a contingency on the filing might be a better source than the Board of Governors is my thought. If we do put a contingency in, that would seem to slow up the process of getting even the four percent, and there is other components that could be reviewed as well. The policy on the reinsurance buy. So, what target should reinsurance be purchased at, then those -- the premiums paid for reinsurance would then be put back into the rates here at this committee, which would increase the actuarially sound rates if more was purchased. I am not saying it as clearly as I thought. There is a series of facts, factors that can be used to achieve some of the goals and objectives. The timeline becomes very tricky, because as you pointed out it takes a while to prepare the filing, make the filing, get the approval on the filing, and then it takes 12 months after the effective date to see the full impact of any rate change.

**Governor Beruff:** Mr. Chair, if I may add. I think, correct me if I am wrong, Mr. Gilway, but we have discussed that what I am proposing would still give the staff enough time to still react and put together the necessary filings after their consultation with OIR, and sufficient time to have the then necessary public hearing for the rate to be adopted by August the 1st. Is that how I understand it?

**Barry Gilway:** Yes, Mr. Chairman. The proposal is for staff to work with OIR to determine if there are any regulatory or statutory changes that could be made, you know, in order to bridge that gap from a rate standpoint. If we hold meetings with the Office of Insurance Regulation in the first week of January, then it really would be up to the Office of Insurance Regulation to determine, you know, under what time frame they would be willing to respond to any recommendations or suggestions. In essence, I believe what you are recommending, Mr. Chairman, is that we not move forward. We do not approve moving forward with the current filing at the 3.7 rate.

**Governor Beruff:** Correct.

**Barry Gilway:** Until such time that we get clarification from OIR in terms of what additional elements we might be able to include in the filing from a regulatory perspective. Then the meeting that we would hold in January would basically discuss what we could do from a regulatory perspective which would have a more immediate impact, and then what would we need to do

from a statutory perspective in time to raise these issues to the appropriate legislators to move forward on any changes.

**Governor Beruff:** If Mr. Chair, if I could speak directly to Governor Strauss for a second. Governor Strauss, it's more what I am advocating for clarity. It may not be done in the best manner position to meet the criteria, but it is a fact finding mission for the staff to go to OIR and go through and vet out where the OIR feels we have flexibility and how we address and how we properly adopt the actuarial charts so that we can do our next rate requirements. So again, I understand the, I think I understand your concern about the procedural thing, and maybe we are just not articulating as well as I should.

**Barry Gilway:** Mr. Chairman, just one comment from a timing standpoint just for clarification. Worst-case scenario is that it takes longer to reach agreement, you know, with Office of Insurance Regulation prior to making a formal filing that incorporates any changes that we are able to negotiate.

**Governor Beruff:** In which case if we are making good headway, Governor Strauss, we would probably reschedule the January meeting. I just wanted to get it on everybody's calendar. But if the staff is making good headway and there is some positive things coming out of OIR, then we would move that meeting back a little further until we would land the plane and then take action based on the facts. But at the end of the day if the direction is not going positively to where we think it should, then we will have the meeting in January so we can take other action in front of the Board or I would recommend other actions to take that would be within our purview inside of what the OIR would allow us to do without any question.

**Mr. Strauss:** Thank you for the clarification, I appreciate that. I heard you earlier mention a January meeting. Unfortunately, I didn't put this conversation together with the purpose of that January meeting. So, from a timing perspective, historically I made rate filings, worked with companies that have made rate filings and have seen the process go through, and was looking at the process that we have had in place and thinking that we were adding into step towards the very end, not bringing it up to the front. So, if I can try to paraphrase again the motion to make sure that I understand it. What we are saying is that staff, we are recommending to the Board to direct staff to take the actuarially sound filing or the rates that they presented to us and will present to the Board, have conversations with OIR without making the formal filing, finding out if there is ways that we can make better process toward the total rate indication that we have not done in the past. Based on how those conversations go, staff will come back to the Board in January and discuss the progress, at which time the decision to move forward with the filing, to make a filing, amend what is here to make the filing will be decided by the Board.

**Governor Beruff:** I think, Mr. Chair, if I could answer Mr. Strauss' comment. The answer is yes.

**Mr. Strauss:** I have a much better understanding, thank you.

**Governor Beruff:** Thank you.

**Chairman Kastroll:** Barry or someone from staff. What is our drop dead time where we have to get a filing in, because last year at this time, we did not get actuarially sound rates for various

reasons and we missed sort of a cut off deadline. When would that date be if we weren't making progress or we didn't know if we were making progress with OIR that we would give up that and say, you know, 3.7 percent is what it is going to take for right now?

