Citizens Property Insurance Corporation

Minutes of the
Board of Governors Meeting
Wednesday, September 28, 2016

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened in Sheraton Orlando North in Maitland, Florida on Wednesday, September 28, 2016 at 9:00 a.m. (EDT).

The following members of the Board were present:

Chris Gardner, Chairperson
Don Glisson, Vice Chair
Gary Aubuchon
Bette Brown
Juan Cocuy
Jim Henderson
James Holton
Freddie Schinz

The following Citizens staff members were present:

Barry Gilway
Barbara Walker
Dan Sumner
Joe Martins
Steve Bitar
Christine Ashburn
Kelly Booten
Violet Bloom
Carrie Thomas
Mark Casteel
Michael Peltier
Jay Adams
John Rollins
Andrew Woodward
Jennifer Montero

The following people were present:

Dave Newell	FAIA
Kapil Bhatia	Raymond James
Margaret Lezcano	

Steve Korducki	BMS
Mark Weinberg	Citi
Leslie Dugl	Greenberg Traurig
Sha'Ron James	
Jennifer Ferris	DFS
Adam Schwebach	Guy Carpenter
Kevin Stokes	Guy Carpenter
Travis Rosecrans	Guy Carpenter
Matthew Sansbury	Stifel
Peter Moore	Wells Fargo
Scott Caballa	
Nathaniel Johnson	JP Morgan
Lisa Miller	
Greg Rokeh	

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens September 28, 2016 Board of Governors meeting. This meeting is publically noticed in the *Florida Administrative Register* and will convene shortly with a roll call for a quorum. Citizens Board and committee meetings are recorded and transcribed minutes are available on our website. Thank you.

Roll call: Chairman Chris Gardner, Don Glisson, Gary Aubuchon, Bette Brown, Juan Cocuy, Jim Holton, Jim Henderson, Freddie Schinz are present.

1. Approval of Minutes

Chairman Gardner: Good morning, everyone. Welcome to the September 28, 2016 Citizens Property Insurance Board of Governors Meeting. The first order of business is the approval of the prior meetings' minutes.

A motion was made and seconded to approve the June 22, 2016 and July 19, 2016 Board minutes. All were in favor. Motion carried.

2. Chairman's Report

Chairman Gardner: I'll be brief. As we have survived a slight scare, I think you'll hear from both Jay Adams and Barry Gilway that Citizens continues to make great strides in preparedness for events in their claims paying capabilities and in their claims management capabilities. My hats off to you and all the important work you are doing. We've certainly learned a lot in the ten to eleven years. We're never going to be perfect but our investments have paid off. Our leadership is excellent. Governor Henderson pointed out earlier about how much coordination goes into these meetings on a quarterly basis. Barbara, you do a wonderful job of that. Thank you for all that you do.

3. President's Report

Barry Gilway: Thank you, Mr. Chairman and Board of Governors. I have three topics today. The first is an overview about the 2017 budget process. As you are well aware, this is a complicated process given the uncertainty. The second is that we have made some organizational changes, and I beg your indulgence, but I'd like to go through the divisional organizational charts to point some areas of where we made changes. Probably most important part of this presentation is that I have Jay Adams join me. All you have to do is listen to Jennifer Montero's presentation yesterday to understand the impact of loss adjustment expense (LAE) and assignment of benefits (AOB). When you take a look at the year over year deterioration of the LAE from 10 points to 16.1 points, you'll understand the overall affect it's having on our financials. I've asked Jay to do a presentation for you, digging into the litigation and giving you a deeper perspective on what litigation has and why Citizens is experiencing this level of litigation. So first, we just launched our 2017 budget process. We have a very changing Florida marketplace. We've established stability and continuous improvement. We have to take into consideration the uncertainty of [unintelligible 4.19], all the market conditions like depopulation trends. Our key propriety at the end of the day is a simple one and that's we want to find a home [insurance] in the private marketplace for a many customers as much as we possibly can. But, the trends are very complex. Depopulation is slowing. One look at Steve Bitar's presentation yesterday shows that a year ago we were looking at a 55% success ratio on letters sent out and we're now down to 15,000 Office of Insurance Regulation (OIR) approvals and 1,000 assumptions. So, depop is slowing dramatically. New business counts are down from over a year ago but are starting to turn the other way, particularly for the Personal Lines Account (PLA). But, new business counts are down relative to the Commercial Lines Account (CLA) and residential. You have a natural attrition in the commercial area that is really impacting results; it's driving a lot of exposure off the books. That is being driven not only by a combination of an increased appetite from the traditional marketplaces, but also more aggressive work done by the ENS carriers. The ENS carriers are very aggressive in the market in picking up the high volume and exposure in the commercial business. All of those are positive, good trends for us, but offsetting those trends for us is the deterioration of the general Florida marketplace. If you take a look at the last six months on the financials associated with the marketplace, you'll see an 11.1 year deterioration in the loss ratios aggregate – the composite for Florida carriers. I would suggest that is primarily due to AOB. They are experiencing the same frustration with AOB that Citizens is. That is anticipated to reverse the trend in personal residential, particularly in south Florida because we are quickly becoming the "south Florida company," reducing the appetite for private companies to assume business. There is a growing differential between Citizens catastrophe (CAT) rates and the market rates that will, without question, grow our business over time. In many areas, we're becoming the only solution because many of the marketplaces, particularly in the tri-county area, are shutting the doors to new business. As I'm sure you've noticed, while we have some exceptional results in the depop area for four straight years, since January 1, 2016, we've been flat. We dropped below 500,000 for the first time in January at 491,000 policies. Our revenue and policy count have flattened out. The uncertainly will continue as far as our budget is concerned, but we are in far better shape to budget or anticipate our budget needs than we ever have in the past. Two years ago, we started scenario planning; we started looking ahead much more aggressively. We took our horizon from 12 months to 24 months. We really started looking at all of those areas. Kelly Booten led the strategy and planning teams. Today, scenario planning is an integrative part of our planning process. It's also Jennifer Montero and her financial and budgeting team. March Fisher, John Rollins, and the analytics team, and, of course, Steve Bitar . . . much more sophisticated data on the Clearinghouse and depopulation that we all include in our trends. It's a very sophisticated process and it assesses every potential policy to be assumed. It even determines the potential actions of all the participating carriers based upon their own levels of interest all the way down to a policy type and characteristic. On top of this we overlay market conditions over the results. I normally say this isn't rocket science but it is rocket science. We have Paul Kutter who developed this algorithm. If you take a look at the algorithm, it's about 1.5 inches thick. Paul has been a huge asset to this organization. The first slide I bring your attention to is that for the first time this year, we've gotten to the point where we've established different sets of values. We established an expected value – it shows what we are truly expecting to develop. However, given the uncertainty, we really established a set of upper limits at a 90% confidence level and a set of lower limits. The upper limits, you'll see here for next year, we're showing an estimate of 483,000 policies, given a certain set of factors that could be up to 617,000 policies if what happens in the PLA comes to fruition. Or, we could have continued depopulation with going down to 347,000. It's a critical exercise; it's interesting because we use all of this information to base for budgeting. It's a complex process, but what's even more complex is that we have staffing models for every transactional area. Those staffing models dictate how many people we need in each scenario and we can move our resources appropriate to match the transactional flow. Historically, we had a staffing model that consists of direct staff and contingent staff. That's how we're able to maintain stability. For example, today we have 1,156 direct staff, and that is down, by the way. In 2012, we operated with 1,500 contingent staff in addition to direct staff. Today, we're down to 392 contingent staff. We have a budget for next year for about 300. Each of these staffing models really do incorporate the transactional flow of business and determine resources based on that transactional flow. As I mentioned before, however, with the wide swings, we have to stay on top of transactional flow to adjust contingent staff appropriately to be as efficient as we can. We have top corporate objectives for next year – implementation of the Enterprise Risk Program (ERP). We call it Center Point. You've heard much about it. Governor Henderson was our Board observer for our ERP. This covers Accounting, Human Resources, Purchasing, Vendor Management, and Project Management. It has an aggressive completion date of February 2018. I do want to re-emphasize what Kelly reported in the last Board meeting. This is not a "nice-to-have" program. The ERP is simply an alternative to replacing all of the individual initiatives and programs that we would have to replace through procurement in any event. As a result of ERP, our estimated savings in ten years compared to individual replacements, we will save about $10 million. That's not the only key objective. We have huge initiatives for Jay and the Water Mitigation Program. We have the ICF program that the Audit Committee reported on yesterday. I think one look at the Audit Committee report and you'll note that we have to make serious headway in security and privacy. We've done an awful lot. I think we have five independent initiatives that are addressing the privacy and security issue. We have added one more formal objective and that's mostly to do with communications. I think it's recognized that we have to identify and educate internal and external customers. We have to recognize that it's a big part of what we do. We have more emphasis on that. We have Christine who will clearly make progress in that area. At any point in time, we have over 55 priority initiatives in place. We've made enormous investments over the past four or five years. We've had the revenue to do it. This company is only 13 years old. To some extent, those 55 initiatives . . . it's getting us up to the standard where we really need to be as a mature organization. What we're focusing on now is that we need to conclude those investments but we need to do it while still maintaining the target expense ratio within a couple points. We try to get one or two points below the composite of the private Florida marketplace. We'll accomplish that this year and next year. The second part of what I have to do – and I'll go over this rather quickly – is that the fortunate thing is that with all the challenges we have a truly extraordinary management team. This is my 46th year in the insurance business after a couple years in the Army. I will tell you that I've never worked with a group like this. It's an amazingly dedicated group of people. I want to run through some changes we've made and reacquaint you with the organization. I won't take long. We have 1,156 resources with 392 contingent resources. I have eight direct reports. We have one direct report, reporting to Governor Cocuy, and we have the Inspector General reporting directly to the Chairman. Probably the biggest area of change has been in Steve Bitar's area. Steve seems to excel in every area that gets assigned to him. I want to bring this to attention because it is a significant change. We did it in August. We realigned our Underwriting operations and consolidated all PLA and CLA underwriting along with Consumer and Agency Services into one division that's led by Steve. His organization now includes all Commercial and Residential Underwriting, Agency Management, Marketing Services (including depop and the Clearinghouse), Consumer Services, and Quality Assurance. The change resulted in immediate developments. We're already seeing some significant improvements. Three years ago, a big part of this organization never existed. Steve built this from ground up. I think today, FAIA, PIA, and LAIA would all say the same thing: they get extraordinary service from a marketing organization that did not exist three years ago. I think you'd agree that we get accolades for that part of the organization. Agency Management and the Field Force are brand new. Of course, Depopulation and the Clearinghouse are brand new during that period also. The next organization is Kelly. To be frank with you, I don't know how she does it. Her span of control is significant. Obviously, Kelly is best known for IT, which includes the Application Development Infrastructure. She's also go Strategic Planning, which is responsible for taking us in the direction of scenario planning. She's responsible Facilities Management, Continuous Improvement, and a brand new capability – Vendor Management. When you have $900 million contracts floating out there, it's key that you have solid capability in that area. She built that from scratch and now I think we have a state of the art vendor management capability. She also takes on the responsibility of having the director's responsibility of two major initiatives: ERP and automated underwriting. She's working with Steve Bitar on that one and it's a huge initiative. We don't talk a lot about it. That takes us from an automatic pass through of 40% of our policy to over 80% of our policies at their conclusion of the project. Recently, we added one more component to Kelly and that's business continuity. The idea there is to move this continuity so we could coordinate more effectively disaster recovery. The next we have is Jay Adams. We call Jay "the Vampire" because he comes in at 4:30 a.m. and is one of the last ones to leave. This is one committed individual. He has one of the most expansive organizations. He has 279 direct employees within Claims. He manages a contingency workforce of 273 adjusters. The resources associated with Jay's organization are enormous. His span of control is growing: Claims Litigation, Field Operations, Claims Handling, Vendor Relations, Claims governance function, Special Investigations Unit (SIU), and CAT Management. We made enormous progress under Jay's leadership and he's done a phenomenal job. The next one is Dan Sumner, and when he talks, everyone listens. We're fools if we don't. He manages Legal Services, Claims Litigation (I've never seen such close cooperation between Claims Legal and Corporate Legal staff). Ethics and Compliance (Nancy Staff has taken us to a brand new level), and Purchasing. When Dan focuses on purchasing and procurement 2.5 years ago, it was problematic. Today, I would point toward Vendor Management and Dan's organization as to having one of the most synergetic relationships. We have our resident genius – John Rollins – who is an enormous contributor across the board. He's a huge asset to the organization. He's focused on Actuarial Services, Product Development, and Market Analytics, and he's mad a huge commitment to reinsurance, supporting Jennifer on that program. We're going to be more dependent on John over the next two years in trying to get a hold on this whole AOB issue. Jennifer Montero, of course, is our CFO who spent an enormous amount of time developing and leading the Reinsurance Program and still responsible for Accounting, Remittance Processing, Budgeting, Forecasting, and Financial Systems. She has a role in managing a $12.5 billion investment portfolio. Christine Ashburn is likely the most visible of the Executive Team. While she's recognized for excellent representation in Legislative Affairs, she also has responsibility for Technical Communications, Agent Bulletins, Corporate Communications, Social Media, Media Relations, and External Affairs. The last of my direct reports is what I consider one of my best management decisions I've made in my 3.5 years and that's Violet Bloom and putting her as the head of HR. She's doing a fabulous job. In addition to Learning and Development . . . by the way, since Violet took over, Linda Lossmann has made huge progress. It's been a joy seeing the development and improvement in that area. Her scope also includes Employee Comp, HR Information Management, Recruitment and Contingency Staffing, and Employee Engagement. Joe Martins reports to Governor Cocuy on the Audit Committee and is responsible for Financial and Operational Audits, Information System Audits, Internal Audit, and Project Management. The big change here – and Governor Brown, you mentioned the importance of this yesterday – is the incorporation of Enterprise Risk Management (ERM). We decided to make a change that's somewhat unusual. We got Governor Cocuy's support in moving the ERM under Audit. It's unique in that we now have a part of an organization that's helping each of the divisions assess risk but also auditing risk. It's a growing movement with the internal audit arena because internal audit is moving toward an advisory capacity as opposed to just an audit capacity. I'm really pleased. He really has a blank slate to work from. We have a couple spots available. It'll take a while to fill that top spot. It'll be a good year before we get into the swing of things and get that operation up and operating to our satisfaction. Finally, we have Bruce Meeks as the Inspector General. Bruce is making a great addition to the company. Unlike many of the agencies, we've incorporated Bruce immediately to the management teams. That close proximity to the management team is helpful. Last but not least – I want to mention one organization that gets little visibility, and we call it the "SMT" – Senior Management Team. It was here well before I got here. The SMT is comprised of senior managers at the level of assistant director or higher. These are some of the best and brightest people we have in the organization. It gives them visibility not only across the ELT but also the entire organization. It's become a proactive think tank for ideas and emerging issues. We use them very aggressively in terms of projects, and thinking through the implications of initiatives on the whole organization. They share knowledge so they are a knowledge-sharing group. They work as an advisory group for the ELT and are working on a number of significant projects. Today, we have a couple of real stars. As Chair, we have Stephen Guth, who is the head of Vendor Management; we have March Fisher, who is the head of Market and Analytics. Are there any questions?

