

Executive Summary

Audit Committee Meeting, July 12, 2022

ENTERPRISE RISK

The Enterprise Risk team facilitates, enables, and partners with Risk Champions and management throughout Citizens to identify, assess, and mitigate risks.

Risk Culture

In 2017, the Citizens’ Enterprise Risk Management (ERM) Framework was established. The framework is utilized throughout the organization to identify, assess, and mitigate risks; integrated within various corporate policies; and strongly supported by all levels in each division.

Collaboration is a key component to the success of Enterprise Risk. Through continued collaboration, we assist the organization in anticipating, preparing, and mitigating risks contributing to enhanced decision-making, reduction of negative outcomes, and achievement of successful solutions:

- Enterprise Risk works with all business areas to assess, identify and offer insightful risk solution perspectives that enhance daily operations decision-making to strategic performance.
- The business areas participate in engaging discussions facilitated by Enterprise Risk to understand emerging and existing risks and determine solutions to effectively mitigate risks, when necessary.
- Enterprise Risk collaborates with the Strategic Evaluation Group (SEG), Strategy and Planning, IT Security and Risk, Compliance and Ethics, and Enterprise Resiliency. Individuals from each of these groups participate in proactive cross-functional risk assessments to address project and scenario risks; present valuable information to the Risk Steering Committee; and connect through recurring touchpoint meetings to promote transparency, leverage resources, and ensure that higher-rated risks are appropriately mitigated.

<p>Enterprise Risk Organizational Structure</p>	<ul style="list-style-type: none"> • The Chief of Internal Audit has leadership responsibility for the Enterprise Risk function. • The Enterprise Risk team consists of a Director and Manager to provide oversight of ERM and support management.
<p>Governance</p>	<ul style="list-style-type: none"> • The Risk Steering Committee provides oversight in managing exposure to significant risks. • The President/CEO serves as the Committee Chair and members include the General Counsel, Chief Financial Officer, Chief Operating Officer, Chief of Internal Audit, and Chief Human Resources Officer.



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	<ul style="list-style-type: none"> The remaining Executive Leadership Team (ELT) members regularly attend and participate in the quarterly meetings,
Risk Champions	<ul style="list-style-type: none"> Risk Champions are designated as liaisons to Enterprise Risk for process area(s) or a division.
Business Partners	<ul style="list-style-type: none"> Enterprise Risk collaborates with IT Security and Risk, Ethics and Compliance, Enterprise Resiliency, Strategy and Planning, and the Strategic Evaluation Group on various initiatives.
Corporate Policies	<ul style="list-style-type: none"> Policies that specifically reference or directly align with the ERM Framework: Internal Audit, Information Security & Privacy, Vendor Management, Enterprise Resiliency, Physical Safety & Security, and End User Computing.
Enterprise Workgroups & Committees	<ul style="list-style-type: none"> Management invites the Enterprise Risk team to participate in various enterprise workgroups and committees.

Enterprise Risk Management Framework




Our risk management framework provides the foundation for the enterprise risk program designed to support the organization in the achievement of strategic and operational objectives through identifying, assessing, and mitigating risks. The framework is based on the Committee of Sponsoring Organization of Treadway Commission's (COSO) ERM Framework which emphasizes the value of embedding enterprise risk management in strategic planning and performance throughout the organization as risk impacts performance and strategy. The components of our framework are modeled after COSO and customized to fit the unique needs of our organization.

In June, the framework was revised to reflect current internal practices and changes in external guidance. The updated framework provides an overview of enterprise risk management; it also reinforces roles and responsibilities; summarizes the various perspectives that comprise our risk profile; provides details on our risk assessment processes including evaluation criteria, responses, monitoring, and reporting; and describes the governance and oversight structure.

Enterprise risk management continues to progress towards enhancing decision-making from daily activities through strategic performance focusing on the following key areas:

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Key Areas of Focus		
	<p>Facilitate & enable a comprehensive risk profile</p>	<p>Annually, Enterprise Risk facilitates a strategic risk assessment with the Executive Leadership Team (ELT).</p> <p>Enterprise Risk facilitates and enables Risk Champions and management to identify and assess operational risks for up to 80 business processes. Our target goal is to update 25% of the processes per quarter or when processes or risks significantly change to ensure the operational risk profile remains relevant and timely.</p> <p>Pre- and post-implementation project risk assessments are performed to assist management with decision-making and to ensure mitigating activities are designed and implemented for higher-rated project risks.</p> <p>Scenario risk assessments are conducted to evaluate emerging risk scenarios to assist the organization in preparing to mitigate risks in the event the scenario materializes.</p>
	<p>Promote self-service capabilities for Risk Owners, Risk Champions & Management</p>	<p>The Risk Module within AuditBoard (our GRC administrative system) provides a comprehensive view of Citizens’ risk profiles through a centralized repository of risk and control information and assessment results. The module includes self-service capabilities for Risk Champions and management to identify, assess, and manage risks.</p>
	<p>Expand reporting capabilities</p>	<p>Dashboards and reporting capabilities will be available to ELT, Risk Owners, Risk Champions, and management in a phased approach.</p>

