

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE AUDIT COMMITTEE MEETING Tuesday, December 5, 2023

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened at 12:00 p.m. on Tuesday, December 5, 2023.

The following members of the Audit Committee were present:

Chair Jamie Shelton Board Chair Carlos Beruff Governor Scott Thomas

The following Board members were present:

Governor Lydecker Governor Knight
Governor Cumber Governor Butts

The following Citizens Staff were present:

Jay Adams	Eric Addison	Christine Ashburn	Ken Tinkham
Violet Bloom	Kelly Booten	Tim Cerio	Carl Rockman
Bonnie Gillilan	Mark Kagy	Stephen Mostella	Palicia Francis
Paul Kutter	Jennifer Montero	Joe Martins	Paul Kutter
Alden Mullins	Ray Norris	Michael Peltier	Brian Donovan
Jeremy Pope	Barbara Walker	Jon Schmidt	Andrew Woodward

The following were present:

Brian Smith, FORVIS	Sam Wishard, FORVIS
Kapil Bhatia, Raymond James	John Generalli, Wells Fargo
Coleman Cordell, B of A Securities	Mark Weinberg, Citi
Frank Leto, Citi	Duane Draper, Bryant Miller
Dave Newell, FAIA	

Barbara Walker: Good afternoon, and welcome to Citizens' December 5th, 2023, Audit Committee Meeting that is publicly noticed in the Florida Administrative Register to convene at 12:00 p.m. and is 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. Panelists, thank you for identifying yourself prior to addressing the committee. Chair Shelton, if you are good, I can go ahead and begin with roll call.

The roll was called, and the quorum met.

Chair Shelton: Thank you, Barbara. We will call the meeting to order. Thanks everyone for being here. The first order of business is approval of the Minutes from the prior Audit Committee Meeting.

Unanimously approved.

Joe Martins: Thank you, Mr. Chair, good afternoon, Governors. I would like to refer you to tab two of the pack where I provided an overview of the Internal Audit progress and copies of the reports issued.

Since the September meeting, Internal Audit completed three advisory engagements and substantial progress work on four audit engagements scheduled for completion before the end of this year. On this slide in front of you on the top left table I present a graph indicating that we have completed a total of nine engagements since the July meeting and are actively working on 15 other engagements. Included in the 15 engagements, is a project advisory report being provided with four major change initiatives, which are the Identity and Access Management System Implementation, UCAAS Telephony System, Litigation Management System, and the Business Insurance Suite.

We also have four audits in progress for completion in Q1. The CenterPoint Segregation of Duty audit, where we will focus on user access, presenting identity automation solutions to monitor the segregation of duty conflicts. We have a Mobile Remote Computing audit, and they will focus on the mitigation of risks associated with mobile computing and the strengths of security protocols deployed. Thirdly, we will have the Vendor Invoicing and Payment audit. We will audit vendor payment practices to ensure payments are only made to vendors once work is completed.

We have a further five audits in the plan for completion in Q2 2024, and these audits include the Investment Portfolio Management audit, Commercial Underwriting audit, Compliance Program audit, Depopulation and System Integration Operation Security audit. We also provide support to the Auditor General during the tri-annual operational audit.

In the bottom left of the slide, we show a graph that indicates open observations. The graph shows one high-impact finding that is being processed and we believe that that will be completed by the end of this year.

For the Enterprise Risk function, the Enterprise Risk team partners with the business areas to deliver forward-looking and insightful risk perspectives to enhance Citizens' decision-making process and strategic performance. Market instability remains Citizens' top risk. Enterprise Risk and the Strategic Evaluation Group reassessed market risk to ensure risk descriptions, ratings, and mitigated strategies remain relevant and continue to address the most significant cross-functional areas. To increase our agility within the function and to align with the organization and external influences we are transforming our traditional enterprise risk management approach to a dynamic risk governance model designed to improve risk visibility and awareness and reduce risk exposure for Citizens. This approach will focus on increased agility, collaboration, innovation, and integration to enable more timely responses to changes in our risk landscape.

The Internal Control team is responsible for maintaining and monitoring the Citizens' internal control framework. As of August, Citizens has identified and recorded 96 primary controls. Annually, every business area performs control self-assessments to ensure that Citizens' primary controls are appropriately designed and continue to operate effectively. So far, 62 of the annual control self-assessments have been completed. Results indicate that these controls are operating effectively with some minor changes and corrections. With the support of our Data Analytics team, reoccurring analytics were designed to detect potential segregation of duty conflict for high-risk user roles and permissions for some of our complex systems. The insight provided from the data helps strengthen internal controls and streamlines the control self-assessment validation steps to evaluate the primary controls related to user access and reduces risks as conflicting roles and permissions can be easily identified, researched, prevented, removed, or monitored in a timely manner by these business areas using this tool.

