☒ **ACTION ITEM**	☐ **CONSENT ITEM**
☐ **New Contract**	☐ **Contract Amendment**
☐ **Contract Amendment**	☐ **Existing Contract Extension**
☒ **Other – Board Meeting Minutes**	☐ **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 and/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 and 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	**Board of Governors Meeting Minutes, December 15, 2021**
Purpose/Scope	Review of the December 15, 2021 Board of Governors Meeting Minutes to provide opportunity for corrections and historical accuracy.
Contract ID	**N/A**
Budgeted Item	☐Yes ☐No N/A
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Board Recommendation	Staff recommends the Board of Governors review and approve the December 15, 2021 Board of Governors Meeting minutes.
CONTACTS	Barry Gilway, President/CEO and Executive Director Barbara Walker, Senior Executive Assistant and Board Secretary

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, December 15, 2021

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened at the Renaissance Tampa International Plaza Hotel, Florida on Wednesday, December 15, 2021, at 8:30 a.m. (EST).

The following members of the Board were present:

Carlos Beruff, Chair
Scott Thomas, Vice Chair
Marc Dunbar
Jillian Hasner
Reynolds Henderson
Erin Knight
Nelson Telemaco

The following Citizens staff members were present:

Barry Gilway
Tim Cerio
Jennifer Montero
Barbara Walker
Christine Ashburn
Kelly Booten
Brian Donovan
Jay Adams
Joe Martins
Mark Kagy
Violet Bloom
Paul Kutter
Bonnie Gilliland
Alden Mullins
Michael Peltier
Brian Donovan
Jeremy Pope
Andrew Woodward
David Woodruff
Ray Norris
Eric Addison
Jennifer Dilmore
Matthew Carter

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	Florida Association for Insurance Agents

DRAFT

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens Board of Governors meeting that is publicly noticed in the Florida Administrative Register to convene at 8:30 AM. For those who are in attendance through the public link, you are automatically in listen only mode. Citizens Board and committee meetings are recorded with transcribed minutes which are available on our website. I'll proceed with roll call to confirm our quorum. Lazaro Fields notified us that he will be unable to attend today.

Roll call: Chair Carlos Beruff, Vice Chair Scott Thomas, Marc Dunbar, Jillian Hasner, Reynolds Henderson, Erin Knight, and Nelson Telemaco were all present.

Barbara Walker: Chairman, you have a quorum.

1. Chairman's Report

Approval of Board of Governors September 22, 2021, Minutes

Chair Beruff: Perfect. Thank you. There are no minutes to adopt? Oh, there they are. Board of Governors meeting September . . . I'm willing to adopt a motion to approve the minutes.

A motion was made and seconded to approve the September 22, 2021, Board of Governors Minutes. All were in favor. Motion carries.

2. President's Report

Barry Gilway: Thank you, Mr. Chairman and Board of Governors. Today I will obviously spend a lot of time . . . Jennifer [Montero] and I will spend a lot of time on the budget. Obviously, with the massive growth that we're seeing in the marketplace, it is a critical budget. And we will be seeking your approval of the budget. Before I jump into the budget discussion, however (and hopefully the numbers that I will be quoting won't incite a riot), I think it's really important that we understand the nature of the overall market and the reason behind the growth. Let's start with industry profitability. To say the least "disturbing" is an obvious understatement. Following several years of profitable performance, the 52 companies representing over 79% of the market began to experience severe profitability problems (starting in 2017). 2016 was really a break-even year in the private market. Each subsequent year the negative net income, which, of course, is a direct hit to surplus, has grown from $88 million negative in 2017 to $816 million negative in 2020. Even though Florida has not experienced a major hurricane landfall in 2020, the third quarter negative net income of $847 million in 2021. The private market has already exceeded, through the third quarter, The negative net income that they had for the entire year of 2020. When you look at the net underwriting numbers for third quarter, you're looking at $1.145 billion in negative underwriting income for the industry: *$1.145 billion in negative underwriting income.*
I just can't emphasize this enough to what this is actually doing to the market. There is a reality here. When companies are profitable, it's just basic business. When companies are profitable, they want to write more business. They want to build more homes. They want to buy more things. They want to write more business. When they are unprofitable, they want to write less business and that is what's happening. Most companies in the Florida market today (virtually all companies in the private market) want to write less and they are very successful in that objective. Many companies are non-renewing business that would have been considered highly profitable just a year ago. We are seeing business come through the door homes that are nine to 10-years old fully insured and roofs that are 10-years old. That is what is coming to us. And the reason they are coming to us is that these companies are losing reinsurance and they can't survive with the amount of business they have. They do not have the capital to support the premium that they have on the books today. They are startling numbers when you look behind the private market financials. Companies are non-renewing business because there is only $13.8 billion in premium in the private market. It is not a big market. That is supported by only $3.8 billion in surplus. Outside of Florida, that would be impossible. Basically, it's a three to one ratio. I'm sure Governor Telemaco, who deals with consulting within a far broader scope, would tell you at the typical ratio is one to one for security. At the

DRAFT

current level (and this I find staggering) of profitability, that domestic market is losing more than 25% of their surplus each year. Not only does the last surplus need to be replenished, but when you get significant rate increases (20%, 30%, 40%) you need more surplus to support the rate increase period to maintain that three to one premium to rate ratio, you need an additional $10 million in capital and surplus just to maintain the bottom level of financial acceptability. Base rates are increasing for virtually all of the companies in the market. We did a run of rates to see what really happened over the past 12 months. We looked at the filings over the last 12 months in the state. 22 of the 52 companies that really make up that market had approved rate increases over 10% with a high of 50% and an average closer to 14%. Why 14%? That is the filing used percentage that the Office of Insurance Regulation (OIR) does not require a formal rate hearing. As Governor Dunbar has pointed out, this is not the whole story and that the companies are also applying inflation factors and that is affecting the rate. If you have increases in building costs, and we all know that building costs are skyrocketing . . . so if you have increases in building costs, then virtually all companies use an index (we happen to use Core Logic; we moved from ISO) Roughly come out at the same time. What they do is make sure the insurers are fully insured from a replacement cost standpoint by applying an inflation factor. Replacement factors are being applied over the last five quarters. You're looking basically at 1.093 inflation factor over a running five quarters. You're looking at a 10% increase in the coverage A amount of a policy, which, of course, leads to an increase in addition to the base rates. It's critical that we do that simply because, if you don't, then your insureds aren't insured to value, and they suffer in the event of a loss. I agree with Governor Dunbar's comments. When you look at rates, you also have to look and understand what's happening in terms of the underlying factors that are contributing to the premium. I know Jennifer will be talking about that when we get into the details of the budget. The second issue that is faced by Citizens, which is very unique to the Florida market, is that the recent competitive analysis completed in November 2021 shows that the average premium for 97% of our competitors was at least 15% or greater than Citizens compared to 69% last year. I'm going to repeat that because that's a pretty staggering number. What we're really saying here is that 97% of our competitors are not even within 15% of our rate. Therefore, they are 15%, on average, below our rate. In a competitive analysis, it will show you that counties like Pasco County and Pinellas County are 54% below our rate. It's really truly an absurd situation and that you have a residual market that's attempting to fulfill the state's mission when your rates are so incredibly low and competing directly with the private marketplace. You have the constriction of the market because companies cannot write business. Then, you have on top of that - Citizens is ridiculously competitive. Another way to say that is 99% of the Citizens HO3 policies are charged less than their competitors premium compared to 91% last year. I already reflected the rate increases in the private market. What you're seeing is a widening gap. If we are limited in terms of lower rates and the private market is allowed to increase its rates, then common sense tells you that the gap relative to our competitors is widening. We can look at our product form. As we discussed in prior committee hearings, we are required by statute to provide comparable coverage. In many ways Citizens' policy today is not "competitive" with the private market in some areas. For example, we only provide $100,000 of liability, we provide $300,000 of Coverage B, Coverage C contents is less. . . so, they are not getting the top quality. We emphasize the fact of the assessment potential is there. Trust me. When you are looking at a consumer . . . and you're looking at "Well, am I going to pay $4,000 or $3,000?" . . . They really don't pay attention to that: "If a major storm hits, we have to pay an assessment of 45% of our premium in a worst-case scenario." Even though they are getting a less comprehensive policy and even though they have the assessment potential, it's hard to overcome the basic drivers in the marketplace. In addition to the tighter risk selection criteria for companies to improve profitability and overcome litigation trends, all of these increase the flow of business to Citizens. The continuing restriction in writing has Citizens' market share now standing at 10% overall. I have the breakdowns by county. That doesn't tell the whole story because in some areas, for example, the Southeast . . . we already have a market share of 25%, trending more to 33% by the end of the year. That means out of the 400,000 residents, for

example, in Tri-County . . . Excuse me, of the 1.5 million residents in the Tri-County area, we are already writing 400,000. So virtually one out of every three homes in the Tri-County area is a Citizens policy. We've talked previously about - at the peak at the 1.5 million policy level, we were writing 54% of all policies in Dade County. That is a staggering number, and it is never ever the intent of the residual market, you know, to be that aggressive in the marketplace. Senate Bill (SB) 76 is a serious step forward for Citizens by increasing the glide path by five years from 10% to 15% and allowing Citizens to charge appropriately for reinsurance. And, in the rate presentation you'll see it makes a significant impact in terms of our ability to basically move the rates up slightly. But the impact to the actions will take a long time to really play through. You just can't expect this to happen overnight. I'm going to share some litigation numbers. Probably the most profound number that I can possibly refer to is noted by Commissioner Altmaier last year. I believe we've included his letter to Chair Ingoglia in your book as an attachment. Here is the number and I will tell you it is absolutely staggering. In 2019 Florida accounted for 8.16% of all homeowners' claims. But we accounted for 76.45% of property suits: 8% of the claims; 76% of the suits. It's a litigation system that is truly and absolutely out of control without any question. I was sharing some numbers with Governor Knight. There is one company that produces the numbers for the state. It rolls up basically the key plaintiff firms and shows the number of cases for key plaintiff firms on a monthly basis. The top firm in Miami, in terms of the number of property cases year-to-date, has 4,464 Property litigated cases on a year-to-date basis. It is an absolute, total scam. There are others with 3,500/2,400. It is absolutely amazing. There are contractors that line up with those companies . . . close to 1,000 contracting cases. And many of them, as our Special Investigations Unit (SIU) people will tell you, line up well with the attorneys add are bringing, you know, these cases. These are mind-boggling numbers, you know, from a litigation perspective. I know I use this number all the time, but we have included in your books the profitability numbers that I showed at the last board meeting. Basically, shows all the 52 companies on where they stand from a profitability standpoint. That's in the back of the book as an addendum. There is a reality, and the reality is that we had 27,000 litigated cases as an industry in 2013. We're going to end up with 100,000 litigated cases at the end of this year. We believe that SB 76, while not a complete solution, will have a positive impact on litigation and, with the increase focus on fighting fraud that we're not only doing within Citizens (I think you will hear about the fraud procurement), but also, it's an area the CFO has reacted to aggressively in terms of assigning additional fraud resources in the state. But that impact is not likely to show up soon enough to slow the influx of close to 5,000 net new customers per week that continue to flow into Citizens. There is nothing in 2022 frankly that is going to slow down because of the overall industry profitability and the need for these companies to get their financials in check and maintain financial ratios. Therefore, our budget assumptions contemplate continued growth in the short term, and we must depend on additional traditional reinsurance and Insurance Linked Security (ILS) placements in 2022 to protect the Citizens' financial security. Before we move into a budget presentation that will focus on the actions that are necessary to maintain our service standards in this period of incredible growth, I do want to share some good news. We do have a survey called an Engagement Survey. It tests basically commitment of employees to the company. We were completely blown away a year ago when we had engagement results from the survey that were in the 80s. It's basically been completed by 82% of all employees. The engagement numbers are simply almost impossible. We had engagement survey numbers of 93%. That means basically the employees are saying that 93% are fully engaged in what they're doing with 94% (which is extremely critical in this marketplace where we are searching for talent) . . . 94% indicated that they intend to stay at Citizens for more than one year. That is a mind-boggling number when you've got 1,200 employees and now going to 1,300 employees over the course of the year. For the second year in a row, we were voted to be one of the best places to work in Florida. I can't tell you what that means to me personally to have that kind of culture and environment and to get it repeated, particularly with what we put our folks through during the . . . I'm not sure there is ever going to be an end to the COVID years. What we put them through during the

DRAFT

COVID period, it is heartwarming to see that level of commitment, and it is encouraging because it really says we will continue to be successful in really not only maintaining our staff but in growing our staff that we need. I will tell you that growing the staff is more and more difficult, particularly for information technology staff, claims staff, underwriting staff, and specialty positions we need for litigation in the market. I think the overall environment is very, very positive. I shared some of our numbers. We have 54% of our business ergo a lot of our staff supporting Southeast Florida. We have 18% of our business in the western part of the state. Unfortunately, we're starting to grow in Central Florida as the capacity drops off in Central Florida. We are encouraged by what we see. We are going to increase our office presence in early 2022. We have a kickoff meeting planned in early February. That will mean many more face-to-face meetings and more time in the office. That means more personal interactions, which I believe will be critical to maintain the kind of culture we've bent over to develop. We do believe our distributed workforce policy has allowed us the flexibility to keep up with the increased demands for talent and maintain the culture that is reinforced by these recent results. We are committed to maintain the high employee productivity and performance that allowed us to grow effectively. I am going to go off script a little after the meeting we had yesterday. There are solutions to this problem. They are solutions, frankly, that are what Citizens started with. When Citizens was created, we used a top 10 process from a rate standpoint. The top 10 process actually was adopted subsequently by Louisiana Citizens. Louisiana Citizens adopted the process that resulted from them going from 640,000 participants down to 162,000. It's a program that works. That's what we need to do. What is the process? The process in Louisiana and previously in this state, and I'll quote the Louisiana plan process, and that is "you cannot provide a rate as a residual market that is less than the top five companies that are providing a rate within the parish." At Citizens it was the top 10 program where you've got to provide a rate that is higher than the top 10 companies writing within a territory. That is the way a residual market should operate, not competing directly with the private market. If I were to ever recommend a one-step solution to getting us back to the point where we are a true residual market, and I know it is an aggressive move, but the reality is you adopt the Louisiana plan, which really was stolen from Citizens under the Citizens plan. It fundamentally works. Kelly [Booten] and I are on the board of PIPSO, 42 companies that make up the residual market plan . . . I can tell you we are engaged in this all the time, and the reality is that we're the only state in the union that has this kind of competitive marketplace, you know, for residual market plan. I'm sure there are questions that might follow that platform/speech, so I will open it up to questions.

