

## Claims Committee Meeting Minutes

ACTION ITEM

New Contract

Contract Amendment

Other Committee Minutes

CONSENT ITEM

Contract Amendment

Existing Contract Extension

Existing Contract Additional Spend

Previous Board Approval \_\_\_\_\_

Other \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

<b>Item Description</b>	<b>Claims Committee Meeting Minutes</b> March 10, 2022
<b>Purpose/Scope</b>	Review of the March 10, 2022 Claims Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
<b>Contract ID</b>	N/A
<b>Budgeted Item</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – N/A
<b>Procurement Method</b>	N/A
<b>Contract Amount</b>	N/A
<b>Contract Terms</b>	N/A
<b>Committee Recommendation</b>	Staff recommends the review and approval of the March 10, 2022 Claims Committee Meeting minutes.
<b>Contacts</b>	Jay Adams, Chief Claims Officer

## CITIZENS PROPERTY INSURANCE CORPORATION

### MINUTES OF THE CLAIMS COMMITTEE MEETING Thursday, March 10, 2022

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened on Thursday, March 10, 2022, at 1:00 p.m. Eastern.

#### **The following members of the Claims Committee were present:**

Scott Thomas, Chairman  
Jillian Hasner  
Reynolds Henderson  
Jon Palmquist  
Jay Adams

#### **1. Approval of Prior Meeting's Minutes (December 2, 2021)**

**A motion was made by Governor Henderson and seconded by Mr. Palmquist to approve the December 2, 2021 minutes. All were in favor. Motion carried.**

#### **2. Strategic Update**

**Jay Adams:** Thank you, Chairman, and committee members. I am going to start with a very brief update on the Bay County wildfires. When this fire system broke out, Citizens and our catastrophe team worked with Verisk to determine the coordinates of those fires. We then leveraged our GIS mapping tool, and we mapped the homes or exposures we had in that area. We came up with roughly 300 potential structures that could be in the impacted area. We partnered with Jeremy Pope's call center team and we decided to go ahead and make some outbound calls. We wanted to make sure that all of our policyholders were okay, they had instructions of how to file a claim if they needed to, and at that call we were prepared to take their actual claim if they needed to report one. As of this morning, we had three claims from the Bay County wildfire, and that really is where we are at in that space. If there are no questions about that, I would like to go ahead and focus my strategic update today on our new litigation dashboard, and this was requested, if you recall, at the Board of Governor's meeting back on the December 21 meeting. I would like to start the discussion off speaking about litigation avoidance strategies that we have been working on for the past several years.

Jennifer, if you can go ahead and move over to slide number two. Citizens has leveraged many different types of strategies in the overall litigation avoidance space. We have leveraged product language changes, legislative reform, policy language provisions, quality assurance, and training to impact the overall litigation avoidance. Specifically, Citizens made a product language change effective August 1, 2019, and this is where we introduced a new non weather water sub limit of \$10,000 with a vendor cap of \$3,000, and that 3,000 as you may recall is included in the total sub limit. At the same time Citizens re-launched the Managed Repair Program that provides free water mitigation services, along with the permanent repairs leveraging credentialed contractors that provide a three-year workmanship warranty. These first two strategies were chosen specifically to respond to the volume of non weather water claims being reported, which at the time represented in excess of 50 percent of all claims being reported. These same claims were being litigated at a higher rate than the other causes of loss and

represented in excess of 50 percent of the new litigation received by Citizens. The Legislature passed House Bill 7065 which was the assignment of benefits reform, with an effective date of July 1, 2019. This new Bill focuses on establishing compliance standards, required advance suits being filed by vendors to allow carriers to attempt to negotiate settlement, and it created for the first time the shearing of plaintiff attorney fees based on the outcome.

Next slide. The Legislature passed Senate Bill 76 which was the notice of intent to file suit, with an effective date of July 1, 2021. This Bill was intended to address the litigation related to first party insureds and required a notice of intent be filed prior to filing the actual lawsuit. And this provides the carrier the ability to negotiate with the plaintiff attorney for a revised settlement, or to conduct a reinspection of the property if the claim was denied, and to leverage appraisal as a settlement option if coverage was afforded for the claim. Citizens began leveraging the appraisal language within the policy as far back as 2017, to attempt to resolve disputes to prevent them from moving into litigation. The appraisal strategy doesn't require any payment of plaintiff attorney fees and costs, nor does Citizens engage any defense counsel which is a further reduction of costs, and the process is binding. Citizens leverages its quality assurance program to specifically evaluate the effectiveness of the business unit claims handling and the overall identification and resolution of known disputes, and identifies any opportunities or trends to develop training around litigation avoidance.

Next slide. This is the AOB litigation avoidance dashboard. So, this slide recommends metrics specifically related to House Bill 7065. We are receiving about 38 percent of all assignment of benefits from previous tropical storm related events. In excess of 75 percent of all these AOBs received in 2021 had some type of representation associated with them. The important metrics are centered around the number of AOBs with a notice of intent to file suit. We received 2,627 notices of intent to file suit, and 1,662 of them ended up in litigation. The driver of those going into litigation are associated with AOB claims that were denied during the claim handling process. When the notice of intent to file suit is received, we review the entire claim handling process to make sure that we still believed that a denial was appropriate, and if it was, the vendor's only option at that point is to file suit. Due to COVID, courts are extremely backed up and we have not seen many of these actually be tried throughout the court system.

Next slide. This is the notice of intent litigation avoidance dashboard. So, the AOB dashboard that we just discussed was focused on a vendor and their respective activities. This slide is focused on the insured and their potential lawsuit. Post July 1, 2021, the effective date of Senate Bill 76, we received 1,576 notices of intent to file a lawsuit. Again, the most notable metric on this chart is the number that have declined demand, which is associated with the claims that were denied during the claim handling process. Just as we do for the assignment of benefits, we review the claim handling request to make sure that we still believe that the denial is appropriate, and if it was, the insured's only option at this point is to file suit.

Next slide. The notice of intent litigation avoidance dashboard. This is a continuation of the metrics available for the notice of intent to file suit by the insured. The first chart is looking specifically at the results from our appraisal team. The results indicate that the appraisal process is an effective means to settle these disputes. As you can see that 75 percent of the claims have settled less than the plaintiff attorney demand. The second chart is tracking the number of matters received into litigation that had a notice of intent to attached to it. For the reporting period we received 584 notice of intent matters, many of which were denied claims from the original claim handling and reaffirmed by the notice of intent team.

Next slide. This is a slide for legal services under the contract spend. This slide shows the litigation strategies discussed thus far are working. As you can see from 2019 through 2021, our policy in force has increased, our pending litigation has also increased, but our overall legal spend has decreased or remained fairly stable. The results have been achieved by a collaborative effort between our Legal Services, our Contract Director, our Claims Legal Services and our Litigation Specialists. Our Legal Services Director is responsible for the legal service billing guidelines and the administration of performance management activities for those firms that fall out of compliance. He is responsible for holding monthly meetings with the Claims Legal Services and Litigation Management to ensure their respective needs are being met by the legal service providers. Our Claims Legal Services prepare exemplars which assist the legal services firm in the filing of motions and documents. These exemplars create a consistency in the overall litigation process for Citizens, as well as save significant time for the legal service firms as they are not creating new content for each respective filing. And then finally, our Litigation Specialists reviews the legal services billing against the actual work performed to ensure that they are in agreement with the billing. They are required to conference the new lawsuit with the legal services firm, and together decide on a strategy for handling the lawsuit as well as establishing a budget that cannot be exceeded without additional file conferences.

Slide number eight, legal services contract compliance. This slide shows the contract compliance against the contracted term with detail in the bottom chart to further describe the reasons.

Slide number nine. This will be our 2021 litigation dashboard for first party property residential. This slide outlines the cost associated with litigation over the period of 2019 through 2021. As you can see, the average defense counsel fees per matter has remained fairly constant over the period at around \$700 a matter. The average litigation indemnity per matter has seen decreases over the period which further indicates that we are doing a good job of managing these claims. In the second and third chart is a breakout of information that is contained in the top chart. That second chart is specific to catastrophe lawsuits and the third chart is consistent with the non weather water losses.

And slide 10. This is a really just a slide that has some definitions that support the previous slide. With that, chairman, that concludes my presentation. I would be happy to answer any questions.

**Chairman Thomas:** Thank you, Jay, very much. Governor Henderson, your hand was up?

**Governor Henderson:** Yes, thank you. I just have a couple of questions for Jay, thank you. This is really good information and good to see legal spend has been going down. Are we tracking the speed of these settlements, like how long it is taking, how long it has taken to get to a settlement to reach a settlement. I would be interested in seeing if there is some correlation with legal costs going down because we are settling these things faster or not. Do you we do any kind of tracking like that?

