CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, June 22, 2016

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened in Sheraton Orlando North in Maitland, Florida on Wednesday, June 22, 2016 at 9:00 a.m. (EDT).

The following members of the Board were present:

Chris Gardner, Chairperson
Don Glisson, Vice Chair
Gary Aubuchon
Bette Brown
Juan Cocuy
Jim Henderson
James Holton
Freddie Schinz

The following Citizens staff members were present:

Barry Gilway
Barbara Walker
Cindy McVay
Joe Martins
Steve Bitar
Doug Sherwood
Kelly Booten
Jennifer Montero
Dan Sumner
Violet Bloom
John Rollins

The following people were present:

Dave Newell FAIA

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens June 22, 2016 Board of Governors meeting. This meeting is publically noticed in the *Florida Administrative Register*. Citizens Board and committee meetings are recorded and transcribed minutes are available on our website. Thank you.

Roll call: Chairman Chris Gardner, Don Glisson, Gary Aubuchon, Bette Brown, Juan Cocuy, Jim Holton, Jim Henderson, and Freddie Schinz are present.

Barbara Walker: You have a quorum.

1. Approval of Minutes

Chairman Gardner: Good morning, everyone. Thank you for attending today's meeting. The first item on the agenda is the approval of prior meeting's minutes.

A motion was made and seconded to approve the March 16, 2016 and May 24, 2016 minutes. All were in favor. Motion carried.

2. Chairman's Report

Chairman Gardner: The Chairman's report will be brief today. First for housekeeping – I want to recognize Cindy McVay. Without Cindy, who has done a great job of hosting and facilitating these Board meetings, a lot of people don't realize the effort it takes in putting these on, especially when talking about four times a year. Cindy, thank you. Cindy is relocating to Pennsylvania to be with her children and grandchildren. We wish you a good move and thank you for your services to Citizens.

[audience clap]

Chairman Gardner: On a more serious note, we have very important business today as we contemplate Citizens' rates for next year. I thought Governor Aubuchon had very poignant comments yesterday at the Actuarial & Underwriting Committee (A&U) Meeting yesterday. He said emphatically that this Board does not like to raise rates and does not want to raise rates. The actuarial sciences look in the rear view mirror when they create the rates. We've used the same methodology for years and has been validated by the Office of Insurance Regulation (OIR). The reality is that we continue to push toward a crisis with water damage and the Assignment of Benefits (AOB) issue. This is not a new topic. I'm sure all of the members on this Board, since you've been here, have been discussing this issue and how it continues to erode surplus and benefits certain "bad actors" taking advantage of the system. Again, from Governor Aubuchon's point, we need help from the legislature. We encourage our policyholders to continue to reach out. We have a very responsive legislature that is responsive to issues reflecting their constituents.

3. President's Report

Barry Gilway: Good morning Mr. Chairman and Board of Governors. The President's Report will take a different form today. What we intend to do is present a more comprehensive report. Each of the Board members are active in each of their committees, and they take a look at one aspect or another of the AOB issue. What I've attempted to do today is pull three people today: Jay Adams to go over the claims, John Rollins to go over the product issues, and Christine Ashburn to cover all of the communication issues. Unfortunately, Jay could not be here today. He has a family emergency he had to attend to, so I'll be handling Jay's part of the discussion. It's very obvious. All you have to do is take a look at our financials, our rate recommendations . . . that this is a crisis. It's a crisis not only for Citizens but for the industry. AOB is changing the entire property market in Florida. We spent an enormous time on this. What becomes more evident is that there are multiple reasons for this issue. It's very complex. It's not just a product issue. It's a policy issue. There are referral fees ($1,500 to $2,000 by mitigation contracts to get this business) and other inducements in play. There is undebt [sic] solicitation. There is lack of licensing and regulation among mitigation contractors. It's very different from the mold and mildew area, which is now licensed and regulated. There is unlicensed public adjusting. One of the biggest complainants over unlicensed public adjusting is the Public Adjusting Association in Florida. One of the most important things is the total lack of understanding on the part of the customer in terms of what they are giving away . . . they are giving away their total rights under that policy. The more we understand these drivers, then the more we understand that it's going to take a consensus and people coming together. I will go over what we've heard across the State. With that, I will jump into the claims statistics. You can follow me in your Board book. There is a presentation that goes over these stats. In the first presentation, what Jay is showing is that while the policy count continues to drop by 24%, first notices of loss (FNL) continue at the same level. Even more so, the average days to report is getting worse and not better. When John speaks, he'll focus on product changes to address just that, having us get into before the public adjuster and attorney get in. The big issue on what's driving litigation is representation of FNL. There are two slides here. The first slide shows all FNL and representation. In the southwest, it has been high and it continues to be high. The rest of state shows deterioration of representation. It's gone from 2.9% claims represented to over 10% today. If you look at the same numbers for AOB, the AOB are deteriorating rapidly. They are going from 13% represented to 24%. The rest of state is spreading from 1.4% to 8.6% of these claims represented upon submission to Citizens. The two components are frequency of loss and severity of loss. This is probably the most compelling slide in the deck. If you take a look at the frequency of loss, the rest of the state has gone from 6% in 2010 and now up to 17% in frequency. Virtually, one in every five policyholders in the southeast is putting in a water claim. That is staggering. The severity is starting to drop slightly. This number shows that the severity of loss is about $10,000 in the southeast. When you compare that with the state, you see a big difference. It's around $4,000 level. We see that growing. You're showing that the cost to adjust a claim...the allocated loss to adjust a claim goes into the indemnity side but the loss adjustment expense (LAE) is the internal unallocated loss expense (ULAE). These have gone up dramatically from $50 to $500 in the southeast. If you take the severity, the cost to adjust the claim, the indemnity, and the LAE, you get an interesting phenomenon. You get average suits. The real issue is that all of this is driving litigation. I do want to correct a misnomer you hear in the press all the time. This has nothing to do with the change in the age of the marketplace. The Association for Risk Transfer Statistical Solutions worked in conjunction with Demotech to do some of these studies. Use of AOB is on newer homes and higher value homes. The comments you hear that this is really due to the deterioration age of homes in the Miami area is completely false. The suits are a killer. We're really showing a deterioration. In May, we'll exceed well over 1,000 suits come in a month. Every single day, we get 50 new suits through the front door. Obviously, Jay is under a lot of pressure to keep his pending at a reasonable level. You're almost forced to settle and you have an attorney settlement that says if you settle for $1 more than the original estimate, you have to cover for plaintiff costs. What Jay is doing is that he's adding to management and supervisory staff. He's added to adjusting staff. This is very unique. You cannot assign these to independent adjusters (IA). You need to have specialists who handle this type of business. We are adding to staff in this area but trying to be as conservative as possible. With that, these are all of the statistics going to underlie the discussion John will have with you. On the claims side, we have slowed down the process for the contract to repair program and managed to repair program. Jay, myself, and Dan had the opportunity to meet with the senior management staff of three major companies in Florida that have effective managed repair programs. All of them do it differently. The companies were very gracious in loaning us their management team. We spent two to three hours with their team, understanding what worked and what had not worked. A couple of the companies are changing their approach. We still will roll out a program during the first quarter of next year. It will be a different program from what we originally evaluated. It will be customer focused that makes it almost impossible for a customer to say, "No."

Vice Chair Glisson: Do we have the amount of the average settlement the law firm collects? What is the average fee charge per lawsuit?

Barry Gilway: That information is not readily available. The problem that we're running into is the plaintiff costs are part of the indemnity payment. We do have information on the total indemnity. What we don't have is the split between the attorney and the indemnity. We are considering using a capability called case guide. Case guide has significant detail of the splits between the attorney fees and indemnity costs, not just for Citizens but for the entire industry. One last point I want to make here. This is being driven by a few law firms. This is a manufactured issue that's driven by a few firms. This first slide shows lawsuits by opposing counsel. The second slide shows the overall lawsuits for water loss. The most interesting slide is the AOB lawsuits by opposing counsel. Here are the numbers. If you take the top seven firms driving this issue, they represent 60% of the suits filed in Florida. If you take the top 20 firms, that number is in the 80% range. AOB is an opportunity that real key law firms are taking advantage of. As they run out of targets in the southeast area, they are expanding this practice to the rest of the state.

