

**CITIZENS PROPERTY INSURANCE CORPORATION
MINUTES OF THE AUDIT COMMITTEE MEETING
HELD TUESDAY, JULY 13, 2021.**

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened at 1:00PM on Tuesday, July 13, 2021, at the Orlando Marriott Lake Mary, 1501 International Parkway, Lake Mary, FL 32746.

The following members of the Audit Committee were present:

Chairman Erin Knight
Governor Carlos Beruff (Board Chair)
Governor Carlos Lopez-Cantera - telephonically

The following Board members were present:

Governor Scott Thomas
Governor Lazaro Fields
Governor Marc Dunbar
Governor Nelson Telemaco

The following Citizens Staff were present:

Jay Adams	Eric Addison	Christine Ashburn
Violet Bloom	Kelly Booten	Mathew Carter
Tim Cerio	Brian Donovan	Bonnie Gilliland
Barry Gilway	Deena Harrison	Joe Martins
Jennifer Montero	Ray Norris	Michael Peltier
Jeremy Pope	Carl Rockman	John Schmidt
Barbara Walker	David Woodruff	Andrew Woodward

The following were also present:

Brian Smith, Dixon Hughes Goodman
Mike Deas, Dixon Hughes Goodman
Kapil Bhatia, Raymond James
Samantha Cortez
Nathaniel Johnson, Bank of America
Coleman Cordell, Bank of America
Doug Draper, Bank of America

Call Meeting to order

Barbara Walker: Good afternoon, and welcome to Citizens' Audit committee meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. Those in attendance through the public link are automatically in listen only mode. Video today will be presentation viewing only. Citizens' Board and committee meetings were recorded with transcribed minutes available on our website. Today's committee meetings are all held on the

same Zoom connection to run concurrently. Please do not hang up when the Audit committee adjourns, so that if you want to participate in the Finance and Investments Committee or the Actuarial and Underwriting Committee, you will have a connection and will not need to reconnect. Thank you for identifying yourself prior to addressing the committee. Chairman Knight, may I proceed with roll call?

Barbara. Walker: Chairman Knight.

Chairman Knight: Yes.

Barbara Walker: Governor Carlos Beruff [Board Chair].

Governor Beruff: Present.

Barbara. Walker: Governor Carlos Lopez-Cantera.

Governor Lopez-Cantera: Present.

Barbara Walker: Chairman, you have a quorum.

Chairman Knight: I would like to open the meeting with the approval of the March 2nd, 2021, Minutes.

Governor Beruff: So, moved.

Chairman Knight: Is there a second?

Governor Lopez-Cantera: Second.

Chairman Knight: All in favor.

Governor Beruff: Aye.

Governor Lopez-Cantera: Aye.

Chairman Knight: Minutes approved from March 2nd. Joe, would you like to start with a report?

Joe Martins: Thank you, Madam Chair. Good afternoon Governors. For the record, I am Joe Martins, the Chief of Internal Audit. I would like to refer you to page 1 of the Executive Summary where I provided an overview of audit progress and noted 35% of the projects scheduled for the period have been completed. At the previous meeting we finalized eight engagements and I highlight: with the Claims division we completed an assessment of the effectiveness of the appraisal process; we also provided project support and guidance for the implementation for the claims consultants opportunities for improvement through delivering reported progress report in claims litigation; and three targeted advisory reports focusing on claims legal service transfer, the independent adjusters versus full time employees, and the legal billing transfer. The results from our work were presented to management and are being considered in the development and implementation of revised processes.

With the Centerpoint Configurations audit we validated that all configuration settings for the ERP systems are properly configured and provide a strong control environment. Work on the Commercial Underwriting Compliance confirmed that adequate control's structure is in place to ensure that the commercial lines underwriting activities follow Florida Statutes. We currently have 14 engagements in progress spanning across most areas of the organization. We have a

Cancellation Moratorium Audit which looks at billing and accounting processes and controls implemented after Citizens lifted the moratorium placed on policy cancellations during the peak of COVID 19. We have an audit to Citizens' Insurance Services which serves the Citizens' internal agency which has more than 5,000 policies. We have an audit effectiveness of Corporate Compliance Program managed by the Compliance Officer. We have an evaluation of the payable process and related controls following the recently implemented system enhancements and we will also assess the implementation of system and application logging and monitoring to ensure that appropriate event monitoring is occurring. An additional five audits are planned to commence later in Q3. These included audits of the Application Infrastructure Standards and Conformance, the Clearing House, Employee Benefits, IT Service Management and myAgency. We also continue to support the State of Florida Auditor General with their audit that is currently in progress.

