

Executive Summary

Actuarial & Underwriting Committee Meeting, September 21, 2021

Board of Governors Meeting, September 22, 2021

Coverage Forms, Insurance Rules, and Rating Services Contract Amendment and Renewal

This Action Item seeks approval to: (1) amend the Contract between Citizens and Insurance Services Office, Inc. ("ISO") to replace the existing variable-based fee with a total fixed fee of \$18,986,098 through the optional 5-year renewal term; (2) concurrently execute the optional 5-year renewal term (2023 – 2027); and, (3) reduce the originally approved Contract Amount from \$30,000,000 to \$18,986,098.

History and Analysis

This Action Item relates to the current Contract with Insurance Services Office, Inc. ("ISO") for Coverage Forms, Insurance Rules, and Rating Services, (the "Contract"). The Contract includes use of a comprehensive set of Coverage Forms, Rules, and Rating Plans along with access to related services which provide information that is critical to the development and maintenance of Citizens' property insurance products. The services provided by ISO include, but are not limited to:

- information regarding country-wide and state-specific coverage changes;
- emerging insurance issues;
- historical coverage background;
- legislative monitoring; and,
- state filing guidance.

The Contract also provides access to critical supporting information for:

- the Building Code Effectiveness Grade Schedule rating program, which is required by Florida statute and addresses building standards that mitigate exposure to hurricanes;
- Public Protection Classes to support rating segmentation to address fire exposure;
- loss cost rating information, which provides basic rating information for various coverages, risks, and classifications; and,
- Commercial Statistical Plan classification codes, which are used to segment types of commercial use and occupancy.

Citizens uses the ISO industry standard coverage forms, rating, and eligibility rules and supporting professional services as the basis for Citizens' products. Citizens does not adopt ISO products in full, these services and products provide information that is utilized to support Citizens ongoing efforts to maintain current and effective products.

Citizens procured the Contract pursuant to Invitation to Negotiate No. 16-0011 for Coverage Forms, Insurance Rules, and Rating Services (the "ITN"). The purpose of the ITN was to replace similar services being provided by the then incumbent ISO under a contract for the years 2012 – 2017. Two vendors responded to the ITN: American Association of Insurance Services and ISO. Both responses met Citizens' mandatory requirements. Both vendors were advanced to negotiations by the Evaluation

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Team. After negotiations with both vendors, the Negotiation Team recommended award of the Contract to ISO.

The Board of Governors approved the Contract on June 20, 2017 and it became effective January 1, 2018. The original Action Item approved Contract spend of \$30,000,000, which included: (1) \$18,000,000 for the expected cost of the Contract for the combined initial 5-year base term (2018 – 2022) and optional 5-year renewal (2023 – 2027); and, (2) a contingency amount of \$12,000,000 to account for additional Contract costs that could result from possible premium growth due to deteriorating market conditions.

As a result of the ITN negotiations, the Contract provides for \$17,998,101 in total fees subject to decreases or increases based on changes in annual DWP. In short, ISO's standard pricing approach and the resulting Contract "look back" at the two-year trailing DWP to determine application of a Premium Change Factor (i.e., a specified percentage increase or decrease) to the next year's Annual Fee. When DWP decreases by greater than 25% or increases by greater than 30% from one year to the next in the "look back" period, the parties are required to negotiate an appropriate adjustment to the applicable Annual Fee for the next Contract year.

The Contract's renegotiation provision was triggered due to an 34.9% increase in DWP from 2019 to 2020. Citizens and ISO commenced pricing negotiations in July 2021 and, at Citizens' request to avoid similar DWP and Annual Fee "whip saws" in the future, ISO proposed replacing the Premium Change Factor construct with fixed Annual Fees for the remainder of the Contract term. This Action Item is seeking approval of ISO's proposed fixed Annual Fees. More specific pricing details relating to the proposal and current Contract pricing are included in a separate document, due to an assertion of confidentiality by ISO.

The proposed fixed Annual Fees would result in a total cost of \$18,986,098 over the 10-year life of the Contract. Citizens used current DWP projections to compare the proposed fixed Annual Fees to Citizens' expected fees under the current Premium Change Factors. Citizens also compared it to a what-if scenario with a sudden (20%) then sustained (15%) annual reductions in DWP beginning in 2022. The proposed fixed Annual Fees are estimated to provide savings over the current Premium Change Factors under this what-if scenario. The proposed fixed fee would also further protect against any sustained or increased DWP growth beyond Citizens' projections.