**Jay Adams:** Yes, sir, we do track that number, but what I would tell you over, you know, the last two years specifically, with COVID, the courts have been closed. So anything that was going to move down the path of a trial really has been delayed, so that really is skewing some of our numbers. We are a little over 400 days on average to resolve all litigation. And not to go into too much detail, but when a new litigation is received by Citizens, we have a Triage Team that reviews that lawsuit, and they are reviewing the original claims handling to make sure that the appropriate decision was made. They are then trying to determine if this is a candidate for an early settlement, and what we mean by that is, something may not have been done 100 percent correct in the front-end handling of the file. There could be some condition, policy provision, something that would not make it a good trial candidate and we just want to get that settled as quickly as possible. So, we begin negotiations immediately. We then have a bucket that we call limited discovery. Many of the lawsuits that have come in prior to Senate Bill 76, we have no idea what the lawsuit is about and what is in dispute, because there was no requirement for them to include that. So, the limited discovery really is just trying to find out where the actual dispute is. Then we make another decision. Do we want to go ahead and attempt to settle it or do we want to move it down the trial path? And then the last bucket that we put that in is in the trial bucket, and those are things that we feel at Citizens that we have done completely correct, the claim handling was accurate, we have followed the policy provisions and, you know, these are folks that may be asking for something that is just not warranted by Citizens.

**Governor Henderson:** Got it, thank you. One more question. When you got the lawsuits going up, but the spend going down. Do you think that is like a lag? Is that like a catch up thing or is it still ongoing, or is that pretty much a closed number?

**Jay Adams:** So, the way that that number is being calculated is, we require in our legal billing guidelines that the defense counsel bill for us on a monthly base us on the work that had been doing for that given period. So even though the courts have been closed, that doesn't mean that motions and work on those litigated files is not being done. So,

what is really impacting that is we are doing a really good job from a contract administrative perspective, looking at the legal billing guidelines, looking at those attorneys that are doing the best work. We attempt to assign work to those folks that do the best work for Citizens, the most timely. Our partnership with Tim's group and Claims Legal, those folks are champions of developing exemplars and templates and things that help our defense counsel reduce the amount of time, which equals billing, that it requires to do files. So repetitive things are already taken care of in these exemplars, and they really have a library of them that they can pull from. All of that plus our Litigation Specialists are required to conference every one of these litigated files once it is assigned to defense counsel. In that conference they set up a file strategy and a budget for what that claim should pay out from a defense counsel perspective, and they manage the file to that budget. And a combination of all of those items is what has helped us to reduce our overall defense counsel costs.

**Governor Henderson:** Got you, thank you. That is all, you are going a great job.

**Jay Adams:** Thank you.

**Chairman Thomas:** Thank you, Governor Henderson. Anyone else on the committee with questions for Jay?

**Jon Palmquist:** Yes, I have a question for Jay.

**Chairman Thomas:** All you, Jon.

**Jon Palmquist:** Jay, this is great news, and as you know, part of an effective litigation management program is not only handling cases while in litigation, but preventing unnecessary claims from going into litigation. But also, there is always that component of deterrence, which is preventing unnecessary claims. And I think Senate Bill 76 sort of was geared towards that, and the roofing abuses that we have seen. Have you noticed yet any trickle-down effect on the number of claims that have been presented, let's say roofing and others?

**Jay Adams:** So, I want to make sure we are very clear that it is too early to tell, right. So, all we can do is look at the data that we have. We are receiving notices of intent at a pretty decent rate. Like I said, last year in six months we got about 1,600. At some point we expect that we are going to receive as many as between 800 and 900 a month, because what is what our trajectory has been as far as litigation. So, we don't have 100 percent of the claims that are going into litigation moving through that process yet. So, the reason for that is the policy needs to renew before we can enforce the Senate Bill 76 rule set. So that being said, Citizens has been very blessed in that we have not had the significant issues with roofing like the industry has, and that has to do with our book of business is not located in those areas where there seems to be frequent hail type of events. So, in that regard we have not seen any increase or decrease. What we see



has really stayed very stable. The majority of the claims that are coming in as notice of intent, as a matter of fact, 75 percent of them are on claims that have already been denied. So it could be, you know, wind damage with no created peril and somebody is trying to claim interior water damage. A lot of them are related to non weather water claims that may be late reported. And a fair amount of them are still from Tropical Storm Eta and prior storms. Believe it or not, we are still getting in excess of 600 new claims a month from prior wind events. Many of those our ability to adjust those losses is prejudiced by the late reporting, meaning we can't see what it looked like on the actual date of the loss when you don't turn in until 18 or 24 months after the fact. A lot of those claims have not been afforded coverage, and most all of the ones that are not afforded coverage are moving into litigation, because there being reported by plaintiff attorneys.

**Jon Palmquist:** Interesting, well, thank you, Jay.

**Jay Adams:** Thank you.

**Chairman Thomas:** Anything else? Julian, anything?

**Governor Hasner:** Not right now, no. Great job, Jay.

**Chairman Thomas:** Perfect. Jay, I have a few questions. Good job and good report. I do have a few questions for you. Looking back at this, I assume, I think it is page 6 of your presentation that had the metrics for appraisal.

**Jay Adams:** Yes.

**Chairman Thomas:** That is the scenario in which, and it actually goes through the appraisal process and the appraiser presents a number.

**Jay Adams:** Correct. So, on these claims, these came in and coverage was afforded in the original claim handling. So, these are scope and pricing disputes. Our notice of intent team reviewed that, they attempted to negotiate with the plaintiff attorney. If they were unwilling to negotiate that, what we did is went ahead and demanded appraisal and removed it over there.

**Chairman Thomas:** So that is why, so that is why we have 11 that reflect settled more than demand. In other words, it is not really settled, the appraisal process generated a number.

**Jay Adams:** That is correct.

**Chairman Thomas:** That was higher than the demand, and therefore, having invoked the appraisal process, we were kind of -- that is the number we had to honor.

**Jay Adams:** That is correct.

**Chairman Thomas:** It is not a scenario where someone on the notice of intent states for example send us a demand and we said, no, we will pay you more than that demand voluntarily.

**Jay Adams:** Right. These are specifically out of appraisal these metrics.

**Chairman Thomas:** Going then to the total legal services contract spend. While I appreciate that substantial reduction from 2019 through 2021, it is like from 95 million to 78 million. Do you see where I am referring to?

**Jay Adams:** Yes, sir.

**Chairman Thomas:** Isn't that primarily a function of COVID and things not moving, because if I look back at the last page it talks about the total defense counsel fees paid for the life of a matter, that has actually gone up from 68 to 95, right?

**Jay Adams:** What page are you referring to?

**Chairman Thomas:** On the part first party property residential, the length of spreadsheet that you provided, if I am reading it correctly it says the category in the first top of the spreadsheet, DFC fees paid life of matter. In 2019 that was on average \$6,800, and in 2021, it is \$9,500. So, it has gone up 50 percent, right per matter?

**Jay Adams:** Yes, that is correct.

**Chairman Thomas:** So, I think, does that indicate we probably shouldn't take a lot of temporary comfort from the reduction in total expense from 95 to 78? I mean, we have got matters that have to make their way through the system and that number is going to go up if we are spending \$9,500 per matter versus \$6,800 per matter, right?

**Jay Adams:** Right. But -- so let me read to you the definition of that, because I think this place a part in it. So, the numbers you are referring to, the definition is, the sum of legal spend total fees is divided by the distinct count of matters that a payment was made in each reporting period. There may have been less payments made because of COVID artificially driving that number up.

**Chairman Thomas:** Okay, that makes sense. Last thing and I will let you go. Remind me, if you can off the top of your head, I am not trying to test you here, what are the details of how Senate Bill 76 affects the potential for our payment of attorney fees based on the pre suit notice of intent? Isn't that -- I don't know what the exact number is. The idea here is that the notice of intent is going to provide sort of a baseline by which we are going to -- our court will determine sort of the success of the -- of the litigation, right?



**Jay Adams:** Right, I have that here for you.

**Chairman Thomas:** If you could tell me that, I would appreciate it.

**Jay Adams:** Sure. The way that Senate Bill 76 attorney fee sharing works is the amount of reasonable fees and costs are calculated based on the amount obtained by the claimant and the pre suit settlements offer. So, what that means is if this goes on into litigation, and let's say they, Citizens offered them \$10,000, whatever the ultimate court ruling is, if it is now \$20,000, then that percentage difference is 50 percent. So, if it is less than 20 percent, each party pays their own fees and cost. If it is between 20 and 50 percent, the insurer pays claimant fees and costs based on the awarded percentage. So, in the example I just gave, we would only pay 50 percent of what the plaintiff presented for their fees and costs. Now, if that award is greater than 50 percent, we are responsible for all plaintiff fees and costs.

**Chairman Thomas:** What if our pre suit offer is zero? What if we get a notice of intent and we simply decline, deny it and offer zero? I understand if they get a dollar we are on the hook for the entirety of their fees, but how does that affect the fee sharing portion of it if our offer is zero?

**Jay Adams:** It would still be based on the difference between, the pre suit offer would be zero, and then whatever the court award is would be the -- you would take the difference between those two numbers.

**Chairman Thomas:** Let's assume we prevail, and we get zero. Do we have an entitlement to fees under Senate Bill 76?

**Jay Adams:** Yes, because it would be less than 20 percent, and then -- no, I am sorry, not under this statute. The House Bill 7065 there is an entitlement, that is the assignment of benefit Bill. There is an entitlement to fees to the insurance carrier. In this Bill there is not. Either each side pays it their own, we pay it based on a percentage, or we pay 100 percent.