**Barry Gilway:** Yes, Mr. Chairman, I am going to defer to Kelly Booten who is the COO. She will have the answer.

**Chairman Kastroll:** Hi Kelly.

**Kelly Booten:** Good afternoon, how are you guys today? Okay, so usually when we -- right now the 08/01 effective date is based upon it being presented at this Board meeting, and there is time allowed in it for rates getting created, submitted to the Office, multiples backs and forth with the Office and a rate hearing. The timeline to implement in the system, and then of course the 60 plus days to get it ahead of clearing house, ahead of renewals and all those things that go into a filing. I would say that if we right now with this consideration, the 08/01 date is in jeopardy, and unless some of the back and forth with the Office is what occurs in this timeline up until the January decision and we can start to move forward with everything as if that was all going to happen. There could be an alternative here to file a proposal with the Office sooner to get the timeline started for getting a response from the Office and alternatives from the Office with the intent to make that 08/01 date. That is another alternative way to handle this. Or if we take the timeline as it typically goes, we would be delaying rates potentially by a month according to this timeline with all of the changes in this filing.

**Chairman Kastroll:** Okay, I was looking for a date.

**Kelly Booten:** Well, the date was this Board meeting. But I guess my point is, we put in contingencies for multiple back and forth with the Office. So, we do have some contingencies built into the schedule. What I am trying to say is, to stick with 08/01, we need to move forward as if 08/01 is the date and work with the Office in collaboration to reach that date.

**Governor Beruff:** Mr. Chair, if I could ask a question for clarity from Kelly is typically we get a response from OIR in about 45 days from the time we write, we file.

**Kelly Booten:** Correct. And sometimes those dates are extended depending upon if there is more information required.

**Governor Beruff:** Understood. So, if we filed and then after they give us a response you can work it out, how long does that take, another 30 days?

**Kelly Booten:** Another 15 I believe it is. I will have to verify that date.

**Governor Beruff:** I just want to walk through to answer, Chairman Kastroll, try to get Chairman Kastroll a date that we both or we collectively agree on. So, if we were to file in a special meeting and take a direction at the end of January, they have until mid-March. Then by April 1st we have some kind of agreement, then we have a 30-day after that, we have a public hearing on the rates, right, is that the requirement? And then we can implement the date. Chairman Kastroll, it's pretty much that we can get this done before August 1 under the scenario that I am proposing,

and at the end of the day we also have other people that will be happy to help us to make sure that we get what we need out of the other agencies in cooperation for this date. But to miss this window of opportunity, do I wish I was in this position four months ago or six months ago, of course. But to miss the opportunity to effectively do the most we can in this August filing blows our opportunity to have any meaningful effect on trying to slow down our growth and try to better position this company for a year or 18 months. So, I think we would rather take the chance and be a little bit, you know, running hard as opposed to not having the perfect timetable that we would prefer, prefer to have. So, unless I have missed what I understand from the staff, I think we could meet the August 1 deadline no matter what.

**Barry Gilway:** Mr. Chairman, Barry Gilway. I do have one point I would make, and it is really a question for Kelly. If the filing date is delayed, all of these discussions are based upon an August 1 effective date.

**Governor Beruff:** Correct.

**Barry Gilway:** So, the only negative implication is that we would have to revise the effective date from August 1 to, you know, 30 days later.

**Governor Beruff:** It is not the end of the world.

**Barry Gilway:** The financial impact on Citizens I believe Jennifer \$16 million or \$13 million.?

**Jennifer Montero:** \$13 million.

**Mr. Gilway:** But the implications of getting a bridge compared with that are, you know, frankly insignificant. So, my only point I am making, we shouldn't be constrained by the August 1st date. It is more important to end up with meaningful –

**Governor Beruff:** A meaningful reform.

**Barry Gilway:** Right.

**Kelly Booten:** Right.

**Chairman Kastroll:** My big fear is that if we don't have a date from staff, then we continue to kick this down the road which happened last year at this time for good and valid reasons at that time. So, Governor Beruff, can you add a date into your action item or motion, a deadline date?

**Governor Beruff:** I have no problem. The answer is yes, the short answer, Chairman Kastroll, to add a date. So, I would add a date that we will file the formal request within -- when is our meeting, when is our special meeting, Ms. Walker?

**Barbara Walker:** Right now, we are attempting to get a quorum for January 26. We do not have a quorum at this time. I was waiting for this meeting.

**Governor Beruff:** Okay. So, Kelly, who would be responsible for making, is it Jennifer or Kelly, the filing, rate filing?

**Kelly Booten:** That comes from -- Brian works --

**Governor Beruff:** So, I guess my question is to Brian then. If we made a decision on a clear direction on the 26th, how long would you take to be able to do the magic that you have to do, the 800 pages of things that you have to provide to file?

**Brian Donovan:** Well, of course, that is going to depend on what we end up doing. But let's go with a reasonably, reasonable scenario. Basically, what are we doing? We were planning, the timeline was that we would start making rate filings the first week of January, and I think there is 14 filings, and these are spread out. So, there is moving pieces. If we delayed to the end of January, we had absolutely clear direction then and it was not like a last minute decision like two weeks before that meeting and we knew what we were doing it is not impossible that we would just delay everything by a month. If we get out of the January meeting and we start making the filings the first week of February, that comes with the assumption or caveat that there is nothing that comes out of end of January meeting that requires a whole lot of rework. We have figured out and done all that rework in the month of January leading up to that Board meeting. So that would kind of be -- I think a reasonable scenario. But it does come with like, you know, if the last week of January, no, go redo. There is some other caveats we would have to work out, but I think it is okay to say have the starting point if everything was delayed by a month, I think that is a reasonable starting point, but it comes with a couple of caveats of what we discover and what other direction we get.