Behind the Executive Summary of our pack, we included as an action item for approval of the 2024 Office of Internal Audit Strategy and Plan, as well as the 2024 Office of Internal Audit Budget. This action item seeks approval of the 2024 Office of Internal Audit Strategy Plan and Budget. The plan was developed using a risk-based approach to understand and assess Citizens' operations and associated risks. The objective of the plan is to provide the most timely and comprehensive scope of the audit, risk, and control coverage by using resources available to the OIA. Internal Audit follows a detailed annual planning process and prepares a themes-based audit plan that considers the possibility of dynamic risk fluctuations and process changes throughout the year. This necessitates a regular reevaluation of the audit approach and scope so that the appropriate audit focus is always given to important strategic and operational issues and risks. To achieve the greatest impact, Internal Audit rebalances Internal Audit activities in a rolling audit plan to ensure adequate focus is given to Citizens' strategic issues and critical processes.

For 2024, Internal Audit documented five specific audit themes which consolidates and provides high-level insights into the year's audit-focus areas. Enterprise Risk will continue to facilitate annual risk assessment from five different perspectives, which are strategic risk, operational risk, fraud risk, project risk, and scenario risk. Internal Control will continue to ensure consistency and sustainability of the internal control framework throughout the organization to support the completion of the annual control self-assessments.

And for 2024, the budget for the Office of Internal Audit presented is 3.81 million and compared to the 3.63 million budget for 2023, this represents a five percent increase of the 2023 budget. If there are no questions, I will read the recommendation.

Chair Shelton: Governors, any questions for Mr. Martins? Hearing none.

Joe Martins: Staff recommends to the Citizens Audit Committee approve the 2024 Office of Internal Audit Strategy and Plan and approve the 2024 Office of Internal Audit Budget as presented.

Unanimously approved.

Jennifer Montero: Good morning.

Chair Shelton: You are recognized to present the 3Q results and operations of financial position commentary.

Jennifer Montero: If you will turn to the third tab in your books you will find a document entitled 3Q 2023 results of operations and financial positions. This provides an overview of Citizen's unaudited financial position, including cash flows, invested assets, and surplus, as well as operational results. For the third quarter ending September 30th, 2023, while the document that follows provides commentary, discussion, analysis, and those operating results and financial position. I will be providing an overview of the commentary document.

September 30th, 2023, consolidated cash and invested assets totaled 10.5 billion dollars or approximately 1.5 billion more than at December 31st, 2022. Driven by net cash inflows from operations of approximately the same amount.

Consolidated surplus at September 30th, 2023 was 4.7 billion reflecting an increase of approximately 392 million in comparison to December 31st. The increase in surplus was driven by net income from the three-quarters of 2023 of roughly the same amount.

Consolidated direct written premium through the third quarter was 4.035 billion which is 1.6 billion or 68 percent more premium than was written in the same period in 2022. Although the number of new policies written during the first three-quarters decreased to 436,000 in comparison to 456,000 new policies written during the same period a year ago, the overall renewal rate is 84 percent reflecting an increase of six percentage points relative to the renewal rate of the third quarter of 2022.

Premium ceded to private reinsurance for coverage through the Florida Hurricane Catastrophe Fund for the 2023 storm season was 1.184 billion which is approximately 643 million or 118 percent more than 2022, driven by a significant increase in reinsurance exposure, as well as increases in underlying prices. September 30th, no adjustments were made to ultimate losses in LAE for cat events related to Hurricanes Ian, Nicole, and Irma. Growth in net ultimate losses in LAE associated with the cat events were 3.6 billion on a gross basis for Hurricane Ian and 2.6 billion net or after reinsured recoveries. Hurricane Nicole was 96 million gross and 82 million net, and Hurricane Irma was 2.6 billion gross, 1.4 billion net. The ultimate losses in LAE for Tropical Storm Sally and Ada.

Governor Lydecker: Can I ask a question?

Jennifer Montero: Sure.

Governor Lydecker: But for my understanding, I know I am not on this committee.

Chair Shelton: Absolutely. Ask all the questions you would like to ask.

Governor Lydecker: Thank you. It is a simple question, but the third quarter of 2023 results. I was hoping you would just walk me -- walk us through it. On that page, because you just mentioned, you just referenced new business 436,000 for year-to-date 2023 versus 2022 of 456. But then this untagged takeouts, reinstatements, cancellation. I know what the terms are. Untagged takeouts, I am not sure what that means, but could you just walk us through this so that we get the concepts? What is coming and going inside of our financial position?

Jennifer Montero: So, the new business are the policies coming in. The untagged takeouts are those that go, they get tagged because they're assumed, and for whatever reason they get untagged, which means they come back on our books. So, it is not new business because it is already here, but it goes out, and then when they untag it.