John Rollins: For the record, John Rollins, Chief Risk Officer. Thank you, Board members and members of the public listening. Let's talk about our product and what the response has been just to set the stage. This Board, over the last couple meetings, has approved a slate of product changes that we think will make some difference in the dynamic associated with these claims. The attempt was to surgically adjust the product in such a way to encourage legitimate claims to be called into Citizens First and have us walk the claim through resolution with the policyholder without the need of the policyholder to bring in other actors who would otherwise bring in bad behavior. And, we want to do this in such a way that we're not penalizing or limiting the policyholder when they're making a legitimate claim. Why do we care so much? Barry gave you some of the statistics. Let's restate the obvious and go back to the actuarial research we did with the help of the OIR and showed up in a white paper, an OIR report, and in an independent report. All of the conclusions are the same. Litigation is the main driver of non-weather claim costs. The trends we talk about that are driving the rate increases that we need really to go back to one dynamic, which is litigated non-weather claims. The end game to solving this is to keep claims out of the courts and keep them in the consumer's hands, working with Citizens or their insurance company. We looked at the product. What enables this to spiral out of control and end up in litigation? Number one is late reporting; on average, we get the claim in 33 days for a water claim, after the accident has occurred. That's a key sign that it's going to be a litigated claim and will cost more money. Number two is inflated costs for emergency measures. What that means is that the emergency services are brought in before the insurance company can get involved and the emergency services have been abused. Those emergency services, then, transfer into permanent repairs before Citizens has a chance to help the policyholder. We made some policy language changes with your support and the OIR's support that will be effective July 1, without significantly restricting the coverage. I won't go through the specifics in great detail, but I'll remind you of the three main points. Permanent repairs cannot begin after 72 hours until Citizens is notified and has a chance to inspect the claim and repair the claim. The claim can no longer come to us completely "wrapped in a bow" and done. Use of emergency services is limited to prior to authorization from Citizens. It is not a blanket limit of coverage but it is a request, before emergency services are applied, that $3,000 is spent that Citizens must authorize any additional services needed. To put it into perspective, the cost of emergency series on a non-litigated claim is around $1,000. It's not terribly onerous. Finally, there is some clarification around the issue of access to repair and collapse. Without grilling down, this coverage deals with things like a pipe, for example, failed. Then, without reporting the claim to Citizens, an entire trenching and replacement has been done and then coverage is triggered under the collapse mechanism. We tightened up the language there. What is the impact of these coverages on the street? What do policyholders need to be aware of? These are the homeowner policies, condo policies, and the dwelling and fire policies affected by this change. They will be affected beginning with policies renewed July 1, 2016. Most importantly, there will be a direct consideration of these beneficial changes in the 2017 rate filings. Even though we will talk about rate increases around the state and spreading the tri-county area for multi-peril, they are not as onerous as they could have been because they have adjusted the trends for a perspective feeling that the change will work to keep the costs more manageable. What they have not done is reverse those trends. That's where we really do need an assist. Those trends need to moderate, abate, and then reverse. Another question we get is, "What is the impact to the insurance industry when Citizens is allowed to make these changes?" The OIR is in the driver seat in terms of to what extent they allow the industry adopt our paradigm shift. What we've seen is strong, aggressive adoption of our changes. We must constantly reminder ourselves that the industry's fate is inextricably linked to that of Citizens. We've talked about our success in depopulating. That is threatened. You can't fix this problem for Citizens and not fix it for the industry. If Citizens grows because of either a competitive rate structure in the industry or because the industry is simply unwilling to take on more exposure and continue with the exposure they have from the policies they've taken out of Citizens, then Citizens grows and that raises the specter of assessment risk that Citizens worked so hard to eliminate. What has the industry done? We've seen 27 filings pending. We've seen 19 that are approved. A couple companies tried to adopt our language and made changes which resulted in the OIR pushing back. By and large, the major groups are largely falling in line with the language Citizens adopted with the blessing of the OIR. A little more about rates – we will talk about the rate action item later in the Board meeting. Let's give you a few broad contours that Barry has mentioned about that's affecting the consumer, particularly the consumer that has not filed a water claim, not entered the price of the AOB, etc. Even with the spike in claim frequency, it's worth remembering that the vast majority of customers that are rate payers are individuals who never filed a claim. 15% annual frequency means that 85% of customers do not file a claim in a year. But, they pay the premium and they pay for any abuse due to litigation. What does that mean for us? For the multi-peril policies that do cover water, we continue to see near 10% rate hikes, which is the maximum allowed in the glide path in the tri-county area. We essentially have no good news since last year for the tri-county customers that are seeing the claims costs fall into the rate base. When the costs spike, the rates have to follow. What's changed in the rate map is the rest of state will see rate increases despite the fact that reinsurance costs are at historic all-time lows, our wind part of our policy is very manageable, and last year, what you saw is that all of those customers got rate reductions. That map was all green with premiums going down. Frequency and average cost trends have accelerated outside the tri-county area and now the rate map looks like a checkerboard. We're seeing increases in places like Hillsborough and Pasco Counties that are just now recovering from sinkholes. Why? Not because of sinkholes or wind. It's because of water losses. It muddles the use of the glide path. The glide path is useful when things are stable and we simply need to dig out historical rate inadequacy. Costs were stable. We were doing a great job. When that happens, the glide path works because 10% a year gets you to a stable base. Rate hikes will end. When that's threatened is when costs trends are outstripping the ability for the glide path to respond. That is the case for water, particularly in the south Florida area. It's getting out of the control. $1,100 average costs have skyrocketed to $2,700 in five years. You simply can't keep up with that with a glide path. Glide path is not a good tool to stabilize the cost of insurance in an environment like that. Brief words on wind only, we have stability there. We have some rate hikes indicated but the water trends are not an issue, obviously. Reinsurance rates and depopulation has helped. We lost over 100,000 policies in the Coastal Account in the last year. That's amazing. Anyone who was near adequacy are now out of Citizens. What's left is 188,000 are general policies that have a couple years on the glide path. Once again, there is light at the end of the tunnel when you look at how the glide path worked in a stable structure. That threatens financial strength because cost trends are outstripping our ability to bolster financial strength. We are spending over $1 for every $1 in premium statewide. Last year we talked about the premium dollar and how that dollar split up. Statewide we were building surplus last year which protects us from assessments. We will have a storm again and we will have multiple storms again. We need to put some money away in the hurricane reserves. In fact, last year, we were putting way 17-cents for every dollar for hurricane reserves. This year we have a huge problem. We're not putting anything away and we're eroding surplus. We actually have to add a coin because the dollar is not sufficient to put away anything. We are going into our surplus to deal with the fact that our water claims are eating away at our ability to pay claims. In Miami-Dade, it's worse. Last year we were putting away 3-cents for hurricane reserves. Now we are eroding by 21-cents. We are paying $1.21 for every $1 we take in. It's a sobering picture. Another aspect that we're doing is getting this message out, starting with the Board and going to all consumers in the state. We're all in this together even if we did not file a claim and even if we're not part of Citizens.

