CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, September 22, 2021

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened at the Hyatt Regency in Coral Gables, Florida on Wednesday, September 22, 2021, at 8:30 a.m. (EST).

The following members of the Board were present:

Carlos Beruff, Chair
Scott Thomas, Vice Chair
Marc Dunbar (telephonically)
Lazaro Fields
Jillian Hasner
Reynolds Henderson
Erin Knight
Nelson Telemaco

The following Citizens staff members were present:

Barry Gilway	Violet Bloom	Joe Martins
Jennifer Montero	Jay Adams	Mark Kagy
Barbara Walker	Tim Cerio	Jeremy Pope
Christine Ashburn	Michael Peltier	Eric Addison
Kelly Booten	Bonnie Gilliland	Jennifer Dilmore
Matt Carter	Ray Norris	

The following people were present:

Dave Newell	FAIA
Matthew Sansbury	RBC
Adam Schwebach	Willis Re
Albert del Castillo	Greenburg Traurig

Call Meeting to Order

Barbara Walker: Welcome to the Citizens Board of Governors meeting. This is a publicly noticed meeting in the Florida Administrative Register to convene at 8:30 a.m. For those who are in attendance through the public link, you are automatically in listen only mode. The video today will be presentation view only. Citizens Board and committee meetings are recorded with transcribed minutes and posted on our website. Thank you for identifying yourself prior to addressing the committee. Chairman, may I proceed with roll call?

Chair Beruff: Please proceed.

Roll call: Chair Carlos Beruff, Marc Dunbar, Lazaro Fields, Jillian Hasner, Reynolds Henderson, Erin Knight, Scott Thomas, and Nelson Telemaco are all present.

Barbara Walker: Chairman, you have a quorum.

1. **Chairman's Report**

Approval of Board of Governors July 14, 2021 Minutes

Chair Beruff: Thank you. Let's go to the minutes.

A motion was made and seconded to approve the July 14, 2021, Board of Governors Minutes. All were in favor. Motion carries.

Board Vice Chair Nominations and Selection

Chair Beruff: Since we lost a Vice Chair, we're looking for another Vice chair. So, the Board will entertain a motion to nominate a Vice Chair.

Jillian Hasner: I'd like to nominate Scott Thomas as Vice Chair.

Marc Dunbar: I was going to nominate Governor Hasner.

Jillian Hasner: I appreciate that, Governor Dunbar, but I'd like to nominate Scott Thomas.

[laughter]

Marc Dunbar: I get it. That happened to me last time.

Chair Beruff: Any other nominations?

Lazaro Fields seconded the motion.

Chair Beruff: Let's ask Governor Thomas to make sure he wants this. We handed him a lot last time and we don't want to overload him.

Scott Thomas: I wouldn't decline the nominations.

Chair Beruff: We have a motion and a second.

All were in favor of selection Scott Thomas as the Vice Chair. Motion carries.

Chair Beruff: It's all yours. Thank you for joining.

Scott Thomas: Appreciate it. Thank you very much.

2. President's Report

September President's Report

Chair Beruff: I think we're going to go right into the President's Report.

Barry Gilway: Thank you, Mr. Chairman, and good morning, Board members. As I normally do, I'm going to focus this morning on updating you in terms of what is occurring in the Florida Residential Marketplace. There is a recent S&P report that really summarizes the first half results for the industry. This really focuses on the Florida domestic insurance which controls about 79% of the market, you know, in Florida. The S&P report noted that aggregate net income losses for the second quarter was $285.5M in the second quarter of 2021. This marks the fifth straight quarter of triple digit aggregate losses for the insurers operating in the private Florida market. When combined with the first quarter total losses of $244M in the first three months, this group has lost half a billion dollars so far into 2021, and we're really on target to hit close to the $980M negative net income that I reported for the industry in 2020. So, it's really more of the same. Of the 51 insurers that we really follow in the Florida domestic composite, the analysis showed that 36 of the 51 reported net losses through the first half. I would say that this is an improvement compared to last year because we only have 5 that reported any kind of a positive net income in 2020. This is negative net income and not negative underwriting income. So, it's really a hit to the bottom line. The results, of course, continue to have a negative impact on the availability of coverage from private market insurers, and it continues. Many companies continue to withdraw from geographic territories and restrict certain classifications of business. It's interesting that as this continues, our book of business is actually improving. We are writing more businesses, you know, that are a little newer. We are writing businesses with newer roofs, and we are writing some newer homes that we had not been writing before. So, despite severe restrictions in the marketplace, there are some signs, and I might be reaching here, that some capacity remains in the market. As I reported last time, the Office of Insurance Regulation (OIR) consent orders allows several insurance companies to issue midterm cancellations in order to protect the financial condition of these companies. Kelly Booten reported these numbers yesterday, but I think they are worthwhile repeating. If there is any good news at all is that when OIR issued consent orders allowing midterm cancellation of close to 29,800 policies, Citizens picked up about 6,280 of those policies or about 21% of these policies. I might be reaching when I say, "good news," but Kelly and I had estimates initially that we may pick up as much as 45% to 50%, you know, of that business because of the severe capacity restrictions in the marketplace. In addition, again as Kelly reported yesterday, there were 1,700 American Capital commercial policies that were cancelled as a result of that liquidation. Citizens only wrote 19 of the 1,700 policies; the rest were placed in the private market. The only reason why I say it's "good news" is that the initial estimates were far higher than that. We expected the high exposure commercial business to grow significantly. That leads me to the next topic. The commercial business not only has not grown, but it has actually reduced somewhat. As I reported last time, we were actually expecting . . . The collapse of the Champlain Towers in South Florida had a severe impact on the marketplace. It has not for us. In fact, we are writing fewer commercial policies today then we were a prior to the collapse of the Champlain Towers. Kelly, at other times, will go through what the underwriting team is doing; we are being more restrictive from an underwriting perspective. But the bottom line is that we are writing only 708 commercial policies today. At our peak in 2012 we actually wrote 13,000 commercial policies, and we were controlling about 43% of the Florida commercial residential marketplace at that time. We are just relatively a small part of that. The competition in the marketplace, despite some of the South Florida (Dade, Broward) issues, we are still holding our own relative to… still, there is still a private market presence in commercial and still a lot of competition in the commercial lines arena. However, when we last met, I did report that Gulfstream Insurance was under financial review by OIR. Unfortunately, a liquidation order was issued in the last couple of months with midterm cancellations of over 32,000 polices during wind season. Again, the private market had only 30 days to replace that coverage. Our expectations were high; we were expecting to write a significant amount of that business given what we hear about capacity restrictions. However, we wrote 14.9% of the policies of the 32,000 policies. Given that the marketplace restrictions that exist, our policy counts continue to grow at the rate of 5,000 to 6,000 net policies per week. We are issuing right around 30,000 to 32,000 polices per month. We are seeing some drop off going into current renewal. That is netting out roughly somewhere between 20,000 to 26,000; it varies somewhat on a weekly basis. The concern, of course, is the exposure growth. We had gotten down to $108B worth of exposure; that's a low point of 410,000 policies. We exceeded last week hitting the $200B mark in exposures. So, we have grown from $108B to $200B. The forecast calls for something in excess of $230B in exposure if we continue along this route. I also reported in the committee meeting that on Friday we reached 700,000 policy holders. It's not rocket science that if you're writing 5,000 to 6,000 net polices per week and we're already at 700,000 customers, we expect 760,000 to 775,000 at year end. That estimate of 760,000 to 775,000 is going to hold. This is having an impact on staff. You heard it during many of the committee meetings, but there are some numbers that are pretty startling. These are a real tribute to Jeremy Pope in the Call Center operations and to Kelly in the Underwriting operations. Calls to the Call Center over the last year have increased from 54,000 calls per month to 86,000 calls per month. The underwriting calls have increased from 11,000 per month to over 22,000 per month. That's the kind of activity that they are handling and they're trying to staff for through the vendor agreements that are part of the many procurements that you are considering. My hats off to Violet Bloom and the educational organization who have put these classes together to onboard individuals, and it's allowing us to promote individuals from Jeremy's area. There are a lot of people with extensive underwriting experience there that we can move to the Underwriting organization in addition to getting new talent. My hats off to them because we are really maintaining the service standards despite this really unprecedented growth. As you are aware, companies continue to implement double digit rate increases. Our concern frankly given Hurricane Ida, western wildfires, European floods, and additional tropical storms, that they're going to have an impact on reinsurance pricing. So far, the press is indicating that it will be relatively minor despite all of these, you know, international catastrophes. So, we are hopeful that, going into the next reinsurance season, we do not have a significant impact in terms of, you know, overall reinsurance pricing. But estimates for Ida alone, it varies between $30B to $40B, making it actually the second largest loss in our history outside of the New Orleans loss (which, I think was $88B). The reinsurers are taking quite a hit. Fortunately, there are only a couple a Florida domestic companies that have direct business in Louisiana, Alabama, in Mississippi. So, we do not expect a significant impact on Florida business. So, we always look for the good news in the marketplace. There is some good news. In my last report, it was a pretty scary report because I provided documents that showed that the litigation in the industry had increased by 51% for the first six months of 2020 versus 2021. But the recent Case Glide reports are very interesting. They follow 17 of the largest Florida carriers. The recent Case Glide report shows that Florida litigation, including Citizens of course, Florida litigation dropped 35% from July to August. We are really digging in and attempting to determine what is driving that litigation because it is 100% consistent across all of the companies for getting that level of a drop. One of the logical explanations is the notice requirements and Senate Bill (SB) 76. We don't know if that's a short-term impact or, you know, a long-term impact. We are tracking those results very closely to determine whether that's a short-term impact from a litigation standpoint or more long-term. Citizens is considering all ideas to reduce exposure as reported in Governor Telemaco's report yesterday. We have a lot of activity, even in these really crazy conditions . . . What are those things we can prepare for additional reductions in growth? However, I think it would be optimistic to consider that we will get any significant depopulation activities until probably the second or third quarter of next year. The only reason I say the second or third quarter, by the way, is that the rating agencies have put some significant restrictions on the companies requiring basically a redistribution of their business. We're almost into a full year of that readjustment. There is a potential opportunity that we could end up at that 12-month opportunity… This is "Barry Gilway's opinion." There is a potential opportunity at the end of those 12 months that the redistribution will have occurred and then we might have a little more, you know, flexibility capacity in the marketplace. We are more optimistic relative to depopulation during the second half of 2022. With that, Mr. Chairman, I'll open it up for questions.

Chair Beruff: Mr. Gilway, I have a couple questions and then I'll open it up to other Board members. Ida, which is the second largest loss in U.S. history, was that spread out over more states since it went up through the central . . . does the reinsurance (obviously, it's global) . . . Does that make it a little easier to tolerate since it was probably over seven to eight states as opposed to Hurricane Katrina which was more focused in the Louisiana Mississippi area?

Barry Gilway: Absolutely, Mr. Chairman. I think if you tracked Ida there were significant losses – New York – flooding, Connecticut, and all the way up through that area. So that storm, you know, was really spread out over a very, very wide area. It didn't have the concentration that you had in Katrina.

Chair Beruff: I guess my commonsense reasoning says that you spread the risk over more areas so that the hit isn't as bad as a concentration dollars and cents wise because it's in different insurance markets.

Barry Gilway: Yes. I think RMS is indicating something in the $30B to $40B range. AIR comes up with something in that $44B range for the loss period but, it's spread out. One of the important things for us is that several years ago, and I'll keep this short, several Florida domestic companies started diversifying their book of business and they diversified into different coastal states – Louisiana, Alabama, Mississippi, and North Carolina. There was and has been part of the losses in 2020 is that, you know, diversification strategy, as Governor Telemaco knows, is an excellent strategy, so you don't have the concentration. But they got caught in a very bad situation because they had more concentrated risk, you know, in other coastal areas they got hit with multiple storms. That definitely impacted the 2020 industry results. We only had two companies (and we tracked this . . . Kelly and Jennifer tracked the numbers) . . . There are only two companies that have any concentration. One company had about 8% of their business in Louisiana and one company had about 7% of their business in Mississippi. Other than that, the Florida domestic companies did not have significant impact, and that really would be what hits directly the Florida domestic market.

Chair Beruff: My second question is you said our commercial business is actually is not growing; it is actually getting smaller. What are our limits and is the valuation of real estate in Florida make it impossible for them to come to us because our limits are too low?

Barry Gilway: We are required on the residential side by statute to offer comparable coverage. We do offer comparable coverage, but we only offer a basic commercial form. That basic commercial form does not cover collapse. Collapse is not a main peril. There are a lot of discussions going on right now in terms of whether there was appropriate coverage placed, for example, on Champlain Towers. The reality is when you place a commercial risk and you're placing a sophisticated commercial risk, you place a base-risk and then you place what you call a difference in conditions (DIC) policy. A DIC policy extends limits and provides additional layers of coverage. So, for the most part commercial insurers do not find, you know, the Citizens insurance policy to be a competitive policy in the market. That is clearly restricting the growth because particularly given the fact that we don't, under a named peril, is not collapse. Of course, we have… what we are trying to guard against here is additional Champlain Towers collapse type issues. Our policies tend to not be competitive from a coverage standpoint.

Chair Beruff: Any Board members have questions for Mr. Gilway?

Nelson Telemaco: So, we saw that Gulfstream ran into some problems. Do we anticipate any other companies going into similar problems in the next six months or so?

Barry Gilway: Can you repeat that? I'm sorry. I'm a little hard of hearing.

Nelson Telemaco: Gulfstream insurance company ran into some problems. We ended up picking up 14% of their 32,000 polices. Do we anticipate any other similar stories with other insurance companies in the marketplace?

Barry Gilway: That is a very good question because although this is doom and gloom, right, it's not the worst-case scenario. As we discussed in the committee meeting yesterday, Kelly and her team do scenario planning. We do worst case scenario, so we'll create scenarios based upon different events. The two events that could dramatically change the marketplace . . . when you have a set of 51 insurers that have not made any money for four years, their financial condition is horrendous. So, the problem fundamentally is that if the rating agency, Demotech, decides to downgrade companies (because some of them are at the minimum statutory surplus level and the minimum premium surplus levels) . . . If there were a significant move to downgrade companies, then our objectives or our forecasts go out the window. It would be significantly higher. The second issue, of course, is that we are right here at the midpoint of hurricane season, and we have been extremely lucky so far that we have not had a major storm hit the shores. That would have an impact on the marketplace, pretty dramatically. We are not in a worst-case scenario situation. There are capacity restrictions, but unfortunately it could be worse if the ongoing profitability of these companies gets to the point (either risk base ratio or their premium surplus ratio – there are a set of ratios that are tracked by the OIR) . . . When these ratios get out of sync, then Demotech may be required to react with a downgrade. That would have a significant impact on our volume.

Erin Knight: Yesterday, we spoke a bit about marketing and education for consumers looking beyond just Citizens within the marketplace. So, as it comes to the litigation side, we're tackling it with legislation in some of those pieces . . . but is there anything that we're doing to educate policyholders on things to be on the lookout for, assignment of benefits and things of that nature?

Barry Gilway: That's a very good question (I'd ask Christine directly) but we don't have any programs that go out to the customer. We have extensive programs that go directly to our agents. As you know, we have over 8,600 agents, you know, representing our customers. Our educational program is really focused on getting to the agents and letting them know and getting them engaged. Florida Association of Insurance Agents (FAIA), for example, gets actively involved in the legislative actions. They have taken very aggressive moves as has Latin American Insurance Agents (LAIA). They are very active here from a legislative standpoint. The agency organizations get very active, but we do very little, Governor Knight, to actually contact customers directly with education. We do have education pieces going out. For example, we've had pieces on hurricane deductibles in understanding the hurricane deductible. But I'll ask Christine to comment on any of those areas.

Christine Ashburn: We recently launched a quarterly newsletter for our policyholders to hit on hot topics. We have a bevy of brochures that we also mail as part of our policy packets (AOB and managed repair programs). We do some key marketing programs. As it relates to legislative changes, we do not directly market. Educating on key issues and problems and awareness issues to make sure AOB scams are not being perpetrated. We do include materials in our policy packets. The newsletter is going to be great. It's going to be digital, and it allows us to talk about current topics and upcoming changes. So, we are getting more and more involved in directly marketing to our customers on a bevy of issues more recently because of what we are seeing out there with public adjusters and lawyers and some of those things, in trying to educate our customers on what that means. And fraud - that's another key area: when you get a free roof, and you didn't need one that is insurance fraud; and everyone pays for it.

Barry Gilway: Your recommendation, governor, is a really good one. I think we really need to focus on how we get more effective directly with the customer. They really have to understand the dynamics of sort of what is happening in the overall marketplace. I think that is an area we can take away and see if we can get more aggressive relative to direct contact.

Erin Knight: The digital newsletter would be ready in the future?

Christine Ashburn: We launched it June of this year. The first issue went out in June, and we have a secondary issue going out this month; it may have already gone out. So, it is a quarterly newsletter that allows us to interact with our customers directly on whatever the hot topics are. Whether it's about what kind of coverages they can get, about depopulation and why they would want to leave Citizens. It's about assessments, managed repair, what is insurance fraud… anything that is a current topic… legislative concepts could absolutely be part of that. One of the big issues we want to help with is the Managed Repair Program and make sure that if you do have a water loss to use the managed repair services in the actual contract services that we have. We have one in June, and we have one in September. Those will go out quarterly. If we find there's a need to do more, we will do it. We don't want to inundate our customers to the point that they don't want to read anything.

