

# Executive Summary

**Actuarial and Underwriting Committee Meeting, December 6, 2022**

Board of Governors Meeting, December 7, 2022

## Business Process Outsourcing (BPO) – Underwriting Production Services

### Topic

This Consent Item seeks Board approval to increase and aggregate the previous spend authority for the Business Process Outsourcing (BPO) Underwriting Production Services contracts. The request is due to market conditions that increased the demand for underwriting services. Three (3) vendors were awarded to provide underwriting services on December 4, 2018, with an approved total spend of \$35,616,803.00. As costs continue to increase, we asked the Citizens Board of Governors to increase spend to the amount of \$45,933,107.00 to cover the initial term of approved spend authority to March 31, 2025.

### History

Citizens uses an outsourcing operational model in addition to Citizens' staff for underwriting production services to ensure appropriate scalability for market fluctuations and business continuity. Citizens pays activity-based prices for actual underwriting activities performed by each of the three (3) vendors.

On August 30, 2018, Citizens issued ITN No.: 18-0038 for Business Process Outsourcing (BPO) Underwriting Production Services. On December 4, 2018, three (3) vendors were recommended for award and Citizens executed contracts with two (2) of the vendors (MacNeill Group, Inc. and Blue Bird Technologies, LLC d/b/a Activer Solutions). The approved spend was for an estimated amount \$35,616,803 over a ten (10) year term as follows; \$19,308,403 for the five (5) year base term; \$9,685,040 for the first three (3) optional renewal term; and \$6,623,360 for the second two (2) year optional renewal term.

Since the ITN awards in December 2018, market conditions have changed, and underwriting demand has increased significantly beyond the initial forecast. Key events that contributed to the increase include:

- Citizens' policies-in-force (PIF) increased from 419,475 in October 2019 to 1,071,850 in September 2022.

Citizens added the following enhancements in 2022 to improve cost efficiency of underwriting production services:

- Increase Straight Through Processing (STP) from 18% to 32%
- Implemented inspection automation to reduce manual review activity where unnecessary (reducing reports requiring manual review by 60%)

With these processing efficiencies, underwriting has found that this has saved time and money since resources are not used to underwrite a file. However, with the increased PIF count, there

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are more opportunities for underwriting review for Policies Changes, Reinstatement, or Inspection review.

Citizens is implementing the following enhancements in 2023 to further optimize underwriting production services:

- Automate Cancellation Activity Request
- Include DP-3 file review to predictive analytics
- Add HW-2 and MHO-3 to Automated Underwriting

Citizens continues to search for ways to optimize the underwriting process. With the efficiencies mentioned above, there will be less vendor involvement to review a file. As the PIF count continues to increase, underwriting spend will increase and these efforts may offset the requested additional spend.

Citizens staff estimates an additional \$10,316,304 in spend authority is needed through March 31, 2025, based on projected PIF growth and corresponding underwriting volume. Citizens staff will continue to assess the required spend authority for the remainder of the contract term and seek further approval from the Board if needed to support the increasing underwriting demand.

The following chart outlines actual and projected annual spend through March 31, 2025.

Year	Underwriting Original Projection **	Underwriting Activities	Annual Spend	Approved Spend Balance*
				<b>\$35,616,803</b>
2019		42,735	\$423,021	\$35,193,782
2020		159,395	\$1,849,900	\$33,343,882
2021		390,677	\$4,839,584	\$28,504,298
2022		639,944	\$8,004,317	\$20,499,980
2023	164,916	904,785	\$11,619,698	\$8,880,282
2024	164,916	1,155,649	\$15,251,338	-\$6,371,056
2025 (Jan-Mar)	41,229	294,168	\$3,945,248	-\$10,316,304

\*The negative spend balance represents the depletion of the current approved spend and the estimated amount of spend required through March 31, 2025.

\*\*The underwriting original projection is an assumption of a PIF count of 415,680. This assumption is based on the contract origination date of 2019.

## Recommendation

The recommendation is listed in the attached Action Item.