**Chairman Kastroll:** Brian or Kelly, we could at that January meeting, January 26 roughly, we could decide on feedback from you guys saying, we are not going to get an additional rate increase, OIR has indicated no chance, something else might happen, we can defer back to the 3.7 percent that the time, couldn't we?

**Kelly Booten:** Yes.

**Chairman Kastroll:** Thank you.

**Governor Beruff:** Then we would have a whole different meeting in January. It would be a little more fun.

**Chairman Kastroll:** Okay, Carlos, if you could add that to your motion we could go ahead and second that motion, that motion and go ahead and vote on it.

**Governor Beruff:** Move that we will have at the special meeting on January 26, that we will have clear direction for the staff to move forward with the desired rate increases that we are petitioning for through the OIR. Is that good enough?

**Chairman Kastroll:** Before I second that, Barbara, do you have what Governor Beruff read for the official transcript?

**Barbara Walker:** Yes, I do.

**Governor Beruff:** Chairman, would you like me to reread it? I am happy to. It's not very long.

**Chairman Kastroll:** No.

**Barbara Walker:** Yes, I do have it and I can add the verbiage, yes, sir, I can add the verbiage for the date for the Board meeting and I can include it and it will be in the Minutes.

**Chairman Kastroll:** Thank you, Barbara. **I will second that motion.** Okay, we can go ahead and have a discussion on Carlos' motion. Okay, no discussion. So, I will call the vote. All those in favor say aye.

(Recommendation: **Staff proposes that the Actuarial and Underwriting Committee requests that the Board of Governors: a) Provide staff provisional authorization to make an informational filing with the Office of Insurance Regulation (OIR); b) Direct staff to discuss any areas that would optimize rates with OIR; c) Direct staff to report back to the Board on what adjustments to the filing can be made; and d) Provide clear direction to staff on how to proceed with the 2021 Rate Filing at a January 26, 2021 Board of Governors teleconference meeting (to be scheduled). )**

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor? Okay, **the motion has passed.** Governor Beruff, thank you for your hard work on that. I know you put in a lot of time in doing that, so thank you.

**Governor Beruff:** Well, thank you for your patience.

**Chairman Kastroll:** Okay, so Jennifer, I think we are on to the actuarial consulting service action item. Are you ready for that?

b. Actuarially Sound Rates for New Business

**Jennifer Montero:** Not yet. There is actually another part under Brian, and Brian and Christine have a section called actuarial sound rates for new business that they're going to go over first if that is okay.

**Chairman Kastroll:** Sounds good, thank you. Before we continue, does anybody need to take a five-minute break? I know we have extended this an hour and a half. Would it be convenient for anybody to take a five-minute break or do you want to continue to power through this?

**Governor Beruff:** I am fine.

**Chairman Kastroll:** All right, thank you.

**Mr. Strauss:** I am good.

**Chairman Kastroll:** Hi, Christine, how are you.

**Christine Ashburn:** Good, good. It is good to see you all, even virtually.

**Chairman Kastroll:** Thank you.

**Christine Ashburn:** So as many of you are aware, earlier this summer as Brian pulls up the presentation, he likes to drive, we received a letter from Senator Jeff Brandes regarding whether or not there is legal ability for Citizens to charge an actuarially sound rate for new business as opposed to using the glide path that we have historically used. So just a little bit of history. In December of 2011, we were asked by a Board member to -- whether or not it would be permissible under Florida law for us to charge a different rate for new policyholders, potentially the full actuarially indicated rate as opposed to using the glide path for all business. We did receive an outside opinion from the Radey law firm in Tallahassee that did indicate that the applicable statutes and rating principles would permit Citizens to charge new policyholders the approved actuarially appropriate rate while applying the statutory mandated limit on increases only to renewing policyholders. A piece of that was related to the idea that the back in the statute that the 10 percent glide path speaks to rate increases, and if you were a new customer coming in the door, your rate is not increasing. I believe that the back up in the materials actually include the initial legal memo from 2011.

So, in July of 2012, the Board did decide not to move forward with asking the Office of Insurance Regulation to consider actuarially sound rates for new business. I went back and read the Minutes from that area of that Board meeting and it did sound like the numbers that the Board got back from the actuaries at the time were what I will call a mixed bag. I think the assumption always is that rates are just going to increase everywhere but based on the conversations we have been having today, right, not everyone needs 10 percent. We have got folks that need 50, and we have got people that need a negative seven or a negative 12. And so, it was not an across the board rate increase for all new business coming in the door, and they did look at other opportunities and went in a different direction at that meeting. So, in June, fast forward to this year, in June of 2020, Senator Brandes did ask us to consider, or you all, again consider recommending to OIR that new customers be charged the fully indicated actuarial rate. Just to be safe, we did request that the Radey law firm confirm that their opinion from 2011 hadn't changed, and they have confirmed that the previous opinion still stands. And with that I will hand it to Brian so he can walk you through the numbers.

