

**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.

<b>Item Description</b>	The Actuarial and Underwriting Committee meeting Minutes December 14, 2021
<b>Purpose/Scope</b>	Review of the December 14, 2021 Actuarial and Underwriting Committee to provide opportunity for corrections and historical accuracy.
<b>Contract ID</b>	N/A
<b>Budgeted Item</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Procurement Method</b>	N/A
<b>Contract Amount</b>	N/A
<b>Contract Terms</b>	N/A
<b>Committee Recommendation</b>	Staff recommends the review and approval of the December 14, 2021 Actuarial and Underwriting Committee minutes.
<b>CONTACTS</b>	Jennifer Montero, CFO Kelly Booten, COO

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE  
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING  
Tuesday, December 14, 2021**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at the Renaissance Tampa International Plaza Hotel on Tuesday, December 14, 2021.

**The following members of the A&U were present:**

Carlos Beruff  
Marc Dunbar  
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  
Brian Donovan  
Paul Kutter  
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 that has just adjourned. Those in attendance through the public link are automatically in listen only mode. Citizens' Board and Committee meetings are recorded with transcribed Minutes available on our website. Thank you for identifying yourself prior to addressing the committee. I will proceed with roll call to confirm our quorum. Chairman Beruff?

Chairman Beruff: Present.

Barbara Walker: Governor Fields is not attending today. Governor Dunbar?

Governor Dunbar: Here.

Barbara Walker: Governor Thomas?

Governor Thomas: Present.

Barbara Walker: Chairman, you have a quorum.

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

Chairman Beruff: Perfect, thank you. Now, we will **entertain a motion to adopt the minutes of the September 21<sup>st</sup> meeting. Do I have a motion?**

Governor Thomas: **So moved.**

Chairman Beruff: I have a motion, a second, Mr. Dunbar.

Governor Dunbar: **Second.**

Chairman Beruff: Great. **The minutes are adopted.** Ms. Montero, you are in the hot seat. You are like me, you spend the whole day up here.

2. **Chief Financial Officer Report**

a. Rate Indications (2022 Rate Filings [AI])

Jennifer Montero: Actually, no, I am not the last one.

Chairman Beruff: Oh, you are not the last one. You got off the hook.

Jennifer Montero: I am actually going to turn this over to –

Chairman Beruff: To Mr. Donovan.

Jennifer Montero: -- to Mr. Donovan, our chief, Chief Actuary.

Chairman Beruff: Well, this is an easy one. There is not going to be any contention here. Brian, you got the layup. You are going to give us like 25%, inflation increases, everything.

Brian Donovan: All right, so all approved?

Chairman Beruff: Yes, good. I have also sat in on this preview. Mr. Dunbar, how far along did you get into this one?

Brian Donovan: I believe he has some questions.

Chairman Beruff: He has some questions, great.

Governor Dunbar: Yes, I didn't get the packet.

Chairman Beruff: All right, well, go ahead, Mr. Donovan.

Governor Dunbar: But I do have some questions.

Chairman Beruff: Put your presentation on and let's go.

Brian Donovan: All right, good afternoon, for the record, I am Brian Donovan, Chief Actuary at Citizens, and I am going to walk us through this rate proposal. With this rate proposal there is a little bit of a wrinkle that we should recognize. The rates we are proposing will be in effect from 08/01/2022 through 07/31/2023, and per SB 76, Citizens shall apply an 11% policy level cap in 2022, and then raise that cap to 12% in 2023. And since these rates, five months in 2022 and then seven months in 2023, technically it is going to be two series of rate filings. First, we would file, get the 11% cap, get that approved, follow that up with another filing, it just strictly moves the 11% cap to 12%. So, with that said, as we can see on the slide, the total uncapped indication is 37.5%. That means if there was no capping our rate recommendation would be to increase all rates across all lines of business by 37.5%. However, we do have the capping. So, with the 11% cap, so the rates that would be in effect in 2022, the average rate impact would be 8.1%, and then in 2023 for the seven months of 2023, that these rates would be in effect, the average impact to be 8.7%, and the combined proposed change is 8.5%. And with this recommendation we are, as I just said we are capping at 11% or 12% increases. We are recommending that we cap all decreases at zero percent. As we will see in later slides, there is a small segment of policies that do have a negative indication but given the large disparity between our uncapped indication and the rate realized after capping, we feel it prudent to cap decreases at zero percent.

