

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE AUDIT COMMITTEE MEETING Tuesday, March 28, 2023

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened at 1:00 PM on Tuesday, March 28, 2023.

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	Ken Tinkham
Violet Bloom	Kelly Booten	Tim Cerio	Carl Rockman
Bonnie Gilliland	Barry Gilway	Mark Kagy	Stephen Mostella
Paul Kutter	Jennifer Montero	Joe Martins	
Alden Mullins	Ray Norris	Michael Peltier	
Jeremy Pope	Barbara Walker	Jon Schmidt	
Andrew Woodward	Brian Donovan	Paul Kutter	

The following were present:

Brian Smith, FORVIS
Kapil Bhatia, Raymond James
John Generalli, Wells Fargo
Nathaniel Johnson, B of A Securities
Coleman Cordell, B of A Securities
George Smith, George Smith PLLC
Mark Weinberg, Citi

Barbara Walker: Good afternoon, and welcome to Citizens' March 28, 2023, Audit Committee meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. 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 meeting.

Panelists, if you are on the phone, thank you for identifying yourself before addressing the committee. I will proceed with roll call.

Members called and were present. Quorum received.

Chair Leznoff: Thank you, and welcome to Citizens' Property Insurance Audit Committee meeting. Today we will go ahead and proceed with the approval of the Minutes from our last meeting.

Do I have a motion?

Governor Thomas: So, moved.

Chair Leznoff: Do I have a second?

Board Chair Beruff: Second.

Chair Leznoff: All in favor say aye. (Chorus of ayes.)

Chair Leznoff: Any opposed? Show that motion approved. Next, we will go ahead and hear a report from our esteemed internal auditor, Joe Martins.

Mr. Martins, you are recognized.

Joe Martins: Thank you, Madame Chair. Good afternoon, Governors. I refer you to tab two of the pack. We have a summary of the work that has been completed. Since the December meeting, we have completed five engagements, including two audits. On the slide in front of you in the left-hand corner, I present a graph indicating that we have completed 12 engagements since October and are actively working on 12 other engagements.

In the column to the right, I listed two audits we completed. The Bulk Intake of Policies and Claims Litigation Triage audits. Both audits confirmed that the controls are operating as intended while highlighting a few minor opportunities for improvement in the work that we did. The 12 engagements in progress include six audits and six project advisories. The six audits listed are scheduled for completion during the second quarter. Five additional audits will be completed during quarter three of this year.

For the Automated Underwriting audit, we will assess the efficiency of the processes against underwriting guidelines. With the Claims Legal Billing audit, we will review and assess the effectiveness of process methodology results and a new reporting structure. In the Mobile Computing audit, we will look at processes protecting unauthorized access, such as centralized device administration, endpoint security, data protection, cyber security monitoring, and training. With the OFAC audit, we will review the effectiveness of corrective action taken following a previous audit, and for the Vendor Invoicing Software audit, we will assess controls implemented with the VIP software that issues vendor invoices.

The Office of Insurance Regulation also completed its Market Conduct Exam. The report was issued, and on the bottom left-hand side, we show a graph indicating that we are currently tracking three open audit observations. None of these observations is high impact, and management is working consistently at completing the corrective action.

Enterprise Risk completed the annual strategic risk assessment. Risk mitigation aligned with the 14 identified strategic risks is being updated and has been documented. Detailed results will be reported to the Audit Committee at the July meeting. 326 operational risks are now documented, of which 53 were rated as medium. Operational risk assessment descriptions, ratings, and mitigating activities are periodically updated. Two operational risk assessments were completed this quarter, and another 31 are planned for completion during the second quarter.

Management control self-assessments are performed annually to ensure ongoing evaluation of the control design and the operating effectiveness of Citizens' primary controls. Control self-assessments are performed by control owners and designated control champions within Audit Board, our Governance risk and controls software solution that enables self-service to management. The Internal Control team oversees and facilitates the processes, including performing quality reviews to confirm that management control self-assessments adhere to Citizens' internal controls framework standards and continue to add value.