**Brian Donovan:** So as Christine just said and as we talked about earlier, it is not across the board, you know, going to actuarially sound rates doesn't lead to across the board increases. To get a sense or to quantify what, you know, what that would look like, we start with our in force book of business as of 05/31/2020. Now, granted, you know, this proposal or this decision is about what to do with new business coming in the door, but to evaluate that we look at our current in force and we do that for two reasons. One, that is a good indicator, that is what we would expect new business to look like coming in. And then secondly, if we are going to offer a rate that is cheaper on new business versus renewal, we have to be aware of that because there is the possibility of cancel rewrites and that is not desirable or what the intention of this is. So, to kind of get a feel for that, we start with, you know, you will recognize the top part of this slide. It comes right from Exhibit 1 where we are just looking at what the rate indication and the 14.3, 3.7, and we are just



going to first translate that into number of policies and average cap premium, average uncap premium or actuarially sound premium just so we can start dividing it up.

So, the first thing we do is say, two buckets. One bucket, okay, of these policies which ones would get decreases if uncapped and which would get increases. So, we see for personal lines 45.7 percent. So almost half of the policies would actually get a decrease and that decrease would average minus three percent. And for increases, 54 percent or just over half would get a double digit increase of close to 22 percent. So that is the starting point. Well, let's dig down a little deeper, and particularly let's look at our HO-3, HW-2, that is our dominant line. That is the one that has the most interest for obvious reasons, and if we do the same thing and divide it to the number of policies with decreases and increases, it mirrors what we just saw. 42.4 percent would get a minus 3.9 decrease, while 58 percent would get a 25 percent increase. So that mirrors what we just saw, but there is a couple of things to really be aware of when we look at this. In particular, as discussed southeast and Dade in particular is where, you know, our growth is coming from, and we know we are already 20 percent cheaper, you know, on average in those areas. So, by charging, lifting the caps or charging an actuarially sound rate there, 56 percent of policies in the southeast or southeast is defined by the tri-county area would have a minus four percent decrease. So more than half would get a decrease in Dade. That kind of goes -- that is not the direction we are were hoping to go. On the other side of the spectrum, we can look at Monroe and close to 90 percent would get an increase, and that increase is 43.5 percent. So that is also, you know, these are big numbers, something to be aware of and that is what it would look like. And also I would point out, these are average numbers and when you look across the spectrum, there are outliers that, you know, you get much higher than 43 percent or much higher than 34. We have seen some examples where it could be as much as two percent difference in the rate. That is personal lines. Commercial lines it is more along the lines of what would be expected. We have seen the commercial lines indications. There is only a small segment where we get the decreases. So, if we were to charge the actuarially sound rate there you can see for commercial residential 59 percent commercial residential for wind only is 77 percent. But you should be aware there are some territories or CRW condo where the rate would more than double. The commercial non-residential is more well behaved that doesn't raise too many flags.

So that just to recap everything. If we charge actuarially sound rates what we would expect is that just under half would see a decrease of minus three. Just over half would see a double digit increase. And the personal lines, when we look at this, there are outliers. It could go as low as minus 50 percent in some cases and as high as 200 percent in other cases. Commercial would be basically across the board higher rates with some few exceptions. And so, ultimately, as we discussed the other places today, Citizens recommends rate changes to the OIR, and then the Office makes the final determination as to what Citizens' rate levels should be. As in prior years when we submit our filings to the Office, we always include information regarding the fully indicated and actuarially sound rates before any application of capping, and then the details of the impact after the application of the 10 percent glide path.

**Chairman Kastroll:** Brian, a question for you.

**Brian Donovan:** Sure.

**Chairman Kastroll:** I just want to confirm. This is for new business and existing business. It's not affected by.

**Brian Donovan:** That is 100 percent correct. This renewal, there is no discussion or consideration here. Every renewal policy would still be subject to the 10 percent, but we do just evaluate what to expect if we did that with new business coming in the door. The best thing we have to look at is what is currently would happen if we did. You are absolutely right. It would not impact renewal book of business. It would just be for the new business coming in the door in the future.

