

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
AUDIT COMMITTEE MEETING
Tuesday, July 11, 2023**

The Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was convened at 1:00 PM on Tuesday, July 11, 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 Charlie Lydecker
Josh Becksmith
Erin Knight
Jason Butts

The following Citizens Staff were present:

Jay Adams	Eric Addison	Christine Ashburn	Carl Rockman
Violet Bloom	Kelly Booten	Tim Cerio	
Bonnie Gilliland	Barry Gilway	Mark Kagy	
Jennifer Montero	Joe Martins	Matthew Carter	
Alden Mullins	Ray Norris	Michael Peltier	
Jeremy Pope	Barbara Walker	Jon Schmidt	
Andrew Woodward	Brian Donovan	Ken Tinkham	

The following were present:

Brian Smith, FORVIS
Kapil Bhatia, Raymond James
Dave Newell, FAIA
Jim Perry, Wells Fargo
Nathaniel Johnson, B of A Securities
Mark Weinberg, Citi

Barbara Walker: Good afternoon, and welcome to Citizens' July 11th, 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, thank you for identifying yourself prior to addressing the committee. May I proceed with the official roll call?

Members called and were present. Quorum received.

Chair Leznoff: Thank you so much. We will go ahead and proceed, and the first action item is the approval of the prior meeting's Minutes.

Action Item approved.

Chair Leznoff: And then we will move on to our presentation from our Office of Internal Audit. Joe, you are recognized.

Joe Martins: Thank you, Madam Chair. Good afternoon, Governors. I refer you to tab two of the pack, where I provide an overview of the Internal Audit activity, progress, and copies of the reports.

Since the March meeting, Internal Audit has completed seven engagements, including four audits. On the slide in front of you on the top left table is a graph indicating that we have completed a total of 12 engagements since January and are currently actively working on nine other engagements.

In the column to the right, I list the four audits that we completed during the period. With the CAT Preparedness audit, we participated in the preparation processes and validated the assessment of the CAT preparation and assurance testing, focusing on action taken from enhancements of lessons learned from the prior year. Results from the audit indicate that effective business processes and controls are in place to ensure adequate management, accuracy, and quality of CAT readiness processes.

For the Enterprise Operational Readiness Audit, we partnered with an outside consulting firm to assess strengths and weaknesses in the organization's systems, processes, infrastructure, and people, focusing on preparing the growth and scaling operations effectively, given the current policy in-force growth Citizens has. The engagement noted that Citizens' robust leadership, governance, and processes contribute to its ability to expand and contract accordingly. The consultant team commented that for its size, Citizens is one of the best growth-prepared companies they have worked with. The work did not identify any failure in the processes assessed and noted that Citizens could further strengthen its maturity level with the improvement opportunities detailed in the back of the report.

The next audit is the Print Mail Vendor Audit. It was initiated following the failure of a vendor to deliver the printing services, and corrective action was taken by management. We provided recommendations relating to improving oversight over the completion of work provided to print mail vendors from the document submission process with the improvement of the seed mail

process and enforcing service level requirements.

In the Underwriting Moratorium Audit, we focused on actions taken to comply with the moratorium order. Our work highlighted the need to prioritize actionable systems or manual solutions to avoid ineligible risks from remaining in the policy register following the completion of the moratorium period and consider the flexibility for shorter adjustable policy terms in the procurement of PolicyCenter's replacement application.

On that same table in the middle, we show the nine ongoing engagements, including five audits. These refer to the Claims Legal Billing Audit, where we assess the effectiveness of process methodology and results of the Legal Billing Review Team and its new purview. In the Emergency Procurement Audit, we will review the procurement of vendor management procedures related to CAT emergency procurements following the recovery period. For the Mobile Computing or Remote Computing Audit, following the transition to a distributed workforce model and the ongoing transition to cloud computing, there is a greater reliance on mobile/remote computing in how users access information systems. And we will look at the effectiveness of the practices deployed.

We will assess third-party information technology selection, safeguards, oversight, and evaluation practices and controls for the Third-party Technology Risk Audit. Citizens use vendors to augment the staff required to manage policy growth. With the Underwriting Vendor Management audit, we will evaluate the adequacy and effectiveness of the controls related to outsourcing vendor data, quality, actuary processes, and oversight. Also, the Auditor General is commencing its tri-annual audit of Citizens in August.

In the bottom left of the slide, we show a graph that indicates we are currently tracking 4 open observations from 3 audits. Two of these observations were rated high impact and mentioned earlier in the presentation.

Next slide, please. Every year we review the adequacy of corporate policies related to the OIA. The Committee authorized some changes last year, but this year's review did not identify the need for change. Before I continue with the action item, I would like to ask if there are any questions from the Internal Audit work.

Chair Leznoff: Any questions? No.

