

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE CLAIMS COMMITTEE MEETING
Thursday, June 16, 2016

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened telephonically on Thursday, June 16, 2016 at 10:00 a.m. (ET).

The following members of the Claims Committee were present telephonically:

Gary Aubuchon, Chairman
Jim Holton
Freddie Schinz
Jon Palmquist
Jay Adams

The following Citizens staff members were present telephonically:

Barry Gilway
Craig Sakraida
Elaina Paskalakis
LaTrice Grier
Michael Guerra
Mike Gilmer
Joseph Theobald
Shari Hamilton

Call Meeting to Order

Roll was called: Chairman Gary Aubuchon, Governor Jim Holton, Governor Freddie Schinz, and Mr. Jon Palmquist were present.

1. Approval of Prior Meeting's Minutes (March 9, 2016)

A motion was made and seconded to approve the March 9, 2016 minutes. All were in favor. Motion carried.

2. Strategic Update

Jay Adams stated, thank you, Chairman. Barry would like to make a few comments.

Chairman Aubuchon stated, go ahead.

Barry Gilway stated, thank you, Jay. As you will note on the agenda, we are not spending an enormous amount of time on probably the most critical issue that we are facing in the claims arena, and that is obviously the water damage initiative. And I just wanted to alert this committee that we will be putting on a very comprehensive, we are going to call it a special report on water damage at the Board meeting which will cover in-depth all of the claims issues, the product issues and also the communication issues associated with the water damage

initiative. So we will be going into considerable depth for members of this committee and the Board at the Board meeting when we open the Board meeting. And I just wanted to clarify that given the lack of focus on this agenda relative to water damage. Thank you, Jay.

Jay Adams stated, thank you, Barry. Good morning, Chairman Aubuchon and Governors. I wanted to take a few minutes to review the claims strategic update. Today's update will focus around the non weather water loss trend.

Jay Adams continued, please refer to page 51 in your binder. We are currently on target to receive about as many first notices of losses as we did in 2015, even though our policy in force count continues to decrease. The percentage of non weather water claims as compared to the total number of FNOLs received continues to represent about 55 percent of all claims received and the average number of dates to report those claims has deteriorated to an average of 33 days.

Jay Adams continued, please refer to Exhibit 2, please. Ten hurricane free years have created a marketplace for a water catastrophe. Water claims continue to have a large number of representatives that are pursuing the claims on behalf of the insured when the claim is reported during the first notice of loss. The important trend to notice is that the rest of the state is showing the largest increase through 2016.

Jay Adams continued, please refer to Exhibit 3. The same trend is occurring in the area of assignment of benefits. The rest of the state is showing the largest increases over the prior years.

Jay Adams continued, Exhibit 4 says that the water claims frequency was relatively flat from 2010 through 2013, and significant increases have continued since that time and this is led primarily by the southeast with a frequency of 17 percent.

Jay Adams continued, Exhibit 5, along with the increase in frequencies, the average severity of water claims has also been increasing over the same period. The majority of the water claims arise from the southeast with an average severity of \$10,000. The disproportionate claims volume for the southeast is driving up the average statewide severities in comparison to the rest of the state.

Jay Adams continued, Exhibit No. 6, the same correlation between the number of losses in the southeast as compared to the rest of the state are impacting an overall loss adjusting expenses as shown in the graph. The southeast has the highest loss adjusting expenses which are in excess of \$500.

Jay Adams continued, Exhibit 7, although these numbers are concerning, the most alarming trend continues to be the number of suits filed when the policy in force count is reducing along with the new first notices of loss. For 2015, the average number of new suits received has skyrocketed to 826 per month.

Jay Adams stated, according to recent market studies Citizens is receiving around 40 percent of the total market litigation with a market penetration of around seven percent.

Jay Adams continued, please refer to Exhibit 8 in your binder. The increase in average new suits received continues to place pressures on our litigation team and the overall pending. In the month of March we received in excess of 1,000 new suits and repeated that trend in May. This increase in suit volume continues to place pressures on our staff and our independent adjuster partners.

