

Office of the
Internal Auditor

AUDIT REPORT

August 2022

SB76 Post-Implementation



Table of Contents:

Page



Executive Summary

Background

1

Audit Objectives and Scope

1

Results

1 - 3



Appendix

Distribution

4

Audit Performed by

4



Executive Summary

Background

During the 2021 legislative session, the Florida legislature passed several bills with a direct effect on the insurance industry. One of the legislative bills passed was SB76, the requirements of which impacted business processes and systems across Citizens, particularly Claims' operation. The elements applicable to Claims' operation included:

- Establishment of a pre-suit notice requirement in first-party property claims where Insureds must file a Notice of Intent (NOI).
- Requirement for Insurers to have procedures in place to promptly investigate, review, and evaluate NOIs.
- Creation of a new structure for awarding attorneys' fees in first-party property claims.
- Requirement for Insurers to file annual reports of closed claims.

To address the requirements of SB76, business and technical changes were implemented by Claims management before the bill became law effective on July 1, 2021. Internal Audit validated the implementation of procedures, processes, tasks, and system changes to ensure all elements of SB76 were considered and addressed by Citizens during June 2021.

Objectives and Scope

This audit focused specifically on the SB76 claim's elements to validate that the controls, processes, procedures, and workflows implemented by Claims management in response to the legislative bill's requirements are working as intended. The scope included a review of the following areas:

- Notice of Intent (NOI) receipt, handling, and response
- Handling of litigated claims under SB76
- OIR Reporting requirements
- Validate the accuracy of Power BI reports and dashboards
- NOI QA Process
- Analyze potential benefits from SB76

Audit Results

Internal Audit completed a post-implementation assessment of the processes and procedures developed by Management to comply with the requirements of SB76 and noted that the following favorable practices are in place:

- Management created and implemented procedures and job aids to assist NOI adjusters in the handling of NOIs at the claims level
- ClaimsCenter changes were implemented to capture the information necessary to comply with reporting requirements of SB76
- Processes in place to ensure that the OIR data call is met
- Template letters were created to ensure response consistency
- Regular meetings are held by NOI team management to discuss issues and trends
- Established process for handling litigated claims involving NOIs



Executive Summary

- Diligent efforts to complete reinspections and appraisals promptly as required by statute
- Dashboards and reporting tools are in place to allow for the regular monitoring and evaluation of different indicators for NOIs
- Thorough quality assurance (QA) process is in place to assess NOI handling

Audit work did not note exceptions at Claims Litigation Support, Claims Litigation, Claims Operations, or Quality Assurance levels. Notwithstanding, improvement opportunities have been identified and are presented further in this report.

An enhancement to automate the NOI intake process is currently in development. This enhancement seeks to have a system bot read from the DFS site and perform the initial NOI setup in ClaimsCenter. The NOIs would then go to claims litigation support for review/validation. This enhancement is expected to create process efficiency for the Claims Litigation Support team as the process is currently a manual one.

SB76 has allowed Citizens to learn about disputes before litigation and proactively attempt their resolution. However, the reviewed data shows that approximately 75% of these disputes are on denied claims. Because no coverage is afforded on these, the disputes do make their way to litigation.

The bill also created an attorney's fee structure; however, at this time no NOI cases have made it through trial to have the fee structure applied and present comparative results. It is expected that this fee structure will be challenged by plaintiff attorneys.

Regarding the reporting component of the bill, the OIR created the form OIR-B1-2222. Per the OIR Rule 69O-171.011 - Property Claims Litigation Data Call (not yet final), the first data call will be due March 1, 2023, for claims closed during the 2022 calendar year. Reports will be due March 1 every year thereafter. While the information required by SB76 is captured by Citizens' systems, the design of OIR's form does not take into consideration multiple matters within a claim and parties to that matter or claim. There may be multiple matters where the attorney represents some or all parties (insured and AOBs) and there could be multiple vendors associated with some or all matters on the claim. Because each line in the form aligns to a claim, product support is working with complex queries to aggregate the information and consolidate results in time to comply with the data call.

Furthermore, form OIR-B1-2222 requires the amounts paid in attorney's fees for all closed claims during the reporting period. Because there is no obligation for plaintiff attorneys to disclose this information and settlements may often be global, these amounts will not always be available on claims settled before the trial for reporting purposes.

Management is encouraged to consider the following improvement opportunities to enhance the effectiveness of the overall process:

- **Differentiate Between Assignments in Management NOI Tracker** – NOI management currently tracks assignments to NOI adjusters in a manual tracking spreadsheet housed in their MS teams' channel. The assignment tracking is done globally, and data may not reconcile with ClaimsCenter or Power BI dashboards as it includes assignments of cases



Executive Summary

that do not correspond to Citizens. Management should differentiate between these types of assignments by adding a column for these types of assignments.

- **Housing Letters in ClaimsCenter / Smart Communications** – NOI response letters are not currently housed in ClaimsCenter. After the NOI adjuster’s recommendation, letters are approved by NOI manager and then go back to the NOI adjuster for issuance, increasing the chance for errors. Housing letters in ClaimsCenter / Smart Communications reduces the chance for mistakes and reprocessing as letters would be routed for NOI manager approval and automatically sent out once approved. This is an open item in development, and management expects its resolution during 3Q2022. These letters should be updated based on future initiatives that may encompass the SB76 process, such as the DOAH endorsement project, once and if the endorsement language is approved and implemented in early 2023.
- **Discrepancies between “10 Day Response Provided on Date” and NOI Response Letters** – Our review found several instances in which the “10 Day Response Provided on Date” did not match the date of the actual NOI response, showing a later date and marking the case as non-compliant. This field is a manual field that can be edited by the NOI adjuster. While this field is not required as part of Form OIR-B1-2222, it affects reporting accuracy for management and NOI adjuster performance purposes. Management is encouraged to implement temporary controls or review non-compliant instances to avoid inaccurate reporting of claims.

This item has been discussed with NOI management. NOI adjusters will be instructed to edit the “response date” field to show the correct date for the NOI response whenever there is a need to make corrections to the 10-day response type. NOI management will work with the business analysts to identify and review claims with similar scenarios to update and clean these fields for non-compliant claims, as appropriate.

Product Management has indicated that housing letters in ClaimsCenter / Smart Communications will not auto-populate the “10 Day Response Provided on Date” field in ClaimsCenter. This will require a concerted effort with many scenarios to be accounted for. One thing to consider is that the NOI response letter is sent primarily via email to the addresses provided in the NOI. This alternative should be explored to eliminate the manual entry and improve data consistency and accuracy.

We would like to thank Management and staff for their cooperation and professional courtesy throughout this audit.



Distribution

Addressee(s) Adam Karns, Senior Director – Claims
Elaina Paskalakis, VP – Claims Litigation

Business Leaders:

Barry Gilway, President/CEO/Executive Director
Kelly Booten, Chief Operating Officer
Jay Adams, Chief of Claims

Audit Committee:

JoAnne Leznoff, Citizens Audit Committee Chair
Carlos Beruff, Citizens Audit Committee Member and Chairman of the Board
Scott Thomas, Citizens Audit Committee Member

Following Audit Committee Distribution:

The Honorable Ron DeSantis, Governor
The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
The Honorable Wilton Simpson, President of the Senate
The Honorable Chris Sprowls, Speaker of the House of Representatives

The External Auditor

Completed by Juan Carlos Rivera, Internal Audit Manager

Under the Direction of Joe Martins, Chief of Internal Audit