In 2022, 100 percent of control self-assessments were completed, and 14 of the controls indicate that minor improvements are needed. None of these are of serious concern and mainly relate to documentary and process flow corrections that need to be made. That concludes our report for this quarter.

Chair Leznoff: Thank you, Mr. Martins. Are there any questions? Thank you.

Joe Martins: Thank you very much.

Chair Leznoff: And next we will hear from our Chief Financial Officer, Jennifer Montero. You are recognized.

Jennifer Montero: Good afternoon. The document titled 2022 Results of Operations and Financial Position provides an overview of Citizens' unaudited financial condition, including cash flows, invested assets, and surplus, as well as the operational results for the fiscal year ending December 31st, 2022. While the document that follows provides commentary, discussion, and analysis of those operating results and financial position. I will be providing a summary of the information contained within the commentary document.

At December 31st, 2022, consolidated cash and invested assets totaled 9 billion dollars, reflecting a slight decrease of 82 million in comparison to the prior year. Net premiums collected in 2022 exceeded net premiums collected in 2021 by over 1 billion dollars. However, this increase in net premium collected was largely offset by losses in LAE payments from hurricanes, specifically Hurricane Ian.

Additionally, during 2022, scheduled debt service payments totaled 160 million dollars. The consolidated surplus at December 31st, 2022, was 4.3 billion, marking a significant decline of 2.2 billion from December 31st, 2021. The cause of the decline in surplus is attributable to estimated net losses from Hurricane Ian. Consolidated direct written premiums in 2022 were 2.2 billion, reflecting an increase of 1.4 billion or 76 percent relative to the prior year.

In 2022, the overall renewal rate of Citizens' policies was approximately 81 percent, whereas the number of first-time policies written increased from 359,000 in 2021 to

573 in 2022. This is the most first-time policies that Citizens has written in the last 11 years.

Premium ceded to private reinsurance in the Cat Fund totaled 541 million which is approximately 89 million more than in 2021. Premium ceded for private reinsurance in Cat Fund coverage are recognized at the beginning of the Atlantic hurricane season of June 1st and vary from year based on levels of coverages purchased in the underlying cost of coverage provided.

On September 28, 2022, Hurricane Ian made landfall in southwest Florida, consolidated ultimate direct losses in LAE as of December 31st, '22, were 3.6 billion, of which one billion is recoverable under Citizens' reinsurance contracts.

Consolidated ultimate direct losses in LAE related to Hurricanes Irma and Michael were 2.6 billion and 146 million, respectively. Of the 2.6 billion of Hurricane Irma's ultimate loss in LAE across all accounts, 1.1 billion is recoverable under Citizens' reinsurance contracts of both the Cat Fund and private reinsurers. There are no reinsurance recoverables related to Hurricane Michael, as the attachment levels of the reinsurance arrangements were not met.

Consolidated ultimate direct losses in LAE of smaller storms that impacted Florida in the latter part of 2020 were 305 million, reflecting an increase of 67 million. This increase is largely attributable to higher litigation rates in the PLA from Tropical Storm Ada. There is no reinsurance recoverable related to these smaller storms, so the attachment levels of the reinsurance arrangements were not met. The 2022 non-catastrophe loss in LAE ratio for the PLA and coastal account is comparatively unchanged relative to 2021.

The dominant driver behind the improvement in the loss in LAE over the past several years has been the improvement in the litigation rate, which continues to be the single most important factor in non-catastrophe loss in LAE and which has remained stable for non-cat losses in 2022. The underlying commercial lines account loss in the LAE ratio is inherently volatile due to the low premium volume and the large potential impact of a few claims.

The increase in the CLA results is not caused by any systematic changes to the underlying loss experience or book of business. Administrative expenses incurred during 2022 are 139 million or 9 million more than that in 2021, and 20 million less than budgeted. Citizens' expense ratio for 2022 was 14.6 percent, reflecting a two percent decrease from 2021.

Total investment income for 2022 was 216 million, so approximately 49 million or 18 percent less than during 2021. While the average invested assets increased by 440 million. In 2021 several positions were sold, resulting in significant levels of realized gains which did not occur 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. If there are no questions, that concludes my report.

Chair Leznoff: Thank you. Are there any questions for Ms. Montero?

