

ACTION ITEM

- New Contract
- Contract Amendment
- Other Committee Minutes

CONSENT ITEM

- Contract Amendment
- Existing Contract Extension
- Existing Contract Additional Spend
- Previous Board Approval _____
- Other _____

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

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

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

Item Description	The Actuarial and Underwriting Committee meeting Minutes September 21, 2021
Purpose/Scope	Review of the September 21, 2021 Actuarial and Underwriting Committee to provide opportunity for corrections and historical accuracy.
Contract ID	N/A
Budgeted Item	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Committee Recommendation	Staff recommends the review and approval of the September 21, 2021 Actuarial and Underwriting Committee minutes.
CONTACTS	Jennifer Montero, CFO Kelly Booten, COO

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING
Tuesday, September 21, 2021**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at the Hyatt Regency Coral Gables, 50 Alhambra Plaza Coral Gables on Tuesday, September 21, 2021.

The following members of the A&U were present:

Carlos Beruff
Lazaro Fields
Scott Thomas
Fred Strauss

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Barbara Walker
Christine Ashburn
Kelly Booten
Jeremy Pope
Tim Cerio
Mark Kagy
Andrew Woodward
Violet Bloom
Joe Martins
Michael Peltier
Jay Adams

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens' Actuarial and Underwriting Committee. This meeting is publicly noticed in the Florida Administrative Register to convene immediately following the Finance and Investment Committee. Those in attendance through the public link are automatically in listen only mode. Video today will be presentation viewing only. Citizens' Board and Committee meetings are recorded with transcribed Minutes available on our website. Thank you for identifying yourself prior to addressing the committee. Mr. Chair, may I will proceed with roll call?

Chairman Beruff: Please do.

Barbara Walker: Chairman Carlos Beruff?

Chairman Beruff: Here.

Barbara Walker: Governor Dunbar is not in attendance today. Fred Strauss technical advisor?

Fred Strauss: Here.

Barbara Walker: Governor Lazaro Fields?

Governor Fields: Here.

Barbara Walker: Governor Scott Thomas?

Governor Thomas: Here.

Barbara Walker: Chairman, you have a quorum.

Chairman Beruff: Thank you, Ms. Montero front and center again.

1. **Approval of Prior Meeting's Minutes**

NOTE: The July 13, 2021, Minutes were approved at the end of the meeting.

2. **Chief Financial Officer Report**

a. Catastrophe Modeling Software Services

Jennifer Montero: Okay, yes Cat Modeling Software, this was brought to the July meeting as well, we're bringing it back. Citizens is requesting approval to contract with AIR Worldwide Corporation for Catastrophe Modeling Software. Approvals are requested for a five year base term with one three year renewal option for an amount, not to exceed \$4,849,039 for the life of the contract. The contract price is variable based upon policy count, therefore, the cost provided is the highest possible amount, however, the cost could be lower as outlined in the executive summary. Citizens must use catastrophe modeling software to estimate how much it's likely to pay for repairing the structures it insures that are damaged by hurricanes. The estimates are needed for seven of Citizens' most important business functions: Determining policy premiums, preparing for an approaching hurricane, required reporting after hurricane, understanding reinsurance and risk transfer, estimate claims paying resources after hurricane, respond to requests by the Board of Governors, the legislature, and other stakeholders and understand the effects of Citizens' changing insured and policy count. To estimate probable hurricane losses, the cash flow model begins with input about each individual building insured by Citizens. This includes the building specific location or address, the construction type, the roof shape, and features that protect the building against wind damage, such as storm shutters. The hurricane model produces two main estimates of the hurricane risk: the average annual loss, which is the AAL is the expected cost of the hurricane damage paid by Citizens over the next year, and then the probable maximum loss

or PML describes the probability of different large losses. If needed, the catastrophe model can produce the AAL's and the PML's for an individual building or for a group of buildings or for all Citizens policies together. The model also provides a large list of simulated hurricanes, which represent hypothetical storms that could hit Florida.