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Citizens' Top Risks

Enterprise Risk facilitates an annual strategic risk assessment with the ELT to identify the top risks that may adversely impact Citizens' ability to achieve strategic objectives and key strategic initiatives over the next 12-18 months. The top seven risks for 2022 are listed below:

- **Market Instability:** Unstable market conditions may adversely impact private carriers' continued participation in the Florida insurance market or geographic locations due to capital limitations, reinsurance capacity, and pricing, or insolvency resulting in fluctuations in Citizens' costs, financial condition, exposure, and the number of policies in force.
- **Rate Differential:** As a result of Citizens' current rate making efficiencies and increasing litigation causing other Florida insurers to increase rates, Citizens' competitive position in the market is not aligned with being a residual market.
- **Acquisition of Reinsurance:** Citizens' inability to transfer risk through acquiring reinsurance in the global marketplace could lead to significant financial implications for Citizens, the State of Florida, and ultimately for Florida residents.
- **Claims Abuse:** Failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens.
- **External Influences:** Uncertainty related to external events, including new or changing laws and/or regulations, changing market conditions, and expectations of the Board of Governors that require rapid adjustments impacting Citizens' mission and operations may result in significant financial and operational challenges.
- **Catastrophe (CAT) Response:** Failure to have adequate vendor resources to respond to a catastrophic event to meet customer expectations.
- **Data Security and Privacy:** The growing sophistication and variety of cyberattacks may adversely impact organizations' performance and reputation.

Mitigation plans are in place and are being implemented. Citizens' ability to prepare for and mitigate the strategic risks of market instability (Appendix A) and CAT response (Appendix B) may significantly impact our organization and policyholders.

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Citizens' Risk Profile

In addition to strategic risks, our risk profile reflects a comprehensive view of risks from various perspectives including operational, project, and emerging risks. Risk assessment results and plans for Q3 2022 are outlined below.

Risk Assessment Results															
<p>Strategic Risks</p> <table border="1"> <tr> <td>High</td> <td>7</td> <td>43.8%</td> </tr> <tr> <td>Medium</td> <td>4</td> <td>25.0%</td> </tr> <tr> <td>Low</td> <td>5</td> <td>31.3%</td> </tr> <tr> <td>Total</td> <td>16</td> <td>100%</td> </tr> </table>			High	7	43.8%	Medium	4	25.0%	Low	5	31.3%	Total	16	100%	<p>As of June, sixteen strategic risks were identified and assessed by estimating the potential impact or severity level the risk event may have on Citizens, should the event occur, and considering the probability of occurrence.</p> <ul style="list-style-type: none"> • 43% (7) of the risks were rated high, 25% (4) rated medium, and 31% (5) were rated low. • 3 new risks were identified: Acquisition of Reinsurance, Attorney Fee Reform, and Strategic Workforce Planning.
High	7	43.8%													
Medium	4	25.0%													
Low	5	31.3%													
Total	16	100%													
<p>Operational Risks</p> <table border="1"> <tr> <td>Medium</td> <td>61</td> <td>18.1%</td> </tr> <tr> <td>Low</td> <td>276</td> <td>81.9%</td> </tr> <tr> <td>Total</td> <td>337</td> <td>100%</td> </tr> </table>			Medium	61	18.1%	Low	276	81.9%	Total	337	100%	<p>As of June, 337 operational risks have been identified and assessed:</p> <ul style="list-style-type: none"> • 82% (276) of residual risks are rated low and 18% (61) are rated medium. Currently, there are no high-rated operational residual risks. • 10 risk assessments were recently completed, and 4 risk assessments are currently in progress. • Protiviti is on track to complete the risk and controls consultative engagement for 8 IT processes. 			
Medium	61	18.1%													
Low	276	81.9%													
Total	337	100%													
<p>Project & Scenario Risks</p> <p>*Ratings in progress</p>			<ul style="list-style-type: none"> • In progress: Fraud Analytics Software Solution Project Risk Assessment • Planned for Q3: HB1079 Post Implementation, OFAC Annual Assessment, and updates to the Market Conditions Scenario Assessment 												

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Appendix A - Market Instability Risk

Risk Description

Citizens plays a crucial role in Florida's property insurance marketplace by providing property insurance protection to people who are in good faith entitled to obtain coverage through the private market but are unable to do so. Unstable market conditions continue to adversely impact private carriers' continued participation in the Florida insurance market or geographic locations due to capital limitations, reinsurance capacity, and pricing, or insolvency resulting in fluctuations in Citizens' costs, financial condition, exposure, and the number of policies in force (PIF).

