

Addendum: SIU

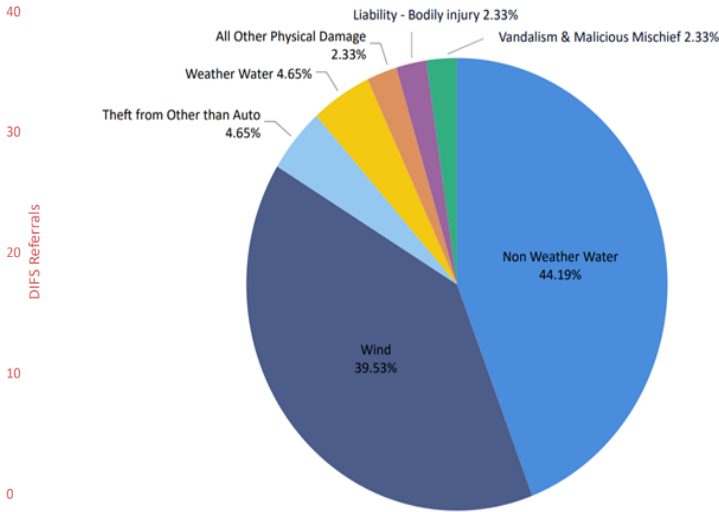
Claims Committee Meeting, June 23, 2022
Board of Governors Meeting, July 13, 2022

Special Investigations Unit (SIU)

Q1 2022 DIFS Referrals Vs. SIU Accepted & Completions



Q1 2022 DIFS Referrals by Loss Type



Q3 2021	Investigations Accepted by SIU	Investigations Completed by SIU	SIU Investigations Resulting in DIFS Referral	DIFS Referral Rate
CAT	45	38	10	26.3%
Non-CAT	256	208	33	15.8%
Total	301	246	43	17.4%

Overview

During the first Quarter 2022, Citizens’ Special Investigations Unit (SIU) accepted 301 claims for investigation and submitted 43 referrals to the Florida Division of Investigative and Forensic Services (DIFS) in accordance with statutory requirements. Most claims investigated by the SIU involved non-weather water (44 percent). Thirty-nine percent of claims investigated by the SIU involved catastrophe losses, mostly associated with Tropical Storm Eta. Most of the claims are late reported, many by third-party representatives such as attorneys, public adjusters, and contractors.

Major Case Update

Operation Crossing the Rubicon (Update): In March 2022, a Citizens’ insured was arrested and charged with Insurance Fraud and Grand theft for his role in the submission of staged non-weather water claims to Citizens in 2015. Through a joint effort between the Division of Investigative and Forensic Services and the Miami-Dade Police Arson Task Force and collaboration with Citizens’ SIU, the investigation determined that the insured submitted false documentation in support of a loss that was

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staged in concert with representatives of the Rubicon Group's Barbara Diaz De Villegas. This brings the total number of arrests of those associated with the operation to 43, including 34 Citizens' insureds.

Citizens vs Strems, et al.: In May 2022, Citizens announced it had reached a \$1 million settlement against a Miami-based law firm (Strems Law Firm) and two co-defendants (Contender Claims Consultants and AIRS) after Citizens filed a lawsuit that alleged that the defendants engaged in a scheme to defraud. The lawsuit stemmed from an SIU investigation that found that the law firm engaged the use of a public adjusting firm and water mitigation firm to submit false insurance claims, mostly non-weather water, to Citizens. Because of these actions, in combination with actions undertaken by the Florida Bar, the attorney was required to divest interest in the law firm and has since been suspended from practicing law for two years.

The settlement was announced during a press conference in Tampa hosted by Florida Chief Financial Officer Jimmy Patronis. Pursuant to the settlement, neither side admits to any wrongdoing, and Citizens stands by their allegations. The Press Release is attached.

