

Consumer-Paid Inspections & Fees

Actuarial and Underwriting Committee

December 14, 2021



Our Underwriting Manual and Application includes wording (filed and approved by the OIR) supporting Citizens' right to inspect:

- Underwriting Manual:
 - *Rule 210. Inspections: An inspection requiring interior and exterior access may be conducted on any property insured by Citizens. Inspection information can verify wind-resistive features, risk characteristics, and/or general eligibility for coverage.*
- Application:
 - *Citizens Property Insurance Corporation (Citizens) may conduct an inspection of your property as part of the underwriting process. The purpose of the inspection will be to verify eligibility and validate certain building characteristics, including construction, replacement value, occupancy and wind-resistive features.*

Any adjustment to inspection criteria (i.e., who pays for the inspection, fees to be charged, additional required inspections) would need to be filed and approved by the OIR.

Citizens' holistic inspection approach is consistent with the private market:

- **New Business**
 - Most carriers require 4-Point Inspections on older homes for eligibility
 - Many order full interior/exterior or exterior only inspections on all new business submissions regardless of age of home

- **Renewal Business**
 - Inspect every 3-5 years
 - Inspect homes becoming 30 years old
 - Re-inspect after a loss

- **Note:** With the exception of eligibility requirements, most inspections are company-paid with no inspection fee required from the customer.

Inspection information from PIPSO (Property Insurance Plans Services Office, Inc.) for other residual property insurers:

State	Earned Premium (2020)	New Business	Renewal
California	\$182,460,000	<ul style="list-style-type: none"> • 25+ Years – All • Less than 25 years - 1 out of every 10 • ACV – 1 out of every 10 • Dwelling – Owner occupied 2-4 Unit – All • Dwelling – Tenant occupied <ul style="list-style-type: none"> ○ Less than 35 years old – exterior only ○ 35+ years – Full • Commercial – All 	<ul style="list-style-type: none"> • Dwelling owner occupied – No set criteria • Dwelling tenant occupied – No set criteria • Commercial – Every 4 years
Florida	\$761,576,000	<ul style="list-style-type: none"> • For 2022, ~13% of new business will be inspected based on: <ul style="list-style-type: none"> • Age of structure • Prior loss experience • Policy Type • Roof age • Coverage A amount 	<ul style="list-style-type: none"> • For 2022, ~7% of existing business will be inspected based on: <ul style="list-style-type: none"> • Age of structure • Prior loss experience • Policy Type • Roof age • Coverage A amount • Insolvent or consent order policies
Louisiana	\$36,166,000	<ul style="list-style-type: none"> • All new business is inspected 	<ul style="list-style-type: none"> • Inspect a % of existing business based on set criteria. Approximately 3,500 total/year
Massachusetts	\$237,981,000	<ul style="list-style-type: none"> • All HO, Dwelling & Commercial 	<ul style="list-style-type: none"> • All every 3-5 years
North Carolina	\$95,888,000	<ul style="list-style-type: none"> • An inspection may be ordered – No set criteria 	<ul style="list-style-type: none"> • May reinspect per request from the insured or after a claim – No set criteria
Texas	\$53,093,000	<ul style="list-style-type: none"> • 13+ Years – Exterior only • 14-29 Years – Virtual • 30+ Years – Full physical 	<ul style="list-style-type: none"> • As needed basis, generally 5-10 years

Inspection costs currently paid for by Citizens:

- **Interior/Exterior Inspection**

A full property inspection that reports on the overall condition of both the interior and exterior of the home. This includes an evaluation of the condition, identification of any hazards present, and verification of repairs or upgrades required or completed. Approximately \$80 to \$90 per inspection.

- **Exterior-Only Inspection**

A physical inspection documenting the general condition of the exterior of the property and any appurtenant structures. This inspection identifies any property and/or liability hazards or maintenance issues present and includes photographs. Approximately \$20 - \$40 per inspection.

- **Mobile Home Inspection**

Physical inspection that identifies the general condition of the mobile/manufactured home, including any hazards or maintenance issues observed. In addition, it identifies the method and materials used to secure it to the ground using anchors and tie-downs to resist wind overturning and sliding, in accordance with Florida Statutes. Approximately \$30 - \$40 per inspection.

- **Roof Inspection**

A physical inspection that documents the condition of the roof. The inspection includes photographs, identifies roof covering material, roof age in years, remaining useful life in years, date of last roofing permit, date and detail of last update, overall condition, visible signs of damage or deterioration, and visible signs of leaks. Approximately \$40 - \$60 per inspection.