With respect to control deficiencies, Internal Audit is tracking five observations, of which one is of high impact. This item relates to an OFAC audit and focuses mainly on tightening screening practices throughout the organization. The Internal Controls team is responsible for maintaining and monitoring Citizens' internal control framework, control self-assessments are performed annually to ensure ongoing evaluation of the control designed and operating effectiveness within Citizens. As of June, 119 monitor controls have been identified and recorded. Management control self-assessments are currently in progress for 107 of these primary controls, while 12 of these controls are being refreshed by the Internal Controls team. Enterprise Risk team enables and partners with the business areas to deliver forward- looking insightful risk assessments. Enterprise Risk facilitated the completion of the 2021 Strategic Risk Assessment with the ELT and a total of 19 risks were documented and identified for this year. A detailed listing of the 19 risks have been attached as appendix one to the Executive Dashboard in your packs for your consideration. Enterprise Risk is currently working with the respective ELT members and their staff in identifying documents that would be appropriate for risk mitigation factors. Thank you, Madam Chair, that concludes my report. If there are no questions.

Chairman Knight: Thank you, any questions? No. Jennifer.

Jennifer Montero: Jennifer Montero, CFO. Thank you. Behind tab three of your books are the materials I will be referencing. The first document is titled *1Q 2021, Results of Operations and Financial Position*. It provides an overview of Citizens' unaudited financial position including cash flows, invested assets in surplus, as well as operation results for the period ending March 31st, 2021. While the document titled, *1Q 2021, Results of Operations and Financial Position – Commentary* provides the commentary and discussion analysis of those operating results and financial position. I will be providing a summary of the information contained within the commentary document. On March 31st, 2021, Citizens held consolidated cash invested assets of nine billion dollars, an increase of 300 million from December 31st, 2020. The majority of the increase and cash in invested assets was due to the increase in written premium and the associated positive cash flows. Consolidated surplus on March 31st was \$6.5 billion, relatively unchanged from consolidated surplus at December 31st, 2020. Consolidated direct written premium through March 31st, 2021, was 340 million, an increase of 114 million from the same period a year prior, and 45 million greater than budget. An increase in new business and renewal rates largely within Dade, Broward and Palm Beach Counties account for the majority of increase in premium. As of March 31st, consolidated ultimate direct losses in LAE related to Hurricane Irma were 2.27 billion, reflecting no change from December 31st, 2020. Of the 2.27 billion of

Hurricane Irma ultimate loss in LAE across all three accounts, 936 million is recoverable under Citizens' reinsurance contracts with both the FHCF and private reinsurers. Consolidated ultimate losses in LAE related to Hurricane Michael were 150 million as of March 31st, reflecting no change from December 31st, 2020. There are no reinsurance recoverable related to Hurricane Michael as the attachment levels of the reinsurance agreements were not met. During the first quarter of 2021, the consolidated ultimate direct loss in LAE related to the smaller storms that impacted Florida in the latter part of 2020, increased \$57 million to 148.2 million as of March 31st. Of this increase, 47.7 million is attributable to Tropical Storm Eta and was driven by a significant increase in the number of late reported claims. There were no reinsurance recoverable related to these 2020 storms as the attachment levels of the reinsurance arrangements were not met. Current accident year losses in LAE unrelated to hurricanes and sink holes did not experience meaningful variances from the prior quarter as development on prior accident year losses in LAE was as expected. Although litigated non-weather water continues to be a dominant driver of loss in LAE activity within the personal lines account, the litigation rate for accident years '18, '19 and '20 continue to show improvement in comparison to accident years 2014 through 2017. With accident year 2021 showing the lowest percentage of litigation rates in recent history. Within the commercial lines accounts losses in LAE related to sink hole claims were relatively unchanged. However, volatility in older non-sink hole claims have the potential to contribute to material quarterly variances in reported loss in LAE ratios in future periods. Administrative expenses incurred during the first quarter of 2021 were 36.1 million or .7 million more than the same period in 2020, and 4.8 million less than budget. For the quarter ended March 31st, Citizens' expense ratio was 19.5 percent, reflecting a 6.1 decrease from the same period in 2020, and a 4.4 percent decrease compared to budget. Total investment income during the first quarter of 2021 was 67 million or 11 million less than the same period in 2020, despite a marginal increase in total invested assets. The decrease in investment income was principally driven by decreases in overall interest rates and a decline in net realized gains as well as a reduction in tax exempt holdings resulting from the scheduled maturity of certain outstanding bond obligations. With the 2021 reinsurance program in place together with Citizens' current level of high liquidity, financial resources...

Chairman Knight: Ms. Montero, excuse me for interrupting. The Chairman has a question.

Governor Beruff: Thank you, Madam Chairman. Ms. Montero, the 900 million in reinsurance that we are entitled to recoup.

Jennifer Montero: Yes.

Governor Beruff: When will that hit our balance sheet?