**Chairman Thomas:** Okay, it just always seemed to me that one of the best things of Senate Bill 76 was the idea of establishing a pre suit threshold of what success is, because that is part of the problem we were seeing with cases going, particularly cases that a lawyer has going immediately to suit with no demand, is that was the incentive, because there the idea is, well, I filed suit and I got one dollar, so therefore, I was the prevailing party I want my attorney's fees. And I wanted to make sure that it looks like we do deny the vast majority of the notices of intent we receive. I just want to make sure we are not passing up any opportunity as part of that process to make sure we are maximizing the value of what Senate Bill 76 does on the fee side. So, if it doesn't work, it would make better sense for us to at least make a nominal one dollar offer, somehow

that helps us then that makes sense. I just want to make sure their maximizing that portion, that component of Senate Bill 76 as a fee limiting measure.

**Jay Adams:** Okay, so just recap what I said about notices of intent. So, when that comes in if coverage has been afforded, we are going to negotiate with the plaintiff to see if we can resolve it. If that doesn't resolve it, we send it to appraisal, and appraisal is binding. So, when it comes out of appraisal, that claim has been settled. To go into appraisal, there is no plaintiff attorney fee award, there is no defense counsel legal spend. It is all handled through the appraisal process in the provision within the policy. 75 percent of all notices that have been received to date have been denied claims. So, if there is no open coverage and we review the file and we continue to support a denial of the claim, the only option at that point is for that plaintiff to file suit. So, the idea here is really the only thing going into lawsuits are coverage decisions, because we are trying with appraisal to resolve any scope in pricing issues.

**Chairman Thomas:** Now, when you say, coverage decisions, you are not merely referring to whether there is coverage under the policy, you are -- whether the particular event was caused -- whether the particular claim was caused by an event. We are not saying, oh no, you don't have coverage because there is an exclusion that applies or because you are not really the insured which might seem like sort of a deck action over coverage. You're talking about whether or not the particular claim they have submitted falls within the scope of the coverage under the policy, right?

**Jay Adams:** That is correct. They submitted a claim that Citizens has reviewed the coverage and determined that there is no coverage. We have issued a denial. And then they are going to suit to challenge those denials.

**Chairman Thomas:** But those are not for example suits that involve, I am the insured and I want \$10,000 and Citizens has offered me only \$7,500.

**Jay Adams:** Right. That would be a scope and pricing issue that would go to appraisal, because coverage has already been afforded.

**Chairman Thomas:** Okay, all right, Jay, I appreciate it. I appreciate the clarification for me. I am always in need of it.

**Jay Adams:** Sure, thank you so much.

**Chairman Thomas:** Anything else for Jay before we move on in our agenda? All right, thanks, Jay, good job, appreciate it.

### **3. Non Litigated Claims Update**

**Craig Sakraida:** Good afternoon, Chairman and committee members, how are you doing?

**Chairman Thomas:** Doing great. The floor is yours.

**Craig Sakraida:** Great. I will give a brief update on the non litigated claims arena. Next slide, please. One of the big things that we do every year is our catastrophe planning, it really turns into a year-round process, but we kick it off at the end of the prior year's CAT season, and we have rolled it into meeting with all the business units and updating the business unit cat plans. They are all due back to the Catastrophe Operations department by March 31. We have started our catastrophe readiness meetings for systems and processes, on a biweekly schedule. That is all managed through our IT Enterprise Resiliency team. We track approximately anywhere between 140 to 160 items that are critical to our CAT response and make sure that we are ready to respond. Currently we are at about 54 percent which is ahead of schedule already for this year. So, we are doing pretty well, and the catastrophe master response plan and all the resulting business units and testing should be completed by June 3 of this year.

Next slide, please. At the end of 2021 and beginning of 2022, what the Catastrophe Operations team does is work with our business partners to discuss and figure out what systems and what testing we are going to complete to make sure we are ready to respond to an event. And this is the list of the major tests that we do every year. The Customer Response Center, our deployment exercise, which is run under Jeremy Pope's team and that is really a customer outreach in the event that we have a large event, they could file first notice of loss at these customer response centers, get additional living expense checks, answer general questions and things like that. IT Field Services Equipment readiness, this is all the equipment that supports our catastrophe response centers, as well as our field deployments for claims. First notice of loss call center stress test, we work once again with Jeremy Pope's team to make sure that they're ready. That is one of the more critical tests that we do every year to make sure that they have the capacity and the training set up when we do have an event that they can get up and running as quickly as possible. With the advent of COVID a couple of years ago we do all of our adjuster onboarding virtually and all of our set up through our IT help desk is all done virtually. So, we do a test to make sure that our processes are complete, as well as everyone understands their roles. We do system load testing based on a one in 100-year event, and make sure that the scalability is there within all of our systems that supports ClaimsCenter and our response. And then we also are doing a test with our mobile app for our field inspection services. And the field inspection services is a little unique because it is designed to use less experienced adjusters or people what are new to the industry. They use an application through an Xactware product that they can basically take some photos, input some basic information, and what it does is it generates an estimate on the back end. So, we test that every year. We have had that in place for a couple of years to make sure that, you know, all the integration points are still where they need to be.

Next slide. Just a quick update. We had a small event, Lee County tornado as of February 18, there were 392 claims reported. And this is data that is for the entire state. So, there are claims outside of the Lee County area included in this, and we have made significant progress on this. As of this morning there are actually 554 claims, about 25 percent of them are in Lee County, there is only nine of them that have not been contacted and those have been filed in the last day or two. We are about 45 percent closed, and we are working through with the policyholders on the total loss mobile homes that were impacted.

Next slide, please. I know Governor Henderson had a question from the last meeting about, you know, the PIF versus the non weather water claim trends. So, this is a chart. The red line is actually the claim number, the amount of claims. And the blue is the slow increase or quick increase we have had in our PIF count. And there is not really, as I mentioned in the last meeting, there is not truly a direct correlation other than an upward trend. There are some, you can see some spikes and some downturn in the actual claims reported, and some of it is due to timing. Some of the claims, like we have a lightning season where we get a high amount of lightning claims because of the state. The same with non weather water, they're fairly consistent. However, usually at the end of the year they drop off a little bit, but it is, it is a trend that is increasing significantly.

Next slide. January 2022 was the highest volume of non weather water claims of 1,660 reported. We had 1,603 in February, so that trend is, like I said, it is fairly stable. Non weather water claims are up 33 percent from January 2021. Our program participation for MRP is held steady at about 21 percent. So you know, that still is increasing MRP claims due to our increase in PIF, and we have been successful with that in our non weather water strategy with the continued reinforcement of training with existing and new adjusters to handle additional volume.

And last slide. We are ready to respond to a catastrophe. So, I think that we put together a comprehensive claim, and there is, as I have mentioned in probably every Claims committee meeting it is not just the Claims Operation, it is an organizational wide effort to get this done. That concludes my presentation, Mr. Chairman. If there are any questions, I will be glad to answer them.

**Chairman Thomas:** Thank you, Craig, very much. I will open the floor to the committee for any questions.

**Jon Palmquist:** What type of testing and preparation do you perform for the possibility that there is no cell service in an area hit by a CAT? So, for example, the app for field inspection services. Is Xactimate used now? Cloud is no longer available? What are your contingencies?

**Craig Sakraida:** Yes, sir, one of the main things that we tried to accomplish with this application is it is available and can be used offline. So, you do not need an internet

connection to use this. So, the thought process behind it is, you know, like with Hurricane Michael, the communications were stressed for several weeks. So, the idea of this is we have satellite technology built on not only to our CSV which is our Claims Service Vehicle, which we can support, you know, several hundred adjusters. It is a satellite uplink, right. So, we don't need cell service. And we have two, we have another trailer coming online, a smaller one. So, we could set up a mobile office. We did this in Pensacola, we did this with Hurricane Sally and Hurricane Michael where we have the availability for adjusters to come, download information and then go out in the field to work, and it is successful. So that way the adjusters can, you know, get their assignments, they can download them, work in this application and then upload them when they get connectivity back, right. If they had to come back to our trailer location and do that or just out in a better service area. We have redundancies with our IT field services folks that provided us with significant amounts of resources with different types of routers, cell service, you know, we have as well as the satellite services that are in place to allow us to connect when there is no cell service as all. So, we have connectivity in the field.

**Jay Adams:** So, in addition what Craig just described, we also have our customer service response vehicles. So, I know there is two, two concerns when there is no cell service. Number one, can the Claims Operations continue to operate, and Craig did a great job in explaining that. I just wanted to give some comfort to this Committee, that the customer service response vehicle also has satellite capability. We can obviously turn in claims. We have service there where we can have voice over IP, so that the policyholders can occasionally allow policyholders to call others to let them know that they're okay. But we are very self-sufficient when it comes to there is no cell service or power in an area to be able to respond to a customer, as well as the actual claim perspective.

**Jon Palmquist:** Thank you. If I might ask two follow up questions. That process sounds great, Craig, thank you. The first question is, do you actually test that, and then the second one is how do you communicate that to all of the potential thousands of independent field adjusters that are running around a CAT hit area trying to unsuccessfully upload Xactimate estimates?