**Chairman Kastroll:** Okay. Do you have more comments, Brian, on this?

**Brian Donovan:** I would turn it back to Christine to close it out.

**Christine Ashburn:** Just some additional considerations. Most of them are pretty obvious. So, in areas where new business rates would increase, there is potential for increased interest from the private market carriers, hopefully slowing the new business we are writing currently. You can see increase excess of and interest in the clearing house by carriers that are either not participating now or not quoting right now because of the competitive nature of our rates. And we can of course see an increase in depopulation of new policies that are written at higher rate, more interest from the private market on the depopulation side as well. There also is a potential for a decrease in depopulation of current Citizens' policies written at a lower cap rate, especially where you see a larger discrepancy. If you are an agent and you're advising a customer on a depopulation, on whether or not to take a takeout and you know that the new business rate for Citizens for that customer is significantly higher, the concern probably about them having to come back to Citizens might lead some agents to recommend to folks to just stay with Citizens. We wouldn't want that, that could be an adverse impact. Obviously in areas where new business rates would decrease there is potential for us to become more competitive with the private market causing additional growth, and of course, reducing the overall depopulation activity for policies with reduced rates because they would not be as attractive in the private market. Something that is not a Citizens specific impact but I think is worth noting for some of those outliers that Brian talked about on the high end. You could see a potential adverse impact to real estate markets in areas where Citizens' new business rates are significantly higher than current rates, especially in areas where there is little to no private market competition, such as Monroe County for wind where we are between 65 and 70 percent of the wind for Monroe County. If you were trying to sell your home and you have a MLS sheet and your price for your home is X and you list out what the average insurance is and then someone is interested, makes an offer and then goes to get insurance and it is double or more than double what the current rate payer is paying, that could again, who knows how widespread, but it would seem to be with those significant outliers at the 200 percent rate increase level.

So, with that we as staff wanted to present this to you as we were asked to do by Senator Jeff Brandes and the Board will be receiving this same presentation tomorrow as part of the rate conversation.

**Chairman Kastroll:** Thank you. This is an action item. Are we voting on it? I don't see anything to vote on this, is that correct?

**Christine Ashburn:** There is no action item with this presentation at this time. If the Board were to choose to move forward with this tomorrow, there could be entertained an action item to move this to the Office of Insurance Regulation as part of the filing when the filing is made, depending on how the conversation goes tomorrow.

**Chairman Kastroll:** Okay. Then the A&U committee is not voting on this to recommend it or not recommend it right now, correct?

**Christine Ashburn:** That is correct. Ultimately the request was that we bring this to the full Board, and because it is rate related, we wanted to bring it through this committee, but ultimately the Board will need to receive this as well and make a decision if they so choose tomorrow.

**Governor Beruff:** Mr. Chair, if I may.

**Chairman Kastroll:** Please.

**Governor Beruff:** So, would it be prudent for the staff to have an action item prepared for consideration for the Board tomorrow to coincide with the discussion? Can we do that?

**Christine Ashburn:** We certainly can. Assuming that the Board wants to move forward with asking OIR to consider this, we can have a base recommendation available, action item, and then if there are amendments to that, obviously make those amendments as needed during the meeting.

**Governor Beruff:** So, it would not preclude us from taking action, you can do it on the fly?

**Christine Ashburn:** Absolutely.

**Governor Beruff:** Thank you, Mr. Chair.

**Chairman Kastroll:** All right, just so we don't have any surprises, I just do want to publicly tell you where I stand on this. First of all, I think it is a very creative approach. In these times we need staff to come up with creative ideas to help us out. So, I appreciate all of your efforts, and also following up with our Congressman, if he or she request us to look at something that we do that. So thank you, staff for doing that. Why I am against it, there is a couple of reasons. One, it hasn't been done before with Citizens. It is something new that I think we need a little bit more time to decide. But I have found as a consumer when you have different prices for the same thing, it creates some animosity with your customer base and I just don't think it is a good business practice. And I would rather solve our un-actuarially sound rates to handle new and renewal business (INAUDIBLE), much like Governor Beruff's proposal that we will have a meeting on in January. So, I just want staff to know where I stand on this item so we have no surprises tomorrow. Okay, thank you. We will go on to Jennifer, the actuarial consulting services, next item.

d. Actuarial Consulting Services

**Jennifer Montero:** Yes, thank you. Behind tab two, the last tab you will find an executive summary and an action item for actuarial consulting services. This vendor was recommended for award

following invitation to negotiate number 20-00001 on September 28th, 2020. This procurement resulted in 10 respondents whose competitive sealed replies were reviewed and scored by the evaluation team. On August 11, 2020, the evaluation team recommended four vendors advance to negotiations. Negotiation sessions were held on each of the four vendors by Citizens' negotiation team who determined that Insurance Services Office, ISO, offered the best value to Citizens pursuant to Florida Statute 287. This contract will have a three-year base term with one two-year renewals. Renewals are optional at the discretion of Citizens. The contract amount is \$500,000 for the life of the contract, including all renewals. And I will pause there for any questions before reading the recommendation.

**Chairman Kastroll:** Any questions? Okay, Jennifer, please proceed.

**Jennifer Montero:** Thank you. **Staff proposes that the Actuarial and Underwriting Committee review and approve for consideration by the Board of Governors, A) approve a contract with Insurance Service Office, Inc. for the initial term of three years and for one two-year renewal term for the amount not to exceed 500,000 as set in this action item. And B) authorize staff to take any appropriate or necessary action consistent with this action item.**

**Governor Beruff:** **Move to approve.**

**Chairman Kastroll:** **Second.**

**Mr. Strauss:** **Second.**

**Chairman Kastroll:** Discussion phase. Okay, all those in favor say aye.

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor? Okay, **the motion is passed.** Thank you, Jennifer.