Summary

Based on the foregoing, Staff recommends executing a Contract amendment which removes the variable fee based on Premium Change Factors and replaces it with a fixed Annual Fee for a total of \$18,986,098 over the 10-year life of the Contract. As a part of this Contract amendment, Citizens would concurrently execute the optional 5-year Contract renewal (2023 – 2027) with ISO in 2021.

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Recommendation

Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend the Board of Governors:

- a) approve the amendment of the Contract to replace the existing variable-based fee with a fixed fee, as set forth in this Action Item;
- b) approve the renewal of the optional 5-year renewal term (2023 – 2027) by Citizens in 2021;
- c) reduce the originally approved Contract Amount from \$30,000,000 to \$18,986,098; and,
- d) authorize staff to take any appropriate or necessary action consistent with this Action Item.

ACTION ITEM

New Contract

Contract Amendment

Other _____

CONSENT ITEM

Contract Amendment

Existing Contract Extension

Existing Contract Additional Spend

Previous Board Approval _____

Other _____

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

Move forward as Consent: This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Purpose/Scope

As further described in the associated Executive Summary, this Action Item is requesting approval to: (1) amend the Contract to replace the variable-based fee with a fixed fee; (2) concurrently execute the optional 5-year renewal term; and, (3) reduce the originally approved Contract Amount from \$30,000,000 to \$18,986,098.

The Contract with Insurance Services Office, Inc. (“ISO”) provides for a comprehensive set of coverage forms, rules, rating plans, and related services which are used to support the ongoing development of Citizens’ property insurance products. The contract forms, underwriting eligibility rules, and general rating approach are used as the basis for Citizens’ products and are continually evaluated to ensure that Citizens’ products remain aligned with the Florida private market.

The original Action Item (June 20, 2017) approved a Contract Amount of \$30,000,000 over the combined initial 5-year term (2018 – 2022) and the optional 5-year renewal (2023 – 2027). The Contract fees are currently structured to scale based on annual direct written premium (“DWP”) with adjustments for annual increases or decreases. The Contract Amount of \$30,000,000 in the original Action Item was based on the potential for increases in DWP (and Contract fees) due to worsening market conditions.

Due to DWP growth from 2019 to 2020, a Contract fee renegotiation provision was triggered and Citizens and ISO entered into renegotiation discussions. ISO agreed to amend the Contract fees from a payment based on annual DWP to an annual fixed fee, for a total Contract Amount of \$18,986,098.

Under the Contract thus far, ISO has received satisfactory contract performance evaluations and consistently demonstrated strong partnership with Citizens.

<p>Contract ID</p>	<p>Coverage Forms, Insurance Rules, and Rating Services (Contract Amendment and Renewal) Contract number: 17-16-0011-00 Vendor: Insurance Services Office, Inc.</p>
<p>Budgeted Item</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>Procurement Method</p>	<p>On August 10, 2016, Citizens released Invitation to Negotiate No. 16-0011 for Coverage Forms, Insurance Rules, and Rating Services. After negotiations with the two vendors that were moved forward by the Evaluation Team, the Negotiation Team recommended award of the Coverage Forms, Insurance Rules, and Rating Services Contract be made to ISO. The Board of Governors approved the Contract on June 20, 2017 and it became effective January 1, 2018.</p>
<p>Contract Amount</p>	<p>Reduce the originally approved Contract Amount from \$30,000,000 to \$18,986,098.</p>
<p>Contract Terms</p>	<p>The Contract Term is a 5-year base term (2018 – 2022) with one optional 5-year renewal term (2023 – 2027).</p>
<p>Committee Recommendation</p>	<p>Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend the Board of Governors:</p> <ul style="list-style-type: none"> a) approve the amendment of the Contract to replace the existing variable-based fee with a fixed fee, as set forth in this Action Item; b) approve the renewal of the optional 5-year renewal term (2023 – 2027) by Citizens in 2021; c) reduce the originally approved Contract Amount from \$30,000,000 to \$18,986,098; and, d) authorize staff to take any appropriate or necessary action consistent with this Action Item.
<p>Board Recommendation from Committee</p>	<p>If approved at its September 21, 2021 meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> a) approve the amendment of the Contract to replace the existing variable-based fee with a fixed fee, as set forth in this Action Item; b) approve the renewal of the optional 5-year renewal term (2023 – 2027) by Citizens in 2021; c) reduce the originally approved Contract Amount from \$30,000,000 to \$18,986,098; and, d) authorize staff to take any appropriate or necessary action consistent with this Action Item.

Contacts

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