**Craig Sakraida:** Well, a couple of things. The testing is done in storm season, it is done every week and outside of storm season it is done monthly, because there is updates to the satellite service. So, we know that the satellites work. And we have equipment, all the equipment is tested on a regimented schedule. Our communication strategy is twofold. We could communicate through our Vendor Administration folks as well as our Citizens' storm page. And we are working on some enhancements with Teams to get the message out there. All the firms and the adjusters are aware, we publish where the trailer is going to be, here is how you can connect, here is what you need to do. It is an open Wi-Fi channel that they can get access to. So, it is really, we have used it in limited use with, you know, naturally Hurricane Michael and Hurricane

Sally weren't huge events for Citizens. However, we have confidence that this will work very well in a CAT, and we communicate with in the independent adjusters, this is where the trailer is at and this is how you connect to it so you can get all your work done, you know, if you need to. A lot of these folks have their own method of connectivity, and there is a lot you can do in Xactimate, itself, to get the estimate prepared. You just need a link to actually upload it. So that is what we are trying to provide them, as well as we do have contracts through our Enterprise Resiliency for physical office space, portable office space and differences like that if it is a huge, major event and we need to set something up, and they have backup satellite technology that is probably isn't as comparable to what we have invested in. So, and all five of our trailers have connectivity to support numerous amounts of adjusters.

**Jon Palmquist:** It is by experience that there are probably a fair number of the independent adjusters who haven't quite recognized that without cell connectivity they're not going to be able to use Xactimate the way they have prior to the most recent version change. So just a thought, that might be something you might want to stress with your vendors to make sure that each of the independent adjusters know that limitation in the new version of Xact, and then secondly, that you do provide all of these other alternatives to help them. And last question for you, do you have some mechanism of advanced pay at the CAT site, be it debit cards or wiring or something like that, and then do you test that?

**Craig Sakraida:** We do, we have at the Customer Response Center sites they do have the ability to issue a check to them that they can cash. We have worked on some EFT solutions and things like that, but we have the ability to give them funds at the site that they can go and get what is needed if, you know, their house was destroyed or they have no place to live, they can at least get on their feet.

**Jon Palmquist:** But if they have a check and the community is shut down because of a CAT, there is not much they can do, except make a very long drive to some other community that might have a banking facilities open. So, you are not using debit or wiring, ACH?

**Craig Sakraida:** We do not have that if place right now. We have worked on it significantly. We have not received a lot of negative feedback regarding the checks, and with some of the debit, there is challenges with the debit, also, because maybe the machines are down, the internet is down, and they can't use the debit card where they need to. So, there is challenges all the way around, but we are working on the best solutions for the actual customer. And we will reinforce, good suggestion, we will make sure we reinforce all that information to the independent adjusters about the connectivity.

**Jon Palmquist:** All right, Craig, thank you very much.

**Craig Sakraida:** Thank you.



**Chairman Thomas:** Thank you and thank you Jon for those good areas. Governor Henderson.

**Governor Henderson:** Just one follow up, Craig, thank you, great presentation of Jon's question. About what Star Link? Have you guys talked about using Star Link, that Elon Musk company where they have the satellite technology which they deploy in places of need like, you know, when you have a hurricane, everything is down, they can get you good Internet service. Have you all looked into that?

**Craig Sakraida:** Well, we have, our IT field services, we have contracts with Mobile Sat who is a government contractor. So, they do work for many different government agencies. So, we actually have a physical dish that is mounted on these trailers, as well as we have two fly away satellites. So, kind of like James Bond in a briefcase. We have the ability to set those up for smaller events. We took one of those out to Pensacola for Hurricane Sally. It works very well. So, I don't have any issues. I feel very comfortable with the connectivity that we have. It is a well-known government contractor; they have multiple contracts. The equipment is updated. We have a maintenance agreement with them on the equipment, spare parts for the equipment in case anything breaks, as well as trained technicians that work for our company that do an excellent job that providing us multiple, and we have so many different layers. I don't have the technical expertise to try to explain some of this stuff. We have many things in a box that can get us connected to the Internet in different ways. Either through satellite or different service providers that, you know, we have routers, different types of integration points like that, that we can get connectivity to people if they need it.

**Governor Henderson:** So, Craig, does it mesh out like if you are going toward the tent, for lack of a better word, towards the satellite so that people can get on their cell phones within a distance, within a radius and they can get on there and tell their loved ones they're okay or whatever. I mean, is that how it works, or do you have to literally, physically plug in to use it? How does this all work?

**Craig Sakraida:** Well, we have two different things. We have a Customer Response Center which is really focused on first notice of loss, additional living expense allowances as well as just general questions, and they have the ability to broadcast a Wi-Fi signal so that they can, you know, do that if they need to. If somebody needs to get on, you know, maybe check their bank account, do whatever they need to do and there is no cell service, we can definitely do that. The claims service vehicle is primarily for adjusters, and we have the ability to broadcast that. I think there is about a 700, 800-foot radius. So, our goal is to put it in a nondescript parking lot somewhere and tell the adjusters, hey, they don't have to be inside the vehicle. We have done plenty of testing. We did plenty of testing out with both Hurricane Michael on certain things and Sally with, you know, the availability of not only some of the smaller technology, but the fly away satellite. So, the adjusters have the ability, and then it is a mobile unit. So, if we need to

have people inside and talk to them or have a meeting, we have a place to do it in the event we don't have anywhere else to go at ground zero.

**Governor Henderson:** Okay, thank you.

**Craig Sakraida:** Thank you.

**Chairman Thomas:** All right, thanks, anything else for Craig? If not, Craig, thanks for the good report and for all the good work you and your group do, thank you much.

#### **4. Litigated Claims Update**

**Elaina Paskalakis:** Good afternoon, Chairman and Committee members. The litigation information that we submitted can be found in tab four, but I can certainly summarize it for you today. It essentially covers 2021-year end, as well as January 2022. So, we have got the full year information that we can go over and in comparison to the beginning of this year. Our overall experience has really been increase in volume, both in incoming and pending lawsuits. The new incoming lawsuit increase correlates with both the increase in PIF that we have had over time, in combination with the litigation that we are still receiving related to prior CAT claims, and I think Jay mentioned this, primarily Hurricane Irma and also Tropical Storm Eta. And just to give you some perspective. In 2021, we received almost 2,000 new Irma suits, and you know, that storm was back in 2017, but that is the tail on the suits that we continue to experience. And then in terms of Tropical Storm Eta, we received approximately 3,000 lawsuits in 2021 from that 2020 storm. And those are lawsuits both from the insured as well as the AOB companies that we receive. In terms of the metrics for the new incoming volume, in 2021, we experienced a 33 percent increase as compared to the prior year. We had an average of approximately 878 new lawsuits per month. When we look at what we are seeing in 2022, our early indications that we are going to continue to see an increase in trend in new lawsuits coming in. If you compare January of this year to January of last year, it is a 41 percent increase. We had 943 lawsuits, new lawsuits in January of this year. So, we expect that with the rising PIF to continue on.

In terms of pending, we had a 32 percent increase in pending volume in 2021, as compared to the prior year. Now, the majority of that is a different reason. The biggest driver is the in the increase in the pending are really the lingering effects from the COVID-19 response in the state court system. You know, for two years the courts were shut down, reopened, shut down, limited access. It is not that everything stopped, but certainly enough that it drove up our pending and it is taking longer to move things through the court system, and that is not only trials, like cases waiting to go to trial. That is also, you know, there was a disruption in even getting the most basic of hearings before the courts. We do expect it is going to take some time to work through that backlog. The courts are doing, I know everything they can and they're trying to be very creative in how to clear their dockets, but that I think is going to take a few, probably a

couple of years at least to really work through that and we will continue to see kind of that, maybe not continuing increase in pending, but certainly that higher pending volume.

The leading cause of loss for both new and pending lawsuits remains CAT at roughly 50 percent for each. AOB lawsuits, we experienced a 14 percent increase in 2021 as compared to the prior year. The overall distribution of AOB lawsuits was 31 percent of all of our new lawsuits were from AOB claims, and that is fairly consistent with what we are starting to see throughout the marketplace in a rise in AOB lawsuits as compared to the preceding years. In non weather water lawsuits, we have also experienced an increase of about nine percent in 2021, and this is a reversal of the downward trend in new non weather water suits that we were seeing from prior years. This one we believe is attributable, at least in part, probably the majority due to the rising PIF. The vast majority of the suits continue to arise out of the tri county area at approximately 84 percent for last year. However, we do see a slowly increasing volume from the Tampa area.

Insureds that were represented at the first notice of loss, which means when they reported the claim, they reported it with representation. For the lawsuits that we get in remain at about 54 percent of those new lawsuits. Now that was for 2021, and that is decreased by about eight percent as compared to 2020. And then when we look at the trend of insureds disputing claims prior to filing a lawsuit, meaning, after we adjust the claim, we communicate that decision to the insured. Sometimes we don't hear anything from them or any indication that there is no dispute with what our coverage decision is until we receive the lawsuit. We are seeing a trend where that is starting to go down. So in 2021, 33 percent, well, one-third of our cases, the insured didn't dispute anything from coverage decision, and the first thing we got was the lawsuit to indicate there was some disagreement. That is down rather significantly, about 25 percent since 2020, and this is one of those trends that we expect to see continued improvement, particularly with SB 76 going into full swing mid-summer. Really, we should start seeing that to be a very low percentage, because per SB 76, they are required of course, to notify us of some kind of dispute before filing a lawsuit.

In terms of the timing of lawsuits, the majority of lawsuits, between 60 and 70 percent, are being filed within one year of the first notice of loss, and this is pretty much the expected result in a non-CAT or as we move away from CAT events. We do see in litigation when there is a CAT event that will get suits much quicker. Usually, the majority will come in within six months of the first notice of loss. As we move away from CAT events that goes out to about a year or so.