Chair Beruff: Governor Dunbar, you have a question?

Marc Dunbar: I was just pointing out who put us in this mess.

Chair Beruff: Yes, the famous, prior Governor "C.C." Obviously, the only way to accomplish that is legislatively. Legislatively is the only way to accomplish that. We have to change legislation to be able to do that.

Barry Gilway: Absolutely, sir.

Chair Beruff: That's not on our items this year.

Barry Gilway: No, sir.

Chair Beruff: Any governors with any questions? [silence]

Barry Gilway: If there are no questions, then if we can move into the operating budget and a discussion, you know of the operating budget.

2022 Operating Budget & Scenario Planning

Barry Gilway: I'm going to just kick it off and then turn it over to Ms. Montero for the heavy lifting. The point that I'm making is that the budget process starts out August every year. We do a comprehensive ground up approach to the budget in every division. In most cases, we have models that basically show, you know, based upon our overall policies in force (PIF) and how many individuals we need to handle certain levels of the workload. I'm going to give you just a couple of high-level numbers in the budget and then I would ask that Ms. Montero . . . You do have a budget package. We do not intend to go through that page by page unless it's requested by the board. Ms. Montero will take you through some of the key elements. I will hit a couple of them. Basically, it is going to be an aggressive year. As I've mentioned, there is nothing we see on the horizon immediately that is going to stop the growth. The growth . . . we expect a 65% increase. While Ms. Montero will give you the breakdown of that, basically that's a combination of rates, it's a combination of PIF increases, and a combination of the exposure growth associated with inflation rate adjustments. Those three components add up to the 65% increase. The budget clearly shows that the premium and the underwriting expenses increase at the same rate because basically what they are include premium taxes, commissions, and basically anything that relates to the PIF count. So, they go up at about the same rate of 66%. What we have been able to do is increase the administrative expense by 19.4%. It actually results on slide two with a pretty extraordinary and possibly not long-lasting expense ratio. Our expense ratio, if we meet the projections, will end up at about 14.7%. The administrative expenses are really driving down the overall expense ratio. At our peak when we were even down at the 414 level, we were at around the 24%/25% expense ratio level, which is pretty consistent with overall expense ratio. As we grow, we grow significantly because of the differential and underwriting expenses as underwriting expenses grow so do administrative expenses at a much faster pace than the expense ratio drops. It does have an impact because we are 14.7% and the private market is going to be at 23% or 24% or something within that range, so there is a disparity, which actually gives us a benefit from a rate standpoint. With that, I think the best way to proceed, if it is acceptable to you, Mr. Chairman and board members, is to have Ms. Montero go through some of the high-level items in the budget.

Chair Beruff: Please proceed.

Jennifer Montero: Thank you, Mr. Chairman. In your book there is a presentation on the budget. It is a short presentation. It is before the big budget actual packet. Barry just went through slides two and three. On slide four we discuss premium. In detail 2021 projected direct written premium is ending up at about $1.8 billion; in 2022 we are budgeting $3 billion. The policies in force at year end in 2021 are expected to be at 775,000. We are budgeting for over a million policies at the end of 2022: 1,064,120 to be exact. This is new business that we are projecting since 2011. As Barry mentioned earlier there are three things making up the direct written premium. One is the growth in policy count which is about 37% of the budgeted direct written premium. The rate change, which is a 9% increase to the direct written premium . . . Then, the increases to that per policy per exposure is about 11%, and that's what Barry was talking about earlier with the inflation guard factor. We are expecting a higher inflation guard factor than we have had in the past due to the economics in the market as it is right now. However, we do allow for an alternative valuation if a policyholder does not agree with the valuation increase that our third-party administrator provides. They can give us an alternative valuation from an accredited source, and underwriting will evaluate that separate. Any questions before I move into losses?

Chair Beruff: Governor Dunbar?

Marc Dunbar: Something Barry said a second ago . . . As it relates to the premium tax portion, the statute says we shall impose and collect an amount equal to premium tax to augment the financial resources to the corporation. Our premium tax doesn't go to the state coffers? We just keep it?

Jennifer Montero: It's a pass through.

Marc Dunbar: Where does it go?

Jennifer Montero: We remit it to the Department of Revenue.

Marc Dunbar: That's where I was going because I was confused with the statute. I've always been confused with this particular statute. So, we are going to pay more in premium tax because we are obviously, we are going to be collecting more premium this year?

[unknown speaker]: Right.

Marc Dunbar: So, are all of the insurance companies, right? So, that premium tax goes over and becomes general revenue, so there is going to be a higher general revenue kick from insurance companies this year then there was normally. The question is what they do with that money. I know that we have done other options with some of that dedicated to special state attorneys that can go after insurance crimes, but I was curious about the phrase "augment the financial resources to the corporation" meant. So, I don't know if somehow, we could get some of that back from the legislature. Thanks for the clarification.

Barry Gilway: I'm not sure, governor, where the reference to "augment the financial resources to the corporation" . . .

Marc Dunbar: . . . It's in Sub N.2 of the statute.

Barry Gilway: I think it is a pass through.

Marc Dunbar: Yes. I was just curious.

Jennifer Montero: It's a complete pass through.

Marc Dunbar: Something to throw out and maybe this is something for Christine [Ashburn] . . . If the statute does say to "augment the financial resources to the corporation," wouldn't that suggest that we would have some influence to see where that money goes? In just in terms of trying to push the envelope a little in trying to use our money to help benefit our corporation and the industry, maybe we could stretch our authority a little bit to come up with some creative uses.

Brian Donovan: Just to clarify, that $1.7 billion of premium tax . . . It can be in two places. One is treated as an expense indication and that would be the normal course of action if it wasn't for the statute you're talking about, where we collect it and then we pay it. Additionally, because of that statute, it's treated as a surcharge as well. So, there is a step there with the treatment of the surcharge where it is strictly meant to augment our surplus. So, it is collected twice with the exception that the first collection is impacted by

DRAFT

the capping but the second one is not. There is a surcharge of $1.7 billion that is outside of everything that is in addition to the $1.75 billion to the rates that we collect, and we pay to the state.

Jennifer Montero: So, to clarify, there is $1.75 billion that we remit to the Department of Revenue and there is $1.75 billion that we keep.

Brian Donovan: Correct.

Marc Dunbar: Now I'm really confused. I'm sorry.

Chair Beruff: If I could make a comment to see if I got this. It's $3.5 billion. $1.75 billion goes to them and $1.75 billion we keep.

Brian Donovan: That's the idea. The tax is $1.75 billion. We pay that. Then they made their decision that they will augment Citizens' surplus, so in addition to the $1.75 billion that gets paid to the state, we will have a $1.75 billion surplus on top of that. So, it's collected twice.

Chair Beruff: That $1.75 billion goes straight into our surplus account.

Brian Donovan: That's correct.

Vice Chair Thomas: That seems to me that's really the way the statute reads. It doesn't talk about collecting the premium tax. It says, "an amount equal to the premium tax." So, there is a premium tax and then there is a separate amount equal to the premium tax that we collect.

Brian Donovan: That's correct.

Chair Beruff: Is everybody clear now? It's 3.5%. 1.75% goes to the state and ends up in general revenue, and 1.75% goes into our surplus account. Obviously, the more money we are collecting on premium then more money goes into surplus.

Barry Gilway: I don't think that. . .

Chair Beruff: . . . What does that line item look like, Jennifer? How many dollars are we talking about? 1.75 of $3 billion?

Jennifer Montero: $3 billion.

Chair Beruff: Okay, that's easy enough.

Jennifer Montero: I'll find out how much we remitted last year. We're looking it up.

Barry Gilway: I think the estimate for next year will be $2.6 billion on the overall breakdown. When you take a look at the total numbers, that's the total number from the breakdown.

Marc Dunbar: I remember that when we talked about it before that it's more than enough to fund several positions to help prosecute insurance fraud.

DRAFT

Barry Gilway: I was going to say, governor, that your point is . . . whether we split the premium or not, it's irrelevant, right? Your recommendation is whether there's a way to take a benefit in so many ways, whether it is mitigation or other fraud programs to use that more effectively. But I have no idea whether . . .

Chair Beruff: This smart person next to me figured it out. It's $52 million. It's $52 million extra that's going to the state based on $3 billion of premium. $52 million is going into our pockets. To Mr. Dunbar's comment, we could hire our own investigative division to fight fraud.

Marc Dunbar: We are getting a windfall because of inflation and because of a whole bunch of other things that are going to bump up the premium. We can proviso in the budget. We could put something permanent in the statute. We could put it in the implementing bill. There is a lot of what we can do, but there is going to be this one, hopefully, windfall to the state because of the inflation factor (not just on us but on all of the insurance companies) that we ought to try to get a hold of. Now, whether legislation will let us pass it or not is a big jump, but we know we've got to pass a budget. And we know that money is swept under general revenue, and we know that they are flush with cash. So, it may be a good opportunity to say, "Look we don't want everybody's money, but note that we are the residual insurer. We are getting sued a lot due to fraud. Why don't we just take our piece and earmark some of that to the statewide prosecutor's office or something to that effect?" I know that the Governor [DeSantis] announced that he wants to do some things with a statewide prosecutor for election fraud. I'm just starting that out there for consideration.

Chair Beruff: That's great.

Barry Gilway: let's do some research in terms of the potential ways to approach this, governor, and we'll get back to you.

Chair Beruff: Thank you.

Jennifer Montero: On page five, you'll see the losses and loss adjustment expense (LAE). The overall loss in LAE ratio remains pretty stable for the budgeted 2022. The combined loss and LAE ratio is 53.6% and that's up a little from 53.4%, which is the projected 2021. The Personal Lines Account (PLA) is really driving that with the 63.6% loss ratio. The PLA loss and LAE ratio has actually seen some improvements due to the fraction of water claims and litigation is actually trending favorably at about 23%. The severity on both litigated and non-litigated water claims has decreased. However, the number of litigated claims is expected to increase because of the policy count increasing. I'll move on to slide six: reinsurance and net investment income. As most of you know, reinsurance is really a placeholder in the budget because we're not really sure where the market is right now for 2022, we budgeted $190 million in the PLA and $210 million in the Coastal Account. That's $400 million. This is really to get us to the same point where we were last year in trying to protect surplus. Our exposure has doubled since 2020. Our exposure is estimated to be at $318.15 billion. In 2013 it was $318.89 billion. We haven't been this large since 2013. As far as invested assets go, the 2022 yield is projected to be budgeted at 1.9%. This assumes no overall movement on the rates change on overall rates and does not contemplate any realized gains. As far as interest expense goes, we did have a December 1, 2021, $225 million bond redemption that just took place, and we have a June 1,2022 maturity of $160 million on our Series 2012A PLA bonds. We are not anticipating any debt new issuances or any early redemptions in 2022. Any questions on that before I go on?

Erin Knight: I have a question as it is related to our conversation yesterday about what if we bought less reinsurance. But, if we did that, that would affect our ability to issue bonds, correct, because in underwriting they are looking at our total capacity to pay?

Jennifer Montero: Are you talking about the catastrophe (CAT) bonds or municipal bonds?

Erin Knight: The insurance-linked securities (ILS).

Jennifer Montero: So, that is part of our reinsurance program. So, can you repeat exactly what the question is?

Erin Knight: We were talking yesterday about potentially buying less reinsurance (traditional) and savings that could be used in surplus. If we did that, how does that affect our total picture of reinsurance available?

Jennifer Montero: Our reinsurance strategy looks at the market time. And, when we go to the market, we look at what our best pricing is and what is available. We look at the whole package. If we reduce the reinsurance, we would have to look at what you approved and at the ILS in the traditional in terms of where we can place that program and what is the most efficient cost for best coverage for Citizens. And it would depend on the market right now. In 2021 the CAT Bond had great capacity and pricing. It was able to supplement our traditional placement. But overall, the traditional product is a better product than the CAT Bond. A CAT Bond is not as good and not as rich of a product as traditional. But it is great coverage. We use it more to supplement our traditional program than to go solely with something like that.

Chair Beruff: What was the cost? What did we get, $2.6 billion in reinsurance last year?

Jennifer Montero: We placed $2.7 billion.

Chair Beruff: What was our cost: a quarter million dollars?

Jennifer. Montero: Before we hit the growth limitation factor (because we grew more than our anticipated growth in the PLA) but before that, it was $234 million and some change.

Chair Beruff: But it ended up costing $250 million.

Jennifer Montero: It ended up costing us $250 million because of the growth limitation factor.

Chair Beruff: $250 million represents what of $2.7 billion? 8%?

Jennifer Montero: It was about 7%.

Chair Beruff: So, we paid 7% to get $2.7 billion of reinsurance.

