

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE AUDIT COMMITTEE MEETING Tuesday, July 9, 2024

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened at 1:00 p.m. on Tuesday, July 9, 2024.

The following members of the Audit Committee were present:

Chair Jamie Shelton Governor Scott Thomas Board Chair Beruff

The following Board members were present:

Governor Lydecker Governor Knight Governor Becksmith
Governor Cumber Governor Butts Governor Spottswood

The following Citizens Staff were present:

Jay Adams	Eric Addison	Christine Ashburn	Ken Tinkham
Tim Cerio	Carl Rockman	Andrew Woodward	Denise Bass
Bonnie Gilliland	Mark Kagy	Joe Martins	Brian Donovan
Jennifer Montero	Jon Schmidt	Brian Newman	Jeremy Pope
Michael Peltier	Barbara Walker	Adam Marmelstein	

The following were present:

Brian Smith, FORVIS	Dianne Kriss, Gen Re
Kapil Bhatia, Raymond James	John Generalli, Wells Fargo
Coleman Cordell, B of A Securities	Mark Weinberg, Citi
Nathaniel Johnson, B of A	Duane Draper, Bryant Miller
Dave Newell, FAIA	Jim Cook, JP Morgan

Barbara Walker: Good afternoon and welcome to Citizens' July 9th, 2024, Audit Committee meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. and is recorded with transcribed minutes available on our website. Those attending today's session through the public link are automatically in listen-only mode with presentations appearing in the webinar.

Chair Shelton, we have no speaker requests for today's meetings. I'll proceed with the official roll call.

The roll was called, and the quorum was met.

Chair Shelton: Welcome, everyone, Mr. Chairman, Governors.

The first order of business for the Audit Committee this morning is to approve the minutes from the prior meeting. Since all the governors have had an opportunity to look over them, I'll entertain a motion to approve them.

The minutes were approved unanimously.

Chair Shelton: Mr. Joe Martins, good morning. So, it's good to see you as always. You're recognized to present from the Office of the Internal Auditor.

Joe Martins: Thank you, Mr. Chairman. Good afternoon, Governors. As you know, the Office of Internal Audit consists of three distinct functions: Internal Audit, Enterprise Risk, and Internal Control. These three functions, together with the Office of the Inspector General, Compliance, and the IT Security and Risk function, provide assurance of effective management and

oversight of controls throughout the organization. During this quarter, we formed a group called the Assurance Collaboration Meeting. In this meeting, we bring the assurance providers together, and we discuss and collaborate in terms of risk, our plans, what we're doing, the results that we've seen, and then what we intend to present to the Risk Steering Committee every quarter, as well as the Audit Committee. The benefit is that we get an opportunity to talk to each other and align the work we are doing and how we complete that work. As you also know, the Office of Internal Audit uses a quarterly risk assessment and rolling plan process. Through this process, we stay aligned with the organization and changes within the organization, ensuring that every quarter when we assess risk, we focus on the risks most pertinent to the organization. We develop our plan for the next six quarters to align with areas most relevant to the organization. Having said that, on the slide in front of you, we present the work we completed since the last committee meeting and the planned work.

In the right-hand corner, we have the period in progress. That period looks at the six-month period backward and forward every quarter. Since the last meeting, we have completed five audit engagements. I would like to highlight two of those engagements. The first one was the Centerpoint Segregation of Duty audit. We commenced this audit to examine the segregation of duties in Centerpoint, Human Resources, and Finance and Procurement. As we continued with the work, we decided to separate the two audits, and we focused on HR and focused on finance and procurement after that. The audit that we did in HR analyzed Centerpoint user roles and permissions to evaluate the segregation of duties specific to Human Resources. The scope included a review of cross-functional segregation of duties, user count provisioning, user access reviews, and monitoring activities of security and confidential information. Our work indicated that user access provisioning could be better managed, and there were employees with unsupervised, elevated permissions, which resulted in the segregation of duties and concerns within HR. Furthermore, the HRIM function used a test environment that did not comply with Citizens' access protocols. Both these functions have been discussed with management, corrective action has been taken in some instances, and others are still in progress. The second audit that I want to review is the Compliance Review. We benchmarked our compliance framework against recognized industry practices and noted that various improvements and favorable practices in conformance with the industry practice have been implemented. The engagement also identified some improvement opportunities to enhance the program. These improvement opportunities have been discussed with management, and they developed a broad plan to address and implement these over the next coming period.

