☒ **ACTION ITEM**	☐ **CONSENT ITEM**
☐ **New Contract**	☐ **Contract Amendment**
☐ **Contract Amendment**	☐ **Existing Contract Extension**
☒ **Other – Board Meeting Minutes**	☐ **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 and/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 and 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	**Board of Governors Meeting Minutes, September 21, 2022**
Purpose/Scope	Review of the September 21, 2022, Board of Governors Meeting Minutes to provide opportunity for corrections and historical accuracy.
Contract ID	**N/A**
Budgeted Item	☐Yes ☐No N/A
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Board Recommendation	Staff recommends the Board of Governors review and approve the September 21, 2022, Board of Governors Meeting minutes.
CONTACTS	Barry Gilway, President/CEO and Executive Director Barbara Walker, Senior Executive Assistant and Board Secretary

CITIZENS PROPERTY INSURANCE CORPORATION

DRAFT

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, September 21, 2022

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened at World Golf Village Renaissance, St. Augustine, FL on Wednesday, September 21, 2022, at 8:30 a.m. (EDT).

The following members of the Board were present:

Carlos Beruff, Chair
Scott Thomas, Vice Chair
Joshua Becksmith
Jason Butts
Jillian Hasner
Erin Knight (telephonically)
JoAnne Leznoff
Charles Lydecker
Nelson Telemaco

The following Citizens staff members were present:

Barry Gilway
Tim Cerio
Jennifer Montero
Barbara Walker
Bonnie Gilliland
Kelly Booten
Jay Adams
Joe Martins
Carl Rockman (Telephonically)
Violet Bloom
Christine Ashburn
Jeremy Pope
Mark Kagy
Ajay Kumar

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	FAIA
Nathaniel Johnson	Bank of America Securities
George Smith	BMO
Matthew Sansbury	RBC Capital Markets
Bryan Friendshuh	AJG Re
John Generalli	Wells Fargo
Adam Schwebach	Gallagher Re

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens' September 21, 2022, Board of Governors meeting that is publicly noticed in the Florida Administrative Register to convene at 8:30 am. It is recorded with transcribed minutes that are available on our website. For those attending in today's session through the public link, you're automatically in listen only mode. Chairman Beruff, we have no speaker requests for today. Would you like for me to proceed with the official roll call?

Chair Beruff: Please.

Roll call: Chair Carlos Beruff, Vice Chair Scott Thomas, Joshua Becksmith, Jason Butts, Jillian Hasner, Erin Knight, Charles Lydecker, JoAnne Leznoff, and Nelson Telemaco.

Barbara Walker: Chairman, you have a quorum.

Chair Beruff: Great. Thank you.

1. Chairman's Report

Approval of Board of Governors July 13, 2022, Minutes

Chair Beruff: The Chairman doesn't have anything to report.

A motion was made and seconded to approve the July 13, 2022, Board of Governors minutes. All were in favor. Motion carries.

Chair Beruff: Ms. Walker, are you ready?

Consent Agenda Items

Barbara Walker: Yes, sir. Would you like for me to go through the Consent Agenda items?

Chair Beruff: Please.

Barbara Walker: Okay. Thank you. Consent Agenda items do not require a detailed explanation to the Board of Governors. Consent items are contract extension, amendments, additional spending authorities for items previously approved by the board and/or Action Items qualifying as Consent as day-to-day operational items unanimously passed through committee. The chairman may move to advance to the consent agenda the action items to the Consent Agenda Index to be voted on collectively; however, any board member who wishes to set aside an Action Item for discussion may do so. For the record Chair Beruff has requested that the board advance today's action items to consent items. I'll read them into the record. Please let me know which ones you want to pull to the side. We've already done the minutes.

B. Reinsurance Management Software Solution
C. Product Changes – FIGA Assessment
D. Technology Infrastructure, Software, Professional Services, and Staff Augmentation
E. Product Updates – Deferred to December 2022
F. Language Interpretation and Transcription Services
G. Roof and Property Reporting Services

H. Medical Plan and Prescription Drug Coverage Administrative Services
I. Dental Insurance Coverage
J. Outgoing Shipping Services
K. General Corporate Legal Services
L. Cyber Liability Insurance
M. Directors & Officers Insurance

We also have two Consent Agenda Index items. One is the Approval of Increases Required by 627.351 Fla Statute and Multifunction Copier Lease.

Chair Beruff: Does any board member have any comments or questions comment or do we want to yank something off of that? Yes ma'am?

[inaudible]

Chair Beruff: Will you pull item D please?

Barbara Walker: Was that B, sir?

Chair Beruff: D as in "dog."

Barbara Walker: Thank you.

[inaudible].

Barbara Walker: Okay.

Chair Beruff: Is that the omnibus technology package?

Barbara Walker: That's the technology infrastructure, yes.

Chair Beruff: Alright. We'll pull that one. Does anyone else have anything they'd like to pull for discussion?

Nelson Telemaco: Can we pull L and M, please?

Chair Beruff: L and M.

Barbara Walker: Yes, sir. We pulled D, L, and M.

Chair Beruff: Anybody else? The Board will entertain a motion to adopt the rest of the package.

A motion was made and seconded for the Board of Governors to approve the following Consent Agenda Items:

B. Reinsurance Management Software Solution
C. Product Changes – FIGA Assessment
E. Product Updates – Deferred to December 2022
F. Language Interpretation and Transcription Services
G. Roof and Property Reporting Services
H. Medical Plan and Prescription Drug Coverage Administrative Services

I. Dental Insurance Coverage
J. Outgoing Shipping Services
K. General Corporate Legal Services
All were in favor. Motion carries.

Chair Beruff: Consent agenda passed. Thank you. And now we are off to Mr. Gilway.

2. President's Report

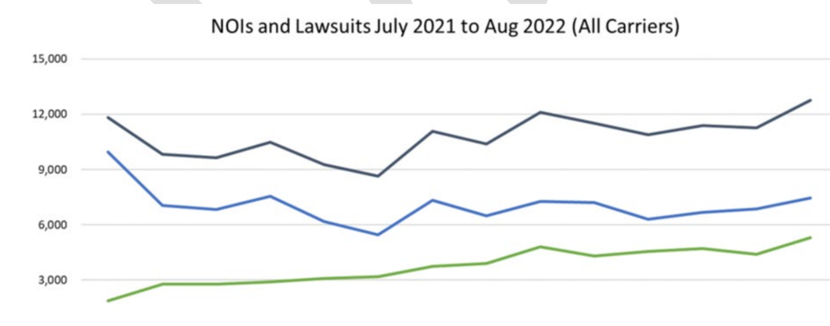
Barry Gilway: Thank you, Mr. Chairman and Board members. Before we start, apology. I have a slight hearing issue, so when we get to the Q and A, if I say, "What?" too many times… I just wanted to lay that out. For the new Board members, what I try to do is to try to give you some perspective on the market. Kelly [Booton] and Jay [Adams] and Jeremy Pope and others really paint a great picture for you on what's happening at Citizens. I try to tell you what is driving the Citizens results. With that, you do have my presentation right in front of you. I will try to stick fairly close to that presentation. There are a couple of areas I might deviate. Some of the numbers that you will see in the presentation today at first glance are concerning, but I will make the argument that we are really doing what the legislature intended for us to do and that's basically provide stability for the private market when we get into these types of situations. I am going to comment on a Florida State University (FSU) study. It is published... I encourage you all to read it because it is a fascinating review of not only the Florida market, but the entire nationwide homeowners market post Hurricane Andrew and the impact Andrew had and the aftermath, if you will, of Andrew. I don't know when the publish date is but many of us have had the chance to review it and comment. There are some interesting comments that I'll make from the FSU report. I started out here with one exhibit. For most of you, this is not a new exhibit. It is part of the Executive Leadership Team (ELT) metrics package on a monthly basis. So, what is my message? It shows that Citizens is a rollercoaster ride, and it has been a rollercoaster ride since 2002. The customer count increases or decreases simply based upon the profitability marketplace. In fact, if you want to get more specific, the roller coaster ride has been a direct result of the insolvencies that occur overtime due to industry unprofitability. Companies become insolvent. Businesses move into Citizens to stabilize the market. Here is the interesting thing from the FSU study. The FSU study adds more perspective, but they do it from a broad period (so, from 1984 to 2021). The number of companies writing business in Florida has been a revolving door. During that period, 370 different companies have written homeowners insurance in Florida. 103 companies roughly every year participate in the marketplace. Only eight of those 370 companies are still writing business in the state of Florida – 8 out of 370. Of course, the point I'm making is the overall instability of the private market. And, as you can see from these charts, this is not new news. This has been occurring for many, many years. The issue fundamentally is that we are a market dominated by domestic insurers. This used to not be the case. But we are a market dominated by domestic insurers. They are smaller. They are more reliant on reinsurance in the capital markets. Frankly, they are far less stable than the large national companies. It would be very, very difficult to argue that the makeup the instability of the market is due to the unintended consequences of House Bill (HB) 1A without any question. National companies, investors in domestic companies, and reinsurers all make their decisions on the allocation of capital on the rate of return that they can get from the market. They have a definitive amount of capital, and if they are going to employ that capital, then they need a reasonable rate on return. The reality is that in the Florida marketplace they cannot get that reasonable rate on return. Even, by the way, the nationals that are here (State Farm and Allstate) … State Farm still has a significant part of the Florida market. I think it's $542 million in premium. Allstate, I think, is $170 million in the state. So, they still have a fairly substantial amount of commitment to the state, but even those companies segregate their writings from their national writings by forming Florida only companies. So, in effect there is a firewall between the national companies in the Florida companies. Several people ask the same question, "Why can't we attract national carriers?" I've been asked that question 25 times including by the way, on the first day of my job with the prior [Florida] Governor saying, "Hey, how do we get these national companies back? How do we get Zurich back into the marketplace?" It's not rocket science. They can't make money. And, if they can't make a reasonable return over time, they are not coming back into the marketplace. The lack of stability exacerbated it, and the issue is the the reliance on reinsurance in this market versus capital is just having a huge impact on Citizens' numbers; it's driving the customer counts upward once again. We know that Florida pricing to a large degree is dictated by reinsurance pricing. What is lesser known is that averages from 40% to 50% of every premium dollar. As the reinsurance costs go - so goes the Florida pricing. As we know, this last cycle, from a reinsurance perspective, we placed less than 50%… or a little more than 50% of our overall program. We're all hoping that Invest 98L [later to become Hurricane Ian] now forming and moving toward Florida is not the straw that breaks the camels back for the industry. Reinsurance drives this marketplace. Why? Because instead of having capital backing up, you've got solid reinsurers backing it up. The overall instability of the reinsurance market itself is the lack of capacity applied to this state is creating more of our issues more so for the rest of the marketplace. Including the insolvency of Florida Specialty in November 2019 (and remember I said that insolvencies drive this), there have been seven other insolvencies in the last two years. This is just simply a list of the carriers that have either gone insolvent or who had significant consent orders issued by the Office of Insurance Regulation (OIR) which basically allows them to cancel midterm policies, frankly, to protect… it's a good move by OIR because it protects the financial solvency of the company. It's kind of like cutting off an arm to save the body. This is really a combination of the major consent orders and the insolvencies. As you can see, we are picking up roughly 35% of companies when they go insolvent. That is increasing. As the market shuts down and gets tighter, tighter, and tighter, we are writing a larger, larger, and larger percentage. Kelly can give you the exact numbers, but the numbers on Weston are not final, yet. In all likelihood, will be writing in excess of 60% of Weston's business. The majority of Weston business is commercial and not residential. One more point on that. As you can see, if the total policies written by Citizens… and this shows 120,000 policies and we've grown in the last 2.5 years by 700,000 policies… obviously that's not the only reason for the growth. The reason for the growth (and we have individuals who are directly involved in the market on the board) is market shutdown. There is simply no capacity in the marketplace. They can't afford the reinsurance to support the capacity, and the market is shut down. It is very very limited amount of business that is being written as new business. As I displayed earlier on the ELT Metrics Report, we reached a low of 414,000 policies and $8 billion in exposure from a peak of 1.5 million policyholders and more than half a trillion dollars in exposure. That happened in 2012. As this exhibit shows, we have again reached over a billion policies. By the way, in prior slide that I showed you (the roller coaster ride slide) in seven straight years we had over a million policies. I am not trying to

