

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.

Item Description	Claims Committee Meeting Minutes June 23, 2022
Purpose/Scope	Review of the June 23, 2022 Claims Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
Contract ID	N/A
Budgeted Item	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No – N/A
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Committee Recommendation	Staff recommends the review and approval of the June 23, 2022 Claims Committee Meeting minutes.
Contacts	Jay Adams, Chief Claims Officer

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE CLAIMS COMMITTEE MEETING Thursday, June 23, 2022

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened on Thursday, June 23, 2022, at 1:00 p.m. Eastern.

The following members of the Claims Committee were present:

Scott Thomas, Chairman
Jillian Hasner
Jon Palmquist
Jay Adams

1. Approval of Prior Meeting's Minutes (March 10, 2022)

Chairman Thomas: Thank you, and thanks to everyone who is here today for our Claims committee meeting. We will try to get through the agenda being sensitive to everyone's schedule and also with the attention everything deserves. So, let us get started. I will entertain a motion to approve the Minutes of the March 10, 2022, Claims Committee meeting.

A motion was made by Mr. Palmquist and seconded by Governor Hasner to approve the March 10, 2022, minutes. All were in favor. Motion carried.

2. Strategic Update

Jay Adams: Good afternoon, Chairman Thomas, and committee members. Today I would like to focus my Strategic Update on the recent legislative impacts of the Florida property insurance market.

Next slide, please. I would like to start by covering the legislative changes that have been implemented to mitigate Florida property lawsuits. This discussion will not include the recent changes implemented by the special legislative session that occurred in May of this year.

Next slide, please. During the 2019 legislative session, House Bill 7065 was passed with an effective date of July 1, 2019. This Bill was enacted to specifically address the assignment of benefits issue where third-party vendors were taking loss assignments from the policyholder. They were demanding inflated prices for work and were filing suit against the insurance carrier if they refused to pay in full. The loophole that the Legislature was attempting to address was that the third-party vendors were accessing the one-way attorney fee statute which was established for the policyholder and not for the businesses to leverage. The strength behind the Bill is that it introduces fee sharing arrangements between the parties based on the pre suit settlement offer and the final settlement amount.

During the 2021 legislative session, Senate Bill 76 was passed with an effective date of July 1, 2021. This Bill was enacted to address first party litigation by requiring the policyholder to provide a 10-day notice to the insurance company prior to filing a lawsuit. In many instances this new notice is the first time that the insurance company is aware

that there is any dispute within the claim handling process. The strength behind this Bill is that the insurance carriers now have some tools at their disposal to resolve some of these notes prior to them becoming actual lawsuits.

Next slide. Assignment of benefits has been a problem here in Florida. An AOB is a contract between some type of vendor and the insured where the insured signs over their post loss rights to the vendor. This means that the vendor can now act as if they are the insured with respects to their interactions with the insurance carrier. The vendor holds the AOB contract over the head of the insurance carrier and often demands increased costs for their respective repairs and what would be otherwise the industry norm. If the insurance carrier refuses to settle on the inflated rates, the AOB vendor partners with the plaintiff attorney and files suit against the carrier. The AOB contract transforms a third-party suit into a first party suit which provides access under the one-way attorney fee statute. This now creates another benefit for the vendor to obtain increased and unnecessary payments and the plaintiff attorney to accrue fees and costs for their representation.

Next slide. This is the notice of intent to file suit. Citizen's experience has been that they work with the insured and their representative to resolve claims. Once the closing paperwork and check, if applicable, are discussed there is rarely any dispute discussed. The period of about six months passes and then a lawsuit is filed. The problem has been that the insured and their plaintiff attorney are using this to gain the one-way attorney fee statute. If they had disclosed any potential dispute during the claim process, in many instances the dispute could have been resolved, but that is not what the plaintiff attorney wants. If there is no suit, the plaintiff attorney is not paid by the insurance carrier under the one-way attorney fee statute. The problem for the insurance carrier is receiving any suit without any disclosure of a preexisting dispute is that the carrier will spend vast amounts of time and money during the litigation process attempting to discover what the actual dispute is. Keep in mind the way that the plaintiff attorney gets paid is the accrual of fees and costs over the life of the lawsuit. There is no reason for the plaintiff attorney to look for any reason to resolve the lawsuit in a timely manner. The longer it takes to go through discovery and eventually a trial, the more fees and costs will accrue.

Next slide, please. Now that we have a basic understanding of the new legislative Bills and some of the problems that were intended to be addressed let's review Citizens' actual results relating to these changes.

Next slide, please. So, the first slide we will take a look at here is Citizen's assignment of benefit new claim receipts, and we are looking across the period of July 2019 through March 31, 2022. So, Citizens experienced slight increases of new AOB submissions month over month. When House Bill 7065 went into effect we saw a leveling off of new AOB receipts for the remainder of that year. However, in 2020, we started to see significant increases that have continued until today. I think the reason for this is that the courts were closed for much of 2020 and 2021, and none of this has really been tested. I

have to believe that the courts will uphold the language in many of the AOBs that are pending in litigation will end up surprising those vendors as they begin to share in the fees and costs portion. Once some of this starts to clear out of the court system's inventory, we might start to see some declines in what is being submitted as new. Another reason for the increase is that many vendors are confused by the new law. I think many of the vendors are merely attempting to a direction to pay so that their name can be on the check, and so that they can negotiate with the insurance carrier directly.