Erin Knight: Not to belabor the topic, but there's someone I know who had an instance a few weeks ago with an insurance issue at her home. The next thing she knew was that an adjuster was coming. I said "Wait. Was that person sent by your insurance company?" It was sent by the plumber, and she had no idea. We stepped in and called her insurance company and they said, "No. Wait." Again, she had no idea that he was there ready for her to sign a bunch of papers. So that is what triggered in my mind that it's here in South Florida.

Christine Ashburn: Yes. It happens all the time. One of the big campaigns that we've had for several years is the Call Citizens First campaign to remind customers that when you do have a claim you should call us first. What we've learned is that after a hurricane customers will do that. First notice of loss, once you have a hurricane, people do call their insurance companies first. But, when they have a water loss or roof damage from something random, it's not as frequent that they call us first. They call the plumber. They call the roofer. That is where some of the bad schemes start to happen, right there.

Jillian Hasner: Mr. Gilway, can you report on the recommendations of the Auditor General's August 2021 report and how Citizens is addressing this?

Barry Gilway: Yes. I think as we advised, we have completed the Auditor General (AG) report. I won't go into great detail, and I am more than happy to share a presentation. Whether it's market conduct audit, internal audit, or an Auditor General audit, it's really monitored by Joe [Martins] and John Fox within the audit organization. They identify what the findings are and then they progress with all of the follow up. It's the same way the way you do, Governor Knight, in a typical audit report. I'll briefly go through the key findings of the Auditor General's report, and then let you know what the status is. The progression will be tracked. The first finding really was that there are really only 12 insurers participating in the Clearinghouse, and their recommendation is that we work to attract more companies to participate in the Clearinghouse. Obviously, as you've heard many, many times, that is a key objective of ours. We are constantly trying to get more companies to participate in the Clearinghouse mechanism. We are not being successful recently. In fact, given the market capacity restrictions, obviously there are fewer companies that are actually quoting out of the 12 companies that are participating. We recognize their recommendations. We agree with it as part of our overall strategy. The second recommendation from the AG is that the Clearinghouse continues to need enhancement and all application policies submissions and renewals are submitted through the Clearinghouse for consideration . . . they recommend that we enhance the management controls and ensure all applicable policy renewals are submitted through the Clearinghouse. We agree. I think Kelly has reviewed this with the Board previously that we will be procuring a replacement for the whole Clearinghouse operation. I believe it's a year and a half, Kelly?

Kelly Booten: Yes.

Barry Gilway: Thanks. We are procuring a replacement, and that will be the idea to get a much more sophisticated and much more comprehensive approach to consider for the Clearinghouse. We agree with their overall finding. We do believe that the controls could be better. I think the direct comments were that some policies are missed as we go through the Clearinghouse mechanism. That is accurate and we are working to make sure that all policies are actually considered in the Clearinghouse before we admit them. The next item we had is maximum loss financing. While Citizens continues to take reasonable steps to minimize its net financing costs, the cost to carry, it may be possible over time to further reduce these costs as premiums collected become more consistent. This is a recommendation you've heard from Jennifer, going into this meeting. We used to be a very big buyer of not IOS bonds but of pre-event bonds. Jennifer indicated in the Finance and Investment Committee (FIC) report yesterday, we only have two bonds remaining and we are going to… for one of those bonds she has a recommendation in front of the FIC to call that bond. I believe the savings that she indicated would be something like $5.6M by calling that bond prematurely. Then, we will only have one bond remaining, and that will be for 2025. That will be treated the same way. We have not been in the market for capital market bonds since 2015. We agree with the AG's recommendations. We are on target to get out of the capital pre-event market bonds. The next recommendation is Citizens' Office of Internal Audit (OIA) did not demonstrate compliance with professional auditing standards by obtaining an external assessment at least every five years, and we recommend that the OIA management obtain an external assessment. This was already planned for October. It's a correct assessment. We should be doing an outside assessment every five years to be in compliance; we were not but it is planned for October. So, by the following October we will be in compliance. The next item was to select administrative activities. As noted in our report, Citizens did not always timely cancel purchasing cards during the cardholder separation from Citizens' employment. This is actually a repeat recommendation. We recommend that Citizens management strengthen procedures to ensure purchasing cards are promptly canceled when there is a cardholder separation. This was taken care of in February 2021. We're already in compliance with this recommendation. I missed one, and that is select administrative activities. Some employees did not show evidence of signed users agreements obtained from prior authorization the use of Citizens-owned mobile devices. The recommendation obviously is that we put these structures in place and we have. That is an area that has already been fixed as a consequence of the completion of the audit. There were other areas that we cannot discuss that are IT-related. We consider these trade secret. [laughter]. They are not trade secret, but they are not to be discussed in a public forum. There are issues with our technology security that they've identified and the fixes that we have in mind. That is not something we would discuss in a public hearing. That would be the summaries.

Erin Knight: Thank you.

Chair Beruff: Governor Reynolds.

Reynolds Henderson: My thing is what Christine was saying before. Are we utilizing the retail agents for this information to go straight to the consumer? Are we using our retail agents, not just sending it out from Citizens? Because a lot of people get those things and throw them away. But the retail agent is who they have their relationship with, and who you want them to have their relationship with.

Barry Gilway: Yes, Governor Henderson. As Christine was indicating, we do rely heavily on our insurance agents to communicate directly with their insureds, from a claim's perspective and from a claims processing perspective . . . new issues and new programs that are introduced, etc. But, as Governor Knight indicated, I think the idea of expanding our communications directly with the consumer, you know, with Citizens absolutely makes sense.

Reynolds Henderson: Maybe in light of some of this information, you know these people have plumbers coming by trying to get people to sign things. You know lawyers are coming by to try to get them to sign things. Go ahead and instead of giving them information that says, "This is what AOB is," get the retail agents to give them some instances . . . "And when this happens, don't do it. Call me."

Barry Gilway. I agree, Governor Henderson. Governor Knight's example is a perfect example. For example, if an adjuster comes to your home following a plumber entering your home in doing some repairs, then the first question that they should ask is, "Is this adjuster from the company or is this adjuster from a paid referral from a contractor?" I think in Governor Knight's situation it was actually a paid public adjuster. And the way public adjusting works is that if you work with a public adjuster (and there are good public adjusters and there are bad ones) . . . But if you work with a public adjuster who doesn't represent the company, but they represent the insured, and the insured pays for it. The limitation is basically 20% of the fee. These are the kinds of things, I think, that we can communicate. In a catastrophic (CAT) event it's 10%. That is not in addition to the settlement number. That is paid out of the settlement. In Governor Knight's situation, if that individual would have used a public adjuster that person would have had to pay 20% of their settlement to the public adjuster. They might not even know in many cases who the adjuster is. They would have signed a public adjuster agreement and then they're on the hook for 20% of the actual settlement that they get. In many cases, it is resulting in the consumer not even being able to get enough to cover the claim. But, to your point, Governor Henderson, I agree completely. Educating the consumer more effectively on areas in making sure that they are asking the right questions is a great suggestion.

Reynolds Henderson: One last comment about the Clearinghouse. I've heard – one reads from the agent that the Clearinghouse is not fun to go through. If we can have more engagement on ways to better that, it might help with participation.

Barry Gilway: Yes, sir. The Clearinghouse is very difficult to go through, and it is the nature of the Clearinghouse. In order to sign a company up for the Clearinghouse, we have to make sure we're asking the set of questions that the company is insisting on. When you have 12 companies with 12 sets of information that they might require, some consistent and some not, then you tend to have a far greater, a much larger package of information that is required to process something through the Clearinghouse than what would be typical for an insurance company because you are asking many, many more questions. That is, frankly, why Citizens is rarely used as a "first resort option" because they do not like going through the Clearinghouse process. It is a far more complicated process. There are so many good ideas on the table that Kelly would like to include, for example, incorporating a multi-company quoting mechanism as part of a new Clearinghouse. I can go on and on with the recommendations, but it is really right in line with recommendations that were made by the Auditor General. There are going to be many ways that we can improve the overall Clearinghouse operation to make sure that everything goes through, everything is vetted, and do it in a much more streamlined way.

Erin Knight: Just a simple question on the newsletter – is that done in multiple languages, especially here in South Florida?

Christine Ashburn: That is a great question, Governor Knight. Initially we had not done it in multiple languages. We actually received a request. We also do an "advisor" for the legislature that goes out monthly during a session, and we have been asked by a member of the legislature to translate that document for their constituents. So, we are going to work on a Spanish language version. I will say that all our brochures, which, by the way we've mailed 33,000 brochures to retail agents already this year, free of charge. All our brochures are available in Spanish and in English. So, we are working to translate to start at least in Spanish for our policy newsletters and make that available on our website.

Erin Knight: Can I recommend Spanish and Haitian Creole?

Christine Ashburn: Yes.

Erin Knight: Thanks.

Nelson Telemaco: I got another question on this topic of training and educating customers. Is there a considered effort for them to be educated on who Citizens is? It is not a traditional insurance company like most insurance companies that would want to attract customers. In this case, it's different, right? At the same time, we are looking to serve our customers, right? So those customers that are well-served by claims and our customer service reps, we just don't want our customers to feel like they want to stay for a long time. It's a balancing act. It's a very challenging and almost counterintuitive challenge that we have to deal with. So, I'm just curious in that educational agenda that we can address that as well. Just letting them know if you're with us, great. We will serve you, but we will serve you into your next phase with the private market.

Christine Ashburn: That's a great question. It is a balancing act. When we were a smaller company, we really didn't need to be as focused for obvious reasons. We do want to treat our customers well when they are with us. But, to your point, we don't want them to stay. Our most recent newsletter had an article about why you want to leave Citizens when you have a depopulation offer because we talked briefly yesterday about exposure reduction. I want to look at the letters that go out in the depopulation process to make sure we're educating them. While it may be cheaper on a piece of paper today to stay with Citizens versus this company, are you aware that we could assess you? We must be careful because we have reinsurance [to help cover charges] should a major event to occur but Citizen's policy surcharge is 15% per account. So, if we were assessing three accounts, our customers could pay 45% surcharge on their premium. So, it would make more sense for a customer to pay 10% more and take the offer and leave. That is actually what Carl Rockman and Kelly's shops are sending letters this morning so we can review those. And, I do think we have an opportunity in those depopulation letters that when the letters go out, we can better educate why they might want to take it even if it's a little more expensive because of what could come after a storm if we had a worst-case scenario.

Nelson Telemaco: Great. Thank you.

Marc Dunbar: Mr. Chair, it's Marc.

Chair Beruff: Go ahead, Governor Dunbar.

Marc Dunbar: I thought that was a great question. Just a quick follow up on that, Christine. Can we ask the other insurers if they would like to include something like in our materials, "pick us and not Citizens" where they're able to show a contrast of what they offer versus what we offer? So, they can almost advertise for our customers inside of our materials we're sending out?

Christine Ashburn: I don't know if we do that today, but I think that's a great idea. It used to be that the carriers themselves worked through the opt out process.   The 2017 legislation changed that, and we've taken over. But I always think there is an opportunity to use marketing materials that the carriers would want to include. We can absolutely look into that.   It's a great idea.

Barry Gilway: The only addition I would make on that, Governor Dunbar is that when the business goes through the Clearinghouse, there is a comparison not only on rates, but also coverage is included. As a result of moving through the Clearinghouse, if there is an interested company, then the insured would receive both a rate comparison along with a comparison of coverages compared with Citizens. So, that's an opportunity, for example, for a company to communicate, "We have a $300,000 liability limit which is a big issue at Citizens which is limited to a $100,000 liability limit by statute."   The other companies do tend to emphasize during the Clearinghouse process what the key elements are for their particular coverage.

Christine Ashburn: And we could probably do more on the depopulation side to allow carriers to market at the point of sale, for sure.

Chair Beruff: Anyone else?   I have a quick question. What percentage of the applications that are coming through are not being seen by other carriers because they cannot get through the Clearinghouse?   I heard you say earlier that some of them are not able to assess the other insurance companies. Are some policy's coming directly to Citizens, then?

Barry Gilway: No. Policies are going through the Clearinghouse mechanism.

Chair Beruff: All of them?

Barry Gilway: Yes.   New and renewal. So, for example, if we have. . .

Chair Beruff: We never get a policy that no one has ever looked at?

Barry Gilway: I'm sorry?

Chair Beruff: We never get a policy . . . Because there's a glitch in the system, no one has been able to look at?

Barry Gilway: There have been glitches in the system.

Chair Beruff: That's my question. What percentage of that?

Barry Gilway: I'm trying to think . . . I don't think it was provided in the audit report, but I would say it is very low. Kelly, do you have an estimate of that?

Chair Beruff: If it's around 2% to 3%, that's one thing. I just want to try to get how big of a problem that has been.

Kelly Booten: It's very minor. It's a small percent. It's just when there are certain characteristics of a policy that can't quite make it over. We have to fix it and send it back through. But I do want to clarify that we do not send any commercial policies through the Clearinghouse, and there might be a couple minor form types that are low volume like the ones that we are retiring that have very small volume.

Christine Ashburn: And that has to do with the fact that there is no point in sending someone through the Clearinghouse if the carriers are writing that line of business.

Kelly Booten: Well, you also have to have a willing participant in the Clearinghouse side, so we spin it up once we have a Clearinghouse carrier who wants to take those policies. So, we've added over time… A home was recently added a couple of years ago that wanted to take mobile home. There are just a few form types that don't go through, plus commercial.

Chair Beruff: Okay. Thank you. Anyone else? Then it's my turn.

3. <u>General Board Discussion</u>

Chair Beruff: You'll see on the agenda that I've set aside an hour for discussion. There's a purpose for that. First of all, the senior members on this governing board are Mr. Dunbar, who has been here for about three years. Is that right Governor Dunbar?

Marc Dunbar: Yes. Going on four years.

Chair Beruff: And Mr. Henderson. So, the rest of us are relatively new. This is the only forum where we get to discuss what we want Citizens to look like. So, I wanted to ask everybody because I have my own opinions of what we're supposed to do. And unfortunately, for all of us on this Board, we've been tasked in a very difficult time because we have significant challenges. The growth to Citizens imperils the ability for us to perform in the case of a catastrophic event. Even though we have significant reserves, we can easily go through those reserves rather quickly. We have that challenge. Then, we have the challenge of staffing up in order to be able to competently handle the business which relates to some of the things we mentioned earlier, rightfully, and that means you have to promote people up and then you have to bring in new people and so forth. So, we're running a business in which we have no choice but to grow it, but then our mission is to collapse it. So, what does that do over time to your staffing and to your overhead levels because obviously you have good people that you move up a ladder, and then when it collapses, you're never going to cut their pay. So, what does that do long term to the organization, and how do you even begin to think about how we're going to do that because our mission is to be the insurer of last resort. That's our mandate, which we clearly have not been. And we, at this Board at this point in history, are tasked to try to administer all of that. My purpose is simply that I don't want to be part of a Board that ends up (because we didn't end up running the business right) assessing all the policyholders in the state of Florida and essentially taxing them because we didn't do everything, we could try to keep this business at a level that is sustainable. The other thing is that we have been operationally a non-profit for how long? How many years?

[inaudible]

Chair Beruff: Right, an underwriting profit. As one of the least knowledgeable insurance guys on this board, I've learned from Mr. Gilway (who has taught me more than I want to know) it's really a simple business to watch if you take all the weeds out of it. Mr. Gilway has spent his career in the private sector. Basically, one of his . . . he worked for a company in which the mission was to buy insurance companies, and he said, "Carlos, when we looked by insurance companies, we looked for them to be 5% operationally profitable and the rest we would take on the float ('the gravy'). When we bought a company that was 5% operationally profitable, then the intent was because of efficiencies of scale you can bring on maybe 1%, 2%, or 3% more to the bottom line." So, I said, "What do we do?" We operationally lose money. What happens is that we make money at $6.8B that we have in float which generates significant income and then take and sticking to the operational side of the equation. But what that does is it under serves people that we have to process claims in a catastrophic event because we're not building up that reserve in order to accommodate the growth. These are kind the kinds of challenges . . . I don't have the answers, but I want all the Board members to agree that these are some of the things that we need to look at and how are we going to solve those problems. This is our forum because we operate in the Sunshine, and the only way we can take direction collectively is all of you to voice where you think Citizens' future is. I happen to think that my involvement for almost a year now is that the staff is "crackerjack staff." They know what they're doing. I think they could be more successful in the private sector financially then they are with us. [Laughter]. We are an agency that has the full credit of the state of Florida behind it, in one form or another, to pay the claims. Those are my comments, and I am happy to have every Board member comment. We can take half an hour, one hour, or three hours. I don't care. It's important for us as a group [to determine] how we want to move as an organization and what are our goals. We may not have all of that in this discussion today, but I want at least an opening discussion. Then, in future meetings, as we progress, and we continue to see what's going on with the market which is not in our best interest at the moment . . . And the legislative fixes are a big deal. SB 76, I'm not sure how that will all pan out. I'm hopeful. Mr. Gilway was of the opinion that one of the reasons we were successful in the reinsurance market in May was because he was being peppered with significant questions on the viability of SB 76 getting implemented. That was part of the discussions we were having with the reinsurance companies. So, who wants to comment? Mr. Henderson?

