CITIZENS PROPERTY INSURANCE CORPORATION

Summary Minutes of the
Information Systems Advisory Committee Meeting
Tuesday, June 7, 2016

The Information Systems Advisory Committee (ISAC) of Citizens Property Insurance Corporation (Citizens) convened telephonically on Tuesday, June 7, 2016 at 10:00 a.m. (EDT).

The following members of the ISAC committee were present telephonically.

James Holton (Chairman)
Juan Cocuy (Board)[1]
Freddie Schinz (Board)
Brian Foley (Advisor)
John Vaughan (Advisor)
Kelly Booten (*staff)*

Call Meeting to Order

Roll was called.

1. Approval of Prior Meeting's Minutes (December 2, 2015)

Chairman Holton asked if there were any corrections to the prior minutes. There being none, he asked for a motion to approve the minutes from the March 1, 2015 meeting.

Freddie Schinz made a motion and Brian Foley seconded to approve the minutes as presented. The minutes were unanimously approved.

2. IT Disaster Recovery Strategy Update

Robert Sellers, Vice President of Infrastructure and Operations, gave a brief update to bring the Board current on where we are with the Disaster Recovery Strategy and the program that is running behind that strategy.

Robert stated that there are a number of different components associated with the disaster recovery strategy. One of those elements is to separate the data center services and operations from impacts of the corporate real estate office strategy and constraints of lease agreements and other types of office activity.

Robert went on to say that Citizens is actively pursuing vendor managed and maintained disaster recovery solutions. With respect to those two elements of the strategy, Citizens released an RFI in May to the vendor community looking for responses around those two

[1] Juan Cocuy was not present for roll call, but later joined the teleconference at 10:05 a.m.

elements -- data center space for disaster recovery capabilities, as well as all services that vendors might offer around services associated with disaster recovery.

The response from that RFI has been significant with over 21 companies responding to the RFI, answering both the detailed questions that we requested of them, as well as providing significant other information available on their services, properties and other capabilities for disaster recovery.

Citizens has a team reviewing the RFI responses. There are also several meetings scheduled over the short term to review any other significant requirements that have been identified in those RFI responses that we may have either overlooked or that are new capabilities for our organization that we want to conclude as we move forward with solutions.

We will move through a requirements activity that establishes the specifics, as well as work with our legal and vendor management organizations, then make a determination based upon information we have gathered as to whether we should go through a full blown solicitation activity or utilize State of Florida and Federal contracts that are available for these type services.

With that, Robert concluded his presentation and he asked if there were any questions.

Chairman Holton asked if there is any time differential between doing the full blown RFP and/or competitive solicitation and just using existing State contracting authority in terms of getting this up and rolling.

Robert replied that the short answer is yes, there are significant time differences. A solicitation vehicle takes a significant amount of time to develop and present to the vendor community, to then score and subsequently make a determination, whereas the GSA and the State of Florida contracts are pre-established, negotiated vehicles that would take us to a conclusion very quickly.

Chairman Holton asked if there are any urgencies that would require Citizens to move in a quicker fashion to default to the existing State contract regimen.

Robert stated that enough time has been allowed in the project for either scenario at this point. What we are trying to do is coordinate to the real estate strategy that Cherri Linn and Kelly Booten have in place as part of the facilities management activities.

Governor Schinz asked if Citizens has picked a strategic location or has one in mind for where it is thinking of moving the office to or the headquarters.

Kelly Booten, Chief, Systems & Operations, answered that from a real estate strategy perspective, no. Citizens will have to do a competitive solicitation when that lease is up in the 2018 time frame.

Governor Schinz responded by asking, “Don't you think it is important to target a certain part of the State where you may want to be?”

Barry Gilway, President & CEO, joined in stating that he was not quite sure of the question. He said Citizens has a real estate strategy, submitted and approved by the Board, which will continue to have three locations.

He went on to say that Citizens will continue to have one location in Jacksonville, and that consolidation has been completed. We will continue to have the corporate home office, if you will, in Tallahassee. That will involve about 200 employees, and we are in the process completing that move and consolidating offices in Tallahassee. It is our current strategy to continue the Tampa location where the secondary data center is located today.