Carrier	Original Policy Count	Total Policies to Citizens	% of Original Policy Count Written by Citizens
Florida Specialty	90,059	22,454	25%
Capitol Preferred	23,000	1,036	5%
Gulfstream	14,328	3,034	21%
Universal	13,294	2,781	21%
Southern Fidelity	2,178	465	21%
Gulfstream	32,324	5,048	16%
St. Johns	20,000	5,086	25%
Avatar	36,559	14,231	39%
Lighthouse	27,244	7,713	28%
FedNat	65,442	19,740	30%
Southern Fidelity	77,008	27,858	36%
Weston	19,780	11,183	57%
	421,216	**120,629**	**29%**
United Property & Casualty	187,000	1,122	1%

downplay the impact on what is happening in the marketplace but I'm telling you that "we've been there and done that" as an overall residual market. While the growth rate is increasing, the impact of recent insolvencies obviously had an impact. And, when you see this chart, you can see an acceleration in the last two to three months in which these insolvencies occurred, but we were starting to stabilize somewhat because this is obviously exaggerated by the fact that when you have an insolvency and you pick up 35% of the policies in addition to what we're writing in the marketplace… obviously it has an impact. I have to tell you that I do not know how Kelly Booten, Jeremy Pope, Jay Adams, and the rest of the team are handling the…they are doing just a phenomenal job maintaining the overall service standards. The growth is just astounding. Frankly, they don't miss a beat. Yeah, I know I throw out a lot of compliments, but I am truly, truly proud of these people. I just mentioned three of them because the bottom line between Kelly, Jeremy, and Jay that is 90% of the company relative to staff sampling. Citizens market share as a result of this growth by the way, the last number is 1.26 million to 1.55 million, and we continue to ride around 60,000 new policies a week. It is significant, and Jeremy, Jay, and Kelly have made substantial changes accelerating automation to handle this without automatically resorting to staffing. What this has resulted in is that the market share is currently at 13% and we will be about 15% of the market by the end of the year. That really doesn't tell the story. The impact on the southeast counties is far greater. In Dade County we are now 39% of the market. So, four out of every ten homes in Dade County we insure. That percentage is 30% in Broward County, 22% in Palm Beach County, and everyone knows in Monroe County that were the only game in town. For some reason companies do not like writing business on an island in the middle of the ocean. [laughter] The folks in Monroe County may not understand that but let me tell you something. It's a tough, tough place to write. And we have been 71% of the wind business there for a number of years. I really haven't focused on commercial because over the years we used to have a 45% share in the commercial marketplace. We're down to 5,062 policies in commercial, (I hope I picked up your notes Kelly) and that actually includes the 817 policies in the last 25 months driven by a large degree by Weston. We continue to be a limited player in the commercial lines end, but as I've had some discussions with some board members who definitely play in this market, without question it is growing. It is growing significantly, and it is not just the policies in force. It is really the exposure that goes with the commercial business. Lastly, on the discussion on whether Senate Bill (SB)76 and the special session legislation, particularly the assignment of benefits (AOB) changes, will have any effect, I believe they really, really will. The presentation shows 60%, 70%, and 80% of the AOBs coming through the door before SB76 and HB65. It's really just greedy contractors and greedy public adjusters and greedy attorneys who are basically undermining the remaining Hurricanes Irma and Michael claims. You just simply can't ignore it period now that the legislation is in place, the problem that people need to understand is that when you pass legislation, it takes forever to get through. To start with, when you renew on day one, it takes a year for that contract line to be applicable to the entire book of business. Then, you start seeing some of the benefits associated with the legislation. One of the areas that's been discussed at length and should be is litigation numbers. For the board members who have been with us for a while, this will be old news. This is the presentation basically of Notice of Intent (NOI) and lawsuits. If you follow just lawsuits on this slide,

Year	Citizens Lawsuits	Citizens AOB Lawsuits	Citizens AOB %	Lawsuits All Others	AOB All Others	All Other AOB %	Total Lawsuits	Total AOB Lawsuits	Total AOB %	Total NOI	Lawsuits and NOI
2013	9,146	860	9.4%	18,270	4,613	25.2%	27,416	5,473	20.0%		27,416
2014	9,525	1,062	11.1%	22,122	4,820	21.8%	31,647	5,882	18.6%		31,647
2015	7,653	1,250	16.3%	30,167	6,645	22.0%	37,820	7,895	20.9%		37,820
2016	10,061	3,242	32.2%	31,790	5,968	18.8%	41,851	9,210	22.0%		41,851
2017	7,624	2,718	35.7%	41,524	9,772	23.5%	49,148	12,490	25.4%		49,148
2018	13,363	3,631	27.2%	69,300	17,421	25.1%	82,663	21,052	25.5%		82,663
2019	9,877	3,886	39.3%	74,210	24,694	33.3%	84,087	28,580	34.0%		84,087
2020	7,853	2,007	25.6%	77,154	15,676	20.3%	85,007	17,683	20.8%		85,007
2021	10,367	3,047	29.4%	89,152	22,867	25.6%	99,519	25,914	26.0%	16,626	116,145
2022	8,495	3,936	46.3%	47,158	14,795	31.4%	55,653	18,731	33.7%	35,737	91,390
Total	**93,964**	**25,639**	**27.3%**	**500,847**	**127,271**	**25.4%**	**594,811**	**152,910**	**25.7%**	**52,363**	**647,174**

which is the blue line, you'll see that lawsuits are down a little bit from 2021 and are starting to stabilize. But you cannot ignore NOIs because the vast majority of NOIs become lawsuits. The NOIs to file a lawsuit are added to complete the picture. When you look at it from that perspective, you'll see basically the total. Litigation is not going down. Litigation continues to increase for some of the reasons I mentioned a moment ago. Now, I will not go into detail on the next graph, which is exhibit 5, but it's worth looking at this because it does give you a picture of the overall lawsuits that occur all the way back from 2013. It shows that the industry lawsuits, for example, have gone from 18,000 lawsuits in 2013… there are over 100,000 lawsuits in 2021. If you start adding the NOIs to those numbers, you'll see that the industry lawsuits increase from 85,000 from last year 99,000 in 2021. No, that is without the NOIs. If you add in the NOIs, you've basically gone from 85,000 to 116,000. The 116,000 is exaggerated to some extent because you are talking about lawsuits and LSOP if you're looking at lawsuits, the NOIs eventually become lawsuits and are counted in the lawsuit numbers. You have to be very careful looking at that combined number combining the notices of intent legal services to process. The legislative of course has not had the opportunity impact the financials. Domestic and foreign financials through mid year also show limited improvement with negative net income of $452 million. The projection for the private industry for 12 months is a billion dollars of loss. That would be the third year in a row that the private industry is going to show a billion-dollar loss with no storms. This is driven by litigation, and it's driven by development on litigation, which, of course, is a major concern for the reinsurers. Domestic and foreign $452 million and the point is obvious. If the numbers remain in the red and companies are put into a position where they are not making a reasonable rate on return, then you're not going to have a stable market. I think there is a lot of work to be done from a legislative perspective. Christine [Ashburn] will bend every one of your ears regarding what has to get done. And Carlos Beruff has bent my ear in terms of what has to get done, many, many times. I think he has an overall great approach. Some of the areas, by the way, I did not agree with Carlos Beruff were eventually proven to be right. When an insolvent company comes to see you and the reward for the insolvent company to come to you is that they get a 30% credit on their insurance. I mean think about that. A company goes insolvent



