

INTERNAL AUDIT

Advisory Memorandum

EY Implementation
Quarterly Progress
Report – 2Q 2021

June 18, 2021





Advisory Memorandum

Background

In 2020, Ernst & Young (EY) was engaged by Citizens to perform an operational assessment of the litigated claims management process *vis a vis* industry leading practice. EY's report and supplement were issued December 15, 2020 and contained observations on six components of the claims litigation operation and improvement opportunities to enhance efficiency and effectiveness as well as suggested approach for their implementation. See Appendixes A & B.

Claims Management addressed the findings contained in EY's reports during the Board of Governors meeting held on March 3, 2021¹ and developed a working plan to examine EY's findings. The initiatives to be considered by Claims Management were distributed amongst the corresponding business units for action plans to be created.

Objectives and Scope

Internal Audit has been asked to monitor the progress of the working plan developed by Claims Management and the implementation of the initiatives, providing updates and advisory support as required.

Progress Report

Citizens, under the leadership of the Chief Claims Officer, initiated a comprehensive project to consider improvement action needed to address EY reported findings. Internal Audit has examined each of the initiatives in progress and has provided additional information for management consideration where appropriate. To this effect a number of advisory memorandums were presented for further consideration, these include:

- Advisory Memorandum 2021-MAS-05 – Claims Legal Transfer Advisory
- Advisory Memorandum 2021-MAS-06 – Legal Billing Transfer Advisory
- Advisory Memorandum 2021-AUD-07 – E&Y Implementation – Independent Adjusters vs. Full Time Employees
- Advisory Memorandum 2021-MAS-07 – In-House Counsel Advisory (To be distributed Q3 2021)

The following represents a short summary of progress on each of the twenty-eight (28) initiatives / action items developed by management in response to the observations / improvement opportunities contained in EY's report.

Of note, some of the initiatives may seem redundant. This may be due to the utilization of EY's Observations as well as the Improvement Opportunities to develop the working plan. Also, the selection and implementation of the new litigation management platform will determine if additional initiatives or action items will be needed.

1. Senior Counsel Detail and Validation of Roles and Responsibilities

Ownership: Claims Legal – Steven Woods
Priority: Low

¹ [E&Y Final Report Update - March 3, 2021](#)



Advisory Memorandum

Status: In Progress

Claims Legal is in the process of drafting a document that describes the collaborative and advisory role of the In-House legal support team in direct and indirect support of the claims operation.

2. Senior Counsel Performance and Management Metrics

Ownership: Belinda Miller, Jay Adams, Elaina Paskalakis, Steven Woods, Michael Guerra

Priority: Medium

Status: In Progress

Claims QA Management, Claims Litigation Management and Claims Legal Management have developed the questions and topics to be covered in the QA process to measure performance of Senior Counsel. There is agreement on the questions / topics to be used. Survey Monkey has been selected as the platform to be used in the process to integrate the results into the performance scoring.

3. Realignment of Units

Ownership: Barry Gilway, Tim Cerio, Jay Adams, Joe Martins

Priority: High

Status: Not Started

Chief General Counsel and Chief Claims Officer will evaluate if a new alignment of Claims Litigation, Claims Legal Billing and Claims Legal under the leadership of Claims would be beneficial. Internal Audit has provided additional information for management consideration under Advisories 2021-MAS-05 – Claims Legal Transfer Advisory and 2021-MAS-06 – Legal Billing Transfer Advisory. Advisories are pending review and comment of these advisories by newly appointed Chief Legal Officer and Claims Management.

4. Staffing Model: Staff Adjuster vs. Independent Adjusters – Claims Litigation

Ownership: Elaina Paskalakis

Priority: High

Status: Completed

Claims Litigation Management completed an analysis of this initiative and has determined to continue utilizing the current model. Subsequent to the analysis and during the meeting held by Claims Management on May 19, 2021, to discuss the progress of the initiatives, Claims Litigation Management informed that it is considering transitioning the Team Lead positions from IA's to FTE's.

Internal Audit has examined the unit's analysis and provided additional information for management consideration under Advisory 2021-AUD-07 – E&Y Implementation – Independent Adjusters vs. Full Time Employees. Claims Management will review the advisory and provide comments.



Advisory Memorandum

5. IA and Staff Governance and Reserve Structure

Ownership: Elaina Paskalakis
Priority: High
Status: Completed

Claims Litigation reviewed current reserve and payment authority levels for both indemnity and expenses to determine whether appropriate controls and requirements are in place and at an appropriate level. After their evaluation, Claims Litigation Management is comfortable with the current levels of authority and the fact that testing shows that the matters are being elevated appropriately.

