

INTERNAL AUDIT

Commercial Underwriting
Compliance

Audit Report

June 25, 2021



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Executive Summary

Background

Citizens provides commercial residential and non-residential property insurance coverage to individuals or organizations who are unable to obtain such coverage in the voluntary market. There are various State of Florida Statutory underwriting requirements which Citizens is obligated to follow for properties to be eligible for coverage under specific product types.

The Commercial Lines Underwriting Department is responsible for ensuring that commercial policies written by Citizens meet eligibility guidelines and are insured at the appropriate levels based on filed and approved rates. Due to the large property values (exposure) associated with commercial structures, Citizens underwriters focus on data quality by thoroughly reviewing new-business submissions, policy changes and renewal policies to ensure compliance with Florida Statutes and Citizens underwriting rules and guidelines.

As of 05/31/2021, there are approximately 5,076 commercial policies in force with a total exposure of \$11.7 billion. The table below provides a breakdown of the commercial policies by product type, policies in-force, total exposure and premium with surcharges:

Account	Product Line	Policies In-Force	Total Exposure	Premium with Surcharges
Coastal	Commercial Residential Multiperil (CR-M)	122	\$ 628,171,183.00	\$ 2,982,101.00
Coastal	Commercial Residential Wind-Only (CR-W)	1,819	\$ 5,138,594,907.00	\$ 29,274,762.00
Coastal	Commercial Non-Residential Multiperil (CR-M)	26	\$ 20,910,100.00	\$ 190,520.00
Coastal	Commercial Non-Residential Wind-Only (CR-W)	2,395	\$ 1,953,855,794.00	\$ 23,760,633.00
CLA	Commercial Residential Multiperil (CR-M)	579	\$ 3,820,909,610.00	\$ 15,341,399.00
CLA	Commercial Non-Residential Multiperil (CR-M)	135	\$ 138,188,200.00	\$ 862,171.00
Total		5076	\$ 11,700,629,794	\$ 72,411,118

Objectives and Scope

The objective of this audit was to assess the controls associated with Commercial Lines Underwriting to ensure that underwriting activities are executed in compliance with Florida Statutes and Citizens underwriting rules and guidelines. Our scope includes a review of the following Florida Statutes:

- Proof of Eligibility
- Commercial Residential Condo Short-Term Rentals
- Flood Insurance Requirements
- Insurable Interest
- Cancellation, Nonrenewal and Renewals
- Premium Finance Companies Agreements and Cancellation of Insurance Contract Upon Default
- Return of Unearned Premium



Executive Summary

Results

The results from our audit confirmed that an adequate control structure is in place to ensure commercial lines underwriting activities, underwriting rules, guidelines, and procedures are in compliance with Florida statutory requirements.

Specifically, we observed that:

- Commercial underwriting staff has extensive underwriting knowledge and experience in assessing complex commercial risks.
- There is a designated compliance champion within the team who is responsible for monitoring and certifying compliance with 16 laws, rules, and regulations as a part of the Citizens Compliance Program Annual Certification process.
- Quality assurance reviews are performed monthly by the Quality Improvement Team to ensure commercial underwriting activities are performed in compliance with underwriting rules and guidelines and state statutory requirements.
- Commercial Underwriting does use existing new business submission eligibility requirement manual procedures for commercial residential new business, which is in alignment with Section 627.3518 statute provisions. In addition, Commercial Management has implemented various programs and procedures to identify commercial residential business risks, that have become ineligible for continued coverage with Citizens, to divert to the private insurance market. The programs include recurring 3 yr. full policy review, offer of coverage renewal process, and basic form coverage for commercial residential policies. These processes and procedures are in place for existing commercial residential policies as compared to trying to have processes in place at renewal as they would result in increased expense for Citizens and agents, be onerous to policyholders, and not cost effective for the amount of possible exposure reduction.

Ample market capacity combined with the efforts noted above have contributed to a significant decrease in the number of policies and the amount of exposure for Citizens' commercial residential book of business from December 2013 to current.

	December 2013	June 11, 2021	Percentage Reduction
Policies in Force	16,620	2,516	-84.9%
Exposure	\$89.34 Billion	\$9.6 Billion	-89.3%

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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The Honorable Ashley Moody, Attorney General

The Honorable Nikki Fried, Commissioner of Agriculture

The Honorable Wilton Simpson, President of the Senate

The Honorable Chris Sprowls, Speaker of the House of Representatives

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