Governor Lydecker: So, this is a question for later on in another committee. Are these examples where taxpayers are saying, no, I don't want to be taken out because if they have to do it affirmatively in order to stay in Citizens. So, I am struggling with the term.

Jennifer Montero: That would happen before they were assumed. So, they are given that option ahead of time and they have so much time to respond, do you want to go with this company, or do you want to stay?

Governor Lydecker: What is an example of an untagged?

Jennifer Montero: So, an untagged is usually some kind of an error and that, you can see the number is only 47 policies, it is not a lot. They're the unusual exceptions of something that got tags and assumptions, but for -- and it actually got on the books and got assumed. It was counted, but when we untag it, it's as though it never happened. So, it is typically an error and I am trying to think of an example of one, it is hard. There --

Kelly Booten: Let's say there was a claim, and we didn't have a file and we didn't know about it.

Jennifer Montero: Something that maybe the policy is ineligible for what that takeout company wanted, and we had an error in the file or something like Kelly said. So, they are rare, but when you untag it, it's as though it never went out. So, it is not counted as new business because it was here, but because it was assumed it is off the new and then comes back in.

Governor Lydecker: Thank you. And then what is the ways that we should be thinking of reinstatement?

Jennifer Montero: So, a reinstatement is for whatever reason the policy was up for a renewal and something happened, and they didn't make the payment for whatever reason. So, it gets non-renewed. But it was an error, so it gets reinstated back to the original date. So, it is not new business where you have a gap. There is no gap in coverage.

Governor Thomas: And is there ever a scenario that you don't get reinstated if you have -- If you have carriers. If you don't have access to carriers and you are, you are in a, you know, in a high-risk area. And as the market of last resort, I mean, wouldn't you always be reinstated?

Jennifer Montero: Well, no. So, before your renewal comes up 60 days in advance you will go through the clearinghouse, and if there is an offer you will get --

Governor Lydecker: Let's assume there is no offer.

Jennifer Montero: If there is no offer then you get a renewal notice. You have 60 days, and if you don't pay, you are canceled on that 61st day.

Governor Lydecker: Canceled, and then if you want to get back in a month later, in the private sector world the answer is no. I guess I am just asking conceptually in the market of last resort world, is that a no, or would that be a yes?

Jennifer Montero: That would be a -- well, they would have a gap in coverage. If they didn't pay then they -- but that would not necessarily be reinstatement, because a reinstatement takes it back so there is no gap in coverage.

Tim Cerio: Governor Lydecker, that would come back as new business. It would have to qualify again to meet all the new business standards.

Governor Lydecker: Got it. Okay, so that helps. And that helps me understand reinstatement is going back and that is why. Okay, got it, thank you for your help. That is helpful.

Jennifer Montero: And you usually get the surcharge of no prior insurance if you have a gap in coverage.

Governor Lydecker: So, one last one then. On cancellation, I know what it is in the private sector. What does a cancellation mean here?

Jennifer Montero: So typically, a cancellation could be if it is on our side it is usually nonpayment of premium, they didn't pay their premium. Maybe they're on a quarterly basis and

they didn't make one of their payments and they get all kinds of notices that say, this is your notice of cancellation, you have got 15 days to pay, and that is after they missed the pay date. So, then they will get a separate cancellation, and it could be that the insured requested it. They could have maybe sold their home and they don't want the policy anymore.

Governor Lydecker: Okay, so that is helpful. Now the new tag, it is new tags for takeout. So that is not saying there have been 30,000 takeout policies year-to-date or is that what it is saying?

Jennifer Montero: No, those are new tags for takeout, which I am not sure what that means honestly. I will have to get back to you on that one. That is the only one I don't know. That is definitely not tags for takeout, that is new tags. So, I am not quite sure. We can come back to it. I am looking, no, it is a nine-month running number. So, nine months the number is 30,000.

Governor Lydecker: I think the number is supposed to be bigger, that is why I asked the question.

Jennifer Montero: That is not -- no, that is not the policies that were assumed for takeout because that is too small of a number.

Governor Lydecker: Yes.

Jennifer Montero: Through September. Yes, I will have to get back to you on that one.

Governor Lydecker: No worries. Thank you, I know you caught us off guard on that one.

Jennifer Montero: That is okay. And the non-renewals are those that when the renewal comes up, they just don't pay. Maybe their agent found somewhere else for them to go, or the clearinghouse says you are set up for non-renewal because you have another offer.

Governor Lydecker: Yes, well, it is helpful. As an overview at least some clarity for me because some of these topics will come up in some of our next committee meetings and I just wanted to understand it better. So, thank you, and thank you for the interruptions.

Chair Shelton: No problem governor.

Governor Cumber: Can I just follow up on the untagged? Why is there such a big jump from 2022 to 2023 from 2 to 47? Is there something that happened in '23 that caused --

Jennifer Montero: There were no takeouts in '22. In '22, I think we had like 7,000 total policies removed.