I think the issue through this – this process that Robert is going through – it is yet to be determined where we will have a secondary data center. There are some recommendations and suggestions through internal audit that we will consider having an out of state facility, because today both data centers are located in the state. But that will really depend upon the responses we receive. Did you want to comment on that more, Robert?

Robert added that the responses have come back with numerous choices, and we may have the opportunity to select an alternative data center located in many different states, as well as within Florida.

I think the common theme that we are working to is best practice with respect to where an alternative data center should be in relationship to the primary data center which is located here in Jacksonville. Typically, it is a several hundred mile difference and we are right at the inter-location of that with our Tampa facility, but there are other issues associated with Tampa. But to your point we will be looking at numerous location choices as part of this activity.

Governor Schinz replied that the only reason he is asking the question is it seems that logic would dictate that if we are going to relocate the disaster recovery center, that it be somewhere inland where it wouldn't be subject to some of the storms that we get on the coast, like Tampa and Jacksonville, Pensacola and Miami, where those areas are located. That just makes sense to me.

Barry Gilway responded saying that is exactly where we are going with the solicitations. There have been formal recommendations made by, I believe, OIR and Internal Audit that we consider either an internal location or an out of state location. So that, that will be taken under consideration when we review the RFPs.

Governor Schinz thanked the speakers and said they answered his question.

Kelly addressed the Committee and clarified that the Tampa office space lease expires in October of 2019. She wanted to make sure she had it right for the record.

Chairman Holton asked if there were any further questions for Robert or anyone else. With none being heard he turned the floor over to Doug Sherwood for the Enterprise Resource Planning Recommendation.

3. <u>Enterprise Resource Planning (ERP) Recommendation</u>

Doug Sherwood, Enterprise Program Director, started out by thanking the industry advisers, John Vaughn and Brian Foley, for taking the time to review the presentation with Citizens. The feedback was greatly appreciated.

Doug turned everyone to the presentation and stated that he would go through the slides at a fairly brisk pace and to feel free to stop him if there is some section that you want to discuss in more detail.

Beginning with slide two, the main point of this slide is Citizens is at a critical decision point. If we don't pursue an ERP solution, several of the current systems will be up for re-solicitation over the next few years, and we will in essence be locked into a fragmented approach for another decade. So, if we don't do an ERP now, we are really going to postpone it for quite a long time. And, as you will see, there are lots of issues associated with the current environment.

Slide three is a recap that, after a very long solicitation process and rigorous evaluations, the Oracle Fusion Cloud service product was selected along with AST as the implementation partner. Oracle's Fusion product is not the traditional on-premises installed Oracle product that many people associate them with. It is a fairly new product, it has been on the market for about a half dozen years, and it represents a combination of components of various ERP products that they have purchased overtime.

They have taken the best concepts of the Oracle products, the PeopleSoft products, J. E. Edwards and combined it into this Fusion product. Most people are very familiar with Oracle – it’s a large, multi-national company, and they currently have over 1,200 customers using the ERP cloud product.

AST is the selected implementation partner and they are located in Naperville, Illinois. Their entire focus is on Oracle. A lot of these implementation partners have different practices for different vendors, but these guys do only Oracle products.

AST has been around for 20 plus years. They are a platinum partner and they have more than 200 employees all located in the U. S. and all of the staff working on our implementation will be employees located here. They will only use offshore resources with our specific permission.

The remainder of the organization is highlighted down at the bottom of this slide so I am going to touch a little bit on the background, talk about the alternative of an integrated ERP solution.

The second alternative, which we call the other path, is “what do we do if we don't do the ERP”. I’ll touch on the business justification, the financial analysis and then finally our recommendation.

Slide four is a list of the current applications that will be replaced by ERP, and what jumps out is a variety of different vendors that we are dealing with. These contracts all have different expiration dates. Some of these systems are running at Citizens and some are running at vendor locations.

And that is graphically represented on the next slide, which is slide five. There are pieces and parts located in various places. The right hand side of the slide shows all of the various systems running internally at Citizens' data centers, on the left are ones running at vendor cites.

