CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE CLAIMS COMMITTEE MEETING
<u>Thursday, March 9, 2023</u>

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened on Thursday, March 9, 2023 at 1:00 p.m. Eastern.

The following members of the Claims Committee were present:

Scott Thomas, Chairman
Josh Becksmith
Jason Butts
Jon Palmquist
Jay Adams

<u>1. Approval of Prior Meeting's Minutes (November 17, 2022)</u>
A motion was made by Mr. Palmquist and seconded by Governor Butts to approve the November 17, 2022 minutes. All were in favor. Motion carried.

<u>2. Strategic Update</u>
Jay Adams: Good afternoon, Chairman Thomas and Committee members. I would like to spend a few minutes discussing the special session, Senate Bill 2Athat directly impacts the Claims organization. In order to save time, I plan on just discussing the changes at a high level and then the full presentation will be included in your binder.

If we could go to slide number two, please. Civil remedy. A civil remedy notice is required to be filed prior to filing an actual suit for bad faith or for extra contractual damages. The change in this statute now requires that an adverse adjudication by a court of law that the property insurer breached the insurance contract, and a final judgment or decree has been rendered against the insurer prior to filing the civil remedy notice. It also clarifies that an appraisal award does not constitute an adverse adjudication and gives rise to a cause of action.

Next slide, please. This is the annual statement. So, each property insurer is required to file an annual statement with the Office of Insurance Regulation. This statute just adds a few new claim metrics that are required to be included with that statement.

Slide number four. Attorney fees. In my opinion this is the most impactful piece of legislation that came out of the Senate Bill, in which all attorney fees for property insurance are now abolished.

Slide number five. Unfair method of competition. So, this statute has been updated to reduce the timeframe from 90 days to 60 days that an insurer has to settle a first party property claim.

Next slide. Attorney fees. So, this statute really is just intended to clean up the language to match what we saw in 626.9373.

Next slide. Insurer's duty to acknowledge communication. This statute provides the ability for an insurer to leverage electronic methods to investigate a loss. It clarifies that if the insured or anyone at the direction of the insured provides fraudulent information to deceive an insurer, that the insurer may void the insurance policy. It places a new requirement on the insurer to provide a copy of the estimate to the insured within seven days after that estimate is generated.

Next slide. Notice of claim. This statute reduces the time to report a claim from two years to one year and it now includes all perils of loss.

Next slide. Suits arising under a property insurance policy. This is really for assignment of benefits. This new statute strikes all references to attorney fees under assignment of benefits, and it aligns to those two prior attorney fee statutes that we just spoke to.

Slide number ten. Alternative procedure for disputed sinkhole claims. This statute strikes all reference to attorney fees for a disputed sinkhole claim that is in the neutral evaluation process.

Next slide. Homeowner Bill of Rights. So, this statute right here really just cleans up all of the changes that have been made and incorporates them back into the Homeowner Bill of Rights, and what it is doing is requiring acknowledgment of a claim moving it from 14 days to seven days, that the insured is required to provide a copy of that estimate within seven days after it is being generated, reducing the claims resolution process from 90 days to 60 days, and that the insured is eligible to receive interest payments in 60 days instead of 90 days when the insured fails to make settlement within the statutory timeframe.

Next slide. Assignment agreements. This statute requires all new assignment of benefits have to be executed between July 1, 2019 and before January 1, 2023. And that the insured may not assign any post loss benefits after January 1, 2023, which effectively abolishes the assignment of benefits post January 1.

And next slide. This is on offer of judgment. This statute clarifies for a breach of contract action that the insurer must make an offer of judgment that is conditional on the mutual acceptance of all the joint offerees.

And next slide is questions. And Chairman, I know that was pretty quick, but again, all this is included in the binder. For time's sake I was just trying to move through it. I will take any questions.

Chairman Thomas: Sure, we will open it up to the committee, any questions anyone has for Jay on that presentation?

Governor Butts: Jay, good afternoon. My only question, are there any of those that you see presenting a challenge to Citizens kind of moving forward, or are we going to be able to comply? Obviously, need to comply, but your team in order to go ahead and get those implemented, any challenges or all set?

Jay Adams: We are all set. All that was to be effective before or on March 1. So, some of them were January 1, some of them were when the Bill was signed, but most of the claims pieces was March 1. And most of those really are just timeframes, and there is a caveat in there that if there is a delay or something outside of the control of the insurance company, you know, we can extend that 60-day or that new timeframe and not be penalized for it, but obviously, it is incumbent upon us to document it. So, I do believe that, you know, we are in compliance for that and communicated all the necessary information to our teams and so forth.

