

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE CLAIMS COMMITTEE MEETING Thursday, December 2, 2021

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened on Thursday, December 2, 2021, at 1:00 p.m. Eastern.

The following members of the Claims Committee were present:

Scott Thomas, Chairman
Jillian Hasner
Reynolds Henderson
Jon Palmquist
Jay Adams

1. Approval of Prior Meeting's Minutes (September 9, 2021)

Chairman Thomas: Thank you much for getting us going, and good to see everybody today, although albeit through Zoom, as this is now standard. We will get moving to see if we can't do our Claims Committee meeting as efficiently as possible. I think everyone has the materials and should have the agenda.

A motion was made by Governor Henderson and seconded by Governor Hasner to approve the September 9, 2021 minutes. All were in favor. Motion carried.

2. Strategic Update

Jay Adams: Thank you and good afternoon, Chairman Thomas and Committee members. I would like to start my Strategic Update today by briefly discussing continuing improvements that we are realizing in the area of our non-weather water and litigation frequencies, both of which are positively impacting Citizens' rates. The water severity has been steadily decreasing since 2019. Specifically, when we looked at June 30, 2019, the water severity was 24,722, and when we looked at it again at the end of June 30, 2021, it had reduced to 16,749. Similar results are being reported for the litigation frequency of HO-3 water claims for the same period looking back from June 30, 2016, the litigation frequency was at 52% and we have seen continual decreases down to June 30, 2021, where we have bottomed out at around 20.7%.

The decrease in water severity and litigation frequency can be attributed to some of the following things. We've been working on putting in a lot of strategies over the year to try to help reduce our litigation as much as possible. Some of those items that we've worked on are our product language changes for the Managed Repair Program. We've put in place appraisal strategies for covered claims to reduce LAE and plaintiff attorney fees and costs. House Bill 7065 which required AOB contracts to meet certain criteria to become valid and specific by providing a Notice of Intent to file suit. that has been positive. The Managed Repair Program which provides free emergency services, along with options for the policyholder to complete repairs for covered claims with credential contractors who provide a three-year workmanship warranty. Our number of reported AOB claims has dropped 44% as of 2017, and as of 2021, we're down to 24%. Claims that are eligible for the MRP option, have a litigation rate one third of that for those people that are eligible for the MRP and refuse to enter the Program.

Jay Adams: The next update, I would like to provide input on is by covering Citizens' progress with the implementation of Senate Bill 76. As a reminder, Senate Bill 76 went into effect on July 1, 2021, and has had some significant impact on claims with respects to the section of the bill that includes the pre-suit notice requirements. We were successful in implementing the system requirements needed to manage the overall pre-suit notice workflow and reporting requirements to track the overall results of the Bill by the effective date.

I would like to spend a few minutes presenting some of the reporting enhancements that were made over the third quarter. If you would please refer to the tab, and we are going to start off on slide number two of the presentation. Each slide represents metrics from the period beginning July 1, 2021, through November 8, 2021. The pre-suit notice of intent dashboard is a representation of metrics that are monitored to better understand Citizens' performance in handling of these notices of intent. The highlighted portion, or the red boxes of the dashboard, represents the summary metrics that provide insight into how these notices break down. What I will do is, I will be speaking on each slide to what is in the red boxes.

At a glance we can monitor the 10-day compliance with compliant responses where the result is 97%, against a total of 1,056 total receipts. Of these, 73 remain open and 983 have been closed. The next section shows that in excess of 75% of all notice of intents received have been related to a claim that was denied. The Notice of Intent team reviews the original claim handling decision to verify that they are in agreement with the handling. For many of these, the denials have been upheld as there is no coverage for these losses.

The next section tracks the state of the notice of intent. We have broken them down into some categories for tracking purposes. 'Compliant' really just means that that notice was compliant. 'Improper' that was a category we were using to track when we were leveraging independent adjusters before we had this team fully staffed. 'Invalidated' these are notices received where there was no Citizens policy in force at the time of the loss. 'Premature' are notices received by the DFS when a claims decision has not been made. 'Still in review' would be those notices that are currently being reviewed by the NOI team, where the decision has not been made this point.

Moving to slide number three. The bottom half of the summary dashboard is a pure count of the resolution of each notice of intent. So again, we have some categories, where we can look to see what's going on here. We are looking at the total notices of intent represented, the total number of NOI received to date. The 'In progress' status or those that are still under review, where final decision has not been made. The status of 'Extended Coverage', this is where the claim was denied during the original adjustment and when that notice of intent was received by our team, they reviewed the claim handling and believe that there was coverage for the claim, and they reversed that coverage decision. 'Re-inspection' this category is for claims that have been originally

denied and under Senate Bill 76 it provides a provision where we can request a re-inspection to further evaluate if our coverage decision was appropriate. The category of 'Accepting Demand' that's where the Notice of Intent team accepted the plaintiff attorneys' demand, as outlined in the DFS notice. The status for 'Agree on Settlement' here's where the Notice of Intent team negotiated a final settlement with the plaintiff attorney. The status for 'Appraisal', these are ones where the NOI team demanded appraisal to resolve the notice of intent, usually as a result of the plaintiffs attorney not being willing to negotiate a settlement. And, by moving it into the appraisal process that gets us a binding response, and those claims are really not eligible to move on into the litigation process after that; they are resolved. And then the final status, we have 'Declined Demand', this is where the notice of intent team upheld the original denial of the claim after a thorough review of that claim file.