The key points to take away are all of the orange arrows. Those represent manual downloads and uploads of information from one product to another, and since they are dependent on humans to do those there is a certain amount of risk in that being done properly each time.

Slide six is a recap of some of the issues with the current environment we have. Not only do we have the various vendors solicited previously to support those particular systems, but as an Enterprise we have over 500 contracts that we are trying to manage manually now through a series of spreadsheets.

Things such as tracking action item spend is all done at a department level and it is dependent on people keeping track of the records. There is a lot of manual routing; invoices, for instance, that come in from vendors are manually entered and manually routed around the company for approval.

Slide seven is a quick recap of the solicitation process. In 2014, we put together a group to find an ERP strategy which recommended that we pursue an ERP solution. We engaged Gartner to help us flush out the requirements for that and published the ITN in 2015.

We conducted seven different vendor demonstrations and narrowed the field down to a final group of three with which we focused our negotiations. On May 9th, the negotiating team made the decision to go with Oracle Fusion Cloud product and AST as the implementation partner.

Slide eight is a graphical representation of the phased approach that would be used for ERP. In a project this large you don't want to do it in one big bang so we will start off with the accounting and purchasing areas, roll in more procurement modules, get into budgeting projects later and then bring up the HR components at the end.

These are just preliminarily timelines for all of phases. These may shift as more detailed planning takes place.

At the top of slide nine there is a list of all of the modules that make up these various increments that I was referring to on the graph.

The important part is down at the bottom in terms of deliverables. On the right side is a recognition that this is going to be a transformational project for Citizens, and it is going to impact how we operate. We will be engaging our own Organizational Change Management and Process Improvements areas, and we will be relying on the vendors to bring their expertise in, as well.

Slide ten is a recap of a traditional ERP delivery model as compared to a SaaS or cloud delivery. This hits a couple of the key points that compares the two of them. There are pros and cons associated with each of them.

In the traditional model, Citizens would bear the responsibility for all of the infrastructure and keeping it technically up-to-date. It does allow you to have a tailored system that fits exactly how you want to do business, and it allows you to have total control over security and the access of the systems, but it can be very expensive.

As the last bullet notes, the proposals that we received for traditional ERP models were two to three times as much as a cloud approach. On the cloud side, all-inclusive pricing allows us to pay for usage so we are not paying for extra capacity that we are not using.

There is less flexibility, it's a single line of code, and all of their customers are running essentially the same system, so we are expected to adopt best business practices. They do provide updates. They do this twice a year providing new functionality so we don't have to wait years in between large upgrade projects. We get new functionality in bite sized bits every few months.

I think a lot of people worry about the security of a cloud, but what comes home after talking to all of these vendors is -- their businesses depends on it and they all have state of the art capability. Literally, as you can imagine, they would be going out of business if they had a serious data breach.

Slide eleven is a graphical representation of what the future state would look like with ERP. There are still some places where we have to pass data back and forth between some of our insurance operations systems over to the ERP modules, but you notice there are no orange lines. It is all automated interfaces and we have taken the human risk out of it.

Slide twelve talks about the other path. The key thing here is that if the business does not do ERP, we don't have the option of just perpetuating the status quo.

The solicitation requirements we have is that when contracts use all of their renewals, we have to go back to market and re-solicit it. So, for instance, the renewals for our financial systems are up in 2018. They are going to have to be replaced and odds are we would get a new system rather than the one we are currently running. It is likely that in a few years we will probably get a new HR system because there are different pieces and parts and multiple applications, and we need something where it is all pulled together.

One of the other key points about the other path is the last bullet. If we don't do ERP and we continue with this kind of fragmented approach, all of these individual pieces and parts will have to be re-solicited individually, and we have conservatively estimated that we will spend 18,000 person hours just going through the solicitation process - not implementing these things, but simply putting together requirements, putting together ITNs, sitting through demos, writing contracts and all of that.

Slide thirteen lays out the timelines for the other path approach. As I mentioned if we don't do the ERP, then we are going to have to begin a solicitation right away to start looking at new accounting systems because we need to have one up and live by the time we get into 2018.

