Office of the
Internal Auditor

AUDIT REPORT

May 2023

Hurricanes Ian and Nicole
Underwriting Moratorium

CITIZENS
PROPERTY INSURANCE CORPORATION

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Background

Hurricanes Ian and Nicole impacted several counties in Florida during the fall of 2022. On November 10, 2022, the Florida Office of Insurance Regulation (OIR) issued Emergency Order (EO) 302804-22[1], because of the state of emergency created by the Hurricanes.

The EO primarily impacted Citizens' Underwriting Department as it granted an extension of grace periods and temporarily postponed cancelations and non-renewals for property insurance contracts, requiring immediate actions by several business units to achieve compliance.

The EO issued by the OIR activated the provisions of Rule 69O-142.015(2), F.A.C. titled "Standardized Requirements Applicable to Insurers After Hurricanes or Natural Disasters," and cited certain provisions of the rule, providing specific dates called for, as follows:

- Extended the time limit for any provision, notice, correspondence, or law imposing a time limit upon an insured to perform any act, including transmitting information or funds with respect to an insurance contract, until November 28, 2022. See Rule 69O-142.015(2)(c)
- Precluded Citizens from issuing notices of cancellation or non-renewal between September 28 and November 28, 2022, except at the written request or written concurrence of the policyholder. See Rule 69O-142.015(2)(d)
- Ordered Citizens to withdraw any notices of cancellation issued or mailed within ten (10) calendar days preceding September 28, 2022. The EO allowed these notices to be reissued on or after November 28, 2022. See Rule 69O-142.015(2)(e)
- Allows insurers to extend coverage to and including November 28, 2022 (or a later date) for cancelations and non-renewals that would have taken effect during the EO period. The premium for the extended term of coverage would be the pro-rated portion of the entire term of the policy. See Rule 69O-142.015(2)(g)
- Established provisions for cancellation of policies financed by premium finance companies. See Rule 69O-142.015(2)(n)
- Precluded Citizens from canceling or non-renewing a personal residential or commercial residential property insurance policy, regardless of county location, covering property damaged as a result of Hurricanes Ian and Nicole for a period of ninety (90) days after the dwelling has been repaired. Exceptions may apply as provided in §627.4133(2)(d)2, F.S.

Objectives and Scope

Through this targeted audit, Internal Audit reviewed the processes established and followed by Citizens' Underwriting Department to comply with the EO, as applicable to policy cancellations and non-renewals postponed or issued.

[1] This order amended Emergency Order 300997-22 issued on September 28, 2022, as a result of the State of Emergency created by Hurricane Ian. Time periods established by the first order remained unaffected. Management determined no additional operational impact and compliance was maintained as part of the Hurricane Ian EO protocol.

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Results

Citizens was able to achieve full compliance with the EO outlined mandate to protect impacted policies from cancellation and non-renewal during the specified period. Notwithstanding, Management explains that the process of complying with the EO was not a straightforward one as it confronted complexities due to the different timing and timeline elements as well as the various types of cancellations (flat, non-payment, system-generated, underwriter-issued, insured-requested) and divergent scenarios. Among the complexities and challenges were PolicyCenter's coding and the convergence of the EO, Rule 69O-142.015, F.A.C. and §627.41.33, F.S.

To comply with the EO, Citizens' Executive Leadership made the decision to take a customer-centric approach and reinstated or renewed policies protected by the EO, which at the time of the EO, amounted to approximately 31,248 policies that were slated for cancelation or non-renewal, or for which notices had been sent within the ten (10) day period preceding the EO. Historically, Citizens has taken this customer-centric approach when non-renewals are prohibited due to an EO, to rescind the nonrenewal (in compliance with the EO) and offer a renewal policy to the insured. If the condition for nonrenewal is not satisfied, it is re-processed the following year.

Because of system limitations and narrow timeline to issue proper notices, these policies were issued for up to one year. They would have to be set for non-renewal before the policy anniversary. Management explained that in instances where there was still enough time to send proper notices (cancellation or non-renewal) pursuant to statute, notices were sent. Of these 31,248 policies, approximately 9,316 are no longer In-Force due to actions (cancellation, lapse, etc.) taken after the EO protected period.

Also, the protection of the EO included policies with non-renewals set to be noticed during the EO period or taking effect during it, because the renewal process had flagged them for bumping against the statutory cap as part of the cross-check with the inflation guard tool. So far, approximately 1,581 policies have been reinstated or renewed, with a dwelling replacement cost above the statutory cap of $700K (or $1M for Miami-Dade and Monroe counties).