Jennifer Montero: It hits our balance sheet as we pay that out, we recoup that. We usually bill on a quarterly basis, sometimes monthly.

Governor Beruff: Have we gotten a piece of that already?

Jennifer Montero: Yes.

Governor Beruff: How much?

Jennifer Montero: I know how much is on the books. Let me find out how much is recoverable, I will have that for you before our next meeting.

Governor Beruff: Thank you.

Jennifer Montero: No problem.

Governor Beruff: Thank you, Madam Chair.

Jennifer Montero: With the 2021 reinsurance program in place, together with our current level of highly liquid financial resources, Citizens enters the 2021 hurricane season with ample recourses to meet the needs of its policyholders, and that completes my report.

Governor Beruff: Madam Chair.

Chairman Knight: Any questions? I have one question on the reduction in expenses, the expense ratio reduction. What is that attributable to?

Jennifer Montero: That is attributable to the denominator, which is the premium, it is the denominator, so as Citizens shrinks in size and our direct written premium goes down, our expense ratio goes up. So, as we grow like we are now, and that denominator is growing, our expense ratio goes down. But that is what is driving it.

Governor Beruff: Yes, I was going to ask the same question. The increase growth in premiums, you have not paid the expenses against that bulk of money yet. So, it skews the numbers, temporarily.

Jennifer Montero: That is correct.

Governor Beruff: Okay. So, if I may. Thank you. What is our, at the end of the second quarter, calendar quarter, how many policies do we now have?

Jennifer Montero: 640, 645.

Governor Beruff: 640 and there is six months left in the year, and what have we been growing monthly, net growth rate in policies?

Jennifer Montero: 5,000.

Governor Beruff: 5,000 net?

Jennifer Montero: Yes.

Governor Beruff: That is not that bad. So, we are going to end up to 670 to 680?

Jennifer Montero: We are projecting year end to be approximately 750.

Governor Beruff: Okay, we can't be growing net 5,000. We have got to be growing a lot more than net 5,000 a month. Six times five is 30,000. So, I am sorry, I don't mean to -- because I thought we were going to end up at 720, 750,000 policies, because we calculated that last year.

Barry Gilway: Chair.

Chairman Knight: Yes.

Barry Gilway: Barry Gilway for the record. I think the confusion is week versus month.

Governor Beruff: Oh, 30,000 a month.

Barry Gilway: Yes, we are growing currently at the rate between 5,000 and 6,000 policies net per week.

Governor Beruff: A week.

Barry Gilway: Right, so if you just straight line the numbers at 5,000 to 6,000 policies and you start out at six and then the 40,000 policies, the latest financial analysis that Jennifer's team did, puts us right around 760,000 policies at year end.

Governor Beruff: And how much money have we made operationally in this fiscal year?

Jennifer Montero: As of March?

Barry Gilway: \$9 million.

Jennifer Montero: Yes, it is \$9 million.

Barry Gilway: \$9 million, and the issue with the \$9 million as Jennifer just indicated, is that it incorporates \$47 million.

Jennifer Montero: A total, yes, it was a total of 57 million of adverse development from the 2020 storms came in. Otherwise, we would have had about '63'ish.

Governor Beruff: Thank you. Thank you, Madame Chair.

Chairman Knight: And on a normalized basis, you might have mentioned it, but if you can repeat, what would be an expense ratio, a normalized expense ratio when things are --

Jennifer Montero: About 20 percent, 20 to 22 percent.

Chairman Knight: Thank you. Any other questions? Brian Donovan.

Jennifer Montero: Brian Donovan is going to come up next. Thank you.

Chairman Knight: Thank you.

Brian Donovan: Good afternoon, Chair and committee members. I am Brian Donovan, Chief Actuary at Citizens and I will be addressing I think it is item 3-C in your Audit Committee materials or 3-D in the Board books pertaining to classification letter for appointed actuary. This is more of a housekeeping item, and it is not an action item. The purpose of this is to keep myself and Citizens in compliance with a change implemented by the NIC in conjunction with the American Academy of Actuaries, the Casualty Actuarial Society and the Society of Actuaries. In 2010, I was appointed by Citizens' Board as the qualified actuary. This means I was appointed to sign off on the year-end reserves that are recorded in Citizens' financial statements. Prior to 2019, the rule was once the Board appoints an actuary, there is no need to discuss it again until there is a change in the appointed actuary. But at the end of 2019, the forementioned organizations made a change to its rule and now requires that the appointed actuary provide the appropriate committee and/or Board documentation that demonstrates that he or she is qualified to be the appointed actuary. Included in the document provided is a formal letter from me addressed to Citizens Board outlining my qualifications. Also included is a brief history of my work experience and the details of how I completed the required continuing education credits in 2020. Bottom line, nothing has changed regarding my qualification to render actuary loss reserve opinions. The only

thing that changed is that all appointed actuaries must now provide this documentation each year to its Board. Any questions?