And then lastly, in terms of the recovery information, which is tab six, I just wanted to report that our total gross recoveries were \$2,340,000 gross recoveries and the deductible refunded to policyholders is a little over \$200,000. So, with that, that concludes my update and am happy to take any questions.

**Chairman Thomas:** Thank you very much. We will open it up for questions anyone. Elaina, you must have been phenomenally thorough, you produced no questions.

**Elaina Paskalakis:** That is a first.

**Chairman Thomas:** It does strike me that in terms of, we are coming off the pandemic, we have Senate Bill 76, we have such a large increase in policy, it is kind of hard to get any sort of understanding out of like what we currently have in pending claims, and what that means for long term trends. It just seems there is too many factors at play right now for what that is going to result in 2024, you know, I don't know.

**Elaina Paskalakis:** Right, and we learn from the past, right. We trend, we track and all of that and that pretty much informs us what we can see in the future and from our past experience, but I agree with you, it is a bit after a crystal ball as well.

**Jon Palmquist:** Are you seeing the courts doing anything different to try to reduce the backlog, like bringing on visiting Judges?

**Elaina Paskalakis:** We have seen in limited cases where they will bring in a retired Judge to take over some of the trials that are coming on board, but I can't say that that has been happening with any great volume. Other things that are happening that we are seeing more and more Judges order cases to non-binding arbitration in hopes of resolution. Now, that is in addition to every case before it goes to trial goes to a mediation. The concern with non-binding arbitration is that it is non-binding, right. So regardless of whatever the result is, or the opinion is, both sides would have to agree to that for, you know, to institute it and resolve the matter. So, it is a little bit-- I applaud the efforts, but we are not seeing relief I guess from that.

**Jon Palmquist:** Okay, thank you.

**Chairman Thomas:** Jon, I can tell you from my experience, now I don't really do hardly any insurance first party work, but there is not a lot the courts can do. The two things that seems to me they're really pushing pretty uniform is asking the parties get matters set for trial quickly. In order to set a case for trial it has to be at what is called at issue and then the pleadings are closed. Normally when a case is at issue it sits for six or so months before anybody moves to set it for trial for various reasons. Most courts have a standing order within saying within 10 days of being at issue to file a notice for trial to get it on the schedule. The other thing is they're being much more, it is much harder to get a continuance. It used to be every case got continued at least once if somebody just asked for it even without cause. Now they're being much more strict about trying to keep cases that are on the trial calendar, on that trial calendar. That is kind of what I have seen in my practice, but there is not a lot more than they can do than that really, because the problem usually isn't a lack of Judges to try cases, it is when the trial week comes up do they have cases to try, you know, are they settled out at the last minute or

moved for continuances. So, I think at least up where I am, the problem is not a lack of Judges, it is the process to get these cases in front of Judges and Juries for final adjudication instead of lingering around.

**Elaina Paskalakis:** Part of the problem we are having in south Florida, it is a little bit of a different experience, I am sure you practice down there as well, but a little bit of a different experience in that we are seeing trial period with 200 and 300 cases set for trial at once, and we are like on call and don't know from one day to the next if a case is going to go to trial. The COVID-19 response really did kind of plug up everything. It is like a funnel, right, and there is only so much you can take. So that has been part of our experience.

**Chairman Thomas:** And it is problematic. I was on a trial calendar, and we had all the Pretrial conference, and I was like case 12 on the docket. Well, throughout my entire career if you were case 12 you just simply weren't going. They didn't even include you on the docket list coming forward, but now the concern is I can't limit it to four cases if they all go away. And so, you are stuck there as case 12, and you are like, well, do I get my experts ready or not. I am probably not going to go, but as soon as I make the decision I am not going to go, then I am in trouble if I am not ready. It is a tough situation all the way around, and that is expensive by the way, because if you do have to get ready for trial, and even though you are 95 percent certain you are not going, you have got to spend the money to get ready and if you don't go, and when you get back up again six months later from the lawyer's standpoint, you are not just ready to go, you have to redo it. You don't remember what you got ready for six months earlier. So, it is a cost we are going to, that we are seeing, it is really unavoidable at this point.

**Elaina Paskalakis:** Yes, it is a concern.

**Chairman Thomas:** All right, anything else for Elaina? If not, thank you very much, great presentation, great work. We will move on to our Vendor Update with Greg Rowe where we actually have some action items, I think.

## **5. Vendor Updates**

**Greg Rowe:** Yes, we sure do. Good afternoon, Mr. Chairman and the rest of the Committee Members. We actually have four items today. We have one action item and three consent items. So, I will go through those and certainly entertain any questions for each one. But to start with first off, we have our Fraud Analytic Software Action Item, and I am sure you are aware that insurance fraud just continues to be a major issue for all carriers. And as of today, at Citizens we do have an outstanding SIU department led by Joe Theobald, but even he will tell you that a lot of the methods that we use are highly manual and really result with limited functionality and capabilities. It is becoming harder to detect fraud through our manual efforts, because a lot of the parties that are adept at it continue to get better, and there is certainly a lot of fraud I would say that will bypass any efforts that we have with our existing capability today. Especially with our PIF count



continuing to grow, just the likelihood of fraud, both at the claim level and even at the underwriting level, just continues to increase dramatically. And just some statistics. If you look, and all this is available online, but the Coalition Against Insurance Fraud basically says that fraud occurs in about 10 percent of all property and casualty losses, which accounts for about 80 billion dollars for the industry every year. And a lot of times where fraud, you know, we think of the masterminds and the people that are really out there doing major damage, but it can be something as simple as someone that may have a fire loss and items that they own, it's inflated because they are going to say, well, I am going to turn these pictures in of this camera and this picture of this TV, and at the end of the day that is still fraud.

So, we have researched really over the past few years the market to see what solutions are out there that can really assist Joe and his team in our fight against fraud. And we found that there are numerous vendors that offer a variety of different software products, and they're really key feature is homing in on data, analyzing complex data real time using artificial intelligence to learn the data and provide responses back of potential fraud hits. It is not always verified, but these are just potential fraud hits. An example of those could be again where someone turns in a picture of a TV and they say, I owned this TV. The software today can look at that image, if it has the meta data, it can determine when and where that picture was taken, or if that picture was available online. So, if it is just something that someone grabbed off of Google it would identify that. We don't have those tools in place today.

In April 2021, we did release a solicitation to look out for a fraud analytic software vendor and we had seven responses, and five of those vendors went through to the negotiation phase and eventually this team here at Citizens narrowed that down to three potential vendors. Last November after an extremely thorough analysis of all the vendors, those final three which were Cognizant Technology Solutions, FRISS, Inc. and the SAS Institute. Which this team, like I said when it was thorough, we had members from just about every department here at Citizens, obviously, Claims, Special Investigations Unit, Underwriting, IT, Data Analytics. Just a variety of folks.

It was determined that FRISS presented the best value overall to Citizens over the life of the contract that we were looking for. The last piece I will tell you, FRISS estimates that the software that we are seeking approval for today has resulted in approximately one billion in fraud savings across the industry. And Joe will tell you, Joe Theobald, our SIU Sr. Director, it is very hard to pinpoint fraud metrics sometimes, but from a cost benefit analysis, we do feel that with this software we will be better positioned to catch fraud. Joe says about today on average about four and-a-half percent of our total claim volume results with some sort of SIU case or an SIU involvement, which makes sense. We are fairly limited. And if the data from the coalition is correct, we are really around 10 percent, then hopefully that extra six percent we can get to will result in substantial savings for Citizens. So that is where we stand on there with that particular software.



So we are ready at Citizens to move forward with an implementation with FRISS pending your approval. So, I will pause there for any questions.

**Chairman Thomas:** Any questions?

**Governor Hasner:** I have a question. It is noted that the anti-fraud technology continues to evolve rapidly. And so I just wanted to ask, obviously it is going to take time to implement. I think it is noted it is going to take six to nine months to phase in. And so given that, and I appreciate the structure five years and then renewal but what is the level of certainty that it won't evolve so rapidly, that five years is a long time in technology.

**Greg Rowe:** It absolutely is. And one of the things we have seen with a lot of our contracted vendors, particularly in the SaaS solutions is they're not stagnant. They are continuing to improve their products. Now a lot of times some of those product offerings come with additional costs, but the vast majority of our vendors that we do work with today, it's included. And so, if they procure maybe another software or they build some additional capabilities to their proprietary systems, we can take advantage of that. So, we feel confident with this vendor that they will continue to evolve their product and we can get benefits from that, but it is always something we are keeping an eye on as well. You are absolutely right, technology evolves extremely quickly, but we know we really have to do something, because today we really are tied to some manual reporting. And we are very reactive as opposed to proactive. So, I would say that is the biggest transition that would really move us into a different phase from an SIU perspective of we are now proactive versus reactive.

**Governor Hasner:** And then my final question. It says that costs are incurred based upon successful implementation with claims. So, I just want to check. Is this a fixed cost that we are voting on in terms of implementation or could it go outside of scope, I guess, based on if it takes longer to implement?

**Greg Rowe:** No, there is a stated implementation fee within the contract, itself, of \$235,000. So that is what it is, and that is purely from the vendor. There is nothing from our end. Obviously, there is going to be some IT involvement, but there is not much of a heavy lift from our end which is really one of the reasons why we chose FRISS because Kelly Booten's team is strapped thin as it is. So no, that is what we are anticipating paying and that is what we are working on with this particular contract.