Vice Chair Glisson: Going back to the data on the forecasted depopulation and repopulation . . . so looking at that, you have more migration in the PLA and still some migration out from the Coastal Account . . . is it your estimation that the market sees Coastal as the better risk than the multi-peril with the water? Secondly, we are a 100% retainer of risk, excess of the Florida Hurricane CAT Fund (CAT Fund) . . . in the PLA, forecasting for Citizens is like hitting a knuckle ball. You don't know which way it's going to move. Are we thinking differently about that down the road? We're water-focused right now in the tri-county and we obviously know that's a wind exposed area.

Barry Gilway: Let me address the first part of the question. What is happening in terms of the overall book of business? If you take a look at the commercial book of business, which by the way, has a significant impact on the exposure. Last month alone, we dropped $183 million in exposure. The probable maximum loss (PML) for the commercial book is dropping like a rock. When you look at almost a $200 million drop in exposure in one month, you can see what's happening in commercial. The numbers we've shown in the estimated values clearly show that we expect the commercial book of business to go down. I think we're down to less than 2,000 policies. These are high exposure that will affect our reinsurance reduction in PML. Coastal, obviously, is a combination. The coastal property business will absolutely grow. If you take a look at the overall property business, and that includes PLA and Coastal, that will grow. There's no question. Markets are shutting down in south Florida. New business has no place to go but to us. All of our models looking out six to seven months show the same thing: it's going to be growing. We're going to see a growth in the overall PLA compared with what we have in force right now. How aggressive will that be? I think it's going to be slow growth because it takes a while for that rate differential between Citizens' rates and CAT rates and industry rates will show up in the pocketbook. Our budget shows about a 25,000 to 35,000 policy growth next year, but the mix is south Florida and PLA. To your wind-only issue, yes, wind-only is seen in the marketplace as a better opportunity for depopulation than the PLA. The reason for that is simple. Reinsurance costs continue to plummet. The reality is that wind-only population is a reinsurance play. If you can get cheap reinsurance, you can take on a number of wind-only risks and pass that risk into the reinsurance marketplace. We expect that to continue and it's perceived as a better risk, particularly compared with any multi-peril risk, which has the water exposure. Anything with water exposure, most definitely in the tri-county area, you will see growth in that area with AOB. The last part of your question is reinsurance. As you know, you, myself, Jennifer, John, and Kapil will get together to establish a reinsurance strategy. We have not historically bought reinsurance in the PLA. We have a couple offsetting factors. We do have significant surplus in the PLA. I believe that we're covered in a 1-in-250, utilizing surplus without any placement of reinsurance, so that's the good news. The bad news is that the surplus is gone in any storm. In my opinion, we should start looking at strategy with some component of reinsurance in the surplus protection component in the PLA/CLA. We should be able to do that economically because of the reduced PML in the Coastal Account, which should give us financial capability to hit our numbers.

Chairman Gardner: Would you agree that what's come out of the PLA over the last three years is not coming back into our PLA?

Barry Gilway: Yes. It's starting to happen now. Our models are showing the same thing and that is that companies are shutting down. It's not a matter of depopulation slowing. We're just not getting the depopulation results. The number of OIR approvals remains extremely high. What we're seeing is 25,000 approvals and 1,000 risks leaving. The issue is that companies are looking at that, they get into refining their selection of these accounts, and they're not taking south Florida business or anything with a growing AOB problem.

Jim Henderson: The emphasis on the continued extraction is really the best business that Citizens harvested and turning it over to takeout companies and then coming back to you. For the tougher risks, there seems that on the occasion a headwind on the profitability on the underwriting side of that in the case of not just exposure but tougher risk. We have to manage that. I look forward to . . . your models and projections . . . you've got that headwind and substantial costs. We have to be mindful that we cannot cut out that which we need with a significant event. I know you're not doing that, so I think if you help us understand that, we can help you.

Barry Gilway: I appreciate that. Clearly, the issue we're facing is that we have no choice but to accept business that's coming in. All you have to do is check the results from those doing business in the south Florida marketplace, and you'll see it's the worst business in the state from a profitability standpoint. Until we get legislative reform, you can expect our loss ratios to deteriorate, particularly in the PLA without question. We have numerous initiatives to stay ahead in the game and take a leadership position in making changes to get this loss ratio and LAE ratio under control.

Bette Brown: Barry, I want to thank you for bringing up the AOB question again, stressing how far-reaching and important it's been. It started as water claims but then it goes into so much more. It affects south Florida so much, and keep beating on that because the legislature needs to hear that and what a far-reaching event it will be.

Barry Gilway: I'm going to repeat one number and that is if you go back to 2011, the loss cost for wind-peril was $356. For every policy we had in place, we had to put in $356. That was in 2011. By 2013, that increased to $750. The projection we have, which is frankly baked in, for 2017 is $2036. $2036 per policy we have to put into loss costs for the wind-peril alone. You're exactly right, Governor Brown. The more emphasis we can put on the impact AOB is having on us and the rest of the Florida marketplace, then the better off we're going to be. We do have plans to get significantly active from a legislative standpoint. I know many of you offered to participate with us with House and Senate leadership. We will take you up on that because I think we need a full press this year to make sure we're making a dent in a combination of one-way attorney fees, the AOB form itself, and the solicitation and referral fees issue. We will attempt to support legislation in those areas. Dan Sumner and Christine have been aggressive in putting together a whole initiative, including close language in each of those areas. We'll work with all the governors who are willing work with us to present this to appropriate leadership.