We would likely do a lot of internal development to expand our current in-house systems to provide Enterprise vendor management capability. As I mentioned, HR is likely going to get replaced in a couple of years, and then the bottom two lines - we assumed that we'd keep the same systems that we have, but we would still end up going through the solicitation process. Even if we don't replace the system we still have to go through the process of resoliciting them periodically.

Slide fourteen is a graphic representation of this other path approach. What I would like to emphasize, if it doesn't jump out at you, what we assume is that we will eventually replace the accounting system, and it will be a SaaS solution, and it will run at that vendor's data center. The HR product is going to run over at the HR vendor's data center and the project software is going to run over at their data center. That puts Citizens in the situation where we become the system integrators. Every time one of these products goes through an upgrade we end up having to go back and retest all of the various interfaces to make sure that these systems continue to talk to each other.

Slide fifteen gets into the business justifications for an ERP solution. A few key lines, a single system of record, where all the systems are in sync so that we all have the same list of account cost codes and who has approval authority.

Automated work flows – Today, when things such as invoices come in, they get re-keyed into the accounting system and routed around. This is going to allow invoices to come in electronically, and the system will recognize the contract owner associated with that invoice, route an e-mail to them and let them approve an invoice, all electronically without any human intervention.

Then we have automated on-boarding and off-boarding. The key point on off-boarding is that when people leave the company, you shut off their system access. Today that is a parallel manual process that has to be done by the manager or the employee that is leaving, but with this system we will be able to automate that process and generate tickets to turn off their access, as needed.

Slide sixteen shows the financial comparisons. The financial comparison is between integrated ERP and the other path approach. We looked at four different areas. External spend is hard dollar expenditures going outside the company. There are economies associated with doing ERP and the underlying assumption here is that it is cheaper to implement one big product instead of having separate implementations for accounting and HR, et cetera.

It's the same thing in terms of the processing fees for supporting those. You get some economies by consolidating those into one data center instead of having pieces fragmented across the horizon.

The second area is internal support staff - the time of Citizens staff associated with implementing or developing new systems. It is a savings on the ERP side because we have fewer interfaces to develop. For instance, we don't have the internal development associated with vendor management.

Productivity improvements - these are itemized staff savings. We met with all of the various business units and identified over 70 individual productivity improvements that account for approximately 25,000 hours a year once all of the modules are implemented.

This goes from invoices to improved self-service to all of the time spent manually exporting and importing data. Another tangible is mailing costs and things such as that, but the large part of it is we have assumed about a $50,000 a year savings on vendor spend just from having a better Enterprise perspective of how our vendors interact with us across all departments.

Slide seventeen is the raw numbers behind those figures. A couple of things I would point out is the footnote down at the bottom. We are looking at a 10-year period. So we have used six months in 2016, and six months in 2026. This would align with the contract period for ERP.

If you look at the top part of the chart, it is the ERP cost; the bottom in blue is the other path cost. You can see under external spend the ERP line starts off fairly high because of the early implementation costs and then it goes down and gets cheaper. You can also see on the legacy cost this does decline over time; that as the ERP modules come on and go live, the cost that is supporting the legacy does drop and drop and drop.

The other thing to understand is that the first two categories, the spend and the internal staff, are cost figures for each of these scenarios, then the productivity improvements are benefits. That is why there is representative negative numbers here -- they reduce the cost of each of these. That is why, when you see the total line for ERP and the total line for other path, they are really net figures of cost minus the benefits.

Slide eighteen is a graphical representation of this. You can see the blue line represents the cumulative return on investment which is estimated to be about 101% over the 10-year period.

The columns are representing the cumulative benefits. As you can see, we are underwater the first few years. As those get back to above zero, we obtain break even around month 33, and then they continue to grow.

I think the important thing to notice here is the biggest part of the benefits, over half, is from the external spend page - the per dollar expenditures outside the company.

Slide nineteen gives more detail on the external spend figures. The yellow dashed line is showing you what we currently spend externally and then the green line is ERP. So you have the early spike because of the implementation, but then it drops rapidly and it gets cheaper than what we currently are spending.

In the other path, you have this twin peak scenario because we are assuming we are going to do a new implementation of a new accounting system, and then a couple of years later another implementation of the HR system. And it never does quite get back down to where we are now and then it goes back to the economy of being able to consolidate and run everything in one place.