**Governor Hasner:** Okay, thank you.

**Greg Rowe:** You are very welcome.

**Jon Palmquist:** Further to Governor Hasner's comments. Is this an exclusive contract number one, and are there any, any minimums such that three years down the road Elon

Musk comes out with an even better system that gets in the minds of the consumers or whatever, are we bound to continue using this for another two years? Or do we just discontinue use and move on to another platform without a guarantee of exclusivity or anything like that?

**Greg Rowe:** Yes, great question. And to answer first off, yes, it is exclusive. We don't have a backup vendor or anything along those lines. So, I would say with any of our contracts we do have in place, and definitely Steven Guth's team with the contract negotiations works on this, but with most of our contracts unless it is stated we can terminate with convenience. Meaning if there is something that is just not functioning for us, we do have the capability to terminate that contract. Now, there could be some penalties if it is built into the particular contracts, but with this particular one, the five-year base term is really, by the time we get it implemented, because it certainly takes time and with any artificial intelligence or data, it has to consume massive amounts of claims data for it to really be relevant. So, between now and the five-year threshold, even if there is something that Elon Musk does come out with that is, you know, just changes the market, I still don't know, we would be in the same boat we are today where if we were to transition to that I think it would still take time from an implementation phase and everything along those lines. So, I am not sure if I answered your question or not, but that is where we stand again with this contract. We feel extremely confident that it is going to provide everything we need, and five years flies by, and having not ever had anything that is this robust, it is going to be a learning experience for us as well.

**Jon Palmquist:** Okay, thank you, Greg.

**Greg Rowe:** You are welcome.

**Chairman Thomas:** Greg, I have got a few questions and anyone else who can answer, feel free to chime in. I don't know that I have seen this before. Maybe I didn't pay attention when the ITN went out. What was the genesis of this ITN? Did we receive some sort of soul dust or did we have an internal idea that we needed this?

**Greg Rowe:** It is really something that we have looked at for quite some time knowing that there is technology out there and knowing that, you know, we are continuing to expand from a policy count standpoint. We don't have anything in place today, either from the Claims side or from the Underwriting side to do anything with anything other than I would say highly manual processes. So, when you look at the market, I think 90 percent of insurers today say they have some sort of software that they leverage for this space, which we do have some limited software, but nothing with the rest of the market. So, it really is to get us to the place where we are not an easy pickings for those people that are apt to commit fraud, but I don't know if anyone else from Citizens has a different take on that, but that is really the genesis of it.

**Chairman Thomas:** Here is what gives me some pause here is, for example, the statement that in the summary, projecting a cost savings associated with anti-fraud technology continues to be elusive for insurers. This may well be the case, but the cost isn't elusive. I mean, we are talking about spending \$800,000 a year. And so where do I get back my \$800,000 plus a year to make this worthwhile? We have got to be able to identify that we currently right now have, are paying \$800,000 in undetected fraud claims that we are now going to detect? Is that the theory here? Where do I get this money back?

**Greg Rowe:** Well, if we are six percent behind the industry standards meaning that there is some sort of fraud, 10 percent for property and casualty and we stand at around four and a quarter percent for our non catastrophe claims. Knowing that our PIF count continues to grow, that is really what we are looking at. Joe's team today just doesn't have the horsepower to find that extra.

**Chairman Thomas:** What does SIU net for us today, what net recoveries do we make in terms of trying to root out fraud today?

**Greg Rowe:** Since you are on camera, I am going to turn it over to you.

**Joseph Theobald:** Yes, this is Joe Theobald, Senior Director of the SIU. Today we measure and track the number of claims that we investigate in SIU which runs around 1,400 claim investigations alone. In addition to that, we have somewhere around 300 to 400 underwriting agency investigations that we do a year. 23 percent of the investigations that we investigate in claims usually result in some evidence of fraud being committed and we report those to the fraud division. So, fraud software not only improves upon the ability to detect fraud in terms of hit, that 10 percent that Greg was talking about, but also improves upon the successes. Now, to drive to your question, what are we measuring, what is our fraud savings per year? That is something that is difficult to measure because we don't, if for instance we stop a fraud ring, okay, and they no longer submit fraudulent claims, the deterrents of that, the future claims is not something that is easy to quantify.

**Chairman Thomas:** Sure, but we are talking here at the margin, we are talking about the value of this would be the fraud ring that it allows us to find that we otherwise wouldn't have found, right? I mean, we are already doing this. I mean, look, in the terms of our claims, our legal fee expense, \$750,000 a year is not gigantic, but I just don't know, it is hard to say I could do that but I don't really have a concrete number of what my benefit I am getting out of that is, my economic benefit. And I am not sure, so our savings would be realized primarily through claims. We will pay less out in claims presumably, and also through actual proactive fraud investigations, recoveries, referrals for criminal prosecution.

**Joseph Theobald:** And also this is an end to end insurance product. So, we want to leverage this in Underwriting.

**Chairman Thomas:** That would be my next question. What does it do at the application process? Does it help with the application process?

**Joseph Theobald:** Yes, so the content of the ITN, the solicitation was to obtain a product that not only leveraged the analytics for a claim, but also into the area of underwriting and agent gaming.

**Jay Adams:** Let me back up just a little bit. So, this software is designed to look for relationships that we cannot discover. So, if you think about it from an auto accident perspective. There are rings of folks that go out and get themselves in auto accidents, file suits and so forth. They go to certain chiropractors, certain doctors and those types of things. Property is just starting to get developed to be able to develop some of that same type of relationships. Joe and his team have done a great job of stopping one bad actor ring and that ring is the RICO lawsuit that we filed. Since we filed that RICO lawsuit, we have received zero claims from those bad actors. We were receiving somewhere in the neighborhood of 600 per year, and most of all of them ended up in lawsuits. Most all of those claims were staged or exaggerated, and it was, I will call it almost happenstance of the volume that we stumbled upon that. But what happened after we stopped that, and I would say that that is multiple millions of dollars that we stopped in 2021.

**Chairman Thomas:** Without this software.

**Jay Adams:** Without the software. However--

**Chairman Thomas:** But it is a \$750,000 nut on this software.

**Jay Adams:** Right.

**Chairman Thomas:** I am trying to find out what the marginal advantage of this software is.

**Jay Adams:** Okay, I am going to try to go there. So, what has happened since we broke up that ring, now we are starting to see new plaintiff attorneys get into relationships with some of these bad actor groups that were involved in our RICO lawsuit. We had no way to really detect that going forward until there is a significant volume of claims where they show up as an anomaly again. This software is looking at public records information. It is looking at relationship between people, it is looking at prior claims information. And what it does is, it's bringing forward to us referrals to go out and investigate that otherwise we wouldn't know about. And the same thing happens on the underwriting side. It is going out there looking at all types of public information and

comparing it against the property application that is submitted to identify fraudulent statements. Like a consumer could say, I have had no claims. Well, maybe they had one five years ago that they didn't include in their application. It would flag that for a prior loss.

**Chairman Thomas:** I understand. Part of it I think our counsel pool ought to have a pretty good handle on that after a while, but look, I hear what you are saying. I am not questioning necessarily the utility of it. I just have a hard time with not being able to monetize or objectify the dollar value of this compared to the very hard cost that is going out for something. What was the numbers right now our SIU unit was four and-a-half percent? Do we have the capacity to double that if we had the knowledge? What can we do with SIU right now to even have capacity to capitalize on this? I don't know.

**Jay Adams:** Chairman Thomas, what is happening today is we are investigating leads based on manual processes that we have in place. If we have an automated system, what it is going to do is generate credible leads so that the leads we actually focus on should render more SIU engagement and success in denial of claims, stopping some of the litigation. And to be honest with you, the opportunity cost of not having this is it makes it look like Citizens doesn't take fraud seriously, and we want to –

**Chairman Thomas:** But that is not a measurable cost. I was very excited there when you said the opportunity costs, I thought you were going to give me a number, what the cost was of not having this, but we don't know that number, do we?

**Jay Adams:** We do not know that number.

**Chairman Thomas:** But it must be something greater than \$750,000 a year.

**Jay Adams:** Based on the results that we got during the ITN process from FRISS, they indicate that we should see significant savings over and above the annual spend based on what they are seeing across the insurance industry. We do not put hard dollars to SIU savings, because we don't want that to be discoverable, and potentially some type of class action suit or something in the future associated with that. And it is hard to determine. So here is a good example of that. SIU gets involved in a claim that either was staged, or they have presented significantly more damages than actually were there. And that insured decides to withdraw when we force them into recorded statements and evaluation under oath. They realize we are zeroing in on the problem, they withdraw the claim. Well, we would consider that an SIU win, because the opportunity was we didn't pay that claim. That claim not going into litigation at a future date, but it is hard to measure what their involvement really saved the organization for that transaction.

**Chairman Thomas:** All right, all right, you guys, I am not going to beat it any further. I have doubts about the actual operational value of this, but I am not going to hold it up any further. Let's narrow the question.