Next slide. So, this slide is representing Citizens' assignment of benefits that are in litigation that also contain a notice of intent which is required under Senate Bill 76. And we are looking across the period of September 2019 through the end of March 2022. This slide represents the AOB claims that submitted a notice of intent and a follow through with a suit. This graph is showing the number of suits filed each month where this notice of intent exists. This also represents that the pending volume is growing much due to the court closures. We have had two driving issues that continue to lead so much of the litigation actually being filed after we have had the opportunity to review the claim. These factors are that 75 percent of all claims received under the notice of intent to file suit are from claims that have been denied or have a policy sub limit that applies. Our team conducts a thorough review of that claim handling process to ensure that they continue to support the denial, or that those policy limits have been applied correctly, and if that is the case, the only option at this point for the policyholder and the plaintiff is to file suit.

Next slide. Citizens' notice of intent for new receipts, and we are looking across the period of July 2021 through March 2022. Over this timeframe, Citizens has received 3,074 notices of intent to file suit. The resolution of each of these notices is outlined in the chart. And what I would like to do is just cover some of the relevant statistics that are here. So, the category for extended coverage, what that means is that a claim was previously denied by Citizens, and after the review Citizens decided to apply coverage. That has happened 31 times. Accepting the demand, that means that Citizens agreed with the plaintiff's attorney original demand, and they settled 14 times. Agreed on settlement, this is where Citizens was successful in negotiating with the plaintiff to reach a settlement. That happened 50 times. Appraisal, that means that Citizens and the plaintiff were unable to reach an agreement on the settlements, so an appraisal was demanded to set the value. That has happened 210 times. And, decline demand, as I mentioned earlier is the biggest category, and this is where there were factors involved that Citizens could not negotiate, such as a claim that has been denied or a sub limit that applies, and that has happened 2,566 times.

Next slide. Citizens' notice of intent in litigation, and this is for the period of July 1, 2021 through March of 2022. This graph represents the total litigation submitted broken down by litigation that does not contain a notice of intent and litigation that does contain a notice of intent. The real take away from the slide is that we continue to receive litigation that is not moved through the notice of intent process, and that will continue to happen

until July 1, 2022, and at that time all renewals and new business will be under the new contract that Senate Bill 76 applies to. Chairman, that would conclude my representation. I will be glad to take any questions.

Chairman Thomas: Jay, thank you very much, appreciate that. Any questions, Jillian, and Jon?

Mr. Palmquist: No, thank you.

Chairman Thomas: All right. Jay, appreciate it, thank you very much.

3. Non-Litigation Claims Update

Craig Sakraida: Thank you Chairman Thomas and committee members. I am going to provide a brief update on the non-litigated claims arena.

Next slide, please. Since we are already into catastrophe season, and a lot of the Governors are new, I just wanted to go over our five phases of our catastrophe response since you will be receiving notices as we move into monitor and activation phase.

So, we have five phases in our catastrophe response, and the brief description is there for Monitor when there is an investor disturbance that has been identified, we will send a note out to our catastrophe coordinators that were monitoring the storm. If tropical storm activity or a hurricane watch or warning is issued, we will go into an Activation phase. Then we switch, then we move into Landfall and Recovery. Just wanted to make you familiar with these terms as we are approaching the heart of hurricane season.

Next slide, please. For our catastrophe planning and testing for 2022, the catastrophe plans in the final stages of editing and review, and at the time of when the slide deck was put together, that was an accurate statement. It is currently completed, and we have reviewed it with our claims leadership team, and it has been approved. Our catastrophe readiness activities are currently now at 93 percent. The pending items are the completion of our systems load testing, and we have completed an observations report on our virtual on boarding for the independent adjusters.

Next slide, please. I wanted to bring everybody a little bit of attention to our commercial policies. Although they do not represent a significant amount of Citizens' PIF count, it does represent a significant amount of our exposure. And you can see in 2019, we had 5,908 policies with 12,000 buildings and an exposure of approximately \$10 billion. Now, in 2022, we have 4,781 policies, and \$16.5 billion in exposure. And just to update that, now we are currently at 4,851, with about \$19.7 billion in exposure for our commercial book. A lot of this is due to writing more A-rated buildings which are buildings insured for more than \$10 million. So that is a 61 percent increase in our exposure from 2019 through 2022.

Next slide, please. This is just a graph that shows our claims trend for PIF increase and you can see some of the spikes we have had with Hurricane Michael, Hurricane Sally and then Tropical Storm Eta.

Next slide, please. Our non weather water trends compared to PIF, we have seen the last two months a little bit of a decline in the non-weather water claims that have been filed, but overall, we expect that that will probably continue to increase over time as it has for the past several years.

Next slide, please. Some of our non-litigated claim's data, new claims reported have increased 31 percent from April 2021. Our non-weather water claims have increased 20 percent from April 2021. Our emergency water restoration acceptance, that is the free program we offer at first notice of lost to eligible non-weather water claims has increased 7 percent from March 2021, and our MRP participation rate has decreased a little bit from March 2021, but there is some probably some numbers there where, you know, the PIF and the claim count, at some point it will catch up and I think we will see continued growth, but we have been hovering around 21 percent acceptance rate in the MRP program. And as I mentioned our April non-weather water claims were down previous month by 203 or an 11 percent decrease. And May was very consistent with April, running within a few claims. I believe in May we had 1,575 for non-weather water. So, it was pretty flat from April.