	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
All NOIs	1,867	2,771	2,779	2,915	3,109	3,185	3,750	3,894	4,818	4,297	4,569	4,705	4,395	5,309
All Lawsuits	9,968	7,063	6,851	7,562	6,172	5,470	7,335	6,488	7,280	7,218	6,318	6,691	6,871	7,452
Total	11,835	9,834	9,630	10,477	9,281	8,655	11,085	10,382	12,098	11,515	10,887	11,396	11,266	12,761

Source: "Service of Process Reports" (LSOP Reports), Property Insurance Intent to Initiate Litigation (NOI Reports) Florida Department of Financial Services and July 2021 – August 2022.

2

because the company can't make money at the current rates then comes to Citizens and then they get a 20% to 30% discount. It's pretty sad.

Chair Beruff: For the new board members, basically what happens is if you're paying $4,000 a year with Company A that then goes insolvent, they come to us, then it turns into $3,000 a year. We cannot change that unless we do that legislatively, but it's just absurd that we have to do that – reduce our revenue – just to take over an insolvent company anyway. Thank you, Barry.

Vice Chair Thomas: Rates, by definition, were too low.

Chair Beruff: There is the litigation issue which is the 800-pound gorilla in the room.

Barry Gilway: Believe it or not, I'm going to end on a positive note. We are the largest residual insurance company in the United States. Currently, we are 47% of the Property Insurance Plans Service Office (PIPSO)… by the way, I'll ask our National Chair Elect of PIPSO Kelly Booten… but I talked to Ron Cassesso last night who is with PIPSO. They write a total of $3.8 billion nationally. On that same basis we were writing $1.8 billion, so 47% of the national residual market is Citizens. By year end (and that was based on 2021 numbers). by year end, we will be 71% of the entire residual market in the United States. We are still operating historically and consistently with legislative intent providing stability to the market. If you accept the fact that 400,000 residual market policyholders are a reasonable number and that matches the market share of Massachusetts, California, Texas, North Carolina… Given Florida's issues those are opportunities for investors to participate in close to 1,000,000 customers by year end. This is the investment opportunity of a lifetime with estimated revenues of $3.1 billion. Take out the 400,000 policyholders, that's $2.3 billion of business that's available to aggressive investors in the marketplace with no acquisition loss. It's an investor's dream. I had to get that pitch in that there are opportunities here. As Citizens grows, and here is another positive, the overall quality of the book is improving. We are adding more and more preferred policies. An example of that: we are a residual market, yet 4% of our policies are brand new homes – less than 10 years old. That makes no sense whatsoever. My pitch, and that is why I'm saying I'm ending this on a positive note, this growth is creating the investment opportunity of a lifetime for aggressive investors. Two things have to happen.

Chair Beruff: But . . . [laughter]

Barry Gilway: The "but" is that Citizens cannot compete with the private market. We cannot be the cheapest company on the street. We have to do something about having Citizens compete with the private marketplace. We are so low in some counties that were 50% of the competition. That has to be fixed. We had it fixed but then we moved away from it. The sad thing is, of course, and I know I've been a broken record on this, litigation, litigation, litigation. The one-way attorney fees statute, in my opinion, has just got to go. There is absolutely no reason today why attorneys don't sue, and homeowners don't take advantage of. With that, Mr. Chairman, I am open for questions.

Chair Beruff: Does the board have questions?

Charles Lydecker: Thank you Mr. Chairman and thank you for the tutorial, review, context, and perspective. I found it really helpful. I was wondering… I have two things, do you mind walking through exhibit 5 a little slower in just making sure, at least in my case, I appreciate some of the nuances some of the messaging inside of those numbers, particularly as it relates to all the other AOB percentages. How should we be thinking about that? My second question is (and this is not a low-hit question, but I'm really unfamiliar with the California residual market) but I do know that they have had fires and what that has done to the personal lines market and what is happening there. Are there any takeaways? Are there any similarities? Is there something we can get from understanding on what they are doing or not doing?

Barry Gilway: On your second point, Kelly sits in the chairs of PIPSO. One of the benefits of having her spend time with PIPSO is that she literally spends time on a quarterly basis with all the leaders' planners. We have close relationships with Richard Newberry (Louisiana Plan); they depend upon us a lot frankly. They are going through their own major problems, so we provide Louisiana with… one of the things that we're doing, for example, as we go through the description of this chart, it's amazing to me that litigation has not increased as significantly as the rest of the market. That's basically Jay Adams in the 2007 change in our form that allowed for mandatory arbitration in terms of appraisal. Either side could demand appraisal. That appraisal has reduced our overall litigation dramatically for the Managed Repair Program (MRP). For, Massachusetts, Texas, North Carolina… we're in touch with them all the time relative to their programs. I will say this: programs differ. California, for example, writes for only two lines of business. North Carolina writes for only three lines of business. Massachusetts has two lines of business. If you take a look at the other residual market planners, the big learning is that we have accelerated overtime into an all-encompassing company that has multiple residential forms, multiple commercial forms. We're the only company that does that. We're the only residual market company that does that. At times there have been discussions in front of the Senate relative to the possibility of restricting the lines of business that we write. I would propose that this is not the time to bring that back, but I think to your question, yes, we are in touch with… we had a meeting with the whole Texas team just a week or so ago. We compared notes relative to what their reinsurance programs are like, what their structures are like, what actions they are taking, etc. I'm not a huge proponent, for example, of their Texas version of SB76 statute. But it is much stronger. It was very, very close to the Senate version of SB76 before it was somewhat watered down into the final version of SB76. We do watch very closely, Governor Lydecker, in some of the states. In fact, we're on the phone with key leaders on a pretty darn regular basis.

Charles Lydecker: I appreciate being a beneficiary in terms of needing to think about reducing our exposure overtime. In my perspective, this is not the role of Citizens. It should not be growing. It should be shrinking. It's not an appropriate role for the state government, at least in one person's opinion. Having said that, just as a follow up, separate from today, I'd be curious to see more about California. The reason I say that is because even though I don't know anything about the residual land, I am a practitioner on the insurance side, and I am familiar with the personal lines market. It has hardened and constricted there very severely. I'm curious as to what are they doing about that because of the fires, which means they are restricting in areas that you wouldn't imagine a fire could be (Manhattan Beach, for example). I just don't know if there are any takeaways there, but they have a developing severe issue. It's for another day, but I was just curious about that.

Barry Gilway: We can certainly create a summary for you on key issues. Texas is going through some severe problems right now. Louisiana is in worse shape….

Charles Lydecker: Texas is actually the other one because they have a piece of this figured out. I think you referenced legislation as an example. Getting educated more on that I think would be good. Thank you.

Barry Gilway: We'll pick the top five because once you get past the top five, they are very small plans. We will pick the top five plans and provide a summary for you.

Charles Lydecker: Thank you.

Barry Gilway: You're welcome. On this chart, I won't ask you to read this chart. You have that chart in your book. The way that this is organized is that we try to compare Citizens with the overall market. For example, column one shows Citizens' lawsuits and it's by year. So, in 2013 there were 9,146 lawsuits you can see in 2021 there are 10,367 lawsuits. One of the points that we try to make on this slide is that the increase in overall litigation – if you can compare that to the column that says "lawsuits all other" which four lines over – you'll see that the lawsuits for all other carriers combined from 18,270 in 2013….

Chair Beruff: So, that's for all other carriers?

Barry Gilway: These are all other carriers excluding Citizens… up to 89,000 lawsuits. So, while Citizens has grown from 9146 to 10,367 the industry has boomed from 18,270 to 89,000 for 2021.

Charles Lydecker: That's a really helpful clarification. One other question while you're on that topic. When a lawsuit is filed, and it is a result of an event that occurred one or two years, how do you count that lawsuit? Do you count it in the year of the event or when the suit was filed?

Barry Gilway: The LSOP is Legal Service of Process when the lawsuit is filed. Before the lawsuit can be filed, there is an LSOP file that's filed with the state and that's when we count it. What you're looking at here is a combination of LSOP directly from the state database and the NOI database.

Charles Lydecker: Thank you.