Citizens is focused on ensuring that the organization is well prepared to respond to PIF fluctuations while pursuing actions designed to reduce our exposure. Our strategic themes align investments in people, process, and technology to corporate initiatives that transform our business operations. Areas of focus within two of the strategic themes include efforts to mitigate the risk of market instability: identify and implement strategies to reduce Citizens' exposure (theme 1) and ensure scalability, flexibility, and resiliency in our operations to optimally serve customers (theme 2).

Theme 1: Identify and Implement Strategies to Reduce Citizens' Exposure

Citizens continues to focus on reducing its exposure and identifying potential alternative markets for homeowners to obtain insurance, through the Exposure Reduction Program. Key activities in 2022 that directly address growth scenarios include corporate initiatives and legislative actions to optimize the transfer of risk from Citizens to the private market while inhibiting returning policies. Citizens will improve the ability to match homeowners/purchasers seeking insurance to all available admitted markets, by combining our current Florida Market Assistance Plan (FMAP) and new-business Property Insurance Clearinghouse capabilities into a comprehensive solution that will provide the consumer with available options for coverage outside of Citizens while enhancing our ability to validate eligibility under our current rules. Specific initiatives aim to improve business processes, software and technology solutions, and Citizens' insurance product offerings. Legislative initiatives specific to Citizens such as increases to Clearinghouse renewal and Depopulation eligibility thresholds will continue to be pursued.

Theme 2: Ensure Scalability, Flexibility, and Resiliency in Our Operations to Optimally Serve Customers

Citizens completed PIF and catastrophe scenario impact assessments to identify opportunities for improvements in managing operational resiliency and scalability. Enterprise Risk partnered with the Strategic Evaluation Group (SEG) to perform a

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Appendix A - Market Instability Risk

scenario risk assessment to identify cross-functional key risks that may impact operations and size as a result of market changes and uncertainty related to the timing and quantity of policy fluctuations. Risk assessment participants included a cross-functional subset of the SEG with representatives from Financial Services, Agency and Market Services, Claims, Consumer & Policy Services, and Underwriting departments. Fifteen risks were identified and assessed which provided insights and actions for consideration. Risk assessment ratings were estimated using the potential impact or severity level and the likelihood of a risk event. Top risks included: financial impacts to risk and surplus and internal and external resource impacts during rapid rates of change. Upon completion of the risk assessment, Enterprise Resiliency led additional scenario-based planning and operational resiliency activities throughout the organization to further prepare Citizens to be ready to respond financially and operationally for all of its stakeholders and the citizens of Florida.

Key activities underway include creating mitigation plans for business processes (as needed based on impact assessments), reducing gaps in technological abilities to respond to the impacts of PIF fluctuations, and assessing resource needs. Additional areas of focus include:

- Maximizing organizational capabilities to foster a culture of innovation, efficiency, and effectiveness.
- Driving organizational alignment to create a best-in-class customer experience.
- Managing costs and improving return on investment for the company and its customers and stakeholders.
- Continuing to enhance the resiliency and security of Citizens' systems and services to ensure availability and reliability.
- Ensuring operations remain scalable and continue to accommodate significant policy count fluctuations caused by market conditions or rate inadequacy.
- Utilizing gains recognized through operational effectiveness and technology improvements, ensure administrative costs are appropriate and relative to policy count, revenue, and transactional volumes.
- Evaluating, utilizing, and continuously improving both business and customer intelligence, data analytics, and predictive modeling to drive new corporate strategies, and informed decision-making and ensure existing operations and programs are outcome-based, remain optimal, and customer-focused.

External and internal factors contributing to the complexity of managing this risk include the ability to forecast large company non-renewal actions or insolvencies; larger than

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Appendix A - Market Instability Risk

normal CAT frequency may lead to carrier actions or insolvencies; forecast inaccuracies that negatively impact budget and/or FTEs; and vendor capacity to meet demand.

Mitigating Activities	
Resource	<ul style="list-style-type: none"> • Contracts are in place for multiple BPO vendors, independent adjusters, and other resources that allow us to expand, and contract based upon PIF and claims volume • Set underwriting processing production models, agent/customer phone support, and staffing plans based on the “high” forecast provided by Corporate Analytics, allowing us to identify capacity gaps earlier, and minimizing service and production disruptions • Introduced a new claims handling process
Targeted Education & Engagement	<ul style="list-style-type: none"> • Conducting quarterly webinars for all agents and targeted webinars for agent associations and large agencies focusing on underwriting rules, procedures, and delivering support to the growing Citizens base • Completed formal sessions with each company currently participating in Clearinghouse, selected prior Depopulation participants, determining their commitment to stay connected to the Clearinghouse, and asked for any new features that would encourage their participation in future Depopulation events • Conducted a contact campaign targeting the Top 40 property insurers in Florida to uncover any barriers to joining our Clearinghouse / Depopulation programs and to assess their current appetite for future growth • Established programs to identify high-producing agencies and new agencies who require assistance with our processing systems and procedures and to deliver targeted education and engagements to minimize the costs (phone support, poor submission/request quality) associated with increased demand for Citizens’ products • Developed a “New Entrant” model, which allows us to offer a New Entrant with a more comprehensive view of the Florida property insurance marketplace, more customized data deliveries, provide additional consulting on insurance operations, and a review of their existing financial model