Jay Adams: Good morning, Chairman and governors. I'd like to provide a claims update specific to litigation. I'll attempt to show that Citizens is receiving a disproportionate share of litigation for the tri-county area as opposed to the rest of the state. I'll start by speaking about Citizens' market penetration. Please look at the red, highlighted box at the lower left of the slide. Citizens has been losing market share in the tri-county area consistently since 2009. Currently, Citizens has a market penetration of 15% for Broward, Miami-Dade, and Palm Beach. This slide has the same information but looks at it county by county. In Broward, we have a 10% penetration; in Miami-Dade, we have a 17% penetration; and in Palm Beach, we have a 5% penetration. I would like to talk about the Florida market and what we have here are the Florida market domestic insurers. I will focus on the tri-county area and keep a red highlight around Citizens so it sticks out. Here, we are looking at the policies in force (PIF) for Broward specifically. Citizens and Universal have the largest share in the Broward marketplace. Citizens, by far, has the largest market share in Miami-Dade. When we look at Palm Beach, Universal and Citizens are back on top. When we look at the rest of the state, most insurers write most of their business outside the tri-county area. We will shift gears and talk about suits received. This slide shows suits received by all carriers through July 2016. It's clear that the tri-county area represents the majority of all suits filed with Miami-Dade far exceeding Broward. This slide represents suits received by Citizens only. Citizens receives 95% of the suits received from the tri-county area with Miami-Dade representing 65%, Broward at 24%, and Palm Beach at 6%. This slide represents all the slides received through July 2016 for the carriers listed. Citizens to the next to the last column on the right far exceeds all other carriers. We're now going to look at the suits received compared the other companies. Citizens receives about 45% of the suit volume for the entire state. Pretty dramatic. Now we're going to talk about the annualized suits received compared to PIF. We're looking at the number of PIF they have as a ration to the suits they are receiving. Citizens is receiving suits at a much higher rate in PIF than the other carriers. Citizens is receiving suits on about 2% of the total PIF compared to the next closest carrier – Florida Peninsula – which receives suits at 1.2% of its PIF. This slide is a Citizens specific slide, and it represents plaintiff attorneys filed suits more than 50 times year to date. This slide is Citizens specific as well. It comes from our Matters management system (Acuity) and the first slide represents all suits filed by plaintiff attorneys. These are the top 10 counsels and these are received since 2014 through 2016. This is all law suits. The next slide is the same information but this slide focuses on water. We're now going to look at AOB lawsuits. You can see the top 10 there. The next slide is the AOB contractor suits submissions received by Citizens. These are contractors based on their ranking on how many suits they've filed in the AOB space and this is through July year to date. Our SIU team is currently reviewing a list of AOB contractors and looking at relationships that exist with these suits. We're also reviewing the mitigation mold statutes to ensure that our teams are trained to understand when Department of Fraud referrals are warranted on those particular contractors. This is plain statistics on Citizens. We continue to experience a declining claims base. Our PIF have steadied around 490,000 policies. However, suit volume continues to increase, and last year we averaged around 650 suits per month. This year the average is 790 suits and that number last month was 1153. Through yesterday, we have 826 for September. Now we're going to talk a little bit about the effects this is having on claims. The statewide column shows how many days on average it takes to settle. If there is an AOB, we are settling about 2.9% of the claims in that 0-30 day timeframe. 84% of them are taking more than 121 days. Some of the drivers that create that long tail are that the contractors associated with these AOB claims are non-responsive. They are not interested in settling the claims. They want to move those straight into litigation. When we try to negotiate and settle those pre-litigation, a lot of times they don't return our phone calls. The bottom chart shows the significant difference between settlement claims between AOB and non-AOB, which is directly related to litigation. Claims within AOB are much more likely to end up in litigation. Claims in litigation take four times longer to settle on average than a non-litigated claim. About 88% of the claims within AOB end up in litigation. This is the exact same information but it's now looking those claims we're looking at representing the first notice of loss (FNL). If you look at the statewide column, in the 0-30 days settled, we're only settling about 20% of those claims in the balance of 59% taking greater than 121 days. The reasons for these delays are based on representative party delaying inspection times for the adjuster, engaging experts on claims information, and suits being filed. The chart at the bottom of this slide is similar to the other. Claims with representation of FNL are more likely to end up in litigation and about 58% of the claims that have representation at FNL will result in litigation. One more time, these are claims that make it to litigation. Looking at the statewide column, the 0-30 day timeframe – we only settled 0.2% of the claims. Things that go into litigation become protracted and most of it is being settled in over 121 days. What is the impact on Claims? We have to respond by increasing staffing. We will be hiring an additional manager and an additional triage person to review view the incoming volume of suits. We're also increasing our volume of independent adjusters (IA). That's where we scale for our volume of claims so we don't overstaff if those claims slowdown in the future. We're going to start by adding 30 additional IA. We've been waiting throughout 2016 to see if this is an anomaly in this increase in suit volume or if this is the new trend. We believe it's a new trend. With that, are there any questions?

Chairman Gardner: Do you think there is any pent up activity due to the threat of the loophole closing?

Jay Adams: To be honest with you, we've received very few claims filed for any of the new contract language. We've seen few appraisal demands based on the new language as well. Most of the claims being reported are 33 to 43 days late. I have not seen any take up at all on the new language error. That obviously has gone back up through the chain.

Barry Gilway: One comment. It's very premature but we do believe the new contract language will have a significant impact. However, it became affective only at renewal on July 1. We don't have a lot of policies operating under that new language at this point in time. It'll take time for that language to apply for all book of business.

Juan Cocuy: I've seen one chart where 15% to 20% of all policies are Citizens in Florida. But, then, we're getting 45% of the suits. Can you give me why that's so disproportionate and why they are picking on us?

Barry Gilway: It's south Florida. I think the activity we're seeing . . . the whole purpose behind Jay's presentation is to bring to light that our suit counts are based on the percentage of business in Miami-Dade, and to a lesser extent, Palm Beach. The other issue is that we are more and more becoming the residual carrier. I think it speaks to what Governor Henderson was referring to is that the overall quality of the book of business from an underwriting perspective is that we lose the best policies. We get to keep policies that have up to two claims. We can't take action until we have the third claim. If you take a look at the counsel, you've got 57% of all of the litigation is coming from the tri-counties. If you take a look at that percentage, it's staggering and those attorneys are focused on the south Florida market. It is a matter of market share and the overall book of business is residual compared to a few years ago.

Vice Chair Glisson: I think I have a simpler answer: $7.5 billion in surplus. They see that as deep pockets and easy money. What about engaging some of the consumer groups in this cause? Up until now, the public hasn't been too concerned about this. Now that we're seeing premium increases into double digits because we're capped and 15% with other carriers. They've got to wake up and understand that they're paying for this. We're not paying for it.

Barry Gilway: I agree completely. We have legislative agenda that includes all of the primary consumer groups. Christine Ashburn is working directly with virtually every consumer group. Yes. I think we're engaging every consumer group. It's been interesting that this is getting more visibility. For the first time there was an article in the *Palm Beach Post* calling for AOB reform and legislation action. We have a similar article in the *Miami Harold* and the *Sun Sentinel*, all taking the same position. Michael Peltier is working with as many media outlets as he can to get our statistics out there. We have an extensive communication program. The new objective is focused on that – the need to educate the policyholder. It can't be just Citizens. It has to be the independent system, FAIA, PIA, LAIA, etc. all have to step forward in terms of educating along with the consumer groups. It will take a combination of all these groups to be heard sufficiently to make changes in the legislature.

Vice Chair Glisson: What are the chances of this causing an assessment? We're talking about some tragic numbers here.

Barry Gilway: It's interesting that you're asking this question. That same question was asked by the Consumer Advocate. John Rollins laid out the assessment scenario. Short-term – the answer is "no" because our reinsurance program along with our surplus protect us all the way up to the 1-in-150 area. Jennifer has that broken down by account. We have significant surplus today. You'll only get into assessments if, for one, we get the growth on the high end. If Citizens grows and we grow with policies that hit surplus, then that's going to erode surplus. LAE will hit surplus over time. I think we are strong financially, so in the short term, the answer is no. However, if we continue on this path, there is no question surplus could deteriorate in which we cannot afford reinsurance. That would take some time to do. I don't think assessments are on the horizon.

Vice Chair Glisson: My fear is that as other carriers will flee south Florida, because they are having the same issues, we're going to start writing more tri-county policies. I think we're all on record in saying that AOB needs to be solved in 2017 and I think we're all committed to help you make that happen.

Barry Gilway: I appreciate that and we'll be calling each of you to join us in our meetings with Senate and House membership as we move our legislative agenda forward.

I think you might have an unlikely ally and that's part of the trial lawyers involved. I'm hearing that the courts are being clogged up in Miami-Dade because of the litigation. Other litigators are complaining so I would urge you to talk to those members. I think there is a division in the ranks in which a lot of people see this "cottage industry" of the AOB is an outlier in the entire field. The starts are aligning to take them on in the next session. Do you see what happened with the recent worker's comps skyrocketing and the need for legislative activity in that attorney's fees area, something we could piggyback on to say, "Hey, if you're looking at attorney's fees anyway, then let's look at Citizens' attorney's fees. "

Barry Gilway: I was on a panel with Sean Shaw of Merlin Law Group and I prepared to take him on about AOB. He was the first speaker and he started to stay, "We need to demand AOB legislative reform." I almost fell out of my chair because that's the first time I heard members of the Trial Bar endorsing AOB reform. We are working closely with them to see if there is any synergy in working with them. On the Worker's Comp issue, I have a concern. Worker's Comp is such a complex issue. It's going to take a lot of legislative agenda this year. It's a good suggestion to see if we can work in concert, but I think the common wisdom is that Worker's Comp couldn't come at a worse time because it's really going to chew up legislative focus this year.

Gary Aubuchon: Because this issue is such a huge one, in reading some of the articles related to AOB, the ones I find most compelling are the ones where policyholders assigned their benefits and are appalled by the absurd expenditure remediation companies are doing way beyond what is needed to rectify the program. If we can get some of these policyholders to the committee meetings in Tallahassee, I think that presentation would have greater affect than "suits" making the presentation.

Barry Gilway: I completely agree. Christine is already capturing the information on many of the policyholders who have shown up in press releases and news shows to show their shock that there are multiple suits being brought on their behalf against the company. I think the issue is to visibly as much possible to show the impact on consumers.

Chairman Gardner: We have a full agenda that we need to go through by noon. We still need to rehear the approval of the prior meetings' minutes. There were two meetings we didn't approve.

A motion was made and seconded to approve the June 22, 2016 and July 19, 2016 Board minutes. All were in favor. Motion carried.

4. <u>Chief Financial Officer Report</u>

a. Finance and Investment Committee (FIC) Report

Chairman Gardner: I have no comments other than that I appreciate the work the group has done to improve our Investment Policy. I think the Board will be interested in the changes we've made and will take advantage of some investments down the road. With respect to our Reinsurance Program, we continue to be challenged by a fluid environment.

