

Executive Summary

Finance & Investment Committee Meeting, September 20, 2022

Board of Governors Meeting, September 21, 2022

Reinsurance Management Software – 22-0002

Topic

Citizens requests approval to contract with Effisoft USA for Reinsurance Management Software. Reinsurance Management Software provides a platform to manage Citizens' reinsurance contracts from inception through commutation. Contract approval is requested for a five (5) year base term with one (1) three (3) year renewal option, for an amount not to exceed \$2,000,000.

Background

Citizens is seeking approval to contract with Effisoft USA for its PrimaXL reinsurance management platform. This platform is a cloud-based solution with versatile contract setup options, customizable data import and export features, and internal reporting options that include seeded reports and the ability to create ad-hoc reports. The software has the capability to calculate ceded balances, track, and age receivables, and manage collateral balances for individual participants on each of Citizens' reinsurance contracts.

Citizens will use PrimaXL to track and manage its reinsurance contracts, reinsurance receivables, and collateral balances from execution through commutation of any covered losses. The software will replace manual processes that offer little scalability in the case of multiple reinsurance triggering events. Having this software in place prior to any such new events will provide better visibility into Citizens' ceded balances and will reduce liquidity risks to the company that could result from the breakdown of manual reporting processes.

Citizens' catastrophe reinsurance program is a significant part of the company's strategy to reduce the likelihood of assessments on its policyholders and on Floridians as a whole. Premiums ceded to the Florida Hurricane Catastrophe Fund (FHCF) and private reinsurers were approximately \$451.4 million in 2021 and approximately \$540.9 million through June 2022. The size of Citizens' reinsurance program and its value to the organization with respect to reducing the risk of assessments necessitates a software solution to streamline contract management, premium tracking, loss reporting, and loss reimbursements.

Citizens' reinsurance program is primarily structured around catastrophe excess of loss reinsurance, and subtle changes to the program each year make current manual tracking processes cumbersome and prone to long processing times. Some changes year to year include the mix of participating reinsurers, premium adjustments for prior calendar year contracts, and changes in the mix of Citizens book of business that is reinsured, such as the absence or presence of contracts in the Personal Lines Account (PLA).

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In addition to the internal changes year to year, changes to reinsurer status in the overall regulatory environment further complicate current manual processes. For example, Florida's Office of Insurance Regulation allows reinsurers to obtain a "Certified" status. Reinsurers certified in this way are allowed to post reduced collateral in the event of a loss without their insureds such as Citizens being penalized on their financial statements. This certified status is typically not retroactive, so Citizens must ensure that it properly requests collateral from each participant based on their status at the time the catastrophe occurred.

Citizens has been fortunate in that the only major hurricane resulting in reinsurance reimbursements since 2005 was Hurricane Irma in 2017. Capacity for accurate and timely manual tracking and reporting would be quickly strained if multiple triggering events occurred in a single year or over a short span of years. In such a situation, delays in accurate data reporting could lead to delays in reimbursements from our reinsurers. In the worst-case scenario of a significant catastrophic event, delays in reinsurance reimbursements could affect Citizens' short-term liquidity enough to impact our ability to pay insured claims in a timely manner.

By implementing this solution, Citizens will be able to eliminate many manual processes related to its reinsurance contract tracking, accounting, and billing described above. This would be a mitigating factor to any liquidity issues that could arise from a major event. In addition to reducing overall risk to the company, the software will also allow existing staff to manage potential future catastrophe reinsurance contracts and reduce the likelihood of dedicated reinsurance accounting staff being required in the future.

The requested contract was negotiated on best value to Citizens pursuant to Invitation to Negotiate No. 22-0002 Reinsurance Management Software Solution. Three (3) responses were received: Effisoft USA, Sapiens Americas Corporation, and Verisk Specialty Solutions. After independent review and scoring by an evaluation committee, all three (3) vendors advanced to the negotiation stage. The negotiation team participated in demonstrations of the software solutions from all three (3) vendors. After conducting negotiations, Citizens' negotiation team recommended Effisoft USA for award. The contract includes a five (5) year base term with one (1) three (3) year renewal option.

Effisoft USA offered the best pricing of the participating vendors, in addition to their software meeting the needs of Citizens from a functionality perspective. Citizens' negotiation team secured a final contract price of \$1,826,830. The additional \$173,710 requested in this Action Item, for a total of \$2 million, will provide flexibility if support services beyond those included in the contract are required during the life of the contract. Possible areas of additional expense are expanded direct support, expanded month-end support, and assistance with annual upgrade testing.

The final contract price of \$1,826,830 represents a cost savings of over \$110,000 from the vendor's initial proposal, and a total cost differential of more than twenty-five (25) percent from the next-cheapest pricing under the ITN.

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When considered next to the overall size of Citizens' reinsurance program and its importance to the company's efforts to reduce or eliminate assessment risk, this software solution is a cost-effective way to improve current processes and reduce financial risks to Citizens, its policyholders, and Floridians as a whole.

Recommendation

Staff proposes that the Finance & Investment Committee review, and if approved recommend the Board of Governors to:

- a) Authorize the Reinsurance Management Software contract with Effisoft USA for an initial term of five (5) years, and for one (1) three (3) year renewal term, for an amount not to exceed \$2,000,000, as set forth in this Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Reinsurance Management Software – 22-0002

ACTION ITEM

New Contract

Contract Amendment

Other _____

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	Reinsurance Management Software
Purpose/Scope	<p>This Action item seeks Board approval to contract with Effisoft USA for its PrimaXL Reinsurance Management Software. PrimaXL is a cloud-based software as a service solution.</p> <p>Citizens will use PrimaXL to track and manage its reinsurance contracts, reinsurance receivables, and collateral balances from execution through commutation of any covered losses. The software will replace manual processes that offer little scalability in the case of multiple reinsurance triggering events. Having this software in place prior to any such new events will provide better visibility into Citizens' ceded balances and will reduce liquidity risks to the company that could result from the breakdown of manual reporting processes.</p>
Contract ID	<p>Reinsurance Management Software Solution</p> <p>Contract Number 22-0002</p> <p>Effisoft USA</p>
Budgeted Item	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>This software will not be deployed until 2023, so no dollars have been budgeted during 2022. Depending on the timing of contract execution, minor expenses could be incurred late in 2022, but the bulk of the expenses related to this contract will be included in the 2023 budget and beyond.</p>

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Procurement Method	The requested contract was negotiated on best value to Citizens pursuant to Invitation to Negotiate No. 22-0002 Reinsurance Management Software Solution. Three (3) responses were received: Effisoft USA, Sapiens Americas Corporation, and Verisk Specialty Solutions. After reviewing and scoring, all three (3) vendors advanced to the negotiation stage. Upon conclusion of the negotiations, Citizens' negotiation team recommended Effisoft USA for award on August 2, 2022.
Contract Amount	Not to exceed \$2,000,000 for the life of the contract (including the renewal term)
Contract Terms	Five (5) year base term with one (1) three (3) year renewal option.
Committee Recommendation	<p>Staff proposes that the Finance & Investment Committee review, and if approved recommend the Board of Governors:</p> <ul style="list-style-type: none"> a) Authorize the Reinsurance Management Software contract with Effisoft USA for an initial term of five (5) years, and for one (1) three (3) year renewal term, for an amount not to exceed \$2,000,000, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
Board Recommendation from Committee	<p>If approved at its <u>September 20, 2022</u> meeting, the Finance & Investment Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> a) Authorize the Reinsurance Management Software contract with Effisoft USA for an initial term of five (5) years, and for one (1) three (3) year renewal term, for an amount not to exceed \$2,000,000, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
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