Jay Adams: Moving on to slide number four this slide represents a breakdown of how the notice of intent was resolved. The highlighted sections provide a list of filters that can be utilized to drill down into the report, to look at specific criteria. We can look at the status, the dispute type, what was the resolution, what type of severity did the claim have, and was it caused by a weather event. Also, it breaks it down by the causes of loss that we use to measure claims, such as non-weather water, fire, and so forth.

Slide number five, this is dispute type by resolution, and it provides a breakout of the resolution types broken down between denials, scope, and pricing. As I discussed earlier, in excess of 75% of the notices received to date have been denials and this provides a view to ensure that the appropriate decisions are being made.

Slide number six, this is notice of intent resolution by the cause of loss. This is just another brief detailed breakdown so that we can see what claims are receiving notices of loss, and how they are being resolved by cause of loss. Again, this really is a training metric, so if we see gaps in some of these we may need to initiate some training to get some resolution in areas where we may not be getting them, based on the metric.

Slide number seven, Senate Bill 76 provides settlement provisions based on the percentage of the insurance companies' offer as compared to the plaintiff attorneys' demand, and it dictates how plaintiff attorneys' fees and costs are paid. This chart represents metrics that track the settlements based on those ranges as outlined in the bill. The first category is the initial adjustment to the ultimate settlement. And what we're looking at here is Citizens' difference between the initial adjustment and the final settlement when a notice is present. And again, with this may reveal some data that can be leveraged to better train the non litigation claims team. So, if we're seeing significant gaps there, what that might tell us is we're not offering enough in our initial estimate to resolve the claim prior to a notice being submitted.

The next category is the initial demand from the plaintiffs to where the claim ultimately settled. And what we're looking for here is, are we making offers in the settlement portion

that are deemed acceptable by the plaintiff attorney, and we can continue to hone and dial in on that as well.

Jay Adams: Slide number eight, this is notice of intent and notice of intent appraisal. This represents, in the financial terms, where the NOI were settled by month between the NOI team and the appraisal team.

Slide number nine, this is NOI and appraisal settled matters. It represents how the NOI was resolved, and we break these down to some categories as well. So, are we settling these in appraisal for less than the demand or more than the demand? A lot of these we are getting where there is no pre suit demand listed and then if we're settling them the same as the demand.

Side slide number 10, this is litigation matters closed as dismissal for failure to comply with the Statute. This metric is for litigation that has been filed post 7/1/2021 that failed to submit a pre suit notice as per Senate Bill 76. And really what we're looking at here is the number of suits received that are not following the Statute. And those that are being actually dismissed based on that.

Slide number 11 is the percentage of NOIs where resolution type is declined demand, and then a litigation matter is filed. And what this is measuring is when the NOI team upheld the denial of coverage and then the notice of intent was presented by the plaintiff attorney, and then they in turn filed suit.

Slide number 12, litigation matters with linked NOI represents current litigation that was submitted under a notice of intent. This metric is allowing us to track the number of notices that are not resolved that result in litigation. And then we also created some drill downs there as well, we can look at the resolution type, the dispute type, the cause of loss, and then those total litigation matters with a notice of intent. And one thing I wanted to point out here is in our claim management system, there is one claim per occurrence, but in litigation there are potentials for a plaintiff attorney to file multiple suits against a single claim. So those numbers don't always equal in this section, and when that happens, that is a representation that the plaintiff filed multiple lawsuits against a single claim. And Chairman, that concludes my presentation.

Chairman Thomas: Jay, thank you I will open it up to members of the committee for any questions they may have for you.

Governor Henderson: Thank you Jay, that was a great report. I have two questions; one would be how large is this team on that you put together?

Jay Adams: Today we have an Assistant Director, two managers, and 12 adjusters on that team.

Governor Henderson: Okay. On the pre litigation less than demands, is that they throw out some crazy number, and then we just we get reasonable, or what is going on there, in the pre litigation settling for less than the demand is? It is that they're just unreasonable in the way they're going about these claims and demands?

Jay Adams: Exactly, so when we get into doing the negotiation what we're doing is leveraging the estimate, we have photos, we have the scope of damages and so forth, and what we're trying to discuss with the plaintiff attorney is did we miss some areas or is our pricing inappropriate in certain areas? And a lot of times their demand is not based on a detailed review of the file that we're doing in the negotiation process. So those that are allowing a settlement when it's less than their demand, we're doing a good job of selling what the right settlement amount is for those.

Governor Henderson: Are you noticing with the increasing construction costs, are they raising the demand when the construction costs go up? Because we're in litigation and they had one number and we thought it was too high, well then, all of the sudden your construction costs go up, I mean is that being accounted for? I'm just curious.