Joe Martins: We are also presenting two Charters, the Audit Committee Charter as well as the Office of the Internal Auditor Charter, for review and approval. Both charters are presented to the committee annually, where after the Audit Committee charter it goes to the Board for approval the next day.

The Audit Committee Charter sets out the authority of the Committee to carry out responsibilities established for it by the Board of Governors. The Charter defines that the purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities for the integrity of Citizens' financial statements; Citizens' compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; and the performance of the Office of the Internal Auditor and independent auditors. In discharging its responsibilities, the Committee will have unrestricted access to members of management, employees, and information it considers necessary to fulfill its duties.

As for the Office of Internal Auditor Charter, the Charter defines the Internal Audit activity's purpose, authority, and responsibility. The Charter, by Section 627.351(6)(i) of the Florida Statutes, establishes the internal audit activity's position within the organization, including the nature of the Chief of Internal Audit's functional reporting relationship with the Board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities. I completed a review of both charters against industry best practices and the Citizens' statute and found the charters to be appropriate.

Madam Chair, if there are no questions, I will read the recommendation.

Chair Leznoff: And the charter is unchanged; is that correct?

Joe Martins: The charter is unchanged; that is correct, Madam Chair.

Chair Leznoff: I have no more questions.

Joe Martins: Staff recommends that the Citizens Audit Committee approve the Citizens' Audit Committee charter for presentation to the Board of Governors at the next meeting on July 12th, 2023, and approve the Office of Internal Audit charter as presented.

Action Item approved.

Joe Martins: Thank you, Madam Chair. The next slide, please. Enterprise Risk and the Executive Leadership Team completed the 2023 Strategic Risk Assessment in February. Mitigating action for each of these risks has been developed and is being implemented. A detailed description of each risk is included in the packet for your reference.

Operational risk descriptions, ratings, and mitigating activities are periodically updated. As of June, 311 operational risks have been identified and assessed. Operational risk assessments are currently in progress within Financial Services and Enterprise Operations.

Next slide, please. The Internal Control team, Control Champions, and Management perform annual control self-assessments of the effectiveness of the primary controls and the internal control infrastructure to ensure that Citizens' primary controls are appropriately designed and continue to operate effectively. Through the performance of the control self-assessments, management validates whether the primary controls are working as intended or identifies areas that may need improvement. The control self-assessment results are utilized to improve processes and enhance our control environment continuously.

As of June, 94 primary controls have been identified and recorded. Control self-assessments have been concluded, completed, and are currently in progress for Claims, Enterprise Operations, Financial Services, and Human Resources. The remaining areas are on track for completion by the end of the year. That concludes my report if there are no questions.

Chair Leznoff: Are there questions from the Board for Joe? No. Thank you. I did want to let the other Board members be aware of a conversation and something that I would like us to move forward with. In our discussion of the Print Services Audit, it was discovered that Citizens

was billed for services that were not received and that there was a portion of those where we had made payment. Although the situation is somewhat unique, a lot of contracts are unique. So, I have asked that we take a look to ensure that when we are paying invoices that there are appropriate mechanisms in place to ensure that those services have actually been received, and Joe said that I could do that as Chair, but I did want to touch base with you, make sure that there are no objections to moving forward to adding that to the audit finding.

Board Chair Beruff: Madam Chair, that is a prudent comment to make that we should only be paying services in arrears of actually getting the services unless there is a specific need to advance funds for a project-driven contract. In this particular case, this was a statewide problem with this particular vendor, I know that they have been dealing with it for quite so many months, but as a matter of policy, you are 100 percent right. We should be paying our bills after the services are rendered and we know they were rendered.

Chair Leznoff: Thank you. Any other comments?

Joe, we will proceed with that then.

Joe Martins: Thank you, Madam Chair.

Chair Leznoff: All right. Next up, we have Jennifer Montero.

Jennifer Montero: Behind tab three of your books. The 2023 first-quarter results of operations and financial position. It does provide cash flows, invested assets, and surplus, as well as the operational results of the first quarter, and then the document behind the blue divider is the commentary, which is what I am going to go over. At March 31st, 2023, consolidated cash and invested assets totaled 9.3 billion or approximately 300 million more than at December 31st, 2022. Net cash flows from operations contributed most significantly to the increase in cash-invested assets at March 31st.

Consolidated surplus was 4.7 billion, reflecting an increase of approximately 370 million in comparison to December 31st. The increase in surplus was driven by first-quarter net income of approximately the same amount. Consolidated direct premium written was 967 million or 75 percent more premium than was written during the same period in 2022. The renewal rate throughout the first quarter of 2023 was 86 percent, which reflects an increase of eight percentage points relative to the renewal rate through the first quarter of 2022.