Christine Ashburn: Good morning. Thank you. As John mentioned in his update, one of the many ways we're trying to address the late notice issue . . . so much of this can be mitigated if we can just get our adjusters in the door before 33 days. We've got to get that number under control and that involves a change in behavior. Part of our change behavior is under the Call Citizens first moniker. It's aimed at getting folks to remember to call their insurance company when the loss occurs. We're not really sure what all the reasons are behind why that's changed. We can pontificate about the bad actors, doorknockers, and the marketing, but the reality in southeast Florida and the rest of Florida is that we're not the first call. We're the last call. We get the file after the claim has been adjusted and the work has been done. It's pretty much a file that says, "Here it is. Cut us a check." Obviously, there are reasons why that don't work and was never things were done in the past. Under the large umbrella of Call Citizens First campaign, we encourage policyholders and their agents to call Citizens first when you have a claim. Our goal is to get you back to pre-loss condition as quickly and as painlessly as possible. But if we don't know about the loss 33 days later on average, we cannot come in and help you made whole. We are using social media, agent training, direct mail pieces, and leveraging our stakeholder groups to educate all audiences about our product changes, new project launches, make the connection about the cause and affect (i.e., rates), and if you have a water loss that gets you a new kitchen because a vendor tells you that you can – then that's fraud and abuse. Insurance is not to get you in a better condition than you were before the loss. It's intended to restore you to pre-loss condition. If you have an $8,000 water loss and you get a $4,500 kitchen, then that's fraud and abuse. That's illegal. We've created landing pages on agent landing sites. We have a media kit that was launched at the beginning of the campaign. You'll see that in everything we do, we remind everyone to call us first. It's that simple. Call us first. A great idea from Governor Holton, Governor Aubuchon, and Governor Schinz, we have done a direct mail postcard that we send directly to Miami-Dade policyholders with a magnet to remind them to call us first. We are going to continue to work with Claims, Actuarial, and Analytics teams to see if we need to do more mailing in areas with erosion in this area. Product changes – again, if we don't tell them what's expected of them, then we can't expect a different behavior. We have more of an opportunity to get this wrong than to get this right. The first thing we have to do is make every policyholder impacted by these changes aware of what is expected of them and what coverage is impacted on them if they don't give us the notification required under the contract. We have done a summary of changes to policy language that impacts claims payments and coverage. It's published on our website along with links regarding water loss filings. We have included in the mailing a letter outlining the contract changes that will clarify policyholder's responsibilities for emergency and permanent repairs, encourage policyholders to provide prompt notice after a loss so Citizens can inspect the loss, delineate between reasonable emergency and permanent repairs with allowances prior to Citizens inspection, to facilitate prompt claims handling services and to provide easy and available information to the hotline, claims process expectations, etc. Starting in July, policyholders will receive a separate postcard that says, "Attention! Your policy has changed. Read this." We've also been leveraging our industry stakeholder and partner communications. You'll see here a couple examples: the Florida Chamber, the Latin American Agents, FAIA, the Florida Realtors, etc. to try to get the word out. I'm excited to report that we've reach about 124,000 different individuals in Florida through our partnerships with these folks to make sure that we're doing everything in our power to get the word out so that there are no surprises. We're doing in person briefings with legislators and cabinet staff. We did those in May. Barry, Candace, and I have been on the road meeting with people in southeast Florida to make sure there are no surprises with the rate filings. There's also agent communications. Our agents are our service line to our customers and they are fully engaged in this fight and war with us on the bad actors and want to be more involved. We are reminding them that they can be the first notice of loss. They can file claims in our systems. We created ID cards so people can get to their policy number, phone number, and agent. Agents are our first line of defense and we continue to involve their help. The agents seem engaged in this fight. There are the press materials. Michael and the team have done an outstanding job. With the storm season, it's giving us a unique timing opportunity to engage in this water fight, but of course, it is storm season. What happens to AOB when the wind blows? That translates in a scary way if we don't fix this problem. I'm excited to share here that we are partnering with the Florida broadcast stations to inform Floridians about current weather conditions. We are co-sponsoring the public broadcast network that reaches 99% of Florida markets through radio and television for tropical updates throughout the day. We are reminding them as part of that sponsorship to call Citizens first if you have a loss. Of course there is fraud awareness. This is fraud and abuse. If damage is only a small amount of money and if you think it's time to get a new kitchen, that's fraud and abuse. We need to remind folks that they are breaking the law. We are partnering with the Special Investigations Unit (SIU) team and with the Department of Financial Services (DFS). We met with the State Attorney in Miami. We were down there with her fraud investigators and the prosecutors who were working on those claims to make them aware of the water claims area. You always hear about arson. Water is the new arson, especially in south Florida. We were able to educate her and her team on what we're seeing and what our concerns are. Finally, we've been working throughout the state with stakeholders to talk about these issues. In those meetings with the Insurance Consumer Advocate forum she held there have been a bevy of solutions talked about and Barry wanted to take a few moments to walk you through those.

Barry Gilway: What I'm presenting here not a Citizens solution. We've had exceptional meetings with virtually all the stakeholders, including the trial bar, restoration contractors, mitigation contractors, etc. We pulled together a compendium of their ideas as respects with what needs to happen to fix this problem. I'll hit on a few of these:

- Prevent financial inducements relating to insurance claims – strict limitation or ban on referral fees
- Restrictions on solicitation
- No insurance-no pay (many of the contractors have no workers comp, no insurance period)
- Licensing/regulation of water restoration/remediation contractors
- Enforce prohibition against unlicensed public adjusting
- Possible AOB legislative solutions (most of these changes were incorporated in SB 596 and HB 1097 last year which came close to passing)
    - Limitation of assignment to payment, not policy rights
    - Limitation on scope of AOB to actual work performed
    - Limitation on dollar amount of assignment
    - Prohibiting use of liens to enforce improper AOBs
    - Agreement of mortgagee to assignment
    - Subject assignee to same responsibilities as insured
    - Must contain estimate (range)
    - Right of rescission

    - Contractor must inform insurance companies within specified period (3 days?)
    - Clear disclosure of policyholder rights
- AOB Void If:
    - Cancellation fee included
    - Exceed scope of estimate
    - Divests policyholder of rights
    - Inhibits communication between insurance companies and the insured
    - Extend adjustment authority
- Policy form changes that support right/ability of company to adjust claim
- Expand insurance agents role in claim reporting
- Policyholder EDUCATION on AOB terms, risks and insurance policy terms
- Improved Insurance company claims management practices (managed repair)
- Limit access by third party vendors to one-way attorney fee statute

This is a list of those areas. I agree completely with Governor Aubuchon. I think the solution is to get a group together to agree on realistic of changes and to have an opportunity to get with legislators and work collectively through the legislative process to see if we can get some agreement. We came very close last year. Many of these AOB changes were in the bills that came close to passing. Last year at the end of the day, it was a lack of cohesion amount the insurance companies that ended up with failed legislation. One of the solutions needs to be getting the insurance companies together so that we understand and get in agreement on what we'd like the legislators to review and consider as solutions.

Christine Ashburn: There has to be a change in vendor access to the one-way attorney fee statutes. We don't want to amend the one-way attorney statute to provide protection to the consumers who go up against big insurance companies in that if they get a $1 more than what we offer and you're a consumer then the insurance company has to pay the attorney's fees. There are AOB vendors accessing that statute. It is the heaviest list but a critical piece. There are law firms on the top of that list that are in this game because they know the threat of that is insurance companies will settle to stay out of court.

Barry Gilway: I agree with Christine. I think that is the ultimate solution at the end of the day that everyone agrees upon. I agree it's the heaviest lift in the short term with the legislature to get changes in that arena.

Jim Henderson: With respect to the language reclamation that's taking place over time, looking at interpretation at collapse and items included and excluded in the policy . . . part of this phenomenon is determining what normal wear and tear versus a covered event is. Is that in the tri-county or statewide?

John Rollins: You said it very well. That particular point in the product language changes is all about restoring the policy to its original intent in terms of what is covered and what is not covered. What is covered is access to a system that failed, for example, a drain pipe that backs up or leaks which results in covered damage. The coverage has been used and abused in recent years to extend the coverage to all maintenance related items. If the entire piping system is suffering from age related deterioration, the coverage has been abused. The solution is one that needs to be applied to all the subjects that cover peril and it needs to be statewide. The problem of the coverage trigger and the extension not intended by the policy is not an age related problem.

You're hearing rhetoric about pipes failing due to age and inadvertently those actors are making the very argument we are making. The insurance policy was not intended to cover age related deterioration. It should be made clear, and the abuse is not related to older homes. The older homes are 40% of Citizens book of business. When we drilled into our data into the rate of our AOB, the rate of litigation, and the rate in these statistics and therefore the costs were roughly equal depending on what strata to band the age of home. It was not a case of where all the homes had a maintenance issue. In the private sector, they have found similar results filed through the OIR.

Barry Gilway: The only thing I'd add is that we did attempt with these policy changes put some language in there relative to matching, but we were unsuccessful because it is a controversial and difficult area. I understand OIR's position on it but ultimately it is something we have to look at with the additional product changes.