The requested contract was negotiated on the best value to Citizens pursuant to invitation to negotiate 20-00304 Catastrophe Modeling Software. The ITN was issued on October 9th. Citizens received responses from three vendors: AIR Worldwide Corporation, Eqecat, Inc. doing business as CoreLogic, and Risk Management Solutions, which is RMS. After reviewing the scoring the evaluation team recommended advancing all three vendors, to the negotiations. Citizens' negotiation team recommended AIR Worldwide Corporation for the award on April 13, 2021, after conducting negotiations with all three vendors. AIR is the most widely used by Florida insurers, it's licensed by eighteen Florida based PNC insurance companies 11 of which, are on the top 20 of Florida insurers by director written premium. It's also licensed by almost 75 reinsurers and reinsurance brokers. The contract also requires AIR to own and maintain the computers that run the AIR software. Citizens' employees and computers would connect to the software over the internet using the software as a service. Citizens corporate strategy is to use SaaS whenever possible to allow Citizens to better meet its changing computing needs. This is because under SaaS a constant monthly fee replaces the large initial cost and effort that's required to set up a new computer application under the more traditional approaches. SaaS is a particularly good choice for catastrophe modeling software which is very complicated to install an annual update. So, the pricing is based on a tier and like I mentioned earlier it's based on policy counts so there's four different tiers up to 750,000 policies to 1 million to 1.5 million and then 1.5 or more, and we did recommend 1.5 or more, which is the highest estimate based on our growth. I'm going to pause there for any questions.

Governor Thomas: Question Mr. Chairman.

Chairman Beruff: Sure, please.

Governor Fields: Jennifer what is the reason why they're telling us that we have to move from the software being installed on our own, or whatever.

Jennifer Montero: They're moving to the cloud and so that's why. One of the vendors that's all they offer. And, and this one is moving to the cloud as well, they will support on premise for four years, but that's it. They're migrating off of the on premise and they're going to the cloud for all, and we are seeing that with a lot of our vendors as well, and that is one of Citizens' strategies, as well as moving to the cloud.

Governor Fields: Thank you

Chairman Beruff: This is a discussion item I had with the staff, and I support what we're doing here. But one of the things we discussed, and I wanted, my fellow board members to have my thoughts, is that we didn't get a detail on what this cloud is costing and I don't know if that's a trade secret. I hope not it's a commodity, the cloud is a digital storage room right, so one of the things I said in the future, when we go to renew these types of contracts, we need to know what component of the costs is the cloud storage and are we getting cloud storage bid out by the

provider. There are the big ones that I'm familiar with Amazon and Microsoft and I think Oracle is in the cloud storage business also that come to mind. So are they effectively bidding and giving us oh, by the way we went to three bidders, and we chose the lower bidder of the three because we don't know that right now, we're just saying well we're going to the cloud and that's why it costs so much money or at least that's a component. I'm oversimplifying it, of course, so, though, I support the action item that the staff is promoting I'm asking them that in the future we get the people who are going to use that platform to provide us how many bids they got for the amount of storage capacity they're going to use in whoever cloud we choose to use or they choose to use as long as we know that there was a competitive process for that storage service or the computer power that they're using through the cloud, which is part of the reason that they can outperform us because they just have higher capacity and faster capacity. So, other than that comment if somebody wants to move to approve the action item.

Governor Thomas: Mr. Chairman I'll move to approve.

Jennifer Montero: Would you like me to read it?

Chairman Beruff: Yeah, there is that too.

Jennifer Montero: Yes, we keep forgetting to do that.

Chairman Beruff: Well, it's all in writing, so I sort of take it for granted but yes, I read it yeah we all read it, but please for the record, of course.

Jennifer Montero: **Staff proposes that the Actuarial and Underwriting Committee review and, if approved recommend to the Board of Governors a) authorize to contract with AIR Worldwide Corporation for an initial term of five years and for one three year optional renewal term for the amount not to exceed \$4,849,039 for the life of the contract as set forth this Action Item; and b) authorize staff to take any appropriate or necessary action consistent with this Action Item.**

Governor Thomas: **So moved.**

Governor Fields: **Second.**

Chairman Beruff: **The motion carries** next item.

b. Rate Filing Update

Jennifer Montero: Next item is an information only; it is the Rate Filing Update. At the last board meeting you did approve a rate increase related to the Senate Bill 76 that allowed us to file for the cost of reinsurance up to the 1-in-100 year, whether we bought it or not, and to have the 10% glide path move up to 11% effective February 1, 2022, it was approved as filed. So, we got exactly what we asked for.

Chairman Beruff: Thank you. Ms. Montero just as an aside note, when will we start seeing the proposed rates for the August 2022 rate increases?

Jennifer Montero: Those went in August 1st.

Chairman Beruff: No, next year. I want to try to be better informed, at least me, along I suspect, with everyone else. I was not aware of what we proposed until December meeting and I don't want to, first of all I don't want to miss the filing deadline, so the only way I know how to do that is to be informed in advance of where this plane is landing on rate increases for the August 2022 when the rate increases going effect. That filing deadline is at the December meeting, correct?

Jennifer Montero: That's correct.