Jay Adams continued, each new suit is reviewed by a staff triage team which evaluates the pre-litigation claim handling along with the facts of the suits to determine which unit the suit would be assigned to. In order to keep up with the increase in the new suit volume we are adding a staff position to the triage team. The suit is then assigned to the appropriate litigation team. Citizens' staff managers provide oversight to teams of independent adjuster resources to manage the pending litigation. With the increase in suit volume and the increase in pending we will be adding a staff manager position and additional independent adjusters to support the increase across the water and the AOB teams.

Jay Adams continued, please refer to Exhibit 9. The increase in litigation volume is impacting the loss adjustment expenses. For the southeast region alone it had an increase in the loss adjustment expense of 450 percent since calendar year 2011, and all areas of the state has shown steady increases.

Jay Adams continued, Exhibit 10, Citizens as an enterprise has embraced these challenges and are working together to address the issues. One such initiative is the Call Citizens First campaign which is led by Christine Ashburn and her communications team. The message is clear and simple, call Citizens first when you have a claim and give us a chance to evaluate and settle the claim prior to the repairs being completed.

Jay Adams continued, another enterprise initiative is led by John Rollins and that is the new product language changes that are going to go into effect on July 1, 2017. A summary of those changes are: providing Citizens with notice of the claim and not conducting permanent repairs until the earlier of 72 hours or Citizens has inspected the loss, providing a limit of \$3,000 or up to one percent of Coverage A towards emergency services without the approval of Citizens, and provide clarifying language around some of the water challenges.

Jay Adams continued, a few of the claims specific initiatives are the contract manage repair program where Citizens will be able to provide the insured with 24-hour emergency services along side a contacted manage repair program. The program will provide the insured with a pre-qualified and credentialed contractor that will provide a three-year workmanship warranty for all of those repairs.

Jay Adams stated, Citizens continues to work towards a team of dedicated staff to handle the non weather water losses. This model provides Citizens with a mechanism to provide the appropriate level of training and oversight to handle the most complex claims. Chairman, this concludes my presentation.

Chairman Aubuchon stated, great, thank you. Members, are there any questions for Jay? Jay, I have one and it is addressed for both you and Barry.

Chairman Aubuchon continued, I read, you know, we get the weekly news room reports of articles written about the insurance industry in Florida, and I read this week with interest that Barry participated in that water summit that was put on by the insurance advocate and there seemed to be some promise that members that attended that workshop were actually communicating and thinking about some solutions that everyone could be willing to work towards.

Chairman Aubuchon continued, Barry, do you want to comment on that?

Barry Gilway stated, thank you for the opportunity, Mr. Chairman. It was in my estimation the forum that was put on by the insurance consumer advocate, Sha'Ron James, it was truly exceptional. It provided an opportunity for virtually all stakeholders to really present their case and their position, and also offer different recommendations, alternatives, suggestions in terms of how we might, you know, address this issue.

Barry Gilway continued, one of the biggest issues in the AOB arena is that there has really been no commonality whatsoever between the various stakeholders and parties, you know, regarding any possible solutions. So what did develop from this forum which included presentations by myself, Paresh Patel from Homeowners Choice, virtually all of the involved associations, members of the independent adjuster community, public adjuster community, mitigation contractors, restoration contractors, and there was a surprising amount of commonality as respects to suggestions.

Barry Gilway continued, I will be going into some of those suggestions in a little more depth at the overall Board meeting, but they really included really support from many of the stakeholder parties regarding specific changes to the AOB form relative to licensing and regulation of mitigation contractors and restoration contractors. The revised definitions for example of adjusting and the concerns associated with allowing adjusters to participate who aren't fully credentialed. They include education issues relative to the education of both the policyholders and the public in general relative to this issue. So it was very, it was interesting.