Additionally, the number of new policies written in 2023 which is 131,000, increased 28 percent compared to the 102,000 new policies written through March 31st of '22. Through the first quarters of 2023 and 2022, no premiums were ceded for private reinsurance. They're not recognized by Citizens until June 1st, which is the inception of the Atlantic hurricane season.

No adjustments were made to ultimate losses or LAE for CAT events as of March 31st, 2023. The March 31st gross and net ultimate loss and LAE associated with CAT events were as follows. Hurricane Ian was 3.6 billion on a gross basis and 2.6 on a net basis. Hurricane Irma is 2.6 billion gross and 1.4 billion net. Tropical Storm Sally and Ada, 305 million. There were no reinsurance recoveries. Hurricane Michael was 148 million, with no reinsurance recoveries. And then Hurricane Nicole was 96 million gross and 82 million net.

The 2023 non-catastrophe losses in LAE ratio for the personal lines account, and the coastal account is comparatively unchanged relative to 2022. The dominant driver behind the

improvement of the loss in LAE over the past several years has been the improvement in the litigation rates, which continues to be the single most important factor in non-catastrophe losses in LAE, and which have remained stable for the non-catastrophe losses in 2022 and into 2023.

The underlying CLA loss in 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 systemic changes to the underlying loss experience or book of business.

Administrative expenses incurred during the first quarter were 46 million or 6 million more than the first quarter of '22, and 7 million less than budgeted. The expense ratio for the period ending March 31st was 15.1 percent, marking a two percent decrease from the same period last year, and .4 percent less than budgeted.

Total investment income for the first quarter was 62 million, which was approximately 17 million or 37 percent more than the same period last year, while the average invested assets decreased 231 million. The increase in overall interest rates throughout '22 has had the largest impact on investment income. At March 31st, 2023, total unrealized losses across all portfolios were 729,000,000, an improvement of 133,000,000 relative to the total unrealized losses at December 31st.

At June 30th, 2023, total unrealized losses were 796 million, which is 67 million more than at March 31st, reflecting continued volatility in the overall interest rates.

Board Chair Beruff: Madam Chair, I have a question. Thank you. This may not be for you, Jennifer, but unrelated to what you have just commented on, it is important as the litigation rate goes down, do we know statistically the percentage of claims that are settled in 90 days across the state of Florida?

Jennifer Montero: Jay or Brian. Brian.

Board Chair Beruff: And I don't need to interrupt your presentation.

Jennifer Montero: No, that is okay.

Board Chair Beruff: So, if somebody could get that because I think it is important that we continue to message that by and far the claims are getting satisfied at a high rate in a 90-day period and the public needs to know that. Because the litigation and the legislation that has changed, there is no negative effect on the ability to settle claims quickly across the state. Not just at Citizens, but all the other companies that we have data on.

Jennifer Montero: Yes, we will get that number. And the litigation, the percentage of litigation settled within the first 90 days.

Board Chair Beruff: No, non-litigation, claims, period. If we have 100 claims, are we settling 96 of them in 90 days? That is the statistic that we need to be able to make sure the public is aware of.

And if not, then we have got to make sure that we increase whatever pressure we have on ourselves to do that and the rest of the industry.

Jay Adams: For the record, this is Jay Adams, Chief of Claims. So, with the new legislation,

you know, we are compelled to settle those claims in 60 days. If not, and there are no compelling reasons that we did not do it, meaning the insured didn't make the property available and so forth. We have to pay interest on any claims that go through that process. And we do keep track of how many we miss that deadline where we don't really have a compelling reason for that.

Board Chair Beruff: Again, if we have bragging rights then we need the public to understand how quick we are settling those claims so the other side, whoever they may be. Don't use that ammunition.

Jay Adams: Sure.

Board Chair Beruff: Thank you very much, Madam Chair.

Chair Leznoff: Thank you.

Jennifer Montero: That concludes my report. If there are no questions, our external auditors are here to go over the audited financials for 2022.

Chair Leznoff: Jennifer, I don't know if you can get this for us and something we just talked about briefly. If we were looking at our quarterly position over the last five years, what would that chart look like?

Jennifer Montero: In the personal lines account?

Chair Leznoff: Well, yes, primarily, but all, in aggregate.

Jennifer Montero: Well, you would see the surplus depleting over the years starting with Irma taking a big hit. Financials said Irma took a big chunk out of our surplus and we do have big retentions below where the reinsurance and the CAT fund kick in. Then a few years later we got hit, the next year was Michael, and each time you have those big hits and even the non-hurricanes, the litigation that was going on has taken chunks here and they're out of the surplus. You see the surplus going down.

Chair Leznoff: So due to these external factors, litigation, storms, et cetera, we are no longer as robust as we were five, 10, 15 years ago?

Jennifer Montero: Before Irma, I think our surplus was 7.6 billion I think, and now combined it is 4.7 now. So, we have lost almost half of it.