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Appendix A - Market Instability Risk

Process	<ul style="list-style-type: none">• Completed Operational Scenario Planning with three different PIF levels, intended to predict needs for staffing and other support, and to uncover additional strategies to respond to larger increases vs. current budget• Increased our use of inspections to certify the condition of the property and promote quality of the book to Depopulation and Clearinghouse companies• Increased the frequency of forecasting policy growth from quarterly to monthly and expanded the analysis data points to include quote activity and recent carrier actions• Focused on reducing claims/litigation costs by focusing on improving awareness/adoption of Emergency Water Removal Services via agent education to the policyholder at point of sale/renewal and improvements in FNOL representee effectiveness• Additional personal lines depopulation planned for November
Technology	<ul style="list-style-type: none">• Increased automated underwriting threshold to approximately 33%• Automated inspection ordering and review• System performance testing• Additions of servers and solutions• Final CAT test to detect any unknown vulnerabilities

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Appendix B - CAT Response

Risk Description

Citizens' Catastrophe Response Master Plan or "CAT Plan," outlines how the company will respond, in a catastrophe, to the needs of Citizens' policyholders in a prompt, fair and professional manner. The CAT Plan provides a blueprint for handling catastrophe losses and represents not only an enterprise-wide approach, but also 365 days of planning, testing, and coordination. The design of the CAT Plan provides a scalable model that can be adjusted to the size, location, and the number of claims anticipated or received in an event.

Obtaining adequate vendor resources is critical to our ability to rapidly adjust staffing for catastrophic events. One of our top strategic risks is the failure to have adequate vendor resources to respond to a catastrophic event to meet customer expectations. The pool of independent adjusters seems to be shrinking with time as many in the business are aging and are less likely to operate in the field or are retiring from the industry. There does not seem to be any significant investment, by Independent Adjusting Firms, for the training and onboarding of new independent adjusters as most companies require a minimum experience of two years to qualify to adjust claims. This lack of investment in new resources is causing shortages over the entire independent adjuster pool at the same time claims volumes are increasing in Florida with the explosion of new housing builds.

Citizens continues to focus on contracting with Independent Adjusting Firms to provide resources but are uncertain that they can provide resources in large volumes. We are constantly looking for new ways to adjust claims that do not require independent adjusters, such as Fast Track, where claims are adjusted off-site and out of state by a team of adjusters that desk adjust low severity claims, the development of a new Xactimate mobile tool that allows users to take photos and answer application driven questions to obtain a proper scope of the damages, and looking to possibly expand our Managed Repair Program to include additional perils that will transfer eligible claims to the contracting market.

Additional factors that may further exacerbate resource challenges include rapid increases in policies in force; the first major event of the season, or multiple events, strike outside of Florida drawing independent adjuster resources away, and multiple events that stretch available resources impacting productivity and/or quality.

A high-level summary of our mitigating activities is outlined below:

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Appendix B - CAT Response

Mitigating Activities	
Resource	<ul style="list-style-type: none"> • Tiers of independent adjuster (IA) resources in the CAT Task model as well as capacity in MCM contract • Field Inspection Services for the handling of low severity claims
Process	<ul style="list-style-type: none"> • Established Best Practices / Estimating Guidelines for the Field and Desk Adjuster • Established 'Fast Track' Catastrophe Adjuster's Processing Guide to handle claims over the phone • Business processes have focused on having the majority of adjusters using the industry standard, Xactimate and XactAnalysis, and fewer involved with utilizing ClaimCenter • IA CAT estimates to be both IA firm & CPIC QA team reviewed and qualified via XactAnalysis prior to submission to ClaimCenter file
Technology	<ul style="list-style-type: none"> • Drone services and aerial imagery in place to assist with field inspections and over-the-phone adjusting • Roof and property reports integrated with XactWare • XactAnalysis has been configured to be the assignment engine for CAT claims • Fee schedule has been established, communicated, and is integrated with billing software to increase efficiencies and accuracy • Build out of OneXperience application for the Field Inspection Services Program to build estimates in the background and automated into Xactimate • Updated phone systems to all firms to staff Desk Adjusters remotely