Next slide, please. I do want to talk about the water litigation rate as there always is and there is actually some good news on this front. As we have talked about in the past, this litigation rate, the non-weather water litigation rate really has been the main cost driver for Citizens. When you consider, that to settle a litigated claim is four times more or higher than a non-litigated claim due to the litigation cost, those costs add up quickly and they drive rates very, you know, very high, especially in southeast Florida, especially in Miami-Dade. We will see that there is a little bit of benefit that Dade is going to see with this continuing drop of the water litigation rate. We reached an all-time high in 2016 of 52%, where more than one and two litigation, more than one or two claims going into litigation which is crazy, and then in southeast Florida it was 62%. That has dropped, and in 2021, that 52% has dropped to 23%, which is obviously much better than 52%, but still more than 1-and-5 are going into litigation. It is still an issue. But really, I just wanted to point out the reasons for this drop, I think we all are aware, and we have talked about it is the increased use of appraisal. It is Citizens' outreach program to, you know, encourage citizens, Call

Citizens First before going through a third-party vendor. The Managed Repair Program which encourages policyholders to use Citizens' vendors, and of course, House Bill 765 and Senate Bill 76. The bottom line here is there is good news, litigation, actions we have taken have worked and litigation rates are coming down, however litigation rates still are too high. Next slide, please. Another item is the reinsurance cost. So, this also pertains to Senate Bill 76. The first, with the reinsurance cost, as we always do, whatever reinsurance we purchase we do include that component, it's an expense component that goes into the rate indication. However, as we were just discussing. Citizens typically doesn't buy as much private reinsurance as private companies, and as a result our expenses are lower, and that really is one of the reasons driving Citizens' rates lower than the industry. Senate Bill 76 mandated that Citizens put an expense provision in reinsurance in the rates that is comparable to what a private company will do. In particular, when you look at the 1-in-100 year layer chart, you know, where we do buy reinsurance, yes, we include that reinsurance cost, but everywhere elsewhere we don't up to the 1-in-100 year where we have the exposed surplus, go ahead and put a cost in there as if we did purchase the reinsurance. And this does have an effect. It does bring our total reinsurance provision to 18.1% as total premium, and to put that in perspective, last year, it was 5.5%. So, it is significant. And also, I would point out that, that is a percent of total premium, not wind premium. When we talk about wind only policies, it is a much more profound effect. It is like double that because that 18.1 is spread across all premiums, you know, not just wind, but also the water, sinkhole premium. If you are talking about a wind only policy, it is just wind only, and the wind only policies are much more sensitive to that and that impact is much greater than the 18.1 as we will see in a couple of exhibits. One other thing just kind of an FYI, just as we talked about last year, for HO-3 and HW-2, we revamped all the rating factors, and in particular the wind mitigation credits were updated to reflect the most recent hurricane models and building codes, et cetera. We are doing the same thing for the dwelling policies this year. This is just kind of the FYI; it is appropriate to update those rating factors periodically. Next slide, please. So, this slide is much more information. If you look at the bottom right corner, columns 10, 11 and 12, in particular column 12, you see the 8.5. That comes right from that first slide we were looking at with the total impact, and this just gives much more detail across various lines of business. And the one thing I would point out the one thing that pops out is the only place where we are not getting close to the maximum, 10, 11% is homeowners for the multi-peril where we are at 7.2 or 7.8%, and that is because of the water litigation. The decrease in the water litigation does have a positive effect on homeowners, and there are some places where it is reducing the proposed change, and I think it is important to recognize that. I will shop here. I believe that there were some questions on this exhibit. Governor Dunbar, would you like to ask a question at this point, or would you like for me to explain? I think this is where your question was coming from?

Governor Dunbar: I am not sure which exhibit you guys have up on your screen. Exhibit 1, summary of the statewide indication?

Brian Donovan: Yes, this is Exhibit 1, summary of statewide indication.

Governor Dunbar: Yes, so before we get to the specific questions I had about HO-3 and Miami-Dade, can I ask questions about this slide, or would you rather complete the presentation and then we can come back to it?

Brian Donovan: Okay, let's complete the presentation, because some of this stuff is related and then we can come back and answer questions.

Governor Dunbar: Got it.

Brian Donovan: That makes sense?

Governor Dunbar: Yes, okay.

Brian Donovan: Okay. But one thing I would point while we are here. As I just said, you will notice that we have very high wind only indications, and that is being driven, like for example, if you look at column eight, wind only for homeowners you see a 76.8%, and that seems very high. I mean, we have seen numbers that high before but not in the recent past. A lot of that, the reason why this is higher than what you would have seen last year is directly related to that SB 76 provision that requires us to put the additional reinsurance in there. It is the wind only policies are much more sensitive to that. I just wanted to point that out. Okay, next slide, please. So here we just have the distribution of rate change by policies for the PLA. Just kind of a reminder. I think we have all seen this slide before, but at the very bottom you see the bucket, zero percent or zero to -1.5%, zero to 5%, 5% to 10% and 10 to 13%. Those are the, you know, fewer in that bucket, that is the rate change the policyholder is going to get. And as a reminder, the reason why you can go to below zero or above 11% is because of the Cat Fund, the hurricane build up premium. But here I just want to point out, you can see for homeowners, you know, there is a big chunk of policies, 23%, and this goes back to my comment of why it was only 7.3% for homeowners and much higher for the other lines. 23% of these policies are falling in the zero to 5% bucket, 15% in the five to 10 bucket, and 60% are getting the maximum amount. I think in light of these questions, well, given that overall uncapped indication, well, why aren't more in that max bucket of 60%, and the answer was again back to the declining and flattening litigation rate. And so, there are policies when we did our indication, you know, the water indication is basically zero. We do a separate water indication which is unusual and that just presents itself here in that regard with some of those homeowner policies getting less severe increases.

