

To: Mark Kagy, Inspector General
From: Kay Weldon, Internal Audit Manager
Date: February 12, 2024

Subject: Commercial Lines Coverage A Reduction Project

Background

At the December 2023 Audit Committee meeting, there was a discussion about the possibility of agents, appraisal companies, and policyholders colluding to reduce commercial lines premiums. The commission for commercial policies is significant as compared to personal lines, prompting a risk of agents purloining business from another agent by promising to acquire a new appraisal reflecting a lower property value and lower premium cost. However, it is also important to note that Citizens lowered the deflationary index last year, based on CoreLogic data, contributing to a slight decline in lowered Coverage A value. The concerns were reviewed by internal audit, using a combination of data analytics and manual review to identify the reasons why commercial policies had a reduction of Coverage A value.

Objective

To evaluate if there is a relationship between policyholders, agents, appraisal companies, and property management companies submitting new reduced appraisals for Coverage A to obtain lower premiums and at the same time requesting an agent change of record (AOR).

Results

Internal Audit reviewed 100% of Commercial Lines CR-M and CR-W policies that had greater than 10% decrease in premium of Coverage A between January 2022 and Oct 2023 to analyze if there was a relationship between a Coverage A reduction due to new appraisals, appraisal companies, and AOR (agent change of record). The results confirmed the following:

- Agent of Record (AOR) changes were not identified with Coverage A Reductions; there is no material causation for concern.
- Reasons listed for Coverage A Reduction were appraisal or field inspection, removal of buildings from policy, and normal property value deflation as provided by Citizens' third-party vendor.
- Appraisals were provided by various appraisal companies, with no consistent repetition of the same company.
- A total of 100 policies that had coverage A reductions were reviewed.

While we did not identify any concerns within the Citizens' policy coverage A reductions, there may be issues in other companies operating in the Florida Market. The following opportunities for improvement to add the following new fields within PolicyCenter were discussed with the business unit:

- Property Manager Names – they order the appraisals

- Agent of Record – history of AOR Change Requests
- Appraisal Company – prior and current

We thank management and staff for their cooperation and professional courtesy during this project.

CC: Joe Martins, Chief of Internal Audit
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