Next slide, please. Citizens is ready. At the time of this slide deck, Tropical Depression One had not occurred yet, so I just want to give the committee a brief update on that. As of about noon today we have received 1,157 claims, 43 of which have been closed, 41 without payment. We have 92 percent contacted. So, we have contacted almost everyone. We have not seen a large percentage closed yet. A lot of those have been withdraws, so we expect a lot of these claims will probably end up in denials. They are just, you know, leaking roofs with no actual physical damage to trigger coverage. So, with that, Mr. Chairman, I will gladly entertain any questions or comments.

Chairman Thomas: Craig, thank you much. Anything from the members of the committee.

Mr. Palmquist: Mr. Chairman, I have one question for Craig if you would not mind.

Chairman Thomas: I am happy to hear it.

Mr. Palmquist: Craig, hi, thank you for your presentation. Just briefly, have you introduced any new technology or changes in processes to your CAT response this year?

Craig Sakraida: We have continued to make advances to the mobile app that we built with Xactware, and we continue to test that and improve it over time. We do have aerial

imagery, drone, the company that is used for the aerial imagery has made some strides, so I think that we in good shape, especially from post event imagery to get more information in the file quicker, but really no major advances. We have just been trying to enhance the technology that we already have in place.

Mr. Palmquist: Okay, thank you, Craig.

Chairman Thomas: Anything else? All right, Craig, we appreciate your good report as always. Thank you for the information.

Craig Sakraida: Thank you.

4. Litigated Claims Update

Elaina Paskalakis: Good afternoon, everyone. My litigation report can be found under tab four, but I will certainly try to go high level and just cover the basics and then certainly entertain any questions you may have. So, this litigation report covers January through April of this year. In that period of time, we received 3,881 new lawsuits. That is an average of 970 lawsuits per month, which represents a 12 percent increase over the same time last year. Our current volume has also increased. As of April 2022, we had just under 18,500 lawsuits which is a 28 percent increase over the same time period of last year, and as we sit here today, we are still under 19,000, but quickly approaching 19,000 pending lawsuits. And that is a reflection of two things, and a combination. First, the growing PIF that brings more claims, more suits, but also it is a reflection of the backlog that was created during the state court Covid response where, you know, for a period of time we just couldn't get hearings, trials, things like that. So, there is a bit of a backlog, and a log jam has built up our pending. So, we anticipate over time we can move through those. Of course, there is finite resources in the court system. The majority of our cases pend in south Florida. So, there is a bit of an issue. It will be a long-term resolution I believe, but we are also looking for ways to enhance our efficiency and effectiveness with the cases that we do have pending.

In terms of the geographic origin of the lawsuits, 75 percent of the lawsuits came out of the tri-county area, and this is a 12 percent decrease because we are starting to see other areas or a rising number of lawsuits come from other areas of the state. In particular, the central west area that currently is up to about 15 percent of the distribution of the new lawsuits, which is a six percent increase over last year. And when I refer to central west, I am really referring to the surrounding areas around Tampa and the surrounding counties around the Tampa area.

For lawsuits, we track lawsuits where there was representation at the first notice of loss of the claim, itself. So, for that we had 39 percent of the lawsuits where the insured was represented at the first notice of loss. And that is actually a 33 percent decrease over the same time last year. So, we are starting to see at least for now the percentage of insureds that file a claim already represented going down a bit.

In terms of also when someone files a lawsuit, if we knew about a dispute prior to filing the lawsuit, we are also seeing that decline. It is at 14 percent where there was no dispute communicated prior to filing a lawsuit, and that is of the new lawsuits we received in this time period. That is a 65 percent decrease, and we think is 100 percent attributable to the notice of intent statute that went into effect July of last year. We actually expect that percentage to, to get close to zero in the next couple of months as the statute will apply to all of our policies that have been issued or renewed since July of last year. We do have, of course, strategies in place for any lawsuits that are filed that do not follow the statutory scheme.

In terms of the timing of filing lawsuits, a little less than a third of the lawsuits were brought within six months of the first notice of loss of the claim. That is a 34 percent decrease. That is also expected to see that go down, because historically, in the absence of a catastrophe, it takes longer for the lawsuits to actually be filed between the first notice of loss of the claim to us and the lawsuit. Historically right after a catastrophe we will see that time frame compressed and we will get the majority of lawsuits within six months of a catastrophe event.

We look at cause of loss and the distribution of the cause of loss across our pending and our new lawsuits. Catastrophe lawsuits represented 41 percent of the new incoming lawsuits for this time period which is a 27 percent decrease. Catastrophe claims do remain the leading cause of loss in our pending volume. AOB lawsuits have risen to the leading cause of loss in our new incoming lawsuits. They now represent 48 percent of our new incoming lawsuits which is a 93 percent increase as compared to last year. It kind of place off of what Jay was mentioning with this kind of influx of AOB claims and lawsuits. AOB matters represent 32 percent of our pending, which is a 19 percent increase over last year. Non-weather water in terms of distribution represents 21 percent of our new suits, which is a three percent drop, and 23 percent of our pending lawsuits which is a six percent drop. Keep in mind these are not raw numbers of these types of lawsuits, it is really just the distribution of the different causes of loss within the pending or the new volume.