Next slide, please. This is the same thing for the coastal account. I don't think there is any new information here. It is the same thing going on. This is more influenced by the wind only policies, that is why you have many more policies in the maximum bucket, but nothing real new information here. Next slide, please. So now here is the I think the surprising part, and I have gotten several questions regarding this as I talked to various people. When you look at Dade, you know, the rate change distribution for Dade, you are seeing 64% of them are falling in the zero to 5% range, which we haven't experienced that before. And I just want to point out, it is important to understand that over the years when the litigation rate was high, Dade received the maximum increases for several years in a row, and as a result you can see in that table to the right, it has the highest premium in the state, and by some reports the highest premiums in the country, although Broward has just caught up to it, but the fact their rates at this point have been increased so much due to that high litigation rate in the past. Now that it has flattened out a bit, their, their water premium actually gets a decrease, and as a result when you put that together with the other perils, we are seeing Dade with the bulk of their policies only getting a zero to 5% increase, where in the past, you know, they basically were all getting the maximum amount. And you can see a somewhat similar story in Broward, not to a great extent, but that is something to point out

as we are going to see on our next exhibit. Next exhibit please. So, this is a very unusual picture. Typically, when we look at this, this is the rate change across the state by county, the darker the blue the higher the rate increase, and then we used green as a shade for the lower, and you can see that Dade is by far really getting the lowest rate change, 3.2%. Usually when we see this map in this color, Dade always has the darkest blue possible and now it is green. And once again, that is directly related to this reduction in the litigation rate we are seeing. Next slide, please. And here, you know, this is just the similar comparison that we bring each year, have been bringing the last several years and Barry Gilway had mentioned something to this effect. So, you can see, just as a remainder, what we do here is we take our in force policy where we work with a third-party vendor and we re-rate all of our in force policies with all the other companies' rates just to see what they would charge for the same policies. We compare the averages, and as you can see this is for the tri-state area, and basically, we are 25 to 30% lower on average than, the competitors, which is a little worsening from last year. As I recall we were I think 20 to 25% lower. So, the gap between Citizens' rates and the competitive rates, it continues to grow a little bit. So, with that I will stop. Are there any questions at this point?

Chairman Beruff: Mr. Dunbar. Mr. Thomas.

Governor Thomas: Yes, if you could help explain to me the effects of Senate Bill 76, the provision that requires that we include within our rate filing a provision for reinsurance expenses even if we don't buy the reinsurance. Let's say hypothetically the Board for some reason was considering strategically not buying reinsurance, I don't know where I got the idea, what affect does that have on our rate filing given the provision that says whether we buy it or not, we calculate that expense.

Brian Donovan: Good question. Well, one of the slides I had up there with the reinsurance cost, I made the point that, oh with Senate Bill 76 and what we actually purchased, the percent of total premium was 18.1%, right, and then that is breaks into 9.9 what we actually purchased, 8.2 versus the, you know, what the Senate Bill 76 does. Say we bought zero reinsurance, that 9.9 became zero. That would all just go into the other bucket. The 18.1 wouldn't change if we didn't purchase --

Governor Thomas: So, if we didn't purchase reinsurance, we wouldn't see a corollary effect decreased rates.

Brian Donovan: That is correct. Because of Senate Bill 76, if we did not purchase reinsurance, we would still have the same expense provision in there, it would just be called something else.

Governor Thomas: Thank you.

Chairman Beruff: Thank you Senate Bill 76.

Brian Donovan: More than one way.

Governor Dunbar: Yes, it would be called surplus.

Chairman Beruff: All right. Mr. Dunbar, do you have any comments or questions?

Governor Dunbar: I do. I thank you, Brian, for the help on the Miami-Dade, but can I just ask I guess a more basic question? What is an actuarially sound rate for HO-3 in Miami-Dade?

Brian Donovan: Okay. So right now looking at that exhibit with the -- so right now our proposed rate is 42.12 and that includes the 3.2% increase. Actually believe it or not, when we talk about multi-peril only, and I am not talking about wind only, when we talk about the multi-peril that, yes, that 3.2 is, would be -- not wind only, wind only is a different story, but for right now with the reduction, with the combination of all the rate increases we took in combination with this reduction in litigation rate, the total indication for multi-peril HO-3 in Dade is only 3.2% and that -- so that is obviously less than the, you know, so I think that is the answer. I think for multi-peril.

Governor Dunbar: Well, let me say it differently. So the premium that we are going to charge is \$4,200, right, the average premium.

Brian Donovan: Correct.

Governor Dunbar: What would a private insurer be charging in Miami-Dade?

Brian Donovan: Let's see. Well, we can see if we go to the—

A VOICE: (Inaudible).

Brian Donovan: Exactly, so let me go back to that.

Governor Dunbar: And then just, Brian, just so you understand why I am asking the question.

Brian Donovan: Okay.

Governor Dunbar: Is that is where the majority, the highest volume of our policies are, right. And if a private insurer is in that market, I hope they're charging very close to the \$4,200. So that some of these policies will go to the private insurer. However, if the private insurers are charging \$6,000, we have got a problem —

Chairman Beruff: Sure.