Governor Cumber: Okay.

Jennifer Montero: And now we have 282,000 being removed in 2023. So that is just kind of volume --

Governor Cumber: Percentage of volume.

Jennifer Montero: Yes.

Governor Cumber: And is there a lapse in coverage during this time where they have the takeout or tagged for takeout --

Jennifer Montero: No, because when we untag it is as though it never was assumed to begin with. It takes it back as though none of that occurred. So, there is no lapse in coverage.

Governor Cumber: So does the person who has the insurance, do they know this is happening at all or is this just kind of --

Jennifer Montero: Typically, on the untagged takeouts they're aware because they were, they actually got notice that they went to the company and then for whatever reason that they are coming back. Usually, they or the company are the ones instigating that to occur. And so, they're aware that they are coming back. They would be notified.

Governor Cumber: Okay, thank you.

Chair Shelton: Any other questions?

Kelly Booten: We have a follow up. That question, that is actually depop --

Chair Shelton: Who is speaking?

Kelly Booten: Kelly Booten, sorry. I wanted to answer your question on the take --

Chair Shelton: Go right ahead. I just wanted to make sure those that are listening over the internet knew who was speaking at this time.

Kelly Booten: Thank you. That is new tags for takeout. Those are as of September 30th. All the tagged, all the big depops were in October and November and that is why that number is only 30,000, but that is the number taken out as of September 30th.

Governor Lydecker: So, what do you call a tag? Like, you know, it feels like it is like been tagged, it is still in, but it is under consideration for the private sector versus --

Kelly Booten: Because we service those policies until they non-renew. So, there is this timeframe whereby we are doing all the policy administration and they're doing the, the takeout company is doing the claims administration.

Jennifer Montero: And they are tagged with a code so that if they call with a claim when they get the call, they can see that code and if it is, let's say it's an underwriting question, then we service it, we handle it. But if it is a claim, we give them, the call center has the codes with the numbers and say, you need to call X, Y, or Z insurance company because you have been assumed and they will handle your claim. We don't touch the claim. So that, not only do they need to know that it is a takeout, but they also need to know who they went with so they can refer them to the correct takeout company in the event that they call with a claim.

Governor Lydecker: Yes, and I guess it jumped out at me because I thought the number was larger, but you are saying it is more October and November that moves the needle.

Kelly Booten: Yes, it moved dramatically and you will see that in the Exposure Reduction when we go through all the depop stats.

Governor Lydecker: So, I do have questions on that. I don't think this is the right time, the right forum for it, but thank you. But when we get to the depop piece. I just have one other question, but we are not up to it yet on the -- I was going to ask a question. And Mr. Chairman,

just Office of the Inspector General report I think is coming up, thank you, but I will wait.

Chair Shelton: Any other questions for Jennifer? Jennifer, you may continue.

Jennifer Montero: Thank you. So, the ultimate losses in the LAE for Tropical Storm Sally and Ada were 319 million at September 30th, while Hurricane Michael's ultimate loss in LAE was 145 million for the same period. No reinsurance recoveries are expected for these smaller storms as the attachment levels of the reinsurance arrangements were not met.

The 2023 non-catastrophe loss in LAE ratio for the personalized account and the coastal account are comparatively unchanged relative to 2022. The dominant driver behind the improvement in the loss in LAE over the last several years has been the improvement in litigation rates which continues to be the single most important factor in non-cat losses in LAE, and which have remained stable for non-cat losses in 2022 and into 2023. The underlying commercial lines account loss in LAE ratio is inherently volatile due to the low premium volume and large potential impact of a few claims.

Administrative expenses incurred during the third quarter of 23 were 122 million or 17 million more than the same period in 2022, and 20 million less than budget. Citizens' expense ratio for the period ending September 30th was 13.8 percent marking a .6 percent decrease from the same period a year prior and .2 percent less than budgeted.

Total investment income was 217 million, which is approximately 64 million or 42 percent more than the same period a year prior, while the average invested assets increased 104 million. The increase in overall earned income was driven by an overall relative increase in interest rates, specifically yields and money market funds, and other short-duration instruments, as well as reinvestments in maturing or sold maturities. At September 30th, the total unrealized losses across all portfolios was at 917.2 million, an increase of 120.8 million relative to the total unrealized losses at June 30th, 2023 reflecting continued volatility and overall interest rates. However, it is noteworthy to say at November 30th, 2023 the total unrealized losses were 782.6 million which is 134.5 million less than September. I am happy to answer any other questions, but if you have no questions that completes my report.