Barry Gilway: What we're trying to do is that Citizens AOB has remained relatively consistent, and frankly, increased for Citizens. If you go to Citizens AOB, in 2013 only 9.4% of Citizens lawsuits AOB. If you go to 2022, the latest, as Jay has shown, we're up to 46%. To your point, Governor Lydecker, the issue is really that the database of claims that have been filed – the Notices of Loss (NOLs) – filed before the litigation, that's being mined without any question. I'll make up a number, but I think it's pretty darn close. It's 75% of the AOBs and it has nothing to do with the current legislation; they're brought on the period prior to the effective date than the current legislation. This chart really carries over. So, you have an AOB-others which has really remained consistent for the industry going from 25.2% in 2013 all the way to 31.4%. We do follow Case Glide; it's a compendium of the top 16 to 17 companies that give you a monthly report and what's happening from a litigation perspective. They've recently started doing what we're doing and breaking it down and itemized. You'll see the same trends in the Case Glide report for the major carriers. On the right-hand side this is new news. There were NOIs before SB-76. You'll see that the NOIs… the lawsuits should be dropping and the NOIs should be increasing. Now there has to be a notice of intent 10 days prior to filing a lawsuit and then there is a 14-day review period. That's the picture, Governor Lydecker. Any specific questions?

Charles Lydecker: No. Thank you.

Vice Chair Thomas: Mr. Gilway, I think an important thing to point out is that we're talking about Florida lawsuits here. There is a certain segment of the Florida Bar, for example, that says, "Well you have all of these lawsuits because you don't pay claims. You're a bunch of bad insurers not paying claims." I think the important thing to me in this statistic is not necessarily this wrong number of lawsuits in Florida. But, if you compare the incidents of litigations in Florida with other states, the disparity there is (and I can never get the numbers right) is astronomical. The overall percentage of claims versus the overall percentage of lawsuits is incredible.

Barry Gilway: 8% of all claims in 79% of all litigation come from Florida.

Vice Chair Thomas: There are really only two possibilities here. There is something unique about Florida that makes insurers not pay claims in Florida, or there is something unique about Florida in which we are subsidizing litigation. It strikes me that the obvious thing is that we are subsidizing litigation through one way attorney fees. As we look at ways to solve the problems that we have, and there are lots in the media about complaints about rates… apparently, our rates are not too high. If a private insurer came in to charge what we are compared to what is actuarially sound, the OIR will never allow it. That's predatory. You can't do it. It's fiscally unsound, but at the end of the day, if you want to deal with that, you have to address the idea of what's driving this phenomenal disparity between litigated claims in Florida versus the other 49 states. If you don't do that, sure you can come up with some maybe bandaid fixes. For example, you mentioned the 2007 bill will give some relief on rates but really, we made Citizens an insurer of last resort in name only. We eased eligibility requirements. We cut our own rates. We became a predatory competitor. Sure, you can short-term fix in 2007 and say, "Look we gave a rate break." In the long term it's not working. It's the same thing with litigation. If we don't come up with something… it has to be legislative. If something is not done about this litigation disparity, then I don't know if you're really addressing the root problem here. I appreciate it and it's a stunning number. But it's really stunning when you compare it to what we have.

Barry Gilway: I agree, Governor Thomas. Christine has done an excellent job working with other groups on really detailing why the one-way attorney fee statute in Florida is so different. She's put together a compendium (I do not know whether she's shown that in the committee meetings, yet) of a complete list of the equivalent legislation in all of the other states. At least that's a starting point to your point, Governor Thomas, that we can take a look at what is occurring in these other states and what makes Florida so different in terms of driving the extent of the litigation.

Chair Beruff: Thank you, Mr. Gilway.

Joshua Becksmith: Mr. Chair, may I ask a question?

Chair Beruff: Please.

Joshua Becksmith: President Gilway, a very good report. As a follow up, can you clarify on these lawsuits that are coming in. There are these rash of lawsuits that you've hit on like Hurricane Irma and Hurricane Michael specifically… are these open claims that we currently have either with Citizens or with one of the other carriers that developed into a lawsuit? Are these totally new claims?

Barry Gilway: Great question. They are first notices of loss claims that have been presented previously. Let's say you have a first notice of loss at the end of 2017 after Hurricane Irma and you settle the claim. Then, these lawsuits are coming in basically looking for… in effect, opening the claim and bringing in lawsuits for more substantial dollars appreciated with that claim. To your point, you can restrict the claims relative to the first notice of loss and restrict the length of time that you can litigate the claims, and that is where the problem is.

Joshua Becksmith: As a follow up, when we have a claim… let's go back to 2017 and I have a roof claim. Obviously, we're now five years later. That roof hopefully is fixed by now and let's say that the roof, for arguments sake, took $15,000 to repair. When that claim is paid and or closed, there is not some release of some sort? I'm trying to wrap my head around how an AOB and lawsuits are getting filed five years later on a claim that should have been closed, litigated, and paid out. For my benefit what are they coming back other than an overall value?

Barry Gilway: The best way to answer that would be the NOIs coming in. I may have Jay come up and answer this more specifically, but I think those NOIs are basically asking for increase in coverage amounts or additional damage. Jay, do you have a comment on that?

Jay Adams: Governor Becksmith, can you repeat the question? I was having a sidebar [conversation].

Joshua Becksmith: The question I have is how is it that five years later that we have a claim that is closed and paid and now all of a sudden… how are all the attorneys and independent adjusters coming back five years later saying, "My $15,000 roof is now going to cost $45,000"?

Jay Adams: We have two statutes that we look at. One would be on the first notice of loss reporting. As of today, it has to be two years since the report of the loss. As long as the claim came in, you have an active, live claim. Then there is a five-year statute. Let's say Your claim is associated with any suit against the company. If we denied the claim when the loss was reported, the clock for the five years is ticking at that point in time. If we paid something on the claim and there is coverage afforded, that is where this five-year statute in which you can get the claim extended or stretched out. What would happen is if anytime they come back and reopen the claim, you are effectively resetting the five-year statute. It continues down that path. Typically, what we've done specific to hurricane claims and specific to Irma going forward, if there is a significant dispute after we've made a payment on a claim what we do is demand appraisal to resolve it because once it goes through the appraisal process, it's binding and that claim or the dispute of the amount of the loss is resolved and cannot go back to the lawsuit.

Joshua Becksmith: Thank you.

Jay Adams: You're welcome.

Jason Butts: As a follow up, and I'm sorry, Chair, that we're getting off rails here but when we're looking at Governor Lydecker's point with regard to California and Texas… you're absolutely right, Louisiana is in shambles, too. I would be interested (and you don't have to address it today) what their rules and statutes are in relation to these types of situations. As an outsider, it seems crazy to me that… we pay a claim and close a claim. I can understand if the claim has been denied. We pay a claim and close a claim and then five years later we come back after the insurance carrier after the claim has been paid and fixed… and obviously the cost of construction has exponentially gone up the last four or five years. I just find it interesting, and I would like to see what the other states are doing. I would assume that based on the graph on exhibit four that's why we've seen some uptick in December to January of notice of intent and claims and things of that nature overseas because that five years we're starting to bump up….

Barry Gilway: We can easily add that to the request that Governor Lydecker made because I think it's important. I can't tell you now what the overall claims management practices in the four or five major areas, but we are more than happy to get that information. It will be readily available right, Kelly? [laughter] It can be readily available for the next board meeting.

Jason Butts: Great. Thank you very much.

Nelson Telemaco: You made a comment, Mr. Gilway, that concerns me because I have no way to put that in a container, which is that the data is being mined, right? These attorneys are mining opportunities to which at this point (and I'm sorry I don't have my glasses so I can barely read it) 40 something percent claims in 2022. 47% of our lawsuits are related to AOB. There is an active machinery at play. So, the question and my concern is how bad is it going to get? It's pretty bad now but I imagine the machinery of attorneys taking full advantage of the data to keep resetting these claims and over and over and over with no end in sight, have we modeled what that could look like? I'm just really concerned about that number.

Jay Adams: We do believe there will be an end in sight. So, you can only go back and file claims against prior losses. Again, the legislature helped us during the last session, and we're down to two years now from the actual date. What we've been seeing, and I think what Barry was reflecting on is prior to the last few years, many of our claims in litigation were specifically tied to non-weather water losses. Citizens has had a significant campaign in the Special Investigations Unit… and this board knows we filed a Ricoh lawsuit against a plaintiff attorney, a public adjuster, and a water mitigation organization. We exposed to the marketplace what was going on in that space. Those claims are difficult to adjust. It was an easy way for bad actor groups to prey. When you're looking at a wind event, you can go to any database and pull up when the wind blew on this date and blew this hard for this long for this duration. What they're doing now is that the shift has really gone from from the fraud and abuse on non-weather water to associated dates of loss related to wind. It is hard to prove fraud because the wind did blow during that time. What we're seeing is significant claims associated with Tropical Depression 1 earlier in the year… we're up to 2,000 claims. That event two or three years ago may have received 250 claims for that event; they would have been closed and done. We are seeing AOB admitted for water damage and remediation for claims that occurred back in June and we're getting that loss today. Every day going forward for the next three years we will continue to see losses associated to that. Again, we believe it is bad actors joining together to look at and Barry used the word mine… what they're doing is that they're going to neighborhoods where we know there was a known event, knocking on doors saying, "Do you need a new roof? Do you have interior water damage? We're going to tie this all together in this loss and submit it to the carrier." When the carrier denies that claim then they turn around and file a lawsuit. This is why we are seeing claims prior to the legislation that took effect first in 2013 – HB-7605. That is where all of the AOBs are related. That is driving 50% or more of our new claim volume month over month. There is no fee sharing agreement. There is nothing. These are straight AOB claims. If we deny the claim, we have no choice but to go through the litigation process and allow it to play out. They have nothing to lose to file that lawsuit because if they win $1, we are going to have to pay all the fees and costs associated prior to the legislation. That is the driver that we are seeing in the activity today.