Jennifer Montero: If you'll turn to tab 4 of your Board book, you'll find the updated 2016 Layer Charts. As you recall, I presented a similar document at the June 22 Board meeting that was prepared using the December 31, 2015 data. Since then, we've used June 30, 2016 data. Some of the more significant changes to the layer charts are as follows. For the Coastal Account, the PML decreased by more than 10% from what was presented in June. The Coastal Account's PML used was the December 2015 data reduced by a projected 5%. Therefore, the June 30th PML had a reduction of more than 15%. The CAT Fund layer in the Coastal Account decreased by $97 million with CAT Fund premium decreasing $6.6 million, or 5%. This is due to lower June actual exposure. Due to the CAT Fund layer changes, the wrap layer now attaches above the CAT Fund attachment point. It now attaches at the 1-in-13 year event as opposed to the 1-in-10 year even and exhausts at the 1-in-44 year event as opposed to the 1-in-40 year event. The 2014 CAT Bond shifted slightly up and now attaches in the 1-in-44 year event versus the 1-in-39 year event and exhausts at the 1-in-120 year event versus at the 1-in-100 year event. The decrease in the CAT layer has eliminated the slight overlap between the wrap layer and the 2014 CAT Bond, providing a small sliver of surplus between then of approximately $8 million. The 2015 CAT Bond also attaches higher than anticipated, attaching at the 1-in-83 year event compared to the 1-in-72 year event as presented in June. It extends beyond the 1-in-100 year storm exhausting at 1-in-112 year event. In addition the CNR layer attaches at a higher return time – 1-in-40 year event – versus 1-in-37. The Coastal Account is projected to support a 1-in-100 year storm followed by a second storm approximately 1-in-25 years. For the PLA/CLA, the 1-in-100 year PML decreased approximately 6% from what was presented in June. The CAT Fund layer in the PLA/CLA increased by approximately $33 million with CAT Fund premium increasing approximately $2.3 million or 3%. Although the PLA/CLA has decreased, the mix of business has changed. The PLA PIV changed over the first half of the year while the CLA PIV decreased significantly. The PLA/CLA is approximately projected to support two 1-in-1 year storms followed by a third storm of 1-in-22 years. Are there any questions? If not, I'll move on to the Investment Policy. As you know, each year we evaluate the Investment Policy and bring the recommendations to the FIC and Board for approval. Earlier this month, we held an all investment manager meeting at Raymond James office. During that meeting, we shared proposed Investment Policy changes with our team for thoughts and suggestions. The proposed changes we bring you today incorporate feedback from that meeting. Slides one and two show the 2015 Investment Policy and the changes that were approved prior. Currently, Citizens has four Investment Policies. Taxable Funds liquidity and surplus are the first moneys to be used to pay claims after an event, and also can be used to pay operating expenses on an ongoing basis. The tax-exempt liquidity is pre-event bond proceeds and other moneys required to be invested in tax exempt instruments; Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on pre-event bonds on as needed basis. Taxable claims-paying are funds that will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund; only moneys eligible for investment in taxable instruments will be deposited in this fund. Tax-Exempt claims-paying is pre-event bond proceeds and other moneys required to be invested in tax exempt instruments; Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Liquidity Fund and a major portion of the Taxable Claims Paying Fund. Slide three is the matrix of the proposed Investment Policy changes with the details on the following slides. If you turn to slide four, I'll take you to the proposed changes starting with the Taxable Liquidity Fund.

- Increase Corporate composition percentage from 50% to 60% and reduce Treasury / Agency composition from 50% to 40%
  - The increased Corporate composition will provide incremental yield of approximately 0.19%, or $2.4 million
- Increase floating rate note composition percentage from 35% to 40%
  - As money market reform is taking place later this year, an increase in floating rate note composition allows Citizens to take advantage of rising short-term interest rates and provides a natural hedge against any interest rate increases
- Reduce minimum credit ratings for 20% of the total portfolio from Baa1/BBB+/BBB+ (Moody's/S&P/Fitch) to Baa2/BBB/BBB (Moody's/S&P/Fitch)
  - The lower limit of minimum rating criteria will provide additional portfolio diversification and will also provide incremental yield of approximately 0.11%
- Increase dollar weighted average maturity from 397 days to 548 days
  - Again, due to money market reform, an increase in the duration of the taxable liquidity fund from 397 days (13 months) to 548 days (18 months) allows Citizens to take advantage of rising short-term rates and will provide 0.10%of incremental yield, or $ 1.3 million
- Add publicly issued asset-backed securities for prime automobile loan and lease receivables with ratings of Aaa/AAA/AAA (Moody's/S&P/Fitch) with a maximum maturity of 548 days. At original issuance, deal size must be at least $500 million, and tranche size must be at least $75 million. Maximum limit of 5%

On slide five, we have the taxable claims-paying fund proposed changes:

- Increase Corporate composition percentage from 65% to 70% and reduce Treasury / Agency composition from 35% to 30%
  - The increased Corporate composition will provide incremental yield of approximately 0.04%, or $2.2 million
- Increase dollar weighted average maturity from 5 years to 6 years
  - This change will allow Citizens to take advantage of the steepening yield curve and would generate approximately 0.14% of incremental yield, or $7.4 million
- Reduce minimum credit ratings for 20% of the total portfolio from Baa1/BBB+/BBB+ (Moody's/S&P/Fitch) to Baa2/BBB/BBB (Moody's/S&P/Fitch)
  - The lower limit of minimum rating criteria will provide additional portfolio diversification and will also provide incremental yield of approximately 0.15%
- Add publicly issued asset-backed securities for prime automobile loan and lease receivables with ratings of Aaa/AAA/AAA (Moody's/S&P/Fitch) with a maximum maturity of 7 years and 1 month. At original issuance, deal size must be at least $500 million, and tranche size must be at least $75 million. Maximum limit of 5%

The proposed changes include a 5th Investment Policy. On slide six, you'll see the taxable claims-paying fund long duration. As Citizens built its surplus and its risk transfer program, we currently have a surplus for over 1-in-100 year for PML. The current exhaustion point for Citizens' surplus aggregate event is approximately 1-in-52 years in the Coastal Account and 1-in-239 years for the PLA/CLA. As such, Citizens can invest its surplus above the 1-in-100 year PML and as a separate, externally managed investment portfolio of the taxable claims paying long duration fund. As the monies are invested pursuant to this policy, this will be Citizens last source of available funds. The duration limits of this policy are longer than the duration of the taxable claims paying fund. The parameters for this policy are the same as the taxable claims paying fund policy with the following duration changes:

- Maximum Permitted Final Maturity: 15 years and 1 month
- Dollar Weighted Average Maturity: 10 years
- Add publicly issued asset-backed securities for prime automobile loan and lease receivables with ratings of Aaa/AAA/AAA (Moody's/S&P/Fitch) with a maximum maturity of 10 years and 1 month. At original issuance, deal size must be at least $500 million, and tranche size must be at least $75 million. Maximum concentration of 5%

We are also introducing a separately managed account. Due to money market reforms, Citizens may choose to invest a portion of its taxable liquidity fund in a septate, externally managed account for the money market fund and continues to use its own investment personnel and investment procedures to operate its portfolio. The operating fund portfolio will consist of a portion of funds needed to pay for the day to day operational expenses that is determined by the CFO. The separately managed account will be managed pursuant to the taxable liquidity fund investment policy. The monies in this account will be used to pay for operating costs. The average expected portfolio size will be $300 million. Slide seven talks about all other 2016 proposed investment policy changes. These are minimal changes, mostly to clean up our Investment Policy for the taxable liquidity fund. The dollar weighted average life maturity of VROs shall not exceed 3 years (an increase from 2 years), calculated using the stated legal maturity for any VROs. For the taxable claims paying fund:

- Increase maximum permitted final maturity from 10 years to 10 years 1 month to provide for new issuance
- No more than twenty-five percent (25%) of the portfolio may be invested in fixed rate securities with remaining time to maturities of 30 to 42 months – an increase from a maximum of 25% invested in maturities of 24 to 42 months
- The dollar weighted average life maturity of VROs shall not exceed 6 years (an increase from 5 years), calculated using the stated legal maturity for any VROs
- Lower the minimum underlying ratings of variable rate securities with mandatory put options from A1 from Moody's, A+ from S&P and/or A+ from Fitch to A2 from Moody's, A from S&P and/or A from Fitch.

For the tax exempt claims paying fund, lower the minimum underlying ratings of subordinate obligations from A2 from Moody's, A from S&P and/or A from Fitch to A3 from Moody's, A- from S&P and/or A- from Fitch. All of these changes will be effective after hurricane season ends on December 1st, with the exception of the separately managed account. The separate managed account is not a separate policy. It will be managed pursuant to the taxable liquidity investment policy. Therefore, we'd like the separate managed account policy to be effective immediately.

Chairman Gardner: Remind the Board of the aggregate investment impact to these changes.

Kapil Bhatia: For the record, Kapil Bhatia from Raymond James. We expect the total increase of about $25 million to $30 million for 2017. It takes 30 days to go through the process. We expect these changes to take affect January 1st.

A motion was made and seconded to approve the changes to Citizens' Investment Policy duration, credit quality and composition for the Taxable Liquidity Fund and Taxable Claims-Paying Fund and a marginal change to the Tax-Exempt Claims-Paying Fund as described above

and to approve the creation of the Taxable Claims-Paying Long Duration Fund as described above. All were in favor. Motion carried.

b. Financial Statements, June 30, 2016

Jennifer Montero: In your books, you have the financial analysis and the quarterly reports. Also behind tab 4, I'm going to give you a briefing of the past six months ending June 30, 2016. The second quarter of 2016 marked several financial achievements, including the placement of the 2016 Reinsurance Program, resulting in approximately $2.5 billion of risk transfer at a combined net rate of 7.3%, and the disposition of half of our legacy items at Citizens that it continued to hold from the 2007 and 2008 financial crisis, which resulted in year to date realized gains of $13.8 million. The perceived appetite for Citizens' policies continues to face challenges as evidence for the period of declines and depopulation premiums of roughly $29 million, or 58%. Likewise, declines in direct written premium have begun to dampen as period over period in reduction of premium volume, with approximately $163 million, or 23%. In contrast to the 2015 to 2014, we saw a decline in written premium of $444 million, or 39%. The decrease in volume occurred predominantly in the Coastal Account with a reduction of $100 million, or 28%, when compared to the PLA, which experienced a decline of approximately $43 million or 15%. Not surprisingly, the PLA is the account in which the majority of the non-weather water loss and AOB claims reside. Since December 2015, with a combined loss and LAE ratio has increased 2.5%, despite an overall reduction combined loss ratio of 5%. Increases in LAE driven by an increase in projected non-weather water claims going into litigation year to date produced an increase in the LAE ratio of 7.5%. In contrast to the unfavorable trends of loss in LAE activity, both the period over period and budget to actual decline in Administrative Expenses of approximately $6 million were achieved along with an increase in net investment income of $18 million or 28%, exclusive of the net realized gains of $32 million. This increase is largely due to the December 2015 revisions to the Investment Policy that extended dollar weighted average maturity of certain components of the claims paying fund portfolio by one year. Citizens ended the second quarter with a net income of $141 million with an increase in its surplus of roughly $180 million. New to this quarterly package contains relevant information on non-weather water losses, which are located behind the last tab. These slides were taken from the 2016 Rate Hearing held last month and provide insightful trends highlighting the issues that Citizens and the Florida property market in general are facing with non-weather water claims. As more information regarding non-weather water losses continue to assemble, we will continue to bring you more analysis for future Board meetings. The first slide identifies alarming but not unexpected data on the impact of non-weather water loss claims on the rate indications. As presented on the slide with September 30, 2011, the average water loss claims was $367. The projects for September, 30, 2017, the average cost of loss due to water will $2,083. The second slide isolates the financial impacts and the related percentages of litigated versus non-litigated non-weather water claims. You'll note the increase in water claims that are litigated from 2012 to

2015 with an increase of 13.3%. You can see the litigation increases the severity by a factor of four. The third slide is most relevant in terms of policyholder impact. It shows the indicated rates that incorporate a significant uptick in frequency and severity of non-weather water losses in comparison of what the weather rates would have been using pre-2013 water loss levels. Had the loss trends from 2013 been used, 103,000 out of 142,000 policies would have seen rate decreases. However, with the current trends, the indicated rate filing will mean that only 23,000 out of the 142,000 policies will see rate decreases. Although we removed the separate sinkhole analysis from the financial packet, a historic sinkhole loss summary can be found in the QFA on page 12.

