Executive Summary

Actuarial and Underwriting Committee Meeting, September 24, 2024
Board of Governors Meeting, September 25,2024

Underwriting Field Survey Program (formally known as Property Inspection Services for Underwriting)

Topic

This Consent Item seeks Board approval to (i) renew five (5) previously-approved Underwriting Field Survey contracts for four (4) years through September 2029; and (ii) increase the previously-approved spend authority of $43,618,492 by another $41,458,723 to cover services through December 31, 2026. Funding beyond 2026 will be requested once the spend amounts can be reasonably estimated.

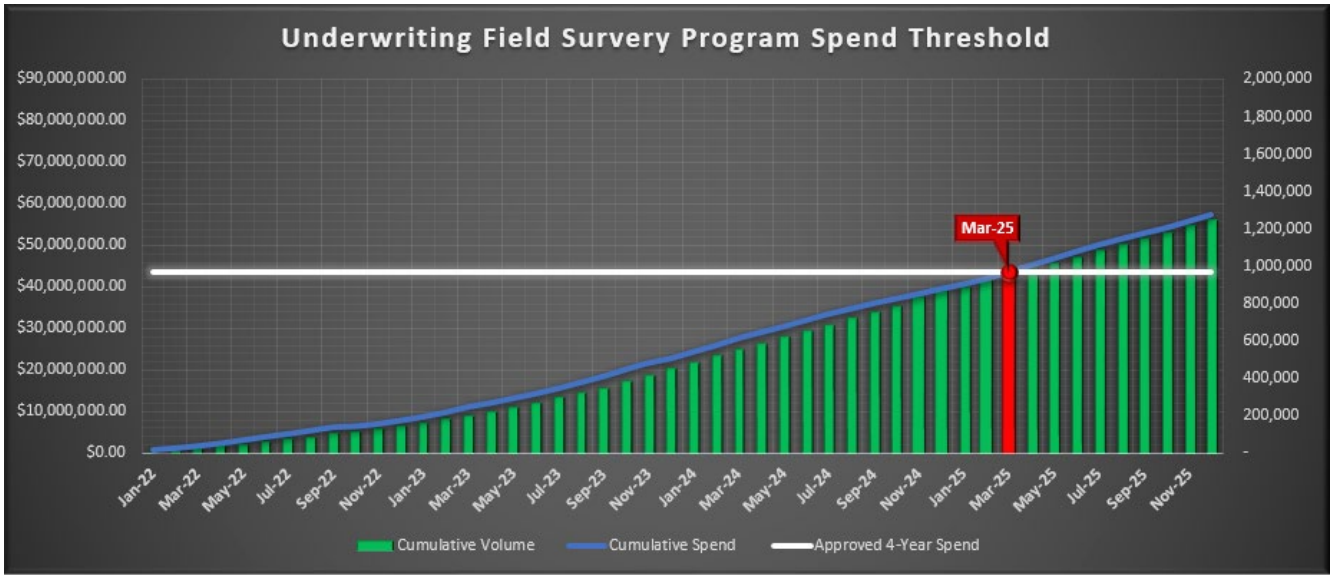
History

On July 14, 2021, the Board approved contracts with five (5) vendors to perform property inspection services for Underwriting. The contract term was four (4) years, with options to renew for an additional four (4) years. The authorized spend was $21,140,000 over four years. The approved vendors were:

- C&E Information Services, Inc. (Personal Lines)
- Mueller Services, Inc. (Personal Lines)
- Sutton Inspection Bureau, Inc. of Florida (Personal and Commercial Lines)
- Inspection Depot, Inc. (Personal and Commercial Lines)
- Insurance Risk Services, Inc. (Personal Lines)

On September 22, 2021, the Board of Governors approved an Action Item to increase the spending authority to $43,618,492 for the initial four-year term. The increase was needed due to an expansion in Citizens insurance applications, policies in force ("PIF"), and a decision to align with the private market on the need for more front-end property inspections.