Jennifer Montero: Between 7% and 9%.

Chair Beruff: What would it cost us to float $3 billion of the bonds? What interest rate would we have to pay?

DRAFT

Jennifer Montero: I think it was 6.25%, but it placed high. They were not low. The lower you are on the layer chart the expected loss is higher which means the price is higher.

Barry Gilway: Mr. Chairman, are you referring to if we were to place pre-CAT bonds vs. CAT bonds?

Chair Beruff: Pre-CAT.

Jennifer Montero: Oh, you're talking about pre-event.

Chair Beruff: What does it cost for this company to borrow $3 billion and stick the money in our own account?

Kapil Bhatia: It depends on the duration of the bonds.

Chair Beruff: I understand. Let's say for 10 years.

Kapil Bhatia: If you go for a 10-year maturity (or if you do a five, seven, and 10) the treasury market right now for a ten-year bond is 150 basis points. Overall, we believe the interest is 2.5% to 2.75% in cost. However, if I may . . .

Chair Beruff: The dummy in the room has to ask the question, "Why don't we borrow the $3 billion, instead of paying seven to nine points, and borrow at 2.5 points?"

Barry Gilway: For clarity they're pre cat bonds are debt.

Chair Beruff: I understand that they are debt. So what? You borrow the money and stick it in the account. It's not like you're going to go and spend it. It's only there in case of the proverbial storm, right? It's basically doing the same thing except it is costing you 2.5% instead of 7% or 9%.

Jennifer Montero: The difference is the debt. Let's say the wind blows. You use the debt to pay for the storm. You use the assessments to pay off the debt. If you buy reinsurance then the wind blows, and their reinsurance reimburses you for the claims and we're done.

Chair Beruff: I understand but you're also paying a 7% to 9% premium.

Jennifer Montero: But we're not blowing through our surplus either.

Chair Beruff: But you're taking the $3 billion and saving a significant amount of money by borrowing the money. Quite frankly, I think you can negotiate better than 2.5%. I think you can negotiate 2% in this market for that much money by our corporate structure. I understand that if the wind blows that they pay, and you do not owe any money. But they pay after they've gone through tiers of stuff that we've paid. They are not first tier. The way you place reinsurance is that you layer it. So, you're eating our surplus anyway before the reinsurance you bought kicks in. For example, we get nothing for the claims in the Panhandle because we did not hit the minimum. It's not like they are the first to pay and we're sitting on our surplus. We are eating our surplus and the claims come in anyway.

Jennifer Montero: For the smaller claims, absolutely. But, if the second storm happens . . .

DRAFT

Chair Beruff: . . . to me throwing seven to nine points out the window for a $2.6 billion policy . . . Yesterday, we talked about gambling, so what I'm trying to do is not gamble. Even better, why don't you borrow the money for one year. How cheap is money for one year? The money has got to be really cheap.

Kapil Bhatia: The money would probably be 75 to 100 basis points.

Chair Beruff: 75 basis points, you borrow the money for a year. You hold your breath. There's no storm, you just made a ton of money. But you covered cash needed to pay claims because you borrowed $3 billion for 12 months, you paid 75 basis points, and you saved yourself eight points which is a huge boatload of money, and you gamble. But you gamble less because you do have the money to pay the claims, and then you don't have to do the assessments because it depends on how big the storm is, but you are saving a ton of money. I don't know. I think it's a viable thing to discuss as board members with other people who know more about insurance. To me, it's a very simple thing to do. You're throwing away the money when you buy reinsurance. We basically threw a quarter billion dollars out the window last year because the wind did not blow, and they kept all the money. It cost us 7 to 9 points.

Barry Gilway: There are so many elements . . .

Chair Beruff: . . . And the debt markets are such today that you can borrow money so cheaply. I would not be advocating this solution if the debt markets were at 400 basis points. That's expensive money, but at .75 at an inflation rate of 6%, you don't have to be very bright to realize what side of the trade you're on.

Barry Gilway: Mr. Chairman, I know that Kapil is chomping at the bit to make a statement. I do want to point out that what we're recommending here or even suggesting here is not in compliance with statute because the statute clearly says that we need to make our best efforts to acquire reinsurance up to a 100-year probable maximum loss (PML). That's not reinsurance. The pre-CAT bonds are not reinsurance.

Chair Beruff: At the end of the day, we do not have . . . you folks made the decision a couple years ago not to go to the market and buy a portion of reinsurance. There was another portion that you bought. This board makes the same decision. We're going to do it this way. You've got the $3 billion . . . at the end of the day, the important thing is that this company has the money to pay the claims on time and in a timely manner as most cost efficiently as we can.

Barry Gilway: The one charge that I have always understood to be one of the primary objectives of Citizens is that we cover ourselves appropriately not to make assessments on policyholders because assessments come at the point in time when you can afford them the least. To have assessments . . . what you're doing fundamentally, all you're doing with a pre-CAT bond is basically loaning money to give us time to collect assessments from . . .

Chair Beruff: . . . Well, that's only required if you eat through all your surplus. You only go to assessment when you wipe out surplus, right?

Jennifer Montero: You wouldn't issue bonds unless you don't have the surplus.

Barry Gilway: You wouldn't issue bonds unless you're completely out of surplus.

Chair Beruff: That's my point. So, you have the cash there just in case. You have it just in case. It's an insurance policy just like insurance is an insurance policy. The question of what we're buying and what we're paying for the reinsurance is the cost.

Jennifer Montero: But the reinsurance protects the surplus, and the bonds don't.

Chair Beruff: Understood but it doesn't protect the surplus if it's layered. By the time the reinsurance guy pays all the money that we paid them, they eat through all of the coverage that we bought. We have wiped out all of our surplus. Yes, or no?

Kapil Bhatia: No.

Chair Beruff: How much have we wiped out?

Kapil Bhatia: The reinsurance program the way it's structured is to preserve surplus. So . . .

Chair Beruff: . . . let me ask a very simple question because I'm a simple guy. You have $9 billion in cash. You buy $3 billion in reinsurance. For that $3 billion in reinsurance to go to zero, how much surplus do we have left of the $9 billion?

Kapil Bhatia: I don't have the exact number, but we will have approximately 55% to 65% of surplus preserved for future events.

Chair Beruff: So, you have answered my question. You have $9 billion in reserves today in surplus.

Jennifer Montero: $6.5 billion.

Chair Beruff: You buy $3 billion in reinsurance. We have a total coverage of $9.5 billion. We eat through the $3 billion of reinsurance and you're left with 55% of 6 ½ billion dollars, correct?

Kapil Bhatia: Correct. Yes.

Chair Beruff: For that privilege, we're willing to pay an 8% premium over the cost of borrowing that money in the markets today for 12 months.

Kapil Bhatia: I wouldn't call it "borrowing" that money because it isn't truly borrowing money. We never have to pay it back.

Chair Beruff: I didn't say "borrow." I said "premium." We are paying a premium for this type of coverage as opposed to that kind of coverage.

Barry Gilway: It's not coverage. It's a . . .

Chair Beruff: . . . It's a debt, but we have the money to the pay claims, which is the only reason why we exist.

Barry Gilway: But, in order to pay those claims, we have to assess the policyholders at various levels.

Chair Beruff: No not if you have . . . you have the debt. You have $6.5 billion. You have $3 billion worth of debt that's going to cost you 75 basis points. If the same standard applies to the reinsurance…you go through your $3 billion worth of debt and you still have 55% of your surplus left.

Marc Dunbar: and, I'll say the way the statute . . .

Chair Beruff: . . . the statute says that if we have surplus, then we're okay.

Marc Dunbar: The statute says that we are allowed to have borrowing mechanisms to pay claims. It doesn't say we have to exhaust surplus before we pay claims. The only thing it says about surplus is that surplus is there defray deficits in account to prevent assessments. So, you can have both and eliminate reinsurance. You can have open credit to pay claims and still have surplus if you can protect surplus and so you can do both. That's the way the statute is set up. As it relates to the reference to reinsurance, in our Plan of Operation, we are required to have the statement that we use best efforts to procure reinsurance. It doesn't say that the corporation has to go get reinsurance. It just says in the Plan of Operation that we have to have best efforts. I don't see that we are tied to it because best efforts is sort of like, "What's reasonable, Tim?" "Best efforts." I think we have all of these tools in the toolbox under the statute.

Chair Beruff: You gave me the exact scenario that makes my argument have more sense than less sense. We buy $3 billion worth of reinsurance. We eat through the $3 billion of reinsurance and we still have $3.5 billion in surplus, right?

Jennifer Montero: No. We… if we have reinsurance, then we have all of our surplus.

Chair Beruff: No.

[multiple speakers]

Chair Beruff: No, because I asked the question and that changes the dynamics of my whole argument. So, if you indeed have $3.5 billion leftover and instead of buying $3 billion worth of reinsurance, you borrow $3 billion worth of money, which is debt. You eat through your $3.5 billion . . . the debt money is gone. $3 billion worth of surplus is gone, and you still have $3 billion less . . . you still have surplus. You haven't made any assessments to anybody yet.

Kapil Bhatia: That's correct as long as the event is a one in 100-year event and the probability of an assessment for a subsequent season or a subsequent event grows up because now you don't have $3.5 billion because now you only have $3.5 billion. In the one in 100-year event, then you have the assessment. If you don't preserve the surplus . . . the preservation of the surplus is key and what your comfort level is . . .

Chair Beruff: . . . You also saved yourself 8% on $3 billion, which is not an insignificant amount of money. That's $240 million.

Barry Gilway: I'm sorry but you're saving yourself 8% if you don't have a storm.

Chair Beruff: Understood just like we didn't have one this year.

Barry Gilway: To get back to where we were yesterday, if you have a storm, you're gambling on the fact that you will not have a storm. . .

Chair Beruff: . . . Yeah, but this company has been gambling for decades at this point. The difference is what is the best economic argument to continue to move forward; and, at the end of the day, we're operationally deficient. We lose money. We take the money that we make, subsidize our operation, and here we are reducing the amount of money that is going to back us up in surplus. That's been going on for years. It's just a consideration that this board needs to think about.

Vice Chair Thomas: Mr. Chairman, I'd like to add that I'm not terribly sure from a strategic level that when I look at the differential between what our uncapped rates would be and what we're actually getting, I'm not terribly sure that the overriding concern of an assessment . . . I understand the timing issue of it, but we are talking about policyholders receiving a subsidized premium right now. I don't know if this idea to go all out to avoid a potential assessment is something I necessarily agree with. I think the policyholders are the ones who are primarily benefiting now from a subsidized rate.

Jennifer Montero: The assessment first goes to the policyholders, but if it is large enough and if it's an emergency . . .

Vice Chair Thomas: . . . I understand that it goes to insurers and then it goes to an emergency. The bottom line is that the risk has to be paid. There is no free lunch here. So, the idea that this is not going to happen in some respect just isn't imaginable. So, the question is who most should bear that burden? It should be the policyholder, I think. I understand the issue is the timing of it and it's the worst time to have an assessment. I'm just saying from an overall analytical standpoint if we are charging sub-market rates and not actuarially sound rates to the insured, then I'm not so worried about the prospect of having an assessment on them one day.

Chair Beruff: To Mr. Thomas's point, it's "pay me now or pay me later." The policyholders are getting subsidized now because we can't charge (because of the constraints that we operate with) what we should be charging, which is why we have 97% or whatever of the market. 97% is more than 15% by a long shot. They are basically getting the benefit of a subsidized insurance policy. If we have to assess some later just recapping that we did not charge them for the last five years.

Barry Gilway: For clarity, we're not just assessing Citizens' policyholders. If you get into the emergency assessment, you're assessing every individual in the state. When I say gambling . . .

Chair Beruff: . . . it's not gambling. You have actuarial people who do all the studies. You have to go through a lot of stuff to get to that emergency assessment level. Right now, we're just talking about you having lots of reserves. We have the ability to charge just Citizens' policyholder . . . the only time you charge everybody else is at the emergency level, right?

Barry Gilway: There are three levels.

Chair Beruff: Right. We have a long way to go to get through those tiers to get to everybody, correct?

Barry Gilway: That's correct. I sit on the Florida Hurricane Catastrophe Fund (FHCF) Board. We track every hurricane from 1850 on, and all I'm saying is that you're taking your chances . . . Dorian, following the original path, if that had hit, that would have been a one in 100-year event because it would have come

DRAFT

over and hit Broward and then come out at Tampa and St. Petersburg. The issue is are you going to get one, or a series of catastrophic events, and if you are, then all Floridians are going to pay. This is not a financial impact on just Citizens. This is a financial impact on the state of Florida.

Vice Chair Thomas: That is not a consequence on necessarily what Citizens is doing. It is a natural consequence of legislative scheme which has created Citizens to be an actual active market participant, while denying us the ability to charge the necessary rate for that. That is, in essence, an unfunded liability that the legislature has created. And, when it comes due (and it will come due) . . . That is simply a consequence of the legislative scheme created by . . .

[unknown speaker]: Charlie Crist.

Vice Chair Thomas: . . . 627.351(6).

Barry Gilway: My only comment, and I know it will come off as sarcastic, but you don't bring visibility to yourself by shooting yourself in the foot. That's not the way to do it. I don't disagree with any of the issues. I spent the first half hour of the meeting laying out all of the issues that we're facing as a company, and the lack of legislative action, you know, that the . . . we've got to have the legislation react. I'm just suggesting to you that this is not the solution because I think that you're putting the company and the state's financials at risk if you move away from an established reinsurance buying in the marketplace. That's my opinion.