Brian Smith: Brian Smith, Audit Engagement partner with Forvis. We serve as the external auditors. With me is Sam Wishard, one of our audit managers. Our presentation today is going to discuss our audit plan for 2023. As a reminder, our scope for 2023 is auditing the statutory basis financials, and the Gasb basis financials, for 2023. We began our interim procedures last week and are on track for the beginning of the year. Sam is going to look at the 2nd page of our report and walk through the identified significant risks for our audit.

Sam Wishard: Sam Wishard, Audit Manager with Forvis. Take a look on the 2nd page, there is a summary of our procedures down below our reports, so we'll start with our understanding of the internal controls of the company and then we'll move on to our substantive testing, and reporting and conclude with our communication with the Audit Committee and management. The summary of our significant risk areas, as well, we have our investment areas, so we'll take a look at the evaluation of any level 3 investments held by the company, in addition to other than temporary impairments related to reserves, we will look at the evaluation of the incurred but not reported reserves. For premiums recognition, the significant risk area there is around the policy cancellations and cut-offs. Moving on to reinsurance, we will take a look at any adjustments or modifications to reinsurance contracts, the transfer of risk with those contracts, and any CAT bonds. Additionally, management override of controls is the last significant risk area.

Governor Lydecker: Can I ask a question? Is that, so these are the significant risk areas.

Are you saying that these are categorically the significant risk areas, or these are just the ones you identified for the purposes of this audit? Just because I think it is more -- significant risk areas and I am just curious what your thought is on that.

Sam Wishard: These are the most significant areas for the audit where we are going to most likely include specialists which we will discuss here in a moment, but there are other risks. We go through a risk-based approach. We are going to have low, medium risk. Some are controlled, some are operational, and then high risk whether significant adjustments, significant estimates, these are the areas we are highlighting today.

Governor Lydecker: Is there a distinction worth making between risks of like the stakes versus risks of say fraud?

Sam Wishard: Correct.

Governor Lydecker: Do you distinguish, I think you do when you go through this report, but like there is other risks that have to do with just bad actors. What are we doing to think about bad actors, you know, whether it is in the insurance distribution food chain or, you know, not, not doing right by our consumers or does that enter into the significant risk areas or should that enter into the significant risk areas?

Sam Wishard: There are and we do a fraud risk assessment as part of our procedures.

Chair Shelton: On these five areas?

Sam Wishard: We do, and most of these five areas can be around fraudulent management reporting. For instance, if management were to take a biased opinion on reserves for example, that would be potentially fraudulent management reporting. There is also the risk of manipulation of assets where there is stealing, there are improper controls over cash flow, et cetera, whether that is a vendor, whether it is a customer, et cetera. So, we do look at both areas in our risk assessment.

Governor Lydecker: Okay. You know, I think we should come back to that at some point. I don't think it is for today, but I think we should enhance that. I think these are really important, you are right. I think there is just other, there is just so many moving parts as Citizens is growing in the state of Florida, and it is just ripe for abuse if we are not all over it. I just hate for us to lay in comfort that these five areas are, you know, we have got a set of eyes on these and we don't have a worry in the world. I actually do think we do have worries. And so, I think this should be enhanced more, but I think we should have that conversation separately.

Sam Wishard: Understood. And we can bring that forward to the next meeting. Our intention today is to communicate the plan. Also, we have to go through and execute the audits. As we get into year-end, we are going to see more and more of the year-end data for the financial statements with our intention to be completed by the middle of May, but certainly, we can bring that forward if you have further questions.

Chair Shelton: Thank you.

Chair Shelton: Just to add on that. I think Governor Lydecker's concerns are valid and these risk areas, there is a lot. We use the word fraud up there, there is probably a lot of fraud on the outside of Citizens Property Insurance Corporation which we are all aware of and read about and hear about it all the time. I think there is a lot of risk of fraud there, but I think in these areas and take that under consideration as you finalize your plan, and we will work together as

Chair and make sure we all feel comfortable where we are going.

Sam Wishard: Certainly. And to continue on this scope. We are looking at a financial statement audit itself, right? So, there are other risks to the organization that could be in or out of scope of the financial statements itself. I do want to point that out. We do include things such as materiality. We are looking at really what is material to users of the financial statements. Surplus is a driver for that under statutory reporting to make sure you have sufficient surplus and that does drive materiality for our audits.

Okay. Moving on to the professionals that we utilize as part of the audit. We have information technology, will be our IT director at Forvis, Stephanie Jarvis. For investment evaluation we use the Forvis business valuation group. Actuary, we will rely on Dave Sheppard with Molinas, and for Internal Audit we will take a look at Joe Martins with Citizens. And then just the contacts listed here, myself and Brian Smith. Brian Smith will be the audit partner, I will be the audit manager and then we have blessing the file will be the engagement quality review partner, and as I mentioned, Stephanie Jarvis will be the IT director. That concludes our plan. Any questions?

Chair Shelton: Any questions for the gentleman from Forvis? Thank you very much.

Sam Wishard: Thank you.