Chairman Beruff: I don't want to push it like we did last year which complicates the mechanisms of operating the company. We don't want to do that, so I just want to know when we see data.

Jennifer Montero: I did talk to Brian, and he can have data available in the beginning of November, so we'll definitely reach out, then.

Chairman Beruff: Okay, that should give everybody plenty of time to discuss it with all the board members independently, thank you.

Jennifer Montero: Thank you and that concludes my report.

Chairman Beruff: Okay, Ms. Booten your next.

3. Chief Operation Officer Report

a. Property Inspection Services for Underwriting

Kelly Booten: Good afternoon. Behind tab three are the three action items that I have. The first is the Property Inspection for Underwriting. Remember at the last A&U committee meeting we talked about our inspections, and I promised to bring back a holistic inspection approach. So, this approach still recommends the same five vendors and has been updated to include the FTE necessary to review the inspections when they come back in. So, the first page shows the previous proposal adjusted for current PIF and automation and shows the FTE required, then, if you jump to the top of page four, is the recommended approach. I'm sorry go to page three, because page three also has the market intelligence that we did. Reaching out to confirm what other carriers were doing, we talked to 16 different carriers and confirmed that over half of them were doing 100% inspections on new business. So, we used that approach to try to increase our amount of inspections, so on the top of page four is the new recommended approach which starts with 13.3% of new business in 2022, ramps up to 62.47% in 2025, and has the FTE needed on the far right for each of those years, and the years fluctuate because we are adding automation throughout the years. So, that is what we're recommending for a total vendor spend of \$43,618,492.

Chairman Beruff: Any comments or questions?

Fred Strauss: Mr. Chair, I did have a question if I may?

Chairman Beruff: Yes, go ahead.

Governor Strauss: Kelly you said that there's going to be more automation. Incorporated within the automation are you looking at implementing some type of metrics to be able to determine the effectiveness of these inspections?

Kelly Booten: Yes, we're gathering data already on the difference in reduced loss frequency, premium accuracy for the policies that are inspected versus those that aren't and will be tracking that over the next year or years to come, to make sure that this is the right ROI on doing the inspections.

Fred Strauss: Excellent. I know that this has been a topic that's come up in prior years, then it was more associated with trying to get the proper premium associated with some mitigation discounts that were being placed on policies based on applications. A lot of research was done as these inspections or as the inspections at that point were being done and it helped Citizens figure out when the point of diminishing returns was coming in, on the inspection process.

Kelly Booten: Yes, point well taken. Would you like me to read the recommendation?

Chairman Beruff: Sure.

Kelly Booten: **Staff proposes that the Actuarial and Underwriting Committee review and, if approved recommend the Board of Governors a) approve and increasing the contract spend authority for the Property Inspection Services for Underwriting contracts and vendors listed in the Contract ID section above to not exceed \$43,618,492 during the initial four year (4) based term of the contract and b) authorized staff to take any necessary or action consistent with this Action Item.**

Governor Fields: **Move to approve.**

Governor Thomas: **Second**

Chairman Beruff: **Moved and second, motion carries** thank you.

b. Citizens Document Fulfillment

Kelly Booten: Alright the next one is Document Fulfillment. This one is all of our printing to produce deck pages, renewals, cancellations, invoices, claim documents, communication campaigns and proof of mailing, to the extent required under Florida law. This action item seeks approval to enter into a contract with Exela Enterprise Solutions for print ML services, the total over two year term is anticipated to be \$20million with \$7 million of that is for print and mail

services \$13 million of it is for pass through charges. We did an RFQ off a state term contract and actually got lower pricing than the previous contract and lower pricing than the state term contract based rates. The predominant reasons for the increase are PIF growth and postage.

Chairman Beruff: Do I hear a motion?

Kelly Booten: I can read the recommendation. **Staff proposes that the Actuarial and Underwriting committee review and approve for consideration by the Board of Governors to a (approve a contract with Exela Enterprise Solutions Inc. for an initial term of two (2) two years, with a one-year renewal option, for an amount not to exceed \$20 million as set forth this Action Item; and b(authorize staff to take any appropriate or necessary action consistent with this Action Item.**

Governor Thomas: **So moved.**

Governor Fields: **Second.**

Chairman Beruff: Just a comment, is there a way that we can get over the next few years away from postage and mail and just go digital? There's got to be a better way.

Kelly Booten: There is.

Chairman Beruff: That is much more cost effective than this printed material.

Kelly Booten: We are right now upgrading the customer portal that the base underneath that will go live towards the end of this year, and the first highest priority item is to implement electronic delivery opt in or opt out for customers to further reduce the cost of mail.