Governor Dunbar: And the 3.2% change doesn't help us depopulate our biggest county. That is where I am going. Does that make sense?

Brian Donovan: Yes, it does, and you are absolutely correct. If we look at that rate comparison —

Chairman Beruff: Can we get that chart up?

Brian Donovan: Jennifer, he is referring to the one that is titled tri-county homeowners.

Governor Dunbar: It is Exhibit 16.

Chairman Beruff: What is our insurance limit.



Governor Dunbar: No, I am looking at Exhibit 16, multi-peril HO-3.

Chairman Beruff: What is our insurance limits in Dade County? Is that -- what is the amount we can insure in Dade. One million, that is what I thought. So, all we want to do is have a comparison of what a million dollars cost through us and a million dollar cost through everybody else.

Brian Donovan: Well, what I can answer is that based -- now, this doesn't take into account underwriting guidelines. I think we have talked about that before. This is just when we take our policies and rate it with someone else's rates and take averages, that is the result we get, and some of these companies might not be writing there at all, or that type of thing.

Chairman Beruff: Right.

Brian Donovan: But based on the information we have, to directly answer Governor Dunbar's question, yes, we are seeing a competitor average of \$6,200.

Chairman Beruff: We are \$200 cheaper than everybody else, 2,000, excuse me, \$2,000 cheaper. We are \$2,000 cheaper than everybody else. We have a problem when we can only increase the rate there of 3.2%. That's a problem.

Governor Dunbar: Yes, I don't understand that, that makes no sense to me at all.

Chairman Beruff: I have learned that the more I learn, the less I know here. I think to explain it for Mr. Donovan, is that because the litigation rate on water have gone down so significantly, right.

Brian Donovan: Uh-huh.

Chairman Beruff: Actuarially we cannot defend a true rate increase with the numbers that we have to use, correct?

Brian Donovan: That is correct.

Chairman Beruff: Even though you are using a reinsurance rate of 18.1%, which we weren't allowed to use until this year. Actually, Mr. Dunbar, if not for all of the SB 76 advancements that we made, these people would be getting a refund or a reduction in reinsurance costs, would that not be true, Mr. Donovan?

Brian Donovan: It is true.

Chairman Beruff: Okay. So now the question becomes, maybe --

Governor Dunbar: The question is how do we change so that is not the case, because we know we are undercutting the private market and that is just wrong. We need to be able to be raising that up.

Chairman Beruff: Yes, but our political friends in Miami-Dade, Broward and Palm Beach, they just want their constituents to get subsidized essentially by the rest of the state.

Governor Dunbar: Yes, the way, my math on this, if it was a 10% or roughly a 10%, it is a \$22 million rate subsidy to Miami those 77,000 policyholders in Miami-Dade for the rest of the state.

Chairman Beruff: Yes, we are in agreement. The question is, how do we break, how can we as Board members get a detail of how we can only raise Dade County 3.2 percent? I guess, you guys have this math, you guys do these complicated models that you put in all this data and it gives you this outcome, right. Those of us that aren't quite that sophisticated are looking at it and going, this makes no sense, but it is all what you have to present to the OIR to substantiate your rate increases or decreases as they may be. So maybe this Board needs to get an education at the next meeting in March on just Dade County. This is what happened, this is why we are here, this is why in other parts of the state we can go up 8.2% or 8.4%, but in Dade, due to these particular factors we can only go up 3.2, and oh by the way, we are \$2,000 less expensive than our competitors and are not helping our cause, because our policy growth in those three counties are driving part of our problem.

Brian Donovan: That makes perfect sense. We can certainly, we can certainly put that together what is going on in Dade. Just kind of high level I can tell you when we do the indications we look at water, wind, sinkhole and all other separately. So, there is really four indications that we are doing, four separate indications.

Chairman Beruff: And this is a curiosity question since I am pretty familiar with Florida. Is there really any sinkhole exposure in that part of Florida?

Brian Donovan: No, Dade has never been an issue.

Chairman Beruff: That is what I thought.

Brian Donovan: It has always been Hernando, but technically speaking when we do statewide.

Chairman Beruff: Right.

Brian Donovan: We do those four things separately.

Chairman Beruff: So that doesn't, so that actually reduces our ability to increase rates there because we have to actuarially say there is less risk.

Brian Donovan: Yes. Sinkholes is irrelevant in Miami-Dade.

Chairman Beruff: Right, right. So, you can't use that as a factor in rate where you can in Ocala, right.

Brian Donovan: Right, we could not take the results from Hernando sinkhole and apply that to Dade.

Chairman Beruff: Right. So that reduces our ability to raise rates there because they don't have the exposure.

Brian Donovan: Right.

Chairman Beruff: Okay, got it. Mr. Dunbar, you know, I agree with the idea that we have a problem. The question is how we now start finding, if there is a way, maybe, maybe we have to look at legislation that affects the, you know, the three counties because we are significantly growing our base from those three counties. How, what is the percentage of policies, we have 700 and how many thousand policies now or we project to have by the end of the year?

Jennifer Montero: 775.

Chairman Beruff: 775. How many policies do we have in those three counties?

Governor Dunbar: 777.