Reynolds Henderson: Thank you, Mr. Chair. You laid it out very nicely, and I certainly don't plan on taking an hour. [laughter]. You talk about "crackerjack staff." They've heard about what we're bringing up with education and proving the technology. You know, you brought up the idea of a direct-to-consumer model. I think a hybrid model would be my opinion of the best because the retail agents, if they are really willing to do it, then great. I don't mind them getting the commission because that's good help for the insurance market. However, the Clearinghouse is a glaring example of what we're going to be dealing with. If you have a small policy, they're not going to want to deal with all the paperwork that's involved with it and the headaches. I think we should look at some hybrid model where if somebody wants to come direct to us, then staff could accommodate for that. But I wouldn't want that this be a straight, direct business. That's my view.

Chair Beruff: As some of you have already heard, we pay about 7% commission on the business that comes in and we pay it on all the business because we do not get any direct-to-consumer purchases, correct? So, the direct-to-consumer method is occurring in other markets today successfully. If you have a business that you really don't want to grow, why would you incentivize the behavior by giving anyone a commission? Obviously, that didn't go over well with the agents, but I'm sort of the guy who sticks to what he thinks is the right thing to do, when the right thing to do is to not have this company be as big as it is and risk having a catastrophic event and us being able to finance it as we need to. Mr. Henderson said that there is a hybrid that you could do because we could cut back on some of our operational cost by reducing the commission expense. At the end of the day, that's just one idea but hopefully we have others. But I also really think that the insurance business according to some of the discussions I've had with some of the insurance people is continuing to go more on huge amounts of data. Decisions are being made by algorithms as to who is being insured depending upon the data that's put in, and we do that now. The insurance agent . . . for example, what is the quantity of claims that come through an agent? Of all the claims, how many come directly to us and how many go through their agent to make the claim? Does anyone know? Less than 10% come through the agents? The point is that you go back 40 years is that our parents knew their insurance agent. When you had an insurance claim you called your agent, and he or she would get involved. Those days are long gone. 90% of claims come directly to us. So, essentially the agent is no longer providing the same services that historically we paid commissions to provide. They are just bringing in the business and getting their check and they're done. Again 90% of the time the claims, according to our staff, are coming directly through ours. That is part of the reason why you see direct-to-consumer insurance being more and more implemented in places because it's an overhead cost. 7% is a significant amount of money. What's our total dollar amount in revenues on policy revenue?

Barry Gilway: We will end the year at about $1.75B.

Chair Beruff: So, think about what 7% of that represents directly to our bottom line or some percentage of that to offset the operational loss that we're incurring. Yes?

Erin Knight So, can we talk through what would be needed on a hybrid model from a staffing perspective? On the company side, what would those expenses look like? What would the experience be?

Barry Gilway: One point of clarification. I know this is a Board discussion, but one clarification. In terms of staffing, you'll see in your vendor contracts is that the way we maintain staffing consistent over time is that we use internal staff and then we use vendor agreements. So, we have substantial vendor agreements. So, the whole purpose in that is to increase our overall vendor spend because that's based upon, you know, policies processes, policies underwritten . . . if there's a direct connection between the policies in force (PIF) and the vendor spend. Then, if policies go down, then it's not impacting the staffing count. It's impacting the vendor cost. We try to maintain a balance of around 50/50 of that; however, Governor Knight, it's probably gearing more towards 60/40 because the vendors have more access, because of their geographic location, have more access to the talent that we need.

Erin Knight: Is this the contingent staffing line item?

Barry Gilway: Yes. You'll see in our budget we track an estimated number of staff and contingent staff by division.

Kelly Booten: It's not just in the contingent staff bucket. It's in the other underwriting expense bucket where a lot of the business process outsourcing is. I just want to clarify that.

Erin Knight: I'm asking what is the trade off? We have 7% but help us understand the other side.

Barry Gilway: We can have extensive discussions. We have not done a complete business model to take a look at either going to a full direct model or doing a hybrid model as suggested by Governor Henderson. My personal opinion is that what we're paying the agent for is their relationship with the customer, and not necessarily just claims, but their relationship with the customer, and most importantly, we're paying the agent because they are actually deferring business away from Citizens. The numbers I quoted earlier . . . for example, Gulfstream had 32,300 cancellations. The independent agents placed 85% of that business. That's 85% of the business that did not come to Citizens. I think to really assess this long-term you really have to take a look at the role and responsibilities of the agents and then what you would have to replicate, you know, from a company standpoint. I think with very rough numbers, Kelly, early on . . . At the current level, I think you would have to hire an additional 800 more staff or related contingency staff to keep up.

Kelly Booten: You have to have licensed agents to process that business once your internal staff. We have to take the current projections on what we have today (of course, that would have to take into consideration of reducing) and map out some numbers. 800 is about right for a "back of the napkin" number. That's based upon the model that exists today without changing the technology and infrastructure underneath it. I think the first step would have to be to look at the infrastructure that it would take to go direct. Then we would map out the staffing.

Erin Knight: Right. I meant all aspects. What would we need to factor and consider?

Kelly Booten: The technology, the licensed agent, the other processing we would have to do internally, call center volume because you're going to have more of that . . . all those things must be considered as a business case so to speak.

Barry Gilway: Governor Knight, you'd have to do a very, very comprehensive cost benefit analysis to compare one model versus another. I agree with Chairman Beruff. Ultimately, without question, the overall industry is moving towards insurance tech capabilities . . . doing online capabilities. But, as Governor Henderson has indicated, many times today you don't have a lot of individuals signing up to work with us on a direct basis. I think if we were to recreate a different model then you can really assess what the difference would be economically. But you would have to do a complete . . . it's a such a different model. There are only two companies in the state that really do anything close to a consumer company approach. They are relatively new startups. There are companies like Lemonade which is probably the most famous one that is developing those kinds of models, but they are truly, truly in their infancy at this point.

Reynolds Henderson: Tesla is a great example. They are trying to force you to buy your car online, but people still like to go to the car, and touch the car and here are all the options. We'll probably all eventually move in that direction. The timeframe is going to be a longer one. I think we will get there one day. I would like to see all the business models before we can make any decision.

Barry Gilway: In the interim, Governor Henderson, we are spending considerable time . . . as you know, you have been a driver behind this . . . we have been spending considerable time taking a look at our overall platform and making the platform very consumer-centric so they can conduct more activities online. That is a long way away from having a direct-to-consumer fully operating model. I think we are moving in that direction over time, testing out what it will take to put in a pure and sure tech model together. It would take several years and a whole different game plan in order to accomplish that. The Chairman and I have a difference of opinion in terms of the role of the independent agent in the system. All of you have independent agents and some of them are far more involved than others. The biggest component of the independent agent system, from my perspective, is the ability to basically interface with the customer and direct the customer to multiple carriers that might be writing in the business. As Kelly said, and I'll drop off after this, it doesn't change the model. Even the insurance tech models must have a licensed Florida agent that is there to provide advice and counsel to the customer to discuss coverages with the customer appropriate coverages. They have to be licensed agents in order to do that. They need to have a 200/400 license to do that in the state. That doesn't take away the fact that you have to have to have licensed professional consultants, but I couldn't tell you today whether there would be a cost savings. Yes, it's $90M . . .

Chair Beruff: . . . $122M.

Barry Gilway: Yes.

Kelly Booten: The other thing I want to add is the reason why we focused on the FMAP and Clearinghouse engines that I've been reporting on at the last FMAP meeting (and we did again yesterday) is because in order for us to even consider anything like this, we have to take care of the eligibility portion of it upfront. We need to make the markets available to these folks to go somewhere else first. That really has to be the crux of it. That's the feeder to any vision that you want to have, but we felt like that's the first place to start.

Chair Beruff: Well obviously we're not being very successful since we are growing at 100% rate. What we're doing isn't working. I'm sort of the Albert Einstein "do the same thing; expect a different result and that doesn't seem to solve the problem." To Governor Henderson's point, I agree with him and Mr. Gilway. But, if we as a Board, don't set a policy direction of what we want to achieve, whether it be one, two, three, or four years from now, it's never going to happen. When you're at a Board at this level or at any business at this level, if you're not planning for the future, then why are we here? I'm not planning for next week or next quarter. I'm here to try to make decisions, in my opinion, if you all agree with me, about what the future looks like, four or 10 years down the road . . . Not this year or next year. If we don't do something about it, the next Board will be here with the same problems and the same challenges. So, either we lead and look into the future as to what we want this place to be, or we remain as the status quo. And we potentially take a chance, whether it's this year or next year or the year after, that we have a cataclysmic category five hurricane that hits the wrong area in Florida and cleans our clock . . . And by that, we "clean the clock" of every policyholder in the state of Florida. That's what I'm trying to put the groundwork to prevent. A significant portion of that is all of us understanding that the legislature has a lot to do with that. For example, this requirement that you have to have a licensed agent and all of that is a legislative statutory requirement, which is archaic in the sense that we no longer live in that world where everyone has a piece of paper. Everything that you could want to do and accomplish can pretty much be done online. We don't live in that same vacuum when that statute was designed for. Again, I just want to know where the Board wants to be five to 10 years out. If, indeed, the Board is of the opinion that we should engage the staff to start doing a comparison analysis with direct-to-consumer insurance and what that looks like, I need someone to make a motion for someone to start doing those analyses so we can review them.

Reynolds Henderson: Mr. Chair, I'll make the motion that staff comes back to us at the next Board meeting . . . Is that realistic to come back some real options?

Barry Gilway: I would suggest to you that this is bigger than a breadbox. This would be a very, very comprehensive analysis. Should the Board decide to go in that direction, in order to do the right job and given that we are looking at a long-term proposal, I would suggest that you would give us sufficient time in order to. . . if anything, in December we would come back to you with the timeframe associated of when we could complete a cost benefit analysis that would be worthwhile. You're talking about completely changing the whole distribution system. . .

Chair Beruff: If I can interrupt Mr. Gilway for a second . . . I don't think the Board wants . . . maybe instead of looking at a cost benefit analysis as it relates to Citizens, it might be simpler to get the company you mentioned . . . Is it Lemonade?

Barry Gilway: Lemonade is probably the largest, national direct-to-consumer market.

Chair Beruff: Instead of creating a model that takes staff time, can't we get public information to see how they're doing, what's available. . . they have to disclose a whole lot of things. Do they operate out of Texas?

Barry Gilway: I think they are in Texas. I might add that some of the worst performing companies are KIN, TypTap and Lemonade in terms of underwriting loss.

Chair Beruff: So, they have higher underwriting loss? I want to see their business model. Instead of us tasking staff to redo and analyze our business model, maybe we can get their business model in what they disclosed to see what their operational cost is and their profitability if that's available. If that's trade secret and we can't get any information, then I would request the Board to consider tasking the staff to come up with something by March of next year. We have rates to implement in December and that's a lift which we will get in November according to the comments that we heard yesterday (so, we don't miss the rate filings like we postponed last year). Is that an easier task? Is that information from that company readily available or is it all confidential . . . Direct-to-consumer models. We're smart enough to go, "If we go 50% then this is what happens. If we go 100% then this is what happens." It's simple.

Barry Gilway: We can certainly look at the models for reciprocal insurance for direct insurers and take a look at the economics associated to the extent that we can develop, you know, the information if the information is available. We can certainly look at… Kelly and her team have actually visited and have significant information on TypTap, a company that is basically a spin-off, if you will, of Homeowner's Choice. Paresh Patel, who is the CEO, was incredibly gracious in allowing Kelly and her team to come in and share the model that they're using. I don't believe they got into the economics, but we can see what we can develop. Lemonade is more of a national company. I'm not sure what information . . .

Chair Beruff: At the end of the day, you want to mimic the 800-pound gorilla who is successful. The other company you're mentioning is very small. We're not very small, so I don't want to mimic a small company. I would rather look at a company that is sizable to see how they scale it and what it does for them. But Mr. Henderson made a motion, based on your comment that we're sensitive to . . . so, Mr. Henderson might modify his motion to say that we can get in December at least some of the existing data from the operating company so that we can look at that before we task the staff with doing any significant work. Would you consider that, Mr. Henderson?

Reynolds Henderson: Yes, Mr. Chair. I will amend my motion.

Reynolds made the amended motion to have staff prepare a report for the December Board meeting that includes existing data of a large, direct-to-consumer company so that the Board can determine next steps. Erin Knight seconded the motion.

Marc Dunbar: I agree with charging direction. The big concern I have as it relates to . . . staff gathering data is no big deal. It's a bigger issue as it relates to who sets the policy on what we do. As you pointed out and know very well, we can't do this without the legislature.

Chair Beruff: Correct.

Marc Dunbar: The legislature and the Governor sets the policy that we have to implement, and they have set the policy around how this company is supposed to operate and all of its agents. I was against the study that Senator Brandes asked us to look at because it took us beyond our statutory charge. I am going to be against this motion. I understand that gathering data is not that big of a deal, but, at the same time, I don't think we can go down this road. I think it's a waste of time and precious resources. As you pointed out, we are losing money hand over fist as we repopulate. I just don't think it's the best direction to go in the next year. I think we should spend some time with the legislature and encourage them to look at it and also to ask them if we can look at it and see if we can get from the policy makers' authorization and ability to go down this road. And then, we can charter course. Right now, it's sort of like saying to diversify our risk, we ought to go to the auto market like some companies do. We can look at the auto market all we want to diversify our risk, but we can't get into the auto market without the legislature's approval. For those reasons, I'm going to be against the motion.

Chair Beruff: Thank you for your comments, Mr. Dunbar. To address those comments, my experience (and we both have experience in the legislature and how things get done) . . . my experience is if you don't face them with hard data in numbers as to what can happen, it's very difficult to get them to incentivize legislative changes. If you come to them and say, "We think we should just because," that's not a very good argument. My argument would be "here are the numbers and this is what we think we can achieve, and this is why we need your legislative help in order to achieve that." I differ with you in the tactics. I understand without the legislative lift we cannot accomplish a whole lot. Christine has put together a pretty good package for this legislative season. We've added a fourth item late yesterday. If there is any more discussion . . . Governor Henderson?

Reynolds Henderson: Just to add, what we're trying to do is figure out what would be a good direction assuming this Board wants to go in a new direction. We're not trying to tell the legislature what to do in any way, shape, or form. We take our orders from them. At the same time, like you said, we've got to present something to them that we think is a good idea. If they shoot it down, then they shoot it down. They've shot things down we thought were good ideas, too.

Chair Beruff: Exactly. Any other comments from the board?

Erin Knight: I was going to add that, if we're coming back, I'd like to see an outline of pros, cons . . . what happens if you do A, B? . . . not just the financial data but overall, how does it affect but business in an attempt to educate ourselves as a board, to do what you mentioned, so we don't do the same thing again and again. Give us a comprehensive outline of all the factors that need to be considered as part of that.

Lazaro Fields: I'm not opposed to finding a similarly situated company and seeing what they're doing. I don't think that's a terribly heavy lift. It may be, and if it is, Barry, let us know. I'm not an insurance attorney and I would defer to Mr. Cerio, but if the statute doesn't allow us to implement this kind of model, then I share Governor Dunbar's concerns about going too far down a rabbit hole that we are going to find ourselves in and realize nothing from it. I don't want to waste anyone's time. Again, I'm not opposed to finding a similarly situated company and seeing what they're doing and how it may affect our business model if we implement such a thing, but I don't want to waste anybody's time, especially if the legislature says can't do such a thing the way the statute is written right now.

Chair Beruff: Any other governing Board members?

Vice Chair Thomas: It just seems to me that in terms of the business model here there aren't a lot of similarly situated companies who don't want to write policies. We are an insurer of last resort, and it strikes me that we have to make sure that whatever the model or mechanism is that it is a weed-out mechanism and that we make sure and that we are filling that role only of an insurer of last resort. What it seems to me is that we need a safeguard. I'm not quite sure how the direct-to-consumer model fits with the idea of we are needing safeguards to not writing policies unless we have to. I don't know if that's the part we get out of the agents. If what we've got from the 7% is a firewall against writing policies that we shouldn't be writing, then that is money well-spent. But, to me that has to be the focus whatever the model is. We're not even filling a market niche. The whole point of our existence is for the market that doesn't serve. The market doesn't serve because there is not an economically efficient way to address these risks. On top of that, the legislature won't let us charge . . . we should be the most expensive insurance in the market and not the cheapest. We can't do that. I just think that whatever the model is it has to be one that we have proper safeguards in place that we are really doing nothing more than our niche of an insurer of absolute last resort.

Chair Beruff: Agree.

Nelson Telemaco: Chairman, when I think of direct-to-consumer models, you know, there are usually a couple of overriding motivations for insurance companies to do that. One would be from a distribution standpoint making sure that they have access to their customers. They can communicate directly. They can drive their business without any intermediation and without any friction. The second is to leverage operational efficiencies to a level that's necessary to survive and thrive. I have a question in terms of the second part. Which is, what is our operating ratio compared to other similar private insurers in the state of Florida?