Chairman Knight: Any questions? Thank you, Mr. Donovan.

Brian Donovan: Thank you.

Chairman Knight: External auditor update, Brian Smith, Mike Deas. Am I pronouncing that correctly, Mike? Welcome.

Brian Smith: Good afternoon, this is Brian Smith for the record from Dixon Hughes. I am a partner in our office in Tampa, Florida, and with me Mike Deas. He is our audit manager serving Citizens. Our agenda today is a report on the 2020 audits that we completed for Citizens. You will find on page 101 of your report. Within our report we have certain required communications at the completion of our audit. We will go through today just in brief form, certainly stop with any questions. So, on May 19th, 2021, we completed our audits of Citizens, both on a statutory basis and under GASB GAAP that was issued the same day. Our report is dated May 19th. Within our required communications we are required to discuss any new accounting pronouncements that the company adopted during the year. There were none. So, within our required communications we are required to communicate any new accounting, new accounting pronouncements adopted during the year; there were none by the company. Also, we are required to communicate any significant estimates in which a company applies within their accounting policies and Mike is going to walk us through our procedures performed in those significant estimates.

Mike Deas: Thanks, Brian. This is Mike Deas for the record. So, we had two significant estimates that we identified as part of our audit procedures. The first being the loss reserves. And so, as part of those procedures we engaged a third actuary, Merlinos & Associates and they work with Brian Donovan and the actuarial team to look at the actuarial methodologies and assumptions used in developing the 12/31 loss reserves. As well we look at the data provided by the actuary or provided to the actuary, excuse me, and we look at claims and loss reserves and we test those on a sample basis. Brian, I think you wanted to mention Eta as part of the loss reserves.

Brian Smith: Certainly. So, Jennifer mentioned Q1 there was development related to Hurricane Eta which was a late Q4 event. When management initially closed their books and filed the annual statement, that event was rather new. Then in Q1 Brian Donovan and his team identified new development as roughly 71 million dollars in Q1 from that event. So, we evaluated that to understand, does that have any impact to 2020 for the financial statements we were auditing. We work with Brian's team, we work with our external actuaries with Merlinos and evaluated and essentially came to the conclusion that while it was a significant development, it was not material to the reserves as a whole. And so that is why you will see that development in Q1 2021, rather than in 2020's report. So that is in our report that we communicated to the Audit Committee.

Mike Deas: Thanks, Brian. Our second loss for our significant estimate is related to the fair value of investments. In order to test those, we leverage our financial services team who fair value the entire investment portfolio as well as we take all the securities as of 12/31 that are in unrealized loss position, and we compare those to subsequent sales to look for potential other than temporary impairment.

Brian Smith: Other required communications, any identified misstatements, we did not identify any missed statements that were either corrected or uncorrected in our audits. Also, we are

pleased to report we had no disagreements with management; that is in our report as well. Lastly, we report on page 7 related to internal controls. We did not, or we were not engaged to do an audit of internal controls, however, we are required to communicate if we identified any material weaknesses in which we did not, and that is in our report as well. So that is our report for the 2020 Citizens' audits. I believe this is the first time we have communicated Erin with you and the rest of the committee as new members. I just wanted to fill you in on our process, we generally begin our procedures for the audits in the Fall and then complete in the May time frame. So, we would be looking for 2021 to begin this Fall 2021. In our interim planning procedures, we typically would report our plan for the year in December during the Audit Committee. So, I will provide that to you in advance, plan for December for 2021 audit plan, and then we would complete the audit next spring in 2022. That completes our report.

Chairman Knight: Thank you. Is there any discussion or questions? No. Is there any new business? Ms. Montero?

Jennifer Montero: It is not new business, but it is an answer to Chairman Beruff's question. The recoverables are on an ultimate basis, the 936. So far, we have billed 770 million, 27 million is outstanding. We have collected 745. We do bill quarterly with the next billing will be for June, it will probably go out in August once we reconcile the June losses because the reinsurance recoverable is on a paid basis. So, the 936 is on an ultimate basis. So, as we pay those claims out, we can then bill for recoveries.

Governor Beruff: Thank you, Ms. Montero. So, we have the bulk of the money back in our bank account?

Jennifer Montero: We do.

Governor Beruff: Thank you.

Jennifer Montero: You are welcome. Thank you.

Chairman Knight: Any other new business? No. Well, with there being no further business, I will call the Audit meeting, I will adjourn the Audit meeting. I don't know if that is record in time, if we are efficient or is this a normal pace, but I thank you all for your participation, your reports and the meeting is adjourned.