Having these ineligible risks in Citizens' book of business could present an additional challenge if the policyholder files a claim associated with Hurricanes Ian and Nicole. Pursuant to the EO, Citizens cannot cancel or non-renew policies covering property damaged because of Hurricanes Ian and Nicole for a period of ninety (90) days after the dwelling has been repaired.

Internal Audit contacted the OIR to understand how other Florida insurance carriers complied with the EO. The OIR advised that some carriers would extend coverage for an additional period (60 days, for example) to achieve compliance (Rule 69O-142.015(2)(g)), which may not be feasible for Citizens due to system limitations and operational complexities. Citizens Executive Leadership reported having contacted two Florida domestic insurers and one national carrier to better understand system capabilities regarding moratorium processing. While all three stated that they are handling the moratorium by extending coverage through the end of the moratorium, two of the three were doing so outside of their system. The national carrier was unable to provide them with specifics about how the function was accomplished. While smaller carriers may have been able to cancel policies manually after the protected period due to a lower policy volume,

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processing the impacted policies manually would have presented additional challenges for Citizens.

Regarding PolicyCenter, management explains that its coding does not allow Citizens to assign specific coverage periods shorter than one year. The ability to assign shorter coverage periods would have allowed Citizens to issue a renewal offer for less than the usual one-year period. Industry contacts have confirmed that this functionality is not available out of the box in PolicyCenter, and adding it may come at an increased cost. If desired, this functionality would have to be coded by Guidewire, and the cost of implementation is unknown at this time. Adding this functionality would also require updating policies, guidelines, rating structures, etc., for periods shorter than one year.

Following our assessment of all these activities, Internal Audit noted that while all issues were managed and decided upon to comply with the EO, this may lead to additional risk for this and for future instances where the OIR issues EOs. The following instance and derivatives should be reviewed, and enhancements implemented:

> **PolicyCenter Coding** - Internal Audit learned that PolicyCenter's coding, as used by Citizens, does not allow Underwriting to assign specific coverage periods shorter than one year. This functionality was not part of the Insurance Suite implementation and for this reason, all protected policies were reinstated up to their original expiration date (Cancellations) or presented with a renewal offer for one year (Renewals), with Underwriting sending proper notices where time allowed.
>
> Had this been an available functionality within PolicyCenter, a short-term renewal could have been offered to comply with the EO without having to assume ineligible risks for up to one year or more in the event a policyholder files a claim related to Hurricanes Ian and Nicole.
>
> Within this group of renewed policies, approximately 1,581 were for structures with a dwelling replacement cost of $700K or more (or $1M for Miami-Dade and Monroe counties), which have been insured to value. Pursuant to law, these risks are not eligible for coverage with Citizens.
>
> Management should prioritize aligning practice with the intent of the statutory cap either through the addition of resources or a system solution. Consideration should also be given to incorporating this as a requirement for the new policy administration application, for which a solicitation is currently underway.

We thank management and staff for their cooperation and professional courtesy throughout this audit.

Detailed Findings

1. PolicyCenter Coding

Classification	High	**Control Evaluation**	Control not appropriately designed
Observation	To comply with the EO, Citizens' Executive Leadership made the decision to reinstate or renew policies protected by the EO, instead of renewing the policy for a period shorter than one year and billing for the shorter term. This would have allowed proper non-renewal or cancelation (where applicable) notices to be sent. These activities were done through PolicyCenter, Citizens' application for policy administration, and an integral part of Citizens' Insurance Suite. PolicyCenter's out-of-the-box coding does not allow Underwriting to assign specific coverage periods shorter than one year, which would have allowed compliance with the EO (pursuant to Rule 69O-142.015(2)(g)) with a limited assumption of risk. Due to system and timeline limitations, all policies protected by the EO were reinstated and/or renewed for up to one year. These voluntarily assumed risks could pose an additional complication if the policyholder files a claim associated with Hurricanes Ian and Nicole. Pursuant to the EO, Citizens cannot cancel or non-renew policies covering property damaged because of Hurricanes Ian and Nicole for a period of ninety (90) days after the dwelling has been repaired. These policies, the total of which is still to be determined, could potentially be renewed for an additional term. These renewed policies included approximately 1,581 policies with a replacement cost of $700K or more (or $1M for Miami-Dade and Monroe counties), which were insured to value. Pursuant to §627.351(6)(a)3, F.S., a structure that has a dwelling replacement cost of $700K or more or a single condominium unit that has a combined dwelling and contents replacement cost of $700K or more, is not eligible for coverage at Citizens. Regarding properties in Miami-Dade and Monroe counties, the OIR established the cap at $1M, as statutorily authorized. In order to comply with the EO, Citizens determined to insure to value those risks that had bumped against the statutory cap during the renewal process. These policies have been or will be issued for up to one year with limits reflecting the new updated value over the statutory cap.		
Cause(s)	The decision was made due to system and timing limitations.		
Exposure	Citizens' decision not to manually assign a policy period to align its policy renewals, following the conclusion of the EO, with the statutory cap resulted in some ineligible risks remaining insured for up to one year (or more, depending on the circumstances), increasing the likelihood of financial loss.		