For the planned audits, of which we have five scheduled for the fourth quarter, I want to highlight the Payroll Employee Record Management audit. This audit has already been scheduled following the Segregation of Duty audit that we completed, the issues that we identified within that, and the occurrence of manual adjustments to the payroll regularly. We've identified those risks that need to be focused on in that specific piece of work.

On this slide, we highlight work that is currently in progress, and we have six engagements in progress, as well as five project engagements. Here I want to bring forward the Centerpoint SOD audit, which I mentioned was divided, and this is one we will focus specifically on HR and Procurement. The second one is the audit we will conduct following the implementation of the claims module with FRISS, which is within the Special Investigations Unit. FRISS is an artificial tool or a machine learning tool that SIU uses to help them manage the occurrences of fraud and identify where fraud is, and we will assist them with comparing application usage against original business requirements to determine whether they're achieving the results that they intend to achieve with this application.

We also conducted work on the Technology Governance audit. As we were doing the SOD audits, we noticed that there were some challenges for the access provisioning process across the organization, and we will have a look at that. The audit will also further focus on the governance process for various IT activities, including access management.

With the next slide, every period we bring forward the Open Observations that we are monitoring. We highlight two medium observations in yellow. These have also been brought to the committee in

the past. These are still in progress, and management is spending sufficient time addressing those and that are progressing well. We have regular feedback from management every month. And then, there are the two high-rated observations in red, and they relate to the Centerpoint SOD audit that I just discussed.

Then we move on to Enterprise Risk Management. The graph on this slide indicates the results from 433 risks that have been assessed, identified, and mitigation actions developed throughout the organization. These risks come from various perspectives, including strategic, operational, project, and emerging risks that we documented.

Board Chair Beruff: Mr. Chair.

Chair Shelton: Yes, sir.

Board Chair Beruff: Could I ask a question?

Chair Shelton: Absolutely.

Board Chair Beruff: Mr. Martins, how many risks did you say you identified?

Joe Martins: It is throughout the organization, 433 risks, and focuses on every aspect within the organization. We disseminated risk to the lowest level, and to the lowest level, management had the opportunity to work in a system and identify the risks in their area and mitigating action.

Board Chair Beruff: How many of those 400 risks, 400 plus risks, can you study in a 12-month period? How much can you audit those?

Joe Martins: We cannot audit all of them and do not intend to audit all of them. We focus on the high-risk ones.

Board Chair Beruff: And how many of the 400 plus are in the high-risk category?

Joe Martins: I would imagine about 15 to 20.

Board Chair Beruff: 15 to 20?

Joe Martins: That is correct.

Board Chair Beruff: Okay. And how many of those can you identify and audit in a 12-month basis?

Joe Martins: We do roughly around 25 audits in a 12-month period.

Board Chair Beruff: You cover high-risk ones?

Joe Martins: That is correct.

Board Chair Beruff: And keep us out of trouble?

Joe Martins: Yes.

Board Chair Beruff: From memory, can you remember the problem we had last year with the mail service that didn't quite do their job? How did that fall between the cracks?

Joe Martins: I think what happened was that there was a control that was identified, and

although management was under the impression they were still managing that control and monitoring that control, and when the risk assessment was being done, the impression was that they were monitoring that well. The monitoring wasn't as effective as it should have been. The error should have been highlighted sooner than it was. It took, instead of a month period, a three-month period, and that was missed. We reviewed that during the Internal Control assessment, and it appeared fine, but the control was not as strong as it should have been.

Board Chair Beruff: Hold on one second, Mr. Martins. That leads me to a follow-up question. So, what did we do so that doesn't happen again? Because we learn by error, at least I do, the only way I've ever learned anything, by the mistakes I've made. So, what did you implement in order to make sure that the next mail service or anybody else that has a similar setup, we have a better control on them?

Joe Martins: It was a two-pronged process. The second one, I cannot remember the exact words around that. What they have is they have a ceding process where without the supply knowing, we put in a piece of mail that comes back to Citizens, and if the mail doesn't come back, we should highlight that immediately; if there's a delay in the mail, we should highlight that immediately. That was rectified, and the main reason that failed was because of the data, and the management data and the graphs that we had around that, has been addressed, and they really have a good process around that in identifying fairly quickly if mail isn't being returned within a reasonable period after the files have been shared with the supplier. They developed a second electronic control that I cannot remember exactly offhand. I can share that with you later, and I think it was implemented already. That would make it much easier for us to manage and monitor the mail as it is handed over to the supplier and then the work is executed. One of the main reasons that we had that problem in the past was that we did not notice that the supplier did not mail the work. The second challenge that we had was that the supplier was billing us on receipt of the order instead of execution of the order. So, they were billing us in advance. What we have done as Audit is we did an audit of all our contracts, all the major contracts that are similar, and we ensured that we do not have a similar practice in that....