Barry Gilway: This takes a little explanation. Today, it is extraordinarily positive. The overall expense ratio for a typical market is around 27% overall. Right now, ours is 17%. Next year, given the growth, it will be 15.5%, somewhere along those lines. We haven't finalized the projection yet. We are extremely competitive. I do want to point out that as the volume goes up, and you obviously have underwriting expense directly related to PIF, but then you have, you know, standard operating expenses that are not necessarily related to the overall growth of the company. They are stable expenses. It's a numerated denominator problem where growth is going to drive down the overall expense ratio. But, from an efficiency standpoint even when we were at our lowest point (and many were not at the Board at the time), Andrew Woodward (who is the Comptroller) provided an overall presentation to the Board . . . even when we were at that lower level, it showed that we were far more efficient than the standard, if you will, company. We are ridiculously low today, but it is primarily the result of the expenses not increasing at the same level that the revenue is increasing.

Chair Beruff: We have to understand that we are operationally as well positioned is that we are a tax-exempt organization, where our competitors have to pay taxes, which is a cost. We don't have that cost. The other reason that we have been able to accumulate so much in reserves is that we don't buy the reinsurance that they have to buy in order to stay solvent. The deck is stacked in our favor, which doesn't make it easier to reduce the size of this business, which is to Mr. Thomas' comment. As to the commission, when people aren't getting paid, they aren't driving business to you because there is no incentive. Or you reduce the incentive . . . it doesn't have to be all or nothing. As Governor Henderson mentioned, you can have a hybrid, or you can reduce commissions. What I understand to happen, and Mr. Gilway can correct me, there are some large well-organized insurance companies and brokers in Florida who process a significant portion of our policies. We get fed a lot of policies from them because they have figured out how to get through the system. It isn't the one guy who is giving us five policies that I'm worried about. It's the guy who is giving us 10,000 policies because he's figured out how to process it quickly and end up giving the customer the best rate with the most solvent insurance company in the state of Florida which is us. But that's not good for us if we really are back to the mission that we're supposed to have which is supposed to be the insurer of last resort. So, the reason I advocate for this is to disincentivize that behavior. Pretty simple. I don't know how to disincentivize unless you're cutting people's pay. You had some follow up comments, Governor. Please proceed.

Nelson Telemaco: The hybrid or the direct model is a significant lift. We'll start some significant investigations to explore that possibility, but it ultimately will be a heavy lift if we decide to go down that path. At this stage, why couldn't we consider the commission as a specific item, right? At 7%, I would say that is a low commission relative to the industry. It's already a low commission. If it was at 15% or 10%, it probably would be a lot worse, right? What I'm curious about is could we taper that down without any major, heavy lift? Can we taper that down to help the cost? Is that possible?

Chair Beruff: That's a policy that this board sets, is it not?

Barry Gilway: It is a policy that the Board sets, and I think Governor Telemaco's point and comment is right on and that is our commission levels today are significantly below the market. Typical residential commissions would be 11% to 12%. We're paying 7%. I would make an argument that the 7% Commission is not a determinant today. In fact, it is already a good, solid, logical reason why the agents don't come to us, unless there is no other opportunity available. Why would you come to Citizens, which has a more complicated processing system and pays lower commissions if you have another alternative in the market that will pay you higher commissions and is simpler to do business with? You do have to serve the independent agent in terms of that they do provide services to the customer. They may not process a high degree of the claims, but they do provide services to their customer. They track customers. They provide advice to the customers and help them in the selection of the coverages in the forms that they should appropriately have that are the most economical. My personal opinion is that I think the focus is on the wrong thing at this point. I do not believe that the focus needs to be on commissions. I frankly don't believe the focus needs to be on the model at this point. We're up to our "tails in alligators" relative to the overall growth of the company, and I think the Board has identified a number of legislative issues that, in my mind, should be an absolute priority to try to fix the fundamentals of the system first.

Chairman Beruff, you have been very vocal and worked hard with us to identify what are the key elements that really do need to be changed in order to allow us, as Governor Thomas says to really fulfill our overall mission and not be the cheapest on the block and have individuals coming to us purely for competitive reasons. I think there are fundamentals that need to be fixed in terms of the overall operating model. In terms of strategic planning and taking a look at what the options might be down the road, my only request is if the Board really chooses to go in that direction coming back in December, no offense, you're going to get half-baked assessment. Just not going to get a job well done. If you do want an overall assessment and that's the way the Board is going, then I strongly suggest that you give us adequate time to do a reasonable assessment of what current companies are doing in the market who have gone down this track and what some of the alternatives might be. It will be some time before we can do a comprehensive analysis of what the total costs are . . .

Chair Beruff: The Board has not asked for a comprehensive cost benefit analysis. The motion is to simply get some comparable data of other companies. The information can be raw. We all understand numbers on this Board pretty well. That is really what the motion is. It has nothing to do really with a comprehensive cost benefit analysis. If we move in that direction in the next Board meeting or the following Board meeting, then that's a different discussion. But, at this Board meeting, I think, the motion has to deal with just getting raw information and other operators in this environment. Mr. Dunbar has made some very interesting comments about the legislation. I happen to think . . . I've never been successful accomplishing anything in the legislature where I did not give them a "this is what happens, and this is what we think can happen." If we go in there with "this is going to be good for us" without any black and white data, then it's not going to be effective.

Reynolds Henderson: Just one more comment. We tried to lift that cap, and OIR (I think it was OIR) turned us down. The legislature did not override them. I mean we can sit here and not come up with different ideas that the Board may or may not approve. We can just keep going down the path, but kind of what to the Chair is saying is that it's not a good idea to put your blinders on and keep running. Maybe it is but we don't know yet. We need to look at what kind of could be out there. We can't do anything until the legislature tells us what we can and cannot do, but at least let us look at what's out there. That's all what my motion is.

Barry Gilway: For clarity, Governor Reynolds [Henderson], I am not suggesting that we put the blinders on and to simply continue to go down this road. That is not what I'm suggesting. What I am suggesting is, however, that we would owe you the Board a reasonable analysis in terms of what it would look like, what the cost would look like, what the cost comparatives are. And, by the way, one of the things that we've discussed already is that we would need to identify for you (because I happen to agree with Governor Dunbar) we would really owe this Board a complete list of all the legislative changes that would be required in order to move to a significantly different business model.

Chair Beruff: Mr. Gilway, I disagree with you at this point. We're not always going to agree and that's okay. I think, at this point if there isn't any further discussion, I'll call the question. All of those in favor of the motion that has been seconded, say, "Aye."

Marc Dunbar voted against the motion. The remaining Board members voted for the motion. The following motion caries: to have staff prepare a report for the December Board meeting that includes existing data of a large, direct-to-consumer company so that the Board can determine next steps.

Chair Beruff: Thank you very much. Let's go on to the next business.

Marc Dunbar: Can I ask a question?

Chair Beruff: If it's on this matter, no, because we took a lot of time on this.

Marc Dunbar: No, it's not on this. I thought the charge of this agenda item was for the board members to talk about what they would like to see Citizens be and their vision for the corporation and things like that. I wasn't able to chime in and give mine. Maybe we're over time but can I give my thoughts on that? Or do you want me to do that at some other time?

Chair Beruff: Let's hear your thoughts on that.

Marc Dunbar: In thinking of the entity and if I were to look at a crystal ball and what I would hope to see for Citizens is for us to go through a depopulation cycle and get us back down to our baseline. Barry and I have talked about it over the years. It seems like somewhere around 400,000 policies is where . . . we're always going to be very much like a capitalist society in which we're always going to have unemployment . . . we're always going to have those who can't find insurance. They're going to need an insurer of last resort. We need to accept that. I would like to be an insurance company that has a nice, stable environment that looks after its employees and is able to keep them through repopulation and depopulation cycles and know that they will be taken care of regardless. A lot of times the private sector can pay our folks a lot more and I'd like to continue to see our employees taken care of on the salary side where we can within the confines of the oversight that we have from the legislature and the Governor's Office as well as the budget that we set as the Board but also to have a benefits package that looks after them to create an incentive for them to stick around. As a company as it relates to a whole, one of the things I would like to see, and this is not . . . I don't want Christine or Barry to misunderstand what I'm about to say, is that I would like us to see us have greater legislative credibility, so that when we walk in and we say that the glide path has to move, the legislature realizes that the sky is going to fall if the glide path doesn't move or isn't repealed. There were a couple governors ago the insurance industry (and Citizens in particular) took a lot of bad polices that we're trying to unwind, and we've had a lot of unfriendly voices, we'll just say, in the legislature that have undermined our credibility rightfully or wrongfully. We have been fighting, fighting, and fighting. I'd like to get back to a place where when Citizens steps forward and says, "Look we're the canary in the coal mine. We just died . . ." I remember us having these discussions three years ago at the Board level and Barry laid out that we are re-populating. We went to the legislature, and they did not want to listen. They undermined our credibility, and they did not want to listen. I'd like to get us back to a place where Speakers, Presidents, Governors, and the CFO, when we walk in and say we have a problem, that they're going to lean in and make sure that problem is addressed. There are broader issues that are affecting the commercial insurance industry that don't affect us. We don't have to deal with MJ reform. We don't have to deal with Bad Faith reform. We don't have to deal with some of the things that the commercial carriers have to deal with. Whenever we put something forward, everyone wants to jump on our train. I'd like to be in a place where when Citizens has a piece of legislation, then the legislature understands they've got to move that piece of legislation clean so that the broader market benefits from the fact that we continue to stay as the insurer of last resort. Frankly, the last few years that has not been the case. We always get sucked up into the broader insurance discussions. If I had to craft a vision where I think this board should be focusing our energy (and, Chairman, frankly where I think you should be focusing your energy as the chair of the organization) is establishing that credibility with the presiding officers in the legislature and the financial officers and the Governor. When you ask for a meeting with them and you say, "No joke; we need some of these adjustments," they realize that the Chair of Citizens is a busy person. He has taken his time to learn the needs of this company, and more importantly, the needs of the insurance industry in the state of Florida, and they need to listen because you're not going to waste their time. Anybody who has met you knows that you're not chasing third and fourth jobs and appointments for your resume. If you lean into something it's because you feel very seriously about it, and that frankly is what I hope to see during your chairmanship and beyond.

Chair Beruff: Thank you, Mr. Dunbar. I agree with you 100%. The limited amount that I can play in last year's legislative session we did try to make some of those things happen. We have that on our agenda to do next month in October to go and spend some time in FSU land. I appreciate it and I think you're right. Every board member here should also through their own contacts start educating those people that you know because there are too many to hit them all and hit the highlights, but you still need to have support from everyone in the legislature for the mission. The mission now is more critical than when I joined a year ago. When we projected the growth rate to 690,000 to 730,000 policies, at the high end I think the low was 620,000. We all determined that was not the right number. We're going to actually be somewhere between 750,000 and 780,000 policies, that's almost 100% growth in 16 months or in 17 months. It's untenable. Maybe the legislature will be more receptive when we can show them those growth numbers and the exposure that it could do. What I would like to do is that the staff provide, again if it's not a big lift, is some of the modeling that we did last year where a Category 5 followed by a Category 3 affects us but now incorporate our exposure of $220B and what that does to us. It's a lot worse than the models I showed up with last March in Tallahassee. I suspect with the numbers that it becomes almost terrifying. Your comments are well taken, and I think we will follow that direction, at least this Chair will. Anyone else before we move on? I don't think we need a policy to get these scenarios that we did. That isn't a big lift is it because you did them before? You showed me some stuff last year. Do I need to get a motion from the board on that?

Erin Knight: I was going to add, too, if models are being done and projected out (which I think is excellent in looking forward) is whether we can add a couple of variables to it in terms of educating and being aware of potential policy changes. What would the model look like if Citizens were able to increase the premium cost and potentially decrease a commission line item (if you did different cases and see what happens to the bottom line if any of those variables change)?

Chair Beruff: I know I've said it at previous meetings. You guys know what it takes to do some of the things that we request. If there are things that are not significantly time consuming, then I think we should go forward with it. But, if you think like Barry said very clearly a full-blown cost benefit analysis of changing our model is a comprehensive task and will take a long time, we shelved that idea. We're not going to do that. So, if any of the things that the Board is requesting that you think is a heavy lift, raise your hand and we'll talk about it and make sure we have the whole board behind that idea and we're not giving you more work than are comfortable dealing with. If you can accommodate Governor Knight's comments, that would be great. Anybody else? Governor Henderson.

Reynolds Henderson: From a talking point and talking with the legislators, it would be nice to have some kind of unified things that we're talking about, so we don't have one person saying something and another person saying something because this is something that affects everybody in the legislature.

Chair Beruff: So, if we could get the catastrophe stuff that we did last year, updated, regarding the new policies and exposures and circulate it to the Board members and if anybody has any significant comments (obviously we can't talk to each other) make them to Barry or whoever sends it to you. We can modify that so that when we go to the legislature, we are all singing off the same song-sheet which is what I think you want.

Reynolds Henderson: Exactly.

Chair Beruff: I'm fine with that. Anybody else?

Barry Gilway: For clarity at the December meeting, you're looking for, to the extent that we can develop it, an analysis of the current economic models for some of the insurance tech companies.

Chair Beruff: I don't think an analysis is the right word. I just want the raw data. I just want whatever they have to disclose their information to in order to set . . . there's a gentleman I have confidence in who can read those things down here to decipher it for us. Let's get it in December and we'll have a couple of months to deal with it for the March meeting. Maybe we'll have an intelligent question in March or direction that is more succinct with the mission. We'll also know where the legislature is by March because it's an early legislative season. We'll know what we can accomplish or not. If the legislature were to do everything we're asking, we might solve the problem. If not, then we have to solve the problem ourselves that they won't let us. How do we do that? Policy decisions on reducing commissions is a way to slow down the spicket of policies coming in. I prefer the legislature to do the right thing and undo the bad policies that were adopted under two Governors ago that are still on the books because that's the reason why we're here, correct, including the depopulation that was done in 2013 where we basically had to get everybody to sign off on their policy. You can't depopulate 200,000 policies if everybody can opt to say "no."
That's a big, big item that Christine has on her wish list, and it should be an easy lift but nothing's easy when you're dealing with 200 people. Does that better answer your question?

Barry Gilway: We will accomplish that, and as indicated by Governor Knight, we'll do some scenario planning which will include the exposure base scenario planning and growth implications.

Chair Beruff: Correct.

Barbara Walker: Chairman, would it be possible to take a quick, 10-minute break?

Chair Beruff: Absolutely. We'll reconvene at 10:38 a.m.

[break]

Barbara Walker: We took that quick break. We're going to reconvene Citizens Board of Governors meeting with a roll call.

Chair Beruff, Vice Chair Scott Thomas, Marc Dunbar, Lazaro Fields, Jillian Hasner, Reynolds Henderson, Erin Knight, and Nelson Telemaco were present.

Barbara Walker: Chairman, you have a quorum. Sir, do you want to go through the Consent items so that we can address those before the Action Items come before the Board?

Consent Agenda

Chair Beruff: Yes. The Chair will entertain a motion to approve the Consent items. Are there any Board members who want to take anything off the Consent Agenda? Please feel free to do that now.

Barbara Walker: Chairman, we have a few items that did not go through committee. Those are items from number eight for Violet Bloom . . .

Chair Beruff: I have it under letters, so I'm looking at my cheat sheet here. I have an A, B, C through T. I don't have a number.

Barbara Walker: Yes, sir. "L" through "R" are some items that did not go through committee. "B" through "K" went through committee and was approved. S and T went through committee and were approved. Those are available for the Consent Agenda.

Chair Beruff: The motion from the Board the Chair is looking for is to adopt those that went through committee, unless one of the Board members wants to remove an item. I'm listening, Mr. Dunbar. Would you like to remove any of the items on the modified Consent Agenda?

Marc Dunbar: The Reinsurance Advisory and Brokerage Services.

Chair Beruff: We'll remove that item, and we'll discuss it further. Any other Board member who wants to take off the modified Consent Agenda? Hearing none, I'll entertain a motion to approve and move forward with the Consent Agenda minus the item Governor Dunbar removed.

A motion was made and seconded to approve the following Consent Agenda items:

- **B. Board Vice-Chair Nominations/Selection**
- **C. Optional Redemption of Coastal Account Series 2015A-1 Bonds**
- **D. Investment Analytics Software Services**
- **F. Catastrophe Modeling Software Services**
- **G. Enterprise Integration Platform As A Service**
- **H. Technology, Infrastructure, Software, Professional Services and Augmentation, Part 1**
- **I. Citizens Document Fulfillment Services (Print/Mail)**
- **J. Coverage Forms, Insurance Rules and Rating Services Contract Amendment and Renewal**
- **K. Geospatial Insurance Consortium Program Membership**
- **S. Property Inspection Services for Underwriting**
- **T. Florida Insurance Guaranty Association (FIGA) 2022 Assessment**

All were in favor. Motion carries.

