

# Executive Summary

Actuarial & Underwriting Committee Meeting, July 13, 2021

**Board of Governors Meeting, July 14, 2021**

## PROPERTY INSPECTION SERVICES FOR UNDERWRITING

### Topic

This Action Item seeks approval to enter into contracts with the following vendors for Property Inspection Services for Underwriting. The aggregate contract amount for the four (4) year base term is \$21,140,000.

The recommended Primary Vendors are:

1. C&E Information Services, Inc. (Personal Lines)
2. Mueller Services, Inc. (Personal Lines)
3. Sutton Inspection Bureau, Inc. of Florida (Personal and Commercial Lines)

The recommended Contingent Vendors to be activated if the Primary Vendors cannot adequately meet Citizens' needs for inspections, are:

4. Inspection Depot, Inc. (Personal and Commercial Lines)
5. Insurance Risk Services, Inc. (Personal Lines)

### History and Analysis

Property inspections are used in the Personal Lines and Commercial Lines underwriting process to make better risk-based decisions. Inspections are used for new business applications, endorsement requests, and policy renewals. The primary types of inspections include:

Personal Lines- Inspection Type	C&E Information Services, Inc.	Sutton Inspection Bureau, Inc. of FL	Mueller Services, Inc.	Inspection Depot, Inc. (contingent)	Insurance Risk Services, Inc. (contingent)
General Condition	X	X	X	X	X
Interior/Exterior			X	X	
Mobile Home	X	X	X	X	X
Roof Inspection	X		X	X	
Proof of Repair	X	X	X	X	
Wind Mitigation	X		X	X	
High Value Property	X	X	X	X	
Replacement Cost Valuation	X	X	X	X	X

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Commercial Lines - Inspection Types	Sutton Inspection Bureau, Inc. of FL	Inspection Depot, Inc.
General Conditions (GC)	X	X
4 Point		X
GC/4 Point	X	X
Wind Mitigation		X
Replacement Cost Valuation	X	X
Roof Inspection	X	X

For the last five (5) years, Citizens completed inspections for approximately 1% of its policies on an annual basis. Given the current market environment, Citizens desires to inspect a significantly larger percentage of policies to verify the insurability of the property, potentially reduce claims frequency, and improve the transferability of the policies via the depopulation program. Accomplishing these goals will require a pool of inspection vendors that can provide high quality inspection services in a timely manner.

Citizens currently uses C&E Information Services, Inc., Mueller Reports, and Sutton Inspection Bureau for Personal Lines inspections, and Inspection Depot, Inc. for Commercial Lines inspections. The contract terms began on October 19, 2016 and will expire on October 18, 2021.

From November 1, 2016, through May 31, 2021, there were 21,460 inspections completed for Personal Lines with a total contract spend of \$783,507 (see the following tables).

Year	General Condition	Mobile Home	Interior/ Exterior	Wind Mitigation	Roof Inspection	Total Volume
2016	2,451	1,155	0	0	0	3,606
2017	2,628	856	0	0	0	3,484
2018	1,849	909	540	0	11	3,309
2019	1,227	852	439	0	2	2,520
2020	3,311	737	995	150	22	5,215
2021 YTD	1,574	312	1,304	111	25	3,326
<b>Total</b>	<b>13,040</b>	<b>4,821</b>	<b>3,278</b>	<b>261</b>	<b>60</b>	<b>21,460</b>

Year	General Condition	Mobile Home Tie-Down Inspection	Interior/ Exterior	Wind Mitigation Inspection	Roof Inspection	Total Spend
2016	\$62,095	\$40,636	\$0	\$0	\$0	\$102,731
2017	\$55,464	\$30,151	\$0	\$0	\$0	\$85,614
2018	\$39,593	\$32,277	\$45,873	\$0	\$506	\$118,249
2019	\$25,801	\$30,594	\$37,293	\$0	\$92	\$93,780
2020	\$70,921	\$28,030	\$83,655	\$23,993	\$1,012	\$207,610
2021 YTD	\$33,663	\$12,180	\$110,775	\$17,754	\$1,150	\$175,522
<b>Total</b>	<b>\$287,538</b>	<b>\$173,867</b>	<b>\$277,596</b>	<b>\$41,747</b>	<b>\$2,760</b>	<b>\$783,507</b>

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Note: For Commercial Lines policies, Citizens' In-House Field Underwriting staff completed almost all inspections between Nov. 2016 and May 2021. Citizens ordered very few commercial property inspections from third party vendors. However, going forward, Commercial Lines plans to increase the use of third-party vendors to perform future inspections, as further described below.