Slide twenty is a recap of the financials and the action item that we will be covering. This arrangement is a five year contract with a five year renewal option so all of the figures are referenced, and they are 10-year figures.

You will see in each of the areas there is a contingent fee. In the top section, this is for software subscription fees. There are also some licenses for some small components we need to install here. The contingency allows for potential increase in Citizens' staff associated with repopulation.

Since we are looking at 10 years we felt like there is the possibility, at some point, some of these policies could come back and the size of staff Citizens needs to support that might increase over time, so we set aside 10% of the processing fees to account for that.

In the implementation services area we also applied the contingency, we used 25% of the expected implementation costs. This will cover change requests, additional training, etc., and we used that figure based on an average of what the various vendors suggested.

The third section is the legacy system consulting services. This is a bucket of money because we are going to need the assistance of various legacy vendors to help us with converting data. There may be some temporary interfaces that need to be built out for us into the ERP system, so this is for professional services from those vendors. So the grand total for the 10 years is $13.6 million.

The last slide is a recap of what the impact is to the 2016 budget. When we proposed the 2016 budget, we had $2,274,000 budgeted and right now it looks like we are going to come in around $2.4 million. So we are $150,000 over, but in other areas we are within the corporate budget expenditures and have come well under so we don't think it is going to have any substantial impact.

Let me pause and see if there are any questions or if there are any comments from any of the sponsors they would like to make.

Chairman Holton thanked Doug for a very cogent and comprehensive presentation. Kudos to you and your staff for putting this together for the committee and for the Board.

One question to kick this off - can you amplify a little bit on the implementation services contract? It seems to me all flush and it may not be, but that is a large contingency, a 25% contingency for change orders. Can you go over the kind of thinking and the need for that for the benefit of the committee?

Doug replied that with any large implementation project there is always the unknown. Even though you have gone through an elaborate requirements process you may get in and find things that you have not thought of or were miscommunicated, so it is always good to have some bucket of money set aside. As to whether 25% is the right figure, that really is anybody's guess. We used that because that is sort of a standard. Some of the vendors estimated 20% and some of the vendors suggest 33%, so we picked something in between.

I think the important thing to understand about contingency is that those numbers are baked into the business case, so that comparison of the costs between ERP and the other path both have contingency dollars.

Chairman Holton responded by saying Okay, that is pretty much an industry average then of what other people have implemented for the Oracle system or like systems.

Doug answered that it is not just for Oracle, but for any of the ERP systems.

Chairman Holton replied, "Yes", then asked if there were other questions for Doug.

Governor Cocuy identified himself and addressed Doug. He stated that on slide twenty, the Legacy Systems Consulting Services of $150,000, conversely from what we were just talking about, that seems kind of low.

Doug replied that it is really just a fall back sort of thing, that we have some basic understanding of the data and the legacy systems, and we should be able to provide most of the extracts needed to do conversions.

Governor Cocuy questioned, "Internally"?

Doug replied yes, with our internal staff, but we might run into things where we have questions or we might need to engage vendors. It is another one of those things that is sort of a contingency. We don't have a defined set of work for this, but we felt it was important to recognize that some effort may be needed on their behalf. It is a contingency - if we come in underneath it, that is all to the good.

Doug asked if there were any other questions.

Chairman Holton also asked if there were any other questions.

Brian Foley identified himself and made one comment.

Mr. Foley stated that as a taxpayer I am compelled to say that the business case from a financial perspective is very important and it comes out positive here. But there is also another benefit in that, from a business perspective let's keep in mind what applications we are talking about – this is financials and managing human resources. It is not something that is a core competitive advantage for the company. And so to have the myriad of systems like are in place today, and the amount of effort required to keep those things going and to keep the solicitation process going as outlined with the 18,000 hours, that doesn't add any advantage to the company. This is something you want to get right and to let run without spending a ton of your best talent's time and effort keeping it running and keeping it going. So from a strategic perspective, back office - get it working, let it run, and don't focus your best resources on it like you have to today in today's environment.

Kelly Booten asked Governor Holton if he would like to go ahead and make a motion for the action item.