Jay Adams: Yes, Sir, so we leverage Xactimate as our estimating platform and Xactimate sends out monthly updates. And those updates are based on zip code level and discussions with contractors in the local market. And what Xactimate is doing is validating that their unit cost pricing is accurate with the local contractors. so, we are getting updates and those updates get passed right along to the Insured. So yes, we are seeing increasing costs, but they're covered in our estimating basis.

Governor Henderson: Excellent. Thank you.

Chairman Thomas: Yes, Sir, is there anyone else?

Mr. Palmquist: Yes, Jay this is Jon Palmquist, how are you today?

Jay Adams: I'm good, how are you?

Mr. Palmquist: I'm doing great, thank you for a good presentation. This is very insightful. One question, without trying to drill too much into the weeds, but still I was a little surprised that out of 1056 total NOI only six re-inspections. Usually, from my experience, it would be much higher than that, so how did you decide what basis did you choose to do inspections, and what type of vendor did you use for inspections and experts 1099s?

Jay Adams: So, as I mentioned earlier about 75% of the notices received a date have been on denied claims. So our notice of intent team they're doing a thorough review of the claim file to determine if they agree that there's no coverage. If they support there's no coverage, then we are notifying the plaintiffs that we're going to hold on our position.

On those claims where we are told that there could be an error in the initial claim handling, meaning that there could potentially be coverage, those are the ones that we are sending out for real inspections. I've checked with Elaina over in our litigation group to ask her if she had seen any gaps in what I would call the front-end claim handling process? Meaning are they getting coverage right, are we creating litigation because we're not adjusting the claim appropriately? And based on what they've seen with many of the AOBs, and they have only received a few of the NOIs at this point, we believe that we are handling the claims effectively and making the appropriate coverage decisions on the front end. We also have a pretty sophisticated quality assurance program, and the quality assurance results would indicate that the same result when it comes to coverage, we're making appropriate coverage decisions. That is why we don't have a lot of re-inspections is because we are standing behind the denial of coverage.

Mr. Palmquist: Sure Okay, thank you and are you using independent adjusters to do the independent re-inspections?

Jay Adams: That's exactly what we're doing because you're looking at 14 days to turn that around by statute, so we are leveraging the group that we already have on the ground.

Jon Palmquist: Gotcha. Okay, thank you Jay.

Jay Adams: Sure, thank you.

Chairman Thomas: I have a question for you on the denial of coverage matters. Is that, from the NOI team's standpoint simply a bright line rule? If they stand by the denial/no coverage, if they stand by it and don't make any sort of offer? I mean I am sure it doesn't happen, but hypothetically if somebody gives us a pre suit notice for \$50. Even though we thought there was no coverage and we're confident in it, I think we would prefer to pay the \$50 during the pre-suit period than face litigation. So is that part of the claims analysis there or is it simply a straight up and down, the no coverage was the right call and it's a denial.

Jay Adams: We are basically following the coverage outlined in the policy in effect at the time of the loss. We, years ago, did a lot of negotiation with plaintiff attorneys and we found that when we negotiate things like that to try to not have litigation, we ended up drawing more and more lawsuits because we became what we considered an easy target. So, if we believe that we've made the right coverage decision based on the policy in force, we are standing behind those coverage decisions.

Chairman Thomas: I hear you and I think that's probably a good policy in the general to have. What I hate to think is that if that is the policy we take at the NOI stage, but then when it actually moves to a litigated matter it's adjusted somewhat differently. Then we are probably considering a cost of defense analysis as part of what the settlement would

be. I certainly think that should be our practice and certainly our stated practice. It seems to me that the NOI process really serves two purposes. Maybe I am wrong. One, it seems to me, is it establishes a requirement before suit that there be potentially some exchange of dollar offers. What that does is it provides, that would be in matters where there's not a coverage issue, but maybe just a dispute over value. What that does it allows us to make sure there's a pre suit record of what we would be willing to pay so that, when the case is openly litigated if we lose in terms of we have to pay them something, but we only pay them what we offered or less pre suit, they're not actually the prevailing party in litigation and don't get fees.

Jay Adams: Correct.

Chairman Thomas: I think that is a very important part of it. It all seems to me, it would be nice if this served also an opportunity to early look at cases that don't justify potential expense down the road. So, I don't, again, I just throw that out there. I certainly think your stated position on it is the accurate one to stay.

Jay Adams: Right, so in the non litigation world we are audited by the State, by the OIR, the Auditor General, and so forth, and we are required to follow the policy. So we're being judged on how effective we adjust claims based on coverage or no coverage. When it gets into litigation, we do have a little more room for negotiation, because now it's a settlement discussion or a negotiated settlement. And we primarily take the stand that in non litigation, which would be pre suit, if we don't believe there's coverage, or we can't document that there's covered in the claim, we really hold a line in that space.

Chairman Thomas: I get you, but I think that it seems to me the NOI process is a bit of a hybrid here. It may not be in litigation yet, but typically if it's received from a lawyer, it is being sent merely to check a box as a condition prior to filing a lawsuit. That it just is something that, as we go forward to new things, that I think it's something we probably ought to be aware of the idea of whether we move earlier where we have more of a litigation type analysis on this NOI process, but that's just something as this thing matures, evolves, and goes forward, we can see how that goes.

Jay Adams: Okay, thank you.