Mr. Palmquist: Thank you.

Jay Adams: Thank you.

Chairman Thomas: Jay, I have a question for you. What is our position or what is the position with respect to the repeal of the attorney fee shift and its applicability. Let's say we have a policy issued prior to the effective date of the statute, but a claim accruing after the effective date of the statute on the prior issued policy. Is that claim going to be subject to a fee shift claim or not?

Jay Adams: So, our interpretation of this is just like we looked at the assignment of benefits when all those changes came forward. We believe that the policy needs to be renewed under the new statute before that agreement actually takes place.

Chairman Thomas: Okay, let's take, have the legal people take a close look at that if you don't mind or I guess we will ask them, I will ask them to do that, because I am not terribly sure I agree with that. I think it may well be that if the claim accrues because the fee shift doesn't arise from the policy. It arises, we don't have any fee shift embedded in our policy. It arises from the statute. So I think at least there is an argument for a non-frivolous position that the fee shift would not apply if the claim accrued post statutory effective date, but just something that I would like them to take a look at.

Jay Adams: Yes, Ken Tinkham is on the line. He is our interim GC and he has been engaged with us in this decision-making process. So Ken, if you don't mind explaining our position.

Ken Tinkham: Sure, sure. Well, the position is consistent with how we have interpreted similar issues in the past. However, Governor Thomas I would be happy to take a look at this again. I mean, I have no problem doing a deep dive with my team, but this is consistent with how we have interpreted these similar provisions in the past, so.

Chairman Thomas: I understand, I just think it is a little different in that the right doesn't arise from the contract, itself, but from the statutory, it is purely statutory. So I think I have seen some indication that there may be some litigation or already the issue has been raised by some private insurers taking the position that it is not, that the fee shift has gone for post effective date claims, but just something to keep an eye on and let's take a look at that, because I mean, it is something that will wash through the system fairly quickly I would suppose, but it is in my view the most significant part of the legislation and something we should be attuned to I think.

Ken Tinkham: Absolutely.

Chairman Thomas: Ken, we have exchanged e-mails. Good to see you in person. I appreciate you stepping in to help with the GC position since I am not sure what happened to that other guy, but glad to have you do it.

Ken Tinkham: No, thank you, thank you for having me, thanks.

Chairman Thomas: Anything else for Jay on his presentation about Senate Bill 2A?

Mr. Palmquist: Yes, just to follow up on your comments. I have also heard some commentary in the industry that interprets this statute as applying, not in the policy inception period but as when the claim arises. So, I concur it surely would be worth vetting this out thoroughly and taking a position based on that.

Chairman Thomas: Thanks, appreciate it, yes, yes. Anything else? Jay, do you have anything else other than the Senate Bill 2A report?

Jay Adams: No, sir, that was it.

Chairman Thomas: All right. Appreciate it. Well, I am going to throw it back open to the committee one more time since we are done with you right now. Anything else for Jay about that or anything at all regarding Claims while we have got him? All right, Jay, good job, appreciate it.

3. Non-Litigation Claims Update

Craig Sakraida: Thank you, Chairman Thomas and committee members. Next slide, please. I just wanted to give a brief update on the two hurricanes we had in 2022 with Hurricane Ian. Currently as of February 17, we had a little over 60,000 Residential claims, 348 Commercial and paid about 1.44 billion dollars out in indemnity. We are currently at about 96 percent of the claims first closed. We are seeing some FNOL representations by public adjusters and attorneys, mainly coming from Lee, Miami-Dade and Broward Counties at eight percent, 52 percent and 43 percent of claims filed respectfully. Miami-Dade and Broward County only account for about four and-a-half percent of the claims total. Lee and Charlotte, where the storm made its major impact account for over 50 percent of the claims. We are still receiving approximately 325 to 375 new claims per week, which is high for this storm, but a lot of that is being driven by some of the FNOL representation.

Next slide, please. The same thing for Hurricane Nicole, just a brief update. 3,249 residential claims. A very small amount of commercial claims. A little over $24 million indemnity paid. Once again, at the time of this we were about 86 percent of claims first closed, we are now approaching 90 percent. Miami-Dade, Broward and Palm Beach are the top counties for FNOL representation. Brevard, Volusia, Orange account for almost 40 percent of total claims, and we are still receiving about 55 to 65 new claims per week for this event.