Erin Knight: Can we take the scenario that the Chairman and others are suggesting, come up with a financial model, and say, "We made a choice to forgo traditional reinsurance. We borrowed, etc. short-term/long-term. Something hits. Part of the surplus is gone. We have the same policies in force next year. What does the investment income look like now because we have less cash to produce income? What happens to the company? Are we in a better place or are we back in the same place where the assessments come in, etc.?"

Barry Gilway: We can do that, Governor Knight. We can put together scenarios that utilize, you know, pre-CAT bond purchasing in concert with limited reinsurance benefits and let you know what the overall impacts are. That math can absolutely be . . .

Erin Knight: . . . Because if we need to assess it, we need to see what we're discussing.

Barry Gilway: I would suggest from a budgetary standpoint, as Jennifer mentioned, what we're recommending here, in order to get the budget approved, is a placeholder.

Char Beruff: A budget is a budget. It can be changed at any time at any meeting.

Barry Gilway: The final spend relative to overall reinsurance . . . I think part of it also, and then I'll move on, part of it also is what is the cost of reinsurance going to be because we don't know. And you appropriately pointed out two years ago that we made the decision internally that when you have to pay 20% rate online or 15% rate online for reinsurance, it is not an effective spend. Literally, we walked away from a $200 million CAT bond because it was too high and incremental traditional placement. Kapil, I don't think it would be difficult to put together an analysis.

DRAFT

Marc Dunbar: One more thing to make sure this dead horse is really dead. If you do the same thing over and over again, right, you get the same results. Maybe it's time to change things up. Since the drop like a rock session that basically put this all on us back in the Charlie Crist days, that experiment he put us through failed. The only reason why we're able to depopulate really was the function that we did not get hit by a storm for a decade. The legislature has been sticking its finger in the dyke trying to avoid re-addressing the core issue which was basically putting us in the market as a competitor when the glide path was put on us. While I certainly understand running an insurance company and the value of reinsurance, I would just say that it is time for us to try and change things up a little bit, or we're just going to get the same result. I think what you're hearing from the board is that we're willing to look at a whole host of options to change things up a little bit to send a message and to also try and shore up our budget losses that we are facing. I hope you all are realizing that it's not about "putting the company in jeopardy," which I think is not even possible. The company is going to exist because the statute mandates this whether we have to hit the assessment mechanism or not to make sure it's still a viable company. That's a function of the policy clause that has been made, so we're really not putting the company at risk. What we're doing is trying to take advantage of all of the tools that we have to try to improve the overall insurance marketplace. I made the comment yesterday that I am continuing to be concerned because every year that we do not charge actuarially sound rates, and every year that we are not close to the highest private insurer in the marketplace, our tax-exempt status is put at risk. At some point I do think it's going to be worth pointing out to the legislature what the costs are if we lose our tax exemption status. That is not going to be an inexpensive proposition for us. If we continue to be a marketplace competitor as opposed to a true residual insurer, then that could be a result at the end of the day.

Erin Knight: Can we come back with those scenarios?

Kapil Bhatia: Yes, Governor Knight. If I may just talk conceptually about it. So far, we have talked about it conceptually overall of surplus of $6.5 billion even though we have a total of $9 billion because of revenue. I'm going to focus just on the Coastal Account if that's okay. So, the total cost of surplus is $3 billion at this point in time. What we do is try to preserve that 22 projected charge based on the budget numbers. We are protecting almost half of that $3 billion in surplus for next year in an event beyond one in 100 years, so effectively for subsequent seasons. If we don't protect anything and if we don't buy reinsurance, then we will have an assessment. The probability of an assessment is 1.6%. We will have an assessment if there is a one in 6- year event because the total PML for one in 100 years is approximately $5.7 billion. If we have a surplus of only $3 billion and if we have a CAT, the Florida Hurricane CAT Fund (FHCF) covers (which are required to buy by statute) $1.7 billion. So, we will have a total of resources at $4.7 billion. Our one in 100-year PML is $5.7 billion. That means we will have the assessment first on the policyholders of Citizens at 15%. The probability of that is 1.6%. The Coastal premium for next year is projected to be $1 billion so you will get 15% ($115 million). You will have the regular assessment at the probability of 1.65% and an emergency assessment of 1.75%. It's the one in 80-year probability that you will have the emergency assessment on every insurance policyholder in the state. That is for the Coastal Account. PLA is even worse because we will have used a significant amount of surplus with all of the losses from Hurricane Irma as well as all of the reinsurance coverage you have of $100 million. The only account that's in really good shape is the Commercial Lines Account (CLA) because it is small, and we have a lot of surplus. We cannot use, according to the statute, the surplus from one account to subsidize another account. Each account is independent on its own. I can go through the PLA number. Suddenly we will have no investment if we have a one in 60-year event.

Erin Knight: Right. That's what I want to see.

[multiple speakers]

Kapil Bhatia: I can certainly pull it together.

Chair Beruff: Governor Knight would just like to see the details on that. Didn't we talk about legislation in which we can merge these accounts? Didn't that get done? Is that a policy or is it an OIR issue?

Jennifer Montero: We have to wait until our debt obligations are paid off.

Chair Beruff: So, then we can merge them. The debt gets paid off when?

Jennifer Montero: 2025.

Kapil Bhatia: December 2024 is when we can pay it off.

Chair Beruff: We can't pay it off before that?

Kapil Bhatia: We can defease the bond.

Chair Beruff: Is it a defeasance cost?

Kapil Bhatia: It's because they are non-callable. What we are paying on the bonds and what we are . . .

Chair Beruff: . . . so, it's a defeasance cost. You have to buy the yield so that they get the same yield. How much is that?

Kapil Bhatia: I'll need to calculate that.

Chair Beruff: I'd like to know that too, because our arms are tied simply because we have this debt outstanding that may have a defeasance cost. Pay off the debt and get it over with and then you can merge both accounts in the surpluses, where one is off sided in one place where you don't need it anyway.

Kapil Bhatia: Great. We can tell you, but it will be a few minutes.

Chair Beruff: I understand. The question is whether we can fast track that instead of waiting until we can do it in December 2024.

Kapil Bhatia: That's correct. We can do it. We can give you the cost numbers. Just one more point. That will need some legislative change. I'm sure Christine can talk about that. It will need some kind of legislative change.

Chair Beruff: We can't pay off our own debt?

Kapil Bhatia: We can pay off the debt, but it's to combine the accounts.

Jennifer Montero: The statute talks about Personal Lines, Commercial Lines, and the Coastal Account. It talks about the three accounts, and we just need clean up language to talk about it being one account.

DRAFT

Chair Beruff: Can we add that to our to-do list?

Jennifer Montero: It's on our to-do list. The assessment will actually come down.

Vice Chair Thomas: The statue specifically references that once the debt is gone, we can consolidate it into a single account. What cleanup would need to be done?

Jennifer Montero: I don't think it does.

Chair Beruff: I think we can do it without clean-up. I'm hearing from some of my smarter board members who know the statutes better than I do.

Christine Ashburn: It would depend on what we wanted it to do. If we are trying to take the three accounts and use one of the current accounts as the vehicle, which I don't think that's the plan . . . we want to do a whole new account.

Jennifer Montero: We would want to do a brand-new account.

Christine Ashburn: Then you would have to have statutory changes because that account would not have assessment authority. If the plan were to take the Coastal Account… actually you would have to have legislative change because the three accounts tell you what you can and cannot write in those accounts currently. You have to have a new account in the statute that allows for us to combine all lines of business into one place and then give that account the streamlined assessment authority. Otherwise, right now, the PLA writes multi-peril policies statewide, the Coastal Account writes in the wind only areas, and the CLA only writes commercial non-residential and commercial residential.

Chair Beruff: Only the government can complicate things.

Christine Ashburn: Correct. When we were created there wasn't outstanding debt in those, so that's why that was done this way. So, we'll have to have a statutory change to create a clean, new account that says, "Citizens shall" and then give us the assessment structure for all that we write today.

Chair Beruff: Mr. Gilway, Do you have any reason why that wouldn't be a better way to run this business?

Barry Gilway: To aggregate the accounts?

Chair Beruff: Yes.

Barry Gilway: Absolutely it would be because . . .

Chair Beruff: . . . Okay. That's all I wanted to hear. Why don't you figure out how to get that done in this legislative season?

Christine Ashburn: Sure. No problem. I'll add it to the list.

Chair Beruff: That's a scrivener's error as far as I'm concerned. There is no politics involved with that.

DRAFT

Christine Ashburn: No, it shouldn't be. Candidly, it's a good thing because actually it would reduce the amount of assessments on the private market. It would streamline everything.

Kapil Bhatia: Mr. Chairman, just one more point on that. If we combine the accounts, right now we have a 15% assessment on all policyholder surcharge in each account. So, it gets to 45% if it's combined in one account. Unless the policyholder surcharge is increased, it will be 15% only because it's one account. The emergency assessment would be 10% for each account now, and it would be only 10% instead of 10% in each account maximum. It might have some effect on our credit, but I don't think it would be significant. I just want to make sure that . . . the assessment capability in terms of percentages and not in absolute dollars.

Chair Beruff: That's a political win, too. Everyone wins changing this account. The question is whether we could get enough money to replenish our reserves, if it ever came needed, because you can't go from getting 45% to only getting 15%.

Kapil Bhatia: That 45% is usually used . . .

[multiple speakers]

Chair Beruff: It's still a bigger number, though. It's 15% of a larger number so it should be the same. Instead of 15% of three different pockets, it'll be 15% of a bigger pocket.

Kapil Bhatia: It's in each account but you can levy on each account period now we can levy up to 45%.

Chair Beruff: Mr. Gilway gave me what I wanted to hear, which is that he will run the business better if it was down to one.

Barry Gilway: You reduce the potential recovery under assessments, but under the current structure, you could literally have a surplus in one account, and you can still be assessing under another account. So, the complexity associated with the structure . . .

Chair Beruff: . . . maybe you tweak the assessment in the change of the language, so increase the assessment from 15% to 25% because now you're only accessing in one account instead of three.

Christine Ashburn: [inaudible]

Chair Beruff: You know, you're a busy girl.

Christine Ashburn: You're speaking about the policyholder surcharge, so the piece that comes to our customers first?

Chair Beruff: Whatever piece we are losing when we consolidate the three, right? We're losing some assessment power. You have to try and make up for that so that we do not shoot ourselves in the foot currently. All we want to do is merge the three so that we have more flexibility so that when the time comes, and we're not stuck with a pot of money here that we cannot use . . . the commercial line has more money in it than what is required to cover commercial exposure.

Christine Ashburn: Right.

DRAFT

Chair Beruff: Thank you. Anybody else?

Erin Knight: I just want to make sure that we're clear that we will come back with these scenarios.

Jennifer Montero: We need to come back immediately with that because we usually go to market for reinsurance in January and February.

Chair Beruff: I don't know… here is what I think I hear the board is instructing us to do. You are going to go forward with this budget. It's a budget. It can be a placeholder. In March or sooner get us some of these details that we have been talking about, so that we can digest that. You're not going through the reinsurance markets… I've lived through that for the first-time last year. You really start working hard in April. March. April.

Jennifer Montero: No, we're out there in February.

Barry Gilway: We're literally marketing . . .

Chair Beruff: . . . but you don't pull the trigger until May.

Barry Gilway: the reinsurers are committing capacity in the February timeframe. We already have reinsurers that are lining up because of our reputation and because of our financial condition. We have reinsurers they have verbally committed capacity to our program, and frankly, there are long term implications relative to . . .

Chair Beruff: . . . I've never run a company by making decisions out of fear. It just hasn't worked that way. Make decisions based on what's good. If the repercussions are that it causes long term . . . maybe we lose some . . . I don't care. I do care that we do the right thing at the end of the day.

Marc Dunbar: Typically, we approve the layer chart at the March meeting and then we have a special meeting in May. For budget purposes, we do a conceptual structure. You guys start kicking the tires, and you come back in March and say, "This is what the markets are saying. This is the way we tweaked the layer charts." You can even tweak the layer charts the way you did last year. We're not going to be placing reinsurance in January or February, but that was a debate a couple years ago. I know that [former Board Governor Carlos] Lopez-Cantera was interested in whether we should be in the market sooner but just for clarity on that.

Chair Beruff: If it's the board's pleasure and if it makes the staff more comfortable, we could always move our March 23 meeting forward to an earlier part of March if that gives you more direction. It's up to you.

[multiple speakers]

Chair Beruff: You don't think that's necessary?

Jennifer Montero: We do have a comment for Mr. Dunbar.

Kapil Bhatia: No comment for Mr. Dunbar. To Governor Knight's question we will work on it, and we will circle back . . .

DRAFT

Chair Beruff: I suspect that you'll get back to us as soon as you have it. You don't have to wait until the March meeting, and then we can have calls to discuss it individually and see what we think at that point.

Erin Knight: Going back to the September meeting, we talked about different scenarios. We discussed scenarios. One thing I did ask for is if we ran some projections with an increase to premiums. How would that look, knowing that we have constraints? We said we would like to have talking points to be aligned as a group, and the chairman talked about future sustainability. We were discussing an increase to rates and what would happen if we decreased commissions even further to agents. We are already at 7% which is less attractive than 10% or what a private company . . . there's still a ton of it getting written. What happens if that goes to 5%? And can we? So, we're paying 5% instead of 7% and right there you have $50 million in savings. Is it realistic? I don't know.

Chair Beruff: 2% on $3 billion is $60 million.

Barry Gilway: I think the scenario planning that is incorporated in the book that Kelly will be presenting… that's scenario planning. Under that scenario, we do not adjust the rate . . .

Jennifer Montero: . . . I have the numbers for you here.