Chairman Thomas: I just think of this in particular to an action item we're going to have today about cost of legal fees.

Mr. Palmquist: Jay further to Chairman Thomas' question, did you say there was a reassessment by someone other than the original denier on the file?

Jay Adams: Right, so these pre suit notices are being handled by a separate team and as a matter of fact, we created a whole new organization just to handle all the disputes we received from the assignment of benefits and the pre suit notices. The adjusters in

this group are some of our better adjusters. So, they are more skilled at looking at coverage and so forth. We purposefully built it to make sure that we're making the correct decisions.

Mr. Palmquist: Okay, very well, thank you.

Jay Adams: You're welcome.

Chairman Thomas: Thanks, Jay, for the good report. Appreciate it.

3. Non-Litigated Claims Update

Craig Sakraida: Good afternoon, Chairman Thomas and committee members. I will give a brief update on the non-litigated claims arena. Next slide please. I wanted to give a brief update for the 2021 catastrophe season, since we ended it a couple days ago. We responded to four small tropical storm events, mainly with our existing resources in the field. They were all low severity claims mainly involving roof leaks and some isolated tree damages. We received 2,566 claims this year for Tropical Storm Eta, that hit in November 2020 and there's been a total of \$18,576,788 paid in indemnity with 88% first closed. Next slide please. It looks like my video is frozen. Sorry about that. I could stop it for a second and restart it. It looks like we have it now, sorry.

Chairman Thomas: We can see the shared screen too of your report.

Craig Sakraida: Okay, great I don't know why the video stuck, I apologize for that. These are just a list of the events that we responded to this year with Tropical Storm Claudette right at the beginning of the season, then Tropical Storm Elsa, Tropical Storm Fred and then Tropical Storm Mindy. We track anything that has potential for tropical events in the system with the CAT code for tracking purposes and reporting later on just to make sure we're staying accountable on all the storm claims.

Next slide please. And we just kicked off our 2022 catastrophe planning the beginning of this week. The catastrophe coordinator meetings will begin in early December and continue through late January. Catastrophe Operations will evaluate the testing modules and will coordinate with the business units for scope and scheduling for 2022. We're also going to integrate modifications to processes and workflows into the 2022 catastrophe master plan for any changes. The big thing that we have this year is the integration of our new technology with the automated LAE software. The software will allow for automated processing of independent adjuster fee schedule invoices, which will decrease the dependency on management review time, temporary staff review, and approval, as well as the overall time spent by the adjuster completing the invoice. The software is really configurable and will decrease any potential errors on the submission and approval process, and anything that doesn't fall within the automated process can be segregated out and will be evaluated by a review team.

Craig Sakraida: Next slide. Our non-weather water trends continue to increase, this is through September of this year with 1,387 claims reported in non-weather water, which is up 14% from September 2020. We didn't have it in time for the actual slide deck, but October was our highest month yet with 1,504 non-weather water claims reported to Citizens.

Next slide please. With our Managed Repair Program we are seeing success. Our emergency water restoration services' acceptance rate has steadily increased over 2021. Our MRP acceptance rate has been steady but seen a slight increase with 21% last month. Our voice the customer results for MRP have continued to increase for 2021 with a very positive trend there. Continued reinforcement, this is really due to a lot of the continued reinforcement of training and with the existing and new adjusters that we've brought on board to handle the increased volume. And we have additional staff that have been hired to assist and provide the appropriate level of customer service for this program.

Next slide please. Just wanted to always let you know we're ready to respond. Even though it's not catastrophe season anymore we're in the in the preparation stages for 2022 and we'll bring you some updates there at the next Claims Committee with where we are with catastrophe planning. That concludes my presentation, Mr. Chairman and I will gladly take any questions or comments.

Chairman Thomas: Right, thank you very much and I'll open the floor for any questions or comments.

Governor Henderson: Regarding the non-weather water trends and the increase, is that related to maybe because some of these are kind of blended in when there's a bad storm season or is there some reason that we are getting these non-weather water claims that are increasing? Is there some other reason?

Craig Sakraida: Yes, it's mainly related to our policy in force increase. So, as we've seen our PIF count increase.

Governor Henderson: Is it going up with the policy in force? Is it pretty much just mirroring that?

Craig Sakraida: Roughly every 40,000 to 50,000 policies generates a couple hundred or more claims a month give or take. That's not a hard and fast number, but that's kind of what we've seen over the past year and a half, two years of our growth.

Governor Henderson: It would be nice to see claims relative to the amount of policies we have in force.

Barry Gilway: I think Craig's comment is right on. Bottom line is we have increased revenue by 37% in the last year, so if you take a look at those non-weather water trends they're actually lagging which is understandable. But those trends are actually lagging behind the actual increase in in policy count.

Governor Henderson: Thank you.

Chairman Thomas: What do we insure, in terms of non-weather water claims? I feel like we're providing the home warranty here. Does it require an occurrence? I'm not asking anyone to evaluate the policy for me. I'm just curious.