Next slide, please. As we are in the middle of our catastrophe preparation, just wanted to hit some highlights of what we are doing. We are still handling the cleanup for Hurricane Ian and Nicole, but also, we are shifting gears into the cat planning for 2023 as the hurricane season is less than three months away from us. Our business unit catastrophe plans are due March 31 of 2023 which will give us a couple of months to get everything in order for the master catastrophe plan delivery for the beginning of January. The critical elements for the catastrophe response have been identified for testing prior to the hurricane season this year, and we did do a postmortem of Hurricane Ian and integrated some small changes into the preparation for 2023 catastrophe planning.

Next slide, please. Catastrophe testing this year, some of our major tests are FNOL call center stress tests, check processing capacity testing. Our catastrophe response center, which goes out, they're the ones that are in the field that do the first notice of loss and issue advance payments to insureds in the field. We will do our annual IT load testing on our systems to ensure that they can handle the volume of not only claims, but users in the system. Our virtual on boarding with some revised training modules based on Hurricane Ian improvements and some modified phone system options.

Next slide, please. I just want to briefly touch on commercial. It is a very small part of our actual overall PIF count, but it does amount for a large amount of our actual indemnity exposure with, you know, that number being increased significantly in exposure from 2023 to 2019 by almost 60 percent. As you can see our policy count has increased as well as our building count and our A rated buildings which are the buildings that are over $10 million in insured value.

Next slide, please. Our claims to PIF increase, last year we saw almost 42,000 claims filed that were non catastrophe. This is up from 2021 of almost 30,000 claims, and you can see on the chart the spikes for some of the events that we responded to.

Next slide, please. Other than catastrophe our leading cause of loss as you know is non-weather water claims. We did see a little bit of a drop off from a peak, but we are seeing some increases back in the monthly trend of non-weather water claims being filed. Next slide, please. Just some non-litigated claims data. We have received a 51 percent increase from January 2022, inclusive of Hurricane Ian Nicole claims. Total pending claims have increased mainly due to Hurricanes Ian and Nicole. Our new non-weather water claims reported have increased 17 percent from January of 2022. Our emergency water restoration services acceptance rate has increased two percent. Our Managed Repair Program participation has decreased seven percent from January 2022, but we are looking into the reasons behind that and looking to get that up, but part of that has to do with some PIF increase. Next slide. Chairman, that is my presentation. I will gladly take any questions, comments from the committee.

Chairman Thomas: Thank you, Craig, and happy to open the floor to the committee for that if anyone has anything.

Mr. Palmquist: One question, please. Craig, thank you for that and Elaina may be discussing this, but I am curious about the litigation volume from Ian.

Craig Sakraida: Elaina may touch on that. I can say with notice of intent we are seeing that a lot of it can be resolved in advance. So I personally have not seen a lot of that come through on my end, but I don't have all the numbers and Elaina could probably touch on a little bit of what they are seeing in their arena, but the notice of intent statute does give us that ability to when there is a notice we can remedy it either through negotiation or through the appraisal process prior to going into litigation, but I can let her comments on that, but personally I have not seen a large amount of disputes that we haven't been able to handle.

Jay Adams: As of the end of January we had less than 60 hurricane Ian lawsuits. So that volume is, you know, pretty much nonexistent at this point.

Mr. Palmquist: That is amazing. Brace yourself.

Jay Adams: We are hoping that all this legislation is going to help ward this off, right. We are going to look on the upside.

Mr. Palmquist: I hope so. Thank you for that.

Jay Adams: Sure.

Mr. Palmquist: Let's hope so.

Chairman Thomas: Unless there is anything else we will move on to Elaina's report for the claims litigation. And Craig, also, what I said when I was on mute is great work, appreciate the work you and your team do.

Craig Sakraida: Thank you, sir.

4. Litigated Claims Update

Elaina Paskalakis: Thank you, Mr. Chairman, hello everyone. I would like to start with just a brief overview of how we ended up in 2022. The litigation update is in your materials, it can be seen at tab four. So, for the 2022 year end results, we received a total of 11,808 new lawsuits, for last year which represents about 984 lawsuits on average per month. This is a 17 percent increase over what we experienced the prior year in 2021. For those new lawsuits the distribution, the leading cause of loss were AOB lawsuits at approximately 45 percent, followed by cat and also non-weather water both at about 20 percent of the distribution. In terms of where the lawsuits are coming from, 76 percent out of the tri county area which has for as long as I can remember been the leading, the leading area for most of our lawsuits. However, we are seeing that trend down as we are seeing more and more lawsuits coming out of what we term the central west area which is Tampa and the surrounding areas. That area is about, up to about 13 percent and has been increasing slowly over time.

For those insureds that were represented at the time of their first notice of loss, that for 2022, was at 41 percent. So, for 41 percent of all the lawsuits that we received, the insured was represented at first notice of loss. That is a decrease of 24 percent when we compare it to the prior year, which quite frankly is not surprising with an influx of cat claims, because typically what we see is on cat claims they're reported by the insured prior to them getting, I should say a greater percentage of those are reported by the insured prior to them receiving or getting representation.