**Jon Palmquist:** Chairman, may I ask just a couple of follow questions on that?

**Chairman Thomas:** Of course.

**Jon Palmquist:** I am still a little concerned about the exclusivity and the guarantee for the five years, sort of around what Chairman Thomas was saying as well and whatever technology develops. But what I have learned as I have instituted systems like this, I have managed SIU, continue to for full disclosure, I continue to manage SIU for my companies, and as we have instituted programs like this, you will find that there is going to be a lot of extra noise that the system will create for you. A good example is it is going to flag every fire that comes up, and it is not going to flag that the fire was created by something clearly electrical in nature, and it wouldn't and it couldn't, but it is going to require resources to phone the fire department and to weed out that particular fire claim as a non claim, okay. So that is extra personnel, that is extra time, and you will get a lot of that I believe. I have seen a lot of that in the systems I have implemented. Do your cost savings anticipate the additional staffing that is going to be required both internally and externally for field investigators to go out and investigate the increase. And more than likely a more, a greater number of referrals than you are anticipating today.

**Jay Adams:** I would first of all say that I believe we have the ability to customize the system to help cut that noise back, right. Joe indicated that one of the things that made this a really good value for us is that it could data mine text fields and understand things from what would be contained in claim log notes, not just dollar fields or name fields. So with that technology for example, your example around electrical fire. If the notice of loss indicates that it is an electrical fire, we would be able to data mine that and if we chose that that did not need to be included in the referral process, it would exclude it. So there will be a learning curve for the system and for Citizens when it initially sets out. However, we do believe that we will tune this over time so that we really are only acting on credible referrals.

**Jon Palmquist:** The savings do not anticipate additional staffing for internal and external field investigators?

**Jay Adams:** This action item is only for the software, itself. We do have contracts in place for SIU investigative services that is vendor services. We already have budgeted amounts for those and those contracts are already in place.

**Jon Palmquist:** I guess I didn't ask it right, because you have not projected any kind of savings, you have projections, and to the points previously made, it is very difficult to identify hard core savings, just like it is difficult to identify the actual amounts of fraud.



You state 10 percent. The industry, number of industry sources will say fraud is as high as 20 percent, even higher on soft fraud. Anything we can do to increase the tension and the deflection of any of these kind of claims is great, but again, you have not projected savings, but it is going to, I guess maybe the better way to say it is your costs that you projected don't necessarily include the additional staffing cost internally and externally, is that correct?

**Jay Adams:** Not under this action item, no, Sir.

**Jon Palmquist:** Got you. Okay. Thank you, Jay.

**Chairman Thomas:** Unless there is anything else, I guess probably the best thing to do is let's go ahead and have, before we have a motion on it, do we want to have the action item read to us? Is that what we normally do?

**Greg Rowe:** That is correct. If there are no more questions, I can certainly read the recommendation.

**Chairman Thomas:** Why don't you do that.

**Greg Rowe:** Okay, thank you, Mr. Chairman. Staff proposes that the Claims Committee review, and if approved recommend the Board of Governors authorize Citizens to contract with FRISS, Inc. for an initial term of five (5) years with one three-year and one two-year optional renewal terms, for an amount not to exceed \$7,625,000, as set forth in this Fraud Analytics Software Action Item, and authorize staff to take any appropriate or necessary action consistent with this Action Item.

**Chairman Thomas:** Thanks, Greg. I will entertain a motion consistent with the staff recommendation as read by Mr. Rowe.

**A motion was made by Governor Henderson and seconded Governor Hasner to approve and recommend Board approval of the Fraud Analytics Software Action Item. Mr. Palmquist voted nay. Motion carried.**

**Chairman Thomas:** I didn't actually cast a vote. I am going to vote aye on this, but I want to make the record clear, I am doing that in order to move this on to the Board for considerations. My vote today to move it forward doesn't necessarily mean that in two weeks I will be supportive of it. Like I said, it just came up on me as part of this agenda item and I just want to look into it a little further. So I don't want staff to be at all confused by my support for it today necessarily would indicate support for it in two weeks time.

**Governor Henderson:** Mr. Chair, I would like to say I agree with you and Jon on your comments, and I would like for staff to make sure that we do have the ability if some better technology comes out, we have the ability to get out of this.

**Chairman Thomas:** Yes.

**Governor Henderson:** So, I want to move this forward, I want to get it going. I don't want to be caught naked on this, but at the same time I want to make sure we can get out of it if we find there is better technology.

**Governor Hasner:** That and also is there a way to, I mean, within these five years before renewal understand cost savings.

**Jon Palmquist:** Chairman, I hate to be the naysayer and as a person who manages SIU, I am the biggest believer in the technology that I have heard today. I am in the same boat I guess as the rest of the Board here, and that is I don't think we would lock in for five years. As a corporation, and as an attorney for a corporation, I never lock in for five years, especially with high technology like this.

**Jay Adams:** Greg, in our contract, don't we have a provision that we can cancel for convenience at any time for any reason? And then there is also performance reasons that we can get out of the contract. So just to make this group feel better, even though we are asking for a five-year term, we could get out in six months, a year, whenever we choose to during the period, and that can be again for any reason. If they're not keeping up with technology we could do a new solicitation and move to a new vendor in that time period and so forth.

**Greg Rowe:** You are absolutely right, Jay. Per the contract provision, basically it is 120 calendar days notice we would need to give to the vendor for termination without cause, termination for convenience, just like you said. So that is baked into this. So at any point in time, even if it is after a year if we wanted to, with 120 days' notice we can certainly get out of this contract if needed.

**Chairman Thomas:** I think it is fair to say we are going to move this on to the Board with obvious reservations, I think it is safe to say this will not be on the Board's consent agenda in a couple of weeks but will likely be the subject of separate discussion. I think that is one reason to go ahead and move it to the Board, because we have had many instances in which things might have thought would be consent weren't and get discussion at the Board. So, I don't think there is much reason to hold this up here in committee for some period of time where maybe we could eventually pass it on with our enthusiastic endorsement only to then have the same discussion at the Board level that may slow it down. So, I think what you are hearing is a willingness to let the Board consider it. That willingness is probably why I didn't vote with Jon on it, but I just think it needs to be clear, there are reservations, and in the presentation to the Board those

sorts of things really probably need to be a focus of the presentation in terms of affirming our ability to get out, affirming how this is going to be implemented to realize some objective savings, addressing issues which I think Jon raised, which is not part of this contract, but when you evaluate what the value of the contract is, make sure you are, you are taking into consideration what costs it also imposes at the same time. All thing that I think we will have a good discussion on maybe in a couple of weeks and see what we are going to do with it from there. But having said that, we had the vote, it is closed, that is the action on it, but I guess technically because the vote was to recommend I just think, I want to make it clear that this committee is moving it forward, really recommending the full Board consider it, but I don't think it has our full endorsement coming out of committee. All right.

**Greg Rowe:** All right, thank you, Mr. Chairman. I will move forward to the next consent item for Commercial Adjusting Services. Just to let you know, currently at Citizens we have under contract four independent adjusting firms that provide dedicated commercial adjusters to service our claims for us, and that contract ends October 22, 2022. As of now, our commercial model for handling claims is a little bit different than our residential claims. For commercial we have your typical what is called a desk adjuster who owns the claim, and then they task that out to a field adjuster who goes out and handles all the field portion of the claim. So, it is almost like a tag team effort. With our residential side, at least as of now, we operate under the managed claims model where it is from cradle to grave. Typically, one adjuster handles everything. So really what we are looking at as of now from a strategic standpoint is having a synonymous or a universal workflow between commercial claims and residential claims. So, there is some strategy sessions going on right now looking at our current model. And commercial volume is extremely low. We get around 6.2 commercial claims per month. So, we are looking at a potential contract that would combine, a subsequent contract, that would combine commercial and residential resources into a single contract.

So at this time what we are requesting is a six-month extension on the existing commercial contract, which would take us to April 22, 2023, and what this would really do, it would allow us to time to develop our new claims model that I spoke to, to determine if we really can indeed roll commercial and residential into a new solicitation under a single contract. If we move forward with this, there would be no additional funds requested, because we have plenty of spend left on the approved amount. And during that course of six months, between now and April 2023, we may indeed go out with another commercial solicitation because we determined that it is best served being handled on its own, but we are in the throw of that decision right now. So, we don't want to go out to market with a new contract. We need more time to decide what we want to do with this. And so we are just asking for a six-month extension, which is authorized pursuant to the Citizens purchasing police under Section 287.057 for six months. So, to recap, again, this would get us to April 2023, and give us some time to determine really what our next steps are for our commercial contracts. So, I will pause there for any questions.

**Chairman Thomas:** Greg, this is one of three consent items, all of which involve renewal of existing contracts, right?

**Greg Rowe:** Well, this is not a renewal per se, this is an extension on a renewal.

**Chairman Thomas:** Extension, right. I mean, I am fine if you want to give us the other two when we can consider them all at once and then just adopt them as matters on the consent agenda or how everybody wants to go forward, but I don't know that we need to devote, I am not cutting anybody's right to ask questions, but do we need to devote a lot of time getting through these three?

**Greg Rowe:** Okay.

**Jon Palmquist:** I agree.

**Greg Rowe:** Staff proposes that the Claims Committee review, and if approved recommend the Board of Governors authorize a six-month extension, through April 22, 2023, of the Commercial Adjusting Services Agreements with Alacrity Solutions Group, LLC., Bradley Stinson & Associates, Inc., BrightClaim, LLC, and QA Claims, as set forth in this Consent Item and authorize staff to take any appropriate or necessary action consistent with this Consent Item.