**Jennifer Montero:** Thank you.

### **3. Chief Operation Officer Report**

#### **a. 2021 Product Changes**

**Chairman Kastroll:** On to point number three, operating officer report. Hi Kelly, welcome back.

**Kelly Booten:** Good afternoon again. Real briefly @1:40:20 (INAUDIBLE). Today we have a few product changes that we want to present. One of them is more in the @1:40:34 (INAUDIBLE). The second we had two solicitations due to expire, the Property Characteristics services and in our Replacement Cost Estimating services. And then we have the A&U Charter. And with that I will turn it over to Scott.

**Chairman Kastroll:** Hi, Scott, how are you?

**Scott Crozier:** Doing well, thank you, how are you Chairman Kastroll.

**Chairman Kastroll:** Good. Go ahead and proceed.

**Scott Crozier:** Okay, thank you very much. Good afternoon committee members as well. For the record, I am Scott Crozier, Vice-President of Underwriting and Product Development and Karen Holt our Senior Director of Product Development is here to assist me with presenting our proposed 2021 product changes which consist of three changes. Updating commercial property evaluations will align our 100 percent property evaluation requirement of policy provisions and rating. Updating program guidelines to support new rate changes and retiring unutilized product lines. Mr. Chairman, in an interest of time, if the committee has already read the material and there are no questions we can answer, I could proceed to reading the action item recommendation. Is this acceptable?

**Chairman Kastroll:** I have read those personally and am comfortable with that, but I would like to ask Mr. Strauss and Governor Beruff if that is okay?

**Governor Beruff:** I am familiar with it, I am fine with it.

**Mr. Strauss:** It is okay with me.

**Chairman Kastroll:** Great, good idea.

**Scott Crozier:** All right, I will proceed to recommendation then. **Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that the Board of Governors approve the above proposals which I just cited with three changes, to update Citizens' product guidelines, rating rules, policy contract forms and supporting documents, and authorize staff to seek any appropriate or necessary action consistent with the product changes December 2020 action item to include filing with the OIR system changes implementation, updates to supported documents or forms or other relevant activities. Final changes in implementation timelines may vary slightly getting feedback from the OIR.** That concludes my recommendation, Chairman.

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

**Governor Beruff:** **Move to approve.**

**Mr. Strauss:** **Second.**

**Chairman Kastroll:** Discussion. Okay, all those in favor say aye.

**(Chorus of ayes.)**

**Chairman Kastroll:** In favor. Okay, Scott, your **motion passes.**

**b. Property Characteristics Data Services**

**Scott Crozier:** Thank you. All right, Chairman Kastroll, the next item is product characteristics data services. For this one we are seeking approval to replace an existing contract. We want to enter into a contract with Insurance Services Office, incorporated, known as ISO to provide these services. And these are services that are needed for geographic location related risk characteristics of properties that Citizens either currently insures or may insure in the future. That helps us with things like the wind only requests and commercial risk policies and is tied to the location. So, the current contract is with ISO is scheduled to expire May 15, 2021. The new contract is expected to commence the day after. We are going to have a five-year term, no renewals, with a contract total of \$4,894,176. And the current contract that we are about to finish up has annual increases that range between 4.9 percent and 5.3 percent. With the new contract, Citizens was able to negotiate a reduction of the annual increases to 3.5 percent for each of the five years of the term. So, we would be seeking for a continuation of ISO to provide those services. So, pending any questions can I proceed with the recommendation for this action item?

**Chairman Kastroll:** Please.

**Scott Crozier:** Okay. **Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend that the Board of Governors approve a contract with ISO for a five-year term with no renewals for an amount not to exceed \$4,894,176 as set forth in this action item and authorize the staff to take any appropriate or necessary action consistent with this action item.** That concludes the recommendation, Mr. Chairman.

**Governor Beruff:** **Move to approve.**

**Mr. Strauss:** **Second.**

**Chairman Kastroll:** Discussion. Okay, proceed to vote. All those in favor?

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor? Okay, Scott, you are two for two.

c. 360Value-Replacement Cost Estimating Service

**Scott Crozier:** All right, thank you. For my next item we are going to discuss replacement cost estimation, which is a service that is used by agents and by Citizens to estimate the reconstruction value or replacement cost value of both our commercial and personal lines properties. I am going to start with the action item for an extension with our current provider, ISO, and then I am going to go for our request for a new contract for extension of those services with the new vendor. So, starting with the extension of our current replacement cost estimating service, we are looking for approval for a six-month extension. And we currently have services provided by ISO and we need this extension so we can ensure a seamless transition to the new vendor, which is going to be CoreLogic Spatial Solutions, referred to as CoreLogic. And this is expected to occur in the third or fourth quarter of 2021. So, if there are no questions about this request for an extension I would like to read the recommendation and proceed to our new service contract.