Chairman Beruff: So, 10%.

Barry Gilway: Excuse me, in those three counties that is not accurate. Those three counties –

Chairman Beruff: 184.

Barry Gilway: We have 33%.

Governor Dunbar: No, Miami-Dade 777.

Chairman Beruff: Miami-Dade and Broward County we have how many policies, 184,000? Is that right, Mr. Thomas?

Governor Thomas: In the chart it says the policy count, Broward, Miami-Dade and Palm Beach. I assume that is accurate.

Chairman Beruff: There you go. So, you do 184,000, just do the math right on top of the chart. So, it represents 25, 30.

Multiple speakers:(Inaudible).

Chairman Beruff: What is that, divide 775,000, hell, that is 25%.

Governor Thomas: Yes, sir.

Barry Gilway: Market share, and we already have 36% market share in Miami-Dade, 25% in Broward. Now, at our peak in 2011, we were at 54% market share in Miami-Dade.

Chairman Beruff: Well, we are fast going in that direction though.

Barry Gilway: Unfortunately, you are correct.

Chairman Beruff: And instead of being able to push insurance rate increases that are more in line with the rest of the state, we are artificially because of all of the constraints that Mr. Donovan has to deal with, pushing a rate increase of 3.2, which is insignificant.

Barry Gilway: We are, Mr. Chairman, but the current rate for Miami-Dade which I believe you were showing, Brian, the current rate for Miami-Dade is significantly higher already than the –

Chairman Beruff: But it is still significantly lower than our competitors.

Barry Gilway: I am sure that is accurate, because the average reinsurance charge, and I might be wrong within one or two percent, but the average reinsurance charge for a private company is right around 43 percent, and our charge is, as Brian indicated...

Chairman Beruff: Ours is 18.1.

Governor Thomas: So, I assume if these rates are approved, and since we are only getting a three percent or so increase in Miami-Dade, those will be actuarially sound rates for those policyholders in Miami-Dade. So what drives, why is that an actuarially sound rate from OIR for us, but for competitor company number nine OIR allows a \$7,100 rate.

Brian Donovan: I think there is a couple of things going on there. One is as we just talked, higher reinsurance cost, but two, and I can't say this with certainty, but just based on -- well, I know exactly what is going on with Citizens' rate in that litigation rate and these initiatives we took. That has had profound effects on our rate need. I can't -- I don't know that these other companies, like for example, I don't think these other companies have an MRP program. Well, we are started the MRP program, we look at that results now, those that were offered and accepted our MRP program have one-third the litigation rate than those who did not accept it, and I am not aware, I don't know how many other companies have done that. So, I don't know the internal workings of these other companies, but I know exactly, I know that Citizens has made, has had great success with this crazy litigation rate, and that is part of it. I don't know that these other companies. Secondly, and this might -- well, this is probably not Dade, but the whole roof issue, we have not as a matter of -- we have not had the same roof issues, but I think the roof issue is more in the hail prone areas which is probably not Dade. So, to answer your question, there is reinsurance cost, and I daresay that the, you know, our claims department has done a wonderful job of addressing. And I told you that litigation rate in southeast Florida was 62%, and 62% of policies, I mean, claims going into litigation. You know, that has come down drastically. I don't know what those numbers are for other companies, but I am sure they are similar. Well, that is why they stopped writing there is because for those reasons.

Chairman Beruff: Mr. Gilway.

Barry Gilway: Just two points. Really to talk to, you know, Governor Thomas. I think the number one our severity has gone from 25,000 down to 15,000 which is staggering, you know, increase, but the big component I think we are not talking about

is expense ratio. So, when you overall, when you take a look at your rate filing, obviously expense ratio is a huge part of that. And as you and I, as we have talked with the Board before, given the overall growth our expense ratio next year is projected to be 14.7, the industry will be showing an expense ratio which will show up in rates of around 24, 25. So you know, literally next year we will be showing from the rate standpoint almost a 10 point advantage, you know, relative to the overall expense ratio that is incorporated within our rate filing.

Chairman Beruff: We keep creating a bigger and bigger cannon between us and our competition.

Governor Dunbar: Yes, it just means it is getting worse.

Chairman Beruff: Yes, it just means it is getting worse. Dramatically worse.

Barry Gilway: Mr. Chair, one of the proposals that we literally talked to them openly about really was, not successfully, was our risk surcharge approach. It would be very difficult to pass, but I think it certainly would meet the objectives that you are laying out and that is basically to level the playing field.

Chairman Beruff: Okay. I don't think there is -- Mr. Dunbar would like to make a comment.

Governor Dunbar: Yes, there are a couple of other points I just want to throw out there. I think it is on Exhibit 12 that goes to the commercial line. It runs the tri county up to Martin, and if I am reading, if I am looking at that map correctly, it indicates that the most expensive part of the state where we write the most business, but on the commercial side we are getting the lowest percentage rate increase for those counties. Am I right, Brian?

Brian Donovan: Yes, that is correct.

Governor Dunbar: And then, and then if you go to the rate indication for commercial policies that are on either the summary or any of the breakouts that are there, it appears that the rate indication for an actuarially sound commercial book is almost double our commercial rates, is that right? It is around 80% increase is what we should be charging?