Barry Gilway: . . . We do not adjust the rate indications. We have done this scenario planning, and Kelly, correct me if I'm wrong, we did the scenario planning based upon what we know today in what the current environment is today.

Chair Beruff: Instead of going to direct, which is something I've been advocating for a year, maybe you just reduce the commission rates because our growth trajectory is ridiculous because of all of the other constraints that we have. At the end of the day, in my corner of the world, people are taking less commissions now because the market is so aggressive that they know they don't have to work very hard in order to get their money. Instead of getting 6%, people are getting 4% because it gives them something to do and some money. Maybe what we talk about is cutting the commission rate from 7% to 5%. Right off the bat you save $60 million.

Jennifer Montero: There is a scenario planning presentation . . .

Chair Beruff: . . . and they have no choice. They've got to bring us the business anyway.

Jennifer Montero: Kelly and I will be presenting the scenario planning, and as Barry said, the Commission is not adjusted in that. We have it outside of that per Governor Knight's request, and we'll go over that in the scenario planning if that's okay.

Chair Beruff: Mr. Dunbar?

Marc Dunbar: I know at the last board meeting that we had an item at the end for the reinsurance broker to take the lower bid. Did that happen?

Jennifer Montero: That did happen.

DRAFT

Marc Dunbar: Did we also have in there a provision that says if we don't place reinsurance, we're going to have to pay them like in prior contracts? How much is that?

Jennifer Montero: I believe it's a range between $400,000 to $600,000 per year. It's no more than that.

Chair Beruff: Unless we can finish the topic in the next five minutes, I'm going to take a break at 10:00 for five to 10 minutes.

Kapil Bhatia: To answer Governor Dunbar's question from a timing perspective, even though we bring the preliminary layer charts to the board in March and then again for the final special board meeting in May usually, we normally do work in February through April. It's not all of a sudden, especially in the capital markets because they are much deeper, and the investors look at a much longer period of time. After your approval, we place it based on the size. The transaction is there. But the direction that we are heading in is probably that we will need to have some decision early enough so that it's worth for investors to spend time. We may need to come back to you in February for some decision point because a lot of the infrastructure investments have been made and there is a cost attached to it.

Marc Dunbar: Sure. I understand and I understand that the investors monitor this part of the meeting. I'm sure that they are all starting to be well aware that we may not be doing the same thing that we have done in previous years. If we have to make decisions, sure. But I know that we typically do not finalize reinsurance until May.

Kapil Bhatia: That's absolutely right. We usually know that we're going to place it based on the program structure. Thank you.

Consent Agenda

Chair Beruff: If the board could look at their agenda and go to the action items and the consent items for a minute, is there any board member that wants to remove anything off of the consent agenda?

Marc Dunbar: Claims Legal Services.

Chair Beruff: So, we're going to remove F. Is there any other agenda item on the consent agenda that any board member would like to remove for further discussion? [silence] Not hearing anything, the board will entertain a motion to move forward with Consent Agenda items except F.

Nelson Telemaco: I know that yesterday we spent quite a bit of time on the rate indications.

Chair Beruff: Do you want to take that off?

Nelson Telemaco: It was C.

Chair Beruff: We're going to take C and F out. The board will entertain a motion to approve the items minus C and F.

Barbara Walker: Mr. Chairman, just for clarification's sake, we are moving the action items to consent with the exception of the Annual Recommendation 2022 Rate Indications (which is C) and claims legal services (which is F). Is that correct?

DRAFT

Chair Beruff: Barbara, I think that's what I said. [laughter] I'm kidding. Thank you, Barbara, for correcting it. That is the motion that the board needs to entertain.

A motion was made and seconded to move the action items to consent with the exception of the Annual Recommendation 2022 Rate Indications (which is C) and claims legal services (which is F). All other Consent items were voted on and approved. All were in favor. Motion carries.

Chair Beruff: We are going to take a break for 10 minutes and then regroup. Thanks.

Barbara Walker: Thank you again for those who are on the line. We are going to reconvene the meeting in about ten minutes with roll call.

Roll call: Chair Carlos Beruff, Vice Chair Scott Thomas, Marc Dunbar, Jill Hasner, Reynolds Henderson, Erin Knight, and Nelson Telemaco were all present.

Barbara Walker: Chairman, you have a quorum.

Scenario Planning Update

Chair Beruff: Thank you. We are on to Ms. Montero and Ms. Booten to give us a scenario planning update, and that's going to be 30 seconds.

Kelly Booten: We'll do it quickly. At your request, we did a scenario planning presentation. Real quickly . . . we are behind tab . . .

Jennifer Montero: It's right behind the budget.

Kelly Booten: It's called "Scenario Planning Update" and it's behind tab two.

Jennifer Montero: For the record, quickly, you did approve the budget, correct?

Chair Beruff: Yes, because it was a consent agenda.

Jennifer Montero: Thank you.

Kelly Booten: The first tab restates our market impacts comment which you are all very familiar with, policy count, exposure . . . the second slide covers what we do internally to evaluate risk partnered with our enterprise risk group in Joe Martins' area [Office of Internal Audit] with a cross functional group of people to look at risks across the organization. We identify top risks, predominantly financial services, agency and marketing services, claims, consumer and policy services, and underwriting departments. Then, we take a look at, and we assess what our top risks are. They include the financial impacts, risk in surplus, and internal and external resource impacts during rapid rates of change, which we're in now. The next slide shows a graphic of our process. It is part of our business continuity that we already do, but with the extensive growth, we've put all hands-on deck in the additional scenarios and throughout additional years. It has been very focused in the past on the current budget year. It includes financial, staffing, processing, and technology. On the next slide comment there is a timeline of where we are in the process. We completed the staffing model based on the 2022 budgeted scenario which is included in the budget.

DRAFT

We are projecting out now and gathering the data we forecast for the 2023 year based upon each of the scenarios. The timeline here is then followed up by technology assessment to make sure that all of our systems scale up to that large growth, and we will validate all of that before storm season. That's kind of where we are and what we've been doing. On the next slide, Jennifer is going to go into some of the assumptions that we used in the financial model.

Jennifer Montero: There were four different scenarios. Scenario number one has Citizens at 1,000,000 policies, which is about 13% of the market. We budgeted the best estimate of the forecast based upon the current conditions today with no insurer insolvencies or downgrades. The second assumption is the same as the first except for the fact that we have 1.3 million policies comment which is 16% of the market. Scenario 3 is 2,000,000 policies, which is 25% of the market share based upon the upper limit of the forecast. There are insurer insolvencies and downgrades of about 300,000 policies. In the fourth scenario, it is actually shrinking, going in the other direction. With market changes and good conditions, we go to 500,000 policies, which is 6% of the market with a high level of depopulation in legislative changes that shrink things down. Each of those scenarios has two different events that happen. The first one is a single event of a CAT 4 hurricane, and we use the Hurricane Irma path for that. The second one is with multiple events, with two CAT 4 hurricanes. If you look at the next slide, slide number 6 . . .

Marc Dunbar: Can you go back to that slide? I'm trying to see if it's a typo or not. For number one it says 1,000,000 policies with 13% of the market share at 12/31/2022. The rest of them say 2023. Is that supposed to say 2023?

Jennifer Montero: Yes, because it gives us time for us to grow. It would take us to the end of 2023 to get that large. So, that should say 12/31/2023 for number one.

Jennifer Montero: No, no, no. That's today.   At the end of 2022 comment we expect to be at a million policies.

Marc Dunbar: So, we build off of number to get to two and three. Number four doesn't take into consideration number one at all. It assumes repopulation through 2023.

Jennifer Montero: Right. Number one takes place and then when you get to number four, something has changed in that 12-month period to make . . . a legislative change or a lot of depopulation in that we shrink from 1,000,000 to 500,000.

Marc Dunbar: In all of these scenarios, we are assuming that we have 1,000,000 policies at the end of 2022, and then we go off to two, three, and four. Thank you. I just wanted to make sure I was following that. Thank you.

Jennifer Montero: On slide six, it shows the actual storm. These are category 4 hurricanes. This one is a pre-landfall: "an Irma path." It gives us a total of about 590,000 claims in scenario one with one million policies. 1.3 million policies give us 123,000 claims. When we get to scenario three when we have two million policies, we have over a million claims. Then, in scenario four when we have 500,000 policies, we have only 279,000 claims. In the second storm which was the path of the Great Miami Hurricane in 1929, in scenario one we have 498,000 claims, scenario two is 610,000 claims, scenario three is 943,000 claims, and scenario four we have 235,000 claims. Now we're going to walk through each of those scenarios, and I will do it quickly, Chairman.   Scenario one with the 1,000,000 policies . . . if we had two category four storms, we would have a potential assessment of over $18.9 billion. The policy count would be 1,064,220,

DRAFT

which we budgeted. Our surplus is the $6.492 billion and our additional claims paying resources $8.633 billion. With the first storm if it were to hit, we would have $0 surplus remaining in the Coastal Account and $0 in the Personal Lines Account. 100% of the surplus would be exposed in those accounts and we would have an assessment of $5.9 billion. The Commercial Lines Account, because the Commercial Lines Account only exposes 5% of its surplus in a one in 100-year today, it will not see an assessment in this account here. When the second storm hits, of course we already had no surplus in the Coastal and in the Personal Lines Account so again 100% assessment in both of those accounts. Now that second storm is causing an assessment of $12.9 billion. The total will be $18.9 billion. That's what we are today and what we are budgeting for today in our 2022 budget. Slide nine is our recap of the direct written premium of $3 billion, administrative expense of $158 million, underwriting $283 million, loss and LAE ratio 53.6%, and expense ratio of 14.7%. Any questions before we move on to scenario two? [silence] Now we are going to add 300,000 more policies in the next year and now our potential assessment is going to be $24.2 billion. Same events. Policy count is 1.3 million, surplus is $6.4 billion, and additional claims paying resources is $1.5 billion. Our surplus remaining in the Coastal Account and in the PLA again is $0 after the first storm. The surplus exposed is 100% and the assessment is $8.3 billion. When the second storm hits there will be a 100% assessment in both the coastal and the PLA and the assessment is $15.8 billion for a total of $24.2 billion. I'm going to go ahead and skip the recap on slide 12 and move on to scenario three for time purposes. On slide 14 this is the two million policies in scenario three with a $49 billion potential assessment. The policy count is 2.0 million, $6.4 billion in surplus, and $16.3 billion in additional claims paying resources. Our surplus after the first storm in both the Coastal Account and the Personal Lines Account is again zero dollars. Assessments will be $15.4 billion. With the second storm, there is a 100% assessment again in the Coastal Account and in the Personal Lines Account. The total assessment is $24.5 billion with a total of $39.9 billion. We will move on to the fourth scenario with 500,000 policies, $6.4 billion in surplus, and $4 billion in additional claims paying resources. The surplus remaining in the PLA is actually $201 million, zero dollars in the Coastal Account, and $1.476 million in the CLA. The assessment in the PLA is 88% of the surplus exposed, but there is a zero assessment. For the Coastal Account we have $563 million. The second storm comes, and it does wipe out what is remaining in the Personal Lines Account. The Coastal Account was already at zero dollars, so it leaves us with a total of $5.9 billion in assessment of that storm for a total of $6.25 billion. After that we move to slide 19 which is a summary of the scenarios. You can see that in scenario one with the first storm that we end up with a $5.9 billion assessment with both at $18.9 billion. Scenario two, you go to $8.3 billion; with both storms, you go to $24.2 billion. Scenario three moves up to $15.4 billion with one storm and $39.9 billion with the second storm. Scenario four when we depopulated and gone down to 500,000 policies, we are at $600 million and $6.5 billion with the second storm. The summary of implications and next steps – the first thing we'd do is levy assessments if a deficit occurs. We would need to evaluate for post event financing. We would continue to pursue reinsurance to protect against future assessments. We would continue to maintain relationships with our current vendor partners and look to develop new relationships. And we would complete operation resiliency activities, which are outlined on slide four. That concludes our scenario planning. We are happy to answer any questions that you may have. It's kind of a grim picture.

Chair Beruff: Pretty depressing.

Reynolds Henderson: Am I correct in that any of the scenarios that we are looking at a deficit?

Jennifer Montero: Absolutely, with these category 4 storms. If you look at slide six, it shows the path. It shows that all of these go through the Miami Dade area which we have a high concentration there.

DRAFT

Chair Beruff: What triggers the ability or the requirement to levy an assessment under the statute on our policyholders?

Jennifer Montero: It says that if we have a deficit in any of the accounts columns then we must levy an assessment.

Vice Chair Thomas: What's a deficit? Is it a real number or a projected number?

Jennifer Montero: It's based on GAAP financials. It's actually an adjusted GAAP but it is based off the audited financials. The Chief Actuary Brian Donovan would put in his occurred but not reported, you know, the Incurred but Not Reported (IBNR) reserves . . . Let's say there is a big storm, and we know about half of the claims. Brian does all of the estimating of the bulk reserves that we are not aware of all of that goes into the financials. The idea is to hit all of the expenses for the year if a storm hits. We book everything. We did it with Irma. We did everything by December 31, 2017. 63% of our numbers was IBNR. We were one of the only companies that did not have development because our numbers were spot on because we had a 30% litigation rate built in that no one else did. That is the number, and it is an estimated number based off the actuary. But it is an audited financial number based off of our GAAP financials.

Vice Chair Thomas: The assessment doesn't kick when we think it's $0.

Jennifer Montero: It isn't $0 cash. It's a deficit on the financial balance sheet.

Marc Dunbar: What did you say our litigation rate is?

Jennifer Montero: It was 30% I believe. For Irma the litigation rate was built into our IBNR. Litigation was 30%.

Marc Dunbar: Are we assuming a 30% rate into these scenarios or are we adjusting the litigation rate?