Chairman Gardner: So what are we talking about in the PLA for average premium size?

John Rollins: I don't have those exact numbers but they are included in the rate filing by county. It's approximately $4 to $2,500 statewide is your HO3 policy.

Chairman Gardner: So, 75% to 80%?

John Rollins: Another way to look at that is that Christine Ashburn produces those premium dollars exhibits where we actually split the dollar bill and show you how much of each cent goes to what. You'll remember that the number in water is majority of the premium . . . it's going to water losses. It's about 60-cents of every premium dollar.

Chairman Gardner: So as you're building that loss cost, what are we thinking about that's an acceptable loss ratio, including your reinsurance load, when your fixed cost . . . .

John Rollins: That is how actuaries look at and it's called permissible loss ratio. Typical, acceptable, private market loss ratios would be in the 25% to 30% of the premium dollar range. At Citizens, the permissible loss ratio is in the 25% to 30% range.

Bette Brown: Jennifer, great presentation. I love the last slide that shows the orange rise in the AOB. It's very powerful and I think it should be the first slide you use to speak to the legislature.

Jim Henderson: I think Jennifer's page one on year to date results is the scorecard about a lot of the activity we're talking about by our loss ratio and the expansion of that . . . the retraction of premium, and therefore, our expense ratio increasing, which I think your leadership team is doing a great job to keep it under control. But underneath that, we have a combined ratio up to 70%. It illustrates all that Barry is talking about that you get to a point where you don't have enough money to buy the wind coverage. The relevance of water losses looks like we can handle those with the emphasis to continue our management of those, including an aggressive stance on whatever that formula is that allows us to do that. These numbers are not a great direction for Citizens to be going in. I think, we as a Board, need to continue to do all that we can do to help you to get those turned around.

5. <u>Chief Systems and Operations Officer Report</u>

a. Information Systems Advisory Committee (ISAC) Report

Jim Holton: Kelly and her team have done a great job advancing the ERP implementation and also with the disaster recovery. I also want to give thanks to the Board for responding to the claims department issue. Keep up the great advancement.

Kelly Booten: We had a very brief meeting, so I don't have any action items today. The ISAC met on September 13th, and Robert Sellers did an overview of our Disaster Recovery Strategy and implementation. We made a decision to use governmental and state run contracts. We've completed our interviews and we have three vendors we're working with. All three of them are available through the state's disaster recovery contract. All three of them offer services external to the state and two of the three offer services internal to the state. That is progressing and we will be comparing the three to see what brings the best value in meeting our requirements best. In addition, Sarah Harrell provided an update on the ERP project. AST, our implementation partners, started August 1st and that has gotten off the ground really quickly. This week they are presenting their first round of demonstrations on some of the capability that they configured into our system to meet our requirements. The first phase is finance and procurement, with a target date of April 2017. Curt Overpeck briefed the committee on the approval of a new Corporate IT Security Policy and IT support for Hurricane Hermine. The committee reviewed a consent item that's in your packet today, which is a six month extension of our telecommunication network services. We're currently negotiating a contract for a new vendor to provide long distance and IBR.

6. <u>Chief Claims Officer Report</u>

Gary Aubuchon: I think we know what the elephant in the room is. I would like to echo the comments of a job well done and I appreciate the updates during the hurricane. I appreciate the calmness in which it was handled. Well done.

a. Hurricane Hermine Update

Jay Adams: I'd like to give you a brief update on Hurricane Hermine. We've brought before the Board our CAT Plan and how we operate. I want to walk you through this update on how the Claims operation responded to Hurricane Hermine. Our CAT Plan activation does not occur overnight. This was a slow moving storm and undecided about when it decided to become an actual storm. Back on 8/22, we started watching the storm. We started putting the enterprise on notice, on what we consider our watch phase. During that phase, we contacted our CAT coordinators and ELT to coordinate communication. On 8/24, the National Hurricane Center declared Invest 99L. On 8/25, we went into the imminent phase. When we went into the imminent phase, this storm was located in the Keys and it was rainmaker. We stayed in the imminent phase. The difference between imminent phase and watches is that we are now holding daily teleconferences, getting further along in the planning, and getting ready for deployment. On 8/29, Tropical Depression 9 was named with a potential land impact in Florida. On 9/1, Hurricane Hermine was formed. 9/2 was the landfall near St. Marks, Florida. On 9/3 is when Citizens began its response. The next slide is what anyone can get from the internet from the National Hurricane Center. This is the information we leverage to try to forecast where we might have landfall. You see the white cone of uncertainty. That cone is pretty symmetric in most storms. The next slide shows the GIS tool Citizens built in house where we can show forecasting. This is one of the tools we leverage in a CAT to prepare our response. We want to make sure we have the right response and we want to be the first to market for IA. You need to have some understanding on what the impacts will be in policy count so you can start planning. The orange represents the eye, the best path we thought the storm would take. This is non-symmetrical. The next slide has the same non-symmetrical shape, and the reason it is non-symmetrical is that we model the storm as it is happening. We did not model the cone of uncertainty. The storm had a width of 70 miles west of the eyewall and 140 miles east of the eyewall. What you see in our chart is a representation of that. Then we plotted the PIF against that. Then, the tool will allow us to extract the policies outside of that cone so we can work on our CAT Plan and start making our decisions. This year the Hurricane Center has started releasing its surge probabilities. Citizens has been leveraging this tool for multiple years now in our GIS. Now we have an ability to determine flood and surge versus wind. We can determine what policies are impacted by what stage of flood. The shades represent different depths. The next slide is a blown up view of it. The next slide shows how we are able to extract the policies out from under that cone. We look at it by policy type. We want to know that because we really understand what our mix of business will be. When we go to deployment resources, we have to make sure we use the right resources. What we're focusing on is commercial. The next slide breaks it down by county. When we're getting ready to make field deployments, we'll notify the firms where we think those claims will occur so we put people in the right areas. You've heard us talk about the IA Resource Calculator. At Citizens, we have an Enterprise CAT Plan. Every department has a CAT Plan. We build an algorithm based on those plans so we know how many people we need to respond during a CAT. Once we identify how many policies within the cone, we look at how many resources might be damaged. If you look at the chart and the row with 3,000 on it, you'll see a call for 35 resources. That's about how many we deployed. We were anticipating about 2,200 to 3,000 claims based on the path of the vent and the history we've had for tropical storms come in that area. The next slide talks about our claims scalable model. Every day we run the Managed Claims Model (MCM), which is an IA model that leverages IA that handles adjusters cradle to crave with Citizens oversight. They are built into teams. Those teams are handling all claims except for non-weather water and fire. Those claims are complex and are shifted to in-house. When we talk about the MCM, that is a transactional business. We assign the claim to an adjuster, they handle the claim it's based on a fee schedule, and they get paid. If we don't assign any claims to them, they do not get paid anything. We consciously over deploy this model all the time in order to handle any pocket storms – a tornado or a small CAT. If we still had 1.2 million policies in place and we had the MCM stood up at that time, we would have responded 100% out of that model. The next slide is our CAT Scalable Model. We continue to leverage what we do every day, but we modify it. It's the Modified MCM. We take that claim and break it into two components: desk adjuster and field adjuster. The desk adjuster is responsible for contact, investigation, payments, and all those things. That field adjuster takes a task assignment. They do scope, photos, diagram, etc. The people in the field – we're trying to get them out there to inspect – churn and burn and get those inspections to the desk adjusters. The desk adjusters are housed at Citizens EverBank, which is our CAT HQ. We have a floor dedicated to these folks. It will house 280 desk adjusters. We also have Citizens oversight that way we can train, develop, oversight, and adjust things on the fly during a CAT response. How do we respond to these during a CAT? During the early days, Thursday-Friday-Saturday, we had not had the IA deployment show up at the EverBank center. We leveraged our staff to make contact on all the claims that were received Thursday through Saturday. We took those claims and pushed them back into our MCM and send them out so they could start doing inspections. We did not want to create a lag between those claims until our deployment was in place. The second phase is the scale up phase. The deployment requests went out on Thursday. They had 72 hours to arrive. We asked them to show up on Sunday at EverBank. We conducted training, orientation, systems training . . . assigned their claims, sent them to their fields, and then they took over the handling of the CAT claims. As that CAT started to wind itself down, then we started to take that back apart. We started to release the field and desk adjusters. We push it back into our MCM to continue handling anything that falls out of that. The next slide shows some quick characteristics of what we saw. There was a tremendous amount of coastal, canal, and tributary surge/flood. There was very little wind damage. People that had older roofs, saw leaking roofs but they had very little physical damage. They weren't missing shingles. Many claims have been less than the deductible. Let me give you statistics as of Thursday. Total claims received to date are 827. We've inspected 608 of those. We've closed 327 and we've paid out about $300,000. We sliced and diced these statistics daily. We want to make sure we are responsive to those claims that are high in severity. Those claims that are ranked five in severity were all reported early on. They were all inspected by COB Monday. We had staff look at those because of their complexity. Most of those had significant surge damage. We had one fire when the power came back on. We also looked at the accounts these claims are in and they were always concerned about commercial. Commercial is where our exposure really exists. In this particular event, we had only four commercial claims. We also look at the claims received by counties. We continue to do that to make sure that we have the right deployments to handle the volume. As the eyewall came in, it probably had most of its impact in Leon County. You can see that Leon County had less claims reported in than Miami-Dade. Where we saw the majority of our impact of the storm was located in the Tampa marketplace and just north of that. What we saw mostly was coastal, tributary, and canal type surge events. You heard me mention commercial several times already because we are concerned about it. We used the GIS tool; we extracted every commercial claim under the cone that we recreated; and we proactively reached out and called every commercial customer. We wanted to go out and create a claim for each of those individuals, write an estimate for any damages that might be there, so we could start accruing for the calendar year their hurricane deductible. Overwhelmingly, most of the folks have zero damage. We did not go out and drive many inspections, although, many of our customers did indicate they enjoyed the fact that we cared enough to call. Are there any questions?

Jim Henderson: I think it's a great step in calling the customers. Well done.

Freddie Schinz: Jay, I also want to thank you very much for keeping us informed and with such a quick response and also for reaching out to the citizens of Florida. Your response team was in place. They were prepared. You carried it off with great excellence. I want to thank you for that.

Jay Adams: Thank you for that. I want to recognize our CAT Team and Claims group. They were the ones who made it all happen.

Chairman Gardner: We're going to take a quick 10 minute break and re-adjourn at 10:55. We still have a full agenda to get through.

Chairman Chris Gardner, Don Glisson, Gary Aubuchon, Bette Brown, Juan Cocuy, Jim Holton, Jim Henderson, Freddie Schinz are present.

