

# Inspection Program Update

**Stephen Mostella**  
Vice President – Underwriting



- In 2021, the Board of Governors requested and approved Citizens' staff to expand the use of property inspections for a 4-year budgeted amount of \$43,618,492.
- Staff created a comprehensive 4-year inspection plan known as the Holistic Inspection Program (HIP) and began ordering homeowner inspections in January 2022.
- Property types that are being inspected: HO-3, HW-2, DP-3D and Mobile Homes.
- The three critical business results measured for HIP:
  - Loss frequency reduction
  - Premium accuracy improvement
  - Exposure reduction
- Staff is leveraging existing and emerging resources and technologies to gain efficiencies in the inspection process to the benefit of the company, agents and policyholders.

# Inspection Types

Inspection Type	Description
Interior & Exterior	A full property inspection that reports on the overall condition of both the interior & exterior of the home. This includes an evaluation of the condition, identification of any hazards present, and verification of repairs.
Exterior Only	A physical inspection documenting the general condition of the exterior of the property and any appurtenant structures. This inspection identifies any property and/or liability hazards or maintenance issues present.
Mobile Home	Physical inspection that identifies the general condition of the mobile/manufactured home, including any hazards or maintenance issues observed. In addition, it identifies the method and materials used to secure it to the ground in accordance with Florida Statutes.
Roof	A physical inspection that documents the condition of the roof. The inspection includes photographs, identifies roof covering material, roof age, remaining useful life, date of last roofing permit, date and detail of last update, overall condition, visible signs of damage or deterioration, and visible signs of leaks. Future Enhancement: an aerial imagery roof inspection to be added in the 4Q 2023.

# Inspection Volumes

## 2021 Plan: Projected Volumes for 2022 – 2025

Recommended Inspection Option									
Year	% of NB	NB Inspection Volume	% of PIF	PIF Inspection Volume	Total Volume	Inspection Vendor Spend	% of Premium	Total FTE Need	Total FTE Cost
2022	13.30%	39,330	6.89%	60,915	100,245	\$5,682,901	0.26%	16.0	\$1,195,302
2023	20.58%	64,399	10.50%	109,258	173,657	\$8,971,637	0.36%	18.1	\$1,351,775
2024	41.07%	123,551	12.88%	121,088	244,639	\$11,891,457	0.52%	12.4	\$924,210
2025	62.47%	185,855	20.21%	171,780	357,634	\$17,072,496	0.87%	18.0	\$1,321,522
<b>4-Year Spend:</b>					<b>876,176</b>	<b>\$43,618,492</b>			<b>\$4,792,809</b>

## 2023 Inspections

Holistic Inspection Matrix - Based on 12/31/2022 PIF Projections											
Year	NB Projection	% of NB	NB Inspection Volume	PIF Projection	% of PIF	PIF Inspection Volume	Total Volume	Inspection Vendor Spend	Citizens FTE Need	Citizens FTE Cost	Total BPO Cost
2022	571,221	16.78%	95,832	1,139,372	5.16%	58,760	154,592	\$6,685,284.25	6.39	\$479,199.64	\$739,480.39
2023	605,455	20.71%	125,400	1,515,441	11.52%	174,600	300,000	\$15,537,545.58	7.71	\$578,065.23	\$1,342,451.77

Year	Inspections Ordered
2023	300,000 (planned)
2022	154,592
2021	18,906
2020	5,205
2019	2,200

## CUSTOMER EXPERIENCE:

- HIP has a detailed customer experience tracking component which gathers information and data about all inquiries received from agents and policyholders.
- In 2022 inquiries were made on only .69% of the 154K inspections ordered. Over ½ of inquiries were questions about the logistics and the scheduling of inspections.

## AUTOMATION OF INSPECTIONS:

- **Straight to File:** When the vendor's inspection report does not note any policy discrepancies or hazards, Citizens' system is automatically updated with the information with no manual intervention by an underwriter. Currently 50% of all inspections go straight to file generating an estimated savings of \$640K.
- **Batch Inspection Ordering:** Citizens enhanced the process to batch order inspections, in lieu of individual orders by underwriters, which has saved the company an estimated \$795K.

## INSPECTION PREDICTIVE MODELING:

- In January 2023, a predictive inspection model was implemented. The model is trained using important policy characteristics and detailed historical inspection reports. The model identifies the highest risk policies to order inspections on to meet the desired volume by inspection type and vendor.



# Costs and Results Overview

PRIMARY COSTS	
<b>Inspection Companies:</b> Conduct physical inspections of properties	\$7,195,819
<b>Citizens Underwriters:</b> Review inspection reports after completion	\$479,200
<b>Vendor Underwriters:</b> Review inspection reports after completion	\$739,480
<b>Total:</b>	\$8,414,499

PRIMARY BUSINESS RESULTS	
<b>Reduce Loss Frequency:</b> Policies inspected have estimated lower loss frequency and loss severity results (Claims Avoidance).	\$25.5M (estimated claims avoided)
<b>Improve Premium Accuracy:</b> Approximately 6.10% of inspected policies were corrected resulting in an absolute premium change.	\$3.9M (absolute premium change)
<b>Exposure Reduction :</b> Approximately 5.38% of inspected policies were nonrenewed or cancelled due to not meeting underwriting requirements.	\$2.27B (reduced exposure)

\* **Rehabilitated Policies:** 7.49% of inspected policies were found to have hazard(s) that warranted the risk ineligible for continued coverage but were later rehabilitated. This rehabilitation is the result of underwriters receiving acceptable documentation that the hazards have been remediated.

## **RECOMMENDATION:**

Citizens proceeds with the plans for the current Holistic Inspection Program.