Jim Henderson: The commercial market seems like they've got a couple tools to deal with this that maybe we do not. They can choose to non-renew business in the tri-county. They can apply for rate increases that are not bound by the glide path. Realizing that we have those restrictions with Citizens because we're taking care of Florida as best as we can . . . we are caught in this dilemma of being a really good insurance partner but yet dealing with adverse legal conditions. Have we considered legislation in which the glide path would not go with such reform in this area? Is it fair for the rest of the state for carrying a burden dealing with a locale that's causing the issue?

Barry Gilway: The issue you're describing is not just commercial. It's also residential. The opportunity that the private market has is that they can underwrite against the risk. That is exactly what's happening in south Florida. The companies are shutting down shop for new business in south Florida. Most of them have shut down the zip codes. In commercial, they have more flexibility in the overall rate and taking the underwriting approach to it. Any discussion we have about possibility about adjusting the glide path in any way is highly controversial. I don't believe we'd get any significant support. We raise that issue all the time. Every time we raise the issue it falls on deaf ears.

Christine Ashburn: John and I had the same conversation around this area yesterday. When we had the sinkhole crisis, we were successful in removing the glide path in that area. Water is more widespread. However, if this continues, we would be remiss if we didn't look at that as a possible suggestion. Barry is correct in that it would be a politically dicey situation, but the reality is that if you didn't have the glide path now . . . the glide path is hurting us. If we were to ask to approve 180% in Dade, then this would be a full blown crisis. The glide path is mitigating the attention this issue is getting and is allowing the bad behavior to continue. It's a double-edge sword. It will allow this activity to continue for a lot longer. If it was 180% going to OIR, the whole world would be listening.

John Rollins: The only thing I want to add is that you do not want to throw out the baby with the bath water. The glide path is a great tool for some jobs actuarially, for example, in the case of wind only. It's kept things affordable and gives everyone time to look hard at the cost structure, create efficiencies, take advantage of market opportunities, and get to the end of the path. When cost run at this rate, it isn't a very good for the job. It allows a problem like a virus to fester until we treat it. It allows us to take these smaller actions but because the private sector is not restricted . . . for example, one company made a rate filing for 14.9% statewide. That exceeds 10% there. When you drill down, it's 5% in Tampa Bay and 25% in Miami Dade. When you talk about Citizens being restricted to 10% in every territory statewide, what you're doing is creating immediate 15% competitive gap between Citizens' changes and a key private sector company's changes. Once you get a sufficient price gap, the front door starts opening again. Why? Because the Clearinghouse is subject to the 15% rule. Citizens becomes the competitive option.

Chairman Gardner: On the glide path, I don't believe it's reasonable for consumers to find fraud and abuse as an infinite item. We need to close the door. We keep escalating the rates to fund the fraud and abuse.

Gary Aubuchon: My approach to this is going back to the strategy to have a broad base coalition of diverse industries coming together for a common solution. When I was in the Florida House, the Sadowski Coalition, which addresses affordable housing issues, is as diverse a coalition as you can imagine. One of the things I recommend as you build this coalition is to be on the same sheet of talking points. One of the ways to create attention to a legislative body that hears hundreds of issues in every session is consistently hearing the same message from different people. One of the things I encourage you to do is to provide us as Board members with talking points as well so that we are saying things consistently. We were all appointed by someone in the leadership position, so we do have at least one ear. Some of us have more than one. All of us working together can truly make a difference in this session if we're organized and singing from the same sheet of music.

Jim Holton: Approaching this another way, too, there is a lot of evidence that fraud and abuse is systematic. There are a lot of same actors coming up again and again. In other industries such as the medical, there is legal action against those players under the RICO Statute. Citizens might want to look at some of those legal, aggressive lawsuits against this whole group of actors in this area. There is evidence with the DFS that continually collude with public adjusters, law consultants, and others to escalate and jack up prices. Availing ourselves in the courts might be a solution.

Barry Gilway: That's an excellent suggestion. I would say that the actions we're taking really don't get the visibility they deserve. We've worked with DFS to get visibility with some of these issues. We've had a significant number of successes on cases referred to DFS. It's reported in the press but not reported in relation to Citizens. Christine has been working with DFS on the overall fraud issue.

4. <u>Chief Financial Officer Report</u>

a. Finance and Investment Committee (FIC) Report

Jennifer Montero: If you'll refer to the layer chart that's on the screen, I'll walk you through the successful placement of the 2016 Risk Transfer Program that the Board approved at the May 24, 2016 Board of Governors Teleconference Meeting. The 2016 placement involved reallocating $443.3M of the 2014 and 2015 multi-year aggregate reinsurance coverage that wraps alongside and above the coverage that the Florida Hurricane Catastrophe Fund (CAT Fund) provides. This shifted the multi-year aggregate insurance coverage to a single year, per occurrence wrapped layer in tandem with the mandatory coverage provided by the CAT Fund. The rate online for this layer was 10.25%, which is 1% lower than the 11.25% rate online for the wrapped layer last year. In addition, we placed $221M of commercial non-residential (CNR) coverage within the global reinsurance market. This layer provided coverage for 50% of the CNR losses in excess of $517M. This program provides coverage form CNR losses not covered by other layers of the program and for which Citizens has no CAT Fund coverage. This layer was oversubscribed by more than 100% and the rate online is 6% as opposed to 6.75% last year. As mentioned previously, 2016 has been a transition year for Citizens reinsurance program. Staff has worked extensively with our co-brokers and our financial advisors to evaluate available options relating to the structure, term, pricing, and other relevant matters in structuring the 2016 program. The team worked with a number of the global traditional reinsurers over the last few months of the implementation of this transition strategy. The 2016 Risk Transfer Program consist of $664.3M of coverage in the traditional market and $1.8B of coverage in the capital markets through the 2014 and 2015 CAT Bonds. These together provide Citizens with more than $2.4B of risk transfer coverage for the 2016 storm season. Although this is an increase of more than $1.4B coverage compared to last year, our surplus expose of more than 1-in-100 year storm continues to remain less than 60%. The total program cost for the private risk transfer program are expected to be approximately $180M, which is approximately 10% less than the budgeted amount of $204M.

b. Action Item: Financial Advisory and Investment Consulting Services

Jennifer Montero: If you'll turn to Tab 4, I have an action item that was brought back to the FIC. This is for Financial Advisory and Investment Consulting Services. The This Action Item seeks Board approval to engage the services of Raymond James and Associates to provide Financial Advisory and Investment Consulting Services listed in the contract resulting from Invitation to Negotiate 16-0004. On February 19, 2016, Citizens issued Invitation to Negotiate (ITN) No.16-0004 for Financial Advisory and Investment Consulting Services. Vendor Responses were due by March 29, 2016 and one proposal was submitted. This proposal was reviewed and scored by an Evaluation Committee. After a negotiation regarding annual fees, the Evaluation Committee recommended the award of the contract to Raymond James and Associates. The contract term is anticipated to be five (5) years, and, at Citizens' discretion, have two (2) optional two-year renewal terms. It is a budgeted item. The Financial Advisory and Investment Consulting Service Fees, including renewals, are not to exceed: $6,120,000.