When we look at the number of lawsuits where there was no dispute prior to the lawsuit, that is down to 10 percent which is a 70 percent drop compared to the prior year. Again, completely expected given the notice of intent requirements. 10 percent we expect to see that even go further down, but that is, that is where we are at is point.

In terms of timing of lawsuits for 2022, 29 percent of our lawsuits were received within the first six months after the loss, and that is down because now it is taking longer and longer for lawsuits to come. Again, expected with the notice of intent scheme as well as the further we move from a cat because keep in mind we do like Jay had mentioned, we have hardly seen any lawsuits from Ian at this time. So, we are looking at prior cats, prior to 2022. So that is why the lawsuits typically come later and later.

And then in terms of our year end pending what our litigation kind of the makeup looked like. The leading cause of loss is cat at 46 percent, and of those 46 percent, 29 percent were lawsuits from the policyholder with 17 percent from an AOB vendor and then 22 percent represented by non-weather water losses.

I also have just a quick update for this year thus far for January and February figures. We are getting an average of 756 lawsuits per month. That is a 25 percent drop as compared to the same time last year in 2022. The makeup of the new suits thus far for 23, catastrophes are leading cause of loss at 37 percent, AOB still represents 33 percent of the new lawsuits, non-weather water at 23 percent. All three of these causes of loss have had a decrease somewhere between 10 and 15 percent as we compare to the prior year.

In terms of pending, again, catastrophe remains our leading cause of loss at 45 percent, AOB at 36 percent of the pending volume and non-weather water at 22 percent. And then the last overview I wanted to give you is just in terms of our subrogation and recovery results. For 2022 we recovered in excess of $4,300,000 with a little over $267,000 being refunded to the policyholders as their deductible. And then for 2023 thus far we have recovered a little of $400,000 with approximately $20,000 in deductible refund to the policyholder. So that concludes my overview today and I would love to take any questions you may have.

Chairman Thomas: Thank you, Elaina, and we will open the floor up for that. Anyone from the committee?

Mr. Palmquist: Elaina, can you speculate why there is a decrease in lawsuits this year?

Elaina Paskalakis: I will tell you, let me answer it this way. I don't think it is because of the statutes yet. Obviously, I think it is way too early for that. I do believe it is because we are seeing the NOI scheme work as it was intended.

Mr. Palmquist: Okay, well that is good news. Thank you.

Jay Adams: And I can tell you that we have seen fewer AOB lawsuits this year than we have seen, meaning that the abolishment of AOB effective 01/01, I do think is making some change in what we are seeing in our overall litigation volume. We are also seeing fewer AOBs month over month, meaning January to February. We saw a pretty good reduction there as well. So, I am hopeful that that will continue, and that has represented somewhere between 40 and 50 percent of our lawsuit volume for the last few years.

Mr. Palmquist: Right. That is great news, thank you, Jay, thank you Elaina.

Jay Adams: You are welcome.

Chairman Thomas: Anything else? You know, I just have a quick comment, I guess. It is really before we move on to the vendor update, it is really overall for the claims which is, you know, since I have been on the Board and on this committee, we have had a lot of legislative changes, whether it is AOB, notice of intent, the fee statute, all designed really to, I think remove some of the perverse litigation. But I think if we are private insurers who want to see that go away and not get the help is not respond with good faith and make sure we are doing, I think we have always done at Citizens, which is efficiently identify, adjust and pay valid claims. And so, I think we do that, we do a great job with it, but I just want to emphasize my view of this, is that these statutory changes really deserve the insurance industry's good faith response which is to deal fairly and quickly with valid claims. And if we don't do that and if the industry doesn't do that, we are going to lose these changes because that is just the way it is going to go. So, I just wanted to share that here. But anyway, great report from all the Claims folks. Unless there are any other questions, we will move on to Greg Rowe with the vendor update. He has some action items.

5. Vendor Update

Greg Rowe: Yes, absolutely, thank you, Mr. Chairman, and committee members. I have four items to bring to you today. The first of which is for our Mobile Home Demolition Services. And just as a recap on that, these vendors provide services to basically demolish and dispose of any mobile home debris in the event of a total loss, both for catastrophe and non-catastrophe losses. And on average these demolitions run about $7,700 per assignment. So our current contract which went into effect in September of 2018 had an approved spend of $2,814,048. And since contract inception our mobile home PIF count like the rest of our policies have continued to increase adding over 7,000 and some change policies leaving us with roughly 70,000 mobile home policies here at Citizens. After Hurricanes Michael and Ian, excuse me, yes, Michael and Ian we have seen a high number of mobile home demolitions, and as of today, well as of the report when it was sent over to you, we had approximately $947,700 left in approved spend.