So, in conclusion, we continue to experience an increase in new lawsuits and that has just consistently been going up again. We attribute that both to the rising policy count as well as the backlog from the Covid response. We are seeing a rising trend in central west. So, we are starting to see more lawsuits coming out of the western part of the state as opposed to the concentration that we have always seen in south Florida. AOB lawsuits have become the leading cause of loss for new incoming suits. CAT remains the leading cause of loss for pending, and we are realizing the effects of the NOI statute, SB76. In terms of receiving notice that there is some type of disagreement with our adjustment of the claim prior to filing suit. So, with that, Chairman, that concludes my update. I will be happy to take any questions.

Chairman Thomas: I will open the floor for any questions.

Mr. Palmquist: Chairman, I have one question. Elaina, those are some pretty crazy numbers. How do you, can you just describe a little bit for the committee how you staff for that kind of fluctuations, and given the broad numbers, the size of the numbers. Are you able to stay in advance of your hiring needs?

Elaina Paskalakis: So, you know, the entire claims organization and also, you know, Claims Litigation in particular, we are built on a model that can contract and expand as needed. And so, we use primarily contingent markers, the IAs, the independent adjusters. So, we have those contracts in place. We have been able to obtain the resources we need to meet our needs. We are consistently, constantly I would say reevaluating and projecting out. We have numerous meetings with, not only within my department in Claims Litigation, but also under Jay and the larger claims umbrella of all of what we project out. So as the PIF is rising and we have different projections, we can reverse engineer that to understand how many people we need, because we have targets for the number of lawsuits that an individual person can handle and still be effective. So, we try to stick by those targets and then we adjust management as need be. We are trying to leverage technology and everything else to find some efficiencies. So, we are not just throwing more and more people at it. We are trying to do things in a more efficient manner as much as we can. It is like constant improvement is kind of our approach. So, we are doing it that way. So far, so good. I will say this. At some point those resources start to dry up, particularly for litigation because we draw from a pool of claims adjusters and we need that basis and some come with litigation experience, some do not, but we are able to get them up to speed in terms of the litigation, but at some point, you know, those resources are just going to dry up. So, we are getting as creative as we can, but right now we are okay.

Mr. Palmquist: Thank you.

Chairman Thomas: Elaina, and actually this may have been a question for Jay before. Chime in if so. With respect to the notice of intent, it never occurred to me that the notice of intent process in and of itself would diminish the number of claims and lawsuits we have been seeing. Instead, it was the built into it about the ability to limit law firm, the fee exposure based on thresholds and that and now that may be somewhat affected further by what is happened in the special session. When do you think, how long is it going to take before we start to see if these measures are affecting the exposure we have on the plaintiffs, the one way attorney fee shift? Because to me that is the real key here is if you long term take that financial incentive out, then the effect of that is fewer lawsuits. And I know we just had the Senate Bill basically just going into effect and now we have got special session stuff that came out. What timeframe are we looking at to be able to evaluate the effect of these measures on our fee exposure, and by that, I mean internal, not to our defense counsel, but the exposure to a fee shift in these cases?

Elaina Paskalakis: I understand what you are saying. I understand what you are asking. So, you know, with litigation it is always kind of a longtail, and we are just coming up on the one-year mark now. So, to me we really start to be able to effectively measure as of July 1, because at that point all of our policies are under that statute, right. So, I think at that point, but I really do think it is going to take a couple of years. We are also going to have to get creative I think in our, in our reporting, in our data mining for that, because of the fact that we have a couple other, other influences, the rising PIF. So, if we were static, right, with our PIF and the incoming claims and things like that, I think we would, it would show up a lot better in the next year or so. I think some of that might be diluted just because of the volume that continues to increase, but what we do is we do track average payouts for the fees that we know of, because not in all cases, but now it is the majority of the cases, 85 percent of the cases that were resolved in litigation, we will know distinctly what the fee is that is being paid. So we can start looking at those averages and really compare them, and I think as of next month we will be able to do that one-to-one comparison with the year prior when it wasn't in effect to start realizing that, but I do think it is going to be kind of a year or two before we fully realize the extent of, of, you know, the application. Does that make sense?

Chairman Thomas: Oh yes, sure. I think in a macro sense the way we will know it works or not if we actually start to see a slower market for plaintiff lawyers, for plaintiff law firms. I mean, that is the real measure, which is they lose their financial incentive, and so we just simply see, not on a case-by-case basis, but overall, this is not such a hot market for lawyers.

Elaina Paskalakis: And I think what we are going to have to do there is look beyond even Citizens' data and we will have to look at, you know, we can get information from DFS because of the service of the lawsuits in the property market. So, we can look from that, like when you say the macro basis, we will have to look there and see if we start to see any contraction in the number of suits being filed, because I think like to your point that is going to be the real measure.

Chairman Thomas: Right, that is right, that is the whole point behind it, that is the goal there. Okay, anything else for Elaina? All right, Elaina, we appreciate your good work and your good presentation today, thanks.

Elaina Paskalakis: Thank you.

5. Vendor Update

Greg Rowe: Thank you, Mr. Chairman and other committee members. I have four items to bring to you today, so I will certainly try to get through those as concisely as possible and make sure everyone has a good understanding of what we are trying to do here.