Barry Gilway continued, I actually had an opportunity not only to participate, I took the time following the meeting to meet independently with each of the presenters. And Jay Adams and myself will be setting up a series of meetings, follow up meetings with each of these presenters to really understand in more detail their perspectives and what their specific recommendations might be so that we can really take more of leadership position in at least presenting an array of alternatives that might have an impact on this solution.

Barry Gilway continued, so I think it was a great networking opportunity to find out the individuals that are really driving this issue across the state, interact with those individuals and then, you know, subsequently have an opportunity to get into more detail with these folks as respects to their positions and what their recommendations might be.

Barry Gilway continued, I was, Mr. Chairman, very pleased with the end result. I think Ms. James did a phenomenal job in setting this up. It gave everybody an opportunity to, you know, to contribute. Obviously there were a wide array of differences. We had Lee Jacobson, for example, participating on part of the trial bar, but even there in discussions with Lee following the meeting there was some common areas that I think we might be able to address and recommend to the Legislators in the upcoming session.

Barry Gilway continued, so I appreciate you mentioning that. I thought it was a very valuable meeting and I think as a result of the meeting I think we will have a much better indication of what the positions are for all of the various stakeholders and I am looking forward to the meetings that Jay and I are establishing to get into more detail on the claims side to determine what actions that might mean for Citizens. So thank you for raising that issue, Mr. Chairman.

Chairman Aubuchon stated, thank you, Barry. It appears to me that, you know, our different strategies that we have tried to deploy, call Citizens first, John Rollins and his teams, language changes in our policies, while they will have some effect, the net effect will be kind of chipping away at the edges and unless and until the Legislature takes action to create real reform, we are not going to be able to see these disturbing trends alter very much over the coming months and years.

Barry Gilway stated, I would agree with that, Mr. Chairman. A good example is the most recent rate filing and while, you know, we are limited basically to a less than a 10 percent individual policy increase by the glide path, you know, we are presenting at the rate filing in the southeast, you know, rate indications in the 400 percent range.

Barry Gilway continued, and the policy changes, the actuaries are indicating the policy changes we are putting in may have as much as an eight or nine percent impact on the overall rates. Well, obviously while that is positive, that is moving in the right direction, it is not going to solve the problem ultimately, and there has to be some change relative to the AOB form, itself, in my opinion, but even there is a wide array of recommendations and suggestions in terms of ranging all the way from, you know, absolute restrictions in AOB usage which will not get through the Legislature, to I think a number of recommendations that frankly were made by several Legislators in last year's session, both Senate Bill 596 and House Bill 1097, both included some fundamental changes in AOB that really had general support.

Barry Gilway continued, however, at the end of the day the insurance industry as a whole did not support those two bills, and there are good reasons as to why they did not support them, but one of the issues that has got to be bringing the insurance industry together so that we are in concert relative to, you know, what the ultimate solutions might be. I agree with your comments, Mr. Chairman, I think the issue now is really looking at an array of solutions and trying to negotiate, if you will, a group of or a set of recommendations that, you know, might get general agreement across the insurance industry and with all of the other stakeholders.

Chairman Aubuchon stated, right, absolutely. Thank you, Barry. Members, any questions for Barry or for Jay? Okay, hearing none, Jay, does that complete your presentation?

Jay Adams stated, yes, sir.

3. CAT Testing Update

Craig Sakraida stated, good morning, Chairman Aubuchon and Governors. I am going to the Catastrophe Testing Update. I am going to kind of hit the highlights. I am not going to read the entire thing and at the end I am going to provide you with an update on our Tropical Storm Colin claims and the progress we have made there.

Craig Sakraida continued, just to touch on the catastrophe testing, each year we go through several processes and brainstorming sessions with every business unit at Citizens and we try to focus on the key critical areas for testing to ensure the appropriate response. And in this we also try to find any efficiencies that we can to make it a better response so we provide better customer service. And there are several things that I will focus on at the end, but the four main tests that we do are the ones that I summarized in the update here.