Charles Lydecker: May I ask just one question? In that example, can you take a moment (and I think I know the answer actually on this one) but I just wanna hear… can you take a moment to talk about how are we ensuring while also properly respecting the consumer who has been declined coverage… that they are frustrated, and they feel vulnerable and they don't know what to do? How are we making sure a large net isn't cast in terms of how we're thinking of AOB… how are we ensuring that we're not capturing the consumer in the negative way, which, I think, is really important. I think I can speak for everybody.

Jay Adams: I would venture to say that most of our policyholders that fall into this scenario have no idea that there is any pending litigation or claim for their policy. What we've discovered in part of this AOB bad actor network is that a will be at vendor and/or a public adjuster will show up with a tablet: "Sign this and we will handle your claim and get you what you're owed." When they sign that, they have signed up for a water mitigation vendor. They've probably signed up for some type of repair vendor if there is roof damage. All of that is incorporated into the original signature period now these people by law own a percentage of the post last event claim coverage. Those people are operating outside of what is the insured's probable knowledge is; they're the ones bringing in and filing these lawsuits. The insured is really on the backseat of these. These claims, for the most part, we're seeing is it's pre-existing damage. It is not tied to the date of loss.

Charles Lydecker: That's the big issue. There is a gap in time, and they're going to the source of an event well after the effect and going through this process that you just described.

Jay Adams: That is correct. Another piece that I have not spoken about today is that we have a pretty significant hurricane deductible. So, when we have a hurricane event, it's very clear. We apply that deductible. A lot of policyholders have a difficult time overcoming that deductible to do repairs for roofs, siding, and other things. Would we have a non hurricane event, we apply all other peril deductible which is significantly lower. It is a fixed amount. Most Citizens policyholders carry a $2,500 deductible, so a lot of what we see with the bad actors is that they are going back trying to find coverage for hurricane events for our insured and submitting them under the non hurricane event so that they have the lower deductible. They are trying to achieve coverage there. We see that all the time. Again, that becomes a problem.

Vice Chair Thomas: To be clear, Jay, we individually adjust these claims.

Jay Adams: Absolutely.

Vice Chair Thomas: This is not a scenario where we say oh this is an AOB claim, and it is presumptively valid or not covered. So, from a consumer standpoint, claims submitted is individually adjusted.

Jay Adams: That is correct. By statute we must adjust claims that come in.

Charles Lydecker: My own view is that I anecdotally have seen what you are describing. I take your point. It does have to be addressed but it just feels to me that we're going to have to address it in a really thoughtful way to make sure we don't inadvertently layout a net so wide that consumers who have an issue and are not getting the attention despite this sheer size of Citizens. We have to have… and you probably already do… let me rephrase it. I'm so new that I would like to know more about it separate from this meeting what we can do and what we are doing and what we need to do to mitigate for that.

Jay Adams: One thing that I did not say is that Christine and our communication group do a great job of providing information to all policyholders through policyholder mailers, e-mail mailers, and website externally facing… all of those speak to AOB and the challenges and to watch out and call Citizens first. We will advise the policyholder as best as we can, so she can certainly speak more about that when she comes up.

Charles Lydecker: I don't know enough about it frankly from a carrier perspective on these things. That may or may not be enough. Mr. Gilway said it. If your roof is damaged and somebody comes to you with "just sign your name; we're going to fix everything," why wouldn't you do that?

Jay Adams: I understand why the policyholder would do that.

Charles Lydecker: Thank you.

Chair Beruff: Any other comments from the Board? [silence] Then we shall move on. Thank you, Mr. Gilway. Ms. Montero, you're up.

3. Chief Financial Officer's Report

Finance and Investment Committee (FIC) Report

Layer Charts

Chair Beruff: Ms. Montero, why don't you take us through what changed only as opposed to the whole box of cards?

Jennifer Montero: Sure. Behind tab three with the layer charts, I'm going to go through the differences in how these changed as compared to the ones that we presented in July.These were updated using the actual June 30th probable maximum loss (PMLs)and then projecting out to September 30,2022. On the Coastal Account chart, it is very similar to the chart presented in July when using the 12/31 PMLs projected through September. The projected PML for a 1 in 100-year event remains at $5.57 billion. You can see that in the layer chart on top the left corner. There was a slight increase in the Florida Hurricane Catastrophe Fund (FHCF). It increased from $1.22 billion to $1.26 billion of coverage. That is the dark blue box at the bottom of the chart. The surplus exposed in the 1 in 100-year event is 87%. The overall forecast for the Coastal Account been on point. Great job to Bethany Kocher and the corporate analytics team. However, if you turn to the Personal Lines Account, we are not so accurate on the forecasting. The projected PML in the 1 in 100-year event decreased 5.5% to $6.527 billion, and you can see that at the top right corner of that layer chart. The FHCF coverage decreased from $2.521 billion to $2.427 billion, also in the dark blue box. Additionally, the Emergency Assessment decreased from 2.2 percent from $1.278 billion to $991 million; those are the two layers at the top of the chart. For Citizens policy surcharge, it remains at $450 million which is 15% of the Personal Lines Account premium. That is the layer in purple right below the Emergency Assessment. However, Citizens' policyholder surcharge does not kick in until the 1 in 64-year event. You'll see on the left the return times and there is 1 in 64 and that is also equal to about $4.7 billion of losses that you can see on the right before it would ever hit that assessment. The surplus exposed in that account is 100% or through a 1 in 100-year event. Finally in the last chart, in the Commercial Lines Account, if you remember the Commercial Lines Account only for purchases the FHCF coverage as it is required by law, and we did not purchase any private reinsurance the Commercial Lines Account as surplus exposed is only 13%. That concludes my listings of changes in the layer charts.

Chair Beruff: Very good. Any questions?

JoAnne Leznoff: In a worst-case scenario, what do these assessment charges translate on an average per policy… Citizens' worst case scenario for our assessment versus the assessments? What is the average person looking at?

Jennifer Montero: For Citizens policyholder surcharge, which is when we assess customer assessments in either of the three accounts. Let's just say we had it in one in the PLA. Every policyholder is going to be assessed. It doesn't matter where you are housed. It doesn't matter if your policy is in Coastal Account or in the Commercial Lines Account. If we have an assessment in any policy, you get assessed. If you have an assessment in two areas, say the Personal Lines Account and the Coastal Account, you as a policyholder are going to be assessed twice. The maximum for the policyholder surcharge is 15% of your premium. If your premium is $100, then you're paying $15 per account. It could be up to $45. You could have $100 assessment and then $100 assessment in three accounts. 15% of your premium is $100 and it would be $15 per account. So, you're looking at $45. 45% of your premium could be paid in assessment.

JoAnne Leznoff: Do we have an idea of what that averages out when you're looking at a per policy basis? What are we looking at for most people?

Jennifer Montero: The average premium is . . .

Chair Beruff: …it's $450.

Jennifer Montero: This $450 million is based off of $350 billion in premium. So, the average is $3000 and then it will be $450.

JoAnne Leznoff: Then the same question is now when you are expanding to all policies.

Jennifer Montero: Max out the Citizens policyholders' surcharge… so if we need to assess only 10% of the Citizens policyholders' surcharge, then we never go beyond that. But, if we have an assessment, then it still exists after we assessed the 15% on the account. Then it's what's called an Emergency Assessment, and this assesses everybody, including Citizens' policyholders. The deficit is calculated. The emergency assessment can be up to 10% per year for as many years as we need to. It could go on for a long time.

Charles Lydecker: When you say everybody, do you mean all taxpayers or do you mean….

Jennifer Montero: … all Property and Casualty (P&C) are going to get taxed: on your car policy, on your house policy, it hits everything. Everything except MedMal and Workman's Comp. Those are exempt. Every line in the P&C is accessible.

Charle Lydecker: The potential for 45% of your policy assessment, do you have to be a member of that particular vertical in order to be assessed? If you have a home that is in the Personal Lines Account, the Commercial Lines Account, and the Coastal Account, if you're not a member of those….

Jennifer Montero: You pay it anyway. Every policyholder pays the assessment. That is how you get up to three because you pay it in your account and in all three accounts. So, it's irrelevant. This is a big thing that we are educating before people come in: "Hey, you have a potential to pay an assessment."

Charles Lydecker: This is a legal question, or you may not be comfortable addressing this, but do we require verbiage to consumers so that when the independent insurance agent is providing that homeowners insurance is it clearly spelled out that identifies the assessments in each of the three verticals and the potential for an emergency assessment just by being an owner of one policy?

Jennifer Montero: It's in the policy form.

Charles Lydecker: Okay, so it's in the policy. Does the independent agent have a duty to disclose that in writing what they are providing to the client from us?