Craig Sakraida: Yes, Mr. Chairman. A lot of them start out, you know, there is several occurrences that may have happened. You'll have a water heater that may leak, a supply line under a kitchen or bathroom sink, a drain line, shower pans are very common. Sometimes they are sudden or accidental. People come home and the washing machine has broken and they've got four or five inches of water in their home. Or, some of them, are also manufactured claims, where there is representatives going into their house, whether they're public adjusters or contractors. And they find some water damage under the sink from, it could be recent or it could be old, and they file a claim. There is water damage. It's very prevalent in almost every home, especially the older homes that we insure. There's been a water leak under the sink, or the drain dripped over time and maybe it started dripping again so that is commonly what we see. And it does have to be triggered by an occurrence. If it's constantly repeated it's excluded under the policy, but if there is a specific occurrence that they can tie it to, that's when the coverage is triggered.

Chairman Thomas: Okay, I mean it just seems to me that if you have a defective hot water heater that's one thing, but if you just have one that is well past its useful life and is done and gives up, I don't know why that's insured, but just curious.

Craig Sakraida: Well, the appliance itself isn't, however, the resulting damage is.

Chairman Thomas: That's not really an occurrence it's just the natural consequence of having something beyond its useful life, but that's just curious.

Chairman Thomas: That's all. Thanks, Craig. Anything else for Craig?

Mr. Palmquist: Congratulations on yet another CAT season come and gone.

Craig Sakraida: Thank you.

Mr. Palmquist: Relatively quiet for Florida, obviously. You mentioned in your slides that Catastrophe Operations will evaluate testing modules and coordinate with and involve business units. Can you explain what testing modules are involved?

Craig Sakraida: Yes, Sir. Every year we look at really what our key areas of our response are. One of the main things that we do is IT load testing. We work with our Information Technology partners, and make sure that all of our systems can maintain a load of the claim volume coming in, the users coming in. We work with our partners in Customer Experience, for the First Notice of Loss call centers. Sometimes we may implement a new program or new process and we want to test it. So, what we do is we look at our catastrophe testing that we did the year before and see if we wanted to do those, which we have about six or seven that we do every year, our annual check printing testing that we do. Like I said, the Call Center, the IT load testing, our Customer Response Centers, we do an exercise with them to make sure that the vehicles are maintained, that the satellite operations work, that the supervisors and participants know how to do their jobs. And that's just an annual training. We will evaluate what comes up and if we have a new program or a new process, we may say we want to test this aspect of it. Like we did in 2020 when we went to our virtual onboarding, we had to do some additional testing to make sure that we are able to onboard the adjusters virtually through Teams and Zoom as opposed to having them physically in the TIAA bank building in Jacksonville. So, every year it's an evaluation, and we talk about it and put the plans in place and work with those business units to make sure that it's successful.

Mr. Palmquist: Ok, thank you. Did you have a chance to test drive or experiment with the aerial imagery software from NICB that we approved in the last meeting?

Craig Sakraida: We didn't use it this year. We've used it in the past quite heavily with Hurricanes Irma, Michael, and Sally. There are some new enhancements that they've made that we weren't able to try out just because we didn't have a storm big enough to really engage the flyovers.

Chairman Thomas: Alright, if nothing else, Craig we appreciate the good work and thanks for keeping us informed and for the good work.

Craig Sakraida: Thank you.

4. Litigated Claims Update

Elaina Paskalakis: Good afternoon, everyone. The Claims Litigated update is found in tab four in your materials and this covers January through the end of September of this year. Overall, I would say it's largely unchanged since our last update, but in reviewing and going over the details and some of the metrics, we are averaging 878 new lawsuits per month. Which is a 45% increase over 2020 and that's in line with the trend that we've had for over the past year, particularly with increased PIF count, increase in claims. We also see the increased litigation, although litigation will lag behind certainly both the PIF count increase and the claims coming in.

Elaina Paskalakis: Our pending volume, we have approximately 16,240 lawsuits that we are managing right now. That is a 34% increase over 2020 and one thing about that pending volume that we need to keep in mind as well, is that volume was affected by the pandemic and when the court systems shut down and basically cases weren't moving along as fast, so that's also increased our pending volume.

We continue to see the vast majority of new lawsuits coming out of the tri-county area currently for this reporting period about 85% of those are out of the tri-county area. We are experiencing a continuing increase with new lawsuits arising out of the Tampa area and we had about 10% come out for this reporting period. About 56% of the lawsuits that we have the insured did have representation at the time that they first reported the claim. So, when we talk about claims coming in that they're already represented when we when we hit the litigation stage about 56% of those in litigation did have the insured represented when the claim was first reported to Citizens. About 36% of our insureds did not dispute the claims adjustment prior filing suit. What's significant about this is that is about a 9% decrease over 2020, so we're starting to see a continuing trend that more and more of our insurance are communicating with us prior filing suit that they had some kind of disagreement with the initial claims adjustment, which is what we want to see. That's how claims are supposed to work, it's a back-and-forth process, so we're starting to see that trend with insureds communicating with us much more.