Craig Sakraida continued, but just to go over, we do the catastrophe deployment exercise which is a lot of times is where we bring the adjusters in and this year we brought them to the EverBank Center. We had some challenges there, but we overcame them. We do the desk adjuster training as a part of that. The emergency operations center, the employee readiness which we do an oversight workshop with both employees as well as the managers to make sure that we are all in alignment for the response.

Craig Sakraida continued, we do a generator load testing on the generators that we have in case we have to set up an office. The system flow testing on all of the components of the claims system that we utilize and its supporting functions. We did a test this year with personal lines and commercial lines underwriting. We do telephone support logging to make sure that is in line, as well as our check processing to make sure that we can handle increased volume. The first notice of loss call center I will summarize a little bit more and then our contracted satellite services that we have up with Encompass Digital Media in Atlanta we test them to make sure we are getting what we pay for up there.

Craig Sakraida continued, and I will touch briefly on the catastrophe deployment exercise. This year naturally it is moving downtown, we had some logistical challenges with the multi story building and parking. But our facilities team did a good job with arranging off site parking. We made some adjustments after the first round of people came through in the morning, for the afternoon to accommodate the work flows and the other people in the EverBank Center. It was a little bit of a challenge, but we effectively brought 98 people in, get them checked out, trained and then we had four of them retained as desk adjusters for us and we gave them a volume of claims that we monitored for a month. And then our quality assurance department reviewed every one of the claims and with that we were able to validate that our training was appropriate and we made a couple of minor modifications to the training that we will pass on to the independent adjusting firms.

Craig Sakraida continued, the EOC deployment exercise, this was the first year we did it with our new field service vehicles. That worked well, we had a lot of compliments about how well the

vehicle was set up, how easy it is to work out of, and really it was kind of our first time of testing that out in a little bit of a volume situation.

Craig Sakraida continued, the FNOL call center stress test, that was conducted in March up in Bethlehem, Pennsylvania, with our third party vendor, iCore, and what we do there is we basically this year we tripled their volume, but we start with a simulated storm event and we communicate with them over the weekend and they have a very short amount of time to staff to our needs as well as train them. So some of our staff go up there and monitor that. The two big areas this year that I mentioned here were the soft skills training and there was some issues with our phone routing for the Spanish speakers, and that is all stuff that can be fixed and documented.

Craig Sakraida continued, the underwriting services, corporate risk and commercial lines underwriting, they did something similar to the test with the FNOL vendor where there was a Hurricane Barry was making landfall 75 miles south as a category three, and what they do is directed all of their work to the vendor and they had to staff, the vendor had to staff as well as handle the increased work. And what we learned a couple of years ago from the testing was that some of the employees weren't cross trained well enough to support the functionality. So they tested that this year to make sure that everything was, everything was working from an action item from a couple of years ago and it was. We have all of the formal documentation which will be 100 percent completed at the end of June.

Craig Sakraida concluded, and with that I want to just touch briefly on Tropical Storm Colin. So far we have received 204 claims. 198 of them are residential, six are commercial. We have contacted 203 of them. We have inspected 174 of them. We have got inspections scheduled on 189 of them, closed 28 and we have paid out a total of \$27,000 on all 28 claims. So right now we are still monitoring the claims. I think we will have them all closed out relatively quickly. I haven't seen any or noticed any trends with them. We anticipate to get some more claims, another probably 100 or so as this tails off, but once again it was a chance for us to employ a couple different parts of our catastrophe plan. Are there any questions?

Chairman Aubuchon stated, members, any questions of Craig?

Chairman Aubuchon stated, Craig, I understand that in the exercise, Hurricane Barry was especially difficult to deal with due to the duration of the winds or being especially long winded.

Craig Sakraida stated, well, I will stay silent on that comment.

Jay Adams stated, Chairman, this is Jay. I would like to add a few comments, please, if the time allows.