4. Chief Financial Officer Report

Finance and Investment Committee (FIC) Report

Updated 2021 Layer Charts

Jennifer Montero: Behind tab four are the updated layer charts. The layer charts that were presented at the July meeting were as of December 31, 2020, projected out to September 30, 2021. The indicated for the traditional reinsurance catastrophe bonds were set for the season and the CAT Fund was an estimate. At June 30th we have a better indication of where the CAT Fund coverage will sit and the amount of coverage we will have. While still estimates, they are pretty good estimates. The actual CAT Fund attachment and coverage will not be finalized until January 2022, post the industry audit. Since we're looking at the actual June data, the probable maximum losses (PML) are lower than we expected for the finalized program projected to September 30th. We anticipate further growth through the end of the year; as policy counts increase so, too, will the PMLs increase. This will shift the coverage layers to the lower return time as we expose more surplus at the top of the tower, where only the most severe storms scenarios exist. The coastal account surplus exposed has remained at 40%. The personal lines account shows the surplus exposed dropped from 65% to 58%. However, with continued growth, we expect the PLA surplus exposed to shift back towards the 65% value. Next slide, this is the coastal account. For the pricing we anticipated 15% growth in the PML between the December 31, 2020, and September 30, 2021. As for 6/30/2021, 11.3% of that growth has been realized. This is why the PML layer in the new chart is less than the July version. We did a very good job guessing the attachment in the amount of coverage we would get from the CAT Fund, with only a little shift down and a slight reduction in the coverage. Most of the private reinsurance coverage is still within the one in 100 PML. A small amount extends up between the 1 in 100 and 1 in 105. As I mentioned earlier, less surplus is exposed in a 1 in 100-year event primarily because the 1 in 100 PML is lower than the September estimates. The difference is small in that it does not change the percent surplus exposed between the two charts. Now turning to the personal lines account . . . for the pricing we anticipated a 27% growth in the PML between December 31, 2020, and September 30, 2021. As of June 30, 2021, 22.9% of that growth has been realized. This is why the PML in the new layer chart is less than the July version. For the personal lines account, we did not do a very good job of forecasting how much growth there would be. So, the CAT Fund estimates were off. Coverage went up a little in the tower $40M and the coverage increased by $80M. Most of the private reinsurance coverages are still within the 1 in 100-year PML. A small amount extends up between the 1 in 100 and 1 in 106. Less surplus is exposed in the 1 in 100-year event primarily because of the 1 in 100-year PML is lower than the September estimates combined with the increase in the CAT fund coverage. This change is not significant, but with continued growth in the personal lines, we anticipate that the surplus exposed will increase back towards the 65%. I'll now pause for any questions for the layer charts.

[silence]

Jennifer Montero: Chairman, the Optional Redemption of Coastal Account Series 2015A-1 Bonds and the Investment Analytics Software Services were just approved in the Consent, so I'll move straight to reinsurance brokerage, if that's okay with you.

Action Item: Reinsurance Advisory and Brokerage Services

Jennifer Montero: Citizens is requesting approval to contract with Willis Re, Inc. for Reinsurance Advisory and Brokerage Services. The services will include comprehensive Reinsurance Advisory and Brokerage Services consisting of access to all traditional risk-transfer markets, brokerage administration services, program analytics, and an annual risk-transfer plan. Citizens' enabling statute requires it to make its best effort to procure catastrophe reinsurance in the private market at reasonable rates to cover its projected 1 in 100-year Probable Maximum Loss. The analysis and decision to purchase catastrophe reinsurance coverage is evaluated by staff each year and a recommendation is made to the Board. Through a competitive procurement process, Citizens has consistently retained qualified reinsurance brokers to advise Citizens on all matters in the traditional reinsurance market related to the transfer of risk of loss from catastrophic events. The brokers have assisted Citizens to plan its annual Risk Transfer Program that spreads the insurance losses from catastrophic events globally and reduces the probability of the amount of assessments of Florida policyholders by limiting the amount of Citizens surplus that is exposed to these losses. Additional services provided by reinsurance brokers, include brokerage administrative services and program analytics. The brokerage administrative services include contract and subcontracting administration, marketing, and syndication of catastrophe reinsurance programs, administering escrow of ceded premiums, ceded commissions, and ceded loss payments associated with traditional reinsurance. Program analytics include catastrophe modeling and meteorology; stochastic reserve estimating; catastrophic risk exposure; and evaluation of risk transfer. On July 15, 2021, Citizens released an Invitation to Negotiate (ITN) 21-0015 for reinsurance advisory and brokerage services. Three vendors responses were received; the responses were reviewed and scored by an evaluation team who recommended that all three vendors advance to negotiations. On September 28, 2021, the negotiation team recommended the award to Willis Re. While all three respondents have the capability to act as Citizens' reinsurance broker, through the evaluation negotiation phase, Willis Re demonstrated outstanding communication skills and the fundamental understanding of Citizens' unique challenges and operating characteristics. In the ITN process, the price of service is not the only selection criteria, but it is taken into consideration to determine the best overall value. While the price for Willis Re is marginally higher than the other two vendors, the negotiation team found that quality and strength of the brokering team, prior relevant experience in placing reinsurance programs and providing program analytics, and ability to provide quality and timely services based on the company culture and key personnel offset any difference in price between the vendors. In addition to having a business segment dedicated solely to the Florida market, the brokering team has considerable experience with placing reinsurance for Florida carriers. Further, the key personnel on the brokering team all reside in Florida. The contract will have a three-year base term with two one-year renewals. The renewals are optional and at the sole discretion of Citizens. The contract amount is $16.7M for the life of the contract, including both renewals. I will pause for any questions before reading the formal recommendation.

Chair Beruff: Any Board comments?

Marc Dunbar: I heard that there was good conversation at the committee meeting. I did not have the benefit of attending, but I did get the Cliff Notes version from Tim Cerio. Here are my thoughts on it. When I saw that we did not go with the lowest vendor, I figured that . . .

Chair Beruff: Governor Dunbar, can you speak a little closer to your microphone because it sometimes isn't coming in clearly.

Marc Dunbar: Sure. When I saw that we were not going with the lowest price, I figured that, for the most part, it's due to their relationships with the team and the history that Jennifer and Barry and I talked about over the years, which I fully support our staff working with the team that they want. I don't have a problem with that. What I will tell you is that if it's between Willis and Aon, it's sort of like biting right Twix versus left Twix. We're going to get the same flavor. Our staff does an incredibly good job and is well known in the reinsurance marketplace so there aren't surprises. We, for the most part, sell ourselves and I know our brokers are certainly part of it. Aon can sell the risk just as much as Willis can sell the risk. Having said that and spending a lot of time on the reinsurance issue over the last couple years, my recommendation and motion is that we contract with the recommended staff vendor for the lower price between Willis and Aon to try and save us some additional money. I don't know what the separation is between the two vendors, but there isn't a significant difference in the services within the market and we might as well get the best price. Since this was an ITN, we do have the ability to negotiate price and ultimately settle on price. We just went through this over on FIGA with an incumbent vendor that we liked the relationships. But, when it came right down to it, the rankings were very near . . . the relationship we had was the higher bidder and we made the motion to go to the relationship if the higher bidder would go to the lower bidder's price. We did it smartly and saved 15% on that and what I think is going to be a five-year contract. That would be my motion, Mr. Chair.

Chair Beruff: So, because you weren't being very clear, the difference between the bid and the contractors is 1.3M, I think. Is that the right number, isn't it?

Jennifer Montero. No. The larger one. Aon was the lowest bid. There was a bigger delta; it was 15%.

Chair Beruff: So, how many dollars and cents is that?

Jennifer Montero: $2.2M

Chair Beruff: Ouch.

Jennifer Montero: I will say that the reason why Aon was able to come in at a lower amount is because their own model has been approved. So, we didn't have a cost to that. Willis has to pass the cost of modeling to the companies now; all the brokers do. That is $600,000 per year which is for modeling. It is not actually going to the broker.

Chair Beruff: I need to un-complicate that in my feeble brain. The $2.2M is without the modeling?

Jennifer Montero: Aon has to use other models as well.

Chair Beruff: And that's an additional charge to us?

Jennifer Montero: Aon is not charging us for their model.

Chair Beruff: Got it, and that's why they are $2.2M lower?

Jennifer Montero: That could be one of the reasons.

Chair Beruff: One of the reasons . . . So, the delta between the low bidder which is Aon and Willis $2.2M over five years. It is still $450,000 more a year. The motion from Mr. Dunbar was for us to issue the contract to Willis Re and then to match the lowest bid, correct?

Marc Dunbar: Yes. It's my understanding (and if this looks like last year's bid) Gallagher rated lower on a lot of things and Aon and Willis were close. I'm assuming it's the same this time around and that's why I peg it to the Aon bid. I have great confidence that they'll sharpen their pencil for us.

Chair Beruff: We have a motion to issue the contract to Willis Re at the reduced price to match Aon's price.

Lazaro Fields: Can we do that? I'm sorry, Mr. Chair.

Jennifer Montero: It was negotiated . . . That price was negotiated through a competitive solicitation during the negotiation phase.

[multiple speakers]

Marc Dunbar: We do have the ability to do so, or we can reject all bids and re-negotiate it again.

Chair Beruff: I think one way or the other, we can "skin the cat." I'm happy to listen to Mr. Gilway. Mr. Fields, did you get the answer you were looking for? Can we do it? I think the answer is yes.

Barry Gilway: The point I want to make is . . .

Chair Beruff: . . . Excuse me.

Erin Knight: Thank you. I have a question on the $600,000 modeling software. My brain is still behind on that one.

Jennifer Montero: So, the brokers run models for us, and if it's part of the reinsurance, then they do that. We have an AIR in-house. But, when it comes to things like ratemaking, we have to have models by law. The non-licensed (meaning not an AIR but the others) they are not allowing the brokers to run that for us as a courtesy. They want us to pay licensing fees for that. For them it's a pass through, but part of the cost was how much each year do we have for modeling. In Willis, we negotiated $600,000 each year to run models.

Erin Knight: And, with Aon? . . .

Jennifer Montero: I don't remember the exact term . . . I probably have it. They had it at a certain amount as well. It was less because they have an in-house model; they don't have to charge us for because it is theirs.

Chair Beruff: So, they meet the requirements in house. It's more efficient.

Erin Knight: It's efficient.

Chair Beruff: Yes. It's sufficient for the reinsurance purposes, I suspect, otherwise, we couldn't . . . I mean their models are just as good as anybody else's. I think the argument yesterday, and correct me if I'm wrong, is to go with a higher priced provider was the relationships and how much they helped you to secure the reinsurance in May of last year. Mr. Dunbar's comments, which I defer to because he's been on the Board longer than I have, is that the Aon relationships are plus or minus at the same as they are at Willis Re. Obviously, you and the staff can argue that from your perspective, but quite frankly I thought the delta was $1.3M. I get confused, but the delta is really $2.2M from the lowest to the highest. The lowest is Aon.

Jennifer Montero: Yes, that's correct.

Chair Beruff: . . . Which is not an unknown player in this market, since they have headquarters there, my sister works down the street from them for 26 years. That's the motion. Is there a second to that motion?

Erin Knight: Is the delta $2.2M or $2.4M? I just want clarification because I thought Aon was $14.3M.

Jennifer Montero: Aon is $14.5M. Willis is $16.7M.

Chair Beruff: So, it's $2.2M over five years. First of all, I'd like to know if there is a second to that motion.

Nelson Telemaco: I have a question just to clarify . . . the motion is to approve Willis subject to them coming down to the price that Aon offered?

Chair Beruff: That is correct, yes.

Nelson Telemaco: What would happen if they did not?

Chair Beruff: They would come back to us in December and let us know how that went.

Jennifer Montero: Aon's does include $500,000 for modeling.

Chair Beruff: It's in their price. So, is there a second?

Barry Gilway: I'd like to comment.

Chair Beruff: I'd like to see if there is a second and then we can continue the discussion. Do I have a second to Mr. Dunbar's motion?

[inaudible]

Chair Beruff: Okay. That's fair. Mr. Gilway?

Barry Gilway: I would like to make a couple of comments. Number one, a competitive solicitation was completed. It was an ITN. In other words, we looked at all aspects. I think I would repeat the comments I made yesterday. Governor Telemaco suggested that I put it in a little more economic term. We believe that Willis has had a history of being able to bring more capacity to the table at the lower end of our estimated range. The impact of that is staggering. So, last year, for example, we placed about $2.36B in total risk transfer, about $900M of that was ILS. The balance went under traditional brokerage which is covered by Willis. If you have $1.6B worth of placement and if we can even get half a point, a quarter of a point difference based upon the negotiating ability of your broker, a half a point difference on $1.6 billion is going to generate $16M in savings. Excuse me. One point would be $16M, so you're looking at about $8M in savings per year. We do believe that the differential and pricing relative to Willis more than offsets the differential. I won't make the mistake in saying that it's minor. It's not. I do think we are setting up a bad precedent if we go through a sophisticated procurement process . . . we make a determination, and the individual evaluators and negotiators do the best possible process in coming up with the best deal and they make the evaluators come up with their decision and then the Board jumps in and attempts to renegotiate the deal. I just don't think that is setting up an appropriate precedent in terms of the way we procure our services. In this situation, I would strongly recommend that we've done an effective negotiation. We've done a good job. We've evaluated the different options. We've decided that basically the advantages of having Willis as the vendor both economically and in terms of overall relationships and capabilities will more than compensate for the difference in price. That would be my position.

Jennifer Montero: I would like to add that this is really Commission sharing. The reinsurers actually pay 10% domestic in 15% in Europe for the commissions. What we do with the brokers is commission sharing.

So, last year's placement . . . Commission on that was $18,718,890. Of that, Willis got paid $3M. The rest was reduced premium for us. It's a commission sharing arrangement that we do with them.

Chair Beruff: So, for clarification, Ms. Montero, that $3M is in addition to our contract with them?

Jennifer Montero: Yes, we wrote that $3M into the contract as commission sharing. The rest of the commission . . .

Chair Beruff: . . . So, we agreed to pay them $16.7M, and in addition to that one, they place the insurance, and they get another $3M?

Jennifer Montero: No.

Chair Beruff: Okay. That's what I'm trying to clarify.

Jennifer Montero: It's $3M for the year. That's what they got last year.

Chair Beruff: So, that got deducted from the $16.7M?

Jennifer Montero: Last year they just had a one-year contract. Governor Dunbar suggested that we do the solicitation, postponing it one year. So, we had to carry Willis over. They had a one-year contract. That's it for $3M. Everything else that was considered commission from the reinsurers is a reduction to our premium.

Chair Beruff: Right. So, we're still paying for it.

Jennifer Montero: It's commission sharing so technically . . .

Chair Beruff: . . . but they are guaranteed $16.7M.

[inaudible]

Jennifer Montero: Yes.

Chair Beruff: If this contract moves forward as presented, we're going to pay them $16.7M over five years.

Jennifer Montero: Correct.

Chair Beruff: It doesn't matter with the commission sharing. We're not going to get any of that back?

Jennifer Montero: As we place it, that commission (that larger commission) will offset our premium. It will make our premium lower if we pay the reinsurers.

Chair Beruff: That is a negotiated deal anyway because we are not going to pay 15%, 10%, or 12% because that would be crazy. It's just part of the business. It does not reduce our cost any essentially. Back to the point, do we have a second . . . I respect Mr. Gilway's . . . maybe part of the problem that we have here is that we are unaware of these contracts until you bring them to us. You come to the Board, and you go, “Here is our recommendation.” But, until that Board meets, we don’t know what the low, the medium is or the high and all that stuff; so, we don’t have an opinion to push back and say, “Hey, guys, I respect what Mr. Gilway is saying with relationships and stuff like that but we still think $2.2M between the high and the low is too much money even for all of that. Maybe we would rather take a chance on another bidder because we don’t want . . .” That’s the problem that I’m seeing.

Jillian Hasner: And, Mr. Gilway, I respect what you’re saying in terms of setting up a precedent. I would like to see a negotiation where you would absolutely try to negotiate to the lowest bid. Even if this is your choice for a vendor, you would absolutely try to come back to us to say, “And, we negotiated this to the lowest bid point.”

Marc Dunbar: It’s important for us to all understand our role. As a matter of law, the decision to spend money is ours, on all contracts like this and we’ve done this before where we have said we are not comfortable with something and let’s go back and sharpen our pencil. There is no precedent that is being set. This is something that’s done at the Board level that we do from time to time. I firmly believe that it helps our management team be stronger negotiators when they have the ability to look across the table, and with ITNs in particular (which really comes down to price at the end of the day), to say, “I don’t think the board is going to approve it. You better sharpen your pencil a little bit more.” When we send the message out there that we will, in fact, reject the bid because is too rich for us, particularly when all things being equal . . . like I said, this is a what do you like flavor-wise, right? The right Twix or the left Twix? These two will do the job in the marketplace, and if you look at the evaluations from the last time around, you’ll see that they scored very similarly. If you ask anybody in the marketplace, they are respected equally. I defer to staff in terms of who they want to work with. So, I support the staff in wanting to work with Willis. I’ve told Barry and Jennifer that consistently over the last couple of years, but I strongly believe that it is the role of the Board to help our management find the best deal because, at the end of the day, it’s our decision making to spend the money. I don’t want the idea… particularly for the new Board members that we are establishing some precedent that hasn’t been done before. It has been done before. We do it from time to time, and we should do it from time to time.