Chairman Beruff: So, the goal should be that we should at least get this down by 75% two years from now.

Kelly Booten: Well, the adoption rate that we've looked is more like 20%.

Governor Thomas: Does that require the policyholder to pick that option to get electronic delivery and not mail?

Kelly Booten: Correct.

Chairman Beruff: How do we push that message is there a discount that we can offer, 10 bucks or something for a policy for them to go digital?

Kelly Booten: We'll look into all the options.

Chairman Beruff: Not only that, but it ends up in the landfill. So, it's not a good thing either way. Okay, thank you. So, **motion passes**, thank you very much.

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

Kelly Booten: My last item is the Coverage Forums, Insurance Rules and Rating Services contract. This is a contract amendment and a renewal. This action item seeks approval to amend the contract between Citizens and Insurance Services Office, also known as ISO to replace the existing variable based fee, with a total fixed fee of \$18,986,098 through the optional five year renewal term and concurrently execute the optional five renewal term and reduce the amount of the original contract amount, which was previously approved at \$30 million down to the \$18,983,098. It does have trade secret as the base underneath the contract terms, however, once we hit a certain amount of PIF it'll require renegotiation. Based upon our PIF growth we negotiated this as a flat fee, so this is, we believe favorable pricing.

Chairman Beruff: Want to read the action item?

Kelly Booten: Yes. **Staff proposes that the Actuarial and Underwriting Committee review and, if approved recommend the Board of Governors approve the amendment of the contract to replace the existing variable based fee with a fixed fee as set forth in the Action item a(approve the renewal of the optional five year renewal term by Citizens in 2021, reduce the original approved contract amount from \$30 million to \$18,986,098 and; b(authorize staff to take any appropriate or necessary action consistent with this Action Item.**

Governor Thomas: **So moved.**

Governor Fields: **Second.**

Chairman Beruff: **Motion carries**, thank you.

Governor Fields: Mr. Chairman, also **moved to approve the meeting minutes from the previous meeting (July 13, 2021).**

Chairman Beruff: **We've approved the minutes** from the previous meeting.

Fred Strauss: Mr. Chair, this is Fred Strauss.

Chairman Beruff: Yes.

Fred Strauss: On the minutes not a correction I'd like to abstain from the vote, since I wasn't at the meeting.

Chairman Beruff: Okay.

Governor Strauss: Thank you

d. New Business

Kelly Booten: And we have one new business item that we added for the FIGA.

Jennifer Montero: FIGA had their board of directors certified their need for a .70% assessment on its member insurers, we are not a member insurer, but we do pay their assessment. This assessment is still with the Office of Insurance Regulation, I have not received notice that it's been approved, yet, but it should be getting approved this week. Each company will have to charge policyholders on their deck page a surcharge .70% on new business and renewals starting January 1, 2022. They will bill us for those funds quarterly after that, and it will basically equal our real true up to our direct written premium for 2021 essentially will be the amount that we owe.

Chairman Beruff: It's a 100% pass through.

Jennifer Montero: Yes.

Chairman Beruff: Do you have an action item?

Jennifer Montero: Well, I don't have the order, so I don't have an action item.

Kelly Booten: Yes, we do. **Staff proposes that the Actuarial and Underwriting Committee review and, if approved recommend the Board of Governors approve for staff to take appropriate actions necessary to implement the policyholder surcharge and submit payments as described in this by the action item and, as required by FIGA and the Florida Office of Insurance Regulation changes include filing with the Florida Office of Insurance Regulation, system changes, update supporting documents or forums, and other relevant activities.**

Chairman Beruff: And where is this money going?

Jennifer Montero: It goes to FIGA, the Florida Insurance Guarantee Association so when companies go insolvent, they have to pay all the claims and they pay the unearned premium.

Chairman Beruff: But why did they put the additional surcharge?

Jennifer Montero: Because of the biggest driver of it is, that one that went under, American Capital. That's the ones they're struggling with.

Chairman Beruff: This policy will go on every policy until somebody takes it back.

Jennifer Montero: No just for one year, it runs January 1, 2022 until December 31, 2022.

Governor Thomas: And when you say we're not a member of FIGA but we pay it, obviously you mean we have to pay it.

Jennifer Montero: Yes, and we have a seat on their board.

Chairman Beruff: If someone will make a motion.

Governor Thomas: **So Moved.**

Governor Fields: **Second** .

Chairman Beruff: **Motion passes** meeting adjourned. Thank you.

(Whereupon, the meeting was adjourned.)

DRAFT