The first one is for Claims Flooring and Valuation Services. And just to let you know, for the past 12 years we have partnered with a company called Itel to provide these

services for Citizens. And the current contract we have ends on December 17 of this year.

And to give you a little bit more detail about what they do. Whenever we write an estimate that includes any type of flooring, whether that is carpet, vinyl, wood floor, whatever it may be, tile. We use Xactimate which is our estimating software, and basically, we start with the like, kind and quality based on the adjuster selection. Do they think it is high grade, low grade, the age? So, it is a good start from an estimate standpoint, but what Itel can do is provide a lot more detail surrounding that particular flooring. If we provide a sample of that floor or from the residence to Itel, they give Citizens a detailed report, and after their analysis on that flooring which includes the specific type, quality, pricing, manufacturer, and that really enables us to be extremely accurate with our estimate, so we know exactly what that flooring is. So it is certainly a benefit to the policyholder because we know we are paying an accurate indemnity check based on some, some pretty scientific data that we have got, but also the real advantage to us is if that claim ever comes into a disputed claims unit and there is a question in terms of, you know, you are not paying us enough for the flooring, we have that detailed report from Itel. So, it is extremely beneficial to Elaina and her team.

So, when we look to reup with Itel, our purchasing team went out again because we have this under a single source, and we wanted to make sure that there weren't any other companies out there that could do the same thing that Itel does. There were two companies, one actually dissolved in 2016, and the other one provides the same services, but only for Canadian insurers. So, we are certainly exempt from that. That is not going to help us out. So as a result, we procured these services as a single source in accordance with the Florida statute and we are looking to move forward with a new contract with Itel. So, I will pause there, Mr. Chairman, for any questions on this one before I move to the recommendation.

Chairman Thomas: Thanks, Greg. One thing, maybe everyone else knows this, but I just want to clarify for my understanding. A single source solicitation does include in the process notice to the economic world that they are free in essence to intervene and compete and suggest an alternative contract price, that sort of thing, right?

Greg Rowe: Absolutely. It is posted out there for 15 days just to see does anyone offer something that we missed.

Chairman Thomas: I just wanted to make sure that I was clear. Single source doesn't in any way, shape or mean that this is not an opportunity provided in the market, it is not some closed deal.

Greg Rowe: That is accurate.

Chairman Thomas: I do not have any questions then about the substance then of the proposal, but anyone else is certainly welcome to chime in.

Mr. Palmquist: No questions here.

Chairman Thomas: All right, Greg, I am going to entertain, unless there is some desire by staff that you actually read the whole thing, it is all in our agenda items here. I would prefer to simply entertain a motion to approve, to make a recommendation to the Board as presented in the agenda. Is that good with everybody?

Greg Rowe: Mr. Chairman, I could be wrong, I am sorry to interrupt. I could be wrong, but I think I have to read it for the Minutes, but I will do whatever pleases the committee.

Chairman Thomas: It is in the Minutes as part of our agenda material, it is there, the full recommendation. I do not think it's necessary for you to go through all these and read into the record what is already in the record unless now Tim pops up and is going to tell me that I am wrong.

Tim Cerio: Mr. Chair, you are not wrong. We are just trying to be, we are trying to be belt and suspenders, but you are fine, if you want to move things along just reflecting the record.

Chairman Thomas: We will go with just the belt.

A motion was made by Mr. Palmquist and seconded by Governor Hasner to recommend the Board of Governors: a) authorize the Flooring Valuation Services contract with ITEL Laboratories, Inc. for a term of three (3) years, for an amount not to exceed \$630,000, as set forth in this Claims Flooring Valuation Services Action Item; and b) authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Chairman Thomas: Greg, you have something I think what are at least initially identified as consent items. What else you got for us?

Greg Rowe: The next three are consent items. The first one is for our Claims Print Management Hardware & Software. So as of now we have a state term contract with a company called Quadient. And what they basically provide is equipment and software for our check processing team which is located here in Jacksonville in the TIAA building, and they provide us with an automated mail insertion solution which collates our indemnity and expense checks with any supporting documentation. It inserts the packages into envelopes, seals, and meters it. So, it really speeds up that full mailing process so it can get out quickly.

So, in 2019 the Board approved spend not to exceed \$415,000 over four years. In 2021, we had an accounting software upgrade which was unexpected in terms of how it would impact our check processing team. So, it required an upgrade that required a professional services from Quadient to kind of conform to their existing platform. And we also had an upcoming project to transition from a CSX server to a cloud-based server, which again will require a little bit of work from Quadient. So, these projects will cost more money and really were not anticipated in 2019 when we projected our spend. So, at this point we are looking for an additional \$50,500 to cover all the upcoming expenses through the contract expiration in January 2024. I will pause there for any questions.

Chairman Thomas: Any questions? Greg, I have one. Are these, the software update, and the move to the cloud, are these decisions that we are making, and we are then having to go to Quadient to responds to, or are they Quadient directed moves that we are responding to?

Greg Rowe: It is the former. We make the decision and then work with them to make sure they can account for that on their end.

Chairman Thomas: All right. Okay. Jon, I may have cut you off there, I apologize if I did, did you have something?

Mr. Palmquist: No, no questions from me, thank you.

Chairman Thomas: Okay, thanks. Okay, it is a consent item. Do we actually need an actual vote on this, or are you looking for whether we withhold our consent to it?

Greg Rowe: Looking for approval so we can take it to the Board.

