

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE**

**AUDIT COMMITTEE MEETING**

**Tuesday, September 20, 2022**

A meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 1:00 p.m. on Tuesday, September 20<sup>th</sup>, 2022, in St. Augustine, FL.

The following members of the Audit Committee were present:

Audit Chair Joanne Leznoff  
Board Chairman Carlos Beruff  
Governor Scott Thomas

The following members of the Board were present:

Nelson Telemaco  
Jillian Hasner  
Jason Butts

The following Citizens Staff were present:

Jay Adams	Eric Addison
Christine Ashburn	Andrew Woodward
Violet Bloom	Kelly Booten
Brian Donovan	Bonnie Gilliland
Barry Gilway	Mark Kagy
David Woodruff	Joe Martins
Jennifer Montero	Michael Peltier
Barbara Walker	Brittany Warner
Wendy Perry	Jeremy Pope
Joe Martins	Carl Rockman
Ajay Kumar	Matthew Carter
Ray Norris	David Woodruff

The following were also present:

Brian Smith, Dixon Hughes Goodman  
Sam Wishard, Dixon Hughes Goodman  
Kapil Bhatia, Raymond Jones

**Call Meeting to order**

**Barbara Walker:** Good afternoon, you are dialed into the Citizens' Audit Committee meeting scheduled to convene at 1:00 p.m. Thank you so much for being present at the Citizens' September 20<sup>th</sup>, 2022, Audit Committee Meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. It is recorded with transcribed Minutes available on our website. For those attending today's session through the public link, you are automatically in listen-only mode with presentations appearing in the webinar. Chair Leznoff, we have no speaker requests for today's meeting. Panelists thank you for identifying yourself prior to addressing the committee.

May I proceed with roll call?

Chair Leznoff.

**Chair Leznoff:** Here.

**Barbara Walker:** Board Chair Beruff.

**Board Chair Beruff:** Here.

**Barbara Walker:** Governor Thomas.

Chair Leznoff, Governor Thomas is running a little bit late. He is planning to join by phone, and we are trying to get him connected now. You do have a quorum if you want to continue.

**Chair Leznoff:** We have just a few items today. We have a few presentations today. We only have one action item and that is the approval of the prior Minutes from the last meeting. I would entertain a motion.

**Board Chair Beruff:** So, moved.

**Chair Leznoff:** Is there a second? I need a second from someone other than me because I was not on the Committee. I don't think it could be me, can it? I don't think so.

**Tim Cerio:** Clarification, Madam Chair. I think you could second his motion.

**Board Chair Beruff:** That is right. You can make the motion.

**Chair Leznoff:** Even though I wasn't here for the, okay, fine, I will second. Without objection show the Meeting Minutes approved. Would you like to be recognized?

**Board Chair Beruff:** No.

**Chair Leznoff:** Next we will have Mr. Martins from the Office of the Internal Auditor to bring us up to date. You are recognized.

**Joe Martins:** Thank you, Madam Chair, good afternoon, Governors. Can we show the slide, please? I refer you to tab two of the pack where I provided an overview of the internal audit progress and copies of the reports, included. Since the previous meeting, we completed four audits and three project advisory engagements. On the slide in front of you on the far-left table, I highlighted four completed audits. For the Application Infrastructure Standards Audit, we validated the configuration of applications and infrastructure components to leading practices. Our work indicated that although various hardening standards and guidelines are applied, these should be formally defined and implemented, and monitored. Although operation management is responsible for Guidewires system access role design there is an opportunity to strengthen oversight to ensure that this privileged access and segregation of duty principles are embedded within the roles provided.

The second audit referred to the ELT Metrics Audit. We confirmed that effective business process controls are in place to ensure adequate management, validity, accuracy, and data quality of the ELT metrics provided.

The third audit refers to the Indemnity Check Targeted Audit, and this audit followed an incident where checks were amended and cashed. Internal Audit, in collaboration with the Inspector General, completed an assessment of circumstances surrounding the loss of these checks and confirmed that Citizens accurately followed the internal check printing and outgoing check mailing procedures. These checks were intercepted later outside of Citizens' span of control.

For the SB 76 Audit, we focused on components that impacted claims operations as well as the potential benefits of the bill. Some minor improvement opportunities to enhance the overall efficiency of the process were identified and discussed with management.

In the middle of the slide, we highlight that we currently have five project/advisory and five audit engagements in progress. Within the same column, I highlighted the audit engagements which included an audit of the House Bill 1079 implementation, the Targeted P-card Expense audit, a Quality Monitoring audit, an audit of the management controls over Suspense Accounts, and a Vulnerability and Patch Management audit.