6. Automated Functionality – Triage Assignments to Claims Litigation

Ownership: Greg Rowe
Priority: Low
Status: Scheduled

Claims Litigation added requirements to the Matter Management ITN. The solicitation process is currently underway. Three vendors have been recently advanced to the negotiation stage. The new platform is expected to be selected towards the end of 2021. Management is also evaluating if this can be a Claim Center enhancement.

7. Litigation Avoidance Procedures

Ownership: Greg Rowe
Priority: Low
Status: Scheduled

Data points to enhance litigated claim assignments have been incorporated into the Matter Management ITN. The solicitation process is currently underway, with three vendors advanced to the negotiation stage. The new platform is expected to be selected towards the end of 2021.

8. Litigation Guidelines – Adequate Activity Control

Ownership: Elaina Paskalakis, Michael Guerra
Priority: Low
Status: Not Started

Claims Litigation Management will review the guidelines and provide updates based on established processes to reflect that the litigation team retains ownership of the claim, is responsible for setting and approving the budget for Defense Counsel and that Claims Legal has produced examples to support the current litigation strategies that will be leveraged by Defense Counsel.

9. Litigation Management – Case Assignment to Defense Counsel

Ownership: Greg Rowe



Advisory Memorandum

Priority: Low
Status: Scheduled

Data points to enhance litigated claim assignments have been incorporated into the Matter Management ITN. Management will look into enhancing the assignment tracker and into incorporating additional data obtained through new LMS system to determine if automated activities can be built to look into a particular attorney/firm based on any pre-set configurations. The solicitation process for the new platform is currently underway, with three vendors advanced to the negotiation stage. The new platform is expected to be selected towards the end of 2021.

10. Legal Billing Quality Review Realignment

Ownership: Barry Gilway, Tim Cerio, Joe Martins, Jay Adams
Priority: High
Status: Not Started

Management will review the Legal Billing QA process and evaluate the unit's realignment under Claims Governance QA.

11. Claims Governance QA

Ownership: Michael Guerra
Priority: High
Status: In Progress

Claims Governance QA will review staffing additions necessary to enhance the number of reviews for Claims Litigation and Claims Legal to a more valid sample size and perform a cost-benefit analysis to determine if additional staffing can be justified. First and Third-Party litigation best practices need to be completed to conduct the full-time employee (FTE) review. The increasing policies in force will drive the number of claims and FTE needs. A model will be presented to the CEO and HR once created with data and a statistically valid sample.

12. Claims Legal Performance Management

Ownership: Belinda Miller, Steven Woods, Elaina Paskalakis
Priority: High
Status: Completed

Claims Legal will design a process to include a feedback loop for client unit to evaluate attorneys and establish a scoring mechanism to be used as a performance metric. This initiative is related to initiative number 2.

Claims QA, Claims Litigation and Claims Legal have developed the questions and topics to be covered in the QA process. There is agreement on the questions / topics to be used. Survey Monkey has been selected as the platform to be used in the process and management is currently working on developing and survey/audit type review.

13. Defense Counsel Performance Management

Ownership: Greg Rowe



Advisory Memorandum

Priority: Low
Status: Scheduled

The Matter Management ITN requires collection of data necessary to measure defense counsel performance. The solicitation process is currently underway, and three vendors have been advanced to the negotiation state. The new platform is expected to be selected towards the end of 2021. Additional review is required as changes to the contract will be necessary to include clear and defined performance metrics.

14. Defense Counsel Accountability

Ownership: Greg Rowe
Priority: Low
Status: Scheduled

The Matter Management ITN requires metric capabilities such as time to settle litigation and settlement amount based on segmentation strategy, among others. The solicitation process is currently underway. The new platform is expected to be selected towards the end of 2021.

Also, changes to outside counsel contracts need to be made to include clear and defined performance metrics. The solicitation process for outside counsel will be reviewed by newly appointed Chief Legal Officer.

15. Matter Management – Rules, Forms & Dashboards

Ownership: Greg Rowe
Priority: Low
Status: Scheduled

The Matter Management ITN requires capabilities to include litigation management rules, forms, and dashboards to measure defense counsel adherence to billing guidelines. The solicitation process is currently underway. Three vendors have been advanced to the negotiation stage and the new platform is expected to be selected towards the end of 2021.

16. Matter Management Capabilities

Ownership: Greg Rowe
Priority: Not Assigned
Status: Scheduled

The Matter Management ITN includes improvements to the overall abilities for matter management and e-billing to collect additional data and produce robust reporting. The solicitation process is currently underway. The new platform is expected to be selected towards the end of 2021.

17. Matter Management – Claims Platform Communication

Ownership: Greg Rowe
Priority: Not Assigned



Advisory Memorandum

Status: Scheduled

Management will look at the existing integrated fields between Claims Center and Acuity (which could be replaced by a new platform) to ensure the data is accurate in both systems. The new Matter Management ITN includes requirements for increased integration points with Claims Center. The solicitation process is currently underway. The new platform is expected to be selected towards the end of 2021.

