

Office of the Internal Auditor

AUDIT REPORT

February 2022

Rate Override Audit



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Executive Summary

Background

As part of the Citizens Insurance underwriting process there may arise a need to override the system generated premium rate. The rate override process is designed to ensure system generated premiums are correct for each policy and product type. The rate override process technology was recently enhanced in August 2020 from a completely manual process to a more system generated process when it is determined a policy premium has met the conditions and requires a premium rate adjustment. There are several circumstances that may affect the premium of policy requiring a rate override:

- When an insured is moved from one policy type to another as part of a product strategy
- Existing policy is non-renewed and rewritten on the new form.
- Incorrect base rate or factor, includes all base rates, capping factors, surcharges, and assessments
- Coverage is removed from under the glide path.
- System issues occur, such as if the age of policy is such that it may not be possible to re-write a policy back to its inception to obtain the correct premium.
- Undesired premium outcome or unforeseeable circumstances.

The rate override process requires coordination, communication, and agreement between Underwriting, Product Development, and Actuarial Departments to ensure the needed rate adjustment is accurate, properly approved and entered in PolicyCenter correctly.

Even though a small percentage of policies require rate override adjustments it is essential this process has adequate controls in place to ensure rates cannot be randomly changed and that the changes are in alignment with regulatory requirements, especially during this time of significant policy increase for Citizens.

Objectives and Scope

The audit will evaluate the effectiveness and adequacy of key business processes and control functions related to the rate override process. Specifically, the following will be validated:

- Rate Override condition(s) are met to adjust the rate and process the request.
- Process controls are accurate and effective to update correct premium rate.
- Rate factors used for each type of product are accurate.

Results

The results from this audit confirm there are effective processes and controls in place to ensure proper rules, guidelines, and procedures are aligned when a premium/rate change is identified, and the qualified conditions are met.

Specifically, the following key strengths were observed:

- Rate override conditions were identified, updated, approved, and documented appropriately per the operational guidelines for 100% of the documented policies wherein the premium required an adjustment.
- Rate override processes and controls were found to be accurate, efficient, and timely.
- Complex rate factors are calculated for each type of product.

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



Distribution

Addressee(s) Sarai Rozelle, Sr. Director – Product Management
Harold Odom, Assistant Director-Product Development
Karen Holt, Principal Product Manager

Business Leaders:

Barry Gilway, President/CEO/Executive Director
Christine Turner Ashburn, Chief, Communications, Legislative & External Affairs
Kelly Booten, Chief Operating Office
Mark Kagy, Inspector General

Audit Committee:

Erin Knight, Citizens Audit Committee Chair
Carlos Beruff, Citizens Audit Committee Member and Chairman of the Board
Scott Thomas, Citizens Audit Committee Member

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The External Auditor

*Completed by Kay Weldon, Internal Audit Manager
Under the Direction of Joe Martins, Chief of Internal Audit*