A motion was made by Mr. Palmquist and seconded by Governor Hasner to recommend the Board of Governors: a) approve an additional \$50,500 in contract spend under the Claims Print Management Hardware and Software lease agreement with Quadient, for a total approved amount not to exceed \$465,500, as set forth in this Consent Item; and b) authorize staff to take any appropriate or necessary action consistent with this Consent Item. All were in favor. Motion carried.

Chairman Thomas: All right, Greg, we have the Claims Legal Services. This is our spend for outside counsel, right?

Greg Rowe: That is correct. So yes, this is our outside counsel, they provide all the services Elaina's teamwork's on. Mr. Palmquist said, crazy numbers, that is who works behind the scenes to handle those. If you recall back on December 15 in that Board of Governors meeting, the Board approved an initial \$50 million in spend authority and requested that we return to the Board and provide updates on any pending litigation and

requests for additional spend. And so as of May 1, 2022, with our litigation continuing to increase to over 18,500 suits, we have incurred approximately \$19 million in spend under the approved contract, and we are forecasting that we will exceed the \$50 million authorized spend prior to the September Board meeting. So, based on that spend we are requesting an additional \$50 million under this contract just to continue to fund these services for the remainder of 2022. So, any questions on that recommendation?

Chairman Thomas: Jillian, Jon, any questions?

Mr. Palmquist: No questions from me.

Chairman Thomas: Okay. Greg, I have a quick question. I just want to make sure in case this comes up at the Board. What we are talking about here, am I correct, is a product of the Board's decision to ask for more periodic accounting? It was Governor Dunbar who objected and insisted we report on a quarterly basis as opposed to what we normally historically had done. So, what we are asking for here is a product of that more restrictive reporting requirement. It is not a product of we are spending more than we anticipated would be spent at this point, am I correct?

Greg Rowe: That is correct. The original request if I am not mistaken, and I am fairly confident, was \$500 million over five years. It is a huge number, right, it is a five-year duration. So, the Board did ask, you know, on an as-needed basis, right, quarterly, or in between if it looks like it is going to be above that, let's just have that always on the agenda so we can kind of see where we are at.

Chairman Thomas: And this is not a scenario in which we had budgeted, an anticipated X spend and now we are here today because we were off on your budget and we are materially spending more money at this stage than we anticipated we would be, am I correct?

Greg Rowe: That is correct, yes, sir.

Chairman Thomas: All right. All right, with that I will entertain unless there are any questions, I will entertain a motion to approve.

Mr. Palmquist: One question just for clarification, Chairman. Greg, explain again the reason for the additional burn rate, the increase, are you saying it is due to the increase of the number of cases that you have incurred?

Greg Rowe: Well, again, \$50 million was looked at from that is what we are going to go ahead and approve, as of now. The original request was the whole \$500 million over five years. So, we are spending on average around \$16.5 million a month if I am not mistaken. Elaina can correct me in I am wrong. So, if we project that out over the course of the year, \$50 million is certainly not going to be enough.

Mr. Palmquist: And what is the cause?

Greg Rowe: The, the cost of?

Mr. Palmquist: No, the cause of this additional need?

Greg Rowe: So, the need really is based on—

Chairman Thomas: I think what, and what I was asking about, this comes from the Board really, the Board of Governors, is we have an anticipated spend over five or 10 years on outside defense counsel, and historically Claims has come to the Board and said, we are seeking authority to spend up X amount over this period of time. And when this came before the Board last time, the Board decided, it may very well be that you are going to spend X amount over that period of time, but we don't want to wait until the end of that period of time to find out, instead of giving you that authority all at once, we are going to ask you to come back to us in shorter increments to ask for it sequentially instead of all at once. And so, I do not think, I don't know if there is any indication here that spend has been beyond what was projected or anticipated. It is just the Board did not give the overall, you can have authority from A to Z. The Board has said come back here A to B, B to C, C to D, E to F. And so, this is before us now because we are in that chain the Board has imposed to say, report more frequently on your spend and we will approve it step by step versus traditionally having given you the approval for the entire term. If I am wrong, Greg, Tim, Jay, speak up. I do not think there is anything here about a request for spend that wasn't anticipated and planned. It is really about reporting to the Board. Anybody correct me if I am wrong.

Mr. Palmquist: Well, Chairman, the wording on the documents say they are seeking, they seek Board approval for an additional \$50 million in authorized spend. So, I do not know how we, if you are correct, I did not read it that way, and I think we need to make sure that the Minutes and in the motion clearly state that we are not actually asking for additional amounts beyond what was originally requested.

Chairman Thomas: Right, it is just an additional amount within the amounts originally proposed to the Board. I do not know the number, let us say we went to the Board and said, we want authority to spend \$100 million. What the Board essentially did is say, yes, you are going to have it because it is outside counsel, we have to, but we want to do this step by step. And so, you break that \$100 million up and come back to us periodically and ask for the first ten, the next ten, the next ten. So, this is not an amount above and beyond what has always been budgeted and expected. It is an amount above and beyond what the Board with its decision to require this periodic reporting has currently approved. You have to come to the Board to say, okay, you can go that next step. So that is why I say I do not think, this is not sort of -- it is above what the Board has

approved today, it is not above what has been budgeted and anticipated and needed for Board approval.