Detailed Findings

Agreed Upon Action	• Prioritize assessing the impact of introducing this functionality within PolicyCenter and any necessary updates to policies, guidelines, rating structures, etc., to account for periods shorter than one year.
	• Prioritize any actionable system or manual solution resulting from the assessment.
	• Address this as a requirement in the current solicitation for Insurance Suite.
	• Obtain guidance from OIR to:
	  ○ Add clarification in subsequent EO that details how to handle the Coverage A max scenario (and other scenarios, i.e. SB2A new flood requirements) and/or
	  ○ Provide additional cancellation reasons allowed.		

Responsible Individual	Stephen Mostella, VP of Underwriting	**Completion Date**	12/31/2023

Appendix 1

Issue Classifications

Control Category	High	Medium	Low
Financial Controls (Reliability of financial reporting)	• Actual or potential financial statement misstatements > $10 million • Control issue that could have a pervasive impact on control effectiveness in business or financial processes at the business unit level • A control issue relating to any fraud committed by any member of senior management or any manager who plays a significant role in the financial reporting process	• Actual or potential financial statement misstatements > $5 million • Control issue that could have an important impact on control effectiveness in business or financial processes at the business unit level	• Actual or potential financial statement misstatements < $5 million • Control issue that does not impact on control effectiveness in business or financial processes at the business unit level
Operational Controls (Effectiveness and efficiency of operations)	• Actual or potential losses > $5 million • Achievement of principal business objectives in jeopardy • Customer service failure (e.g., excessive processing backlogs, unit pricing errors, call center non responsiveness for more than a day) impacting 10,000 policyholders or more or negatively impacting a number of key corporate accounts • Actual or potential prolonged IT service failure impacts one or more applications and/or one or more business units • Actual or potential negative publicity related to an operational control issue • An operational control issue relating to any fraud committed by any member of senior management or	• Actual or potential losses > $2.5 million • Achievement of principal business objectives may be affected • Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting 1,000 policyholders to 10,000 or negatively impacting a key corporate account • Actual or potential IT service failure impacts more than one application for a brief period • Any operational issue leading to	• Actual or potential losses < $2.5 million • Achievement of principal business objectives not in doubt • Customer service failure (e.g., processing backlogs, unit pricing errors, call center non responsiveness) impacting less than 1,000 policyholders • Actual or potential IT service failure impacts one application for a brief period

Appendix 1

Control Category	High	Medium	Low
	any manager who plays a significant role in operations • Any operational issue leading to death of an employee or customer	injury of an employee or customer	
Compliance Controls (Compliance with applicable laws and regulations)	• Actual or potential for public censure, fines, or enforcement action (including requirement to take corrective actions) by any regulatory body which could have a significant financial and/or reputational impact on the Group • Any risk of loss of license or regulatory approval to do business • Areas of non-compliance identified which could ultimately lead to the above outcomes • A control issue relating to any fraud committed by any member of senior management which could have an important compliance or regulatory impact	• Actual or potential for public censure, fines, or enforcement action (including requirement to take corrective action) by any regulatory body • Areas of non-compliance identified which could ultimately lead to the above outcomes	• Actual or potential for non-public action (including routine fines) by any regulatory body • Areas of noncompliance identified which could ultimately lead to the above outcomes
Remediation timeline	• Such an issue would be expected to receive immediate attention from senior management, but must not exceed 60 days to remedy	• Such an issue would be expected to receive corrective action from senior management within 1 month, but must be completed within 90 days of final Audit Report date	• Such an issue does not warrant immediate attention, there should be an agreed program for resolution. This would be expected to complete within 3 months, but in every case must not exceed 120 days

Distribution

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