

# INTERNAL AUDIT

Audit Report



Cancellation Moratorium –  
Billing & Accounting

August 30, 2021



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## Executive Summary

### Background

On March 22, 2020, the Florida OIR issued an Informational Memorandum (OIR-20-04M) to all insurers and entities regulated by the office to provide general guidance on the treatment of policyholders, following the initial impact of COVID-19. Included in this memorandum the OIR encouraged regulated entities to be flexible with premium payments to avoid a lapse in coverage and to only consider cancellation of policies if all possible efforts to work with consumers to continue coverage have been exhausted.

In response, Citizens stopped processing all policy cancellations and non-renewals to ease the financial burden for policyholders caused by the impact of the COVID-19 health risk. This included allowing customers to submit payments after their due dates, setting up special payment plans, suspending policy cancellations and non-renewals, and relaxing underwriting rules to allow more time to submit required documentation. To facilitate the noncancellation of customer policies, Citizens created procedures and temporary billing system modifications that were unprecedented and outside of the typical course of business.

The policy cancellation moratorium officially began on March 27, 2020 and concluded effective February 1, 2021. After the ending of the policy cancellation moratorium, approximately 13,400 policies were cancelled of which 10,286 were cancelled for nonpayment of premium (the remaining balance were cancelled for underwriting reasons).

Citizens offered impacted policyholders special payment plans to lend assistance in making premium payments; 672 elected to take advantage of the payment plan option. There were 32,867 total policies impacted by the cancellation moratorium, with a total of \$27,829,295 in premium impact.

### Objectives and Scope

The objective of the audit was to evaluate the adequacy and effectiveness of processes and controls in place to monitor and manage the billing and financial accounting impact of the policy cancellation moratorium. The scope included a review of the following areas:

- Bad Debt Reserves / Write-offs
- Commission Cancellation Offsets
- Policyholder Payment Plan(s) processes and application
- Monitoring and Oversight

### Results

Results from our audit work indicate that there were effective processes and controls relating to management's estimate of the uncollectable premium receivable at 2020 year-end, monitoring and oversight of the billing aspects related to the moratorium, and systematic noncancellation of policies configurations were in place without exception.



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Specifically, we observed:

- Management's year-end estimate of uncollectable premium as a result of the moratorium, and the assumptions utilized therein by management, were thoroughly documented and reasonable (when compared to a 6/30/21 subsequent review performed) considering the timing of the cancellation moratorium termination and the deadline to file the 2020 4th quarter financial statements. Sufficient reviews of the estimate were performed by appropriate levels of management prior to finalizing the estimate and resulting journal entries.
- Formal, systematic processes were in place to facilitate the noncancellation of policies during the moratorium. Citizens modified BillingCenter system configurations to disable cancellations from occurring during the moratorium period. The Financial Business Analyst group monitored BillingCenter activity to ensure there were no systematic cancellations. Furthermore, no instances of policy cancellations were identified during the cancellation moratorium period (3/27/20-2/1/21).
- Adequate oversight/monitoring was in place over the various billing and payment elements of the affected policies of the cancellation moratorium. This included, but not limited to, the establishment of a Microsoft Teams portal with active stakeholder participation, utilization of PowerBi reports for delivering KPIs and other critical metrics, and weekly reoccurring covid-19 exception tracking emails.
- There was a process in place to require the policyholder to either pay the premium prior to a claim payment being made or the premium amount was taken out of the claim payment (i.e. premium was netted against the claim payment). No claim payments were made without Citizens first receiving the required premium.
- Effective reconciliations were in place to ensure the completeness and accuracy of commissions paid to agents.
- As noted in the background section, the amount of direct written premium that was impacted at the conclusion of the moratorium as a result of uncollected premium receivable was \$27,829,295. Of this amount:
  - \$21,557,111 were the result of flat cancellations. Flat cancellations occurred subsequent to the moratorium termination when the policyholder did not make any portion of premium payment to Citizens.
  - \$6,272,184 were the result of pro-rata cancellations. Pro-rata cancellations occurred when some portion of the total premium due was received, but the policy eventually cancelled for non-payment. The \$6,272,184 represents the uncollectable remaining portions of earned premium.
- We reviewed agencies with credit balances (amounts due back to Citizens as a result of commissions paid on uncollected premium) after the moratorium's conclusion, it was noted that \$254,163 of paid commissions were due back to Citizens as of February 28, 2020 following policy cancellations. Of this, \$120,766 remained as of July 31, 2021. The cancellation moratorium and the sheer number of cancellations that built up and occurred during the same month (February 2021) exacerbated the total amount due to Citizens by



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Agencies. Commission due from Agents occurs because it is Citizens' practice to pay commissions upfront upon policy renewal regardless of the timing of premium receipt from the policyholder, agents, or bank. When the policy is cancelled due to non-payment the Agent owes the commission paid on the account. Management plans to invoice agencies with amounts owed to Citizens.

We would like to thank management and staff for their cooperation and professional courtesy throughout the course of this audit.



## Distribution

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The Honorable Jimmy Patronis, Chief Financial Officer  
The Honorable Ashley Moody, Attorney General  
The Honorable Nikki Fried, Commissioner of Agriculture  
The Honorable Wilton Simpson, President of the Senate  
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