Since September 2021, Citizens has experienced higher volumes of new business and PIF than forecasted. This has resulted in increased costs and a need for additional funding for beginning in March 2025, as shown on the following chart:



CITIZENS
PROPERTY INSURANCE CORPORATION

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Program Costs and Results - (January 2022 – July 2024)

PRIMARY COSTS	
Survey Companies: Conduct physical surveys of properties	$32,236,959
Citizens Underwriters: Review survey reports after completion	$1,360,000
BPO Underwriters: Review survey reports after completion	$4,363,280
Total:	$37,960,239

PRIMARY BUSINESS RESULTS	
Reduce Loss Frequency: Policies surveyed have estimated lower loss frequency and loss severity results (Claims Avoidance).	$70.61M (estimated claims avoided)
Improve Premium Accuracy: Approximately 7.85% of surveyed policies were corrected resulting in an absolute premium change.	$22.96M (absolute premium change)
Exposure Reduction : Approximately 3.65% of surveyed policies were nonrenewed or cancelled due to not meeting underwriting requirements.	$8.92B (reduced exposure)

* **Rehabilitated Policies:** 2.61% of surveyed policies were found to have hazard(s) that warranted the risk ineligible for continued coverage but were later rehabilitated. This rehabilitation is the result of underwriters receiving acceptable documentation that the hazards have been remediated.

Future Needs: Personal Lines 2025/2026 Underwriting Field Survey Plan

Citizens staff has developed a detailed plan for Personal Lines field surveys for 2025 and 2026. The plan was developed using survey analytics and predictive modeling techniques. It reflects an increased percentage of inspections for new policies and a decreased percentage of inspections for renewal policies. The table below provides the estimated volumes and spend through 2026.

Underwriting Field Survey Matrix - Future						
Year	% of New Business	NB Survey Volume	% of Renewal Business	RB Survey Volume	**Total Volume**	**Survey Vendor Spend**
Mar - Dec 2025	74.73%	159,692	26.68%	166,926	**326,618**	**$15,930,505**
Jan - Dec 2026	98.64%	258,355	20.75%	134,479	**392,834**	**$18,942,219**
% based off total volume of HO3, DP3, HW2, & DW2				**2-Year Spend:**	**719,452**	**$34,872,723**

Future Needs: Commercial Lines 2025/2026 Underwriting Field Survey Plan

Changing market conditions have resulted in significant Commercial Lines (“CL”) PIF growth over the past year and a half, with a shift in book demographics to include larger A-Rated structures ($10m and over), more challenging risk attributes, and higher concentrations of exposure.

Historically Citizens has used its internal team of Commercial Field Underwriters to survey most commercial properties. In 2024 the use of vendors to support CL on-site surveys was substantively increased, with infrastructure built to facilitate the larger volume of assignments and risk complexities.

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Commercial surveys focus on risk eligibility, condition, data integrity, and rating accuracy. Once issued, survey assignments are prioritized by key risk and exposure elements including valuation, building condition/age, and roof condition/age, as well as any specific concerns identified during the desk Underwriting review process.

On-site surveys are primarily focused on new business policies, with assignments divided between internal field underwriting staff and two external vendors (Inspection Depot and Sutton) based on the type of survey and expertise needed, risk attributes, and identified exposures.

Growing concerns over the roof covering material age, condition, and remaining life expectancy, as well as the propensity for this exposure to exacerbate claims experience, has prompted plans to expand the current structure with the implementation of a robust roof inspection program by licensed contractors on all buildings (new business and renewal business) where remaining useful life (RUL) has been applied, starting in January 2025. Most renewal business with RUL will be surveyed in 2025, resulting in a higher spend request for that year. Please note the 2026 numbers are preliminary and may change based on many unknown factors. If additional spending authority is needed, Citizens staff will come back to the Board for approval.