Board Chair Beruff: But you changed, you changed the contract terms on all the pending contracts?

Joe Martins: With the new contracts that they signed.

Board Chair Beruff: Thank you. Thank you, Mr. Chairman.

Chair Shelton: You're welcome.

Joe Martins: On the next slide, we highlight the organization's top five strategic risks: rate differential, market conditions, claims abuse, acquisitions of reinsurance, and the CAT response risk.

Just for information, this page has highlighted the complete number of strategic risks, and the Executive Leadership Team identifies these risks every year. It is a living document, and as the year progresses, the risks change. However, these risks are currently being monitored and managed by the Executive management team.

Governor Thomas: A question if I could.

Chair Shelton: Go ahead.

Governor Thomas: In the rating of the enterprise risk, the strategic risks here, from high to low, is that objective or subjective? In other words, are we looking at how we're doing things and saying, "Oh, because of the way we're doing it, it's a high or low risk," or are we looking at

it sort of objectively that this is something that has greater exposure to us than something else does? Does that make any sense?

Joe Martins: Yes, so it is really both, depending on the risk and where that risk comes from. If it is more of an external risk, I think that that would be more of an objective view of the risk in terms of how that risk potentially affects the organization. From a subjective view, how are we managing this risk, and where are the gaps that we need to address from the organization's perspective? We are not monitoring KRI's (key results) and data as well as we should be now, and we are working towards improving the data that we collect on these risks. For every one of these risks, we are developing those closer to bringing a little bit more objectivity to the assessment of that risk. But it is very much a subjective assessment in most of the instances.

Governor Thomas: Thank you. Appreciate it.

Chair Shelton: Any other questions for Mr. Martins? Mr. Martins, thank you.

Joe Martins: Thank you.

Chair Shelton: Next up, in the last Audit Committee meeting, we asked Jay to give a presentation on an issue and concern that was, we talked about at great length, and I asked Jay if he would give us an update that, as we spoke, we would for this meeting as well. So, Jay, welcome. You're recognized, sir.

Jay Adams: Thank you, Chairman and members.

At the last meeting, you specifically asked that we try to dive into the SIU program in a little more detail and speak about things we could do that did not jeopardize our strategy for things we are planning in the marketplace.

The program overview for SIU is at Citizens, SIU uses an enterprise-wide focus, which means we cover claims, underwriting agency, and vendor relations.

Our mission is to reduce the risk of fraud in the marketplace, specifically with Citizens' claims. Our enabling statute requires us to have an SIU team and work with the Department of Investigative and Forensic Services (DIFS). Anytime we encounter a particular file with a fraud element, we are required to make a referral to DIFS.

I wanted to go through our SIU team structure. We have a Major Case Unit, and those folks focus on what I will call ring activity. It is usually some type of criminal activity involving multiple parties, and they show up on multiple claims. We also have a Claims Fraud team, and that is our field team. They look at claims that are a little less complex, but the real focus is individual claims. There might be an insured situation or a contractor on a claim. We have a Claims Desk team, and they investigate fraud from the desk perspective, and they also manage our vendor partners. We use them for scalability at Citizens. As our claim volume spikes or increases, we will use those folks to help supplement those investigations. We have an Agency and Underwriting team, and they focus on point-of-sale fraud applications. Then, we have an Analytics and Technology team, which is leveraging our cutting-edge analytic tools and data sourcing. And really what they are doing is they are producing information that is helping the investigative teams to move forward and to set our strategies.

Board Chair Beruff: Jay, on the analytics tools that you use, and I know that's a world, we like to use the word, an acronym, "AI".

Jay Adams: Right.

Board Chair Beruff: And it's ever evolving, changing. Do you feel at this point that's moving

and still growing to get your arms around and it's really going to be a tool that's going to help us even more as we move forward? Are you happy with what it's doing so far?

Jay Adams: I am, and I am going to speak specifically about our AI tool, it is called FRISS, in a few more slides.