Board Chair Beruff: What is the current realized loss if we were to have to liquidate the portfolio?

Jennifer Montero: As of December 31st?

Board Chair Beruff: Yes.

Jennifer Montero: I would like to say that number is around 360. I want to confirm.

At the end of the year, it was a billion dollars and now it is 711 as of February.

Board Chair Beruff: I was going to say I thought 700 million was the number today.

Jennifer Montero: Today, that is the number today.

Board Chair Beruff: Is it still bleeding off at about, what is the bleed off as we get closer to maturity, how much is that coming down on a quarterly or monthly basis?

Jennifer Montero: Yes. We have not sold any securities to take a loss to pay lan.

Board Chair Beruff: I know it is just a book loss. We haven't taken any actual losses.

Jennifer Montero: Right.

Board Chair Beruff: But if we had to, I am just curious to see what the position is. You said that number was 705 million.

Jennifer Montero: 711.

Board Chair Beruff: Okay, 711. And what is the bleed down monthly or quarterly?

Kapil Bhatia: Good afternoon, Mr. Chairman.

For the record, Kapil Bhatia from Raymond James and good afternoon, Board members. Our duration is 3.8 years, and we will go through that during the -- total portfolio duration is 3.8 years, and it's declining by 60 to 70 million dollars each three months as a function of time, assuming interest rates remains unchanged from where they are.

Board Chair Beruff: Okay, so that is the big assumption.

Kapil Bhatia: Yes.

Board Chair Beruff: So, the devaluation of the portfolio is based on interest rates not going up, which of course, they continue to go up.

Kapil Bhatia: If it goes up, then the decline --

Board Chair Beruff: The spread, the delta becomes worse.

Jennifer Montero: Right.

Kapil Bhatia: Yes. The mark-to-market number will increase if the interest rate goes up. However, the decline is faster.

Board Chair Beruff: Yes, the maturity of the items that we have are coming to maturity, so it is getting smaller, but then the delta is going up as long as interest rates go up.

Kapil Bhatia: Correct. But at the same time, it will go down. Even if the interest rate goes up because our portfolio is pulling to par.

Board Chair Beruff: Right.

Kapil Bhatia: So, it will go down.

Board Chair Beruff: Right, yes, the duration of the portfolio is a short duration.

Kapil Bhatia: Correct.

Board Chair Beruff: Okay, thank you. I will be curious to see. What is the projected deficit for June 1 if you had to guess?

Kapil Bhatia: Projected mark to market?

Board Chair Beruff: Yes, mark to market.

Kapil Bhatia: It is going down by 60 million each three months, so it will be closer to -

Board Chair Beruff: 20 million dollars a month.

Kapil Bhatia: 20 million a month, yes. And it goes faster towards the end because as the portfolio becomes shorter and shorter. So as of July 1st, we are three months away from the 16 million dollars less. However, we have seen a significant, I don't want to use the word, impending recession, but the probability of recession increasing, the 10-year and five-year interest rates are expected to come down even if the Fed continues with the rate increase. So, we expect that number to increase furthermore. The rate of change of decline will increase. So, 20 million may become 30 million starting June as the rate comes down.

Board Chair Beruff: Thank you. Thank you, Madame Chair.

Chair Leznoff: Any other questions? Thank you.

Jennifer Montero: Thank you.

Chair Leznoff: We will move on to our external auditor update from Brian Smith. You are recognized.

Brian Smith: Good afternoon. For the record, Brian Smith from Forvis external audit firm. I will be quick today. We are in the middle of our 2022 financial statement audit for Citizens. We have completed our interim and planning procedures.

We will begin our field work for year-end here starting next week. We are on target to complete by May 15th. At this point, we have no findings to report, but I will take any questions.

Chair Leznoff: Are there any questions?

Thank you.

Brian Smith: Thank you.

Chair Leznoff: We also have available for information the Office of Inspector General quarterly report.

Chair Leznoff: Is there any other business that a committee member would like to bring before the Audit Committee? I will entertain a motion to adjourn from Chair Beruff. Seconded Chair Thomas. We are adjourned.

(Whereupon, the meeting was concluded.)