

Office of the
Internal Auditor

Advisory Memorandum May 2023

Special Legislative Session
Implementation (December 2022)





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Background

The Florida Legislature held a third special session on insurance last December, through which several bills were passed, including Senate Bill 2A (SB 2A). SB 2A aimed to stabilize the Florida property insurance market and strengthen consumer protection by establishing and/or amending existing statutes on property insurance. Citizens' business units responded promptly to these new requirements and identified and implemented business and technical changes to comply with the bill.

Objectives and Scope

Internal Audit monitored the implementation of changes identified and developed by Management as necessary to comply with the requirements of SB 2A.

Overview of SB 2A

Senate Bill 2A established changes to claims processes, statutes of limitations, reinsurance programs, and insurer regulations, among others. The following are the highlights of the bill:

- Establishes the Florida Optional Reinsurance Assistance (FORA) Program, an optional hurricane reinsurance program that insurers can purchase at “reasonable” rates.
- Eliminates one-way attorney fees in suits arising under a residential or commercial property insurance policy.
- Eliminates the assignment (AOB), in whole or in part, of any post-loss insurance benefit under any residential property insurance policy or under any commercial property insurance policy issued on or after January 1, 2023.
- Reduces the time for policyholders to report a claim under their policy. For new or reopened claims, the term is reduced from 2 years to 1. For a supplemental claim, the term is reduced from 3 years to 18 months.
- Provides conditions to allow property insurers to include mandatory binding arbitration in policy language.
- Authorizes the OIR:
 - To subject any insurer to a market conduct examination after a hurricane based on handling related property insurance claims.
 - To suspend or revoke an insurer's certificate of authority or issue administrative fines and restitution if the insurer abuses the appraisal process.
- Amends and limits prompt pay for insurers by:
 - Reducing time for insurers to review and acknowledge a claim communication from 14 days to 7 days.
 - Reducing time for insurers to pay or deny the claim from 90 to 60 days. Allows the OIR to extend the 60-day for an additional 30 days if a state of emergency, cyberattack, or computer systems failure prevents the insurer from meeting the time frames of the prompt-pay law.
 - Reduces the time for an insurer to begin an investigation from 14 to 7 days.
 - Reduces the time for an insurer to conduct a physical inspection from 45 to 30 days. This applies to hurricane claims as well.



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- Allows insurers to use electronic methods to investigate the loss and allows policyholders to participate in the use of such methods.
- Amended the Unfair Insurance Trade Practices Act to conform to these changes by reducing the requirement to pay undisputed amounts of benefits from 90 days to 60 days.
- Making changes to the Citizens' insurance program by:
 - Increasing the eligibility threshold for renewal of Citizens' personal lines policyholders and new commercial residential coverage. Policyholders are now ineligible for a Citizens policy if there is an offer of coverage for a premium that is not more than 20 percent of Citizens' renewal premium.
 - Increases the rates charged for coverage on risks that are not primary residences.
 - Eliminates the possibility for insureds to return to Citizens at renewal if the take-out carrier increases their rates above the Citizens' glide path.
 - Requiring Citizens' personal lines residential policyholders to secure flood insurance.

Results

Internal Audit observed and validated conscientious efforts by Management to address the changes effected by SB 2A upon being passed and signed into law. These efforts included the initial review and analysis of the bill by the Project Team, comprised of members from several business units, assignment of owners, and creation of workgroups for the different sections of the bill, scheduled meetings for updates on the implementation of the initiatives, and training of Citizens' internal and external resources.

While a few sections of the bill do not apply to Citizens (e.g., FORA Program) or were already part of Citizens' practices, others did require the implementation of initiatives or changes in procedures, which included the following:

- Discussions with the Florida Office of Insurance Regulation regarding Market Conduct Examinations.
- Implementation of product and Clearinghouse changes to recognize as ineligible those risks where the premium for coverage from the authorized insurer is not greater than 20% of Citizens' premium.
- Discussions with House and Senate Committee for changes in Flood Insurance requirements.
- Discussion and deep dive into Citizens' authority to combine underwriting accounts.
- Review and update Claims Best Practices to include new statutory timeframes and insureds' option to request a detailed estimate.
- Review and update the Homeowner Claims Bill of Rights.
- Training and updates to staff, independent adjusters, agents, and outside counsel regarding the new processes and/or handling procedures, strategies, and related topics such as the new flood insurance requirements. Internal Audit attended one of the training sessions for Citizens' outside counsel, where these changes and procedures were discussed.

The provisions and requirements of SB 2A applicable to Citizens have been effectively integrated into Citizens' processes. The workgroup is scheduled to meet again in June to discuss remaining items (i.e., underwriting accounts combination) and continue to discuss bills passed during the 2023



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Legislative Session. Internal Audit will continue to monitor the progress of any changes, provide input as appropriate, and report on the results.

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



Distribution

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The External Auditor

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