Cases of Interest

Miami-Dade – Fire: In March 2022, a Miami man was arrested and charged with First Degree Arson, Grand Theft, and Insurance Fraud by officials with the Miami-Dade Police in collaboration with the Bureau of Fire, Arson, and Explosives. The SIU investigation, supported by expert analysis, determined that the fire was intentional and that the insured had opportunity and motive to set the fire. The claim, reserved at \$60,000 was denied for concealment and fraud.

Clay – Windstorm: An investigation into a questionable wind damage claim submitted to Citizens determined that the loss was contrived and did not occur within Citizen's policy period. SIU reported its findings to the Division of Investigative and Forensic Services (DIFS) which led to the insured's arrest in February 2022. The insured was charged with (2 counts) Insurance Application Fraud and Insurance Claim Fraud, both a felony of the third degree.

Orange – Non-Weather Water: An SIU investigation into a suspicious non-weather water claim determined that the insured contrived the claim and that the water damage to the kitchen cabinets resulted from a prior loss that pre-dated the policy with Citizens. The claim reserved for \$9,000 was denied due to material misrepresentation of facts surrounding the loss. A DIFS referral was submitted.

Osceola – Windstorm: An SIU investigation determined that the insured attempted to obtain payment for existing hail damage that pre-dated the policy. The claim reserved for \$5,000 was denied due to lack of cooperation when the insured failed to provide a sworn proof of loss. A DIFS referral was submitted.

Palm Beach – Non-Weather Water: After the insured reported water damage to flooring due to leaking dehumidifier, an SIU investigation established the insured was claiming damage that pre-existed the date of loss and policy inception. The investigation revealed the insured reported and indemnified by the prior carrier and submitted a fabricated receipt to Citizens as proof of repair for the prior damage. The claim reserved for \$4,500 was denied after the insured failed to appear for an Examination Under Oath. A DIFS referral was submitted.

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Volusia – Windstorm: An SIU investigation established that the insured knowingly submitted a false windstorm claim for damage that pre-existed the date of loss and policy. The claim reserved for \$10,000 was denied for existing damage and materially false statements. A DIFS referral was submitted.

Broward – Non-Weather Water: An SIU investigation found that the insured submitted altered documents and attempted to collect over \$18,000 in additional living expenses she was not entitled after her home sustained damage from a leaking AC unit. The claim was denied and a DIFS referral was submitted.

South Florida – Personal Lines / Policyholder: SIU identified seven personal lines risks that, contrary to the insurance application submitted to Citizens, were licensed, and actively operating as Assisted Living Facilities. As a result, the policies were voided, removing over \$3.1 million exposure from Citizens. DIFS referrals were submitted for application misrepresentations.

Miami-Dade – Agent Misconduct: An insurance agent voluntarily terminated her appointment with Citizens after SIU found that representatives within the agency engaged in a scheme to subvert Citizens' underwriting and submit false documentation in support of personal lines policies. The investigation found six policies that were fabricated and actions that directly resulted in a coverage lapses for three policyholders. A DIFS referral was submitted.

Miami-Dade – Agent Misconduct: In May 2022, the DIFS announced the arrest of Citizens' Agent of Record (AOR) and his employee for their role in submitting false documentation in support of policies issued by Citizens. Both were charged with multiple counts of organized scheme to defraud, forgery, insurance fraud, uttering a forged instrument. The arrests stem from a 2021 SIU investigation which revealed evidence of the scheme which targeted Citizens. Eight policies contained false insurance documents in support of Citizens issuance of policies. According to the affidavits of arrest, both defendants admitted they fabricated the documents to obtain a lower rate of insurance for the customers who had allowed their coverage to lapse prior to obtaining policies with Citizens. Citizens has issued a Notice of Intent to Terminate the Agent.