Brian Donovan: We did not get down to that granular level. We just looked at big picture. Indirectly, it's built into that, but what Jennifer was describing for Irma was much more granular. It reflects that sort of development implicitly and not explicitly like we did with Irma.

Marc Dunbar: When we assume a litigation rate, then we multiply that times the projected . . .

Brian Donovan: What we did with Irma is that we developed it specifically for Irma because what we saw non weather . . . We didn't see this with Michael. One, you have several different ways and methods of projecting it. One way is to project out total claim counts and then you project out what percent of those claims will end up in litigation and then you project out a separate litigated loss and litigated loss severity and non-litigated. I multiplied all of those together and that gives you one of the estimates for the ultimate loss.

Marc Dunbar: When you have loss development, do you find that it usually ends up in the litigation bucket?

Barry Gilway: Absolutely.

Marc Dunbar: And to go to the “atta boy” to the staff, one of the reasons why we have such confidence in the reinsurance market is that we do a really good job understanding that side of it, right?

Jennifer Montero: Absolutely.

Nelson Telemaco: I know earlier that we talked about the possibility of consolidating the accounts from a surplus standpoint. I’m looking at the numbers and I would imagine that if we were to do that that the scenarios would change, right?

Jennifer Montero: They would because they would share the surplus. As you saw the commercial lines account is very small with 4,800 policies, but it’s only exposing 5% of its surplus in a one in 100-year event. So, if we combined accounts that would be shared.

Nelson Telemaco: …and the threshold would be changed because now our ability to assess is triggered by any one of the accounts. Whereas if we combined them, we’re talking about instead of tripping $1.6 billion for the PLA, we’re talking about $6.5 billion to be able to assess. Is that correct?

Jennifer Montero: That is correct. We actually had this occur in 2004 after the four storms. We had a deficit in the High-Risk Account. It’s now called the Coastal Account. We had a surplus in both the PLA and CLA, but we had a deficit in the other account. We had to do an assessment. Consolidated we had a positive but individually we didn’t. So, we had to do an assessment for that one account even though our consolidated number was a positive.

Nelson Telemaco: I think to complete this picture that we need another column with that consolidated account.

Jennifer Montero: We would be happy to do that. When we first started talking about consolidated accounts many moons ago, we did an analysis on that. I can try and find that to show the different scenarios when they’re consolidated and not consolidated.

Nelson Telemaco: Out of curiosity, I know you picked two notable storms. Is there a reason why you picked those two notable storms?

Jennifer Montero: We just picked two category 4 storms. The one with Irma is not actually how she landed. It’s a pre-landfall path that we had in the model and then of course the Great Hurricane of Miami was a category 4.

Nelson Telemaco: In reality the storms could be a mix which would totally change the scenario. If it was a mix of those two and went through the middle of Miami as opposed to the southern tip of Miami and then went up . . .

Jennifer Montero: . . . It could be a Dorian and just sit over Miami.

Nelson Telemaco: I don’t even want to imagine that. These are not scenarios to scare anyone.

Jennifer Montero: These are real, and this is with reinsurance too.

DRAFT

Nelson Telemaco: The other question I have just to try to get some clarity on what that assessment would look like on a per citizen basis. If you look at that worst case scenario of $24.5 billion assessment in scenario three.

Jennifer Montero: First, we would assess our policyholders, and this would be in two accounts. So, it would be 15% and 15%. So, they would be paying a 30% of their premium as an assessment and we would calculate that based off of our budgeted policy count to figure out if that will cure the deficit. If it does cure the deficit, then that's where we stop. If it doesn't cure the deficit, today, we have a mechanism called a regular assessment. It's only in the Coastal Account. We used to have it in all three accounts. What we do is bill insurance companies, and they have to pay within 30 days based off the amount that they write by the aggregate statewide amount. They have a participation ratio, and they pay based on that. That was removed from both the personal lines account and the commercial lines account because, in theory, if we can't pay then these companies can't pay us. This was when State Farm and All State were writing. It had to stay in the Coastal Account because of the outstanding debt in that account. Those premiums are pledged to the bondholders, and we couldn't get rid of that. We are looking at getting rid of that when Christine goes and changes the legislation to get rid of it. But it is good liquidity for us because we can get the money in 30 days. It's only 2%; but for the personal lines account, we go straight into the emergency assessment. That is 10% max per year for as many years as you need. We did do the emergency assessment once for 2005. We levied it in 2007 and it started out at $1.4 billion. We were growing at the time, so we were over collecting. So, we lowered it to $1.0 billion and we ended it early because we were collecting enough premiums. But, in that scenario we had to do post-event bonds so that we could pay claims and use the assessment as they came in to pay off the bonds. It would assess everyone out there at whatever percent. We were asked to do it over multiple years. If we had done it all in one year, it's would have been done at 8.9% . . . Instead, it was at 1% per year.

Vice Chair Thomas: Why is the assessment broken down by account? As I read the statute, it says that "based upon the determination of the Board of Governors and the account has a projected deficit the board shall levy Citizens' policyholders' surcharge against all policyholders of the corporation."

Jennifer Montero: It is against all the policyholders. It doesn't matter where the policyholder's account is. It doesn't matter if they have a personal lines account, a commercial line account, or a Coastal Account. If they have an account with Citizens, they are going to be assessed no matter what in any or all of the accounts that we have a deficit in.

Vice Chair Thomas: Why does it show zero assessment for the commercial lines account?

Jennifer Montero: Because it doesn't have a deficit.

Vice Chair Thomas: They are policyholders. Why would they not be assessed to make up the deficit?

Jennifer Montero: They are being assessed.

Vice Chair Thomas: Oh. The chart is showing where they are being allocated.

Jennifer Montero: Yes.

DRAFT

Vice Chair Thomas: To go back to the question I asked earlier, since the assessment can be triggered by the determination that there is a projected deficit, is that a projection that is only made after an actual event occurs?

Jennifer Montero: Yes.

Vice Chair Thomas: Even though statistically we run our business on the whole idea of . . .

Jennifer Montero: . . . Again, it's based off of the year-end audited financials. They do go to the OIR. OIR approves the arithmetic of the deficit and then they do an order. And, if it's an emergency assessment, they will do an emergency order for other companies to collect it (Florida Insurance Guaranty Association [FIGA] just did); or we will get an order for ourselves. We can now assess our own policyholders.

Chair Beruff: I think we're good.

Jennifer Montero: Anything else?

Marc Dunbar: Just for what it's worth, the legislature stepped in between the determination of an assessment and the OIR issuing the order. It has sometimes backfilled via direct appropriation into assessing FIGA or Citizens. That's one of the things that if we did get hit badly, it would trigger a special session and that would be on the table before we actually . . . we will certify a need, but we probably won't assess until the legislature and the Governor decide on what they want to do with the deficit.

Jennifer Montero: Right. So, in 2004, I mentioned, we had a regular assessment. There was no such thing as a Citizens policyholder surcharge back then. It went straight to the regular assessment in the Coastal Account. Then, in 2005 you had four more storms, and we probably, honestly, were off on those. There was a lot of development from 2004 on top of 2005. We had a deficit in all three accounts. The PLA and the CLA were very small, and we needed to do an emergency assessment that we did not have to do in 2004. To Governor Dunbar's point, the [Florida] Governor and the legislature at the time wanted to not have that burden on the state after eight major hurricanes. So, they gave Citizens an appropriation of $715 million that helped us secure the regular assessment in the PLA and CLA and get the one in the Coastal Account down to $163 million. So, we had a small, regular assessment in the Coastal Account and an emergency assessment in the Coastal Account. Instead of assessing 8% that year, we'd break it out to 1% for 10 years. That's why we broke it out that way and we did have that one-time appropriation. It was a state of emergency for the state after eight huge storms in two years.

Marc Dunbar: Practically speaking, when we're talking about the role of reinsurance and borrowing and all that other kind of stuff, you'll have to factor in the State Treasury and the desire for the legislature and whoever is in the Governor's mansion to not pass that assessment along and to try and solve those problems again. We spent $250 million on reinsurance for a reason, sure, but we also . . . at the end of the day, we are stitched into the bond rating in the state of Florida. Our ability to assess impacts the overall bond rating potentially, but it also means that we have a Big Brother to backstop our financial losses before we have to assess.

Jennifer Montero: We had no reinsurance in 2004 and in 2005. The only reinsurance we had was in the PLA and in the Coastal Account. It was a little sliver alongside the FHCF because the FHCF is a 10% empty spot . . . that was the only account that was reinsured.

Nelson Telemaco: Just another question for my benefit because this is new to me. Scenario three worst case scenario, $55 billion assessment between event one and event two, right? We are capped at 15% and we have other ways to assess the policyholders, but that is not going to come near the $55 billion in scenario three. What happens then? Scenario three, after the second event, the potential assessment is summed up between the first storm in the second storm is $55 billion, right?

Jennifer Montero: $39.9 billion.

Nelson Telemaco: Oh, I'm sorry. That's the combined.

Jennifer Montero: Yes. We first assess Citizens' policyholders first. On the Coastal Account you can go out and do a small regular assessment on insurance companies, which they can file a rate filing and push it through to their policyholders. Then, we would do the emergency assessment and we could do a maximum of 10% per year for as many years as we need to. If it was some horrible (took out the whole state), we could be assessing for 15 to 20 years.

Kelly Booten: Is your question whether it's part of the capped rate? Is it included in the rate capping?

Nelson Telemaco: Yes. So, we have the rate capping . . .

Jennifer Montero: . . . Oh no. This is different. This is outside of the cap, and this is statewide on auto, homeowners etc. It is a line-item surcharge kind of like how your other fees are. However, it is treated as premium in the sense that if you don't pay it, then your policy cancels. That is an OIR order. You don't pay a premium tax on it. It is not subject to the cap. It is an assessment. It is just a fee, but if you don't pay it, whether it is your auto insurance or your homeowner's insurance, your coverage will cancel.

Nelson Telemaco: And it's capped at 10% for as long as it takes?

Jennifer Montero: Yes. The emergency assessment is capped at no more than 10% per year, but for as many years as it takes.

Kapil Bhatia: Just one clarification. If we do actually go with scenario three, there is no market capacity to issue bonds, whether in the taxable market or tax-exempt market (after an event) for $15 billion. That is based on our real-life experience that happened in 2004, 2005, and 2007. If we go with scenario three, there is no market access. Maybe, for the first event, but certainly not for $15 billion because that is a very, very large number. And even though we can levy a 10% assessment, but there are no properties to levy an assessment on because it is a large event. We are assuming that there is a market access, but in practicality, scenarios three there is no market access (maybe $5 billion, yes, or $7 billion, yes).

Jennifer Montero: Let alone $39.9 billion.

[multiple speakers/inaudible]

Chair Beruff: Alright, are we done?

Kapil Bhatia: . . . But at the same time, the FHCF will have to go to the market for access. Though, they have a limited liability . . . stop at $17 billion. After 2004 and 2005 events, Citizens, FHCF, and FIGA had to

DRAFT

levy the assessments. The only funding from the state legislature was for Citizens. We used the tax exempt and taxable market. Citizens issued over $1.3 billion CAT funded three different times of $2 billion plus and then FIGA levied the assessments.

Chair Beruff: Next.

InsureTech Comparison

Barry Gilway: That would be me, Mr. Chairman. I will make this relatively quick. We were asked to do not a full analysis but to take a look at InsureTech, which is the next section of your book. We basically took a look at initially four InsureTechs: Hippo, Kin, TypTap, and Lemonade. The purpose of this is to really take a look at the overall structure of these InsureTechs to see frankly whether there is something there we can learn from and integrate into our model that would improve the overall structure. I'm not going to go through this in detail, but I think it was a well worthwhile project simply because I think we learned a lot more about the development of in the progression of InsureTechs in the overall marketplace, some of the benefits that they bring to the table and frankly some of the negatives associated with running these companies. The first thing that I will go through (on page two) is really the structure of the InsureTech is very different. Principally the InsureTechs are using an overall program that basically bifurcates the insurance company in the financial results of the company from the attorney-in-fact agreement. They are structured in what's called a reciprocal company. Guy Carpenter uses it. USAA uses it. And, probably the most infamous one is Zurich and Farmers. Zurich is the attorney *defacto* (MGA if you would like to call it that) for Farmers Insurance. There is very little relationship between the insurance company, the financials, and the attorney. That makes for a very different relationship between the financial part of the company and the servicing arm of the company. We immediately removed Hippo because fundamentally, number one, they don't write in Florida. They also don't provide the same types of coverages, and they are really into a very, very different scenario. So, we focused on Kin, TypTap, and Lemonade. Kelly and I met directly with Paresh [Patel] who is the CEO of TypTap and the chief marketing officer for Kin to really test out some of the assumptions that we have made to see if they really agree with our underlying assumptions. I think Lou did the business plan here. This presentation was put together here . . . Andrew [Woodward] helped with the overall financials. A lot of the materials you see in the presentation came from Raymond James. Fortunately, they had done a complete review of all of the InsureTechs that are doing business nationally prior to even moving forward to this initiative. That was extremely helpful in really understanding the financials of the business plans of these companies. Kin is, again, set up as managing as a reciprocal group, similar to the Zurich/Farmers model. They do write business in Florida. In our discussions with Kin directly, they really have a twofold model. They utilize in-house agents if the business is placed in Kin. However, they have marketing agreements in place with companies like American Strategic and Progressive. They write significant business through the independent agency system to supplement some of the expenses associated with the development of the "InsureTech model." All of these, including Kin, and that's where the learning comes from. They don't use independent agents. They use in-house agents. They had 150 in-house agents nationwide. Lemonade writes a very, very limited . . . I think there was a question asked about what they actually write. Lemonade writes very simple product forms. They write renters, auto, life, pet support, term life products, etc. TypTap, by the way, is restricted to homeowners and flood: homeowners, mobile homes, condo, landlord, vacation homes, and flood. They are not in the same market; you know quite frankly that Citizens is in. It doesn't mean that there is not some good comparison and some good learning. TypTap is really part of the HCI Group; Paresh Patel was the CEO there. He was very helpful in working with Kelly and I in understanding the fundamentals of the business. If you go to the next page on page four . . .and this is really what I'm describing when I'm talking about reciprocal or an inter-insurance program depending upon what you

want to call it. It's really an insurance organization that is bifurcated from the financial organizations. The organization makes money through providing claims services, underwriting services, and marketing and distribution. The product development and the underwriting are done by the insurance company. If you go further to page five . . . how do these operate relative to Citizens? The reality is that they are all high expense ratio companies. If you think about the development on these subsequent pages, they are high development, high-cost expense companies because they are startups. They are basically contemplating significantly high growth [in policy count] and all of them are losing money from a profitability standpoint and an expense perspective. It's not unusual because that's a startup company that has to be capitalized.

