

Executive Summary

Actuarial and Underwriting Committee Meeting, July 11, 2023

Board of Governors Meeting, July 12, 2023

Property Characteristics and Data Services

Topic

Citizens staff is requesting approval to increase total contract spend for Property Characteristics and Data Services with Insurance Services Office, Inc. ("ISO"). The increase in spend is due to the increase in policy in force ("PIF") count and the correlated increase in Property Characteristics and Data Services needed to support underwriting activity. The request is to increase the currently approved amount of \$4,894,176 to \$8,608,055, an increase of \$3,713,879 through the end of the contract term, May 15, 2026.

History

Citizens currently utilizes a web-based service provided by ISO to automate the identification of location-related risk characteristics and certain regulatory compliance (eligibility) of a property based on the property's address. Property Characteristics and Data Services are a critical part of risk-based underwriting. As a part of the underwriting process, Citizens initiates two types of requests for property data: (1) All-Inclusive Requests: these requests are used to determine eligibility and premium for Citizens' residential and commercial insurance policies; and, (2) Wind-Only Requests: these requests are used to determine eligibility for Citizens' coastal account insurance policies.

The contract with ISO was originally approved by the Board of Governors on December 16, 2020, for a 5-year term with no renewals, for an amount not to exceed \$4,894,176. The contract includes transaction-based fees when contractual thresholds are exceeded. The contract also allows for renegotiation when certain thresholds are exceeded. In 2022, Citizens' staff-initiated negotiations with ISO and those negotiations continued into 2023. At the time of the original Action Item, Citizens' PIF was 542K and agents initiated an average of 361K Property Characteristics and Data Services requests monthly. As of May 2023, PIF increased to more than 1.2M and as a result, monthly requests have increased to an average of 903K. Based on the contract terms, if Citizens were to take no action, with the transaction-based fees, the total projected spend is \$12,113,258 (see Table 1). In Q2 2023, Citizens and ISO reached a negotiated agreement to revise the contractual thresholds for the remainder of the 5-year term. This renegotiation reduced the total projected spend of \$12,113,258 to \$8,608,055 (see Table 2). The renegotiation will save Citizens approximately \$3,505,203 over the remaining life of the contract. Additionally, to mitigate risk, the renegotiation clause was revised to take effect if there is a thirty percent (30%) decrease in PIF from the previous term year.

This Consent Item requests an additional contingency spend amount of \$400,000 for future transaction-based fees charges to address unforeseen PIF growth and unforeseen batch file data report orders for Property and Characteristics Data Services requests (for example, due to new legislative requirements).

Current Contract (May 2021 - May 2026)	Year 1 Actual	Year 2 Actual	Year 3 Actual	Spend Actual (May 2021 - May 2023)	Year 4	Year 5	Spend Projected May 2023 - May 2026)	Total Spend Actual + Projected (May 2021 - May 2026)
PIF Best Estimate	609,805	861,746	1,304,723	-	1,581,234	1,883,650	-	
Base Term	\$ 912,672	\$ 944,616	\$ 977,678	\$ 2,834,966	\$ 1,011,897	\$ 1,047,313	\$ 2,059,210	\$ 4,894,176
PIF Threshold + Transaction Based Fees	\$ -	\$ 382,536	\$ 1,359,553	\$ 1,742,089	\$ 2,464,810	\$ 3,012,183	\$ 5,476,993	\$ 7,219,082
Total				\$ 4,577,055			\$ 7,536,203	\$ 12,113,258

Table 1: Current term projected spend.

*Actual spend will vary and may exceed the projection.

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Renegotiated Contract (May 2021 - May 2026)	Year 1	Year 2	Year 3	Spend Actual (May 2021 - May 2023)	Year 4	Year 5	Spend Projected May 2023 - May 2026)	Total Spend Actual + Projected (May 2021 - May 2026)
PIF Best Estimate	609,805	861,746	1,304,723	-	1,581,234	1,883,650	-	-
Base Term	\$ 912,672	\$ 944,616	\$ 977,678	\$ 2,834,966	\$ 1,755,000	\$ 1,785,000	\$ 3,540,000	\$ 6,374,966
PIF Threshold + Transaction Based Fees	\$ -	\$ 382,536	\$ 1,359,553	\$ 1,742,089	\$ 91,000	\$ -	\$ 91,000	\$ 1,833,089
Contingency Funds				\$ -				\$ 400,000
Total				\$ 4,577,055			\$ 3,540,000	\$ 8,608,055

Table 2: Renegotiated term projected spend.

*Actual spend will vary and may exceed the projection.

Recommendation

The recommendation is stated in the attached Consent Item.

Property Characteristics and Data Services

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.

<p>Purpose/Scope</p>	<p>This Consent Item seeks the approval for \$3,713,879 in additional spend authority for the renegotiation of the Property Characteristics and Data Services contract with Insurance Services Office, Inc. (ISO).</p> <p>The contract provides the ability to identify address-specific data related to risk characteristics of properties Citizens insures or may insure as a critical part of proper underwriting and classifying risk. Citizens currently utilizes a web-based service to automate the identification of location-related risk characteristics and certain regulatory compliance (eligibility) of a property based on the location's address.</p> <p>The contract with ISO was originally approved on December 16, 2020, for a 5-year term with no renewals, for an amount not to exceed \$4,894,176. As further described in the Executive Summary, the additional \$3,713,879 in spend authority request is to support a sustained increase in Policy in Force (PIF) and a resulting use in Property Characteristics and Data Service.</p>
<p>Contract ID</p>	<p>Property Characteristics Reporting Services Contract number: 21-20-0025-00 Vendor: Insurance Service Office, Inc.</p>
<p>Budgeted Item</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>

Property Characteristics and Data Services

Procurement Method	On July 6, 2020, Citizens released Invitation to Negotiate No. 20-0025 for Property Characteristics Data Services. Three vendor responses were received and evaluated. On September 29, 2020, the Negotiation Team recommended an award to Insurance Services Office, Inc.
Contract Amount	\$8,608,055
Contract Terms	The Contract Term is a 5-year base term (May 16, 2021 – May 15, 2026) with no renewal options.
Committee Recommendation	<p>Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend the Board of Governors:</p> <ul style="list-style-type: none"> a) Authorize additional spend of \$3,713,879 to the Property Characteristics and Data Services Contract with Insurance Services Office, Inc., for a total Contract spend not to exceed \$8,608,055, as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
Board Recommendation from Committee	<p>If approved at its July 11, 2023, meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> a) Authorize additional spend of \$3,713,879 to the Property Characteristics and Data Services Contract with Insurance Services Office, Inc., for a total Contract spend not to exceed \$8,608,055 as set forth in this Consent Item; and a) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
Contacts	Kelly Booten, Chief Operating Officer