Chair Shelton: Next, we have presented for us in our packets for information only, the Office of Inspector General's quarterly report. So that is just for information only there at this point in time. I don't think there is anyone else on the agenda as a presenter this morning. Are there any other questions from the Governors for anyone else they would like to ask at this time?

Governor Lydecker: Thank you. The Office of Inspector General report that you said for information only. Could I ask a question on that?

Chair Shelton: Absolutely. Being one of the new Governors, you are?

Mark Kagy: My name is Mark Kagy, I am the Inspector General for Citizens.

Chairman Shelton: You are recognized.

Mark Kagy: Normally, Governor Lydecker, thank you for your question. Normally I don't present this report. Often our cases are still open and those are not open to public disclosure. So, a lot of times I try not to discuss open investigations, but I am more than happy to show up at these meetings and answer any questions you might have.

Governor Lydecker: Thank you, Mark, I appreciate it. When I look at it, I guess I really wanted to ask, do you have enough staff? Do you have enough help inside, because with the growth, with the activity, and just some of the market intel that the world that I live in my day job, I was surprised at how small the numbers are, but my experience with government over the years at the OIG is usually an office that is working double overtime and is all over the place, which you know, we are grateful for. I wondered if you could give a sense of, do we, I know you are reacting to inputs here. But it just seems such a small amount relative to the amount of activity that is occurring and I am not saying that I am looking for like, you know, the last hurricane because I actually came out of that really impressed with the way Citizens conducted itself in addressing claim activity and all of that, but you know, when you start going down, you know, ethics jumps off the page here to me. In 2023 we have had one, one ethics complaint, you know, a couple of misconducts, you know, mismanagement, what-not. Are we

doing enough? Are we reaching out? Do consumers know that there is an OIG, you know, because this is from a Board's perspective, this is also a great source of feedback, right? In terms of how to react and how to be thinking about things. And I will tell you where I am coming from on it. There was a bunch of legislative reforms that we all know about that occurred this past year. In my opinion, very, very, necessary as we seek market stability and all of that, but one of the things that I think could really undo that, you know, we, there is all sorts of pressure, pricing pressure out there. But I think we, it is incumbent on us and other agencies, but it is incumbent on us to make sure that we are vigilant on responding to complaints. So, I was just curious if maybe you could tell us...

Mark Kagy: All great points, Governor, and I appreciate you bringing that in a public forum, because I think you do hit on some really key points. Citizens is getting larger. As we grow financially and the number of policies, obviously our fraud risk grows. A couple of things I can tell you about how we operate internally that might be a little bit different than some of the other IG offices around the state. Most IG offices have an Office of Internal Audit inside of the IG office. And so a lot of times those reports you see those combination. Here we bifurcate that out. Joe Martins as the Chief Internal Auditor handles all of the audits, and I handle all of the investigations.

These, these stats here, they are driven by, these are reactive to complaints received. We do some proactive work, and that proactive work is going to increase greatly over the next year with our compliance reviews. We do have a responsibility to conduct compliance reviews. Citizens has over 500 different laws, rules, and regulations that we are required to respond to and react to. Obviously, new legislation brings those in. That number keeps rising. So, I agree with you completely that our risks grows as Citizens grows and our legal requirements grow. To your point about the numbers coming in. We have seen an exponential growth over the years. Citizens' Office of Inspector General has been in existence for about eight years. Every year that number keeps going up and up. This year I expect us to have over 300 different correspondences come in. Statistically speaking, fraud, I notice you are really hitting on fraud which I appreciate because it is critical. The leading most – the best source of information when it comes to fraud detection is always going to be staff. It is always going to be the internal staff members, and I know I have got a lot behind me, and I have got a lot on the line that are listening. So, I will take just a moment of your time to educate them, inform them and reiterate, which I do a lot, but staff are required by law to provide any kind of notification of fraud to me within 24 hours. There is a law that requires that to come to me and the special investigations unit and they do that. They do issue those reports. These are the numbers that only come into the Inspector General's Office. So, when a report comes in, like I said, we have got a very bifurcated process. The Special Investigations Unit is always going to handle things like external fraud. These are going to be intentionally overstated fraud claims on insurance claims, and I am always going to handle the internal stuff, the occupational fraud.

Governor Lydecker: So, let me just stop you for a second if you don't mind.

Mark Kagy: Absolutely.

Governor Lydecker: I recently went through my insurance licensing renewal process.

Mark Kagy: Yes.