Chair Beruff: Thank you, Mr. Dunbar. Any further comments before we go to Mr. Gilway?

Erin Knight: With commission sharing, does Aon have the same arrangement?

Jennifer Montero: Yes.

Erin Knight: Same percentage.

Reynolds Henderson: Is the issue the procurement process? Or is the issue this contract?

Chair Beruff: I think the issue is this contract.

Marc Dunbar: I’m just trying to get the best value. I’m just trying to get the best price.

Chair Beruff: I brought the question forward; it lacked a second. Do we have a second now? And then, we can continue to have a discussion with Mr. Gilway.

Reynolds Henderson seconded the motion.

Chair Beruff: So, we have a motion and a second. Mr. Gilway.

Barry Gilway: My final comments would be that there is a difference. Although all three vendors in this case are highly competent brokers, we have a history. Two years ago, when we were working with both vendors, one vendor placed 75% of the entire placement where the second vendor placed 25% of the entire placement. You're not comparing apples to apples. You're comparing apples to oranges in terms of the overall performance. That would be my one point. The second point . . .

Marc Dunbar: . . . Hold on. Hold on.

Chair Beruff: Hold on. Mr. Dunbar, let Mr. Gilway finish his comments and I'll go back to you.

Barry Gilway: The second point I would make is that when we go through procurements, it's a two-step process as everyone knows. We have an evaluation team. The evaluation team consists of six or seven individuals who are the most capable people we have in the organization that work both on the backroom and on the front end with these vendors. They are the point people in terms of evaluating in their opinion of who brings the best capability to the table. The second phase of the negotiation is then we appoint a limited set of negotiators who go head-to-head and attempt to get the very, very best price from the vendors. It's not just a matter of taking the price that they put on the table. We have a negotiation team that really attempts to get the very best price from the vendor. I'll leave my comments at that.

Marc Dunbar: Let's make sure we get the records clear. We have never been in a co-brokering arrangement with Willis and Aon. I'm certainly not advocating that here. That was Willis and Guy Carpenter, I believe. I'm not advocating for Aon to be the vendor. I'm not advocating for a co-brokerage. I'm advocating for the best savings possible between two comparably ranked vendors. As it relates to the procurement policies and how we do things, I understand how our policies work. The one thing I will encourage all Board members to pay attention to and one of the things that I've talked to Tim about is, in my experience with both representing clients as well as in bid protests, there can be some ranking bias when you have a personal relationship with someone across the table that's involved in the negotiation. I'm not saying that this happened here. Again, I am supporting staff with Willis. But my recommendation is that you don't have senior staff in these procurements where you have their subordinates essentially reporting up to them when the personal relationship exists there because sometimes friends don't negotiate best against friends, which is why I'm trying to bring the sort of good cop/bad cop in here with the Board looking at it and saying, "Okay. Maybe we (because we don't have the personal relationships) can get the better price and the better value for the citizens of the state of Florida." I just want to make sure we have that clarification.

Chair Beruff: Thank you. I think every Board that I've had the pleasure of serving on my task has always been to be as efficient as possible with rate payer's money and taxpayer dollars indirectly. So, I'm sympathetic to understanding the rankings and such, but I go on the premise that if the team allowed these three bidders to come to the table, then they were all qualified. Or, you wouldn't have entertained them. If that's correct, then I understand Mr. Gilway's comments that this team may field a better outcome. But, at the end of the day, all three were qualified to begin with. I was upset at $1.3 million. $2.2 million upsets me even more. So, I have a motion and I have a second. Raise your hands. One, two, three, four, five . . . Five "ayes." Motion carries.

Five Board members approved the motion (and seconded motion) to direct staff to renegotiate the pricing with Willis so that it comes down to the lowest bidder's price. Three Board members voted against the motion. Motion carries.

Chair Beruff: Thank you very much. Let's go on to the next topic.

Actuarial and Underwriting Committee (A&U) Report

Rate Filing

Jennifer Montero: This is an executive summary, letting the Board know that Brian [Donovan] filed the rates after you approved them in July. They were approved as filed. This is the additional reinsurance that was filed for the 1–100-year SB 76 allowed us to do. It's also to move the glide path . . .

Chair Beruff: Why wasn't that on the Consent?

Jennifer Montero: Because it's not an Action Item. This is for awareness only.

Chair Beruff: Okay.

Jennifer Montero: It's for awareness. It was filed and approved by OIR as filed. It's effective February 1, 2022, for the increase of the glide path from 10% to 11%. The last thing I have are the financial statements.

2Q2021 Results of Operations and Financial Position (unaudited)
2Q2021 Results of Operations and Financial Position – Commentary

Jennifer Montero: The last thing I have are the financial statements. These are named 2Q2021 Results of Operations and Financial Position (unaudited) and also 2Q2021 Results of Operations and Financial Position – Commentary. The commentary provides discussion analysis of those operating results in the financial position, and I'll be providing a summary of the information contained within the commentary document. As of June 30, 2021, Citizens held consolidated cash and invested assets of $9.1B, reflecting an increase of approximately $363M from December 31, 2020. This increase was driven by an increase in cash flows from operations largely as a result of an increase in written premium. Consolidated surplus as of June 30, 2021, was $6.6B, marking an approximate increase of $121M from December 31, 2020. Consolidated direct written premium for the first six months of 2021 was $839M, an increase of $287M from the same period a year ago . . . $158M greater than budget. Although new business rates in 2021 continue to trend below new business rates in 2020, an increase in new policies written is largely within Dade, Broward, and Palm Beach Counties contributed most significantly to the overall increase in written premium. As of June 30, 2021, consolidated ultimate direct losses and loss adjustment expense (LAE) related to Hurricanes Irma were $2.27B, reflecting no change from December 31, 2020. Of the $2.27M of Irma losses and LAE across all three accounts, $936M is recoverable under Citizens' reinsurance contracts with both the FHCF and the private reinsurers. Consolidated ultimate direct losses and LAE related to Hurricane Michael were $150M as of June 30, 2021, reflecting no change from December 31, 2020. There are no reinsurance recoverables [sic] related to Hurricane Michael as the attachment levels of the reinsurance arrangements were not met. Consolidated ultimate direct loss and LAE from the smaller storms that impacted Florida in the latter part of 2020 increased $9.3M from March 31, 2021, to $154M. This increase was a result of an increase in litigated claims for Tropical Storm Eta. No ceded recoverables [sic] were reported due the losses in LAE not meeting the attachment levels of reinsurance arrangements.

Current year accident losses in LAE unrelated to hurricane and sinkhole did not experience meaningful variances from the prior quarter as the development of prior year accident loss in LAE were as expected. Although the litigated non-weather water claims continue to be the dominant driver of loss in LAE activity within the personal lines account, the litigation rate for accident years 2018, 2019, in 2020 continue to show improvement in comparison to accident years 2014 through 2017, with accident year 2021 showing the lowest percentage of litigated rates in recent history. Within the commercial lines account, losses in LAE related to sinkhole claims are relatively unchanged. However, volatility in older non-sinkhole claims have the potential to contribute to material quarterly variances in reported losses and LAE ratios in future periods. Administrative expenses incurred during the first six months of 2021 was $67M, or $1.5M more within the same period of 2020 and $7.5M less than budget. For the six months ending June 30, 2021, Citizens' expense ratio was 17.4%, reflecting a 4.2% decrease from the same period in 2020 and a 3.5% decrease compared to budget. Total investment income during the first half of 2021 was $111M, or $30M 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 the net realized gains. For the 2021 reinsurance program in place together with Citizens' high liquid resources, Citizens entered into the 2021 Hurricane Season with ample resources to meet the needs of its policyholders. If there are no questions, that concludes my report.

Chair Beruff: Any questions?

Lazaro Fields: Can I raise a potential problem (and I don't know if it will be)? Since, with the last vote, we changed the terms of the deal. If Willis determines that it no longer wants to provide the services at that price, perhaps what would have to happen is that they'll have to come back to the Board and say, "We want the Board to approve Aon." I know the contract ends in January, so . . .

Jennifer Montero. It's December 31st.

Lazaro Fields: So, do we need to preemptively say that if Willis backs out that we will go with Aon or . . .

Chair Beruff: Good thought. Mr. Cerio, how much notice do we have?

Tim Cerio: Mr. Chair, I think the cleanest thing to do…we've had a very quick discussion as to reject all, but… Let me look.

Jennifer Montero: I would not reject all.

Chair Beruff: Back to Governor Field's question, how do we want to handle it?

Nelson Telemaco: Can I make a suggestion? Can we include a threshold question in other words they go back and ask them to sharpen the pencil, and then if they hit a certain threshold, we're good with that?

Chair Beruff: I think the threshold is to hit the number, but I think at the end of the day . . . Ms. Montero . . .

Jennifer Montero: I'm happy to go back and negotiate . . .

Chair Beruff: . . . We have enough time to change horses in December and still be in a good place come January. Why? In the scenario that Governor Fields mentions, they don't get to the number, right? We have to make another decision in December, right? That decision would be, well, they don't want to play with us. Aon is going to honor their number, right? And we say go with Aon now. You can get that all done, right?

Vice Chair Thomas: Unless Aon wants us to sharpen our pencils.

Chair Beruff: Truthfully, I understand the logistics of… were not involved. I sort of feel like it's a bit unfair to us when the staff comes forward and we were not involved in the discussions. We have to make the decision in this meeting. Quite frankly, I was under the impression that, at the committee level, that the delta was $1.3M probably because I didn't ask the question correctly. But then, when I became aware that the delta is $2.2M, it is even worse than what I thought it was yesterday. $1.3M is not insignificant. I understand in the scope of what they can achieve, but there is no guarantee that Aon cannot achieve… the Guy Carpenter problem that you mentioned is another firm and not Aon as opposed to Willis Re. Didn't I hear somewhere along the line last year that a bunch of people from Aon last year went to Willis Re or Willis Re went to Aon? How did that pan out?

Marc Dunbar: That was the reason why we did the one-year contract. Aon was acquiring Willis and the concern was the Department of Justice was not going to approve it. Then there was going to be a potential for another spin-off company because of the antitrust review. The concern I had was that we were going to lose the Willis staff and they were going to go off to some other company. I did not want to contract with Aon . . . I didn't want to back into a contract with Aon if the whole reason why we were going with Willis was because of their staff getting spun off to someplace else. That's why we did one year.

Chair Beruff: So, that did not occur. Willis Re stayed in place and everybody's happy and now they're probably going to be consumed by Gallagher but they're going to be independent and the whole team stays as it is.

Barry Gilway: Gallagher does not have a brokerage. If Willis Re is acquired by Gallagher, then that would be their sole brokering arm. The argument that I made last year is that we always have the ability at any point in time if we lose the team to cancel this agreement. I do have a suggestion. It would be too late to get into the market with the new brokerage team if we don't have a broker at the end of this contract. My suggestion to the Board would be (you can make a motion) if Willis Re does not agree to the new terms and conditions, then staff would be given the opportunity to enter into a contract with Aon and move forward. That agreement fundamentally gives us the ability to have a broker team in place ahead of time.

Chair Beruff: I think that addresses Governor Field's comments, right? I think the Board needs a motion that says in the event of an unsuccessful negotiation with Willis, then we authorized staff enter into a brokerage agreement with Aon. Does that seem logical?

Erin Knight: I have another suggestion. What about a one-year extension again with Willis? The cost for this year was $3M, correct? If we look at the other, it's $14.5M divided by 5 years. That is $2.9 million. Does that give another option?

Chair Beruff: How do you feel about that? Governor Fields, how do you feel about that because we are going to try to accommodate your comment?

Lazaro Fields: I just want to make sure that we have someone on board to do this job.

Chair Beruff: It's a good discussion to have. Governor Knight has proffered a solution. How does staff feel about that?

Jennifer Montero: [inaudible]

Chair Beruff: I heard $2.9M that Governor Knight mentioned. Again, I'm just trying to make sure that her comments are understood. I think her comment is at $2.9M because it is $14.7M with Aon divided by five years which is $2.9M. Actually, it's a little less than $2.9M.

Jennifer Montero: Aon has $500,000 in modeling where Willis has $600,000. So, would we go to three?

Erin Knight: I was unclear. Not to say $100,000 is insignificant but it gets us closer. It was about what it was for the previous year.

Chair Beruff: The proffer for us to consider is that we authorize a one-year contract with Willis at $3M.

Erin Knight made the motion to enter into a reinsurance brokerage contract with Willis Re for one-year at $3M as a backup if Willis Re does not negotiate to a lower price for the original ITN. Nelson Telemaco seconded the motion. All were in favor. Motion carries.

Vice Chair Thomas: I am not going to go against it, but I think this sort of negotiation with the board is in the long term a bad idea. I think we'll pay social tax for it.

Marc Dunbar: Scott, can you turn your microphone on, please?

Vice Chair Thomas: I voted "yes" for that as the backup. I think this, in general, is a bad idea to approach it with this sort of post-negotiation at the Board level. I think that eventually that in the long term we will pay a tax for it. It will have to be built in with how you deal with us when you go through the procurement process. I think it's a bad idea, but the motion has come and gone, and I do vote yes on this backup. But I don't like the process.

Chair Beruff: I understand Mr. Thomas' comments. To, Mr. Gilway, how do we avoid this in the future so that the Board – before you guys come forward – has a little bit of knowledge of where we're at so that we . . . If you're going to recommend for us to go with a more expensive vendor, to avoid this back and forth, I guess we need to know that because, at the end of the day, we try to be the most efficient as possible. As Governor Knight mentioned, $100,000 is one thing $2.2M is another.

Barry Gilway: I agree completely with Governor Thomas. I think there are some long-term negative implications. However, directly to your point, I think one possible way is that if you have a highly contentious procurement, then you can assign a Board observer to this process so that the Board is engaged through the process, as we have done, for example, with the matter management program. We've done that with all the other major procurements that we have. That is another alternative to get the Board engaged. I simply go back to the fact that we've got the very best people in the company, that literally use these capabilities, involved in both the evaluation and the negotiation; and at some point, I hate to be disrespectful, but at some point, I think that Board needs to have respect for the capabilities of the staff that have managed this organization for the last nine years.

Chair Beruff: I certainly understand that but, at the same time, the vendors should have a very clear message that the dictates of the money that is spent by this Board and authorized by this Board is within its final decision-making capacity. They need to know that as well as we need to respect your recommendations. The vendors need to understand that there is a time that it does come before this Board, and we have the right to question those numbers. In some cases, we disagree. It's a recommendation. It's not a given. Otherwise, you wouldn't have to bring it here. We have the right to question pricing, and I understand the sensitivity to Governor Thomas' concern of what the cost is. But, at the end of the day, sometimes you have to make it clear that the buck stops here. I'm trying to prevent this discussion in the future. I think you have given us a way to do that. That maybe, on these large contracts . . . we don't want to get involved in all the minutiae of small things you do every day in procurement. But, maybe, on the one, two or three large annual items, maybe there should be a Board member involved in the discussions so that we feel that we're not . . . we don't put ourselves – the staff and this Board – on the same plane that we've put ourselves on today.

Barry Gilway: Another alternative, Mr. Chairman, is to utilize the Executive Committee. We have not used the Executive Committee in the past but now we have a Chair and a Vice Chair. There's an opportunity to utilize the Executive Committee for a pre-discussion relative to major procurements if there is a differential.

Chair Beruff: That's a perfect solution. We can have a Zoom meeting with the Executive Committee. We can discuss it in-depth. Then, when it comes forward, that Executive Committee can come in, you know (peppered by questions from other Board members) to say, "Hey we spent 30 minutes or 45 minutes reviewing this item and we believe that this is the right way to go," instead of what happened today.

Marc Dunbar: I will tell you from my standpoint, and maybe this will help from a guidance standpoint, Spencer sends us the monthly procurement report. There are a lot of items on there and there are a lot of items that move without anybody saying, "Boo!" And the ones I pay closest attention to and the ones I ask most questions of are the ones when, as I mentioned before, you have a member of the Executive Leadership Team (ELT) on the evaluation and negotiation committee with their subordinates. Because when you have that . . . I've worked in state government. I wasn't willing to criticize my boss when my boss wanted to go in a particular direction. I also looked for instances where there is a close relationship potential. The last thing I care about is how the rankings come down. If you're dealing with, to the point that you made, Chair, when you're dealing with an ITN, you have the ability to qualify vendors to get to the best and final offer (BAFO), you have already qualified them as your vendor. So, whenever you get BAFO, you're really only at price. That is the way that most ITNs, for the most part, are structured. When I see things go through an ITN and I see more than one vendor that's qualified, that best value is priced. You've already qualified who you want to work with at the staff level. I would encourage everybody to look at the reports we get from Spencer because I understand where Governor Thomas is coming from. But I will tell you that I have served on other public boards. I get the same feed that the Chairman gets when the Board is in a position to send a message to the world that we may provide our own input. These people will sharpen their pencils in negotiations. Trust me, absolutely, they will sharpen their pencils and we will get a better value. I don't want to micromanage staff. I want to help provide staff with a "bad cop" so that they can get the best value and the best price for all of us.