39% of our lawsuits are brought within six months of first reporting the claim to Citizens and that's consistent with what we saw last year. In the overall distribution in terms of cause of loss, catastrophe remains the leading cause of loss for both incoming and pending. And, I do want to make a note here that about 52% of both, some of the volume is coming out of the tropical storms of 2020, particularly Tropical Storm Eta which has translated into over 2,000 lawsuits in the end of 2020 and beginning of 2021. About 28% of our new and pending lawsuits are from AOB, and that is consistent with 2020. That has leveled off. We have seen the effects of the AOB statute, and then it has translated into leveling. There's been improvement but now we're pretty much plateaued and what we're seeing a solid 28% remaining AOB lawsuits. Our non-weather water lawsuits are at 24%, and that is decreased as compared to 2020 by 5% in new incoming lawsuits.

And then, I just wanted to point out Recovery because we also have that unit under our umbrella. So for our Subrogation and Recovery, our gross recoveries are over \$2 million at this point in time and close to 178,000 of that has been money back in the pockets our insureds in terms of deductible refunds. With that, that's my update for today. I'm happy to take any questions you may have.

Chairman Thomas: Any questions for Elaina from anyone? I have one. What triggers the deductible refund?

Elaina Paskalakis: Continuing on one of the things that you brought up about a water heater going bad if there's a defective water heater, so we will cover the ensuing damages from that. But if the actual cause was some kind of manufacturers defect, we then turn around and will pursue recovery from the manufacturer for that defect and when that happens, and we receive that back, we will refund the insured the deductible on their loss.

Chairman Thomas: That is only to the extent our recovery makes us whole? We are not engaged in a charitable enterprise here, I mean.

Elaina Paskalakis: Correct, if we recover less than what their deductible is certainly we're not refunding the entire deductible. But if we're recovering, we typically will, we recover what we put out in terms of the proportion that's attributed to that cause. And then we will refund. Yes.

Chairman Thomas: All right, anything else for Elaina for anyone else on the committee.

Chairman Thomas: All right, thank you, I appreciate the good work.

5. Vendor Update

Greg Rowe: Thank you, Mr. Chairman and committee members. This first Action Item requests Board approval to contract with our law firms that provide our Claims-related Legal Services and they'll replace our existing panel of the firms we have under contract today, which is set to expire in February 2023. Citizens will regularly engage outside law firms that provide representation in these pre-suit and litigation matters and we currently are contracted with 89 outside Defense firms. They provide all of the Defense on our approximately 16,000, give or take, open litigated claims at any point in time.

On August 3, 2021, Citizens issued our Claims Legal Services, RFP 21-0012. And 99 proposals were submitted, and so those proposals were reviewed and scored by an evaluation committee who recommended to award contracts to 91 of those law firms on October 26. Those are listed under Attachment A. These new contracts with these law firms they should really enable Citizens to pay sound market rates to retain the quality and quantity of firms needed by retaining our top 40 existing firms and adding an additional 15 new highly qualified firms moving forward. And to get there really a lot of in-depth analysis and comprehensive analysis was conducted by Citizens, to ensure that these contracted rates are appropriate and competitive throughout the life of the contracts.

The estimated contract amount over the five-year initial term is \$500,000,000 and additional funding certainly might be needed if we elect to pursue the additional two years, the two optional years under the contract, or if we experience unanticipated policy growth like we're doing now, or if we encountered a large storm here in the next few years. But, as always, Citizens staff won't exceed the approved contract amount without

first obtaining Board approval. With that, Mr. Chairman, I opened it up for any questions before I move to the recommendation for this award.

Chairman Thomas: Thank you, Greg. Anything from members of the committee?

Mr. Palmquist: Of the firm's that submitted their request for evaluation consideration, how many were not accepted by Citizens?

Greg Rowe: 99 proposals came in, 91 were awarded contract, so eight were not.

Mr. Palmquist: Ok. All right, thank you.

Greg Rowe: You're welcome.

Chairman Thomas: Do we actually enter into separate engagement letters with each of the 91 firm?

Greg Rowe: We do. Each firm has its own contract. So, we manage it under, from a cost perspective, under a single contract. But every law firm has their own contract.

Chairman Thomas: Within the general service areas and class representation, are the rates generally uniform for each firm, or I assume there is some fluctuation?

Greg Rowe: Yes, there certainly is. Elaina can probably speak better to that than I can. But a lot of that gets down to the firm's that provided discounts, they were certainly incentivized to do that with this contract, so there is some give and take with those discounts.

Chairman Thomas: I'm sure it's a very favorable rate for us, I would imagine.

Greg Rowe: It is it is.

Chairman Thomas: Anything else?

Mr. Palmquist: Do any of the contract require minimums for any of the law firms?

Greg Rowe: Minimums meaning?

Mr. Palmquist: Minimum amount of usage, cases, or volume?

Greg Rowe: No. With any of these contracts there's no guarantee of work, there is no minimum that they would need to take. When the evaluation committee looked at this, it was based on, certainly, the size of the firms, what scope of work they could handle, but there's no minimum per se.

Mr. Palmquist: Okay, all right, thank you.

Chairman Thomas: Greg, I would assume some of these firms did the bulk of our work, and some are there in the event we need council in a particular area, so we got plenty on the roster? I assume there is select firms that we prefer that the bulk of our work go to, is my guess.