**Chairman Kastroll:** Please proceed.

**Scott Crozier:** All right, **Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend at the Board of Governors, approve a six-month contract extension with ISO for an amount not to exceed \$490,000 as set forth in this action item. And approve an increase from the total authorized contract amount of \$5,102,006 to \$5,390,000. And finally, to authorize staff to take any appropriation or necessary action with this action.** That concludes my recommendation.

**Governor Beruff:** **Move to approve.**

**Mr. Strauss:** **Second.**

**Chairman Kastroll:** Okay, discussion. Okay, proceed to the vote. All those in favor.

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor? Okay, **motion has passed.**

d. Replacement Cost Estimating Services

**Scott Crozier:** And finally, Mr. Chair, the replacement cost estimating services. So, we are seeking approval to replace the existing contract with ISO which is a replacement cost estimating service. We have discussed to calculate the value of property. So, Citizens is requesting approval to enter a contract with CoreLogic for those services. And as I mentioned the current contract with ISO is going to expire May 14, and the new contract with CoreLogic is going to be a total contract value over five years for \$1.7 million. And this represents a \$3.2 million reduction compared with our current five-year contract. And this anticipates implementing CoreLogic Solution by November 2021. We just approved a six-month extension should we need it so that we will have a seamless transition from ISO over to CoreLogic for the replacement cost estimation. So, pending any questions on that I would like to proceed with the recommendation.

**Chairman Kastroll:** Please proceed.

**Scott Crozier:** **Citizens' staff recommends that the Actuarial and Underwriting Committee approve and recommend at the Board of Governors, authorize a contract with CoreLogic for an initial term of three years and two one-year optional renewal periods for an amount not to exceed \$1.7 million as set forth in this action item, and authorize staff to take any appropriate or necessary action consistent with this action item.** That concludes the recommendation, Mr. Chairman.

**Governor Beruff:** **Move to approve.**

**Mr. Strauss:** **Second.**

**Chairman Kastroll:** Any discussion? Okay, proceed to the vote. All those in favor say aye.

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor. Okay, the **motion is passed**. Scott, you were very precise and very informative of the things that you wrote up for us to read. So, thank you so much.

**Scott Crozier:** Thank you, gentlemen, I will be followed up by Kelly Booten and Jennifer Montero to talk about the 2020 A&U Charter.

**Chairman Kastroll:** Thank you.

**Scott Crozier:** Thank you.

e. 2020 A&U Charter – Annual Review

**Kelly Booten:** Good afternoon again. The charter is attached behind section three. And staff only has one technical fix that we would like to recommend under 3-D, where it has including business continuity and disaster recovery, that was a carryover from an IT charter which really isn't relevant for the A&U Committee. So that would be a technical fix. Other than that, we have no further recommendations.

**Chairman Kastroll:** Did you say 3-B or D?

**Kelly Booten:** D as in dog.

**Mr. Strauss:** Thank you. Very quick question if I may. Kelly, aside from the technical correction that you have just mentioned, is this the same charter that we were looking at last year?

**Kelly Booten:** Yes, sir, it is.

**Mr. Strauss:** Thank you.

**Chairman Kastroll:** Kelly or Jennifer, do we have an action item on this?

**Jennifer Montero:** I don't believe so.

**Kelly Booten:** No. This one would be one of those where it would be an add on to the recommendation if there were changes.

**Mr. Strauss:** Kelly, would it be beneficial if we voted on it with the amendment that you had provided?

**Kelly Booten:** Yes. So, staff recommends that the charter be revised on Section 3-D to strike, including business continuity and disaster recovery plans.

**Mr. Strauss:** **I would make that motion.**

**Chairman Kastroll:** Why are you striking that just out of curiosity?



**Kelly Booten:** Well, the disaster recovery plans is an IT function. Typically, the business continuity section could be left because business continuity is an overarching business plan.

**Chairman Kastroll:** Okay, so it falls under the business continuity?

**Kelly Booten:** Correct.

**Chairman Kastroll:** Okay, thank you. I second that. Okay, any discussion? Okay, so we will, Barbara, I don't know if I have exactly what we are voting on a verbiage-wise or Kelly.

**Barbara Walker:** You don't have it in there, sir. We weren't going to vote on it since it was just a technical remedy. It didn't really require a vote. But we can actually make it –

**Chairman Kastroll:** I think it is a good idea if we are amending the charter, even just a technical amendment, I think we should vote on it. Who made the motion?

**Mr. Strauss:** Fred Strauss made the motion, yes.

**Chairman Kastroll:** Fred, do you mind putting some verbiage together for that motion?

**Mr. Strauss:** **The motion would be to accept the charter that was presented with the amendment under Section 3-D to remove the verbiage, including business continuity and disaster recovery plans.**

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

**Mr. Strauss:** Did I get that right, Kelly?

**Kelly Booten:** Yes, 3-D.

**Chairman Kastroll:** Okay, thank you. We will move into discussion. Okay, we will take a vote. All those in favor, aye.

