

INTERNAL AUDIT



Audit Report

Appraisal Process Audit

June 11, 2021



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Executive Summary

Background

One of the key functions that Citizens provides in its role as Property & Casualty Insurance Company of last resort for the state of Florida is the processing and payment of claims. When there is disagreement in a settlement of a claim, policyholders or Citizens may utilize alternative dispute resolution (ADR) processes such as appraisal and mediation. Appraisal and mediation processes are common methods of ADR that seek to resolve a disputed claim, without the need for litigation and are less costly and more expedient. Use of the appraisal and mediation claim processes are an effective tool to reduce litigation costs while ensuring the satisfaction of claim resolution for the policyholder.

Appraisal is designed to bring parties together to negotiate and reach an agreed resolution to the claim. Citizens personal and commercial policies contain an appraisal clause to establish a process for estimating or evaluating the amount of loss using external appraisers or in some cases an impartial umpire if needed. A mediation clause is also included within the Citizens policies and this option is of no cost to the policyholder. Both dispute resolution options provide a more expedient resolution and settlement payment to the policyholder than if a claim was litigated.

During the year 2020, Citizens processed 32,639 new claims. It is important to note, that 8,226 new appraisal claims (25%) were handled in appraisal for dispute resolution and 347 claims (.01%) were handled through our DFS mediation process.

Objectives and Scope

The objective of this audit is to evaluate the adequacy and effectiveness of controls related to the following components of the Appraisal process.

- Appraiser assignments
- Conflict of interest with Adjusters, Appraisers and Umpires
- Appraisal and mediation accuracy, efficiency, and timeliness
- Appraisal and mediation process

Results

Results from our audit work indicate that there are effective processes and controls in place to monitor the appraisal and mediation claim handling in alignment with Citizen's policy language and Florida Statutes.

Specifically, the following key strengths were observed:

- Automated and manual Appraiser assignments were unbiased, and no conflict of interest was observed.
- Appraisal and mediation processes were found to be accurate, efficient, and timely.
- Appraisal Claims Management have weekly strategy meetings with Team Leads and Claims adjusters to discuss identified claims with varying degrees of complexity to evaluate the best business decision to handle the claim within policy language, Best Claim Practices and Florida Statute.



Executive Summary

During the audit we noted an opportunity to improve and strengthen Appraisal/Mediation reporting. Specific attention should be given to:

- **Enhancing Citizens Claims Appraisal/Mediation usage and performance reporting.** There needs to be more accurate comprehensive reporting which provides insight into appraisal /mediation usage and performance for Management and stakeholders. There are challenges getting true insight and understanding of the usage and performance of the appraisal process as there are variances in reports produced by Appraisal/Mediation Unit management and ELT reporting from Enterprise Performance Metrics.

The following opportunities for improvement were discussed with Management:

- Update and post Appraisal Resource guidance to the external portal adjuster resources section to promote consistency of claim handling for independent appraisal adjusters.
- The independent adjusting firm Train the Trainer material should be enhanced with current appraisal policy and procedures, consolidated into one document, and redistributed to the firms.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.



Distribution

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