Board Chair Beruff: Excuse me. Go right ahead.

Jay Adams: No problem. One of the questions that you did ask me to comment on was what are the trends we are seeing out there in the marketplace? We are still seeing unlicensed activity by bad actors, and what I am speaking specifically to there is that there are people who are representing the insured who do not have the proper licensure. We are going to talk about some specific cases, and I am going to outline one of those for which we got an arrest. We also have individuals and groups acting on behalf of the insured and steering work to specific contractors. And a lot of the reasons for that is that there is some type of interest that the public adjuster has with certain vendors. It could be personal, it could be business, a whole multitude of things, but they are steering work specifically to contractors. They also control the legal representation of the insured. And in many of the cases, we go back and speak with the insured, and they had no idea that they had legal representation and do not even know how they signed them up. They are continuing to stage insurance claims, and they continue to exploit the elderly.

Now, you might ask, why do I have a catastrophe response slide here? I alluded to this when I spoke about the desk adjusters. Catastrophe activity, these pocket storms that Florida gets, create a significant volume of claims on a certain day. By statute, we only have 60 days to adjust these claims. When we get a large volume of claims, it creates an opportunity for bad actors out of state to come to Florida and set up shop to do these organized rings. And even the contractors that are here, it gives them the ability to further their inferences around trying to create fraudulent claims. The hope is that the insurance companies are so overwhelmed that things just get pushed through and paid and otherwise not noticed. We have a quick strike response, and this is where we bring out our field investigators. They go out to the CRC to meet with the public. As they are reporting their claim, they are trying to educate them on unlicensed contracting and fraud in the market. They also canvas neighborhoods, and what they are looking for is contractor names on vehicles, and they are going back and checking to make sure they are Florida licensed. We also continue to focus on ring and organized crime. As I just mentioned, many times, new, organized rings show up when we have these catastrophe events. So, we work closely with DIFS and the NICB, which is the National Insurance Crime Bureau. We share intelligence back and forth between them. We look at binding violations. So, at Citizens, when the National Hurricane Center issues a watch or a warning, then binding is suspended for all agents across the state. What we do in this instance is we are looking at the specific geography landfalls of whatever event it may be, looking to see if the agents have been backdating coverage to policyholders. We continue to use our desk adjusters to triage and leverage our vendors to manage the uptick in the volume of claims. We also use these folks to help download specific information into the claims file that might be necessary for a certain geography and a certain claim. An example of what I am talking about specifically is storm surge versus flood. There are public sites where we can get information. They download this information and put it in the file for the adjuster to help them save time when they get there.

This next slide is a slide specific to DIFS, and this is looking at our referral rate per 1,000 claims. I want to focus on the graph on the left first. The dark-shaded blue is our policy in force count, and you can see how that has changed year over year. And then, the bars represent our non-CAT claims in blue, and catastrophe claims in orange. And if you look down at 2017, we all remember that Hurricane Irma made landfall in September of that year. Look what happened in 2018, 2019, and 2020. Look how much orange is in there. Those are all referrals from fraudulent-related catastrophe claims from Irma. And that just also goes to show how long

the tail is for these hurricane claims that we get.

On the chart on the right, I just want to recognize some of the accomplishments of the SIU team for 2023. They looked at a little over 1,400 claims matters. We looked at almost 300 underwriting issues, and of those underwriting issues, we were able to remove \$11.3 million in risk. You might ask, how did we do that? So, when new business is written, we have 60 days to accept or reject the policy. If we find underwriting fraud in that window, we reject those. If fraud came up during the claims process, then we set those up to non-renew or cancel. We made 340 DIFS referrals, which resulted in twenty-six arrests.

Now, what I would like to do is talk about some of the ring activity that we have exposed and the end result. The first one is Operation Flames and Floods, and Citizens collaborated with Miami-Dade's Economic Crimes Division, along with the DFS State Fire Marshal. This resulted in the arrest of thirty individuals who were involved in staging fires and non-weather water claims. In 2018, the ringleader, George Espinoza, who was the primary public adjuster, was sentenced to a 20-year prison term, and he agreed to surrender 1.9 million in assets in lieu of a state court trial, he was ordered to repay Citizens \$164,000, and that came from this \$1.9 million. Now, there were lots of creditors that were after the \$1.9 million. As of yesterday, we have collected \$800,000 from Operation Flames and Floods.