7. **Vice President of Human Resources Report**

Chairman Gardner: We're going to proceed with item 7, the Vice President of Human Resources.

a. Action Item: *Medical and Prescription Drug 2017 Plan*

Violet Bloom: I'm going to start with a brief presentation. Staff recommendations are for three new contracts and two new renewals for the 2017 Employee Benefit Program. The expense associated with these contracts will be included in the 2017 budget, which will be presented to the Board in December. Staff's first recommendation is for the Medical Plan Contracts. In developing the recommendations, a number of factors were considered, including the national medical trend and projected increases for the 2017, which ranges from 6.5% to 8.4%. In addition, Citizens Medical Plan design and employee premiums were compared to relevant, competitive practices. The following key findings were outcomes from these comparisons, which were incorporated into the recommendation. Overall, Citizens Medical Plan – copays, deductibles, etc. – are very competitive. Many consumers offer a preventative health plan for high deductible options. This is an option Citizens will explore for 2018. Citizens employees currently pay for 15% of the total cost. The 2017 recommendation includes an increase to 18% for the employees' portion of the total cost. This will result in a 5% increase in employee costs to cover dependents and the employee costs for employee coverage, which will remain flat. The recommended employee contributions are included in the appendix for your reference. The most notable staff recommendation for the medial plan of 2017 is the recommendation to change the majority of the Medical Plan from fully insured to self-funded plan or administrative services only, which is often referred to "ASO." In addition to the financial savings, the plan funding change creates more flexibility to manage the plan design and target wellness programs to our population. It is estimated to create an annual savings of at least $2.2 million. On the next slide, I'll illustrate how the savings is generated. There are three contracts for the 2017 Medical Plan: two Florida Blue contracts for the ASO and stop loss coverage as well as a third contract for Capital Health Plan (CHP), which is a fully insured HMO for our Tallahassee employees. The total costs for the Medical Plan is currently $15.1 million. The actual cost will be based on the enrollment of the plan and actual claims costs. The breakdown for the estimated costs for 2017 is $15.1 million. $12.4 million of the cost would be Citizens cost and $2.7 million would be the employee cost, which represents employees sharing 18% of the total cost. The projected annual savings for 2017 is $2.2 million. It's based on the comparison projected cost of $15.1 million for the self-funded plan to the estimated cost of a fully insured plan, which is $17.3 million, creating the $2.2 million in savings. It will be important for Citizens to continue to offer and enhance our employee wellness program in order to gain the full benefit of the move to self-funded medical plans over the long term. The budget for the employee wellness program will also be included in the Citizens 2017 budget. There are three action items for contract approval that require the Board's approval to implement the recommended Medical Plan and transition the plans to self-funded Florida Blue as well as to renew the contract with CHP. In order to make the recommended changes for 2017, the Board will also be asked to approve the delegation of day-to-day oversight and management of the self-funded plan to the HR staff. This will allow staff to set up a separate plan, which is required to avoid the risk of violating HIPPA requirements.

Jim Henderson: I'm pleased to see you moving into a loss coverage plan. The cost of this overall plan . . . what about the Cadillac Tax? Have you looked at that?

Violet Bloom: We have done some initial analysis and we need to look at that for the plan design for 2018. I don't have specific figures for you today.

Jim Henderson: I think you need to monitor that. You're certainly in that category in dealing with that issue coming up. The other thing is just a comment. I would hope that our employees are aware of the favorable employee matching portion. The industry is more like 35%. I hope they understand the favorable matching.

Violet Bloom: Very good point. Our employees will hear about the $2.2 million savings realized. To your point, their contributions are low compared to market comparisons. We are moving from 15% to 18% employee cost share and we do continue to focus on a total award of not only their health benefits but also the other benefits they realize as Citizens employees.

Jim Henderson: Is there a large HSA deductible option for employees?

Violet Bloom: There is not. There are HMO and PPO at all three office locations, but that is something that we will look at for 2018.

Chairman Gardner: If we're not careful, this will get away from us. Certainly understanding that we live in a gray area between the private sector and the governmental sector, I'm concerned about fading savings in a self-funded environment which may or may not materialize due to experience. If you're telling me that we're accruing expense to the maximum liability, which I don't believe we are, it's okay to make that comment. I also think to enter into a self-funding environment without some sort of consumer awareness approach is a huge mistake to Governor Henderson's point. There really needs to be an education and awareness will drive costs to this plan. To not make our employees aware that utilization drives cost is a mistake. I don't know what can be done between now and enrollment. It might be something you check on with your consultant. It might be really good to talk about how we create a campaign around utilization awareness and how that ultimately drives cost. They're really not controllable costs once they're on the books.

Jim Henderson: I think the point about wellness is such a key. I know there are initiatives there. We'd certainly be very supportive of those programs dealing with not smoking and health awareness. Many of us are doing that, and I think with good results.

Violet Bloom: We appreciate that. We do have baseline wellness programs in place now and we do some communication around utilization and how utilization drives the cost. This spring, we did some education with our employees about the move to self-funded and why Citizens was considering we were making that move. We're definitely going to take into consideration both of your recommendations and continue to look for ways to incorporate them. The first action item is for the Medical and Prescription Drug Administration Services for the Base Term: 2017-2019 Florida Blue Administrative Fee at $41.00 per enrolled employee per month. The total Base Term estimated cost: $1,437,624.00 over the three year term. The Renewal Term sare $43.00 per employee per month from January 1, 2020 - December 31, 2020; $44.29 per employee per month from January 1, 2021 - December 31, 2021; $45.62 per employee per month from January 1, 2022 - December 31, 2022. This Action Item represents a new contract award for a third party administrator to provide all administrative services needed for self-funded Health Maintenance Organization (HMO) and a Preferred Provider Organization (PPO) medical plans and prescription benefit program to be offered to Citizens' employees, effective January 1, 2017. These plans were previously fully-funded through insurance contracts. Employee participation will be determined during the 2017 open enrollment period and total cost will be a function of the enrollment in the Florida Blue plans. On February 2, 2016 Citizens issued an Invitation To Negotiate #16-0001 for Medical and Prescription Benefits Program. Responses were received and evaluated by an Evaluation Committee. The Evaluation Committee recommended award to Florida Blue on June 24, 2016.

A motion was made and seconded for the Board to approve the contract with Florida Blue as set forth in the Medical and Prescription Drug Administration Services Only Action item for a: - three (3) year contract - three (3) - one (1) year contract renewals to authorize staff to take any appropriate or necessary action consistent with this Action Item. The Board is also requested to formally delegate the responsibility for day to day oversight and management of the self-funded group Medical and Prescription Drug Plans to Human Resources. All were in favor. Motion carried.

Violet Bloom: The second action item is for Stop Loss Coverage for Medical and Prescription Drug Coverage. The recommended vendor is Florida Blue. The funding is to be included in the Annual Operating Budget for each respective contract term year. The estimated cost of Stop Loss Coverage through Florida Blue for the contract period of January 1, 2017 through December 31, 2017 is estimated at approximately $487,869. This Action Item represents a new contract award to Florida Blue to provide stop loss coverage for catastrophic claims as needed through the self-funded Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) medical plans and prescription benefit program to be offered to Citizens' employees, effective January 1, 2017. The contract term is January 1, 2017 through December 31, 2017. Wells Fargo, Citizens' Medical Insurance Broker, negotiated the quote for Stop Loss

Coverage with Florida Blue for the period of January 1, 2017 through December 31, 2017. This quote estimates the amount for one year of Stop Loss Coverage for Medical and Prescription Drug Insurance Coverage.

A motion was made and seconded for the Board to approve the contract with Florida Blue as set forth in the Stop Loss Coverage for Medical and Prescription Drug Insurance Coverage Action item for the period of January 1, 2017 through December 31, 2017 and to authorize staff to take any appropriate or necessary action consistent with this Action Item. The Board is also requested to formally delegate the responsibility for day to day oversight and management of the self-funded group Medical and Prescription Drug Plans to Human Resources.

Jim Holton: What is the attachment point on the excess?

Violet Bloom: The individual stop-loss is $175,000 and the aggregate is 125% of estimated claims.

Jim Henderson: So to that 125% we are funding 100%?

Violet Bloom: That's correct. Jennifer, I don't know if you want to add anything.

Jim Henderson: I think we're all set. I think $175,000 is a bit high for the first time. I think I'm all set.

Violet Bloom: We used very conservative assumptions because this is our first year doing self-funding. To your point, the $175,000 is high. We did not have any claims in 2015 that exceeded $175,000. The $2.2 million in savings is based on very conservative assumptions. As we get more experience with self-funded, we'll look at that those numbers again.

All were in favor. Motion carried.

Violet Bloom: The third contract item is for Medical and Prescription Drug Insurance, and the recommended vendor is CHP – Tallahassee only. The funding is to be included in the Annual Operating Budget for each respective contract term year. The estimated cost of Medical and Prescription Drug Insurance Coverage with CHP for the contract period of January 1, 2017 through December 31, 2017 is estimated at approximately $1,526,718. This Action Item represents approval for the renewal contract for a fully funded Health Maintenance Organization (HMO) medical plan and prescription benefit program to be offered to Citizens' employees in Tallahassee, effective January 1, 2017. The renewal term is January 1, 2017 through December 31, 2017. Wells Fargo, Citizens' Benefits Broker, negotiated the renewal for the period of January 1, 2017 through December 31, 2017. This quote is an estimate of the amount for one year renewal coverage for Medical and Prescription Drug Insurance Coverage. Employee participation and actual cost will be a function of the enrollment in CHP.

Vice Chair Glisson: Why do we use CHP in Tallahassee?

Violet Bloom: Historically, for CHP, the costs have been lower and the network had been broader. With the move to self-funded, the costs are slightly higher, and staff will continue to evaluate that plan from a cost and network perspective.

A motion was made and seconded for the Board to approve the contract with Capital Health Plan as set forth in this Medical and Prescription Drug Insurance Coverage Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

A motion was made and seconded for the Board to approve Citizens' establishment of a self-funded Medical and Prescription Drug Health Plan, delegating the day-to-day oversight and management to HR. All were in favor. Motion carried.

Bette Brown: **This is a pretty big project and I think we should formally authorize HR to manage the process. I don't know if we did that for these, so I'd like to make a motion to approve the establishment of the self-funded medical and prescription drug plan and to also delegate the responsibility of oversight to HR. I want to add that we get an annual update on how this looks.**

The motion was seconded. All were in favor. Motion carried.

Violet Bloom: The next contract item is for the dental insurance coverage with the recommended vendor to be MetLife. The funding is to be included in the Annual Operating Budget for each respective contract term year. The contract amount is the estimated cost of Dental Insurance Coverage through MetLife for the contract period of January 1, 2017 through December 31, 2017, is estimated at approximately $873,619. This Action Item requests approval for a renewal contract award for MetLife to provide dental insurance needed for fully-funded Preferred Provider Organization (PPO) dental plan program to be offered to Citizens' employees, effective January 1, 2017. Employee participation will be determined during the 2017 open enrollment period and total cost will be a function of the enrollment in the MetLife Dental plan. The contract term January 1, 2017 through December 31, 2017. The incumbent provider of this coverage is MetLife and the current contract expires on December 31, 2016. Wells Fargo, Citizens' Benefits Broker, negotiated on Citizens' behalf and obtained competitive quotes to continue employee Dental Insurance Coverage for 2017. This quote estimates the amount for one year renewal coverage for Dental Insurance Coverage.