**Chairman Thomas:** Okay, thanks. Do we need to vote on that or just make sure we are not withholding our consent? Do you want an actual motion? I will entertain a motion to adopt as recommended by staff.

**Greg Rowe:** Yes, I was going to see what Tim Cerio said about that, but I believe that is the next steps for this committee.

**Chairman Thomas:** Let's have a motion to approve.

**A motion was made by Governor Hasner and seconded Governor Henderson to approve and recommend Board approval of the Commercial Adjusting Services Consent item. All were in favor. Motion carried.**

**Chairman Thomas:** What are our other two consent items here, Greg?

**Tim Cerio:** Sorry Mr. Chairman, that is correct. I could not unmute my zoom.

**Chairman Thomas:** Thank you.

**Greg Rowe:** So, this one, I wish we would have placed this one right after the fraud analytics, because this speaks to one of the questions that came up earlier for fraud

analytics and it is for special investigative services. So, as spoke to earlier, we do have a contingency, we have contracts with seven vendors who do provide field investigative services for Joseph's SIU team, and these contracts have been in place since 2018 with an approved spend amount of \$850,000, and they're set to expire December 5, 2023. When these vendors were procured in 2018, our PIF count was 443,000. And so the projected spend was based on that volume of policies. But as you know certainly our PIF count has continued to swell up over 776,000 as of January 31, and it has really contributed to put more horsepower behind these fraud investigative services for Joseph's team. And then secondly, the catastrophe claims, there is heavy SIU involvement with those, particularly with Eta. So, at this point, the contract spend, we don't have enough left over. If we look at it, in 2021 we spent approximately \$183,641. We have two years left on that remaining agreement, and we only have \$284,746 available of remaining spend. So, our current volume of work if we don't do anything, SIU would lose the ability to outsource anything to these investigators. So, what we are looking for today is an increase \$150,000 to get to us contract expiration, so we can continue to use these services without interruption. I will pause there for questions.

**Chairman Thomas:** Why don't we hire outside investigators who already use a fraud analytic vendor like FRISS? Why don't they bear the cost of this? We are paying them a lot of money. Do we know they don't? Do outside investigators already have a system like this?

**Greg Rowe:** Well, they wouldn't have access to all of our claim's data. We don't share anything but the relevant data for that claim. For them to do that, we would have to give them access to every single piece of claims data to house that.

**Chairman Thomas:** Not in terms of what Jay had identified as how you pick up relationships between, you know, people. Anyway, I didn't, I don't mean to go back to that. All right, so you are just looking for additional spend for the outside investigation investigators, right?

**Greg Rowe:** Right, it is an additional \$150,000 to get us through until the end of this contract which expires December 5, 2023.

**Jon Palmquist:** This is the request to have that ability to spend that, not that you will spend that, correct?

**Greg Rowe:** Correct. I mean, based upon historical data we more than likely will.

**Jon Palmquist:** Okay, thank you.

**Greg Rowe:** You are welcome.

**Chairman Thomas:** I take it while our original contract was for a total of \$850,000, that was an \$850,000 maximum and we get billed hourly or per assignment or something like that?

**Greg Rowe:** At the claim level, absolutely.

**Chairman Thomas:** All right. Unless you already did it, I am sorry. Did you read the recommendation?

**Greg Rowe:** I have not, but I will. Staff proposes that the Claims Committee review, and if approved recommend the Board of Governors authorize an increase the previously approved contract amount for Special Investigative Services agreements from \$850,000 to \$1,000,000, as set forth in this Consent Item and authorize staff to take any appropriate or necessary action consistent with this Consent Item.

**Chairman Thomas:** Thank you, Greg. And before I entertain a motion, everybody on staff probably knows this, but unless this is done as a consent item at the Board, you are going to be asked why the additional spend wasn't enough. So be prepared for that. But unless there are any questions, I will entertain a motion to approve consistent with the staff recommendation.

**A motion was made by Governor Henderson and seconded Governor Hasner to approve and recommend Board approval of the Special Investigative Services Consent Item. All were in favor. Motion carried.**

**Chairman Thomas:** The motion carries. The last item for you, Greg.

**Greg Rowe:** All right. I know we are in extra endings here, so I will get through it pretty quickly.

**Chairman Thomas:** That is my fault, sorry.

**Greg Rowe:** That is fine. This is for our Sinkhole Stabilization Services, and at this point Citizens, even on our website you can see it, we offer a voluntary sinkhole stabilization repair service for our policyholders that have confirmed sinkhole damage. And this program just gives access to a network of qualified and credentialed vendors that we contract with, and the work that they do for our policyholders is professionally monitored and warranted for five years. So, the current contract has been in place since January 2019, and its set to expire January 9, 2023. And as with a lot of other things in the construction industry, due to production delays and labor shortages and overall construction demand in the state, the prices specifically for concrete and steel have continued to escalate, and these are certainly used in the sinkhole stabilization process.



So, the existing contract does provide us the opportunity to increase any pricing, but it caps it at 25 percent of the original agreement in place. And based on the allowance afforded in the contract, we have increased some line-item pricing. We did that May 24 of last year, but basically the amount that we are seeing for concrete, grout, steel, it's exceeding that 25 percent threshold that we are allowed to increase the rates for. So basically, what that means is we are in a position now where some of the material costs have outpaced our ability to remain competitive and for our vendors to be able to operate with. So we are looking to increase that 25 percent threshold for this contracts, and really set new benchmarks as of now. New levels for those items that we have done our research to determine this is where the market pricing stands today. It gets us where we believe we need to be, and if we need to increase 25 percent from there as we did in the original contract, we certainly could, but we really need to be able to do this for our vendor. So basically, to summarize, this consent item allows us to adjust the current market material pricing as well as build in that 25 percent cushion for new material prices and assure our vendors are paid appropriately and continue to perform quality work. With that I will pause for questions.

**Chairman Thomas:** Any questions?

**Jay Adams:** Just so you guys are aware, so this is paid out of indemnity at the claim level. So, whether it goes to the Managed Repair Program or it comes in that they have chosen their own contractor, we are going to probably be paying the same rate.

**Greg Rowe:** Correct. And one thing I failed to mention was, we are not asking for an increase in spend. We have far and away enough budget left, \$30 million was approved and as of January 2022, we are only just north of \$2 million. So it would not increase any additional spend request per se.

**Chairman Thomas:** And Greg, am I correct, and this is like most of our contracts, but they're really an authorization to do business with the vendor. We are not required to use them, and I assume the vendor is not required to provide the service.

**Greg Rowe:** Correct, this is voluntary for our policyholders. It is a voluntary, it is a service that we offer for sinkhole, which used to be a huge issue in the state. It is not anymore, it is low volume, but it is voluntary.

**Chairman Thomas:** But the idea here is that at the current rates our vendors simply won't do the work. It is like we're letting them out of a bad deal they made.

**Greg Rowe:** Well, I mean, basically, correct. I mean, they are still bound by the terms of the contract.

**Chairman Thomas:** They don't have to undertake any particular work, do they? They are free to just simply say at these rates I can't do that. If I do could it, I will do it at those

rates. So, it is not like we don't have the ability to say to them because you are under contract you must go do project A and you must go do it at these rates. They're not just doing a them solid here. We need to adjust these rates in order to get them to do the work if the work is there, right?

**Greg Rowe:** If we don't do this what would happen they would all, like you said, self terminate basically and we wouldn't be able to move forward with the program.

**Chairman Thomas:** I just wanted to make sure. We are not, and I get this a lot in what I do 'the price doesn't work for me anymore, I would like to renegotiate.' Sorry, you made a bad deal, but here they're not obligated to do it, we need the price adjustment in order to keep the service available.

**Greg Rowe:** Correct.

**Chairman Thomas:** All right, with that if you want to read the recommendation unless there are any other questions. I didn't want to cut off any questions. If there aren't any, if you would read the recommendation.

**Greg Rowe:** Staff proposes that the Claims Committee review, and if approved recommend the Board of Governors authorize the requested amendment to increase compensation under the Sinkhole Stabilization Services agreements with Earth Tech (DE), LLC, LRE Ground Services, Helicon Foundation Repair Systems, Inc., as set forth in this Sinkhole Stabilization Services Consent Item and authorize staff to take any appropriate or necessary action consistent with this Consent Item.

**A motion was made by Governor Henderson and seconded Governor Hasner to approve and recommend Board approval of the Sinkhole Stabilization Services Consent Item. All were in favor. Motion carried.**

**Chairman Thomas:** I believe that should bring us the end of our agenda items. I don't think we have any new business, although I don't want to cut off anyone if we do.

**Jay Adams:** Chairman Thomas, if I could, I would like to offer a clarification. When Mr. Palmquist asked Craig Sakraida, did we do ACH or any other debit type funds at the catastrophe center. I am not sure we were 100 percent clear. What I want to clarify the record to be, is we do offer ACH for catastrophe additional living expenses at the catastrophe response centers out on location, and we partner with J. P Morgan as our vendor to do that. Thank you.

**Chairman Thomas:** Appreciate that clarification.

**Jon Palmquist:** That is good news.

**Chairman Thomas:** Beyond that, I will entertain a motion to adjourn.

**A motion was made by Governor Henderson to adjourn. All were in favor. Motion carried.**

[Meeting adjourned]

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