

Office of the Internal Auditor

AUDIT REPORT November 2021

Clearinghouse Audit



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Executive Summary

Background

The Clearinghouse is an innovative, automated program that helps ensure that only risks eligible for Citizens are insured by the company. It is a statutorily mandated program that was established by the Florida Legislature in June 2013, and found in section 627.3518, Florida Statutes, which took effect on January 1, 2014. The Clearinghouse offers many benefits to Citizens' consumers, agents, and to Florida carriers by identifying private-market insurance options for consumers and their agents who believe Citizens is their only choice for property insurance. The program enables agents to enter certain types of property risks and eligibility rules into the system for participating insurers in the private market to make an offer of coverage, in real-time, directly to the agent for applicants seeking coverage from Citizens. This gives consumers access to broader and potentially less expensive coverage options available in the private market, while possibly reducing their assessment risk. Additionally, Citizens' renewal policies process through the Clearinghouse to ensure private-market access to limit the growth of Citizens'. Currently, there are 11 standard market carriers participating in the Clearinghouse program. The policies offered through the Clearinghouse are HO3, HW2, HO6, HW6, DP1, DP3, MH03 & MDP1 (new business and renewals).

Clearinghouse new business applications had a significant rise in 2020 with a 115% increase over 2019. The growth of PIF has continued in 2021 with 696,356 applications received through September 2021. The current gap between Citizens and the private carriers has made it more difficult for applications to be accepted into the private market. As of Q3 YTD 2021, 214,251 renewals were processed through Clearinghouse with 1,821 receiving an offer from the private market, but still being eligible for Citizens. Only 382 applications were deemed ineligible for Citizens. The Florida legislature enacted a legislative increase for new business applications effective July 1, 2021, that increased the comparable coverage amount from 15% to 20% to limit the growth of Citizens policies. This means that if an offer of comparable coverage from an authorized insurer is not greater than 20% of the premium for comparable coverage from Citizens, the risk is not eligible for coverage with Citizens.

Objectives and Scope

This audit evaluated the effectiveness and adequacy of key business processes and control functions related to the Clearinghouse operations. Specifically, we focused on following:

- Confirm continued efforts are being taken to encourage private market carriers to participate in the Clearinghouse; therefore, reducing the overall exposure to Citizens.
- Validated weekly reporting to carriers on agent status.
- Verified controls are effective to ensure that new and renewal residential policies are submitted through the Clearinghouse.
- Reviewed error monitoring and handling process.
- Verified that the Clearinghouse system is updated with the new business legislative increase from 15% to 20%.
- Validated the effectiveness of the quality assurance process.



Executive Summary

Results

Since 2020 there has been an increasing number of new business policies written by Citizens due to several factors including significant premium increases with private market carriers driving consumers to Citizens due to lower premium costs and low carrier participation rate. The Citizens Clearinghouse representatives spend most of their time resolving agent inquiries relating to Clearinghouse system functionality and validating reports received from the system vendor for accuracy. The current Clearinghouse processes are not very efficient for agents or staff, whereas an enhanced and updated system would mitigate the challenges with current functionality, provide a more intuitive experience and likely aid in the marketing of the Clearinghouse to potential carriers.

The Auditor General noted that not all policy renewals were being processed through the Clearinghouse. Management has taken a proactive approach to enhance controls with the policy renewal process to ensure accuracy by keeping track of system down time that would cause renewals not to process through the Clearinghouse. Renewals affected by system down time will now process the next business day, instead of being omitted from processing. Additionally, changes to remove data validation on wind loss mitigation combinations were removed from renewal policies as the data only applies to new business submissions.

The Clearinghouse processes are effective and working adequately, and controls have been enhanced to ensure policy renewals process through timely.

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



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The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
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