Brian Donovan: Let's see. So, you are referring to, let's see, hold on a second. So, the first one, you were referring to Exhibit 12 first which is the commercial non-residential, and now if we go back to the Exhibit 1 summary exhibit. If you look at the commercial non-residential for multi-peril you see that the uncapped indication is only .7%. So is that I think, does that -- I think --

Governor Dunbar: No. It is -- no, it is the different one that indicates that our commercial book is about 80%, should be 80% higher. Let me see if I can get you the slide number.

Brian Donovan: Yes, okay.

Governor Dunbar: Do you see where I am talking about?

Brian Donovan: I do, but I think that you might be comparing, like Exhibit 12 is commercial non-residential, okay. And so you are right --

Governor Dunbar: No, I understand that. I am talking about our overall commercial book. Our overall commercial book if you go to page –

Brian Donovan: Yes, yes, I see.

Governor Dunbar: The Exhibit 1 summary it says commercial.

Brian Donovan: 87.4.

Governor Dunbar: Do you see where it says uncapped indication 87.4? So that is a blend of commercial non-residential and commercial, you know, commercial. My only point is we, we have talked about this and if you are receiving the litigation report from Tim, you will see that we have a very expensive litigation book, and the more cost of litigation is in the commercial arena for us. Now, we don't have a huge volume of policies over there, but it is very expensive. So, one of the things I have been advocating for is we don't have to be in that market. As a matter of fact our tax exempt status says we shouldn't be in the market if there is a viable market out there. That is the place where I think we really should be pushing it, and I have brought it up before, but through these slides highlight the fact that we are really charging a significantly less than we should, but then it leads to a bunch of litigation risks and litigation costs on the other side, and this is the place where I would like to see us try to push the envelope on our venue clause and some of the other things. It's just that it is a visual representation of some of the points I have been trying to make, and it really is for the benefit of the rest of the committee.

Barry Gilway: Could I make a comment, Governor Dunbar?

Governor Dunbar: Please.

Barry Gilway: I don't disagree with what you are saying relative to commercial, but there is a reality, and that is we are making an underwriting profit and have been, you know, on the commercial lines, and even though we are showing, even though we are showing significant rate inadequacy, we are making underwriting profit in commercial, and the reason for that is over the last many, many years, we used to have 43% market share in commercial, we are down to 4,000 policies. And even with what is happening in the southeast, we are actually dropping our volume of commercial lines. I don't disagree with Governor Dunbar's comment as to whether we should or should not be in commercial lines, but it is not – and the underwriting profit obviously includes the overall litigation cost. So commercial lines is not costing us, you know, anything from a profitability, underwriting profitability standpoint.

Governor Dunbar: Right, but the problem is, and this goes to our tax exempt letter. The profit is the problem. Our risks in those are chasing profit in that market is losing our tax exempt status. And so, we need to be really careful, because yes, we need to make it difficult to be in that bucket. Profit or no profit, because the most important thing we have going for us is our tax exempt status. And so, I just think that we should really be stretching what we can do on forms to make it that much more difficult so that people don't want a Citizens' commercial policy.

Barry Gilway: Well, I will make a point and then turn it over to Ms. Montero. People don't want a Citizens' commercial policy because we really have the worst policy in the marketplace, and I would even question –

Chairman Beruff: That is where we want to be.

Governor Thomas: That is our spot.

Chairman Beruff: That is our spot.

Barry Gilway: We are in a perfect spot because the reality is we offer a very, very basic commercial policy. We do not offer a difference in conditions coverage, which should be mandatory, and that is, the reality is they're not buying our commercial business because it is not a good policy, and frankly shouldn't be sold in the marketplace. So, in my personal opinion.

Chairman Beruff: So, lead me down that path and how do we make our residential policies be equally unliked?

Governor Thomas: That should be the goal of all of our policies.

Governor Dunbar: Yes.

Barry Gilway: So, we do have a statutory restriction that basically says, we will allow for comparable coverage to policies available in the private market. I don't have a statutory reference, but we are –

Governor Thomas: But we are only supposed to be insuring those who can't otherwise get a policy from the private market. That doesn't make any sense.

Barry Gilway: Well, Governor Thomas, the only reason it makes sense is no one else wants to provide any policies in the private market when they're losing a billion a year from a net income standpoint. They're just dropping policies as fast as they can drop them, just because they don't have the capacity, either reinsurance capacity or underlying capital to support even the business they write today because of the lack of profitability.

Governor Thomas: Well, so then that should be sort of putting the rates to the bottom that we ought to make sure we are part of.

Barry Gilway: No disagreement, sir.

Chairman Beruff: Ms. Montero.

Jennifer Montero: May I ask a question of Governor Dunbar, please? On the comment about losing our tax exempt status. Can you explain that, because the only way my understanding is that we can lose our tax exempt status if we have unrelated business income, and writing commercial policies is related, that is within the tax.