- Inspection costs currently paid for by customers:
 - **4-Point Inspection** - typically costs between \$75 and \$125 and accompany 60% of all new PL submissions. Currently required on all risks over 30 years old, however, will be required on all risks over 20 years old starting in February 2022.
 - **Roof Certification Inspection** - typically costs between \$75 and \$125 and accompany 62% of all new PL submissions
 - **Wind Mitigation Inspection** - typically costs between \$75 and \$125 and accompany 9% of all new PL submissions
 - **Sinkhole Inspection** - typically costs \$200 for a single dwelling and is usually split evenly between the insured (\$100) and Citizens (\$100)
- Expected costs for additional inspection types if required to be paid for by customers:
 - **Interior/Exterior Inspection** - typically costs between \$250 and \$500
 - **Exterior-Only Inspection** - typically costs between \$50 and \$100
 - **Mobile Home Inspection** - typically costs between \$50 and \$100



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Total Inspection Costs by Scenario:

Currently: Consumer-Paid Inspections	Total Cost
Typical Combined Costs for New Business (4point + WLM + Sinkhole)	\$250-\$350
Typical Costs for Renewal Business (No costs unless roof inspection required)	\$0-\$125

Future Option: 100% Consumer-Paid Inspections	Total Cost
Typical Combined Costs for New Business (Interior/Exterior + WLM + Sinkhole)	\$525-\$825
Typical Costs for Renewal Business (Interior/Exterior)	\$250-\$500

Future Option: Cost-Sharing Inspections	Total Cost
Typical Combined Costs for New Business (Interior/Exterior + WLM + Sinkhole)	\$263-\$413
Typical Costs for Renewal Business (Interior/Exterior)	\$125-\$250

Currently: Citizens-Paid Inspections

Citizens-Paid	Pros	Cons
<p>Citizens continues to pay for specific inspections on both new and existing business to confirm continued eligibility and adequate data characteristics of the policy.</p>	<ul style="list-style-type: none"> • <i>Serves as source for validating insurability and premium accuracy, improving loss ratio.</i> • <i>Provides recent inspection to assist in fairly settling future losses (existing damage, proof of repairs).</i> • <i>Potentially provides evidence for litigation & potentially positively impact litigation.</i> • <i>Drives exposure reduction.</i> • <i>Customer can use the inspection to access private markets.</i> • Citizens chooses the inspection firm, offering more control on inspection format and quality. • Working with limited inspection vendors allows for: <ul style="list-style-type: none"> • Auto ordering – expense reduction • Modeling – focused inspections • Automated underwriting • Consistent with other state residual property insurance carriers. • Allows for more flexible inspection program, allowing for adjustments as needed. 	<ul style="list-style-type: none"> • Insured could challenge lack of control in choosing inspection firm. • Cost associated with inspection program. • Insured concern with Citizens paying for an inspection after they recently paid for a required inspection at new business (4-Point). • Customer perception of Citizens ordering inspections to increase premium.

Future Option: 100% Consumer-Paid Inspections

100% Consumer-Paid	Pros	Cons
<p>Insured pays for inspections to accompany all new submissions for consideration and at each renewal to confirm continued eligibility and adequate data characteristics of the policy.</p>	<ul style="list-style-type: none"> • <i>Serves as source for validating insurability and premium accuracy, improving loss ratio.</i> • <i>Provides recent inspection to assist in fairly settling future losses (existing damage, proof of repairs).</i> • <i>Provides evidence for litigation & potentially positively impact litigation.</i> • <i>Drives exposure reduction.</i> • <i>Customer can use the inspection to access private markets.</i> • The cost of the inspection could act as a deterrent for insureds, with homes 1-20 years of age, who can find coverage elsewhere. 	<ul style="list-style-type: none"> • Potential Staffing Impact (AUW). • Could be viewed as overly burdensome to Citizens' insureds. • Insured could choose inspection firm offering less control on inspection format and quality which will also impact automation. • Unlimited number of inspection firms and formats, pose challenges for Citizens being able to automate receipt of inspections for reduced cost and efficiency gains. • It may take 12+ months to increase inspection company-capacity to inspect 100% of risks. • Introducing an inspection model which is different than the model both private and residual carriers uphold today could lead to customer dissatisfaction, confusion and escalated concerns. • Operational flexibility & staffing needs to monitor market capacity, facilitate exceptions, & provide resolutions for customers when there is inspector unavailability to meet increased demand.

Future Option: Cost-Sharing Inspections

Cost-Sharing	Pros	Cons
<p>Citizens shares cost with insured for inspections needed for all new submissions for consideration and at each renewal to confirm continued eligibility and adequate data characteristics of the policy.</p>	<ul style="list-style-type: none"> • <i>Serves as source for validating insurability and premium accuracy, improving loss ratio.</i> • <i>Provides recent inspection to assist in fairly settling future losses (existing damage, proof of repairs).</i> • <i>Provides evidence for litigation & potentially positively impact litigation.</i> • <i>Drives exposure reduction.</i> • <i>Customer can use the inspection to access private markets.</i> • Shared cost of the inspection at renewal could act as a deterrent for insureds, with homes 1-20 years of age, at renewal who could find coverage elsewhere. • Citizens could have a say in the vendors used, offering more control on inspection format and quality. 	<ul style="list-style-type: none"> • Potential Staffing Impact (AUW). • Could be viewed as overly burdensome to Citizens' insureds. • Inspection ordering would be less focused, i.e., property risks tend not to change substantially annually. • Increased cost to Citizens on 4-Point and roof inspections currently paid 100% by insured. • Half of the cost of the inspection is no longer a Citizens-incurred expense, which could result in lower rates and Citizens being more competitive with the private market . • It may take 12+ months to increase inspection company-capacity to inspect 100% of risks. • Operational flexibility & staffing needs to monitor market capacity, facilitate exceptions, & provide resolutions for customers when there is inspector unavailability to meet increased demand.