So, we still have a lot of remaining demolitions that we are projecting from Ian, and our business unit in looking at their numbers we are looking at somewhere around $12.5 million still left just for Ian mobile homes. So, there were a lot of mobile homes losses in that event. Apart from that, the business unit is also trying to attempt to account for any subsequent storms we may have during the remaining life of our contract which ends October 2024. And so they came up with a number of another 12 and-a-half million if we could to add to the existing contract to try to account for any other hurricane events for the remainder of the contract. So, in total today Citizens is requesting an additional $25 million to carry us through contract expiration in October of 2024. So, Mr. Chairman, I will pause there for questions because I am sure we will have some.

Chairman Thomas: Yes, I will open it up to the committee for any questions.

Governor Butts: Greg, can you give me a very, very quick synopsis of what that looks like for a demolition of a mobile home? It just seems it is a lot of money; it seems expensive to me. So, do you mind just taking a minute and going through what that looks like?

Greg Rowe: Yes, absolutely. So just imagine, so it is bulldozers, large equipment to come in and basically piece by piece remove that. Any mobile home, the portion of the mobile home, any debris that would be accounted for that, the porches, things along those lines and really to crush that up so they can get it into a dumpster, haul it off and take it to a place where they can dispose of that metal. So, we have three vendors today that drive all over the state. They're geographically located so they're not driving too far, but in essence that is really what it is, it is major demolition, you know, coming in and removing it. So, the property would be ready if the homeowner so chose to put another mobile home on that lot. So, it is removing anything associated with that.

Governor Butts: Is that process similar in the event you are in a mobile home park or is that more for a mobile home that is on property?

Greg Rowe: Either or. So, the state looks at mobile homes that they are registered vehicles in the state of Florida, right. So, the way it looks, no matter where you are located if you are get to 80 percent of damage to total value we are going to total that mobile home per the statute. So regardless of if you are on a plot of land that you own or in a mobile home plot, it is still deemed the same. So, we do have a lot of mobile home parks that will come in and do a lot of those, right, all at once and then other ones are out in more remote areas, but it is the same, either or.

Governor Butts: Great, thank you.

Greg Rowe: You are very welcome.

Jay Adams: Just to add a little. By statute I believe that this demolition is required in order to get the title destroyed as well. You know, it is an obligation that we have as the insurer to complete this out from a DMV perspective.

Greg Rowe: Correct, and that is why there is a longer tail to it, because a lot of times we may not think it is a total loss, but when a contractor or a mobile home repair service comes in, the estimate, they push it over that 80 percent threshold. So, we may not know day one. Obviously if the mobile home was completely demolished, that is an easy call, but other ones may not know. It is kind of like an automobile. You kind of have to wait to see what the estimate is before it is totaled out.

Chairman Thomas: Greg, I have a quick question. It is not a big deal, but we get these requests for additional spend and it is always the same sort of thing, which is in our normal everyday budgeting we don't budget for catastrophic events because while they are statistically likely to happen over a set number of years, no given year. Given that, why are we asking for not just enough to cover the catastrophic spend from Ian, but now we are actually projecting ahead for a potential catastrophic event next year which we wouldn't normally do? Why the extra $12 and-a-half million?

Greg Rowe: Sir, so with a lot of our contracts we try to build in some sort of a cat contingency. Obviously it is very difficult, like you said, to project out because these catastrophes can be so major that you just can't account for everything, but when this contract was written it was coming on the heels of going back from 2015 to 2019, and even really before where there weren't any major catastrophes in the state, and even Irma we only spent approximately I think $431,000 on Irma, itself. So, when we wrote this contract it was very low honestly and when we renew, not renew, but when we craft a new solicitation, I can tell you it will be higher than what this one was. But really from the perspective of from our claims business unit they wanted to try to account for it. So, we could have everything at least for the duration of this contract and not have to come back to the Board after the fact. That was really the reasoning behind it, and based on historical knowledge really with us over the past few years getting hit with some hurricanes we see that the spend can jump up pretty quickly. So, it was just trying to get it out in front of the Claims Committee and the Board to account for that, and that was really the reasoning behind that.

Chairman Thomas: Okay, all right. Anything else for Greg on this?

Mr. Palmquist: Greg, this, this action item would extend the contract to amend as well?

