

Approval of Audit Committee Minutes

☒ **ACTION ITEM**

☐ New Contract

☐ Contract Amendment

☐ Other _____

☐ **CONSENT ITEM**

☐ Contract Amendment

☐ Existing Contract Extension

☐ Existing Contract Additional Spend

☐ Previous Board Approval _____

☐ Other _____

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

☐ **Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	Audit Committee Minutes Meeting December 6, 2022.
Purpose/Scope	Review of the December 6, 2022, Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
Contract ID	N/A
Committee Recommendation	Staff recommends the review and approval of the December 6, 2022, Audit Committee Meeting Minutes.
CONTACTS	Joe Martins, Chief of Internal Audit.

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
AUDIT COMMITTEE MEETING
Tuesday, December 6, 2022**

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened at 1:00 PM on Tuesday, December 6, 2022.

The following members of the Audit Committee were present:

Chair JoAnne Leznoff
Board Chair Carlos Beruff
Governor Scott Thomas

The following Board members were present:

Nelson Telemaco
Josh Becksmith
Erin Knight
Jason Butts

The following Citizens Staff were present:

Jay Adams	Eric Addison	Christine Ashburn
Violet Bloom	Kelly Booten	Matt Carter
Tim Cerio	Brian Donovan	Bonnie Gilliland
Bonnie Gilliland	Barry Gilway	Mark Kagy
Paul Kutter	Jennifer Montero	Joe Martins
Alden Mullins	Ray Norris	Michael Peltier
Jeremy Pope	Barbara Walker	David Woodruff
Andrew Woodward		

The following were present:

Brian Smith, FORVIS
Sam Wishard, FORVIS
Kapil Bhatia, Raymond James
John Generalli, Wells Fargo
Adam Schwebach, Gallagher Re
Nathaniel Johnson, B of A Securities

Barbara Walker: Good afternoon, and welcome to Citizens' December 6th Audit Committee meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 and will be recorded with transcribed Minutes available on our website. For those attending today's session through the public link, you are automatically in listen-only mode, with presentations appearing in the webinar.

Chair Leznoff, we have no speaker requests for today's meetings. Panelists, thank you for identifying yourself prior to addressing the committee.

Chair Leznoff.

Chair Leznoff: Here.

Barbara Walker: Board Chair Beruff.

Board Chair Beruff: Here.

Barbara Walker: Governor Thomas.

Governor Thomas: Here.

Barbara Walker: Chair, you have a quorum.

Chair Leznoff: Thank you and thank you for being here today. I am sorry I could not be there in person. I think we only have one action item today, and that is the approval of the prior meeting Minutes. Do I have a motion for approval?

Board Chair Beruff: So, moved.

Governor Thomas: And a second.

Chair Leznoff: Thank you. Without objection, show the Minutes of the September 20 meeting approved. With that, we will go ahead and recognize Joe Martins to present several items from the Office of Internal Audit.

Joe Martins: Thank you, Madam Chair. I would like to refer you to tab two of the pack, where I provide an overview of the Internal Audit progress and copies of the reports issued. So, since the previous meeting, we completed one project advisory and five audit engagements. On the slide in front of you in the top left corner, I present a graph indicating that we have completed 12 engagements from July 1st, and we are currently actively working on 18 engagements. In the column to the right, I listed the audit engagements we completed and are currently working on, and those planned for completion during Q2, 2023. For two of the completed audits, the PCard audit as well as the Vulnerability and Patch Management audit, we noted some control weaknesses and agreed on corrective action for the business. None of these observations were classified as high impact, and corrective action is in progress. The Office of Insurance Regulation is also conducting its market conduct exam, which should be completed in the middle of December. In the bottom left slide, we show a graph that indicates we are currently tracking 7 open observations from 4 audits. None of these observations were rated high impact.

Next slide, please. Enterprise Risk continues to monitor progress and manage risk mitigation in line with 16 identified strategic risks, and to support the organization with the identification and assessment of operational risks. For now, 326 risks have been identified, of which 53 were rated as medium impact. The risk team is working with management to prepare for the 2023 strategic risk assessment scheduled for late January next year.

The Internal Control team actively supported the business in its completion of the year's control self-assessments. There are 98 assessments, of which 26 have been completed so far.

Next slide, please. We included an action item for approval of the 2023 Office of Internal Audit strategy and plan, as well as the 2023 Office of Internal Audit budget. I will read this action item if that is okay.

Chair Leznoff: Yes, please, and I apologize for not noting that there is this action item.