Chairman Beruff: Any other comments, or can we go on to Ms. Booten? [silence]. Next item.

5. <u>Chief Operating Officer Report</u>

Kelly Booten: I really just have reports from three committees. All the Action Items when through the Consent Agenda. I can skip that if you want me to.

Chair Beruff: Does the Board want to hear the reports?

Kelly Booten: It would be the Information Systems Advisory Committee (ISAC), Market Accountability Advisory Committee (MAAC), and Exposure Reduction Committee. Dave Newell had to leave.

Chair Beruff: We're ready to go on to the next one, unless the Board wants to go on to the next thing. [silence]

6. Chief Communications, Legislative, and External Affairs Report

Legislative Items

Christine Ashburn: Mr. Chair, the only thing on my agenda is the report for the Consumer Services Committee.

Chair Beruff: Okay. Does the Board know what our legislative items are? You were in a committee yesterday and some of the Board members were not here. Is there another item here for you? Can you quickly summarize those for us? You came with three and added a fourth period is that my understanding?

Christine Ashburn: That's correct.

Chair Beruff: I'd like the Board to hear the four legislative items that we're going to try to get changed in this season.

Christine Ashburn: The specific question that the Chairman asked me at the last committee was what legislative items could be considered that might help us in the exposure reduction arena? The items that we discussed yesterday are related to depopulation in the Clearinghouse. As you guys will recall, Senate Bill 76 changed the eligibility threshold from 15% for new business to 20% to qualify for an offer from Citizens as eligible or ineligible. What did not change in SB 76 was the 0% Clearinghouse threshold for eligibility for renewal policies. So, one item that we believe would be helpful is that if we were to make it consistent for new and renewal business. If you get an offer through the Clearinghouse at renewal that is within 20% of Citizens' premium, you would be deemed as ineligible just as you would have for new business. Similarly, depopulation offers . . . anyone can reject any offer at any price. Basically, it's perpetual eligibility. Once you're in, you never have to leave. We believe it would be useful to treat all avenues consistently and require that if a carrier made an offer through depopulation that was within 20% of the Citizens' premium, that consumer (while we can't force them to take that offer) we can certainly, if the statute were changed, deem them eligible to remain with Citizens. That can be helpful. We know, from potential investors and depopulation carriers, that one of the major issues is the opt-out process. The third item is to take a look at the statute that requires that we provide all offers, and they can be rejected . . . and maybe we take a look at it with a holistic approach with the 20% and make changes to the opt-out process that were made in 2017 . . . basically undoing the 2017 legislation that had a huge impact on the take-up rate of depopulation. The fourth item that the Chairman raised yesterday relates to . . .

Chair Beruff: . . . Let me stop here one second. In 2017, legislation was passed that lets the insured say "no" to moving a policy through the depopulation process, even if that insurance company that was taking that policy met all of the OIR requirements of solvency. So, we get an insurer who wants to take out a 100,000 policy from us. By the time they go through the "yes," "no," "yes," they end up with 20% to 24%. We're never going to get there to reduce the magnitude of our exposure in the business. The legislation that we're advocating for is that every year on renewal or if there is a depopulation and they are within 20% of what they're paying us . . .they don't have a right to say "no." We can't force them to go with that agent, but we can say, "Well you didn't go with the agent, but we don't have to renew you" (therefore, again having the same net effect reducing our exposure). I wanted to take a minute and slow it down a little bit for Christine.

Christine Ashburn: The fourth item is the Chairman's concept related to insolvencies. As you all know, Gulfstream recently became insolvent and about 14% of the policies came to Citizens. The Chairman's concept is that if we are forced to take polices or that have nowhere to go because the carrier has gone under, if the premium that they're paying for the insolvent carrier is higher than what the Citizen's premium would be, it would seem silly that at renewal we would drop their rate. The concept would be that if we take on policies from an insolvent insurer and their rates are higher than ours, then those consumers have to continue to pay those rates as opposed to getting a discount at renewal with our rate.

Chair Beruff: At the risk of being repetitive, for the board members who were not here yesterday . . . We're forced to take a bunch of policies of a failed insurer. We have Mr. and Mrs. Smith paying $3,000 to the failed insurer. We, under our current statute, are offering that policy at $2,500. On renewal we have to offer the lower policy number at $2,500. My comment is that if Mr. and Mrs. Smith bought the policy and happened to be paying $3,000, why do we need to save them $500? Why shouldn't we have the right to continue to charge them at that rate? If ours is lower, we can't go higher but we can at least keep that steady rate that they agreed to pay.

Vice Chair Thomas: I think it's funny because the $3,000 that they're paying really wasn't enough.

[laughter]

Vice Chair Thomas: It's below the premium that was not enough to keep their insurer afloat.

Chair Beruff: That's the fourth item that we added to the agenda and I would request, Ms. Ashburn, when you get to the point of actual language where the modifications need to be made in the complying statutes, if you would, in the final form (I understand that there is the back and forth on vetting of the language) get the language circulated to the Board members for that same concern seen when we are meeting and talking to our legislature so we're all singing off the same song sheet.

Christine Ashburn: Chair, what I might suggest, and I'm happy to share language, is opposed to having you all have language that is going to change/to get amended, would it also be helpful that I provide a one-pager of the concepts for talking points?

Chair Beruff: Sure. Let's do that. What we want to make sure is that the language doesn't disappear, and nothing happens. We've got to get the legislature to try to understand the magnitude of the problem we're facing.

Christine Ashburn: The fourth concept (And I was sort of thinking of it after yesterday and I haven't talked to Kelly) but I do think logistically from an operational perspective, there are a lot of items that need to be figured out because it's not our rate. It's another carrier's rate. How would we charge that in the system? Maybe there are logistics on the operation side. It will probably be easier to figure out the statutory language then the operational side of that one. It's probably more complex than the other items.

Chair Beruff: Next, Mr. Adams.

7. Chief Claims Officer Report

Jay Adams: Good afternoon, Mr. Chairman. I do not have any action items that were not included in the Consent Agenda. I was only going to provide a Board update. At your pleasure I'll do whatever you like.

Chair Beruff: First of all, how are you feeling?

Jay Adams: I'm doing better.

Chair Beruff: Okay. Does the Board want to hear an update from Mr. Adams, or do we want to get on to Ms. Bloom?

Reynolds Henderson: I do have one question. The lifting the cap on new business . . . are we going to try to lobby for that again? Is that a dead deal? The cap on our new business and new polices . . .you remember when OIR shot us down last year?

Chair Beruff: No. I'm sorry.

Reynolds Henderson: We weren't raising existing policies. We were talking about new business.

Christine Ashburn: The OIR rejected the filing and didn't believe we have the legal authority. Senator Brandes did have that in his bill, and it did not pass last year.

Reynolds Henderson: So, it's just a dead issue then?

Christine Ashburn: Senator Brandes has refiled his bill from last year without that language in it. I think that's a pretty good indicator. Right now, it is not being considered in any legislation that has been filed for this session, so far.

Reynolds Henderson: Thank you.

Chair Beruff: Mr. Adams, I think you're off the hook. So, we're going to proceed with Ms. Bloom.

8. <u>Chief Human Resources Officer Report</u>

Action Item: Vision Insurance Coverage

Violet Bloom: Good morning. For the record, Violet Bloom, Chief Human Resources Officer. Behind tab eight, there are four Human Resources Action Items. The first three are for vendor contracts needed to continue services for our employee benefits program. Citizens purchases employee benefits through our contracted broker Mercer. They evaluate the market and present Citizens with recommendations. The selection criteria include price, benefit plan design, network, and employee satisfaction. Both the insurance industry and government benchmark price comparisons for all three employee benefits that will be presented today were higher than the prices that Mercer obtained on our behalf. The first Action Item is for Vision Insurance Coverage. The recommended vendor is Davis Vision. They are the incumbent provider. The funding will be included in the annual operating budget. The current contract expires December 31, 2021. The estimated cost for vision insurance coverage through Davis Vision for the contract period January 1, 2022, through December 31, 2022, is approximately $120,060. The renewal term is 3% increase for both the first and second renewal year. For the third renewal year, the rates will remain flat. The estimated cost for the 100% employee funded voluntary vision plan over the four-year contract period is $498,465. The contract term is January 1, 2022, through December 31, 2022. The renewal term is three one-year renewals. The purpose of this action item is to request the Board's approval for renewal contract award for Davis Vision to provide vision insurance to be offered to Citizens' employees, effective January 1, 2022.

A motion was made and seconded to approve the initial term of one-year with Davis Vision from January 1, 2022, through December 31, 2022, together with three (3) one- year renewals for the estimated total contract amount of $498,465, as described in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Action Item: Dental Insurance Coverage

Violet Bloom: The second item is dental insurance coverage. The recommended vendor is MetLife. They are the incumbent vendor. The funding is to be included in the annual operating budget. The estimated cost of dental insurance coverage through MetLife for the contract period January 1, 2022, through December 31, 2022, is approximately $977,000. The cost is shared with staff at an 85/15% ratio. The requested one-year contract term will be effective January 1, 2022, through December 31, 2022. This action item requests approval for a renewal contract award for MetLife to provide dental insurance through the preferred provider organization dental plan program to be offered to Citizens' employees effective January 1, 2022.

A motion was and seconded to approve a contract with MetLife to provide dental insurance for a one-year term, for an estimated amount of $977,000, depending upon employee enrollment, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Action Item: Basic & Voluntary Life, Basic AD&D, Voluntary D&D, Long-Term/Short Term Disability and Family Medical Leave Admin Services

Violet Bloom: The third benefit vendor contract is for life insurance, disability insurance, and FMLA administration services. The recommended vendor is CIGNA. They are the incumbent vendor. The funding is to be included in the annual operating budget. The current contract expires December 31, 2021. The estimated cost for these coverages for the contract period January 1, 2022, through December 31, 2022, is approximately $961,693. Citizens' portion of the cost is estimated at $273,442. The employees' estimated portion of the cost is $688,251. The base term is January 1, 2022, through December 31, 2022. The renewal term is two one-year renewals. The Action Item requests approval for a new contract award for CIGNA to provide life insurance, disability insurance, and FMLA administration services effective January 1, 2022.

A motion was made and seconded to approve a contract (Agreement Number 2020500300) with Cigna for a three-year term, for Basic and Voluntary Life Insurance; Voluntary Long-Term Disability; Basic and Voluntary Accidental Death & Dismemberment; Short-Term Disability and Family Medical Leave Administration Services, together with two one-year renewal terms at approximately $961,693 each year, for a total contract amount of $2,885,079 for the potential three-year total term. (Citizens and employee total contribution), depending upon employee enrollment, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Action Item: SB-76 Salary Increase Approval Process

Violet Bloom: The fourth action item is a new statutory requirement that went into effect on July 1, 2021, under SB 76. It requires the Board to approve three things: the budget allocation for compensation for all employees, the overall employee compensation plan, as well as the proposed raises for individual employees that exceed 10%. The budget allocation in the compensation plan will be presented at the December Board meeting when the 2022 Operating Budget is presented to the Board for approval. This action item is intended to lay out a process for obtaining Board approval of individual, proposed salary increases greater than 10%. On average there are three to five increases greater than 10% per month and the majority are promotions to a job with more complex responsibility. There have been no increases greater than 10% since July 1, 2021, when the statute went into effect. Examples of the increases greater than 10% are provided in the executive summary. When there are proposed increases greater than 10%, they will be presented to the board in accordance with the process laid out in the executive summary if the board agrees to that process. Chairman, would you like for me to review the proposed process that's laid out in the executive summary?

Chair Beruff: It's up to the Board. I do have a clarification question. So, we have a great employee who is at $75,000 a year. You folks decide that we need to promote them to manage more people. At that next level is $85,000, but that is already in a published rate. This particular position pays $85,000 a year. This person is at $75,000 a year and we have to bring that person for approval to the Board also even though we clearly have this designated salary for that increased responsibility?

Violet Bloom: That's our understanding of the statute. Anytime there is an increase greater than 10%. . .

Chair Beruff: . . . Because I can understand if you're staying in the same position and moving them at 10% salary increase why it's a good idea to bring it before the Board. But, if they are moving into a category that's already defined at a higher salary level, you're not really changing anything. You're just changing the person's position from here to here. But that's what your read of the law is that we have to do it. Okay. I agree with your read on it, but I just think it's a waste of time. But if that's what the legislature says, then that's what we've got to do.

Lazaro Fields: Violet, we talked about this a little bit, and forgive me because I don't remember it. I just want to make sure that our polices will be in compliance with whatever the sunshine requires. We've talked about protecting names of employees. Can you remind me of what we discussed and perhaps it'll be beneficial for everybody?

Violet Bloom: On the second page of the executive summary, there is a sample chart that lays out the information that will be shared with the Board. In consultation with Tim and his staff, we believe that this is in compliance with both the statute and the Sunshine requirements.

Lazaro Fields: When you come to us and we have to approve a greater than 10% salary increase, are we going to know the name of the employee or will it be a "John Doe."

Violet Bloom: You won't know the name, but we will add the employee number. That is actually not on this chart. There will be an individual identifier provided to the Board.

Chair Beruff: They'll have an employee number, so if a Board member wants to drill deeper, you can. But it won't be published in the public eye, even that is public information, right, if you go through the trouble.

Tim Cerio: It is public record, Mr. Chair. For the purpose of this meeting to give a little bit anonymity to the employees . . . Not only the salary but the name. It's all public record but what will be on the item for public consideration that's published at the meeting will not have an employee name but rather just the employee number.

Erin Knight: It will look like the way it's outlined on page 2?

Chair Beruff: Yes.

Erin Knight: This one doesn't have an employee number.

Chair Beruff: That will be added.

Erin Knight: I'm concerned with having actual salary figures on a document that so readily accessible amongst peers because there is so much that goes into a position. I think it could create unintended consequences within a department. It's probably easy to figure out who these are: "Oh well why didn't I get that?" There is a whole performance evaluation process that goes through it. My suggestion is whether there is a way to outline the percentage change so that we are acknowledging anything over 10%. . . a rationale as to why they jumped pay grades, etc. It would also be important at the year end when we are working on the overall compensation plan that we do address salary ranges, pay grades, equity, comparison to market that we are not significantly above market so there is equity all around and also giving a little more confidentiality.

Chair Beruff: I'd like to make a comment on, governor. You're right. At the risk of being simple, I think what the legislature looks for is things that are easy. If you put a dollar amount, they go okay, they got a $3,000 raise. If you put 11%, they say, "Wow we've got to do more work." The legislature's predisposition is to see when things get crazy. When someone is making $80,000 and is suddenly making $110,000 a year . . . They want to see that $30,000. They don't want to have to go through the exercise when it's with percentages. I think it's a public relations thing with us and the legislature for transparency, but I'm happy to listen to you guys tell me if I'm completely off-base.

Tom Cerio: You're not off-base. The bottom line is that there are 50 ways to "skin this cat." The key is that this Board have the information to approve any increase above 10%. There are many ways to "skin the cat," but getting at the intent of what the legislature wanted, they wanted transparency. What we're trying to do is strike a compromise where the information is available as public record. It is obtainable but you all have the information to make the decision. You'll know the salary number and you'll know the employee's name. But what is published for the meeting would not contain that. There is a sliding scale. It may be legal and defensible but maybe that is not what the legislature was looking for.

Chair Beruff: Governor Knight's comment is the interoffice politics that sometimes play. If someone readily knows that she got a raise, or he got a raise, and I did the same job and do a variety of things that are almost the same . . . we're trying to create some confidentiality in those departments. And I understand in running a company that I've come to the conclusion that no matter what I do everybody knows what everyone makes. Our stuff is public anyway. You can find out what anybody makes at Citizens.

Violet Bloom: If you make a request, you're absolutely right.

Barry Gilway: I absolutely support Governor Knight's comments. I do believe there is a way that the solution is presented that we provide the Board independently all of the information with a solid discussion in terms of how and why the individual has these higher increases. However, for a public document, we limit the information. My discussion with Tim is that we could comply with SB-76 by accomplishing the detailed discussions offline with the Board members, having them make requests for additional information, and at the same time, publish some limited information in the Board document because, as you say, the second that an employee number and a salary range and a percentage . . . that individuals will know in a heartbeat who they were referring to and it creates internal issues. I believe we can comply with SB-76 and provide the detailed information but limit the information in the final board document.

Erin Knight: I've come up with a chart that's modified from this.

Jillian Hasner: Are we talking about a modified chart for public?

Tom Cerio: Governor Knight crafted it and she asked for staff help another chart as an amendment to what's in the materials and what this Board has previously been briefed on.

Violet Bloom: If I may add, when we're considering a proposed increase, we look at internal equity. We consider the person's experience, their proficiency, etc. The concern is about unintended consequences and perceptions with limited information being available.

Chair Beruff: This board member does not doubt that you go through all of that right. It's how the peers in that department . . . even though you do everything right, they have their own opinions. I think Governor Knight wants to try to avoid that kind of . . . I will tell you one thing - that if I was an employee, I would not want my neighbor to know how much money I make. It's none of their business but we are a public agency, so we are . . . if my neighbor wants to find out what I make and I work at Citizens, they will find that out. I don't want it easy. I just want them to go through a certain amount of effort without creating roadblocks either.