Greg Rowe: No, sir, it would not extend the contract term. It is just making sure we have enough to cover any expenditures through the life of the contract. The contract will end in October of '24.

Mr. Palmquist: I am looking at one of the comments. It says it dates to October 17, 2023.

Greg Rowe: Let me see, that is probably our first renewal term which we have exercised. We can exercise, we are in the last one that would extend out through next year.

Mr. Palmquist: This is on page 2 I guess of the action item where it says, contract terms, the contract had three terms and then it says extended the contract dates to October 17. So you have optioned another term to extend it to 2024 then, correct?

Greg Rowe: Correct. The one we are on now is the second of three.

Mr. Palmquist: Okay.

Chairman Thomas: Have we actually exercised the third option, the third-year option?

Greg Rowe: Yes.

Mr. Palmquist: So, we are asking for an additional $25 plus million for another year basically?

Greg Rowe: Correct, to get us through this storm season and next storm season.

Chairman Thomas: Right, this storm season, you mean the one we just passed?

Greg Rowe: Storm season 2023, I am sorry.

Chairman Thomas: Right, yes.

Mr. Palmquist: Like Craig said, it is just around the corner.

Chairman Thomas: All right, and if we don't, I mean, this is authorization if we don't use it we don't spend it, and conversely by the way, if we don't authorize it, we will still have to authorize it eventually because we have an absolute statutory duty to do the demo. So, unless there is some -- and we have already renewed the terms through 2024.

This is listed on the agenda as a consent item, but I guess we have dealt with it individually. No reason not to go ahead and take a vote on it I suppose, right? Greg, I don't think, we have got the recommendation here and I will happily entertain a motion to adopt the recommendation. **A motion was made by Mr. Palmquist and seconded by Governor Becksmith to recommend the Board of Governors: a) Authorize an increase the previously approved contract amount for Mobile Home Demolition Services agreements from $2,814,048 to $27,814,048 as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item. All were in favor. Motion carried.**

Chairman Thomas: All right, let me see where I am on the agenda. It is still you, Greg, we have a couple other items that are listed as consent items. I don't think we have really done consent or action items that often here, but I don't know if the idea behind this is we are not going to discuss the court reporting and claims legal unless someone wants to?

Greg Rowe: We were fully planning on it.

Chairman Thomas: Yes, let's run through these like we normally do. Normally you present each one and we address them. I don't think we need to worry about a consent or non-consent item. Let's just go.

Greg Rowe: Okay, we will roll through them. So, the next one is for Supplemental Claims Legal Services, and for this it is just our Claims counsel that supports Elaina's team in any claims related pre-suit or litigation matters. And so currently we have 91 defense law firms under contract, and obviously with the increased litigation Citizens has identified a need to retain additional law firms really to make sure that we have the bandwidth. If we do have another storm this season or down the road, we have a bandwidth to extend beyond our current 20,000 lawsuits and we were pretty close to that threshold. So on February 17 as a result of an RFP, Citizens recommended awards to 22 new additional law firms which accounts for approximately 250 new attorneys to give us that bandwidth to handle any increased lawsuits due to hurricanes or just any other spikes that we may see. These contracts do not increase the estimated cost of the contract or the duration of the contract, and really is just a retention to give us more resources to address the current potential future needs of litigation. So, at this point, Mr. Chairman, we are looking to just add these extra law firms, these 22 law firms to our panel. So, I will pause there for any questions.

Chairman Thomas: Okay, Greg, just to try to increase bench strength, is that it?

Greg Rowe: That is it.

Chairman Thomas: Any questions from the committee?

Mr. Palmquist: This is just an action to add extra law firms with no additional spend?

Greg Rowe: Correct. You will see in the item itself, the last item I will go through today is requesting an additional $50 million which is part of kind of the, I will say the installment package that we have agreed to. So, I will hit on that last, but that would have happened with or without this particular item.

Mr. Palmquist: All right. And that is the reoccurring item that we approve periodically, correct?

Greg Rowe: Yes, sir.

Mr. Palmquist: So no spend on this one?

Greg Rowe: No extra spend.

Mr. Palmquist: Thank you.

Greg Rowe: You are welcome.

Chairman Thomas: And I think the item actually identifies the law firms that are or at least going to enter into some sort of potential retention arrangement with, not necessarily, we may never assign any of them a single case, but they're just there.

Greg Rowe: No guaranteed award, but we have it if we need them.

Chairman Thomas: All right, unless there are other questions, I will entertain a motion to approve.