A motion was made and seconded to approve the recommended award and resulting contract, including the renewal terms, as set forth in Financial Advisory and Investment Consulting Services Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Jennifer Montero: I have one update from the FIC and that's about our legacy securities. At the March Board Meeting, the Board approved the sale of the legacy securities at a market sales price of 80% to 90% of the market value. Since that time, Citizens sold two of the four legacy securities: Atlantic East and Pacific West were sold at 88.2% of their December 2015 market value. Proceeds from the sale totaled $60.5M including approximately $13M in realized gains ($11M of that being in the Coastal Account). Currently, the other two legacy securities are valued significantly below Citizens' minimum pricing threshold of 80% of their market value. Therefore, we will continue to work with Raymond James to evaluate the underlying securities and update the Board in September.

c. Financial Statements

Jennifer Montero: You have several additional documents behind tab 4, including the 2016 First Quarter (FQ) Financial results, the Audited 2015 Financial Statements, and the 2015 Management and Discussion Analysis (MD&A). There were no differences between the year-end financials presented in March and these audited financials. You will note that there were two adjustments proposed to the GAAP Financial Statements that management elected to waive and were deemed immaterial by the auditors. Recording these adjustments would have been inconsistent with prior year reporting on that basis along with the immaterial nature of the adjustments that management elected to waive. These adjustments proposed, one netting the amounts payable to depopulation companies and amount receivable from depopulation companies, totally $19.7M. The second one was netting ceded unearned premium with direct unearned premiums, totally $99.2M. Neither adjustments impacted net assets and net income, and it's simply a reclassification on the balance sheet. Citizens' external auditors attended the Audit Committee yesterday and presented the report to the Audit Committee. I'll move on to the FQ 2016 update. Surplus grew marginally at a little over 1%, or $100M, primarily due to the FQ results of operations. We continue to experience year-over-year declines in premium levels. However, the rate in reduction in premium levels continues to be declining. You'll note that relative to the FQ 2015 and the budgeted of FQ 2016 depopulation of $12.4M is significantly below the prior and budgeted periods by 75% and 70% respectively. The overall reduction in depopulation activity is most pronounced in the personal lines account (PLA), where relative to 2015 reduction of nearly 88% was observed. Despite the decline of depopulation activity, we continue to experience a deterioration of our loss in LAE ratio. As you just heard during the President's Report, water losses remain, an issue not only for Citizens but also for the Florida property insurance industry. However, for the first time in five years, sinkhole losses for the FQ 2016 had an actual favorable contribution to the overall loss ratio. The sinkhole loss ratio was 27% compared to an overall loss ratio of 43%, underscoring two observations. One, deliberate and timely action on sinkhole coverage reform has improved considerably. The amount of covered sinkhole losses paid by Citizens and the increase in frequency and severity of water losses is exhibited by the overall increase in loss ratio. For some perspective, the sinkhole loss ratio peaked just shy of 900% in December 2011 and declined each year thereafter to 324% in 2012, 109% in 2013, 84% in 2014, and 27% in 2016. The expense ratio for FQ 2016 was 28%, despite a 5% increase from the prior year's FQ. We must also consider the continued decline in premium as well as the decrease relative to the budget and expense ratio of 5%. We do expect the expense ratio to gradually decline throughout the year as a result of front loaded expenses recorded in the FQ.

5. Chief Systems and Operations Officer Report

a. Information Systems Advisory Committee (ISAC) Report

Jim Holton: Thank you, Mr. Chairman. The ISAC had a great meeting. I want to underscore what Kelly will say and that is the very importance of getting this Enterprise Resource Planning (ERP) recommendation. I think it's vital to Citizens to get transitioned to that platform and get away from our older platforms.

Kelly Booten: Good morning. For the record, Kelly Booten, Chief Information Systems and Operations Officer. I have Doug Sherwood with me, the Enterprise Program Director, who will present the ERP business case. Before we get started, though, I wanted to cover a few other topics presented at the ISAC Meeting on June 7th. And, Governor Schinz, I believe you wanted to comment about one of the item – Disaster Recovery Strategy.

Freddie Schinz: What I would like to add is that if we do plan a movement to a Disaster Office and take RFPs for it that we concentrate on keeping our efforts in the state of Florida. I think that's very important to the citizens of Florida.

Kelly Booten: Understood. For our Disaster Recovery Strategy, last year we came here to get our backup disaster recovery center out of a leased space. It's in our Tampa office space, and that lease expires in 2019 and will be up for solicitation of space in Tampa. Therefore, we need to get the Data Center not tied to a lease. We did an RFI. We received 21 responses to the RFI and the purpose was to see if wanted to gown the path for a competitive solicitation or if there were enough solutions to go under a state contract. We are reviewing those responses, looking at our requirements, and validating the options in the state contract. Right now it looks favorable to use that option. That option includes use of physical space as well as cloud-based offerings. There are options in the state of Florida. We have a goal to have a selected vendor mid-next year. Before we talk about the ERP recommendation, I want to note that the ISAC approved two consent items that are in the back of the book. With that, we have a short brief on the ERP business case. From a background perspective, in December 2014 we had an ERP recommendation strategy that was approved. We engaged Gartner which helped produced the requirements we use in our solicitation that was posted for the second time on July 1015. Six vendors responded timely, and through the evaluation and negotiation process, which Doug has been involved through the entire process, we have two vendors we're bringing forward today. The business case is a comparison of doing an ERP versus independent solicitations that are required by the fact that all of the systems that are included in the ERP are coming up through solicitations throughout the next few years.

Doug Sherwood: Good morning, everyone. Let's move to slide two. After a rigorous negotiation process, the negotiation team selected Oracle Fusion Cloud Service along with Application Software Technology (AST) as the implementation partner. The Oracle product is relatively new and represents a merger of the best products. It's not the traditional Oracle ERP system that many people are familiar with. This is a newer version of the products. AST is selected as the implementation partner. They have been around for 20-plus years. They are a platinum Oracle partner located in Illinois. Their entire focus is doing business with Oracle. There are no offshore resources unless we give them permission. It will be US based resources. Even considering the declining in-force policies, we think there is a compelling business case to move forward with an integrated ERP:

- Single system of record;

- Automated workflows;
- Automated on-boarding/off-boarding;
- Consolidated view of vendors; and
- Improved expense management.

Let's move to slide three. The top half the slide list the various applications we are currently using that will be replaced by an ERP solution. There are different vendors with different expirations. Citizens really is at a decision point. If we do not do an ERP, because of our procurement regulations, we're going to be locked into this fragmented approach for another decade. The bottom part of this shows you the various increments of the EPR implementation and the modules associated with each of those. Slide four shows it would be a phased implementation, beginning with the financial modules. What's important to understand these is that these are proposed timelines. It's a starting point. Slide five talks about the differences between the traditional ERP solution versus a cloud solution. With a traditional ERP, Citizens bears the responsibility for providing and supporting the infrastructure and keeping it up to date. There is a tailored approach to it. We have total control to access, but it's expensive. We saw from the proposal it is two to three times as expensive as a cloud-based solution. Over on the CAS or cloud delivery module, it's a paid for usage. You don't have to pay for extra capacity that you're not using, but there is less flexibility. You're not allowed to go in and customize the systems. You can configure them but expected to accept the best business practices that are widely used in the industry. They do provide new functionality twice a year with new releases. When you talk about cloud solutions, people are concerned about security. The important thing to think about is that this is their business model, and if they have a serious breach, they are out of this business. They take it very seriously. Security is state-of-the-art. Slide six gets into the other path. So when constructing the business case, you have to compare the ERP solution to something else. It's not just to the status quo. When software contracts expire, we have to go back to market and re-solicit those. Our financial systems are out of renewals in 2018. We will have to do a new solicitation, and we very likely will pick a new accounting system to replace it. A couple years from now we will have to pick out a new HR system. I think the key point is the last bullet, which mentions that if we go down this path and look at these separate solutions, all of these will be separate solicitations. We will spend roughly 18,000 hours on them. This is just going through the exercise of picking systems and not just in implementing them.

Chairman Gardner: What are the hard dollars, then, if we stay with where we are? I don't see it on this page.

Doug Sherwood: If you go to slide eight, it shows you the external spend. The yellow dotted line shows the external spend for supporting the current system. It's a little under $1M a year. The green line represents the ERP expense. There is a spike in the beginning because of the implementation costs, but then it rapidly goes down. It gets cheaper than what we are spending now. It goes into the $550,000 a year range. If you compare that to the other approach, you see twin peaks. That's due to the fact that we have to do the financial implementation and then we'll have to implementation of the HR systems. It never gets down as cheap as this.

1:32:50: Does that assume that we're moving away from the existing systems?

Doug Sherwood: Yes. The other path plays out the assumption . . . .

1:33:04: So we'll scratch the other system. We don't know that . . . .