**Business Process Outsourcing (BPO) – Underwriting Production Services**

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other** \_\_\_\_\_

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

**Previous Board Approval: 12/12/2018**

**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.

<p><b>Purpose/Scope</b></p>	<p>This Consent Item seeks Board approval to increase spending authority for Business Process Outsourcing (BPO) Underwriting Production Services, originally approved by the Board on December 12, 2018.</p> <p>Due to market conditions that increased demand for underwriting services, the current spend authority of \$19,308,403 for the five (5) year initial term from October 2019 to October 2024, is estimated to be depleted early in the second quarter of 2023. In addition, the total current spend authority of \$35,616,803 for the ten (10) year term, ending October 3, 2029, is estimated to be depleted early in the second quarter of 2024.</p> <p>As a result, This Consent Item seeks Board approval to increase the current spend authority to aggregate the \$35,616,803 for use in the initial five (5) year base term, with an additional increase in contract spend by \$10,316,304, for a total spend authority not to exceed \$45,933,107 through March 31, 2025.</p>
<p><b>Contract ID</b></p>	<p>Business Process Outsourcing (BPO) – Underwriting Production Services</p> <ul style="list-style-type: none"> <li>• MacNeill Group – (Contract 19-18-0038-02)</li> <li>• Blue Bird Technologies, LLC d/b/a Activer Solutions – (Contract 19-18-0038-01)</li> </ul>
<p><b>Budgeted Item</b></p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Funding for these contracts is included in the 2022 Annual Operating Budget and will be included in subsequent budgeting years.</p>

**Business Process Outsourcing (BPO) – Underwriting Production Services**

<p><b>Procurement Method</b></p>	<p>On August 30, 2018, Citizens issued ITN No.: 18-0038 for BPO Underwriting Production Services. On December 4, 2018, three (3) vendors were recommended for award:</p> <p>Primary</p> <ul style="list-style-type: none"> <li>• MacNeill Group, Inc.</li> <li>• Blue Bird Technologies, LLC d/b/a Activer Solutions</li> </ul> <p>Contingent</p> <ul style="list-style-type: none"> <li>• Genpact</li> </ul>
<p><b>Contract Amount</b></p>	<p>On December 12, 2018, the board approved a total contract spend authority of \$35,616,803 as follows: \$19,308,403 for the five (5) year base term; \$9,685,040 for the first three (3) year optional renewal term; and \$6,623,360 for the second two (2) year optional renewal term.</p> <p>This Consent Item seeks to aggregate the previous authority into the initial term and increase the total spend authority to \$45,933,107, through March 31, 2025.</p>
<p><b>Contract Terms</b></p>	<p>The contract has a five (5) year base term, with optional one (1) three (3) year renewal, and one (1) additional two (2) year renewal.</p>
<p><b>Committee Recommendation</b></p>	<p>Staff proposes that the Actuarial and Underwriting Committee review, and if approved recommend the Board of Governors:</p> <ol style="list-style-type: none"> <li>a) Authorize an additional \$10,316,304 in spending authority for the Business Process Outsourcing (BPO) – Underwriting Production Services initial contract term, bringing the total authorized contract amount to \$45,933,107 through March 31, 2025; and,</li> <li>b) Aggregate the current total spend authority previously approved for renewal terms into the initial contract term through March 31, 2025; and,</li> <li>c) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.</li> </ol>
<p><b>Board Recommendation from Committee</b></p>	<p>If approved at its December 6, 2022, meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ol style="list-style-type: none"> <li>a) Authorize an additional \$10,316,304 in spending authority for the Business Process Outsourcing (BPO) – Underwriting Production Services initial contract term, bringing the total authorized contract amount to \$45,933,107; and,</li> <li>b) Aggregate the current total spend authority previously approved for renewal terms into the initial contract term through March 31, 2025; and,</li> <li>c) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.</li> </ol>
<p><b>Contacts</b></p>	<p>Kelly Booten, Chief Operating Officer</p>