Tim Cerio: To jump in and what I think Governor Lydecker is asking is that in a lot of cases there is a separate form. We sign our application as a homeowner. There would be a separate form that says, "You are potentially going to be assessed 15% of your premium."

Kelly Booten: No, it is not separate and as formal as that. The appointment agreement has obligations in it, but it is not that egregious I don't think. I will follow up on that.

Charles Lydecker: It seems to me as a consumer in the state of Florida that independent insurance agents share that information that is required by Citizens and not the independent agent. Maybe there is a specific page that clearly lays out what the assessment potential is in the manner of which we just had this discussion. Because, otherwise, it is confusing. It is easy to say, "You might get assessed 10% of your policy if a big storm hits," and maybe the consumer does not have a full appreciation for that.

Jennifer Montero: Christine's group does a great job with this assessment flyer; it walks through the average person on what could happen in different scenarios. It shows the worst-case scenario, and it shows the assessments that they could get hits with.

JoAnne Leznoff: I think even yesterday she was sharing with one of the committees of their most engaged policyholders who respond to what I think is 3% who respond to the survey. That very small percentage (27%) were unaware of any assessment (their most engaged customer), leading us to believe that that it is a much greater number that is unknown. I asked that very question in that zoom meeting we had is there a requirement because once a policy comes in once you're signed a bunch of papers, it gets lost.

Chair Beruff: I think the governor's comments are simple. We need to have a form that says, "By the way…" One piece of paper in bold print that says, "If this happens, you're going to be tagged up to 15% assessment in this category. If it goes to this level, then you're going to get another 10% on top of that. But you're going to be joined by every policyholder in the state of Florida, whether you have a motorcycle or a mansion."

Jillian Hasner: This has come up before. We've asked if it had been displayed in a bonded manner before.

Chair Beruff: Can we do that arbitrarily as a board, or do we come up with a form and let's approve it?

Kelly Booten: Have been reviewing the forms and making changes – all of the correspondence that we have. I think what the other add is more apparent to the agent is communicating with the customer as well.

Chair Beruff: We can make the agent sign the form and the client, both.

Charles Lydecker: Actually, that is the key. It is not uncommon in private practice from an insurance agency side to require the signature of an insured so that they recognize that it has been explained properly and to their satisfaction. I am in the insurance business, and I did not understand the potential assessment risk associated with three different verticals that we talked about and then an emergency assessment. If that was laid outlined in legalese in a way that Citizens requires…, Am I right to assume that Citizens' policies are sold to the independent agents?

Kelly Booten: Correct.

Charles Lydecker: You don't go direct on any policies?

Kelly Booten: No.

Charles Lydecker: So, the independent insurance agent of which I'm a member of the population really ought to be required to make sure that consumers make a fully informed choice. It still may be the best choice, and that's okay. They should have eyes wide open and understand that potential for new assessment, and it really ought to be the duty of the independent insurance agent to assure that occurs and that a signature is there from the insured showing that they do in fact understand it. That should be required and filed back to Citizens.

Carl Rockman: Jennifer and Kelly?

Kelly Booten: Yes?

Carl Rockman: For the record, I have one to weigh in that we do have language in the application that every consumer signs in order to get insurance where the assessment is presented and disclosed. How tight it is may be up for debate, and we can look at that, but I want to make sure that everyone knows every application at Citizens…that when customers are presented with the application by the agent, there is language in that application that talks about the potential for an assessment. Obviously, we can take back some recommendations, but for the record I want to make sure that everyone understands that in the application process, we do have language associated with the assessment.

Charles Lydecker: I do not want to trivialize the importance of that disclosure. My first time here and I'm seeing Citizens go up exponentially, and I'm starting to realize, by virtue of going through these presentations, that there is very real assessment risk sitting out there that I don't believe, frankly, the consumer is aware of.

Chair Beruff: Can we move on? Let's move on, but here's what I'd like to do: I'd like the staff to bring to the December meeting the form itself – the existing form and if there is an improved form that we think we can do that we an review in five minutes that we can say, "Let's go do that and implement that through the system as quickly as possible, of course." I'd appreciate that.

Vice Chair Thomas: I do want to move on, but I do have one general comment. I appreciate the importance of the disclosure of the individual insured agent; this really shouldn't be a market choice they are making. But what Floridians have to understand is that we are not going to the Florida Insurance Guaranty Association (FIGA) if we're insolvent. We do not just close our doors and walk away. This is an obligation of the state of Florida ultimately.

Chair Beruff: That's right.

Vice Chair Thomas: There are statutory assessments for meeting that. The entire state is on the hook, so when our rates are capped below what is actuarially sound, there is no free lunch. Everyone should understand that, and not just the insured of Citizens. That is an obligation that Florida is going to have to meet because we cannot close our doors and say, "Oh well! We'll insure in 40 other states." That's it. That's an important thing to be understood here.

Chair Beruff: Thank you.

Jennifer Montero: May I clarify on one thing that we did not finish on? The emergency assessment is 10% per year in each account. That is also in each account. A Citizens policyholder would get a 15% surcharge in each of the three accounts and then 10% in each of the accounts. That is a 75% premium right there for one policyholder, if it was big enough for that.

JoAnne Leznoff: So, back to my original question, I'm unaware of what the auto market looks like, what is that hit to the pocketbook for the average person out there who has cars in the house.

Chair Beruff: It depends on the size of the event.

[multiple speakers]

JoAnne Leznoff: I'm assuming worst case scenario.

Jennifer Montero: 10% of whatever your auto premium would be. That's what the hit would be for that year and your home….

Charles Lydecker: You're describing scenarios where liability claims are increasingly taking up a demand on the surplus, making us more vulnerable for an event that we have a history of having. Hence the reason, at least in my opinion, for a much more robust disclosure. It is my belief that the point of contact typically is the independent insurance agent communicating to the consumer. I do think they ought to have a requirement to make sure that the consumer knows what they are signing up for.

Jason Butts: When was the last time we had an assessment from Citizens?

Jennifer Montero: The last assessment we had was from the 2005 storms and the emergency assessment why is effective July 1, 2007. We collected over 10 years we were in a growing mechanism, so we over-collected. We ended it early. It ended in 2015, but we also had a regular assessment that year and we had a regular assessment in 2004. The Coastal Account, which was called the High-Risk Account at the time, we had a deficit. But the Personal Lines Account and the Commercial Lines Account did not. On a consolidated basis we did not, but we were still required to an assessment because one account did. This is one of the reasons why combining the accounts….

Chair Beruff: We'll be able to put all our surplus together and reduce assessments.

Jennifer Montero: There is one more thing that is weird in the Coastal Account. There is something called the regular assessment. We removed it from two of the accounts. We dropped it to 6% and now it is at 2% only in the Coastal Account because there is still debt. That assessment is pledged to the bondholders, so we still have it. We want to get rid of it, too. That's the regular assessment. We bill the insurance companies up to 10%, they have to pay us in 30 days. It's a liquidity thing. If we realize that we're hurting, then know the rest of the market is hurting. The big carriers like State Farm and USAA who got billed the regular assessment. I don't think it could be paid if something happened in this world. We are looking to get rid of that, too, Mr. Chair, when we combine accounts.

Chair Beruff: Ms. Booten, you're next.

Jennifer Montero: You don't want the financials?

Chair Beruff: I don't think so.

4. Chief Operating Officer's Report

<u>Action Item: Technology Infrastructure Software</u>

Kelly Booten: Did you want me to go through an explanation of the Technology Infrastructure Software Action Item? Governor Leznoff asked for that to be pulled. Do you need a background on it or just answer questions?

Chair Beruff: Let's go ahead and make that presentation or ask the governor who had the question, particularly in what you're interested in about that item.

JoAnne Leznoff: The way I read that item is that this is a conceptual spending plan for $18.9 million in a variety of what IT considers routine or updates. What I wanted to ask is that there is a provision in the law that has any contract valued at $100,000 or more is subject to the approval of the board. I am wondering if there is an exception to that law. How does this request fit within what seems to me to be a statutory requirement?

Kelly Booten: Let me see if I get the statute correct, and Tim can help me out here if I'm wrong. We follow 287.057 which is the procurement law that you are referring to. There is a placeholder in 627.351 That makes us an eligible user of the state term contract process.

JoAnne Leznoff: Correct. There is a provision, and I think it's (6e), that says, "Contracts for goods and services" … yes, it's 627.351(6e) Contracts for Goods and Services that is valued at $100,000 or more are subject to the board for approval. To me that seems like a very clear requirement that those items come before us, and this seems… how is this not an abrogation?

Kelly Booten: There is backup documentation of this that I can make available that has every single line item on it, in the amount of the estimate that we anticipate spending under these contracts are listed in the action item. There is a detailed sheet that we can make available, and it goes into…and it does include "the kitchen sink" because it has every IT expenditure in it. Typically for these they're going to be budgeted for the next budget year, and here is where this one gets a little bit weird, too. In the prior last two to three years, we would bring forward everything in this action item with the budget, and it corresponded predominantly with the budget. There are some multi-term contracts that we get for better pricing – like Microsoft Service – for those types of things that are included in this. I think it was Governor Dunbar who asked that there always be one board meeting when contract is expiring and the board's approval such that if the board did not approve it, they were not forced to approve it because something expired before the next board meeting. As you imagine, we included things like staff augmentation services and the contracts that expire in the first quarter of the year that we really had to bring it forward in September. That is why we split it out into two different parts, which further complicates it because it isn't timed with the budget. What you're asking specifically is whether it is okay to bring forward in a bulk fashion as opposed to every item over $100,000. Is that your specific question?