The table below is the estimated vendor spend for commercial lines policies for the next two years:

Commercial Lines Vendor Survey Plan						
Year	% of New Business	New Business Survey Volume	% of Renewal Business	Renewal Business Survey Volume	**Total Volume**	**Survey Vendor Spend**
2025	26%	1,131 policies 2,422 bldg	38%	3,421 policies 12,510 bldg	**4,552 policies 14,932 bldg**	**$4,586,000**
2026	25%	1,000 policies 2,500 bldg	9%	800 policies 2,500 bldg	**1,800 policies 5,000 bldg**	**$2,000,000**

It is anticipated that the validation of roof condition by licensed contractors on all new business, and all renewal business where more than 1 year of RUL has been provided, will both confirm the roofs in eligible condition, and identify buildings with ineligible roof or building conditions present. This information facilitates underwriting action and exposure reduction, through cancellations and non-renewals, or becomes the impetus for roof replacement and a return to eligibility.

Recommendation

The recommendation is stated in the attached Consent Item.

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☐ ACTION ITEM	☒ CONSENT ITEM
☐ New Contract	☐ Contract Amendment
☐ Contract Amendment	☐ Existing Contract Extension
☐ Other_____	☒ Existing Contract Additional Spend
	☐ Previous Board Approval
	☒ Other: Renewals

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

☐ **Move forward as Consent**: This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Purpose/Scope	This Consent Item seeks Board approval to (i) renew five (5) previously-approved Underwriting Field Survey contracts for an additional four (4) years through September 2029; and (ii) increase the spend authority by $41,458,723 to cover services through December 31, 2026. Funding beyond 2026 will be requested once those spend amounts can be reasonably estimated.
Contract ID	**Underwriting Field Survey Program (formally known as Property Inspection for Underwriting)** Contract numbers: 21-20-0022-01 through 21-20-0022-05 1. C&E Information Services, Inc. (Personal Lines) 2. Mueller Services, Inc. (Personal Lines) 3. Sutton Inspection Bureau, Inc. of Florida (Personal and Commercial Lines) 4. Inspection Depot, Inc. (Personal and Commercial Lines) 5. Insurance Risk Services, Inc. (Personal Lines)
Budgeted Item	☒Yes ☐No Funding to be included in the Annual Operating Budget for each respective contract term year.
Procurement Method	Citizens issued Invitation to Negotiate No. 20-0022 for Property Inspection Services for Underwriting on October 2, 2020. On March 24, 2021, the Negotiation Team recommended an award to the five (5) primary and contingent vendors listed in the Contract ID section above. The Board approved the contracts on July 14, 2021.

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Contract Amount	The current contract spend authority is $43,618,492. This Consent Item would add another $41,458,723 in spend authority to cover anticipated charges through December 31, 2026. If additional spend authority is needed beyond 2026, Citizens staff will come back to the Board for approval.
Contract Terms	The contracts have a four (4) year base term ending in September 2025. The contracts may be renewed for up to four (4) additional years. Citizens may terminate the contracts at any time without incurring an early termination fee.
Committee Recommendation	Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend the Board of Governors: a) Approve a four-year renewal of the Underwriting Field Survey contracts identified above through September 2029; and b) Approve an increase in spending authority for the Underwriting Field Survey contracts identified above for an additional $41,458,723 for anticipated charges through December 31, 2026; and c) Authorize staff to take any appropriate or necessary action consistent with this Underwriting Field Survey Program Consent Item.
Board Recommendation from Committee	If approved at its September 24, 2024, the Actuarial and Underwriting Committee recommends that the Board of Governors: a) Approve a four-year renewal of the Underwriting Field Survey contracts identified above through September 2029; and b) Approve an increase in spending authority for the Underwriting Field Survey contracts identified above for an additional $41,458,723 for anticipated charges through December 31, 2026; and c) Authorize staff to take any appropriate or necessary action consistent with this Underwriting Field Survey Program Consent Item.
Contacts	Jay Adams – Chief Insurance Officer