Joe Martins: Thank you, Madam Chair. The action item seeks committee approval for the 2023 OIA strategy and plan, and budget. The plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks. The objective of this plan is to provide the most timely and comprehensive scope of the audit, risk, and control coverage by using the resources available to the office. Internal Audit follows a detailed annual planning process and prepares a themes-based audit plan which considers the possibility of dynamic risk fluctuations and process changes throughout the year. This necessitates a regular

reevaluation of the audit approach and scope so that the appropriate audit focus is always given to the important strategic and operational issues. To achieve the greatest impact, Internal Audit “rebalances” internal audit activities in a rolling audit plan to ensure adequate focus is given to Citizens’ strategic issues and critical observations.

For 2023, Internal Audit documented five specific audit themes, which consolidate and provide high-level insights into the year's audit focus areas. Enterprise Risk will continue to facilitate and enable risk assessments from five different perspectives: strategic risk, operational risk, fraud risk, project risk, and scenario risk.

Internal Control will continue to ensure consistency and sustainability of the internal control framework and support the completion of annual control self-assessments. The 2023 budget for the Office of Internal Audit presented is \$3.48 million as compared to the \$3.41 million budgeted for 2022. This represents a two percent increase in the 2022 budget. If there are no questions, I will read the recommendation.

Chair Leznoff: Governors, are there questions regarding the action item?

Governor Thomas: No.

Chair Leznoff: Is there any discussion?

Board Chair Beruff: No.

Chair Leznoff: You can read, Joe.

Joe Martins: Thank you, Madam Chair. Staff recommends that the Citizens Audit Committee approve the 2023 Office of Internal Audit strategy and plan and approve the 2023 Office of Internal Audit budget as presented.

Governor Thomas: Move to approve.

Board Chair Beruff: Second.

Chair Leznoff: Show the action item approved. Thank you, Joe.

Joe Martins: Thank you, Madam, Chair.

Chair Leznoff: And you can proceed to your next, your next review.

Joe Martins: I have completed my presentation, Madam Chair.

Chair Leznoff: Very good. Then next up, we have Chief Financial Officer Jennifer Montero. You are recognized.

Jennifer Montero: Sorry, Madam Chair, I was running late.

Chair Leznoff: No worries.

Jennifer Montero: So, behind tab three, you will find the document titled, 3Q 2022, Results of Operations and Financial Position. This provides an overview of Citizens’ unaudited financial position, including cash flows, invested assets, and surplus, as well as operational results for the 9-month period ending September 30, 2022. At September 30, 2022, consolidated cash and invested assets totaled 10.1 billion, reflecting an increase of just over 1 billion from 9 months prior, or December 31, 2021. This increase was driven by an increase in cash flows from

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operations largely as a result of the increase in written premiums which was partially offset by financing cash outflows arising from Citizen's principal repayment obligations on that standing balance. Surplus at September 30 was 4.4 billion marking a significant decline of 2.1 billion from December 31st. The cause of the decline in surplus is attributable to the estimated ultimate net losses from Hurricane Ian. It is noteworthy to mention that at September 30th, 2022 substantially no losses were paid related to Hurricane Ian. However, the estimated loss was booked. The difference between surplus and cash-invested assets is because we haven't paid those yet. The consolidated direct written premium through September 30th was 2.4 billion, which is an increase in excess of one billion or 78 percent from the same period in 2022. In two -- I am sorry, from '21. In '22, the overall renewal rate of Citizens' policies has been roughly 80 percent despite this renewal rate reflecting a year-over-year decrease of four percentage points, the number of new policies written in Citizens by September 30th, 2022, was approximately 456,000 compared to 267,000 first time policies written during the first nine months of 2021.

Premium ceded for private insurance in the Cat Fund totaled 541 million, approximately 108 million more than in 2021. Premium ceded for private reinsurance in Cat Fund coverage is recognized at the beginning of the Atlantic hurricane season of June 1st and varies from year based on the level of coverage purchased in the underlining cost of the covered period.

On September 28th, 2022 Hurricane Ian made landfall in southwest Florida. As of September 30th, Citizens is projecting total direct losses in LAE of 3.8 billion dollars across all three accounts, and after reinsurance recoverables of 1.4 billion, the remaining net impact to Citizens is 2.4 billion.

As of September 30th, consolidated ultimate direct losses in LAE related to Hurricanes Irma and Michael were unchanged from the prior quarter and stood at 2.4 billion and 150 million respectively. Of the 2.4 billion of Hurricane Irma, ultimate losses in LAE across all three accounts, 1.01 billion is recoverable under Citizens' reinsurance contracts with both the Cat Fund and private reinsurance. Citizens' reinsurance contracts for both Cat Fund and private reinsurers, there is no recovery from Hurricane Michael from either the Cat Fund or private reinsurance as the attachment levels of the reinsurance arrangements were not met. The 2022 accident year non-catastrophe loss in LAE ratios for the personal lines account and the coastal account continues to show improvement from prior years. The dominant driver behind the improvement in loss in LAE is the improvement in the litigation rates, which continues to be the single most important factor in non-cat losses in LAE.