A motion was made by Mr. Palmquist and seconded by Governor Becksmith to recommend the Board of Governors: a) Authorize Citizens to contract with the law firms listed in Attachment "A", for an initial term set to expire on February 2, 2027, with two (2) optional one (1) year renewal terms, as part of the Board approved spend for the existing panel awarded under RFP 21-0012 (currently approved for $150 million with an additional $50 million requested by separate Consent Item at this March 2023 meeting), as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

Chairman Thomas: We have adopted that and that will take us to my least favorite item Court Reporting Services.

Greg Rowe: Yes, another litigation item. So this next one is for Court Reporting Services, and under this contract again, these firms provide Citizens with just a network of vendors that provide transcription and video services in support of Elaina's litigated claims department. These contracts went into effect March of 2020 and has a total spend approved of $21 million, and that base term is set to expire April 1, 2023 and we do intend to exercise our first renewal option that will get us an extra two years and that would run through April 1, 2025.

But a little bit of background. When these went into effect back in 2020 we had around 13,500 pending lawsuits. As Elaina said today, we are now over 20,000. And then also one of the dynamics that, you know, we certainly could not have accounted for was the pandemic. And during this time, you know, you would have thought maybe it would have been easier, but actually these firms had to invest in different tools and technologies so they could provide video conferencing abilities to support what we need them to do. So, in short, basically due to primarily, really primarily I would say our increase in claim volume, and secondly the changes in market conditions as a result of the pandemic, we do anticipate that we would exhaust all contracted spend prior to the expiration of this two-year renewal term which I just spoke to. To date we have incurred approximately $18,900,000 in fees and that leaves us with an additional $2.1 million left in authority. So today what we are doing is requesting an additional $15 million to cover the remainder of that initial two-year renewal term. So, this is another case where volume dictates, you know, work that we just did not necessarily account for and the volume continues to climb. I will pause there for questions.

Chairman Thomas: Any questions? Greg, over what period of time have we spent $18 million on court reporter fees?

Greg Rowe: It was from a contract inception back in 2020 is when it went into effect, April, 2020.

Chairman Thomas: We spent $2.8 million in 2020 and it went up to seven and eight million the next two years?

Greg Rowe: It did.

Chairman Thomas: Why?

Greg Rowe: The pandemic kind of put a halt on things, but then once we came out of that that is went litigation volume blew through the roof and we kind of picked back up with things, so there was a short term I would lull, but that is when we started back up. And Elaina may have some color commentary to add to that.

Chairman Thomas: How many court reporter vendors do we have? How many are we using?

Greg Rowe: We just added another one back that came to the Board I think last July and I will get that information for you in just one moment.

Chairman Thomas: I mean, it is really not an issue for this. I am just flabbergasted by those court reporter expenses and I kind of have in my own personal practice, I have a pet peeve about this. I hope when this comes up for renewal with this kind of money that we are able, not that we don't do it already, but I mean, that we can extract some reasonable better deal out of this. I mean, I am sure, I appreciate the stuff about video conferencing and what-not, although it is really just a matter, 99 percent of the time it is just Zoom. I mean, I don't know, are we paying, do we have to pay some ungodly amount to get a digital copy of a transcript? I mean, do we have it itemized, I mean, is our current contract itemized that way with what they charge us for copies and things of that nature?

Greg Rowe: There are fees associated with it, yes, sir. And again, those were part of the contract, but absolutely it would be something next time, again, next time when we go through that solicitation.

Chairman Thomas: I would like to be the Board, whatever they call it, not supervisor, do it right now, your witnesses or whatever. I would like to be involved somewhat in that court reporter thing because I think it is just outrageous. But neither here nor there about this particular item, I am sorry.

Greg Rowe: To answer your question, we have 20 firms under contract.

Chairman Thomas: All right, I am sorry. I didn't mean to take up time on that. Does anybody have any questions for Greg further about the court reporting services?

Mr. Palmquist: None here.

Chairman Thomas: All right, with that I will entertain a motion I guess to approve it consistent with the recommendation.

A motion was made by Mr. Palmquist and seconded by Governor Butts to recommend the Board of Governors: a) Authorize additional spending authority of $15,000,000 under the Court Reporting Services contracts, for a total of $36,000,000 in authorized spend; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item. All were in favor. Motion carried.

Chairman Thomas: Observer, that was what I was trying to think of, the Board Observer. Greg, one more item, is that right?

Greg Rowe: Last one. This is the one I spoke to previously, and this is the Claims Legal Services contract. So just as a history back to the December 15, 2021, Board meeting Citizens requested $500 million in total authority for claims legal services. And so, at that meeting it was discussed and the Board approved $50 million initially and had asked us to provide periodic updates and then every, every $50 million as needed the Board would provide that. So that has happened twice. So back in July 2022 and December 2022 the Board approved an additional $50 million. The extra spend for that, so as of now $150 million has been approved, and at this time we have incurred about $106 million of that $150 million, and according to all our calculations through claims legal services and forecasting we will exceed that $150 million prior to the July Board of Governor meeting. So, what we are doing today is just requesting that $50 million in authority across existing contracts so we are fully compliant and have everything we need ahead of that Board meeting.