Chair Beruff: Mr. Gilway, quick question. I'm looking at page six: Expense and Selected Ratios. When you go over to the right under 2020, midpoint is at 23.8% expense ratio. TypTap is at 23.7%. We are at 20.3%. I know that's an anomaly because of our premium growth, right? So, it's driving the denominator. In addition to that, the expenses are based on taxable operations. We're non-tax. So, if you took out that advantage . . . if we were a taxable corporation, what would that add to our expense ratio?

Barry Gilway: My understanding is that our tax impact would be two points.

Chair Beruff: So, we would be at 22.3%. I'm just trying to put apples to apples. So, if you add two points, our expense ratio would be 22.3%, and there are startups at 23.7%. Not that bad really. So, they expect as they grow, their operating will be in the teens; otherwise, they will not be able to make money.

Barry Gilway: Their model actually . . . if you go back to slide one, their model basically calls for making money because of the reciprocal structure. Their model calls for making money on the MGA side. Their expense component, for example, is going to remain static and that is where the company is going to generate profits. Their posted expense ratio is not going to decrease significantly because they are going to generate money from the servicing margins. Your point is well made that Citizens, as we mentioned earlier, when we were operating at a lower level, our expense ratio was at the 24% and 25% range.

Chair Beruff: We had the two-point advantage . . .

Barry Gilway: . . . On top of that. By the way, we also pay commissions at four points below the overall market.

Chair Beruff: Our expense ratio should be lower because they have a higher cost on paying commissions.

Barry Gilway: Right. It is a technology-based system. It is exactly what Kelly is working on when we talk about Citizens reimagined. What we're trying to do is improve the overall frontend and reduce the overall expense. The way these folks do it, and all of them are consistent in this regard, is that they go out and they try to make it as simple as possible because they are a marketing organization for the customer to come to you. They reach out and they get much of the underwriting data from all of the publicly available information. They pull it together, and . . . Kin is a good example that for certain products that they write, they ask four questions. We would ask 147 questions, you know, because of the current structure of the Clearinghouse. They are trying to reduce their overall expense ratio. I'm not sure if I'm answering your question, but they are trying to reduce their overall expense ratio or keep the expense ratios and increase their margins by making it as simple as possible.

Chair Beruff: Are their four questions as adequate to answer the policy risk as our 147 questions?

DRAFT

Barry Gilway: The reason why we ask those questions and the reason why Kelly is working on the reimagined concept is that we have a very, very complex front end. Every company that signs up for the Clearinghouse has their own set of questions that they need to ask. If we don't ask them, then they don't participate in the Clearinghouse. We end up asking . . . any agent will tell you; we are the most complicated company to do business with, not intentionally but simply because we ask every question that every company that participates [inaudible] asked.

Chair Beruff: I suspect that some of the people that are sending us insurance policies have figured out how to auto-populate answers for our questionnaire. Some people have invested the time to figure out how to make this simple and others have not because we can't be growing 5,000 policies a week if it's that complicated to fill out our forms.

Barry Gilway: Correct. I think one of the issues here is that the investment in technology that Governor Telemaco will be a board observer for that procurement it's going to be moving toward how do we simplify the overall process and at the same time make a competitive environment readily available with rating mechanisms so that people coming in go to the lowest rated carrier and not come to Citizens.

Chair Beruff: Well, right. It's a wonderful goal, but right now, it's impossible, isn't it? We're 97% of the time 15% less than everyone else. So, no matter how many ways you answer the questions, it's almost like a default on your home. Buy Citizens because there is no other player anywhere close to competitor pricing. I guess it's a good thing to go through the exercise for sure and get the technology. I hope we can make a legislative difference, so at the time that we can get to a point where there is competition in the market, they come to the FMAP, and we can drive business away from us. Right now, if you go through the process, then you're driving business to us.

Barry Gilway: I completely agree with you. I think we've had this discussion with Governor Telemaco. The bottom line is that what we're designing here it's a system for the future in a reasonable marketplace. We don't want to have a 25% expense ratio . . .

Chair Beruff: . . . we'll have it worked out so that we're ready to go when we have fixed the problem. I agree with that. Thank you.

Barry Gilway: Just to show you the actual experience of the three primary InsureTechs. The reality is for all three InsureTechs today the overall operating expenses is high because they are development companies, and they are losing money both from an underwriting standpoint and they are losing money from an expense standpoint. These graphics are applied via Raymond James. They did their overall analysis. I'll be happy to answer any questions. I think that the issue is that there are some learnings relative to how we utilize public data and integrate public data to lower our overall processing costs associated with business that is coming in, or how do we use that data to deflect the business to the private marketplace.

Nelson Telemaco: We see the technology being super useful from the insured text, issuing, underwriting, services, and maybe claims. I'm wondering if their experience with some of the struggles that we've had, specifically litigation and some of the fraud frankly, have they been able to leverage technology to lower their ultimate exposure and costs?

Barry Gilway: I think the real issue there is that it is way too soon to tell. If you see the start updates of these, most of these InsureTech companies were developed in 2019 and 2020. There is no indication yet that they are able to leverage technology to reduce litigation.

Kelly Booten: If I might add to that though, they are in the business of risk selection. They can use it to decide who not to offer a policy to, whereas we take the residuals. It's a different model.

Barry Gilway: Kin is a perfect example, and Kelly and I spent quite a bit of time talking directly with them. Their model is very simple. If the policy qualifies for Kin into place within the Kin framework, it's "pig iron underwater." They just take the crème de la crème and they write only those categories of risk with very low loss ratios, and they focus on the geographic areas that are profitable. Kin is a good example in that if that risk, because they are already doing the marketing, does not fit their criteria, they have cross marketing agreements, for example, with many of the major reinsurance companies that might be interested in taking the business that doesn't qualify under Kin platform. In the Kin example, the company is a combination "I'm going to write the quality business for my account but I'm also going to have marketing agreements to place business with other companies that might be more in tune to accepting a different set of classifications."

Vice Chair Scott: And, of course, eliminate . . .it has the most effective means of avoiding the litigation problem by not writing in Florida.

[laughter]

Barry Gilway: Which lemonade has already made that choice. The reality is that if you get 8% of the claims in 96% of the litigation, it would drive a lot of these companies away. As we started out, we do have companies like Verve who are taking a very different approach in the marketplace. I think personally that there are going to be more, despite everything that we've been talking about, companies that are going to move away from the development platforms and are going to attempt to compete by bringing in new capital. I will be very surprised that we don't at least have two or three more this year that are coming in with the hopes that SB76 and subsequent legislation will allow us to improve the overall environment.

Chair Beruff: Okay. Anybody else? [silence]

Citizens Strategic Vision

Kelly Booten: The next item is Citizens Strategic Vision, which I did present at yesterday's Exposure Reduction Committee meeting on our technology revamp in both the Florida market and our Clearinghouse. I don't know how many of you were there yesterday. Do you want me to give are real quick recap?

Chair Beruff: What's the pleasure of the board?

Nelson Telemaco: I'm familiar with this. I don't need to see it, but I don't know if you guys need to see it.

Chair Beruff: What's the pleasure of the rest of the board? [silence] Next.

[unknown speaker]: Rates.

Chair Beruff: Didn't we approve the budget?

[unknown speaker]: We did.

Chair Beruff: Then, didn't we approve the rates?

[unknown speaker]: Nope.

Chair Beruff: But it's in the budget.

Jennifer Montero: Do you want to see the layer charts?

[inaudible]

Chair Beruff: So, we're good?

[unknown speaker]: Brian has more options.

Chair Beruff: Oh, that's right, from yesterday.

3. Chief Financial Officer's Report

<u>Action Item: 2022 Annual Rate Recommendations</u>

Brian Donovan: What is the pleasure of the board? I was planning on going through the whole presentation I thought I did yesterday and then address some of the questions.

Chair Beruff: The options that we discussed yesterday is the ability to charge territories a different rate, and you were going to look at that overnight.

Brian Donovan: Yes. We've given that some thought. One of the things that I want to emphasize is the litigation rate for the non-weather water across Citizens and then in Miami Dade in particular. The question yesterday is how Dade is 3.2%. As I said yesterday, a lot of it had to do with . . . that we took a rate . . . 50% to 60% litigation rate. Miami-Dade got the maximum for several years and now we're seeing that come down. Just to get a sense of that, one of the things that we did last night is that we did the indication . . . what would that Dade indication look like if we didn't take those actions and the litigation rate stayed the same. It quickly jumps to 30% to 40%. Without a doubt, the actions we took did that. I just want to emphasize that. Here are the options. Governor Dunbar had the suggestion what if we group together certain territories and regions and spread the cost that way. The OIR allows for this in certain situations if you don't have credible data. In the case of Citizens, Dade and the southeast counties are very large and have too much data that are deemed credible. You're just not permitted to go and combine it with other regions. We do that in other areas the state, but that is not an option here. The second thing that we considered is that while some companies can use competitive rates to supplement your indication and to take that into consideration. Once again it goes to the credibility of your data. If you have so much data, then you really need to rely on your own data. We did look at that and that's not really a path for us. However, we do have three options available to us at this point. First, the rates are at 8.5% and Data is 3.2%. That is our initial recommendation. Second is we'll take the rates as they are, but given the market conditions and given how we are growing in Dade right now and we have 25% of the market and we are

projected to go to 33%, who knows what could happen with this growth? It could be adverse selection. There is uncertainty there. Given that we're making a business decision here, the board can recommend that for Dade we preemptively address the growing market share and the potential for outcomes. That is certainly in your purview to do, and we can file it that way, but know that it will not be actuarial. The third does have a grounding in actuarial support. When we talk about actuarial soundness, there really are two components of it. One is the overall rate need, and the second component is the individual equity of the rates being charged. For example, the overall rate need was 0% but half of the customers were paying 10% too high and half of them were paying 10% too low. That would be an example of you meeting the first criteria. The overall rate need is met, but you would have an issue of overall equity. That's always been the case. We've been dealing with that issue since rates were uncapped in 2010. One route to go is to say look our overall rate need is 37.5%. We're not getting anywhere close to that first component of the actuarial sound rates. In that regard, let's take 11% across the board. That's within the bounds of actuarial soundness at the expense of the individual equity. That's an actuarial argument. Different actuaries will have different opinions about where you fall in that range. In the past we've tried very hard to balance those two components with the capping above and the capping below and we're kind of moving down the glide path. It just seems that we're not making much progress in that overall rate need as we would like. The third option for the board is to recommend for homeowners an 11% rate increase across the board and then the 11% will become 12% in 2023 as we discussed because of Senate Bill 76. I think those are the three options before us.

Chair Beruff: I'm going to let Governor Dunbar ask the question. Why don't we go for the 11% and call it a day?

Brian Donovan: This discussion comes up very frequently ever since 2010.

Chair Beruff: Statutorily we can do it if that's what we should do if it's the right thing to do.

Brian Donovan: It certainly is a viable option.

Chair Beruff: Does anyone here have a problem with it?

Nelson Telemaco: I just want to point out, and I think you mentioned it comment looking at it from a competitive standpoint that we know the rates in the marketplace are higher than Citizens significantly. We are significantly underpriced in the market. We already know that, right? Can, from an actuarial standpoint, you consider the fact that the business is moving in many ways to us at those higher rates, but we have to accept them at a lower rate? This doesn't make any sense. Can we consider that as an actuarial argument that the rates are already in place in the competitive marketplace with the rates being significantly higher than ours based on its own merits?

Brian Donovan: I don't think so… is the short answer, particularly in Dade. I think what you're saying is look someone is paying already $1000 more than what Citizens would charge and then they come to Citizens. Why would we give them the higher rate? There are several difficulties with that, in particular with Dade, like we said, we're already, close to where we need to be which is simply because our expenses are lower than that. We pay less commission for example. From an actuarial point of view, we need to show that these are real expenses. What you're suggesting is more of a business decision market analysis from an actuarial point of view, at least in certain areas . . .

Chair Beruff: Mr. Donovan, how would you frame a motion for this board to entertain?

Brian Donovan: In lines of business where we are more than 11% inadequate, which I believe is all of them, I would recommend an 11% across the board increase from August 1, 2022, through the end of the year. Then, starting on January 1, 2023, pursuant to SB76, it would become a 12% increase.

Chair Beruff: Does the board entertain that motion?

Reynolds Henderson made the motion to approve the recommendation that in lines of business where Citizens rates are more than 11% inadequate, which I believe is all of them, increase the rates by 11% across the board from August 1, 2022, through the end of the year. Then, starting on January 1, 2023, pursuant to SB76, the rates would increase to 12%. Marc Dunbar seconded the motion. All were in favor. Motion carries.