Doug Sherwood: But, we do know that for the accounting system, we have to go for another solicitation. It's very likely we would move away from the existing system. It's run in-house and it's an expensive proposition to run it in-house. If we don't do this, we're going to end up having to do additional development to support a vendor solution. Right now, all of the vendors we maintain – we maintain 500 vendor contracts. Let's go to slide eight. This is a graph that represents a comparison between the current system and ERP. The columns are showing the cumulative benefits compared between those two. You can see that in the first years we're under water due to implementation costs but then we pick up steam with a breakeven point around 33 months. The columns that show the cumulative benefits are broken into different sections. The first one is the external spend. We estimate over the ten years there's about a $7M difference. If we pick different systems, we'll have to do implementations. It will be more expensive to implement a lot of different systems than it will be to do just one. Productivity improvements are seen through time savings. We will work with each of the business units. We identified 70 plus productivity improvements and we estimate that over 25,000 hours a year will be saved. An example of a productivity improvement is that today all invoices come in from vendors . . . paper, rekeyed in a system, gets routed, signatures, then all comes back in. In an ERP system, the vendors can electronically submit the invoices. The system will know who the right people to send them through for approvals. There is a little to no human involvement in that process. We went over the graph on the next slide. Slide 10 is the summary of action items. The contract arrangement is initially for five years with a five year renewal option. All of the figures are in 10 year increments. The top shows the processing fees for using the system. There are some software license fees. We built in contingencies in case Citizens does repopulate and we do end up having more employees. The second section shows implementation for buying additional training to get the team up to speed on the product. We used 25% contingency. The third section is legacy system consulting services. In order to get to the new system we have to get to the data and maybe build temporary interfaces with some of the products we have. The 10 year expenditure comes to $13.6M. We're often asked about what's the impact on 2016 budgeting. We think we're within about $100K to $150K of what we originally budgeted. We felt that the expenditure is easily covered.

Chairman Gardner: Cloud technology is relatively new on the scene. The committee had some concerns that were put to the rest. Talk about cloud security in Oracle.

Doug Sherwood: In the detailed business case, we have a section on the benefits of cloud. We have a list of various things they do. The Oracle data centers are state-of the-art and are at a level 4. There is a separate backup disaster recovery center. There is physical security, encryptions, and regular password updates. All of our assessments are that it is literally state-of-the-art.

Bette Brown: It's a 10 year savings of $14M and a 10 year cost of $13.6M. But, we're saving 2.3 staff members and productivity . . . is that what you're looking to do?

Doug Sherwood: The productivity improvements are time savings. That's 25,000 hours a year. It accumulates to 4.5M. Internal staff time is the utilization of Citizens staff in terms of supporting these systems. Citizens becomes the systems integrator. Every time there is an update in one system and not in the other, we have to go back and retest it. That's what the internal staff time is reflecting.

Bette Brown: Back on the comment about cloud safety and support, you did some real good checking references through historical issues to make sure we got the best security?

Doug Sherwood: Yes. It's been thoroughly vetted.

Jim Holton: I was looking at the external spend. So, really, it's 2020 before we really become positive on that spend?

Doug Sherwood: In 2019 it goes back up and turns positive in 2020. That's where the breakeven is in the external spend.

Jim Holton: So there will be a period in which we're paying external vendors that we're not using?

Doug Sherwood: Most of those contracts we have the ability to get out at our request. The business case, the way we've done, we did it with a six month delayed. We tried to be conservative with regard to turning off legacy systems we currently have.

A motion was made and seconded to approve the awarded contract to Application Software Technology Corporation (AST), including all renewal periods, for ITN No. 15-0029 for an integrated ERP
system as set forth in this Action Item; to authorize staff to engage professional services from various legacy system vendors as specified in Attachment A to support implementation of an integrated ERP system; and, to authorize staff to take any other appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Kelly Booten: In addition to the ISAC Report, I have four action items that are facilities related. All of these are behind tab 5. The first one is for Janitorial Services. This Procurement seeks Board approval of the proposed estimated expenditure for the initial three (3) year term for janitorial services. As a result of a competitive solicitation, the evaluation committee recommends that janitorial services in Jacksonville be awarded to United States Services Industries, Inc. and in Tampa be awarded to ABM Janitorial Services – Southeast, LLC. The contract amount is for $896,616 for three years. This is a budgeted item.

A motion was made and seconded to approve the expenditures for the award of services to United States Services Industries, Inc. and ABM Janitorial Services – Southeast, LLC. as set forth in this Janitorial Services Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Kelly Booten: The next items is for Multi-function Copiers. This Action Item summary seeks Board approval for new three (3) year lease agreements for thirty multi-function copiers located in Jacksonville (18), Tallahassee (2), and Tampa (10). This Action Item covers expenses related to leases expiring through the end of 2016. Additionally, this will create efficiencies by aligning lease term dates that previously varied throughout the year. This is a budgeted item for approximately $450,000 for a three (3) year lease term that includes annual lease cost and projected click count charges. This service will be procured utilizing the Florida State Term Contract No. 600-000-11- 1 meets the requirements of Citizens' Purchasing Policy.

A motion was made and second to approve the expenditures for services to Konica-Minolta and Ricoh as set forth in this Multi-Function Copiers Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Kelly Booten: The next item is for Security Officer Services. This procurement provides for security officer services at the EverBank Center within the space leased by Citizens. Primary services include an officer for roaming patrols 24 x 7 and an officer for daily monitoring of cameras and lobby area support during normal working hours. In addition, this contract will allow for the activation of additional services as needed resulting from a catastrophic event or other emergency requiring security support services. This expense was previously approved under another vendor, however, they did not mutually agree to continue services at the new location so a new provider had to be procured. This represents approximately $506,000 in daily security services and $10,000 in contingency needs that may arise due to CatOps or other emergency service needs. The proposal is for a base term of 17 months as the current state term contract being utilized expires 12/13/2016 and use of services through this contract cannot exceed more than 12 months past the state term contract expiration date per policy. While the contract has available renewal options, they have not yet been executed by DMS.

A motion was made and seconded to approve the expenditures for Security Officer Services to AlliedBarton Security Services, LLC. 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.

Kelly Booten: The next item is for Tallahassee Office Consolidation. This is the final stage of our real estate strategy to locate all Tallahassee staff into Citizens Center 1. There is a one-time cost for moving staff to that facility. Total approval sought to consolidate the Tallahassee Offices is estimated at: $574,000. The estimated one-time cost for Facilities Management to support this project is $350,000. The estimated one-time cost of IT infrastructure to support this project is $224,000. The actual cost of the lease was in another action item that was approved. It's under a number of vendors under state contract and is listed here.

A motion was made and seconded to approve this recommended Action Item for expenses related to the Tallahassee Office Consolidation, as set forth in this Action Item, and to authorize staff to take any appropriate or necessary action consistent with this Action Item to complete the Tallahassee Office Consolidation. All were in favor. Motion carried.

6. Chief Claims Officer's Report

a. Claims Committee Report

Chairman Gardner: Jay is not here with us today. Our thoughts and prayers are with Jay and his family. Pitch hitting is Barry Gilway and opening comments from Governor Aubuchon.

Gary Aubuchon: Obviously, we had a significant conversation regarding the non-weather water losses and the challenges with AOB. I want to reiterate the importance of coming together as a collation and we need our partners in the House and Senate to take action during the legislative session.

Barry Gilway: We have one action item, which is for CAT Post Event Imagery. This is a budgeted item of $112K for a three year contract.

A motion was made and seconded to approve the recommended award and resulting contract for single source contract 16-2001 to the Pictometry International, as set forth in this Catastrophe Post Event Imagery Action Item; to approve this Action Item not to exceed $112,000; and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. All were in favor. Motion carried.