Greg Rowe: Certainly, there are some of the larger firms that you know get more of the work, but the good news is with these 15 new ones we're hopeful that we've attracted some firms that could shoulder some of that burden so it's spread a little bit more evenly. But we've got a team, specifically, that really looks at that and makes sure that a firm isn't handling more than they have before. So, that's looked at by our vendor side very closely, and so, of course, every firm obviously has different staff, different bandwidth, so it's really based on the size of the firm, their location, and certainly their performance.

Mr. Palmquist: When you say their performance, do you have a process whereby you evaluate the performance on a continual or a periodic basis, with each other and with each firm?

Greg Rowe: We do. So, we have a scorecard and we've got a contract manager who obviously manages all of these contracts, but we look at their metrics. And it's, I think a single scorecard, if I'm not mistaken of 60 plus pages. There's a lot of data that goes into how these firms perform. And that's constantly evaluated and that was one of the pieces that we hope to continue to be better served for the next action item which I'll be reading, is to be able to get more data in our system to where we can certainly make it easier to judge and gauge performance from each firm but it's an extensive process that we have every single month.

Mr. Palmquist: All right, good. Thank you.

Greg Rowe: Yes, sir.

Chairman Thomas: All right, we have it before us, but if the standard process here is that you read, for the record, what the recommendation is, we can do that too. Whatever everyone's pleasure is.

Greg Rowe: If that's okay, I'll read it for the record.

Chairman Thomas: Okay we'll do that.

Greg Rowe: Okay, thank you. Staff proposes that the Claims Committee review and, if approved, recommend the Board of Governors authorize Citizens to contract with the law firms listed in Attachment A for an initial term of five years, with two optional one

year renewal terms, with a contract amount for the initial term not to exceed \$500,000,000 as set forth in this Claims Legal Service Action Item, and authorize staff to take any appropriate or necessary action consistent with this Action item.

Chairman Thomas: All right, Greg, thanks. And, just to clarify, because this is the sort of thing that gets asked at the Board of Governor's meeting, we're not talking about entering into contracts that obligate us to pay anyone \$500,000,000, right?

Greg Rowe: Absolutely.

Chairman Thomas: That's spend authority in the contracts and the \$500,000,000 represents what we think our budgeted spend will be. May well be less. It may well be greater and let's come back for it, but we're not talking about entering into a contract where we're obligated to pay anybody or any accumulation of anybody \$500,000,000.

Greg Rowe: Correct. The spend would be based on the utilization of the firms. There are zero guarantees.

A motion was made by Governor Henderson and seconded Governor Hasner to approve and recommend Board approval of the Claims Legal Service Action Item. All were in favor. Motion carried.

Greg Rowe: This last Action Item seeks board approval to contract with Mitratch Holdings, Inc. to provide an Enterprise Litigation Management System, or I'll refer to that as ELMS moving forward, which will replace our existing contract for Citizens' current system, which is set to expire on June 18, 2022. The ELMS is used by both Citizens internal staff and our contracted outside Defense counsel really to facilitate the management of all activity on claims including data analysis, reporting, management, auditing of all the law firms, all the legal billing, the storage of all the litigation related documents and certainly communication back and forth between Citizens and outside Defense counsel. The system is used by more than 3,000 users, which is made up of Citizens internal resources and contracted outside Defense counsel and is used to process approximately \$100 million of annual litigation related spend on an annual basis. Certainly, the most critical and essential IT part of Citizens' Claims Litigation by far.

In advance of the expiring agreement, Citizens initially issued an ITN on July 24, 2020. seeking competitive replies from firms capable of providing this web-based software to replace our current system. And although we did receive numerous responses and had an evaluation team ready to move forward with a recommendation to the negotiation stage, the solicitation was withdrawn on December 17, 2020 and all replies were rejected by Citizens. And what this cancellation really did is allowed Citizens to further review and incorporate the additional findings and recommendations from the Ernst and Young study and that resulted in a newly revised solicitation document which went out on March 15, 2021.

Greg Rowe: So, that newly revised solicitation again sought to contract with a vendor whose system could provide the overall enhanced capabilities within areas of performance and data analytics and legal invoice review, and one that can address the areas identified in the E&Y report. So, we received our responses back, they were due on May 10, 2021 and we received nine responses. These responses were reviewed by the evaluation team from Citizens and that include representatives from our Litigation teams, our Claims team, Claims Legal, IT, Internal Audit, and Purchasing. Also, Chairman Thomas also served as the Board observer for the solicitation, was kept informed, and involved throughout the entire process. This 10 Member evaluation team really methodically and carefully reviewed each reply and individually scored each vendor, taking into account everything that was documented of the E&Y report, as well as multiple objective categories offered from each vendor to really get down to the next stage in the solicitation.

Based on the resulting demonstrations and negotiation, they pared it down to three vendors. Then on October 21, 2021, they made an award to Mitratesch Holdings, Inc. as it was demonstrated and agreed upon from that committee that Mitratesch Holdings, Inc. represented the best overall value and solution for Citizens, both in terms of overall functionality and price. The estimated contract amount for Mitratesch is \$5,000,000 for the recommended 10 year contract period, and that includes all costs associated with simple system implementation, ongoing maintenance and license fees throughout the life of the contract term. This estimate certainly is based on some assumptions that we're making in terms of litigation and litigation spend, which is really hard to do. But that's where we stand now and that was the estimated contract amount, again based on where we're at this point. I know I said a lot Mr. Chairman, so I'll pause there, and certainly entertain any questions before I move to the recommendation.

