

Office of the
Internal Auditor

Advisory Memorandum 2023

Flood Requirement



Memorandum Number: 2023-MAS-14
Flood Requirement





Advisory Memorandum

Background

Senate Bill 2-A, passed by Florida legislators during the December 2022 Special Session, included a new Flood Requirement for Citizens policyholders. The bill provides that Citizens' personal lines residential policyholders with wind coverage must secure and maintain flood insurance if located within the special flood hazard area as defined by the National Flood Insurance Program (NFIP) as a condition of eligibility for Citizens' coverage. The provision was modified during the 2023 Legislative session to exempt condominium unit owners. Citizens' PIF count has increased to 1.3 million policies in force over the past few years, challenging the organization to efficiently incorporate new processes and requirements to ensure eligibility for policy renewal.

In addition, coverage for all other risks, including those outside of the special flood hazard area, will be required to obtain flood insurance at policy issuance or when policy renewal is effective in alignment with the following dates and coverage A-amounts:

- January 1, 2024, Coverage A \$600,000+
- January 1, 2025, Coverage A \$500,000+
- January 1, 2026, Coverage A \$400,000+
- January 1, 2027, all other policies when windstorm coverage is provided by Citizens Property Insurance Corporation

Objectives and Scope

Internal Audit reviewed the new underwriting processes and controls for obtaining proper flood requirement documentation to ensure eligibility for personal residential policyholders located in flood hazard areas.

Results

Our review indicated that the Underwriting and Product Development workgroup quickly updated new rules for the flood changes under a very compressed timeline, with the first effective date of April 1, 2023, for new business applications. The following items were observed:

- Flood Requirement letters were sent to impacted policyholders advising them of the new requirement and proper documentation needed. e.g.: Signed Policyholder Affirmation Form.
- Approximately 32,000 personal lines risks located in flood zone areas were reviewed and validated. Each new business policy had a signed Flood Affirmation form before the April 1 effective date for new business.
- Data updates and controls were implemented in PolicyCenter for the new flood requirements.
- Development of new training documents for the Underwriting Operational Guidelines was completed and distributed.
- Webinars for new flood requirements were created and conducted for staff training.
- Flood FAQs were established as a resource for underwriters.
- PowerBI dashboards were established to track Flood Policy Compliance.
- Communications for Agents were created and distributed in January 2023 advising of flood requirements for new business applications.



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- Additional resources were provided to agents, such as training webinars, job aids, and website references for agents and consumers were provided: <https://www.floodsmart.gov/why-buy-flood-insurance>
- In accordance with renewal policy established timelines, communications for renewal policies requiring flood insurance effective July 1, 2023, were created and distributed to policyholders and Agents per the following timeline:
 - 150 days prior to renewal, policyholder email and letter issued.
 - 130 days prior to renewal, a non-renewal letter is issued.
 - 90 days prior to renewal, a second non-renewal letter is issued.
 - 60 days prior to renewal, reminder emails and letters are issued.
 - 51 days prior to renewal, quoting window for customers who desire flood coverage to begin with Citizens' renewal effective date.
 - 0 days, Citizens' non-renewal is activated. The policy must be rewritten if coverage is desired.
 - Policyholders receive one of the following notification letters prior to the non-renewal of their policy: Flood Coverage Sufficient, Flood Coverage Insufficient, No Flood Coverage.
 - It is important to note that NFIP requires a 30-day waiting period unless the flood application is due to a loan transaction. Agents may submit to NFIP up to 90 days before the Citizens renewal date.

Internal Audit has assurance that the SB2A Flood Insurance Requirements processes and controls were adequately designed and implemented timely to meet the new business and renewal requirements of the April 1, 2023, and July 1, 2023, required due dates.

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



Distribution

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