7. **Vice President of Human Resources Report**

Violet Bloom: Good morning, Chairman and Board of Governors. I have one action item and it is for the SuccessFactors Bundled Services. The recommended vendor is SAP/SuccessFactors. It is a budgeted item and is intended to be included in the budget for 2017 and 2018. Citizens currently has two separate contracts with SAP/SuccessFactors, each with different expiration dates. The current contracts expire in 2016 and 2017, thus creating a gap in services between the expiration of the current contracts and the implementation and go live of the Enterprise Resource Planning system (ERP) in early 2018. The intent is to combine the two contracts listed below into one contract which will allow for uninterrupted continuation of services for Citizens employees and agents until the successful transition to ERP. The Talent Management Bundle is used for employees only (recruiting, performance, development, and Learning Management System). The Learning Management System used for agencies, independent adjusters and other contractors. Combining these two contracts will result in one agreed upon contract fee per year of the two (2) year contract term. The total cost is $390,185.71. The contract term September 17, 2016 through September 23, 2018. The services described in this request were identified as a single source solution because of the need to maintain the core functionality of the Learning Management System services for employees, contractors, independent adjusters and agencies, as well as other Talent Bundle services for employees, through the transition to the newly awarded ERP solution, Oracle Fusion Cloud. The transition to Oracle Fusion Cloud is expected to take approximately 18-24 months. The current contracts for these services expire prior to ERP implementation, thus creating a gap in functionality between the expiration of the current contracts and the ERP "go live" date. In accordance with the Citizen's Purchasing Policy, Citizens noticed and completed Single Source 16-2003 and upon approval will utilize a purchase order in the total amount of $390,185.71 to be paid in annual payments over the two-year contact period.

A motion was made and seconded to approve the two-year contract spend authorization of $390,185.71 to SAP/SuccessFactors as set forth in the SuccessFactors Bundled Services Action

Item and to authorize staff to take appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Chairman Gardner: I think this is a good time to take a 10 minute break.

[10 minute break]

Roll Call: Chairman Chris Gardner, Don Glisson, Gary Aubuchon, Bette Brown, Juan Cocuy, Jim Holton, and Freddie Schinz are present.
Chairman Gardner: We're going to move the Chief Risk Officer's Report. I want to make sure we get adequate time and I know some Board members need to travel.

8. **Chief Risk Officer's Report**

   a. Actuarial and Underwriting Committee (A&U) Report

Jim Henderson: I think the data was very specific and very demanding. There is the geographic process in how to be fair. The drivers we covered before in the President's Report explains why.

John Rollins: I will be very brief because the storyline was covered in the President's Report and the rate filing comments were covered in the A&U meeting last night. I will be brief on the how the filings were constructed. Your package contains a narrative and also contains one headache induced percentages then a bunch of user-friendly maps that show how rates impact various product lines and various reasons of the state. Part of the conversation has been how the impacts are due to water loss and the skyrocketing costs. Toward the back, you'll find some histograms, showing the number of policyholder receiving rate increases versus rate decreases in each product. Recall that last year we were lowering rates on a statewide basis. We are required to file actuarially sound rates, except for the 10% glide path. The only requirement change in our filing this year is that the Florida Public Hurricane Model is no longer considered on a statutory basis the minimum benchmark for our wind rates. That did free up some news for one line of business, condo unit owners, particularly wind only policies. The trend line and the storyline behind the rate filing is simple. It's based on frequency and severity trends in water. We talked about that in depth yesterday. The maps will show you that the trends are spreading statewide. We have adjusted the rate indication for the beneficial effect of the product changes. We hope those changes will affect long term behavior and change the eco system. Until we reverse the trends, we can't expect rate decreases in the short term. On the wind side, you'll see some maps for the coastal and wind only policies. Those rates are going up in general around the state. They reflect the success in depopulation. Most of the policies were those that came close to becoming adequate with the glide path. It's hard evidence that the glide path did its job. For those who are left, those 188,000 policies, are the policies that were historically not near rate adequacy. Sinkhole rates - we have some pending cases that have not selected the global settlement. The sinkhole rate structure needs to continue to stand pat until we get final resolution or until we get final clues to the resolution of those cases. Rates are not coming in near as what they used to. SB 408 has been a huge success in reversing sinkhole costs; however, we do have uncertainty there. We will stand pat on those rates for the third straight year, which are outside of the glide path. The next steps in this process if authorized would be to file it to OIR in July. The next move to the OIR would have a public hearing, which would be during the second half in August. As required by statute, Citizens has completed the annual analysis of recommended rates for 2017. The purpose of this item is to receive approval from the Board to file these recommended rates with the Florida Office of Insurance Regulation.

A motion was made and seconded to approve and recommend the 2017 Annual Recommended Rate Filings. Upon approval, the presented rate changes will be filed with the Office of Insurance Regulation.

Chairman Gardner: Before we do the final vote, we do have a public speaker and Governor Brown had some comments. We have Mr. Steven Russ, who we saw and the A&U. Welcome, Mr. Russ. You have three minutes, with the optional two minutes.

Steven Russ: Thank you, Chairman Gardner and Governors to address you. My name is Steven Russ, and I'm the Vice President for the firm Fair Insurance Rates in Monroe County. I'd like to speak to the 4% of your policyholders. First, I was a policyholder of yours during Hurricanes Wilma and George. I want to commend you for your efforts and successes in increasing your customer service sensitivity over the years since those events. A few comments about insurance in Monroe County – we don't have any sinkholes. We can't even bury our dead sometimes. We have no non-storm related water issues. We have storm related water issues and the results of those issues is that much of the damage that your insurance might have covered in Wilma got washed over to the National Flood Insurance and they ended up picking up the responsibility for appliances and furniture. The original settlers of the Keys were mariners and ship builders, people who understood they we rebuilding in a hurricane prone area and built in a way that was resistant to the effects of those storms. Our building codes have been the strongest in the state. We have contributed – as policyholders, over $1.6B in premiums over what we've taken back out in claims. The hurricane models you use to determine our vulnerability to storms show a wide degree of variability and uncertainty in their results. There are four models. The bottom model shows a $20M annual loss, the next $30M, the next $40M, and the next $50M. The spread in the models and uncertainty in the science point of view is immense. We have consistently seen 8% to 10% rate increases. This rate increase progression lead to a workforce housing crisis in the Keys, a workforce retention crisis in the Keys . . . .

Barbara Walker: Time, sir.

Steven Russ:… everyday teachers . . . .

Chairman Gardner: Two more minutes.

Steven Russ: I'll wrap it up. Teachers, nurses, etc. are leaving the area. It's turning into a real problem. The things we need to ensure is that as we continue with depopulation that Citizens' overhead does not become a factor in our rates, that we're not paying for other people's problems, and that we don't interpret this varying scientific data in the most negative point of view. Our commitment is to continue to work with you to try to bring in an affordable solution. We're appreciate your help financially and from a staff point of view in trying to understand this. We ask for your commitment to change the glide path and arrive at a more affordable landing place for wind insurance.

Bette Brown: Thank you, Mr. Russ. I feel your pain. I hear you. As a 30-plus year Keys resident, I certainly know how it feels to pay those rates. I agree with you on the workforce availability issue as being huge. We have a lot of things that challenges us in Monroe County. I hear what you're saying. I think the message is that we have a great team at Citizens. I've reached out to that team and they're helping us look for solutions. The Keys have always lead Florida with problems and always have. It starts in Monroe County and it goes up the state. We need to keep our eyes on it and I appreciate you coming here today. Thank you.

Gary Aubuchon: Being involved in the Claims Committee, we've watched at the FNLs come in with representation and have seen the impact with increased litigation. And now it comes home to roost. We have seen the impact to rates. 65%. This is what the public nears to hear. We are raising rates only 1% of the indication. The crisis is real. I'm going to reiterate the importance that we cannot do this alone. We do not want to pass along higher rates but we need to be actuarially sound. We will need help from legislature from this upcoming session.

Chairman Chris Gardner, Don Glisson, Gary Aubuchon, Bette Brown, Juan Cocuy, Jim Holton, and Freddie Schinz agreed to the above said motion. Motion carried.

John Rollins: The next item and the final item in my report is a brief action item regarding commercial lines policies. There are two changes. We need to do a couple minor updates to Citizens commercial programs as a result of ongoing review of our underwriting rules. It applies to the CNR multi-peril program. It's a small program and has only a few policies. It is the only program within Citizens that includes an inspection fee for each building at the time of an underwriting. We would like to establish harmony between all the other programs but eliminating that inspection. The second change is that in the CNR wind only program (the program that writes up to the first $1M in wind only) . . . this program includes a use of codes specific to the type of occupancy in these non-residential risks. The code structure we have is limited. We would like to amend our class code to add more occupancy types, supporting better data quality which does support our reinsurance program that we've build out for the CNR program not covered by the CAT Fund.