The next one is Operation Crossing the Rubicon. This investigation led to the arrest of nine individuals, including the ringleader, Barbie Gonzalez, the public adjuster principal, her staff and insurance agent, and various service providers, along with 48 of our policyholders. Gonzalez received a 10-year sentence to include three years in prison and the repayment to Citizens for over \$900,000. To date, we have received \$20,000 from Barbara, \$100,000 from two of the others with ownership in Rubicon, we have received \$233,000 from policyholders in restitution, and we are currently subrogating for an additional \$1.3 million against our policyholders.

In 2020, we filed a civil RICO action against a plaintiff attorney, a public adjuster, and a water mitigation company. These three individuals filed hundreds of claims against Citizens for multiple years. Most of them were staged non-weather water claims. We took this to suit, and the judge asked us to walk back to mediation to see if we could resolve this. Citizens recovered \$1 million. The plaintiff attorney's bar license was suspended, so he is no longer practicing law.

Now, these are the case-level results that we have seen just over the last six months. In November, the CFO office announced the arrests of four representatives of a Tampa-based roofing company for their role in causing damage to homeowners' roofs. What they were doing was creating mechanical damage, and then turning in claims to get roofs replaced. And what I mean by mechanical damage is they were breaking, tearing, ripping off shingles, tiles, and so forth. They did that for \$106,000 to Citizens across multiple claims.

In January, we had a policyholder arrest for insurance fraud and grand theft for not disclosing an assisted living facility on their new business application.

We had a plaintiff attorney's legal assistant on a case who had filed suit against us. The assistant was arrested for insurance fraud for submitting a false plumbing invoice to Citizens. Sad.

February of 2024, we had an insured arrested for fraud after submitting a false claim for vandalism, and that occurred prior to the policy inception date.

And this last one for the unlicensed public adjusting, that goes back to the trend that I said where we are seeing unlicensed people represent the insured. What happened here was a roofing contractor was arrested for engaging in insurance fraud and unlicensed public

adjusting after he misrepresented his credentials and attempted to affect the settlement of a claim. And that is almost word for word out of the statute for public adjusting.

This is our analytical tool. We call it FRISS. This is a product suite, and in that product suite, there is a module for claims, one for underwriting, and then one for the investigators. This uses machine learning, a/k/a AI, and predictive modeling. What it is doing is looking for patterns in the claims for individuals that are associated with multiple claims or groups of people that are associated with multiple claims. It will also look at application fraud for policyholders, agents, and other third parties.

What makes this program so powerful is that it allows us to import or integrate with third-party data subscriptions. We have forensic weather, public records, loss history, and aerial imagery today, and there are other modules that we will be looking at in the future. It also provides us with a visualization tool, gives us the ability to segment geography, and allows us to look at relationships where individuals are involved in multiple claims or where groups of people are involved in multiple claims.

When I talked about the dismantling of the bad actor groups, they all had significant numbers of years associated from the time of identification till the time we got it shut down because it takes so long just through the adjustment process to figure this out. At any given moment, I have 1,500 adjusters working for Citizens. So, if all of them are getting these claims, they all have to get aggregated in the data where we can start to see it before we can act on it. Now this tool is pointing this information out to us on the front end. So as soon as new relationships are forming, the tool is spitting that out to us so that we can act on it.

Board Chair Beruff: Jay, I'm sorry, real quick. How new is this tool that we're using? I see that part of it is active and other things to come, but how long has this tool been in place for you?

Jay Adams: We just really started getting the majority of it installed in the fall of 2023. So, it is brand new, and I am going to talk about it on the next page. I want to talk about some results, and keep in mind that we only have five or six months' worth of data here to discuss.

But when we talk about an SIU referral, there are only three ways that I can get something to my team. One is the FRISS tool itself. It generates the referral based on a score, the claims adjuster, the handling of the loss, or our claims management system, where we hard-coded some rules. As you can see from the chart on the left, 92 percent of the referrals come specifically from the adjuster, and that is based on red flags, gut feelings, you know, something just does not feel right in the claim handling process.

If we look at the chart on the right, this is what we do when we get these referrals. When the adjuster sends it, we only act on it 68% of the time. When FRISS sends it, we react to it 86 percent of the time. And you might say, "Well, what's the difference?" When the adjuster makes a referral, a lot of times, there is no data to go with it as a red flag. You had a claim 30 days after the issuance of the policy. That is a red flag. When FRISS sends over a scored referral, the hard data is attached to it. All those integrations are pulling that information in, so the SIU has something to go with and act on. They do not have to make the referral and fill in the blanks. The referral is there with the information.