The Office of Insurance Regulation also kicked off its market conduct exam in September and we are working very closely as a liaison for that engagement.

For quarter 01/2023, we plan to complete five audits. These include audits of the Bulk Intake of Private Insurer Policies (BIPIP); Claims Litigation Triage Process; Investment Portfolio Management Process; Mobile Computing or Remote Computing controls; and Third-Party Technology Risks.

In the middle of the slide, I highlighted our quarterly planning process which starts with a rolling risk assessment. The quarterly risk assessment identifies audit engagements to be completed in the next quarter. As a result of this practice, the Audit focus remains aligned with impactful business initiatives and risks. At tomorrow's Board meeting I will present some context around three audit hot spots that direct some of the audit work for the next period.

In the top far right-hand corner of the slide, I highlight current open items. None of these items are of high impact and management provides an appropriate focus on implementing corrective action.

This concludes the Audit presentation. If there are no questions, I will go over the Enterprise Risk and Internal Control presentation.

**Chair Leznoff:** Thank you. Are there questions from Governors? I just have one. In our meeting packet, the period of your progress period was April 1st through March 31st, and that is your rolling piece.

**Joe Martins:** That's correct, Madam Chair. What we do is every meeting we look back six months and forward six months. For every meeting, we roll forward another quarter.

**Chair Leznoff:** So, what was the period at the last meeting?

**Joe Martins:** At the last meeting it was from January 1st through December 31st.

**Board Chair Beruff:** That was the whole year.

**Joe Martins:** Yes, that is correct.

**Chair Leznoff:** Thank you.

**Board Chair Beruff:** January 1st to December 31st?

**Joe Martins:** Right, that will be January 1<sup>st</sup> through December 31st of this year. That is correct. So, six months from June, the last meeting was in June, so we are back to January to December.

**Chair Leznoff:** Okay, thank you.

**Board Chair Beruff:** So, six months increments.

**Joe Martins:** Six months back, six months forward.

**Chair Leznoff:** Thank you very much, and if there are no other questions you can proceed.

**Joe Martins:** Thank you. On this slide on the right-hand side, we present just a few graphs on the strategic risks. For the 16 strategic risks presented last quarter, the Enterprise Risk team continues to monitor the execution of defined mitigation plans and report progress to the Risk Steering Committee. Market instability remains Citizens' top risk as unstable market conditions continue to adversely impact private carriers. Continued participation in the Florida insurance market, or geographic locations due to capital limitations, reinsurance capacity, pricing, or insolvency. This results in fluctuations in Citizens' cost financial condition, exposure, and the number of policies in force. Enterprise Risk continues to support the organization with the identification and assessment of operational risks. For now, 322 risks are documented with 55 rating medium, none of which are of high impact.

At the bottom of the slide, the Internal Controls team continues to refresh documented process narratives and control descriptions as the processes change. In support, an external consulting firm was appointed to provide assistance in eight technical IT process assessments. For quarter four the Risk and Control team will continue to provide support for the completion of the 2022 control self-assessments that are being conducted by business management. facilitate and update operational risk assessments, prepare for the 2023 strategic risk assessment, and continue promoting our internal Audit Board self-service capability to risk and control champions and management throughout the organization.

Thank you, Madam Chair if there are no questions, that completes my report.

**Chair Leznoff:** Thank you, Mr. Martins. Are there any questions, or any discussion? Thank you so much. Up next, we have our Chief Financial Officer, Jennifer Montero.

Welcome, and you are recognized.

**Jennifer Montero:** Thank you. If you turn behind tab three you will find the June 30th, 2022, financial statements.

**Jennifer Montero:** Tab three of the audit book. Also with the financial statements is the document of the commentary which is what I am going to be going over today. At June 30th, 2022, consolidated cash and invested assets held by Citizens was 9.8 billion which was an

increase of 685 million compared to December 31st, 2021. The increase was driven by an increase in cash flows from operations. Largely as a result of an increase in written premiums which was partially offset by financing, financing cash outflows arising from Citizens principal repayment obligations on outstanding debt. Consolidated surplus on June 30th was 6.8 billion marking a modest increase of 300 million from December. Consolidated direct written premium for the first half of the year was 1.494 billion which is an increase of 655 million or 78 percent from the same period in 2021, and 71 million greater than budgeted. In 2022 the overall renewal rate of Citizens' policies was 79 percent, and despite this renewal rate reflecting a year-over-year decrease of 7 percentage points, the number of new policies written by Citizens during the first half of 2022 was approximately 271,000 which is 68 percent more or 109,000 greater than the same period in 2021. Through June 30th premium ceded for private reinsurance to the Cat Fund totaled 541 million, approximately 108 million more than 2021.