A motion was made and seconded that the Board approve the contract with MetLife as set forth in the Dental Insurance Coverage Action item for the period of January 1, 2017 through December 31, 2017 and authorize staff to take any appropriate or necessary action consistent with this Action Item.

Vice Chair Glisson: What's the increase from last year?

Violet Bloom: 8.5%

Chairman Gardner: I think that's an important comment. This Board consists of private industry experience, so when we see this, it's drastically different than what we see as purchasers and consumers of health insurance. Number two, there is no relativity to these numbers. These are enormous dollars that we are spending and it does not show comparatively what we paid last year or what the difference is from last year. I can't imagine why we'd get an 8.5% increase in dental insurance. I get health care. I question why we are not measuring against how we've done in the past. I think it's important to look at that.

Vice Chair Glisson: Is that 8.5% per employee or for . . . . ?

Violet Bloom: It's an 8.5% increase for each employee. In the future, we'll bring those comparisons. I want to assure the Board that we did do our due diligence, and in fact, the broker requested quotes for other vendors. Then 8.5% was the most competitive quote. It is based on our claims experience. In fact, last year, the vendor wanted a 15% increase, but because the contract negotiated only allowed a 7% increase. We didn't have that ceiling this year.

All were in favor. Motion carried.

Violet Bloom: The next action item is for Life and Long Term Disability Insurance Coverage, with the recommended vendor being Cigna. This is for the same level of benefit and does represent a $40,000 savings over last year. The funding is to be included in the Annual Operating Budget for each respective contract term year. The estimated cost of Life and Long Term Disability Coverage through Cigna for the contract period of January 1, 2017 through December 31, 2019, is estimated at approximately $1,548,105. This Action Item requests approval for a new contract award for Cigna to provide Basic Life, Voluntary Life and Long Term Disability insurance needed for fully-funded Life and Long-Term Disability Insurance Coverage programs to be offered to Citizens' employees, effective January 1, 2017. Employee participation will be determined during the annual open enrollment period and total cost will be a function of the enrollment in the Cigna Life and Long-Term Disability Insurance Coverage plans. The base term is for January 1, 2017 through December 31, 2019. Wells Fargo, Citizens' Benefits Broker, negotiated on Citizens' behalf and obtained competitive quotes to continue employee Life and Long Term Disability Insurance Coverage for the period 2017 to 2019 with Cigna.

Juan Cocuy: How much coverage per employee?

Violet Bloom: For the Life and Accidental Death and Dismemberment, Citizens pays two times the base salary. The Voluntary Life is paid for by employee and the Long Term Disability is paid for by employees at group rates.

A motion was made and seconded for the Board to approve the contract with Cigna for Life and Long Term Disability Insurance Coverage Action item for the period of January 1, 2017 through December 31, 2019 and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

8. Chief of Internal Audit Officer's Report

a. Audit Committee Report

Juan Cocuy: Yesterday, the Audit Committee met. We made significant progress on the internal control framework, which will be talked about. There was discussion on the network architect and design. The area needs improvement. It's an area that covers anti-hacking, anti-fraud, anti-breach, and our systems. We need to stay focused on that. Financial statements were brought by Jennifer Montero, which she repeated earlier in this meeting.

Joe Martins: At the meeting I presented the 2016 Audit Plan. 95% of the plan was already in progress or completed. We finalized seven projects during the last quarter. As Governor Cocuy mentioned, we discussed the internal framework and the network architect and design along with the Business Continuity audit and the audit on compliance. With respect to the Business Continuity Plan, we mentioned that the plan in Tallahassee and in Tampa is outdated. For the Jacksonville location, the plan was not complete. There has been a considerable effort to address it. They identified the critical areas that need to be focused on first and a plan has been created should there be any incident. Compliance governance is where we implemented an Ethics and Compliance Officer in assisting the requirements for Citizens to implement a proper compliance function focused on a creating a framework, procedures, and training and setting up a network of compliance officers throughout the organization. With respect to the network architecture and design audit, we noticed that the design of the architecture is well-designed and there are very well qualified people in charge of it. We also looked at the management of security and noticed a few items that needed to be addressed. These items should be completed by the end of December this year. We also discussed ten audit engagements currently in progress. We highlighted work on IT Governance, where we will be providing services to the Information Technology function with respect to the governance structure. We will be doing an analysis against standards and leading practices, and create a GAAP analysis to give management an opportunity to decide which areas they'll need to be addressing. The standards we are applying are COBIT 5 supported by ISO standards. Control Deficiency Resolution – we listed 5 overdue in total of which 4 have been completed. The one that is still overdue focuses on IT Administrator access to the rating tool. The access does not allow any IT Administrators to change any of the rating data but it may influence the availability of the tool should something go wrong. A number of personnel has access to the system, but there is only one password. They share that password; this is something they find difficult to change because it's deeply embedded in the system. It'll take some time and there are other items that need to be addressed first. The good news is that access does not allow changing the table should there be a failure. There is a disaster recovery plan in place. There was also discussion about the realignment of ERM to me and we will focus on the framework of ERM in which we will be redefining the methodologies we will be using to create the framework. We intend to be more facilitating throughout the organization and enable the organization to monitor its own risks. The last area that we addressed was the rollout of the Internal Control Framework. We have a timeline and it shows the processes that we've completed. 28 of the 54 assessments have been completed, which we identified 60 key controls. The control support team will do its first self-assessment which will be completed sometime in October. That completes my report.

Vice Chair Glisson: I have a question about network security. Who does our SSAE 16 annual audit? Do we have someone outside the company do those?

Joe Martins: We do not have a SSAE 16. There is no requirement that we have it.

Vice Chair Glisson: Maybe it's something we should consider even if we don't need it. It sure is a hot button now. They're not overly expensive to have done.

Joe Martins: I think it's good practice. I'll take it to management to consider.

9. <u>Chief Underwriting and Agency Services Report</u>

a. Market Accountability Advisory Committee (MAAC) Update

Dave Newell: My name is Dave Newell and I'm the Chair of the MAAC. We held our meeting yesterday, and we heard from several folks in relation to agency and agency count. They seem to be on a slight decline, and think some of that had to with the new agreements being put forward. We had an overview of outreach and some of the activities. I want to commend Steve, Christine and many others who partnered with us last week at FAIA town hall meetings throughout the Keys. We had quite a few agents and staff come to those meetings and we certainly engaged Citizens and others about some of their concerns. We really appreciate that. Speaking of outreach, Christine provided an update on Call Citizens First initiative and provided samples. Those samples are available to agents and policyholders electronically. Karen Holt and John Rollins provided an update on the 2017 Rate Filing. Adam provided an update on depopulation and some of the changes going forward to help the process move smoother. The number that resonated with us was about this year's projected 65,000 policies being depopulated. It's a smaller pool so smaller depopulation numbers. Jay Adams provided an overview of Citizens' response to the latest hurricane. Steve shared some thoughts on the CFO's mock insurance village that was held in Tampa as well. A lot of timely information, especially since we have a couple months to go in the season. I think the response from Citizens has been really well done.

Chairman Gardner: I got a call from your boss – Jeff Grady – yesterday, praising Steve Bitar and Agency Services. I felt like I saw a "unicorn." You just don't get those kinds of calls from Jeff Grady. It tells you that Steve is doing something right.

b. Depopulation Committee Update

Vice Chair Glisson: The Depopulation Committee met yesterday. Depopulation slowed down quite a bit. The good news is that we are depopulating enough policies to keep us even. We're not shrinking like we were in the past but we're not growing. There is a risk that this trend could reverse itself, especially in south Florida, as more companies decide to not write there. Steve and his group are doing a wonderful job and there is a big re-write of a Depopulation Plan of Operation.

Steve Bitar: As you know, House Bill 931 (HB 931) was passed in the last session. Based on changes that were recommended and through the work of the Depopulation work group, we were at a point where we can enhance and revamp the program significantly. In order to support those changes, we revised the Depopulation Plan of Operation that is required to be filed with the OIR. Behind tab nine, you'll not only find an action item, but also a copy of the new plan along with a summary of the changes. I won't take you through all the changes, but they do enable us to enhance the program. We reviewed that in detail at the Depopulation Committee Meeting. We will be able to empower consumers with a choice in the depopulation process and streamline the communication to eliminate confusion that has been a major criticism of the program. We are really excited to take the collaborative effort with the agent associations, the carriers, Citizens, and the Consumer Advocate. It really has been a group effort and we're right on the precipice of making an impact for next year.

A motion was made and seconded that the Citizens Board approve the revised Plan of Operations and authorize staff to take any appropriate or necessary action consistent with the Action Item. All were in favor. Motion carried.

Chairman Gardner: I've been here since 2011. I really watched you – when Barry and I first hit the road, starting to talk about a kinder and gentler Citizens . . . and I feel like every approach you take has the consumer in mind and it's paying big dividends. I want to say thank you and hats off to you. Great job.

c. Clearinghouse Update

Steve Bitar: As you know, every quarter, I send you the report; it's for information only. If you have any questions, I'll be happy to take them. Otherwise, we can move to the next item. The last item I have for you today is an action item regarding Property Inspection Administration for Underwriting Services. We went through this yesterday at the A&U meeting and I have a recommendation for contracts we'd like to move forward with. It will enable us to get inspection services for both PLA and CLA as needed.

A motion was made and seconded that Citizens' Board approve the recommended awards and resulting contracts, including renewal periods for Property Inspections Administration for Underwriting ITN No. 16-0006 to the vendors identified in Attachment A of this Action Item; authorize staff to take any appropriate or necessary actions consistent with this Action Item; and approve this Action Item not to exceed $15,268,905.00. There is no additional spend and this is for the life of the term of the contract with three years and a two-year optional renewal. All were in favor. Motion carried.

10. Chief Risk Officer's Report

a. Actuarial and Underwriting Committee (A&U) Report

Jim Henderson: We have some items on product changes that are routine. The task that John and staff did in preparing data about the rate increase and getting it to Tallahassee for approval with some headwinds was well done. It speaks to the quality of data and your staff. Thank you for those efforts.