JoAnne Leznoff: Sort of. My first layer of question: is that consistent with the law because right now, in my mind, the answer is that it is not, unless somebody can tell me different. The other thing is certainly there are routine things that need to be purchased, our day-to-day business. I'm hoping that this board is not in the position of approving every pencil procurement, but IT is in the area that there are constant initiatives. There are a constant barrage of vendors trying to cure every problem with their new software, and some of these things are great. Some of these things are not so great. It's been an area, at least in my experience, which has been fraught with a lot of failed products and failed initiatives. It's an area that I think we need to have a little more oversight rather than a little less oversight. All that to say of this omnibus package is it all just the day-to-day routine things or are we giving blanket authority to go out and have some new way we're going to do business, new things, new programs, and new software that we sort of lose sight of?

Kelly Booton: New initiatives come forward in individual action items. For example, when we bring the purchase for Citizens reimagined forward or data warehouse technology…those large solicitations all come through individual action items. They are not included in this. Sometimes after we purchase something, like you'll see Guidewire in here, that's just a renewal of a contract that was agreed upon 15 years ago, and it's just the end part of it. Sometimes we roll what we considered standard renewals into this bucket. There are things like our data warehouse center, and it is one of our bigger items (data center renewal). A lot of the software licensing and already existing software that expire it needs to be used. There are some (and it would go with the budget again, so you have another way to vet this) is the augmentation and professional services, for example, things that we use to supplement staffing challenges. We do have staff augmentation for those types of things, and that is more category of job developers. This is staffing supplement, and it is not a new initiative buried in here. I have all the backup to prove that.

Chair Beruff: I'd like an answer to the question as to whether or not we're meeting the standard that the governor has brought out…that were legally following it or not. I'd like that from somebody.

Tim Cerio: Mr. Chair and Governor Leznoff, I would say that the information that is provided and disclosed to the board that we are in compliance with the law. We are wrestling (and Kelly can speak to this better than I can) with how to present these materials in a way that is informative to the board and not overwhelm them. Is there a better way to do it? Is there a better way to provide more transparency? I will take a look at that, and I will also take a look again and make sure that my advice to you right now that we are in compliance is accurate. I do believe we are.

JoAnne Leznoff: I would have to ask why because sitting before this board right now is not the detailed expenditures. There is no single contract before us. There is an ask for 189 times than that $100,000 amount for us to blanket approve, even when broken down into three segments. One of them was $6.6 million; that is sixty-six times the $100,000. I would ask why you think we are in compliance with the law.

Tim Cerio: Governor Leznoff, again we can provide you with more information. I do think there is a difference between the threshold of information that you have…one question on whether you want more. I believe that there is enough detail that if somebody tried to challenge a contract, saying that "you did not obtain board approval, we can provide a "yes we did." But that is different from answering your issue, and I get that.

Chair Beruff: The thing that's easy to do is to give the board access to the detailed [charges]. We can give them all the detail and that way there is more information. But, to the governor's comment, if her take is correct, you're going to have to have board approval for these things and you're going to have to have a motion and action for each one of those things that exceeds $100,000.

JoAnne Leznoff: I guess you could take those things up. Put the list of the $100,000 items and then take them up and bank. You can do them all at once. I feel somewhat uncomfortable in that I don't know what we are buying right here at all.

Tim Cerio: I think there are (and I'm not trying to be flip here) many ways "to skin the cat" to make one more comfortable and we can make sure that legal authority is clear, the votes are clear, what you voted on is clear, and it is not overwhelming at the same time. We can take another look at that.

Chair Beruff: With that comment this board member is going to take a 10-minute break, and everyone can take one with him.

Barbara Walker: Ladies and gentlemen, for those of you who are on the line joining us by webinar, we are taking a 10-minute break. Thank you so much for your patience and we will convene momentarily.

[break]

Barbara Walker: Ladies and gentlemen, for those of you who are on the webinar, we're about to reconvene with roll call. We are reconvening Citizens' September 21, 2022, Board of Governors meeting that is publicly noticed in the Florida Administrative Register. Chair, may I proceed with roll call?

Chair Beruff: Please.

Roll call: Chair Carlos Beruff, Vice Chair Scott Thomas, Joshua Becksmith, Jason Butts, Jillian Hasner, Erin Knight, and Nelson Telemaco.

Barbara Walker: Do you want me to hold for few minutes for Governor Lydecker and Governor Leznoff?

Chair Beruff: Yes. Let's give them a couple minutes. We know they're here.

[pause]

Chair Beruff: Let's go ahead and start the meeting. Ms. Booten, we discussed the item, and it is an action item, correct?

Kelly Booten: Correct.

Chair Beruff: The board will entertain a motion to approve the item, and as directed to staff, will change the process so that we have a line-item detail in the future. Governor Leznoff is going to get a response from Mr. Cerio's department as to exactly how we are in compliance are there later this morning or directly to the governor herself before the December meeting.

A motion was made and seconded for the Board to approve the Technology Infrastructure, Software, and Professional and Staff Augmentation Services – Part I contracts for an amount not to exceed $18,935,361, as set forth in this Action Item; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. JoAnne Leznoff voted against the motion. The remaining board members voted for the motion. Motion carries.

Market Accountability Advisory Committee (MAAC) Update

Dave Newell: Thank you, Mr. Chair. For the record, Dave Newell, the Chair of the MAAC. Our group met on August 31, and the first order of business was to approve the MAAC Charter, which we do on an annual basis. You've heard Barry's report today, but Kelly Booten also brought the committee up to date on the market conditions and certainly on the impact to Citizens and their growth. Carl Rockman provided the committee update on what he is seeing year over year among agency and agency appointment. Certainly, they are feeling the impact of that, and certainly agents are now using Citizens unlike before. Many of them have never written a Citizens policy and now find themselves having to use the resource. With the increase in submissions also comes an increase in performance violations and late submissions and documentation. Carl and his team have done a very good job in educating agents and helping them understand what is needed to provide a good submission, which ends in a quote, and they bound policy. Again, Carl and his team do a great job reaching out to agents when they find themselves in a situation where they are not providing the right documentation in the submission process. The next thing is (which they do a very good job with) is their outreach programs with agent associations, which I represent one.They do a very good job in attending their conferences, helping them understand how Citizens works, providing good education tools to their members and to their agents so they can again provide good submissions and good documentation to write a policy. The last thing brought to the committee was depopulation. There are some slated for November and December. Barry talked about some potential ones coming down the road, which we certainly encourage. With that I'm happy to answer any questions.

Chair Beruff: Any questions from the board? [silence] Next item.

5. Chief Communications, Legislative & External Affairs Report

Consumer Services Committee (CSC) Update

Jillian Hasner: The CSC met on August 31. We had the pleasure of both welcoming Governor Leznoff and Governor Telemaco to the committee members. Both have been fantastic additions to this committee, and I look forward to partnering with each of them as Chair. During our most recent committee meeting, Jennifer Montero provided an update on Florida's temporary market stabilization program. Christine Ashburn provided the committee an overview of efforts in assessment education to consumers. Jeremy Pope provided an update on consumer related self-service initiatives, which are helping reduce expenses and support operational capacity. In closing we did not have any action items to present to the committee; our next CSC meeting is scheduled for November 16.

Chair Beruff: Thank you, Governor Hasner. Next?

6. Chief Claims Officer's Report

Claims Committee Report

Jay Adams: Thank you, Mr. Chair. The Claims Committee met Thursday, September 1 at 1:00 PM. In that meeting we approved our Claims Committee Charter, which we do on an annual basis and provided a strategic update largely around on what was going on with the litigation for the month of June. We did a previous significant deep dive. Craig Sakraida provided a non-litigated report, and he talked a little bit about our catastrophe readiness. Elaina Paskalakis gave a litigation report, and Greg Rowe finished with a vendor update. And, if there are no questions, that would conclude my report.

7. **Chief of Internal Audit Report**

<u>Audit Committee Report</u>

Joe Martins: Thank you, Mr. Chair, and good morning, governors. At yesterday's Audit Committee meeting, we presented progress on the Audit Plan and the work that is being completed. Quarterly, Internal Audit performs a rolling risk assessment which highlights audit themes or audit "hotspots," that we use to develop our planned engagements. This quarter we focused on three of Citizen's strategic risks and aligned industry-recognized hotspots. If you can share the slide, please. On this slide, we highlight the three specific hotspots that we want to briefly mention to the board. The first one refers to cyber risk and ransomware. Ransomware attacks have become increasingly more prevalent and more sophisticated. More than a third of organizations experienced ransomware attacks last year, and for this year it's increased by 57%. The ransomware industry revolution is increasing the scale of the ransomware problems as the delivery model changes. You may be familiar with System as a Service (SAAS). Lately, there is also Ransomware as a Service (RAAS), and it is being operated as a business. The Ransomware as a Service model provides ransomware kits to cyber criminals including support forums, user reviews, and feature updates. The model in our accounts was 64% of all ransomware attacks across the globe. Axios News reported on September 2 of a new ransomware gang called BianLian. According to the article, the ransomware gang tripled its known operational structure in August, meaning that more attacks from the gang could be coming soon. Their operational infrastructure includes the servers a ransomware gang uses to employ malicious code and the IP addresses it owns for phishing emails. This gang has been following the American, Australian, and British organizations across education, health care, insurance, and others similar to last year. The gang focuses on double extortion attacks in which hackers demand the owners to unlock their files that are encrypted or to stop data leaks to get more information. In Citizens, many are focused on strengthening data and privacy – nevertheless, it is with Citizens as with most companies that it still needs to recognize the risk and needs constant attention as it evolves. In our audit work, we included five specific engagements this quarter and next two quarters in which we will evaluate the strength of a portion of Citizens processes.