Chairman Aubuchon stated, absolutely.

Jay Adams stated, I would like to take this time to recognize Craig and his team. They do so much behind the scenes work that they just do not get recognized for. Catastrophe planning for Citizens is really why we feel we exist in Claims. We do this 24/7, 365 days a year. We recognize

CAT season running from June 1 to November 30, and on December 1 Craig is starting planning for the following year. They really do risk analysis for claims and identify all of the areas and potential pitfalls where we can have problems and that is where these testing modules come up with. They rub a lot of people the wrong way, they push back, but they are making sure that they are adding value to the process so that we are ready to respond when the next catastrophe occurs and I just want to recognize Craig and his team for that.

Craig Sakraida stated, thank you.

Chairman Aubuchon stated, I appreciate those comments, Jay, I do, and obviously the importance of these exercises are -- we are eventually going to get hit with one and one of significance. So I appreciate the good work that everyone is doing there.

4. Vendor Relationship Management

Chairman Aubuchon stated, okay, if there is no further questions we will move to our Vendor Relationship Management and I know LaTrice is going to have to skip over Water Mitigation Estimate Review as there was an Intent to Protest. So we will move I guess directly to the Catastrophe Post Event Imagery Action Item.

LaTrice Grier stated, good morning, Governor and committee members. We have one action item today. I will begin briefly with a high level overview of the executive summary. Currently Citizens is utilizing Pictometry Aerial Imaging provided by Eagle View for claims processing and review of orthographic images and geographic areas of the state. That includes all policies in force. The Pictometry Rapid Access will provide post landfall access to orthographic images within a specific geographic region, including highly accurate photos that can be used for forensic application for claims processing. This service allows detailed review of these images from post event catalogs to ensure efficient review of risk damages and efficient processing of the claims resolution for the customer. It is anticipated that this single source contract will have a three year term with no renewal, with an estimated cost not to exceed \$112,000. Are there any questions before I read the recommendation, Governor?

Chairman Aubuchon stated, Members, any questions?

Jon Palmquist stated, I have one a question for you.

Chairman Aubuchon stated, sure, you are recognized.

Jon Palmquist asked, will this technology allow you to drill down to individual residences for--

LaTrice Grier stated, absolutely.

Jon Palmquist continued, for purposes of measuring roofs?

LaTrice Grier replied, yes, it does.

Jon Palmquist stated, okay, very good, thank you.

Chairman Aubuchon stated, any other questions before the recommendation? Okay, please proceed with the recommendation.

LaTrice Grier stated, thank you, Governor. Our single source contract number is 16-2001. The recommended vendor is Pictometry International. This is a budgeted item and will be included in future and annual operating budgets until contract expiration. It is anticipated that the sole source agreement will have a three year term with no renewal. The estimated cost of the contract is not to exceed \$112,000. The staff recommends that Citizens Claims Committee approve and recommend to the Board to approve the award and resulting contract for a single source contract 16-2001 to Pictometry International as set forth in this action item for catastrophe post events imagery. Authorize staff to take any appropriate or necessary action consistent with this action item and approve this action item not to exceed \$112,000.

Chairman Aubuchon stated, thank you. And just a quick question, and Jay, you may know the answer to this or LaTrice. The recommendation is to approve the action item not to exceed \$112,000. On the following page following the action item is the notice of intended decision to enter a single source contract, and under that, under number five the contract value is \$56,000. What is the distinction there?

LaTrice Grier stated, yes, sir, Governor. What we have asked for is just for this season to include at least two events for 2016.

Jay Adams stated, so each event has a charge of \$56,000.

Chairman Aubuchon stated, I got you, okay. Members, any questions? If there are no questions I would entertain a motion.

A motion was made by Governor Schinz and seconded by Governor Holton to approve and recommend Board approval of the Catastrophe Post Event Imagery Action Item (Single Source Contract 16-2001). All were in favor. Motion carried.

5. New Business

[Meeting adjourned]