Going forward, Citizens staff recommends increasing the ratio of annual inspections to total policies from 1:100 to over 6:100. The primary rationale for this increase is:

- Reduce Loss Frequency – Property inspections, whether conducted during the 90-day discovery period for new business or prior to renewal decisions being made, allow Citizens to guard against adverse selection (which is the tendency for people with the greatest probability of loss to be the ones most likely to purchase insurance). We expect our inspections to yield improvements to HO-3 and DP-3 loss frequencies.
- Improve Premium Accuracy – Property inspections provide observed validation of rating characteristics, directly impacting premium accuracy. We anticipate a significant number of inspections will result in premium corrections.
- Exposure Reduction via Assumptions by Private Market Insurers – A current inspection is one of the key items private insurers have told us they value when considering which Citizens risks to assume. The more risks we inspect, to validate the exposure they truly represent, the better positioned we are to increase the amount of risk removed from Citizens.

Accomplishing these goals will require a pool of inspection vendors who can provide high quality inspection services in a timely manner. The anticipated volumes, percentage of policies, and contractual spend are set forth in the following tables:

## Personal Lines Inspections

Year	Inspection Volume	Approximate % Of Policies Inspected	Contract Spend	Average Unit Cost
2016 <sup>1</sup>	3,606	0.74%	\$102,730	\$28.49
2017	3,484	0.77%	\$85,614	\$24.57
2018	3,309	0.75%	\$118,249	\$35.74
2019	2,520	0.59%	\$93,780	\$37.21
2020	5,205	1.07%	\$207,610	\$39.89
2021 <sup>2</sup>	20,336	2-3%	\$1,225,085	\$60.24
2022 <sup>3</sup>	46,265	5-6%	\$3,279,237	\$70.88
2023	66,294	6-8%	\$4,903,015	\$73.96
2024	74,918	7-9%	\$5,612,434	\$74.91
2025	90,695	9-11%	\$6,957,228	\$76.71
<b>Total Estimated Personal Lines Contract Spend</b>			<b>\$20,751,914</b>	

<sup>1</sup> 2016 – 2020 based on actual inspection data and PIF counts.

<sup>2</sup> 2021 – 2025 based on forecasts.

<sup>3</sup> 2022 – 2025 four (4) year term of new contract (shaded).

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Note: From 2016 through 2020, the vast majority of inspections completed were General Condition and Mobile Home Tie-Down inspections (exterior only) that are less costly. Citizens desires to increase its use of other types of inspections going forward to provide a better insight on a property's interior and exterior, including the condition of the roof, plumbing, electrical, and HVAC system. Inspections requiring access to the interior and exterior have a higher price point than exterior only inspections, and this is reflected in the forecasted average unit cost data for 2021 through 2029 in the table above. The future unit costs are based on the competitive prices recently submitted by the vendors identified in this Action Item. Rather than divulge any particular vendor's confidential price information, we provide the following general information:

Inspection Type	Expected Price Range
General Condition	\$20 - \$35
Interior/Exterior	\$85 - \$95
Mobile Home Tie-Down	\$40 - \$45
All Others (est. < 1%)	--

## Commercial Lines Inspections

Year	General Condition-4 Point Inspection			Replacement Cost Valuation			Total	
	Volume	Avg. Unit Cost	Spend	Volume	Avg. Unit Cost	Spend	Volume	Spend
2022	300	\$140	\$42,000	300	\$180.00	\$54,000	600	\$96,000
2023	300	\$140	\$42,000	300	\$180.00	\$54,000	600	\$96,000
2024	300	\$143	\$42,900	300	\$184.00	\$55,200	600	\$98,100
2025	300	\$143	\$42,900	300	\$184.00	\$55,200	600	\$98,100
<b>Total Estimated Commercial Lines Contract Spend</b>								<b>\$388,200</b>

## Summary

As a result of the upcoming contract expiration and the growing need for inspection services, Citizens issued Invitation to Negotiate No. 20-0022 for Property Inspection Services for Underwriting on October 2, 2020. Seven (7) vendors responded, and the five (5) vendors (referenced above) were recommended for award on March 24, 2021. Four out of the five vendors have performed work for Citizens in the past five (5) years. Citizens was able to keep the pricing for the inspection types currently being ordered by Citizens at current levels or less for the first two years of the contract, and the proposed pricing for these inspections increases 15% or less during the full eight-year term of the contract. In addition, the primary vendor recommend for Commercial Lines inspection has significantly lower pricing.