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FOR IMMEDIATE RELEASE
May 12, 2022

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Law firm, co-defendants settle fraud claims with Citizens for \$1 million

A Miami-based law firm and its co-defendants have agreed to a \$1 million settlement with Citizens Property Insurance Corporation (Citizens) after the state-created insurer filed a lawsuit that alleged fraudulent claims involving the firm in collusion with a public adjusting firm and a water mitigation company.

The settlement was announced today at a press conference in Tampa hosted by Florida Chief Financial Officer Jimmy Patronis, who lauded Citizens' efforts and urged other insurance companies to take an aggressive stance against property insurance fraud.

Citizens Special Investigations Unit (SIU) initiated its investigation of the Strems Law Firm in 2016 after detecting suspicious patterns linking the law firm to the public adjusting and water mitigation companies. Investigators combed through more than 5,000 claims and sent more than 400 cases to the Department of Financial Services' Division of Investigative and Forensic Services (DIFS), which initiated its own criminal investigation.

Following investigations by Citizens' SIU and DIFS, Citizens filed suit in 2020 against the Strems Law Firm, public adjusting firm Contender Claims Consultants (CCC), and All Insurance Restoration Services (AIRS) arguing that the law firm engaged the public adjusters to create or fraudulently increase the severity of claims – mostly nonweather water loss claims – submitted on behalf of policyholders. Four individuals – Scot Strems (Strems), Guillermo Saavedra (CCC), Cesar Guerrero and Derek Parsons (AIRS) – were also named in the lawsuit.

The complaint alleged the defendants created false invoices and took other steps to inflate the cost of claims submitted to Citizens and other insurance companies. In Citizens' case, the alleged fraud dates back to 2014.

"Citizens and our DIFS investigators combed through 400 different cases, and it became clear that Miami-based Strems law firm was a major player in the fraud," Patronis said. "Had this fraud been left unchecked, it could have cost policyholders \$16 million a year. As criminal investigations continue, this action sends a loud signal that if you're ripping off customers, we're going to find you and hold you accountable."

Citizens and other insurance companies have argued that fraud surrounding assignment of benefits agreements, non-weather water losses, and abusive litigation have been major drivers

Carlos Beruff, Chairman, Manatee County • Jason Butts, Pinellas County • Marc W. Dunbar, Leon County
Lazaro Fields, Leon County • Jillian Hasner, Palm Beach County • Reynolds Henderson, Walton County • Erin Knight, Miami-Dade County
Nelson Telemaco, Broward County • M. Scott Thomas, St. Johns County
Barry Gilway, President/CEO and Executive Director

forcing premium hikes on Florida property insurance consumers. Joseph Theobald, Senior Director of Citizens SIU, has been coordinating Citizens' efforts to crack down on fraud.

"I'm proud of the work done by Joe and his SIU team and the collaborative relationship they have developed with DFS investigators," said Barry Gilway, Citizens President, CEO and Executive Director. "I thank CFO Patronis for his support as we continue to work together to ferret out fraud."

Under the settlement finalized March 21, 2022, Citizens is to be paid \$1 million and will dismiss the case against the defendants and all parties agreed to pay their own legal costs. Stremms and the fellow defendants continue to deny wrongdoing in the settlement agreement, while Citizens stands behind the allegations in its complaint.

The Florida Bar in 2020 initiated disciplinary action against Scot Stremms, the firm's principal. Stremms was suspended for two years by the Florida Supreme Court, and additional sanctions are pending. The firm was restructured and is now doing business as The Property Advocates, P.A.

"This settlement certainly accomplishes what we set out to do, which was to seek justice for what we saw as an egregious fraud and to expose the threat of this type of activity," said Theobald, Senior Director of Citizens SIU. "This action, combined with the actions of the Florida Bar and the Florida Supreme Court brought a swift end to this relationship."

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In 2002, the Florida Legislature created Citizens Property Insurance Corporation (Citizens), a not-for-profit alternative insurer, whose public purpose is to provide insurance to, and serve the needs of, property owners who cannot find coverage in the private insurance market.

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