Chair Beruff: Thank you, Mr. Martins. Does the board have any specific questions on any audits going on within the company? [silence] Are there any issues that you found that give you concern at all?

Joe Martins: No, sir. I think we are working through with the organization… as with any aspect, there are still areas that still need to be addressed. As technology changes, the organization continues to change its infrastructure.

Chair Beruff: Is one of your biggest challenges being able to audit the growth of the company that we have been seeing over the last 12 months?

Joe Martins: That is a challenge, sir, that we have as well – the market conditions that the company is currently experiencing and the growth within the organization. It has an impact on the systems and the changes applied to the system.

Chair Beruff: At this point, you haven't identified any "fires."

Joe Martins: At this point, we don't have any "fires." There are a couple of areas that Internal Audit is focused on from an audit perspective, but the organization is addressing those through risk assessments and activities with the action plans.

JoAnne Leznoff: Just a comment. I know that one of your hotspots is third-party engagements, and I'm wondering to the degree which our outsourcing or our engagement with firms to handle litigation is included in that. One of the things that we keep hearing about is the cost of litigation as being a major driver of fiscal difficulties for this board and industry and for Citizens itself. I do need to learn more about the processes that are currently taken within Citizens to ensure that billing is accurate and correct, but I would think that is an area that should see a good deal of attention to ensure that we are not getting over-billed or inappropriately billed.

Joe Martins: Governor Leznoff, there have been some changes in the legal billing review process. Audit has been very close with that organization to check over the last year or so. We have done many audits in that area as well, and we do have one plan for quarters two and three of next year. We are going to go in and see how this new function is being managed, specifically focused to how they manage the bills coming in to ensure that they apply the contractual terminology.

Chair Beruff: Litigation is hard to audit to begin with because, as some of my attorney friends will admit, even though we get great rates on an hourly basis….

[multiple speakers and laughter]

Chair Beruff: Exactly! So, someone can do something for two hours and it's a good deal, but it is the same…the other firm takes six hours. Did we save any money? No, of course not. That's the trick in how you administer and manage litigation in the risk software that that is supposed to mitigate some of that because of being assigned so many hours …" this litigation should take this amount of time to do this function"and so forth. I suspect that you guys are getting better and better at that every day. But at the end of the day, we have to hammer down the litigation rate overall. Mr. Martins will be happy to get whatever information you want on that particular subject or any other subject. Thank you, Mr. Martins.

8. Chief Human Resources Officer's Report

Violet Bloom: [inaudible] … To thank the board for their support of staff and of our employee programs. I think your support has made a big difference and helped us sustain our culture and high employee engagement levels during this incredible growth in our industry. So, thank you very much. Unless there are any questions, that's it.

9. Chief Legal Officer and General Counsel's Report

Tim Cerio: There were two items that were pulled from the consent agenda item. Before we start though, I want to address Governor Leznoff. We can give you a briefing on what we've done to really try and manage litigation costs for outside counsel in both claims legal, Insurance defense rates…how do we make sure that we are not being over-billed? What software and what professionals are involved? That has been used under Jay's unit and also in corporate legal. In my unit the rates are slightly higher because of the litigation that arises out of the day-to-day operations needing specialized litigation. The outside counsel items were part of the consent agenda, and one of the things that I do want to report goes to your question right now. We're trying to bring litigation more in-house. We think that there is a benefit at times when we think we can do it more efficiently and cheaply. We are significantly under budget for 2022, and we are very happy about that. I'll give you more detail. If any one of you want a similar briefing, Jay and I can do that for you. Unless there are any questions, Mr. Chair, we will go into one of our action items.

Action Item: Cyber Liability Insurance

Tim Cerio: Governor Telemaco and I spoke during the break. I can go through it and if there are any other questions…this will come up in my presentation, but we do need to be a little bit sensitive with the cyber liability insurance policy. My presentation will sort of layout why we are requesting approval for a contract for cyber liability insurance for one year policy term. The primary policy is through the Beazley Group and additional coverage is provided through an excess policy through Berkeley Assurance Company. As you all remember from last year, it's been increasingly difficult to get a cyber policy. We are sticking with Beazley for our primary policy, and our premium is up 26%. However, the market average is up by 54% according to our business agent of record Arthur J. Gallagher. I believe they really did a good job surveying the market. As I mentioned earlier, we do have a secondary policy coverage through Berkeley. The total annual premium is $419,154. Beasley's premium is $298,330. Berkeley's is $120,824.
One of the things that I would ask the board to appreciate is the coverage amounts and retention amounts. Certain other terms in these policies are confidential and exempt from Sunshine and from public records by Florida Statute 119.0725 and 627.352. The legislature has gone to great lengths to protect this information. Keep it confidential so it can't be used to harm Florida's agencIes. You do have the numbers; it has been provided to you in your materials, specific numbers such as coverage amounts and retention amounts. If you have questions, I will be happy to circle up with you. But, based on what I've said, I hope there are no questions that would touch on those sensitive numbers. I'd like to make a recommendation that the Board of Governors authorize the purchase of Cyber Liability Insurance for a one year term, beginning on October 1, 2022 and ending September 30, 2023, with primary coverage through the Beazley Group and excess coverage through the Berkley Insurance Group for a total of annual premium of $419,154 That is set forth in the action item and to authorize staff to take any appropriate or necessary actions consistent with this action item.

A motion was made and seconded to authorize the purchase of Cyber Liability Insurance for a one-year term beginning on October 1, 2022, and ending on September 30, 2023, with primary coverage through the Beazley Group and excess coverage with Berkley Insurance Company, for a total annual premium of $419,154, as set forth in this Action Item; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

Action Item: Directors and Officers Insurance

Tim Cerio: Citizens is requesting approval to contract for Directors and Officers Liability Insurance for a one- year policy term. The proposed coverage is the same as last year; it's through one primary policy and two excess policies for a total aggregate limit of $20 million. Primary coverage is through Federal Insurance Company (Chubb) for $10 million. Excess coverage is through Argonaut Insurance Company and Twin City Fire Insurance Company (Hartford) for an additional $5 million of coverage each. Directors and Liability Insurance is supplemental for the principal protections against liability on Citizens and board members and its officers and its employees. The principle protections are statutory immunity for its board members, employees, as well as indemnification, which is afforded under the Citizens Plan of Operation. Directors and Officers Liability Insurance reimburses losses in defense costs or recovered costs to Citizens or to covered individuals in such individuals under the circumstances are set forth in the Plan of Operation are not eligible for indemnification. The total cost of coverage is 265,370.34. The cost of coverage has decreased by approximately 14% from last year. That is rare for D&O insurance.

Charles Lydecker: I'm curious as a quasi-governmental entity, and I may be phrasing that wrong, does statutory immunity play a role?

Tim Cerio: It does, Governor. I do say to that we are quasi-governmental because we are different from a typical state agency, but we are a government entity. You do have statutory immunity, as I mentioned earlier. You do have immunity, but it is not 100%. There is indemnification available. This is to supplement that immunity to make sure that there is protection for the board. But there is immunity available.

Chair Beruff: So, just to get clear, we don't have sub-immunity; otherwise, why would we get this insurance?

Tim Cerio: There are gaps, Mr. Chair. We can talk about that in depth if you would like. If you need to, I can get out the Plan of Operation. We got into a little bit of the territory last year, but we have a new board. We can give you a briefing on where these gaps are, but there are gaps that exist which is why we do this.

Vice Chair Thomas: If you're the plaintiff, you can wedge your way around if there's an allegation of intentional acts or things of that nature.

Tim Cerio: So, even if you prevail, there are still fees.

Vice Chair Thomas: Yes. You still have to defend it.

Chair Beruff: Anybody else have any questions?

JoAnne Leznoff: How has Citizens been purchasing this?

Tim Cerio: I believe it is five years; it's more than five years.

JoAnne Leznoff: Thank you.

Tim Cerio: I request that the board authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2022, and ending on September 30, 2023, with primary coverage through Federal Insurance Company (Chubb) and excess coverage with Argonaut and Twin City Fire Insurance Company (Hartford), for total coverage of $20 million with a total annual premium of $265,370.34, as set forth in this Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item.

A motion was made and seconded for the board to authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2022, and ending on September 30, 2023, with primary coverage through Federal Insurance Company (Chubb) and excess coverage with Argonaut and Twin City Fire Insurance Company (Hartford), for total coverage of $20 million with a total annual premium of $265,370.34, as set forth in this Action Item; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carries.

New Business

Chair Beruff: That concludes our business. Mrs. Walker is there anything else?

Barbara Walker: No, sir. I think you have it well-covered.

[meeting adjourns]