In 2021, the litigation rate for non-catastrophe, non-sinkhole claims in the PLA and coastal account was 15 percent, less than half of the litigation rate during the peak in 2015. The underlining CLA loss in the LAE ratio has increased to 14.8 percent through September 30th, but this is driven by the inherent volatility of the CLA due to the low premium volume. The increase in the CLA results is not caused by any systematic changes to the underlying loss experience or the book of business.

Admin expenses incurred through September 30th were 105 million or five million more than for the same period in the prior year, and 17 million less than budgeted. For the period ended September 30th Citizens' expense ratio was 14.4 percent, reflecting a 2.5 percent decrease from the same period a year ago, and a point four percent decrease compared to budget.

Total investment income through September 30th was 151.4 million, approximately 58 million less than during the same period in 2021, while average invested assets increased by 553,000,000. In 2021, several positions were sold, resulting in a significant level of realized gains which did not occur again in 2022. Also, with the recent rise in interest rates, certain portfolios were and continue to be repositioned to purchase securities with higher yields resulting in short-term realized losses.

Despite the occurrence of large storms during the 2022 hurricane season, Citizens' invested assets are well-positioned to continue to meet current, and future policyholder needs. Heading into the 2023 hurricane season, Citizens will continue to explore financial options that reduce its overall retained exposure and minimize the risk of assessment.

And that completes my report if there are no questions.

Chair Leznoff: Governors, are there questions for Ms. Montero?

Jennifer Montero: Okay, thank you.

Chair Leznoff: I would just like to commend you and the team for keeping administrative costs relatively low throughout this time of growth and given the recent catastrophic events that nature brought us.

With that, I will go ahead and move to item number four, an update from external, from the external auditor. We will recognize Brian Smith.

Brian Smith: Good afternoon. For the record, Brian Smith, and with me is our audit manager Sam Wishard. For today our communication is to discuss our audit plan for the 2022 fiscal year. This is a required communication as external auditors. As Forvis, we have been engaged to audit Citizens for 2022. A few items to discuss, as a reminder, we are auditing Citizens on both a statutory and a GAAP basis as the government accounting standards under GADBE. We are currently in the process of working through our interim and planning procedures. We intend to come back and complete our fieldwork in April of 2023, and we will issue our plan to issue our reports and conclusions by May 15th of 2023. As a reminder, we are auditing the financial statements of Citizens. We are not completing the internal control audit. I just want to make sure that is clear for the committee. And then, on page 2 of our report, Sam is going to walk us through some of the required significant risk areas that we are required to communicate to the committee.

Sam Wishard: Good afternoon, everyone. As Brian mentioned, to go through some of the significant risk areas we have identified so far during our planning procedures. The first one listed here is the evaluation of investments. So, we will be looking for any potential impairment on those investments and any investments that may be difficult to price. We will be engaging a valuation specialist to assist us with these procedures. Next is the evaluation of the incurred, but not reported reserves. These are strictly generated through key assumptions and key estimates, and they are also subject to actuarial review. We will also engage a third-party actuary to assist with our procedures. Next is the collection of premiums, the risk collection of premiums. We will be looking for significant risks around the cancellations, potential policy cancellations, or uncollectible premiums to be present. The next one here is any risk around reinsurance accounts. We will specifically be looking at key assumptions in these accounts, the material, in addition to any structures around profit-sharing or Cat bonds. We will work with management also to address and understand any potential impacts from Hurricane Ian as further data becomes available. Finally, we will address the inherent risk around management override of controls using fraud inquiries and other various procedures.

Brian Smith: Thank you, Sam. One more item to point out for the committee. We are engaging Merlinos & Associates as our actuary specialist as a third party. So that completes our report for today.

Governor Thomas: Who is that?

Brian Smith: Merlinos & Associates. That completes our report, take any questions.

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Chair Leznoff: All right, are there any questions for Brian? Any discussion? Okay, thank you so much, Brian.

Brian Smith: Thank you.

Chair Leznoff: Lastly, and this is for information only, the OIG third quarter report is in your packet. If there is anything you would like to discuss, feel free to do so, but that is available to you. If there are no questions then and no new business, I will take a motion for adjournment.

Governor Thomas: So, moved.

Board Chair Beruff: Second.

Chair Leznoff: We are adjourned. Thank you. (Whereupon the meeting was concluded)