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor? Okay, **the motion that is passed.** Thank you so much Kelly and Jennifer. All right everybody two more items. On to vice-president of customer experience, Jeremy Pope. Hi Jeremy. I would like to mention that customers and agents really value the customer experience at Citizens. Even though we are not trying to renew policies, I do want to give them the best customer service as possible and you guys do a great job at doing that. So, thank you for all that you do and I will turn it over to the Call Center Service action.

#### **4. Vice President of Customer Experience Report**

- a. BPO Call Center Services

**Jeremy Pope:** Okay, thank you, thank you for those kind words, Chairman Kastroll. And today for the committee, I have one action item, it is our BPO Call Center Services action item I will be reviewing. There is an executive summary that is included with your materials today. Essentially just for background purposes three vendors came to Citizens earlier this year and requested price increases with our existing agreements and that was during mid-term of the contract. During the A&U Committee and Board of Governors meeting back in June, staff recommended to move forward with the price increases for these three vendors, but we also requested the opportunity to go back to the market to validate and see if we could obtain any greater value to Citizens or come back to the Board and essentially request to extend the higher price from these vendors through the end of the contract. On July 30th of this year, we released ITN number 20-0035 for BPO Call Center Services. We had 45 respondents submit interest, of which 25 vendors moved forward to negotiations, and it resulted in eight of those vendors being recommended an award of contract for services in the public meeting which was held on November 5th. Overall, the negotiations team recommendation was based on best value. With the new contract, Citizens is estimated to save \$1,055,300 over the five-year agreement based on four volumes and those are what could be conservative savings. In addition, which is absolutely critical through negotiation efforts we were able to solicit greater capacity than we have ever had before as an organization for our Cat response efforts with active primary vendors. So, with any of these eight vendors recommended for a new contract, there are no guaranteed volumes of work under the proposed contract. Some services which are outsourced are essentially on demand service and only invoicing when Citizens utilizes such service. Chairman Kastroll, this concludes my update on the action item. I can answer any questions the committee may have and proceed with the recommendation as you wish.

**Chairman Kastroll:** Questions? Okay, please proceed to the action item.

**Jeremy Pope:** Thank you, Chairman. **Staff proposes that the Actuary and Underwriting Committee review and consider for consideration by the Board of Governors the following recommendation. Approve BPO Call Center Services contract to the following vendors for a term of five years in the amount of not to exceed \$27,470,933 as set forth in this action item. The vendors are as following: MacNeill Group, Inc, Xceedance, LLC, TMONE, LLC, d/b/a Mass Markets, Etech Global Services, LLC, Cognosante, LLC, Gatestone & Company, Inc, Hexaware Technologies, Inc and Rose International, Inc and authorize staff to take any appropriate or necessary action consistent with this action item.**

**Chairman Kastroll:** I'll make a motion.

**Mr. Strauss:** So moved.

**Governor Beruff:** **Second.**

**Chairman Kastroll:** Discussion? Call for a vote. All those in favor?

**(Chorus of ayes.)**

**Chairman Kastroll:** Not in favor? Okay, Jeremy, **the motion is passed.** Thank you so much.

**Jeremy Pope:** Thank you, chairman.

**Chairman Kastroll:** On to new business. Anybody have any new business? Okay, thank you. Before we adjourn or make a motion to adjourn, I would like to thank all the Citizens' employees and management. I had mentioned this to my Claims Committee folks when we met. 2020 has been very difficult personally and professionally for all of us. And adding on working remotely is a big change and was a big change, and I would like all of the executives from the A&U Committee, and if I am forgetting anybody, this is on the sheet here, Jennifer, Brian, Christine, Kelly, Scott, Karen and Jeremy, and if I am missing any executives, I apologize, but I first want to thank you. The Governors on this call, Beruff and Strauss, I am thanking for them as well because I know they echo this. If you could convey to your staff from us, the Board of Governors, a heartfelt thank you for being so flexible and creative the last 12 months, 11 months, we would really like to say thank you to you guys, because it has been difficult and there has been a lot of stress both personal and professional in everybody's life and stress is something that just wears you down all the time. But you guys have embraced the change. So, if you could convey to your staff our appreciation. And with that I would like to wish everybody a Merry Christmas, a Happy Hanukkah, whatever you celebrate over these holidays, time with your family. I wish you all the best and wish you a prosperous New Year's.

**Kelly Booten:** Thank you.

**Chairman Kastroll:** Does anybody have anything to add to that? Okay.

**Governor Beruff:** Happy to see your face looking healthy and better and you have a great holiday with your family and you put that terrible experience in the rear view mirror.

**Chairman Kastroll:** Thank you so much, I appreciate that. This is my first as committee chairman for A&U. It is my first meeting, and I went an hour and four minutes longer than I said I would. So, I might get fired. **Motion to adjourn.**

**Mr. Strauss:** So moved.

**Chairman Kastroll:** All those in favor.

**(Chorus of ayes.)**

**Chairman Kastroll:** Thank you everyone, have a wonderful day.

(Whereupon, the meeting was adjourned.)