Further details of the current contract spend, estimated future contract spend, and vendor unit pricing can be provided on request.

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## Recommendation

If approved at its July 13, 2021 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:

- a) Approve the primary and contingent Property Inspection Services for Underwriting contracts with the five (5) vendors listed above for a base term of four (4) years in an amount not to exceed \$21,140,000 and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

**Board of Governors Meeting, July 14, 2021**

**ACTION ITEM**

**New Contract**

**Contract Amendment**

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

**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.

**Purpose/Scope**

Property inspections are used in the Personal Lines and Commercial Lines underwriting process to make more informed risk-based decisions. Inspections are used for new business applications, endorsement requests, and policy renewals. Primary inspection types include:

- General Condition
- Interior/Exterior
- Mobile Home
- Roof Inspection
- Proof of Repair
- Wind Mitigation
- High Value Property, and
- Replacement Cost Valuation.

In the last five (5) years, Citizens completed inspections for approximately 1% of its policies on an annual basis. Given the current market environment, Citizens desires to inspect a significantly larger percentage of policies to verify the insurability of the property, potentially reduce claims frequency, and improve the transferability of the policies via the depopulation program. Accomplishing these goals will require a pool of inspection vendors that can provide high quality inspection services in a timely manner.

**Contract ID**

**Property Inspection Services for Underwriting**

Contract numbers: 21-20-0022-01 through 21-20-0022-05

Recommended Primary Vendors:

1. C&E Information Services, Inc. (Personal Lines)
2. Mueller Services, Inc. (Personal Lines)
3. Sutton Inspection Bureau, Inc. of Florida (Personal and Commercial Lines)

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	<p>Recommended <u>Contingent Vendors</u> to be activated if the Primary Vendors cannot adequately meet Citizens' needs for inspections:</p> <ol style="list-style-type: none"> <li>4. Inspection Depot, Inc. (Personal and Commercial Lines)</li> <li>5. Insurance Risk Services, Inc. (Personal Lines)</li> </ol>
<b>Budgeted Item</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>Procurement Method</b>	<p>Citizens issued Invitation to Negotiate No. 20-0022 for Property Inspection Services for Underwriting on October 2, 2020. Seven (7) responses were received and evaluated. The Evaluation Team advanced five (5) vendors to negotiations and following multiple negotiation sessions, on March 24, 2021, the Negotiation Team recommended an award to the five (5) primary and contingent vendors listed in the Contract ID section above.</p>
<b>Contract Amount</b>	<p>The aggregate contract amount for the five (5) primary and contingent contracts for the four (4) year base term is estimated at \$21,140,000. This estimate is based on current projections in policy growth which may prove to be inaccurate. If additional funds are desired for the base term or for an optional renewal term, Citizens staff will request an authorization for the funds via a separate item.</p>
<b>Contract Terms</b>	<p>The contracts will have a four (4) year base term and two (2) optional two (2) year renewals. At this time, Staff is not seeking approval to exercise the optional renewal options.</p>
<b>Committee Recommendation</b>	<p>Staff proposes that the Actuarial and Underwriting Committee review, and, if approved, recommend the Board of Governors:</p> <ol style="list-style-type: none"> <li>a) Approve the primary and contingent Property Inspection Services for Underwriting contracts with the five (5) vendors listed in the Contract ID section above for a base term of four (4) years in an amount not to exceed \$21,140,000; and,</li> <li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li> </ol>
<b>Board Recommendation from Committee</b>	<p>If approved at its July 13, 2021 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ol style="list-style-type: none"> <li>a) Approve the primary and contingent Property Inspection Services for Underwriting contracts with the five (5) vendors listed in the Contract ID section above for a base term of four (4) years in an amount not to exceed \$21,140,000; and,</li> <li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li> </ol>
<b>Contacts</b>	<p>Kelly Booten, Chief Operating Officer          Scott Crozier, Vice President – Underwriting and Product Development          Stephen Guth, Vice President – Enterprise Services</p>