18. Data-Driven Assignment Models

Ownership: Greg Rowe

Priority: Low

Status: Scheduled

The Matter Management ITN includes requirements to support the collection of additional data to aid in management's decision making. More granular data from the ELMS will be used to develop the models. The solicitation process is currently underway with three vendors advanced to the negotiation stage. The new platform is expected to be selected towards the end of 2021.

19. Analytical Tools for Assignment Models

Ownership: Greg Rowe

Priority: Medium

Status: Scheduled

The Matter Management ITN includes requirements to support the collection of additional data to aid in management's decision making. This approach may require the involvement of a data scientist to interpret the data and develop the tools. The solicitation process for the Matter Management ITN is currently underway. The new platform is expected to be selected towards the end of 2021.

20. Reevaluation of Roles – Citizens Attorneys

Ownership: Barry Gilway, Jay Adams

Priority: High

Status: Completed

Claims Management has completed the evaluation of this initiative holding that in order to have Citizen's attorneys litigate on behalf of Citizens, a separate captive firm would not need to be established, which would require a detailed cost benefit analysis. Claims Management has recommended that Citizens not pursue a captive firm and continue to leverage defense counsel to respond to all suits and to continue to leverage the Claims Legal team as legal advisors to the Claims operation without handling of any litigation.

Internal Audit examined the subject of In-House Counsel and has provided additional information on models for management consideration in Advisory Memorandum 2021-MAS-07 – In-House Counsel Advisory. Pending review and comment by newly appointed Chief Legal Officer and Claims Management.



Advisory Memorandum

21. Centralized Litigation Management Unit

Ownership: Tim Cerio, Jay Adams
Priority: High
Status: Not Started

Based on EY's observation for the creation of a centralized Litigation Management unit within the claims organization to incorporate the governance of defense counsel, management will evaluate what the relationship needs to be between Claims Legal, Claims Litigation and Vendor Operations. Claims Litigation Management is currently reviewing Best Practices for First and Third-Party litigation. This initiative is related to initiative number 11.

22. Legal Billing QA Realignment

Ownership: Tim Cerio, Jay Adams, Steven Woods, Michael Guerra
Priority: High
Status: Not Started

Citizens will move the Legal Billing quality reviews into the Claims Governance Team for consistency with Best Practices.

23. Legal Services Guidelines

Ownership: Steven Woods, Greg Rowe, Elaina Paskalakis
Priority: High
Status: In Progress

Claims Legal will revise Billing Guidelines. Feedback will be provided by Claims Litigation and Vendor Management.

24. Defense Counsel Oversight Improvements

Ownership: Greg Rowe
Priority: Low
Status: In Progress

The new Matter Management system will contain more granular metric data that will be incorporated into Citizen's guidelines to manage outside defense counsel performance and measure satisfaction as well as claim outcomes and adherence to Citizen's guidelines. The solicitation process for the Matter Management ITN is currently underway. Three vendors have been advanced to the negotiation stage. The new platform is expected to be selected towards the end of 2021.

25. Defense Counsel Assignment Prioritization Model

Ownership: Greg Rowe
Priority: Low
Status: Scheduled



Advisory Memorandum

The new Matter Management system will provide additional metrics to incorporate into defense counsel assignment methodology. The solicitation process for the Matter Management ITN is currently underway. The new platform is expected to be selected towards the end of 2021.

26. Quality Assurance Program Enhancement

Ownership: Belinda Miller, Elaina Paskalakis, Jay Adams, Steven Woods, Michael Guerra

Priority: Medium

Status: In Progress

The Claims Governance Quality Assurance program will be reviewed to determine if any enhancements are needed.

27. Matter Management Quality Assurance Bolstering

Ownership: Greg Rowe, Michael Guerra

Priority: Low

Status: Scheduled

The new Matter Management system will be reviewed for additional metrics that could be added to bolster the Quality Assurance Program. The solicitation process for the Matter Management ITN is currently underway with three vendors advanced to the negotiation stage. The new platform is expected to be selected towards the end of 2021.

28. Performance Management Framework & Practices

Ownership: Elaina Paskalakis, Steven Woods, Michael Guerra, Greg Rowe

Priority: Low

Status: Not Started

The current performance management framework will be reviewed for improvement opportunities with the new matter management system and expanded data/metrics. At the implementation of the new LMS system, units will collaborate to understand the metrics available and how they can be used to drive performance. The solicitation process for the Matter Management ITN is currently underway. The new platform is expected to be selected towards the end of 2021.

Internal Audit will continue to monitor the progress of the initiatives being considered and analyzed by management and providing reports quarterly, or as required.



Distribution

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Executive summary

Current state key observations

Below are the six components of the current state operation which are likely contributing to process inefficiencies and reduced effectiveness.