Governor Dunbar: If you read the IRS opinion letter that I asked for a copy of three years ago when I joined the Board that Dan was able to secure for us that us that we got. Really by the skin of our teeth there is a paragraph in there that discuss, that discusses a very strong recommendation basically from the IRS that we only be in the commercial marketplace if there is no other viable market, and it conditions our tax exempt status as the, you know, the residual market insurer on all of our other lines on that paragraph. And, you know, I have taken a ride around in South Beach and some of those other communities. I have looked at the policies and I have also talked to other people that are in the marketplace down there. There is some attractive properties to write business, and the reason why they're not in the private marketplace is because we are cheaper. And so, I am just saying is I think there is more work to be done from an underwriting standpoint to further depopulate, and I know we have done a really good job, but I really think that we should stretch it, because again, you know, making a profit on those, you know, what limited profit we are making isn't worth it if we potentially put our tax exempt status at risk. And the one thing, and I do think all of us as the Board members as fiduciaries for this corporation, you know, we can debate whether or not we are supposed to be protecting surplus or not, we can't debate whether or not we should be protecting our tax exempt status. I think that goes without question.

Jennifer Montero: Thank you. We need an action.

**(Committee Recommendation: Staff proposes that the A&U Committee review, and if approved, recommend to the Board of Governors: a (Approve the above proposals to Citizens' rates, effective 8/1/2022; and b (Authorize staff to take any appropriate or necessary action consistent with the filing of the proposed rates which includes filing with the Office of Insurance Regulation, system change implementations, and other relevant activities.)**

Chairman Beruff: Okay, what do we need action to adopt, to accept the rates?

Jennifer Montero: To accept the rates to take to the Board, for the Board tomorrow.

Chairman Beruff: Yes, I just think we should put a surcharge on all the Dade, Broward and Palm Beach County at 20%. The Chair will entertain a motion to amend the motion. (Laughter) All right, well, seeing that there is no motion or a second, it fails. So, the Chair will entertain **a motion to adopt the rates as presented by staff for adoption.**

Governor Thomas: **So moved.**

Chairman Beruff: I have a motion. Do I have a second, Mr. Dunbar?

Governor Dunbar: **I will second**, but Chair, I thought staff was coming back to us with a greater explanation on the 3.4 in Miami-Dade so that we have a little more explanation to what leverage we have and things like that.

Chairman Beruff: I respect that. With your indulgence, unless they can get it to us between now and tomorrow's meetings, which maybe they can. The staff has been able to do amazing things from my perspective. So, but if not, I think that we need to take a hard look and be prepared. Is there, we are not precluded from, obviously we just adopted an increase in mid-year, right, in



February? We are not precluded from if there is a solution in March, at the March meetings you could be prepared to get in the weeds with us and try to explain to people, well, like myself, who have a hard time understanding the whole process that you go through, Mr. Donovan. And in March, Mr. Dunbar, with your indulgence, we could find a solution and then propose a rate increase if we so, if we find a way to do it within the realm of meeting all the statutory requirements, obviously this legislative season will be over by the next time we meet, but maybe we need to look at legislative changes in the next year that can help us in that tri county area, but I think it was my goal to move forward on time this year with rate increases, and unfortunately did not realize that those rates would be so low, because I focused on the total rate package and not the Dade County particularly like you did. So let me know what your thoughts are.

Governor Dunbar: I am fine with that. That is the one question I had for everybody was, let's say we say we don't agree with Miami-Dade and we want it to be at 3.2, we want it to be 9.4 or 10 point whatever, which seems to be the statewide average and we propose it to OIR and OIR denies us and then we just come back and we put the rates back in place. Is that -- is that a correct way it goes? I am just curious, but you have my second, Chair, however you want to move forward. I just want to understand what happens if we say no. We want to jack the rates up to what we know is more actuarially sound for the marketplace.

Chairman Beruff: So just to reiterate, we have a first and a second. Mr. Dunbar's comment or question and I would like to know if there is an answer that makes sense. I think I know the answer, but his question is, can we propose that those markets also have the same increase in rate that the other markets have that your actuarial model wouldn't support that. So, you can't do it. I am speaking for you, Mr. Donovan, and I don't mean to.

Brian Donovan: Yes. The same thoughts were running through my mind that you were saying out loud. Believe me, when we went through this process, we looked under every rock. We share your concerns with everything we just discussed. This is not a surprise to us, and as far as being -- what it is going to boil down to is to what degree is there a leeway to say, look, the Board, it is a business decision. You know, we had these other concerns that are not strictly actuarial, you know. We start with the actuarial rates and ultimately, we are going to file actuarially sound rates subject to the cap, but is there the way to say the Board directed us to file something higher for Miami-Dade, and the reason why is, you know, all the reasons we just discussed. It is a, it is a business decision and in the aggregate. I would have to -- we can investigate that, you know. We can see, but I don't know, I can't make any promises on how that would come out.

Governor Dunbar: So -- Brian, one last question though. Can we, instead of breaking it at the county level, can't we do regions? Can't we take the state and do actuarial for a region as opposed to at a county level? Isn't there a way to do that?

Chairman Beruff: Well, I think that is what he has done.

Brian Donovan: So basically, we would be building subsidies. Yes, I mean, if we, like basically group it with other counties that have a higher indication and spread that cost across all policies, including Dade.