Tim Cerio: Mr. Chairman, if I may. You are absolutely right. It was a \$500 million request over five years, and essentially the Board decided, well, we will give it to you in \$50 million increments. We are going to burn through the first, the first \$50 million before the September meeting, so we want to come to you, we don't want to come to you after it is gone, we want to come to you beforehand and say, we need to ask for the next 50.

Chairman Thomas: This is not \$50 million on top of –

Tim Cerio: On top of it? It is not on top of it.

Chairman Thomas: It is within the \$0 to \$500 million number. We are still within that original number.

Mr. Palmquist: Then if it would be possible, I would suggest maybe you change the wording in the purpose and scope of the consent order, because it reads that you are asking for an additional \$50 million spend, just to clarify that if we can, and then is this something, so it sounds like you are going for an additional tranche that has been previously approved as a global number. Is this something that we will be expected as a committee to do each quarter then?

Chairman Thomas: I do not believe each quarter. I am not sure, I cannot remember as we sit here what term the Board gave, but I think, and the reason it is coming up now is because we are coming up on the end of the initial tranche before when it would have regularly come before the Board, am I correct?

Tim Cerio: Jay can correct me in I am wrong, but it was not so much quarterly as it was \$50 million was the key figure. It may turn into quarterly.

Governor Hasner: Was it anticipated that the \$50 million would last until September?

Jay Adams: We initially anticipated we would need a \$100 million for the first term or the first year. And as you recall, the Board only provided a \$50 million spend at that time. So, I would say we are right on track for where we are. And Jon, under the strategic section there is a presentation that is really around legal spend, and that was at the request of the Board. So, I provide that to the Claims committee each quarter and I will also provide it in the Board package in case anybody has any questions, but I would anticipate every six months we will be coming to the Claims committee asking for an additional \$50 million across the life of this contract.

Mr. Palmquist: Okay, thank you, Jay.

Chairman Thomas: And Jon, for what it is worth on the Board of Governors, I voted against this. I voted for full authorization for the entire period. Look, I appreciate the idea behind it was some more accountability and so forth I suppose, but this is where we are. This is what the Board approved when it came before us. So, I do think, and this is properly a consent item because in some respects, it is administrative function. We have the expense, we have outside counsel, we know what our budget requirements are, and we are just simply saying, okay, thanks for letting us know where you are, and we will release the rest. I think what staff and Jay, and everybody understands is that if we start getting to the end of this anticipated spend period and we are not going to be come within the overall \$500 million, then they maybe want the question answered then about why we didn't and so forth, but the idea behind this is nobody is surprised by that. We do not want to come up at the end of the period and say, oh by the way, we need another \$250 million, and the Board says what are you talking about, we never heard about that. Now, there should not be any surprise to the Board if in fact if turns out the legal expense is exceeding materially what was exceeded.

Jay Adams: Chairman, just for note, when we set the budget for these contracts and such, these are for our non-catastrophe claims. So, if we had a significant catastrophe and a lot of it ended up in litigation, there could be an exception that we would have to come back and we would miss that \$500 million over that five-year contract term, you know.

Chairman Thomas: And I am not saying, I was not holding the idea that this is the number you are only going to spend \$500 million, it is problem if you do not. I just would point out this is just sort of interim step to get to that \$500 million. So it is for example if we had a CAT event and our spend us substantially higher, we would find out about that now and be subject to Board oversight now versus when it is late in the game and we are left with, why didn't we know about this sooner, because maybe we would have done X, Y, Z, I don't know what we would do, these are legal fees. We are not suing anybody, well, we sue people, but it is when people are suing us, and we have to defend them. Anyway. What we can do, Jon, I think the record is clear here, but certainly perhaps when reporting the Minutes or however we report out to the Board what was approved, I want it to be specific that the motion to be entertained is for additional authority within that \$500 million initial projection, that we are not asking for \$550 million, but it is a motion to present to the Board that next tranche of spend, the next \$50 million.

A motion was made by Mr. Palmquist and seconded by Governor Hasner to recommend the Board of Governors: a) authorize additional spending authority under the Claims Legal Services contracts of \$50,000,000 as set forth in this Consent Item which, if approved, would make the total spend authorized to-date \$100,000,000 (out of the total \$500,000,000 requested by staff); and b) authorize staff to take any appropriate or necessary action consistent with this Consent Item. All were in favor. Motion carried.

Greg Rowe: The last consent item is for our Court Reporting Services. These are the existing contracts we have with our vendors who provide Citizens with just a network of vendors, and they provide court reporting, transcription, video services that support Elaina and her team. So, this one, I am going to break it down into two sections, just for clarity's sake because it is kind of two separate things going on with this particular consent item.

So, what I will call part one, immediately after these contracts were issued in January 2020, we had the Covid-19 pandemic, and what that did is it required a lot of these services, these court reporting services to switch from an in person to a remote online environment which they were never really designed to do per se. So, to respond to this, a lot of the vendors were forced to quickly adapt to different types of technologies, and it actually brought about some cost increases in this particular space, but the larger impact was exactly what Elaina was speaking to and kind of what has been the theme even in the last item. From then until now we have had a 47 percent increase in lawsuits bringing us between 18,500 and somewhere close to 19,000. So, a lot of these factors, both of these factors actually put us in a position where the approved spend of \$18.5 million is going to be exhausted prior to the expiration of this initial three-year term that expires March 9, 2023. So, at this time we are looking to increase the approved spend by \$2.5 million just to ensure we have enough funds and enough spend to get us to the next contract. So that is what I will call part one. Are there any questions on that particular part of it?