Premium ceded to private reinsurance in the Cat Fund coverage is recognized at the beginning of the Atlantic hurricane season of June 1st. As of June 30th, consolidated ultimate direct losses in loss adjustment expense or LAEs related to Hurricanes Irma and Michael were unchanged from the prior quarter and sit at 2.394 billion and 150 million respectively. Of the 2.394 billion of Hurricane Irma's ultimate losses in LAE across all accounts, 1.01 billion is recoverable under Citizens reinsurance contract with both the Cat Fund and private reinsurers. There are no reinsurance recoverables related to Hurricane Michael as the attachment level for the reinsurance arrangements was not met.

Consolidated ultimate direct loss in LAE of smaller storms that impacted Florida in the latter part of 2020, hurricane, was that Hurricane Sally, Tropical Storm Sally, and Tropical Storm Ada were likewise unchanged from December 31st and remained at 238 million at June 30th. Current accident year loss in LAE unrelated to hurricanes and sinkholes did not experience any meaningful variances from the prior quarter as development of the prior exit year loss in LAE was as expected. The 2022 accident year non-cat loss in LAE ratios for the PLA and the coastal account continues to show improvement from prior years. The dominant driver behind the improvement is loss in LAE is the improvement in litigation rates which continues to be the single most important factor in non-cat losses and LAE. In 2021 the litigation rate for non-catastrophe, non-sinkhole claims within both the PLA and the coastal account was 15 percent. Less than half of the litigation rate during the peak in 2015. The non-cat CLA, commercial lines account loss in LAE ratio has increased to 17.8 percent through the first half of 2022, but this is driven by inherent volatility within the coastal account, or I am sorry, within the commercial lines account due to the low premium volume. The increase in the commercial lines account result is not caused by any systemic, I am going to mess it up, thank you, I hate that word, systemic changes to the underlying loss experience or the book of business. Administrative expense incurred through June 30th, 2022 were 72 million or five million more for the same period and 12 million less than the budget. For the period ended June 30th, 2022, Citizens' expense ratio was 14.7 percent reflecting a 2.7 percent decrease from the same period a year prior and a .7 percent decrease compared to budget.

Total investment income for the first half of 2022 was 94.3 million, approximately 16.4 million less than during the same period in 2021, while the average invested assets increased 483 million. The decrease in the total investment income was largely due to a decrease in realized gain activity. With the recent rise in interest rates, certain portfolios were and continue to be repositioned to produce securities with higher yields resulting in short-term realized losses. It is expected that those short-term realized losses will be more than offset by higher returns in future periods.

**Board Chair Beruff:** Madam Chair.

**Chair Leznoff:** You are recognized.

**Board Chair Beruff:** When do you think that will turn around? When you say, "future periods", is that future periods a quarter, two quarters,

**Jennifer Montero:** That I do not know. Can you table that until FIC and we can talk to Kapil? He might have a better idea.

**Board Chair Beruff:** I was really the directing the question, he is not up here, but that is fine. We can wait, we can wait for FIC, that is okay. If I forget the question, somebody remind me, thanks.

**Jennifer Montero:** No problem. And I was just closing. Our total assets and surplus together with our reinsurance program should help ensure adequate claims-paying resources to meet any potential claims-payment obligation that may arise due to hurricanes and continued growth with Citizens policy count. So, I will stop for any questions if you have any.

**Chair Leznoff:** Thank you. Any other questions? Thank you so much.

**Jennifer Montero:** Thank you.

**Governor Thomas:** Madam chair.

**Chair Leznoff:** That is all right.

**Governor Thomas:** I was on Zoom and driving.

**Chair Leznoff:** And we appreciate you.

I think in your packet you have got some information from the Office of the Inspector General, their quarterly report. We don't have a representation on that, but if there are any questions, we can certainly have staff speak to them. Any questions? No. Okay. Is there any new business to come before the committee? With that, I will take a motion to adjourn.

**Board Chair Beruff:** So, moved.

**Governor Thomas:** I was going to do that since I just got here. I will second it.

**Board Chair Beruff:** I will take my motion back.

**Chair Leznoff:** And you second it. And we are adjourned; thank you so much.

(Whereupon the meeting was concluded.)