Governor Lydecker: You have to go through a series of hours on ethics and, you know, and it is pretty impressive when I start reading and having to pass the test, of course, but reading to find out, oh so this, you know, here is all the departments and there is heavy emphasis on, you know, trying to prevent or prosecute fraud in the state of Florida. And, but and so

notwithstanding the points that you are making, notwithstanding the big, this piece of paper does not reflect that. This analysis doesn't reflect that. And what I was going to suggest and, you know, I am catching you off guard, so I apologize to you, Mr. Chairman, I think the committee should consider, is this adequate given the environment today that we find ourselves in, which is not the same environment we were in two years ago. And if so, then, you know, to Chairman Beruff, what does he want the Board as a whole to consider in terms of how we communicate to the Citizens team? And you know, my first reaction is that we are, we are not doing enough, but it feels like it's a resource issue. And maybe that, should we be more proactive and create an environment where when there are, you know, fraud is an obvious one, but like ethical and, you know, other stuff that I have read about on my renewal licensing exam, that we are being very proactive. Because again, we have all these legislative changes that have occurred, a great deal of tort reform. Prices are rising exponentially in the Florida marketplace on property, testing the patience of taxpayers and consumers in the state of Florida, and there is assessment risks associated with non-Citizens members, right? I saw somewhere in a report here that 84 percent of property owners in the state of Florida are vulnerable to assessment risks which the point of the report here is that that is unfair because they're not even in Citizens, right. So it is the bad -- and I see, I hear about bad actors. So, like I know they're out there, particularly in the crazy world that we live in today and in Florida. So that having been said, I just think there should be some consideration to making sure enough is being done to be proactive and protect where we are going in terms of our ultimate goal of market stability and depopulation.

Mark Kagy: Sure. And I think what you will hear, so Citizens, just the last point that I will make and I am happy to answer any questions even after the meeting.

Governor Lydecker: This isn't criticism by the way.

Mark Kagy: No, and I appreciate it, this is great. This is great. Citizens has very much a bifurcated response in how we handle fraud. A lot of fraud is going to come in through Jeremy's group, it is going to come in through the SIU and Jay's group. And so, I think that is what you will hear from these gentlemen now.

Governor Lydecker: I just love seeing one ethical complaint year-to-date in the state of Florida, that is unbelievable.

Mark Kagy: Understood.

Chair Shelton: Well, the question, the question that I think is, is that your concern Governor, and for the Board members, is there more out there that we do not know about, and do we have the resources to adequately do that given all the things you just went through that are in the environment today? So, I think it is a twofold process. One, the question is to you, the Office of Inspector General, do you have enough resources and are you handling everything that is coming in? And the second thing to make maybe the Governors feel better, is there something that from Joe Martins's group, that there is some review of what you are doing, not, not how you are administering or how you are deciding on these, cases, but is there some type of checks and balances. Like, look, we saw that 50 complaints came in, and looks like you only logged 30. Is there something like that that could give the Board and some of the questions that we are doing something, is that appropriate?

Governor Lydecker: Well, 50 people who knew how to complain because they didn't know there was a mechanism to test, you know, a complaint.

Mark Kagy: If you were to go onto our internal portal page now you will see a picture of

me. International fraud week was just last week or the week before and we went through kind of a push. I move around the corporation and introduce myself to different business units, let them know there is an Office of Inspector General. There is an opportunity to provide. There is a complaints reporting link right at the top of our internal portal page that they can get to. So, we are constantly doing those things in the IG's office to put that message out there.

Governor Lydecker: And I am in the insurance marketplace. Do you know who loves the work of the Inspector Generals or the enforcement facilities in the state of Florida are the honest players in the insurance business. And so, you know, that is why I press it.

Governor Thomas: But, to be clear. My understanding is of course, the IG's office is about the internal operations at Citizens and how we do our business. When we talk about fraud from third-party actors, that is what we deal with in claims. We have a Special Investigation Unit that handles that, so that is a different thing than the idea of when Citizens receives complaints about its operations and how it does things. Which don't have to come to the, I assume the Inspector General's office. They come in across the transom. They are properly directed to the IG office.

Mark Kagy: Correct, we are constantly getting reports from Jeremy's group, from Violet in our HR office. You know, you brought up the ethics point. Those would be violations of our Code of Ethics by an internal staff member or a vendor employee. And so those are the kinds of things that we are responsive to, but I believe we do have the resources. I am in the process of hiring another staff member currently and that is going to really open us up to do a lot of the proactive type of work that I think is sometimes more beneficial. So, we do have the reactive work of complaints coming in, how do we handle those? There is a process for that. Yes, there is oversight of that process, Joe Martins is involved every single time a complaint comes in. He gets an opportunity to see that. We have a triage team with me, Mr. Martins, our Ethics and Compliance officer, and also a member of the HR staff where we sit down and discuss, what do we do with the complaint, and what is the correct response. So, everything that comes in does get tracked. So, I do think that we have the resources. I do think that we have the ability to manage and handle these things, but to your point, Governor Lydecker, I think it is an excellent point to bring up that we can provide a lot more assurances to the public about what our fraud prevention efforts are by kind of advertising some of that, absolutely.