John Rollins: I have a slate of items to cover and they are pretty much routine. They were covered in greater detail in the A&U meeting by Karen Holt and Brian Donovan. That team does all the hard work.

b. Action Item: *Product Change: Managed Repair*

John Rollins: These are policy endorsements that assist with our multi-prong strategy to deal with the rapid increase in water claims losses, in part, through providing policyholder options for Citizens to assist in the claim from day one and manage the emergency services portion of the water claim and provide a managed repair contractor network to address the permanent repairs that are required. At the March 2016 Actuarial and Underwriting Committee and Board meetings, Citizens staff recommended an approach to support the Managed Repair Contractor Network program that included providing a premium credit to the policyholder upon their acceptance of an endorsement requiring that the policyholder utilize Citizens-approved contractors for some types of losses. We have done a lot of market research since then, in particular, Barry Gilway, Dan Sumner, and Jay Adams went on a roadshow and looked at some managed repair operations in the private sector. There was one big takeaway and that is that in order for the program to succeed and truly intercept problems with AOB and litigation and lower the loss costs, it needed to be very consumer friendly and give the consumer the option to participate not only at the time of the policy being written but also at the time of the loss. We're changing directly a little bit in that if a water loss caused by an accidental discharge occurs, we will have two separate programs that we'll offer to the consumer at the time of the loss. There is the Emergency Water Removal Services, which is limited to $3,000 (or 1% of coverage A) and which will offer water extraction and dry out services funded by Citizens and not subject to the policy deductible. We will take care of the emergency before we know if the ultimate loss is covered, regardless of the level of deductible. The second program is the Managed Repair Program, which addresses permanent repairs and provides a Citizens approved contractor. At this point, the policy deductible comes into play. We're going to roll this out for HO3 and DP3 policies only. We may contemplate other policies in the future. We'll move away from the direction of offering a premium incentive or deductible incentive at the time of writing the policy. The market research also indicated that these were not effective incentives.

A motion was made and seconded to approve development for the new endorsements and policy changes that are described above and are required to support the implementation of the Managed Repair Contractor Network and to authorize staff to take any appropriate or necessary action consistent with this Action Item, including filing with the Office of Insurance Regulation, system change implementations and other supporting activities. All were in favor of the motion. Motion carried.

c. Action Item: *Product Changes: Miscellaneous Items*

John Rollins: The next item is a series of miscellaneous updates to our products. These are taken together and are small. These are all a piece that goes with Mr. Gilway's comments regarding streamlining and looking at Citizens with the theme of no wasted motion and allows for efficiencies. We've identified several opportunities to make updates to the product as a result. We need to continue and finally complete the recoupment of the 2012 Florida Insurance Guarantee Association (FIGA) assessment. That assessment was due to some solvencies. Citizens, like private insurers, is subject to assessments from FIGA. We recoup those assessments; there is an established process through the OIR but it does involve estimating through a percentage of premiums you may collect in a year. We have underestimated and under collected on our first try because of our rapid depopulation count. We'll have to go back to the well and extend our recoupment period for the FIGA in 2012. The second change is retiring underutilized lines of business. Citizens offers 21 different policy forms now. Seven of those policies are similar in that they cover tenant contents. There is a chart in your Board book behind tab 10 showing you a flavor of policy form types in which we have only one PIF or just a few. We'd like to initiate the research and analysis and then involve the OIR to take appropriate action, retiring underutilized products with the overarching theme of moving consumers to similar products, while minimizing the impact to those policyholders and their agents. All of these changes would involve a filing with the OIR which we would bring back to you at that time. The final change would be an update to the format and structure to the Underwriting Manual. It seems very routine but it is a lot of work. We have to make specific modifications to the manual over time, and over time, we accumulate inefficiencies in format and structure. It does require going before the OIR because they stamp all the pages.

A motion was made and seconded for the Board to approve the changes described above to:

- **Restart FIGA recoupments**
- **Research and take appropriate action to retire**
    - **Mobile Home Tenant Dwelling – Basic Form**
    - **Mobile Home Tenant Dwelling – Basic Form**
    - **Mobile Home Dwelling – Basic Form**
    - **Dwelling Fire Tenant – Basic Form**
    - **Mobile Home Tenant Wind-Only**
- **Update the format and structure of the Personal Lines Underwriting Manuals; and to authorize staff to take any appropriate or necessary action consistent with this Action Item, including filing with the Office of Insurance Regulation, system change implementations and other supporting activities. All were in favor. Motion carried.**

d. Action Item: *Product Change: Procedural Changes to Underwriting Manuals*

John Rollins: We would like to ask the Board for the delegation of authority to make procedural amendments to the Underwriting Manuals. This is so we don't have to bring so many miscellaneous items to you in the future. In the normal course of business, it sometimes necessary for our staff to address these procedures formatting. It would not affect eligibility for coverage or the coverage itself. Under Section 7, subsection (A) paragraph (11), Citizens Property Insurance Corporation's Plan of Operation provides that the Board may delegate to a senior manager the decision to file amendments to an Underwriting Manual which are solely procedural, and do not impact eligibility for coverage or classification of risks. We are requesting that delegation now. The senior manager responsible for preparation for filing Underwriting Manuals is me over the product development areas.

A motion was made and seconded to approve the authorization requested to delegate to the Senior Manager and responsible for preparation and filing of Underwriting Manuals the decision to amendments to an Underwriting Manual which are solely procedural, and do impact eligibility for coverage or classification of risks and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

e. Action Item: 2017 Rates for Individually Related Risks (A-Rates)

John Rollins: I have two brief items regarding rates. The OIR will approve a rule in your Underwriting Manual, allowing you to classify certain types of risks as advisory rates, meaning they do not get the standard rates out of the manual. The rates related to those risks do not have to be filed with OIR on any particular schedule. In our case, those rates are not subject to the glide path. The definition of an A-rate building has been for both Citizens and the private sector would be any single building that has a structured coverage limit of $10 million or more. These are large buildings in commercial residential form that are not subject to the 10% glide path and do not fall under the recommended rate filings for each year. We do not have many of these risks left. About 80 are in the multi-peril program commercial lines and 38 are in the commercial residential wind-only. Total premium for these risks are a little over $10 million in the multi-peril and about $3.5 million in the wind only annually. That is a result of a vibrant private market Mr. Gilway discussed about commercial residential and being adequately rated in the first place. We do an actual fully blown actuarial analysis for these risks using the hurricane models. Here are the proposed rate indicated changes:

Commercial Residential Multi-Peril (CRM)

- Indicated Rate Change: 6.5%
- Proposed Rate Change: 5.0%
- In-force Premium: $10,445,455

Commercial Residential Wind-Only (CRW)

- Indicated Statewide Rate Change: 11.6%
- Proposed Statewide Rate Change: 7.0%
- In-force Premium: $3,332,319

A motion was made and seconded to approve the recommended proposal to change A-rates as shown in the Summary of Results and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Upon Board approval, appropriate changes will be applied to CRM rates for A-rated buildings and to CRW rates for A-rated buildings. All were in favor. Motion carried.

John Rollins: The planned effective A-rate change would be February 1, 2017.

f. 2017 Recommended Rates Update

John Rollins: There is no action required. You considered this in June and made the filings in August. There was a hearing in August. On September 16, 2016, Citizens received an Order from the OIR establishing Personal Lines rates. In general, the rates were approved as filed. In aggregate for Personal Lines, the recommended rate changes averaged +6.9% statewide. The overall Personal Lines established rate changes average +6.7% statewide. The reason for that is that the most lines were approved exactly as filed. The second major takeaway is that HO3 and DP3 were lines that the OIR drilled down deeper with us into the water loss trends and was just slightly more optimistic than we are about the water loss trends. It came out as 6.3% for multi-peril even though we filed for 6.9%. In dwelling and fire, it came out exactly as the same with 5.3% statewide. The third take away deals with Monroe County. We did file for the wind only policies in Monroe County, which is how most Monroe County residents get their insurance. Those policies averaged a 9.0% recommended rate increase. There was activity and public discussion at the rate hearing from FIRM. The Order did acknowledge that FIRM (Fair Insurance Rates for Monroe), the Board of Commissioners for the County of Monroe, and Holly Raschein, State Representative for the Florida House District 120, each wrote to the Office seeking a review by the Florida Commission on Hurricane Loss Projection Methodology to explain the divergence of modeling results in Monroe County and requesting a moratorium on any rate increases until the completion of the review. The Office will request the Florida Commission on Hurricane Loss Projection Methodology to perform such a review. The Office will then require an additional rate filing by Citizens if the review supports such a filing. Also referenced in the Order was the detailed study that Citizens funded to evaluate the higher building code standards in Monroe County and to review the treatment of wind versus flood related losses in the model. Once this study is completed, the Office will require an additional rate filing by Citizens if the study supports such a filing.

Bette Brown: Good job, John and your team. I think we need to call on FIRM leadership to finish that study that we paid for in 2012 and see what those results are. I look forward to the FIRM leadership doing that.

A motion was made and seconded to extend the meeting another 15 minutes. All were in favor. Motion carried.

11. Vice President of Communications and External Legislative Affairs

a. Consumer Services Committee (CSC) Update

Freddie Schinz: I would like to direct the Board to the new brochure that's in the next tab. Christine, I want to commend you and your staff on the AOB. We can explain to the people what's going on. I want to thank you for your graphics team on doing a good job.

Christine Ashburn: The CSC met via teleconference on September 15th and received an update on Call Citizens First with the new AOB brochure that we'll begin mailing with new and renewal business packets for personal lines, excluding mobile homes. Jay also provided an update on Hurricane Hermine. Barry walked the CSC through the same water issues that he addressed today.

12. **Chief Legal Officer and General Counsel**

Dan Sumner: I have one action item under tab 12. At the June Board meeting, the Board approved the purchase of $10 million of directors and officers (D&O) liability coverage. That coverage has been purchased with Star Insurance. One of the follow up requests was to explore the option of buying another $10 million of D&O coverage. We obtained a quote from AIG for that $10 million which would make the total coverage $20 million. The addition premium would be $81,000. I have provided an attorney client memorandum to each of you which discusses the risk analysis. There is very liability exposure on the board members. The key liability would be the corporation itself and the issuance of debt.

A motion was made and seconded that the Board approve the purchase of an additional layer of $10 million in Directors & Officers Liability Insurance coverage from AIG Insurance Company raising the total D&O coverage to $20 million and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

13. **Consent Items**

Barbara Walker: There are three items.

- **Telecommunication Network and Services – Extension. The recommended vendor is AT&T. The Citizens Information Services Advisory Committee approved and recommends the Citizens Board of Governors approve spend authority in the amount of $730,000 for the Telecommunication Network and Services contract extension and authorize staff to take any appropriate or necessary action consistent with this Consent Item.**
- **Janitorial Services – Jacksonville. The recommended vendor is ABM Janitorial Services-Southeast, LLC. It is recommended that Citizens' Board approve Amendment #1 to the contract with ABM Janitorial Services – Southeast, LLC as set forth in this Janitorial Services Consent Item to provide janitorial services at the EverBank Center in Jacksonville and to authorize staff to take any appropriate or necessary action consistent with this Consent Item.**
- **Business Insurance Agent of Record – 6-month Contract Extension. Current Vendors are Insurance Office of America, Inc., and Rogers Gunter Vaughn Insurance, Inc. It is recommended that Citizens' Board approve the extension of the foregoing contract for six months to allow for procurement of business insurance agent of records services.**

A motion was made and seconded to approve the above said consent agenda items. All were in favor. Motion carried.

Meeting adjourned.