Org structure and roles & responsibilities	Litigation management processes	Quality assurance	Internal performance management	Defense counsel performance management	Technology
<ul style="list-style-type: none"> Senior counsel lack defined roles, guidelines and codified performance expectations creating opportunities for inconsistent guidance and levels of support to the claims organization Key litigation management roles are performed across multiple groups, creating duplication of efforts, slowing decision making and limiting productivity There is a high utilization of Independent Adjusters, accompanied with concerns over their capabilities, limiting their autonomy and authority levels, and impacting Claim Litigation Manager efficiency 	<ul style="list-style-type: none"> Triage assignments into the Claims Litigation unit are highly manual, limiting Citizens' ability to align claims to the best suited resources based on claim facts and characteristics There were no claim handling litigation avoidance procedures documented or observed, and the assignment process once suit is filed is not data-driven The provided claim litigation guidelines do not promote adequate control over outside counsel activities or effective expense management consistent with leading industry practices The assignment of litigated claims to defense counsel does not utilize key litigation management performance metrics to drive decision making 	<ul style="list-style-type: none"> The questionnaires used by Claims QA, Claims Legal Billing and Claims Litigation Management should be revised The number of QA reviews for individual contributors are too low and are inconsistently performed, limiting Citizens' ability to identify trends and address training or performance opportunities in a timely manner. This also restricts the ability to consistently and effectively evaluate employees Provided QA performance reports contain only a quality score and cannot analyze root causes, limiting Citizens' ability to identify trends and training opportunities 	<ul style="list-style-type: none"> The current performance management framework does not consistently leverage the use of metrics and QA results to drive improvement or provide a comprehensive assessment of performance at the individual, departmental or organizational level Internal performance management lacks outcome-focused and objective goals and/or formal performance expectations Provided performance reporting cannot be broken down to granular levels, limiting claims leadership's ability to effectively and efficiently measure performance, and design continuous improvement plans 	<ul style="list-style-type: none"> Defense counsel performance is measured by various departments, with no clearly defined feedback loop or ownership, leading to a lack of consistency and transparency regarding performance expectations and performance management Defense counsel performance accountability is not clearly defined; it lacks specific, objective and measurable performance expectations and does not specify non-performance levels. This ultimately leads to inconsistent expectations and execution of performance 	<ul style="list-style-type: none"> Acuity lacks leading practice litigation management rules, forms and dashboards to help determine whether firms are billing appropriately for work performed, and to measure adherence to billing guidelines Acuity, in its current capacity, rates as average for most categories compared to other litigation management systems. Data and reporting currently rates as below average and e-Billing and financial rates above average Information transfer between Acuity and ClaimCenter is not automated, requiring manual entries, which led to observed inaccuracies and incompleteness in the Acuity data



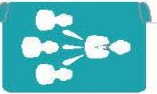
Appendix B EY Executive Summary – Improvement Opportunities

Executive summary Prioritized litigation management improvement opportunities for \$11M-\$18M in potential savings



Enhance data-driven segmentation and assignment models

- Leverage historical claims and litigation data to develop analytical models that will drive assignment and support decision-making
- Develop analytical tools to support a future state segmentation model, including a complexity-based assignment model, a litigation avoidance predictive model, and a triage assessment decision support tool



Re-evaluate the roles and duties of key claims, claims legal, and litigation management resources

- Define the roles and responsibilities associated with senior counsel to promote consistency in tasks as well as to assist with the promotion of suit avoidance measures, including handling lower-severity litigated claims. This will allow for greater organizational efficiencies, as well as help manage legal spend
- Create a centralized Litigation Management unit within the claims organization to centralize the governance (identification, selection, maintenance, oversight) of defense counsel allowing the organization to identify preferred business partners, as well as compile and distribute key performance data of panel firms



Strengthen existing guidelines to promote effective management over litigated claims

- Revise provided Best Claims Practices Litigation & Non-litigated Liability and Claims Litigation Legal Services guidelines to drive improved efficiency, accuracy and consistency in the management of litigated claims



Improve defense counsel oversight and performance management

- Develop a formal, rigorous and consistent outside counsel performance management program that measures satisfaction with counsel performance as well as claim outcomes and adherence to Citizens' guidelines
- Enhance the defense firm prioritization model to assist with defense firm assignment by shortlisting the best firms suited to handle a particular matter, based on jurisdiction/location, defense firm's capacity, firm's historical performance, matter details, as well as considerations of any conflicts



Enhance Citizens' litigated claims performance management practices

- Enhance the Quality Assurance program to focus on impacts to litigated claim outcomes to help Citizens motivate consistent claim handler behaviors and adherence to guidelines
- Enhance the current performance management framework to leverage the use of outcome-focused metrics and QA results to drive improvement at the individual, departmental and organizational level