Mr. Palmquist: That is new money you are saying, correct?

Greg Rowe: This is new money. Yes, this is true new money where we are going to exhaust the anticipated cost.

Mr. Palmquist: Okay. Thanks, Greg.

Greg Rowe: So, part two, as a part of this vendor network we have 19 vendors providing court reporting services to us, and with the increased suit involve we have actually had incidents where some assignments have been rejected. There has just not been enough support and enough vendors to provide coverage. So, while court reporting services, they are exempt from our competitive procurement under the Statute 287.057 we leverage procurement on any of these processes and we did with this particular contract. But after discussing internally with our litigation business and our legal team, we decided to add US Legal Support, Inc. to the court reporting panel just to provide more resources for our attorneys, and what we did was after the solicitation went out, you know, we have had discussions with US Legal Support, Inc. they weren't a part of it and they were interested in coming back and working in this space. They have worked with us before, and when they, we had these discussions they committed from a pricing standpoint to provide the same pricing as the other vendors and the maximum 10 percent discount.

So, what we are really looking for this is to move forward with approval to add US Legal Support, Inc. to the contract panel for Court Reporting Services. That is what I will call part two.

Chairman Thomas: And that is a non-monetary impact? That is simply increasing the options for court reporter services?

Greg Rowe: Correct, it is just increasing the horsepower, you know, it adds more resources to that vendor pool.

Tim Cerio: With the discounted rate though, Mr. Chairman.

Chairman Thomas: I understand. Why do not we, why do not we let our retained counsel handle the court reporter issue so long as they understand we won't reimburse them for any cost in excess of our negotiated cost. And for short, attorney, get your own court reporter, but you are only going to get -- I mean, I am sure we are the big elephant in the room and we get the best deal of anybody, but I do not know, Cole, Scott and Kissane, it is all throughout the state. Who knows what kind of deal, sometimes law firms have a better deal than we do. I am not passing it up, but if they do, but do they?

Greg Rowe: I will let Tim or Elaina speak to that. Honestly, I do not have that answer.

Tim Cerio: I am definitely going to punt to Elaina, but my understanding, my understanding is that we do get a pretty good rate, and on this U.S. Legal, Mr. Chairman, a lot of the lawyers like using them, it's part of why we are inclined, especially with the good rate they offered to have them rejoin the group.

Chairman Thomas: Well, that is part of the reason I asked, because I am a litigator, I do like the court reporters I use. I do not just pick them out to have a bucket. And so probably not for today, maybe long term, I don't know to what extent that Cole Scott doesn't get a better deal. They probably don't, but if we have trouble finding somebody, I don't know why, my firm at least we retain the court reporter. We pass the bill along, which is all. But anyway, unless somebody dodged a comment on that we can probably move on or ask to entertain a motion. Do you need one motion or two? Do you want a motion for the additional spend and a second motion for the addition of U.S. Legal Support? How do you want to do this?

Greg Rowe: It is a single consent item. I just broke it down into two sections just to be clear, but it is a single item that needs approval.

Mr. Palmquist: Mr. Chairman, I have one question.

Chairman Thomas: Certainly, Jon.

Mr. Palmquist: I know the answer, but up to the last conversation I just want to make sure that we are 100 percent clear on this. The two-part motion is for \$2.5 million, and the second part is for U.S. Legal Support. We are not saying the \$2.5 million will go towards expenditures for U.S. Legal Support, correct?

Greg Rowe: That is 100 percent correct. If we did not have them, we would have still asked for the \$2.5 million.

A motion was made by Mr. Palmquist and seconded by Governor Hasner to recommend the Board of Governors: a) authorize additional spending authority of \$2,500,000 under the Court Reporting Services contracts, for a total of \$21,000,000 in authorized spend; b) approve the addition of US Legal Support, Inc. to Citizens' panel of nineteen (19) contracted court reporting vendors; and c) authorize staff to take any appropriate or necessary action consistent with this Consent Item. All were in favor. Motion carried.

6. Addendums

Chairman Thomas: We have a couple of other items that are on the agenda, which is included in the agenda items, some addendums. I do not know if they are really there for informational purposes if anyone on the committee has questions about them, we certainly can hear or if anybody on staff has a particular desire to bring it to our attention through a presentation, I am happy to open the floor for that.

Mr. Palmquist: I do appreciate and would ask that you continue providing that information, the recovery cases and the SIU cases are of great interest and congratulations. I do not think you can ever do enough, but you are making a big dent in both areas, so thank you.

Chairman Thomas: I agree that with that completely and those may be some that we do not talk about necessarily, it is not an action item for us, but those may be some of the most important things we do in terms of addressing litigation, frivolous litigation, frivolous claims. Amen to what you said, Jon.

7. New business

Chairman Thomas: And beyond that, there is a line on the agenda that says new business. Chairman Thomas. I do not have any new business for the committee, but I will open the floor up if anyone else does, and if not, the floor is open to entertain a motion to adjourn. Thanks everybody for the great time and looking forward to seeing I guess in July at the Board meeting.

A motion was made by Mr. Palmquist to adjourn and seconded by Governor Hasner. All were in favor. Motion carried.

(Whereupon the meeting was adjourned.)