A motion was made and seconded to approve the items proposed above to modify the current Commercial Lines rules to remove the inspection fee for the Commercial Non-Residential MultiPeril program and to amend available business occupancy types to support more detailed policy data in the Commercial Non-Residential Wind program. Upon approval appropriate underwriting rule changes will be filed with the Office of Insurance Regulation and the necessary system updates will be implemented. All were in favor. Motion carried.

9. Vice President Communications, Legislative & External Affairs Report

a. Consumer Services Committee (CSC) Update

Freddie Schinz: I want to thank staff for the magnets and the inserts for Call Citizens First and for the mobile homes. I think it helps citizens understand their policies more. I'd like to add to Governor Holton's comments in that we do get meaningful legislation.

Christine Ashburn: The CSC met via teleconference on June 9th. The committee received updates on the water communication efforts we talked about today, task preparations for the 2016 season, and the implementation of the self-service telephone payments. Jay Adams provided an update on Tropical Storm Collin. No action items were taken or voted on. The next meeting will be in advance of the September Board meeting.

10. <u>Chief of the Office of Internal Audit Report</u>

a. Audit Committee Update

Juan Cocuy: We had a great meeting yesterday. Joe Martins gave a thorough report. CFO Jennifer Montero gave us the March financials which she discussed earlier. Brian Smith and Matt Church of Dixon Hughes presented the 2015 Auditor's Report which reported no material weaknesses or significant deficiencies and adjustments. John Rollins provided an ERM update.

Joe Martins: At the Audit Committee Meeting, we discussed the changes to the Audit Plan against the audit work schedule. The chart on the first page represents the audit plan, which includes 38 engagements with 76 in various stages of completion. Two audit results were highlighted in the meeting. The first is Sinkhole Managed Repair Program. Results indicate the need to strengthen management of subcontractors and increase onsite inspections. For our advisory budgetary process system, we noted that although we initially looked at the budgetary process in isolation, it is clear that greater value would be provided if we expanded this into the entire financial planning and forecasting management practices. Management has taken a step in financial planning and processes [unintelligible 2:18:38]. The OIA noted that some advance financial planning and the development and refinement could be used in 2016. According to our analysis, we advise current management to formerly assigning leadership over all financial planning to establish consistent management processes while maintaining cross-departmental participation and collaboration. The Internal Control initiative is moving steadily on plan. Mike Walton, our Audit Manager, leads the project and provided insight into the methodology of value added and quality control documentation provided to the organization. On page five, I provide a summary of progress on controlled deficiency resolutions. As of the end of May there are 14 remaining open issues. Out of the 14, two were past due. Corrective action is being provided by management. Finally, there are some minor changes to the Audit Report with issue classification criteria. With this change, we expect the rating to include "needs minor improvement." In the past, we had "satisfactory," "needs improvement," and "unsatisfactory." The change was well received in the business.

11. <u>Chief Consumer and Agent Services Report</u>

a. Market Accountability Advisory Committee (MAAC) Update

Dave Newell: For the record, Dave Newell, Chair of the MAAC. With all the previous meetings, we had an informative meeting to bring us up to date on the latest information for our committee. I want to touch on a couple things. We heard that about 90% of the agents and agencies have completed the new agreement. We're reaching out to the remaining 10% that they sign it before July 1. The second one is Manage My Agency. That has been something that's been on the table for a long time. It deals with credentialing staff. Most agencies use one log in and user name for their systems. Now they can credential their system so everyone knows who uses the system. The main thing the MAAC wanted to hear is about claims and preparedness for a CAT. We heard from staff about their preparedness and the testing they've done. The MAAC felt like they are ready. They are able to respond when needed. Everyone was happy about that.

b. Depopulation Committee

Vice Chair Glisson: We did have a Depopulation Committee Meeting yesterday. We heard some of the stuff we heard today: AOB and water loss. The trend is stead with our policy count. There is a concern that as other companies raise their rates, we will become the low cost leader again, which would increase our policy count. It's a real threat.

c. Clearinghouse Update

Steve Bitar: In the interest of time, I provide a Clearinghouse Update to you via email. We are continuing to see positive trends in the program as we add more lines of business. We are seeing positive results in DP6 and HO3s. Since we launched the renewal program, we have crossed the threshold of having removed $1B in Coverage A exposure since we started.

12. Chief Legal Counsel and General Counsel

Dan Sumner: I have a request for approval of amendments to the Purchasing Policy. Under Citizens' Plan of Operation ("Plan"), any policies and procedures relating to purchasing or procurement must be approved by the Board. These changes are largely technical. They deal with four areas. One is to clarify in the policy areas that are the responsibility of Vendor Management versus Purchasing. We have clarified the signing authority of all Executive Leadership Team (ELT) members. We had some clarification on the use of contracts approved by the DMS to make sure that if the approve a contract then we can automatically use those. We have some very brief amending areas with regard to the changing of the guards.

A motion was made and seconded to adopt the proposed revisions to the Purchasing Policy and to authorize staff to take appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Dan Sumner: The second action item has to do with renewal of our Directors and Officers Liability Insurance (D&O). We are requesting that we renew with Star Insurance Company, which I san A-rated company. They were the carrier last year. The premium has been reduced by 15%. It was about $184K last year. The quote for this year is 156,400 this year. The coverage we get is $10M limits with $225K retention. This policy includes a $1M fiduciary liability related to any of our fiduciary retirement plan. That is secondary coverage. They have a reach back to 2007.

A motion was made and seconded to approve the purchase (renewal policy) of the 2016 Directors & Officers Liability Insurance policy with Starr Insurance Company and to authorize staff to take any appropriate or necessary action consistent with this Action Item.

Chairman Gardner: I have a comment on limits. I know this is a grey area in our capacity. I say that the markets have been cooperative this year. Have we looked at higher limits this year?

Dan Sumner: I believe that we ask for our exact limits this year. One of the things we need to understand is that the Citizens Board enjoys strong immunity. The D&O has two purposes. It has advance features and it has one specific area that is not under immunity. It does not include the issuance or payment of debt. That is the only risk feature we are insuring against. After we renew, we can look at it again.

Jim Holton: I think the options should at least be presented to staff and the Board to consider.

Juan Cocuy: Being aware that we are under the enterprise of Florida, aren't we subject to the immunity of the public immunity that limits.

Dan Sumner: Sovereign Immunity is only tort liability. With regard to tort liability, we do enjoy sovereign immunity. The D&O is not keyed to tort liability. It is keyed to liability that comes from the decisions you make. It would not be under a tort claim but some other cause of action. Those are the things that you have the general immunity of except for the issuance of debt.

Chairman Gardner: We can probably approve this today but perhaps we can look at some different options.

Dan Sumner: Since we have a renewal coming up, I don't think it would be a problem at all to get this coverage effectuated and have the brokers to up it.

Chairman Gardner: At least $20M in $5M increments.

Dan Sumner: We will look at the increments and bring it before the Board at the next meeting.

Gary Aubuchon: Can you prepare a risk analysis on what those potential exposures would be pursuant to the Chairman's request. I'm a little fuzzy on what exposure what could potentially be.

All were in favor. Motion carried.

13. Consent Agenda Items

Barbara Walker: Today we have three:

- **Code Repository Software (Vendor: Perforce and Perforce Sellers) The Information Services Advisory Committee approved and recommends the Board to review and approve spend authority in the amount of $134,000 for this purchase.**

- **IT Infrastructure – Hardware, Software and Maintenance (Vendors: F5 and F5 Resellers, Cisco and Cisco resellers, Hewlett Packard and Hewlett Packard Resellers) - The Information Services Advisory Committee approved and recommends the Board to review and approve spend authority in the amount of $650,000 for these purchases for F5, Cisco and HP equipment.**
- **Cyber Risk Insurance (Vendor: Beazley Group) - It is recommended that the Board approve the purchase of the 2016/17 Cyber Risk Insurance renewal policy and authorize staff to take any appropriate or necessary action consistent with this Action Item.**

A motion was made and seconded to approve the consent agenda items. All were in favor. Motion carried.

<u>New Business</u>

Meeting adjourned.