Governor Holton responded in the affirmative, and asked Doug to proceed with the recitation of the action item and the recommendations, then Governor Holton will entertain a motion.

4. <u>Action Item</u>

a. ERP Software and Services (ITN No.: 15-0029)

Before reading the action item, Doug apologized for the typo in contract dollar figure at the top of the Contract Amount section. He stated that he will update the amount so it syncs up with the figures in the body of the Contract Amount section, the $13.6 million figure.

Doug went on to say that these numbers are the same ones that we discussed before, so let me go through the recommendation. It is Citizens' staff recommendation that the Information Services Advisory Committee approve and recommend to the Board the award of the contract to AST including all of the renewals; authorize staff to engage professional services from the various legacy systems as specified in Attachment A, which is on the next item as we list those legacy numbers; and authorize staff to take any other appropriate or necessary action consistent with this action item.

Chairman Holton asked if there is a motion for the action item.

Freddie Schinz made a motion and Brian Foley seconded to approve the Action Item for ERP Software and Services (ITN No.: 15-0029). The motion carried unanimously.

5. Consent Items

Chairman Holton turned the floor over to Curt Overpeck, Chief Information Officer, to present the consent items.

Curt stated that he would provide some background information for the two items and then call on Robert Sellers, Vice President, IT Infrastructure & Operations, for the presentation of the two items.

Curt started by saying the items being brought forward today are planned in the 2016 financial budgets, both capital and expense. He went on to say that in December 2015, with our consent items in line with the budget, we inadvertently failed to identify these vendors and the spend associated with these vendors to support these 2016 projects; therefore, we come to the committee today asking for spend approval for these two items. Curt then turned it over to Robert.

a. Code Repository Software (Perforce)

Robert began by saying the first consent item is for the code repository software which is known as Perforce. This is the software that maintains our source code within the environment that allows us to protect that source code, as well as make it available to the users, as needed.

We funded in the budget the amount of $26,000 for the 2016 budget, but we have identified that going forward that we need to come forward with a request for a consent action by the Board because our overall spend on Perforce will exceed the $100,000 amount over the period of time that we utilize the software.

So today we are coming forward with a request to the Board to review and approve the spend authority in the amount of $134,000. That is inclusive of this year's budget amount that was budgeted, plus dollars that we anticipate being budgeted over the course of the next four years. Robert concluded by asking if there were any questions.

With no questions being heard, Governor Holton asked if there was a motion on the Consent Item.

Brian Foley made a motion and Juan Cocuy seconded to approve the Consent Item Code Repository Software (Perforce). The motion carried unanimously.

b. IT Infrastructure – Hardware, Software and Maintenance

Robert continued to the second item which was IT Infrastructure - Hardware, Software and Maintenance. Again, these dollars were identified in the 2016 budget, and were approved by the Board in December of 2015.

We are coming forward with the request today for the anticipated spend of $650,000 to three different vendors utilizing standard contracts available to us through GSA and State of Florida.

These are replacement products for existing technology that has reached end of life and that we are going to be replacing in the 2016 year. As Curt indicated, this was budgeted but failed to be included in the 2016 Infrastructure Consent Item approved by the Board in December 2015.

With no questions being heard, Governor Holton asked if there was a motion on the Consent Item.

Freddie Schinz made a motion and Brian Foley seconded to approve the Consent Item IT Infrastructure – Hardware, Software and Maintenance. The motion carried unanimously.

6. <u>Addendums</u>

Chairman Holton brought attention to the materials, the addendums behind Tab 7 which were not discussed at length today and asked if there were any questions regarding these items. With none being heard, Governor Holton continued to the final item of business.

7. <u>New Business</u>

Is there is any new business to come before the committee? None being heard.

8. <u>Final Comments</u>

Chairman Holton said he would see everyone on the 22nd of this month. He reminded everybody that the next Board meeting is on September 28th, and staff will be in advance contact with everyone regarding a teleconference prior to that Board meeting.

As there was no further comments or questions to be discussed, Chairman Holton entertained a motion to adjourn.

Freddie Schinz made the motion to adjourn and Chairman Holton adjourned the meeting.

[Meeting adjourned]