Erin Knight: It's two-sided. There's a side without dollars and there are percentages and rationale and the employee number.

Chair Beruff: I'm going to go with whatever this board goes. I don't have an opinion on this. My only thing is public relations in the legislature, and do we make it more difficult for them to feel like their policy and law and statute that they passed is being adhered to. And, if Mr. Cerio tells me that it's adhered to, then I'm going to be quiet and let you all vote first.

Tim Cerio: I want to say again, Mr. Chair, that I believe this is legally compliant. If there is a political concern, then that is a different discussion.

Chair Beruff: If there is a political concern, we can go back, and change the policy. Now that you've put it out there, we're going to hear people not happy, right? Someone is going to go to the legislature and say, "We don't like what you did." We will make it very clear that if the format that Governor Knight has proffered does it make them happy, then we'll just have to go back and change it.

Tim Cerio: We are definitely not trying to circumvent the requirements of SB 76. You will have the information to approve these increases.

Chair Beruff: This gives a little bit of privacy to people who should deserve some.

Jillian Hasner: So, the Board will have the one side, correct? But the public and what's published for the meeting will be the … what Governor Knight proposed?

Chair Beruff: That's my understanding.

Jillian Hasner: Is that what we're saying, or will all be given what Governor Knight is proposing?

Tim Cerio: You'll be given everything with the name included.

Violet Bloom: And I'll be available to answer any questions that you have. I'll provide any additional information you need so you feel comfortable.

Jillian Hasner: I think that will alleviate some of the political concerns.

Chair Beruff: It's that we've got it. The Board has seen . . . so, we can look at the legislature and say, "We've looked at everything."

Lazaro Fields: The statute says that we have to approve anything above 10%. It doesn't say that we have to publicly notice what the salary is. I think this is a very good suggestion.

A motion was made and seconded to approve the SB-76 Salary Increase Approval Process as modified by Governor Knight and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in a or. Motion carries.

9. Chief Internal Audit Report

Joe Martins: We don't have any specific items from the Audit Committee today. We can review the report, or we can defer.

Chair Beruff: It's up to the Board. I'm perfectly happy with letting Mr. Martin off the hook.

Reynolds Henderson: A quick summary sounds good to me.

Audit Committee Meeting Report

Joe Martins: At the committee meeting, we noted satisfactory progress against the 2021 plans for audit internal control of enterprise risk, and presented progress made last quarter. Internal Audit finalized seven engagements, including an audit focused on procedures to deploy to manage the vetting of financial accounting [unintelligible], policy cancellation moratorium . . . An audit of Citizens Insurance Services, the in-house agency . . . For both audits, we concluded that [unintelligible]effective processes and controls were observed. Next slide, please. We currently have 10 engagements in progress spanning across most areas across the organization. Additional three audits are planned to commence later during quarter four. Next slide please. We are currently tracking three open observations. One of those observations is high impact which refers to an Office of Foreign Assets Control (OFAC) audit that was completed late last year. All of these items are currently be addressed appropriately, and we expect that they should be finalized by the end of the year. Next slide, please. The Internal Control team is responsible for maintaining and monitoring Citizens Internal Control Framework (ICF). We are monitoring 119 primary controls of which 107 are currently being assessed by the business units through the control self-assessment process which should be completed by November 30. The Enterprise Risk team facilitates, enables, and partners with the business areas to deliver forward looking and insightful risk perspectives that support decision making. We are currently monitoring 19 strategic risks and 366 operational risks. Upon requests, we facilitate cross-functional project and scenario risk assessments designed to enable risk-based decisions and the proactive mitigation of risk throughout the organization. At the meeting, CFO Montero presented Quarter 2 2021 results of operation financial position. Thank you, Mr. Chair. That concludes my brief summary.

Chair Beruff: Does anyone have any questions?

Marc Dunbar: Is Mark Kagy going to make a presentation? I know we talked about that at the last board meeting. Is he on the agenda, or no?

Chair Beruff: I don't see his name on the agenda.

Marc Dunbar: We had the conversation at the last Board meeting that used to be part of Joe's report that we're going to bring that back and I'm curious as to what happened to that.

Joe Martins: At the last Board meeting, the agreement was that Mr. Kagy present his results at the Audit Committee as he used to do in the past. It's not a physical presentation but a document that we put at the back of the book for the Board to consider. That was done this time around.

Chair Beruff: So, we got the document.

Joe Martins: The document is available in the Audit Committee packet, yes.

Chair Beruff: Mr. Dunbar, are you clear on that?

Marc Dunbar: I'll look through that. Thanks a lot; I appreciate it.

10. Chief Legal Officer and General Counsel

Tim Cerio: Thank you, Mr. Chair. I know we're over time so I will try to be thorough and quick.

Action Item: Cyber Liability Insurance

Tim Cerio: The first item I'm presenting is on the Cyber Liability Insurance Policy. Cyber-attacks have dramatically increased. This policy was brought to us by Gallagher (our business insurance agent of record). We are recommending a policy with the Beazley Group. The premium is $236,910. There are aggregate limits, two different aggregate limits actually. There is a $10M per incident with a $500,000 retention. These are for expenses related to an attack involving defense costs, civil and a regulatory damage as well as, if it's necessary, cyber extortion checks are cut. There is also a $2.5M separate aggregate limit. It's basically for legal services, public relations . . . basically, what happens right after an attack and our immediate response to an attack. For instance, $40,000 per incident for legal services in responding to a breach. There is a $100,000 per incident associated with retaining computer experts. This is the public relations element – crisis management. On top of this, Beazley is throwing in coverage for a call center and credit monitoring up to two million individuals. The premiums are up over last year by 123%. The only cheaper policy had higher thresholds. Basically, it was a $5M limit with a $1M retention. That, in essence, is the policy and we are asking you to authorize the purchasing of this insurance for the one-year term: October 1, 2021, through September 30, 2022.

Chair Beruff: How did we go about procuring this and how many people showed interest for the pricing?

Tim Cerio: Gallagher brought this policy to us. There were several bids that were more expensive. The only cheaper one was Access. They were negotiating about $130,000 range. That was the only cheaper policy that had the $5M limit instead of $10M.

Chair Beruff: So, it was an apple-to-apple comparison?

Tim Cerio: There's a higher retention too, sir. There's $1M rather than $500,000.

Chair Beruff: The deductible was higher, and the policy limit was half.

Tim Cerio: Correct.

A motion was made and seconded to authorize the purchase of Cyber Liability Insurance for a one-year term beginning on October 1, 2021, and ending on September 30, 2022, with the Beazley Group for a total annual premium of $236,910, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Action Item: Directors and Officers Insurance

Tim Cerio: Next is a Directors and Officers (D&O) Insurance policy. The primary policy is through Starr Surplus Lines with a $10M limit and two excess coverages through Argonaut for $5M and ACE American for $5M. That is a total of $20M of coverage. This coverage basically supplements the statutory immunity that you enjoy and indemnification within our own Plan of Operation. The retention of this policy is $225,000 against Citizens, the corporation, as well as against individuals covered under this policy if they are entitled to indemnification. Our Plan of Operation sets forth on who is entitled to indemnification which are Board members, Board committee members, employees of Citizens, and various categories of individuals outside of Citizens. If you are covered by the policy but not entitled to identification, then it is a $0.00 retention. There is also a $1M sub limit with a $5000 retention for claims of breach of fiduciary duty associated with your oversight in employee retirement plans. Gallagher approached 23 companies this year, and many declined even to quote D&O policy. It's been very difficult to obtain but, in this case, the total for this coverage $307,783, approximately $200,000 for Starr, approximately $60,000 for Argonaut, and approximately $50,000 for ACE American. This is overall up 18% from last year, but it is consistent with the market.

A motion was made and seconded to authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2021 and ending on September 30, 2022, with primary coverage through Starr Surplus Lines Insurance Company and excess coverage with Argonaut and ACE or total coverage of $20 million with a total annual premium of $307,783, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Litigation Update

Tim Cerio: There is the litigation update in your packet. This is where I said I wanted to come back before the Board to ask for authorization to pay more to some law firms, and we did not bring it to you timely. You have $100,000 limit that we came to you once we had exceeded that. One of the things that I want to report back, and I talked with my team, what I'm trying to do is promote more of… is individual ownership of these cases. So, there will be more active monitoring of the cases from a substantive level and more active monitoring of the fees that are accruing in a way that makes sense. If the Board approves $100,000 and we spend $50,000 within two months, either there is some over-billing that has occurred, or if it's perfectly appropriate, we have grossly underestimated the cost of litigation. We will need to come back to you sooner. We're building in some alerts if we hit the $50,000 mark to the $75,000 mark. Whatever is appropriate, we're going to actively monitor. . . again, my lawyers are going to own these cases. So far, they've done a very good job and I've been trying to keep them on this situation. Hopefully we will not have any on the horizon that will require any additional authority or additional spend. Having said that, I'll move on to the next item.

Action Item: Legal Services Agreement

Tim Cerio: This is the legal services agreement that we are bringing before you for the Lydecker firm. The Lydecker firm was retained by Citizens to help with a unique case and to help us with a fraud investigation. I got into the weeds with the Board members during individual briefings because there are litigation strategies that we should not talk about in this meeting. Suffice it to say, the firm was very, very active in the investigation and in helping us work with some other state partners in putting together what is essentially a sting operation that did result in arrests. There was a complaint filed against a law firm, public adjusters, and some remediation contractors. It was basically a complaint for federal civil RICO (Racketeer Influenced and Corrupt Organization), Florida Rico, deceptive and unfair trade practices and negligent misrepresentation, fraud . . . A lot of work went on the front end. I reviewed the bills. Let me back up for a minute. We're over budget. There were $400,000 approved for three years and we're at about 2.5 years and I think our bills are around $680,000. I asked for a firm number to get this matter through trial. The trial is set for spring of 2023. I think for a lot of reasons we discussed in our briefings; this litigation has had some very positive effect, but we need to do a better job of managing the bills. This is sort of a unique animal and now that we've done one of these, we are able to better forecast the workload that's required on the front end when we bring these to you. I'm coming to you and asking for an additional spend of $800,000 for a total to not exceed $1.2M and to extend to allow us to enter into a new agreement that extends for two more years, basically to take us through trial. There is one more point that I wanted to mention. I did go over the bills, Mr. Chairman. I did review them, and I think there were some places where we could have . . . had we been more engaged with the litigation with the firms . . . There's nothing that I think that they did inappropriate, but we may have tried to do it a little leaner. But I'm very comfortable with the work that's been done. The firm has done a good job, and again I'm asking for another $800,000 that will take us through trial.

[inaudible]

Tim Cerio: Correct.

[inaudible]

Tim Cerio: Correct.

[inaudible]

Tim Cerio: Correct. We're done.

A motion was made and seconded to approve additional spend of $800,000 under the current Legal Services Agreement with Lydecker, LLP, for a total contract spend not to exceed $1.2M, as set forth in this Action Item; authorize staff to enter into a new Legal Services Agreement with Lydecker, LLP for continued representation in the matter for which Lydecker was engaged, for a two (2) year term and for an amount not to exceed $1.2M across the current expiring contract and this proposed new contract; and, authorize staff to take any appropriate or necessary action consistent with this Action Item.

Erin Knight: I have a question on who will be handling this, not by name, but you said you will have people take more up . . .

Tim Cerio: Yes, you have Ken Tinkham who is handling this. He has done a great job. I asked him to really drill down on the bill. This was an "oh no!" moment. Once I drilled down into this, I was very comfortable with the work that's been done. Ken has the right philosophy with regard as to how to manage this. To give credit where credit is due, this started with Jay's operation in Claims, his fraud operation. Joe Theobald has been very involved and has done a very good job. We needed to have some ownership. We have never handled a case like this before. There was one foot in Claims and there was one foot in Corporate Legal. Obviously, they are good partners. But the General Counsel shop is going to be responsible, for better or for worse, and we will manage this litigation.

Chair Beruff: I think what's happened is that Mr. Cerio has put controls in place so that we're not surprised . . . The big problem for me (and it wasn't Mr. Cerio's problem because he wasn't here) Is that we went through the $400,000 approval. Then all of a sudden . . .but I believe Mr. Cerio put the controls in the place so we're not going to have those kinds of surprises again. My understanding is that it may have saved us $5M, $10M, maybe $20M in paid out claims because of the particular people we sued or a machine that was bringing claims forward. I would sign up to spend $1M if I can save $10M. while the outcome is good, the fact that the controls weren't there to bring it . . . "Hey, guys, we're going to need more money!" But ask for it in advance before the need. Is the only real problem with this issue.

Reynolds Henderson: We had our discussion one on one when we went over the thing. I would love to see our law enforcement jump in on this. I think it's a, for lack of a better word, sexier case than for us to spend this kind of money. I think it's great that we did it and we're saving money, but in the future, whatever we have to do to get them to jump on it faster, I think we need to push for it.

Tim Cerio: I think Jay and Joe did a good job of reaching out to law enforcement. I think now that this case has developed, it is, using your phrase, sexier, and we've got some interest along those lines. I think Governor Fields expressed a similar sentiment.

Chair Beruff: For this Board's clarification, you asked us to authorize this to take us through trial.

Tim Cerio: Correct.

Chair Beruff: We may get a surprise and save a couple bucks. We'll get through trial with what we just authorized.

Lazaro Fields: For the future, these cases are brought to us for two reasons. There are specific deterrence and there are general deterrence. You want to put out of business those who are doing this type of fraudulent activity. You want to send a message to the rest of the community that if you do this kind of activity, we're going to come after you were going to make you spend your own money to defend yourself. My question is, and not for an answer now, can we define whether we've been successful in the general deterrence? What does that success look like? We spend $1M to save $500,000 doesn't make any sense, even if we put these people out of business. Having a trickledown effect in the industry is what is key, and we can do more of it if it makes sense financially.

Tim Cerio: That is our hope. If anyone has any thoughts (from the team behind, you have thoughts) or some items that we can point to now, that's great. The general deterrence – we plan to try to get a whole lot of publicity out of this when the time is right: the right stage of the litigation or if law enforcement if and when they get involved . . . there's a good story to be told. Hopefully, it will scare the bad players and we just need to do a good job in getting that out there and I know we will. We have partners in government who will help us do that, too.

All were in favor of the above said motion. Motion carries.

Marc Dunbar: Now that I've looked at the item, can I go back to Joe Martin's report and a couple questions about the Office of Inspect General (OIG) report?

Chair Beruff: Is Mr. Martins still here?

Barbara Walker: No, sir. I believe he had a flight to catch, so he has departed the building.

Mark Kagy: I'm here. It's the Inspector General.

Marc Dunbar: For the committee's benefit, if you go to the Audit Committee packet and go to the OIG report . . . And if its' already been dealt with in the Audit Committee, I apologize. Without getting too granular on this… I want to make sure that I'm reading this correctly that there were five cases or substantive projects concerning Q2. There are two different lines in there. The one that I'm most concerned about is about allegations that were supported that involved a procurement-related matter. I don't want to get into something you don't want to get into at the full Board meeting, but can I get a little more color on when something that's "supported," then that means we had a credible complaint. We had an investigation, and the complaint was upheld that there was some procurement problem.

Mark Kagy: I can tell you at a very high level that I don't have a lot of concern. That procurement is a pretty old one. I think it was 2016. I'll be more than happy to give you a call and give you a very detailed update. As a Board member, you're entitled to a detailed update. It is a closed investigation.

Marc Dunbar: This is for the benefit of the other members. There were complaints in which six of them were elevated to an investigation. The biggest thing I'm trying to find out is what is the Board takeaway is in all of this in terms of policies and things we just need to be in tune to. If you want to give me a call and we can chat through these . . . I noticed that these are only for Q2. I don't remember getting the one for Q1.

Mark Kagy: I can send it to you. If any Board member has questions on this report, I'm more than happy to call them individually.

Chair Beruff: Why don't you and Governor Dunbar get it addressed. If need be, we can bring it up at our next meeting and go over it in more detail.

Mark Kagy: Happy to do it.

New Business

Marc Dunbar: This is a suggestion on an agenda item for December. Since we're going to be approving the budget in December, we have a few expense items listed as rent. I know that particularly during COVID, we looked at working remote and things like that which was really successful. I'm curious if we could in December get a presentation on where our employee-base is and how many people are working from home. How many people are working from the office per square footage in terms of vacancy? . . . and looking for potential savings. What are our 'work from home' policies? The Governor has asked everyone to come back to work. I don't know if we are doing that or if we want to have some work from home policies.

Chair Beruff: We can certainly do that. I think our current policy is that we postponed coming back to the office. I remember seeing that we were slating the return to the office in September. Because of the new Delta variant, we postponed that. Is that correct?

Barry Gilway: Given the Delta variant, we have deferred any additional in-office presence until it can be evaluated later this year. We are currently in a fully remote environment, and we do have a distributed workforce policy that we intend to employ. We can get into some detail on that policy in December as part of the budget. I agree with Governor Dunbar. There are issues relative to space particularly the Jacksonville space. We can give you an indication of the cost of that space and what some of the potential might be in long term relative to utilizing that space and what space will not be utilized under the distributed workforce policy.

Chair Beruff: Great. Okay.

[adjourn]