Governor Dunbar: Exactly.

Brian Donovan: That is, I mean, we can technically do that and would it be -- maybe -- well, let me give some thought to that. Because perhaps –

Chairman Beruff: Why don't we give you the evening to think about it. We will meet tomorrow to take action on the discussions that come out of committees today, Mr. Dunbar, and we can focus and have a better set of facts for tomorrow, and in the interim, move this committee decision forward.

Governor Dunbar: That makes total sense to me, Chair.

Chairman Beruff: Perfect. **So, we have a first and a second. All those in favor of the action item say yea.**

**(Chorus of yeas.)**

Chairman Beruff: The motion passes, thank you very much, Mr. Donovan. I am sorry to make you work.

Brian Donovan: That is okay. So just to clarify, so tomorrow when I present, I am going to do what I just did, and then in addition to that I will say, well, here is something to consider. If we combine these counties or whatever, you know, here is –

Chairman Beruff: What that might do to the numbers.

Brian Donovan: Right, sure, I understand.

Chairman Beruff: Thank you very much.

Brian Donovan: Thank you.

Chairman Beruff: I think are we done? No?

A Voice: (Inaudible).

Governor Dunbar: Chair, Chair, I have got to head to my plane.

Chairman Beruff: All right, see you, safe travels.

Governor Dunbar: If it is okay, I am going to drop off. See you tomorrow.

Chairman Beruff: See you tomorrow.

### **3. Chief Operation Officer Report**

#### **a. 2022 A&U Charter – Annual Review**

Kelly Booten: I feel so loved. Okay. So, behind tab three is the first thing is the charter, similar to the FIC. Just need the, we don't have any recommendations for change. It has to be approved annually. The Actuarial and Underwriting charter, if you don't have any changes, we can adopt it as is.

Chairman Beruff: Mr. Dunbar has left. Wait a minute, we don't have a quorum anymore.

Kelly Booten: Well, is Fred Straus on? Because he is also a committee member. I haven't heard him speak, but I am pretty sure he might be on.

Chairman Beruff: Mr. Straus.

Fred Straus: Yes, I am on the call.

Chairman Beruff: Hot dog. So, then we can continue this meeting. Because Mr. Dunbar has left the scene. So, I will entertain a motion to approve as recommended.

Governor Thomas: Yes, the charter.

Fred Straus: Second.

#### **b. Product Updates – December 2021 [AI]**

Kelly Booten: Okay, the next item is a few product changes. It is the tab labeled product updates. The first one is just an update to the underwriting manuals to go with the rate changes Brian just discussed. And the second is to modify contract language regarding specific statutory language, eligibility language that is included in it. And it refers to the renewal eligibility equal to or less than language, that if we get change in this legislative session, we want to have that out so we can start renewing on a more generic statement that refers to statute as opposed to restating it. So the recommendation is to group, for the committee to move those two recommendations to the Board for approval.

**(Committee Recommendation: Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend the Board of Governors: a(Approve the described proposals to update Citizens' Product guidelines, rating rules, policy contract forms and supporting documents; and b (Authorize staff to take any appropriate or necessary action consistent with the Product Updates – December 2021 Action Item to include filing with the Office of Insurance Regulation (OIR), system change implementations, updates to supporting documents or forms and other relevant activities. Final changes and implementation timeline may vary slightly, based on project complexity and feedback from the OIR.)**

Chairman Beruff: **I entertain a motion.**

Governor Thomas: **So moved.**

Fred Straus: **Second.**

Chairman Beruff: **The motion carries,** thank you.

**c. ISO Loss History for UW – APLUS [CI]**

Kelly Booten: All right, the next one is a consent item. It is the consent item seeks approval for \$2.7 million in additional spend authority for the loss history reporting services contract with ISO. The contract provides security reporting of the prior loss history information used in the underwriting process primarily for new personal lines business applications. This contract is, it is just a request for additional spend to go with our new business policy count which is four times what it was at the time we estimated the spend on this contract.

Chairman Beruff: It is four times the amount?

Kelly Booten: The new business, monthly new business transaction.

Chairman Beruff: So pro rata, it is the same price?

Kelly Booten: Yes.

**(Recommendation: Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend the Board of Governors: a (Authorize additional spend of \$2,700,000 to the Loss History Reporting Services (Underwriting) Contract with Insurance Services Office, Inc., for a total Contract spend not to exceed \$3,300,000, as set forth in this Consent Item; and b (Authorize staff to take any appropriate or necessary action consistent with this Consent Item.)**

Chairman Beruff: So, we have just got to take care of new business?

Kelly Booten: We do.

Chairman Beruff: So I will entertain a **motion to approve.**

Governor Thomas: **So moved.**

Fred Straus: **Second.**

Chairman Beruff: Thank you. That **motion carries.**

d. Consumer Paid Inspections

Kelly Booten: All right, the next one is consumer paid inspection.

Chairman Beruff: I would like to table that discussion to March.

Kelly Booten: All right. I am liking this better and better every minute. That concludes my report.

Chairman Beruff: Hot dog, we are done.

(Whereupon, the meeting was adjourned.)