Chair Leznoff: Thank you.

Jennifer Montero: In the last few years.

Chair Leznoff: And next up, we have our external audit update, Brian Smith.

Brian Smith: Good afternoon, Brian Smith. For the record, from Forvis, our external audit firm for Citizens. My intention today is to give a highlight of the results of our 2022 audits, and I will go through our report and cover some of the key points taken away from our work. As a reminder, our scope for the 2022 audit was to audit the statutory financial statements with Citizens and the GAAP financial statements under government accounting standards. A few

highlights today. In December, on December 6, we presented our audit plan for the 2022 audit. There were no significant changes to that plan. I will cover some of the highlights of significant audit areas which include valuation of the investment portfolio and evaluating other and temporary impairments for the investments. Evaluating loss reserves, analyzing premiums, and recognizing cancellation of premiums as well. The reinsurance program as well as new accounting adoptions in 2022.

First, I am going to cover the results of testing the insurance loss reserves. As a reminder, our procedures include evaluating the credentials of both management's actuaries as well as the actuaries that we evaluate, we engage a third-party actuarial firm from Molinas & Associates. We also test the underlining records that go into that actuarial analysis as well as evaluate the overall reserves with the results of the actuaries. We found that the insurance reserves are reasonable as of December 31, 2022.

Chair Leznoff: I am sorry, could you repeat that?

Brian Smith: We found they were reasonable as of December. Next, I am going to cover just the valuation of investments and fair values. So, Jennifer spoke earlier, the investment portfolio as of December 31, on a statutory basis, had about a \$858 million unrealized loss, and so we provided extensive work with management to understand that they had the intent and ability to hold those investments to recover those unrealized losses. We also consulted with our national office on, on management positions and found that no impairments were recognized and that it was reasonable. One more item to point out. In 2022, Citizens entered into a new agreement, this is the cut-through endorsements. So, this agreement was entered August 3rd, 2022, and expires June 1st of 2023. The agreement provides Citizens to provide additional claims-paying resources for the benefit of policyholders insured by authorized insurers in the event that authorized insureds become insolvent. And the outstanding claims that are exceeding FIGA's statutory limits, Citizens would provide coverage for those amounts. So, there was loss exposure because there was an agreement in place with a carrier that did go insolvent in 2022. And so, management evaluated whether there was loss reserves needed. They determined there is exposure for claims, but the loss reserves were zero and that was reasonable as of December. So, I wanted to point out that there is exposure under that agreement.

From an accounting policy standpoint, the GASB financial statements did implement a new accounting pronouncement, GASB 87, related to leases. Under that standard, you are required to restate prior years. As you will see in the financial statements under the government accounting standards, the 2021 financial statements are restated to bring those lease assets and liabilities on the books. There was an increase of \$53 million on January 1st, 2021, for the assets and \$51 million for the liabilities.

As far as findings in the audit, we did have one reported adjustment we identified. This is related to the GAAP financial statements. There was a \$456 million negative cash balance with JP Morgan. The government accounting standards say if you have a negative cash balance, you have to reclass that to a liability and increase your cash. So that was posted and recorded in the financial statements.

Board Chair Beruff: I am sorry, could you repeat what you just said?

Brian Smith: Yes. So, if your cash is negative, accounting standards are going to say increase your balance and increase your liability. It is a gross-up on the balance sheet. It has no impact

on earnings, no impact to net position.

Board Chair Beruff: So, you move it to both sides.

Brian Smith: Correct.

Governor Thomas: Thanks.

Brian Smith: And the reason it was negative, that was large payments related to Hurricane Ian, claims payments at the end of the year. So, understand how it got there.

There was one uncorrected misstatement during the year which was not reported. This related to premiums receivable, and so as of September 28th and through November 28th, there was a moratorium placed on the ability to cancel policies related to Hurricane Ian. And because of that there were policies that were uncollected at the end of the year. We had the ability of hindsight to go back and look to identify those policies during the moratorium where they collected or where they canceled. There is \$23 million of policies that were uncollected. We identified that as an uncorrected misstatement. We agreed with management, it is immaterial. There is an offsetting result to unearned premium as well. The net impact to net position is \$3 million. So immaterial for 2022. As far as control standpoint, we did not identify any material weaknesses during the year. And that concludes my report.

Chair Leznoff: Are there questions? Thank you.

Brian Smith: You are welcome.

Chair Leznoff: Next, we have the Office of Inspector General's quarterly report. That is for information. It is in your packet. Does anybody want to hear? Is there any new business?

Chair Leznoff: Is there a motion to adjourn?

Governor Thomas: So, moved.

Chair Leznoff: We are adjourned. Thank you.

Board Chair Beruff: Thank you.

(Whereupon, the meeting was concluded)