Tim Cerio: Thank you. Mr. Chairman, if I could. I mean, you have seen us all sort of meander up here. I think Governor Lydecker raises some good questions on the record. If you would like for us to we can expand on what Governor Thomas alluded to of how the approach to fraud, whether it is in the marketplace or internally is sort of broken up and how it is handled by the team. We could probably take just a couple of minutes for each of you guys.

Chair Shelton: You are recognized.

Jeremy Pope: For the record, Jeremy Pope, vice president of Customer Experience, and I just wanted to add on to what Governor Thomas brought up. We are required by statute. We have a dedicated team that essentially tracks and manages all complaints, whether it be regulatory or any type of written dissatisfaction that is expressed by a consumer. So, no matter where it comes in throughout the organization, they're routed to this dedicated group that literally opens up the case management, tracking, if you will, and we have an expedited resolution team where we triage the issues as appropriate and we report out on those as well. And again, whether they are regulatory or not. So that team works with the subject matter experts across the entire organization to make sure not only are we taking care of those issues, but also trending those opportunities. If it is an operational opportunity or whatever it may be. A lot of times things do get misrouted, because when you go to our website, a consumer has

multiple channels on how they can, they could report a complaint and we do our best foot forward explaining what those types of complaints, you know, where they should be directed, if you will, but if they come in misdirected, our teams are constantly sending those back and forth, you know, to make sure they get tracked appropriately, but we do have those numbers, and we also look at complaint ratios based on our policies in force as an organization just so we have some type of pulse check on how we are doing, if you will, throughout all these changes that are going on in the market and so forth, to make sure we are doing what we are expected to do for our consumers.

Jay Adams: Thank you, Chairman. Jay Adams, Chief Claims Officer for the record. So, when we talk about fraud, there are really two divisions of fraud at Citizens the way I see it. One is the occupational which Mark and Joe kind of partner with, and then we have special investigative units or SIU and that is an enterprise-wide function. So, we engage in agency, underwriting, and claims, and we have teams of folks that go out and investigate individual transactional cases for insurance fraud. We also partner very closely with the Inspector General office any time there is occupational fraud if there is a component that might involve a vendor or something like that, we will go out and kind of leverage that piece. We have a pretty significant SIU team at Citizens. As a matter of fact, we are very often recognized by the CFO's office and DIFs for the number of referrals and such that we put through. We also have a fair number of arrests. I believe we are somewhere in the neighborhood of about 53 to 55 for the last 18 months. So, we are very successful in getting the fraud identified, getting it referred, and really the thing that challenges us is being able to get that fraud prosecuted. That to me is the biggest piece that Citizens could use help on is the State prosecutor trying to move more of that volume forward so that there is an actual penalty associated with committing a fraud.

Tim Cerio: I mean, not, just to amplify what Jay said and I want to try and be diplomatic. There is a tremendous amount of effort that Jay and his team do to work up cases. We have a great partnership with the CFO's office. There are certain State Attorney's Offices that do a great job. Well, a better job than others prosecuting. Some do a great job, but it has not exactly been high on the priority list, and getting some high-profile prosecutions I think is a great deterrent and that is one of the things that we struggle with. We have also met with the Statewide Prosecutor's Office, and it is just something that we continue to push, and you will hear our elected officials talk a lot about that, too.

Governor Lydecker: Yes, my goal is to make sure we are, you know, we just went through the budget, the administrative budget and it looks like from last year we are under budget. Up a little bit from last year, but you know, under budget and I just want to make sure we are spending enough to inside and outside, that we are spending enough to thwart some of this, because we have a lot on the line here in terms of the delicate nature of the Florida marketplace. I don't have to tell you all that, and I hope my comments don't come across as the need to defend oneself, it was really more like ultimately are we funding this, are we reaching out enough, are we aggressive enough in this category, and my vote is we need to be really, really aggressive.

Mark Kagy: Understood, understood, and we will be.

Governor Thomas: Mr. Chair, if I could, recognizing this is probably the longest audit committee meeting we have ever had. I do want to say, I said before, I encourage anyone to listen in or participate in our Claims committee meetings, because what Jay and his team does is really incredible. You have mentioned the legislative changes. It is clear what Citizens is doing is meeting those in good faith. They're not exploiting them. They're recognizing that those changes require good, excellent, efficient claims processing. If we get that part of it, then we also get the SIU part of it. And so since we don't do that here, I just wanted to go ahead

and add that and make that comment and invite everybody to attend our Claims meetings if they don't go any longer than this. Thank you.

Chair Shelton: Thank you, Governor Thomas. Any other questions for these gentlemen here?

That is the end of the agenda. If there are no other questions or comments from the Governors here, seeing none, hearing none, Audit Committee is adjourned.

(Whereupon, the meeting was concluded.)

FINAL