Chairman Thomas: Okay, any questions for Greg on that?

Mr. Palmquist: Yes, Chairman, I have a question. Greg, you said we approved $50 million and a tranche of $50 million in December of 2022?

Greg Rowe: July 13 was the first one and December 22, 2022 was the second. So that has been done twice, yes, sir.

Mr. Palmquist: So here in March we are approving another tranche of 50 million. Is our spend rate increasing?

Greg Rowe: It actually is and that is one of the things Elaina spoke to. So if we look back historically, January was a huge spend. We spent over $13 million in January, and we are over halfway there. As of this report we were well over halfway there in February. We don't have those numbers just yet, but it is going up. Hopefully like Jay said, we are looking with a half glass full approach and we will see some of those going down, but until suit volume really slows down, we work through our existing inventory. I really don't see that changing.

Jay Adams: Just to clarify. I think, Jon, you asked a question and Greg you may have answered something else. Jon, I think your question was, is our average cost per litigated claims going up and the answer to that is, our defense costs are staying pretty steady, litigation file over litigation file. What I think Greg answered was the volume of litigation and the billing that is coming through has skyrocketed, right. So, once we got past COVID and the courts opened up the activity significantly increased, and we are, you know, on the back end of that where we are trying to catch up paying bills and that type of thing. So, our trajectory for spending the money is coming quicker than we thought because we have more volume than we anticipated.

Mr. Palmquist: Thank you, Jay. Do we need to address the longer-term commitment then?

Jay Adams: I don't think so at this time and the reason I say that is, we do want to give this new legislation a chance, and we are hopeful that that is going to curb some of this and slow some of this down as far as new incoming and hopefully it will help to balance itself out on the back end.

Mr. Palmquist: Okay, thank you, Jay, thank you Greg.

Chairman Thomas: The reason we are not looking at more than $50 million now is I think that would not be consistent with sort of the Board's direction when this came up, and I think the original request was simply to do the $500 million and be done with it and not do this sort of series of releases, but the idea was to keep track a little better by the Board of the spend and track along with it. How are we looking in terms of what we are spending compared to that original $500 million-dollar request? Are we within that on kind of a calendar basis? Hadn't we just done $500 million, we would be looking at coming up at some point towards the end of that saying $500 million was not enough? Where are we in terms of that original projected request?

Greg Rowe: I think if Senate Bill 2A if it has no impacts which I don't believe that to be the case, but if we don't see a reduction here through the life of the contract, I think we would exhaust that $500 million prior to the initial term and that initial term runs through February 2, 2027. If we do start to see a reduction then I think we likely will be okay, but it is too early to know for sure. We need to kind of see what is going to play out over the next year and-a-half.

Jay Adams: I think it is worth noting here, so we have talked about, you know, we don't really anticipate catastrophe a lot of these contracts and as Elaina pointed out during her presentation, the majority of the litigation that we are getting is coming from past catastrophe activity. So, we really have no way to forecast or anticipate that because we obviously don't know when the storms are going to occur. Absent that we probably would not have seen any significant increases over this $500 million over the life of that contract.

Chairman Thomas: Okay, anything else regarding this legal spend item? And if there is not, I will entertain a motion to approve.

A motion was made by Mr. Palmquist and seconded by Governor Butts to recommend the Board of Governors: a) Authorize additional spending authority under the Claims Legal Services contracts of $50 million as set forth in this Consent Item which, if approved, would make the total spend authorized to-date $200 million; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item. All were in favor. Motion carried.

Chairman Thomas: Greg, thank you, I think that is it for your items. Thank you for your representation and the work.

6. Addendums

Chairman Thomas: There are some additional matters in the agenda involving some cases of interest and SIU, happy to address that if anyone has questions or wishes to review it.

7. New business

Chairman Thomas: Otherwise, I don't have any new business, but I am happy to open the floor to committee members or staff for anything they want to discuss. And if not, I will, I will adjourn the meeting or I will take a motion to adjourn, what everybody likes.

A motion was made by Mr. Palmquist to adjourn. All were in favor. Motion Carried.

Chairman Thomas: So thank everybody for your time. Appropriate all the hard work. I look forward to seeing folks coming up at the full Board meeting soon, but thanks everyone.

[Meeting adjourned.]