Chair Beruff: Thanks very much. Next?

[inaudible]

Chair Beruff: I don't believe that's necessary, unless we have further questions on it. What's next?

[inaudible]

Chair Beruff: Thank you, Mr. Donovan, for saving us! [laughter]

4. Chief Communications, Legislative and External Affairs Report

Consumer Services Committee (CSC) Update

Jillian Hasner: The CSC met briefly on December 8, 2021. There were no action items presented. Jeremy Pope provided a Live Chat pilot for consumers, and Christine Ashburn provided a legislative update. Our next committee meeting is scheduled for March.

Chair Beruff: That concludes that. Next.

Market Accountability Advisory Committee (MAAC)

Kelly Booten: Can we go back one second to section five? Dave [Newell] is here for the MAAC update. All of my stuff and all of my committees were taken through the consent item. The MAAC is statutory and it's all advisors in the industry.

Dave Newell: Good morning. For the record Dave Newell, the Chairman of the MAAC. Our committee met on December 8, 2021. Christine updated the committee on the legislative agenda for 2022. Scott Crozier provided the committee an update on the Citizens Inspection Program for the PLA. Through the end of 2021, Citizens will conduct 21,000 inspections. With the board's approval, they intend to ramp that up quite a bit for the next few years, and they are going to leverage technology. They are going to use public data to accomplish these inspections. The goal is to reduce claim frequency, improve premium accuracy, along with reducing exposure. Having more data and better data will improve their depopulation process, meaning more policies can be consumed by the private market. Hopefully, that program will continue to ramp up. Carl Rockman updated the committee regarding the February

DRAFT

depopulation proposals, so we will see how that all unfolds. Again, Carl updated the committee on something that our group always wants to hear about which is the stats on not only the number of agents but some of the shortcomings they may have and what Citizens is doing to better educate the agents to make them more in line of what's happening in the marketplace. The last thing I'll say is that just like any of the committees that there are term limits and certainly the MAAC has those. We welcomed Michelle Burkett with a ASI Progressive to the committee along with Obdulio Piedra from the Florida Bankers Association and Brian Hodgers who is the consumer rep. We gave thanks to Mandy Dawson, Kurt Lewin, and Phil Zelman for their long-standing service to the committee. With that, Mr. Chairman, that concludes my report.

Chair Beruff: Thank you very much. Who is next? I think we're done. Audit. Claims. Legal services. That's done.

Barbara Walker: No, sir. We do need to do the section six Chief Claims Officer's Report.

Chair Beruff: That's the one we pulled off the consent agenda, right?

5. <u>Chief Claims Officer's Report</u>

<u>Action Item: Claims Legal Services</u>

Jay Adams: Good morning, Mr. Chairman and board members. And that we want to just jump into the Claims Legal Services?

Chair Beruff: I assume that's where you want to be, Governor Dunbar?

Marc Dunbar: Yes.

Jay Adams: How would you like for me to proceed, Governor Dunbar? Would you like for me to cover the action item, or would you like to just start the discussion?

Marc Dunbar: It's up to the board. I can go ahead and just jump into the discussion to predicate it if you want me to. I've talked to Jay and Barry and Tim about this. I have a problem with this across the board with the $100 million per year blanket authority for the next five years.

Chair Beruff: Can you repeat that? I didn't hear that.

Marc Dunbar: The agenda item has us give us blanket authority for a $500 million spend on litigation over the next five years comment $100 million a year. We keep throwing money at this problem and we have not really stemmed the tide. The biggest expense that I know that we have is personnel, reinsurance, and litigation. What I wanted to do is start a discussion with the board to try and figure out some way that we can have this be a recurring item on the agenda so that we can have a dialogue and to try and put our collective brains along with staff to try and figure out how to solve this problem period. I'm not saying that staff is not working and trying to work with this. We have legislative problems, and we have judges that won't dismiss cases. There are a lot of contributing factors to this, but I think that it may be helpful, particularly since we have new faces and new brains to have this a regular item. Instead of just saying that we're going to give them $500 million for the next five years we really need to have them come back to us. I thought we could come up with some limited authority where every board meeting, we have a

discussion on what are we doing and how are we trying to solve these problems and not micromanaging the individual pieces of litigation and litigation strategy. The over accountability of those dollars. That's my thought.

Chair Beruff: Any comments? The board did not entertain a motion, did it? We can limit the authorization to $100 million a year and discuss it at every meeting.

Marc Dunbar: So, you want to go with $100 million a year?

Chair Beruff: And discuss it at every meeting.

Marc Dunbar: Okay. What I was going to suggest is that we give them $50 million authority and then have them come back for more authority and justify that. To your point, we can change the budget.

Chair Beruff: I think we're budgeting an annual thing to start coming and we know it's costing them $100 million. If we authorize $100 million a year, and then we look at it every quarter, I think we're going to the same place. If we see it going off, we could just bring it back.

Marc Dunbar: This is different from the budget. We could budget $100 million a year but this gives them the authority. Look, I'm fine with whatever the will of the board is. I just think this is something we should be paying attention to closer.

Chair Beruff: So, do I have a motion for that - $100 million a year to be reviewed?

[multiple speakers; inaudible]

Chair Beruff: That's fine. That's fine. What you want to do is authorize $50 million a year and the authority to spend the $50 million . . . What did we put in the budget for this thing?

Jay Adams: We budgeted for $100 million.

Chair Beruff: So, it's in the budget. It's no surprise. We authorize $50 million, so do we have a motion for that?

A motion was made to limit authorization of legal spend of $50 million.

Chair Beruff: We do have a budgeted limit of $100 million a year. So, we're covering there. There are no surprises. Do I have a second?

Vice Chair Thomas seconded the motion.

Chair Beruff: We now have a second motion so let's have a discussion and hear from the staff.

Jay Adams: I'd like to go to the presentation. What we're going to do is develop a dashboard for transparency that we can bring back to this board . . .

Chair Beruff: . . . In trying to keep things moving along quickly (that's in spirit and nothing personal), is the motion that has been seconded affect your plan on dashboard or any of that stuff?

DRAFT

Jay Adams: All I'll say is that I would like to go back to the $100 million. We have traditionally spent somewhere near the $100 million on a year over year basis. This year we're projected to come at about $80 million, and I don't want to do anything to strap our ability to handle individual claims. I understand that we come back on a quarterly basis, but some of our litigation could be significant. We have some pretty big awards on occasion.

Chair Beruff: Do you think that in any way, shape, or form that we could address this every three months? "Here is our dashboard and this is what happened. We spent $48.5 million, and we need another $50 million." Then we go through it and say, "Okay, here's another $50 million." It's budgeted. It isn't like it's a surprise item. I think what we're trying to do is become more assertive with the legal community that are watching. We're actually helping you do your job because they're looking at us and they are listening to these things and they're saying, "Oh, we better start watching our billing and everything else because the board is watching that." This is a good thing and it's not like a bad thing. Unless you think you're going to blow through $50 million in three months . . . and, you're going to give us a dashboard and information that's easy for us to digest at the board meetings.

Jay Adams: That is the plan.

Tim Cerio: First, I do thank Mr. Dunbar because he was very transparent about his concerns. I think the idea of inviting these dashboards and metrics . . . obviously, policies are going up. We expect litigation to go up, but we need to be able to show this board that we are handling it as efficiently, we are creating efficiencies, and we are trying to think outside the box in doing new things. And, if the litigation spend goes up because of the sheer volume of cases, you have a comfort level that we are handling it the way we should. We are being very, very . . . we are holding our lawyers accountable and litigating these things as effectively as we can for the dollars that we have. Jay and I have talked about it, and I don't want to speak for him, but the thought is that we want to be accountable, but we don't want to have to keep coming back at every meeting asking for authority. $100 million is easy. We have the authority. We have to be accountable to you at every meeting. We will answer these questions. It is authority. Functionally, it would be easier, and it would in no way, if we have an unexpected event and there is for some reason that there is some spike, that we're not having to come back to you sooner. That is our ask. I'm not speaking out of turn. I'm hoping that we could do $100 million and be transparent and accountable to the board.

Marc Dunbar: Tim, you mentioned, I think to me, that you will start sending a litigation report to everybody, right?

Tim Cerio: Yes.

Marc Dunbar: I don't know if Governor Thomas is . . .

Tim Cerio: . . . Corporate. There are two different ones. There is my corporate which I want to start sending but there is also the broader claims litigation. I think claims is still being forwarded to you but not to the whole board.

Marc Dunbar: Yes. And I don't know if Governor Thomas is on that distribution list in claims.

Jay Adams: I don't think so.

DRAFT

Marc Dunbar: I would encourage you all to, I don't want to add to your reading, but I would think it would be helpful for you to see the volume and also what's going on in this litigation as we start to approach potentially solving the problem. It's a thick report and it's not that you have to read every line to see that they're doing a good job. You can just flip through and see. What I mentioned to Tim earlier was that I think being able to come in and talk practically about successes and failures is good. We've had some really good successes from appellate courts recently, and I think some of that should come here. But also, if we have some big awards, I think we should know. In this item it isn't just the money. We're approving probably 50 to 60 law firms that were hiring in this item. It's a five-year contract.

Tim Cerio: 90.

Marc Dunbar: 90 law firms. 91 law firms that we're approving for a five-year contract. Personally, I'd like to know whether these law firms are doing good or not doing good. I think public sacrifice is a good motivator for doing these things. I think we should drill in a little bit more in this because it is not just budgeting. We are getting married to these lawyers for the next five years in this budget item. It doesn't mean that we have to use them necessarily, but I think knowing who is successful and who is not is helpful.

Chair Beruff: Any further comments from this board?

Nelson Telemaco: Those 91 law firms have been approved, are they approved in this action item or were they approved in a vendor solicitation action item that's already happened?

Jay Adams: This is a renewal of services. We did re-solicit. There were 15 new firms that were added into this contract. The rest are returning firms that we are already doing business with.

[inaudible]

Jay Adams: Yes. We did not accept all of them either.

Vice Chair Thomas: What we are talking about here are firms that we are in essence authorized to engage. There may be many firms in which we never do engage with. There is conflict coverage. There are different appellate firms; I would assume that we would keep our appellate firms very narrow based on your geographic region. It's not like we have 91 law firms out there representing Citizens at any given moment. This is an authority. We will do engagement letters with them which will incorporate these $200 an hour rate for partners in $165 for associates. These are all about defensive matters. These are not claims that we're bringing. These are claims that are brought against Citizens that we have to defend. We should be evaluating and taking a look at what a good job or a bad job we're doing in defending them, but we don't have a choice in terms of retaining counsel to defend these cases. It has to be done.

Marc Dunbar: I will say that we do have a choice, as Ernst and Young highlighted in their report, we have the ability to bring some claims aspects in-house through a captive . . . and that is sort of part of the exercise here to see whether or not it makes sense for us to hire in-house and bulk up in-house because a lot of these cases, when you start to flip through, are disposed at practice level.

Vice Chair Thomas: It's not a choice on whether we defend the case; it's just simply a choice of resource allocation.

DRAFT

Tim Cerio: Mr. Chair, if I may? There is no question that I think we can bring the information to the board at every meeting. Jay and I talked about it. We know how we're handling these things and having accountability and sending a message to the industry . . .going from approving $500 million for five years . . . from our standpoint, $100 million for one year with accountability is what we hope, but obviously that is not what Governor Dunbar's motion is.

Chair Beruff: Any further discussion? I'll call the question.

Vice Chair Thomas: I'm sorry. Can you tell me what the motion is?

Chair Beruff: I'm going to repeat the motion comment but correct me if I've misstated. Motion that spending is a $50 million authorization in $100 million budget. Then, quarterly will get updated reports on litigation. Then, when they run through that $50 million, we authorize the next $50 million.

Vice Chair Thomas: Okay. Thank you.

Seven of the board members voted for the motion and one board member voted against the motion to limit authorization of legal spend of $50 million in $100 million budget. Quarterly, the board will receive updated reports on litigation. When staff runs through the $50 million, the board will authorize the next $50 million. Motion carries.

Chair Beruff: Next item?

Tim Cerio: Mr. Chair, I don't want to over complicate this, but did we just approve the allocation of the budget but is that all rolled into the approval of the firms as well? Do we still need the action item?

Chair Beruff: I was going to say that it's an operational thing. We don't need to approve that. Mr. Martins. Does anyone want to listen to Mr. Martins' report that we already don't know? No? We're good, Mr. Martins. You're off the hook. Thanks. Does that complete our agenda, or what else do we have? Chief Legal Office and General Counsel. You're done. Okay. I'm sorry.

Marc Dunbar: Barbara, did we pull two items?

[unknown speaker]: We got it.

New Business

Chair Beruff: I think I'll entertain a motion for adjournment.

Barbara Walker: Chairman, we do want to address the December 2022 meeting.

Chair Beruff: We're happy to keep the schedule for the 13th and 14th in December 2022 or something like that. I was going to poll you guys because I don't like to run a dictatorship, but I was going to ask if anyone would prefer that if we moved it closer to the beginning of December, so it isn't as close to the holidays. Does everybody seem to be okay with that? So, yes, we will move that December meeting to Tuesday and Wednesday before the original schedule.

DRAFT

Barbara Walker: Thank you, Mr. Chairman. That will mean that the meeting will be confirmed and noticed for December 6 and 7, and we do need to adjourn this meeting so that we can convene for FMAP.

A motion was made and seconded to adjourn the meeting. All were in favor. Motion carried.

Meeting adjourned.

DRAFT