Chairman Thomas: Thank you Greg and we'll open it up to the committee for that.

Governor Henderson: Each year, when this renews if anything changes, are you going back to the Board for approval or how's this going to work? We're approving an entire five-year contract, not to exceed \$5,000,000 and if it all stays within that, great, or is that what we are being asked today?

Greg Rowe: Yeah, so really it's approving a 10 year option. If we have to use all of our renewals it will certainly be \$5,000,000 and so that's for the life of the contract. If we ever get to that point where we would look like we're going to exceed that spend for the life of the contract, we will certainly bring it back to the Board for approval.

Chairman Thomas: We have had this come up before in another context. The one year option, is that generally exercised internally, as a matter of discretion, or does it come back for the Board of Governors to indicate that the staff wishes to exercise the option.

Greg Rowe: It typically is certainly an internal discussion that we have because if the Board does approve the spend over the life of that contract it's an internal discussion, but certainly it would be one if the board wishes or Claims committee wishes we could certainly entertain bringing it back before those renewals would be entertained or exercised.

Chairman Thomas: And that's probably something we can discuss more generally at the Governors meeting. I think there probably has been some sentiment expressed that that Board's approval of contracts in this nature with options doesn't necessarily imply their approval of the exercise of the option down the road. But that's neither here nor there, I think, at today's committee meeting.

Mr. Palmquist: The \$10,000,000 I'm assuming that is the cost for just the system, it doesn't include the integration costs on Citizen's side?

Greg Rowe: It's actually \$5,000,000, and that includes everything in terms of implementation, onboarding, on through on to the new platform. So, I'd say that would be all inclusive.

Mr. Palmquist: And what happens to the existing lawsuits that you have on the on your existing platform?

Greg Rowe: Mitratesch actually purchased Acuity, so our original platform that we are on today, it will be the same platform. The difference will be that we're moving to the next version, so all of that data will migrate from the existing platform on to the new platform. Which is good, certainly it's beneficial to us, because we have a lot of familiarity with that program, so we won't lose any data or have to have any major data transfers.

Mr. Palmquist: To Chairman Thomas' earlier question is this \$5,000,000, sorry I meant five earlier, is money that will be spent.

Greg Rowe: If we exercised all of the renewals, that's what it would be over the course of 10 years.

Mr. Palmquist: And that includes the cost of Citizens' personnel time, etc. to integrate.

Greg Rowe: Correct.

Mr. Palmquist: Okay, thank you.

Jay Adams: I believe there may be some confusion here. What Greg is presenting to the Board is the contract with Mitratesch to convert our current data into their new system and to operate on their system. Mr. Palmquist is raising some questions about there will be some integrations at Citizens' to make that software effective and talk to other

systems like our data warehouse our claim management system and so forth. Those personnel expenses and any charges are budgeted either in Greg's shop for our product ownership or in Kelly Booten's IT area for making those changes as we go forward. So there will be some other IT related costs is what I'm trying to say, but the heavy lift really comes from Mitrastech.

Mr. Palmquist: Okay, thank you for the clarification, Jay.

Greg Rowe: Yes, just it not to belabor it, but they have built in integration costs, from a transfer from the old platform and the new platform was built into this contract, so that, that is inclusive in that \$5,000,000 over the course of 10 years.

Chairman Thomas: It looks like year one is like \$634,000, year two is \$409,000, so I presume year one includes the implementation costs?

Greg Rowe: That's accurate.

Chairman Thomas: All right, how about you give us a recommendation Greg for the record?.

Greg Rowe: Staff proposes that the Claims Committee review and if approved recommend to the Board of Governors that they authorize Citizens to contract with Mitrastech Holdings, Inc. for an initial term of five years, with five optional one-year renewals. The renewal periods may be combined, so long as the renewal terms do not exceed the base term for an amount not to exceed \$5,000,000 for the life of the contract as set forth in this Enterprise Litigation Management System Action Item, and authorize staff to take any appropriate or necessary action consistent with this Action Item.

A motion was made by Mr. Palmquist and seconded Governor Hasner to approve and recommend Board approval of the Enterprise Litigation Management System Action Item. All were in favor. Motion carried.

Chairman Thomas: Greg, thank you very much for your presentation and the work you do.

6. Addendums

Chairman Thomas: I think that takes care of the agenda items. There are a couple of materials in the packet, Recovery Cases of Interest and Special Investigations Unit matters. If anyone wishes to address or bring up, we can do that.

7. New Business

Chairman Thomas: Also, we can entertain any new business of which I'm not aware of. Those are options at this point. Our third option is, I will entertain a motion to adjourn.

Before I ask for a vote, I'll make sure Staff had nothing else we need to cover before we adjourn this committee meeting.

Jay Adams: Nothing, from my perspective.

A motion was made by Governor Henderson and seconded by Mr. Palmquist to adjourn. All were in favor. Motion carried.

[Meeting adjourned]