So, in that short period of time, FRISS has looked at 146,000 claims. And I hope all of you are going, "There's no way Citizens could have that many claims in that short period of time because we've had no catastrophe," and you would be right. What this tool is doing is scoring the claim over its entire lifespan. So, until the claim is closed, anytime new information comes in from one of our integration points, or the claims adjuster puts something in the file, FRISS goes out and does a rescore, and it keeps that up to date all the time. It has created 8,700 actionable referrals over to the SIU team, and the SIU team has only chosen 207. And then, you may also be going, "Well, that doesn't sound too good. That's less than 1 percent." The

reason for that is that machine learning takes time to kick in, right? You got to have a volume of claims before all those models, and things can kick in. One thing that we are doing, though, as we tell these 8,700 claims, you know, this is not what we are looking for, the tool learns from that, and when it has those parameters, it no longer sends that referral forward. So as time goes out month over month, the number of referrals coming is less and less, but what we can act on will grow more and more.

So with that, Chairman, that concludes what I had to present today.

Chairman Shelton: Jay, thank you. Any questions Governors?

Governor Lydecker: I have a question.

Chairman Shelton: Absolutely, Governor Lydecker. Go ahead.

Governor Lydecker: (Inaudible) I continue to be left with two feelings. One, that I don't know how Citizens does it in terms of volume and the size of Citizens and dealing with creative bad actors in the Florida marketplace that spend a great deal of time and resources trying to use well-intentional -- well-intentioned rules and regulations against a body such as Citizens. So, I preface my remarks there. I don't know how you do it. This is very thoughtful. But I'm also always left with an empty feeling that we're just not doing enough. And the last time, my line of questioning was around how are we interfacing with the Office of Insurance Regulation, how are we interfacing with other bodies that could put teeth and support Citizens' desire to combat fraud in the marketplace, which we know there is?

Jay Adams: Sure.

Governor Lydecker: And so, notwithstanding this presentation, it always just feels to me like it's a drop in the bucket relative to what's out there. So, you know, I really like the analytics, the tools now you're bringing to bear. And I often wonder, are we staffed enough? Do we have -- you know, you mentioned claims people who are one of the three sources of information in terms of whether fraudulent activity is occurring? I assume that's the same as a whistleblower. You know, like when I think about how people pay their taxes and enforceability of that, it's probably not too dissimilar, right? They have certain analytics that they use to identify outliers in tax returns, but they also rely on whistleblower, and that whistleblower activity also relies on monies that that whistleblower could earn for bringing forward a complaint or a case that they can be aware of. In other words, is there -- do we have an active enough -- what's the word when police is very visible in a community? Deterrent. Do we have an active deterrent mechanism out there to your satisfaction? And so that's sort of what I react to. And the reason is -- is because, you know, we're dealing with rate increases every year, we're trying to stabilize the marketplace, we're trying to bring insurance companies back in and create a competitive environment, and the assignment of benefits claims, for example, that the legislature took action on, which was very difficult and I don't think you can always expect the legislature to be able to have the fortitude to take action on that degree of fraud, but as I recall during that time period, 7 or 8 percent of the claim activity was occurring in the state of Florida, but 80 percent of the litigious activity was occurring in Florida. And it just seemed like I hear one story after another about a contractor that had, you know, like a person who got a new roof and they didn't even think anything was wrong with their roof, say not for the fact that somebody came to the door and asked them to sign something and assign over their benefits. Those are big-ticket items. And so, deterrence is, you know, really kind of what I think about and how important that is for us to be so vigilant in order to not have rates go up like they have had to become a market of last resort once again.

Jay Adams: Sure. From a deterrent perspective, the arrests. We try to be as public as we can. We partner with the CFO in their office to do joint press conferences and releases to get that information out to the marketplace. The more that DIFS has the capacity to take these and

carry them across the finish line to get those arrests, I think that is what creates the deterrence in the market.

But I will tell you, in the RICO case that we prosecuted, the public adjuster and the water mitigation vendor shut down the businesses they had and reopened new businesses, and they are doing the same thing. But I will tell you they are not doing it at Citizens. So, we have deterred it at least from here. It is still occurring in the market.

You asked how we interact with DIFS and other agencies. So, Citizens probably has one of the best relationships with the Department of Insurance Forensic Services of any carrier out there. We meet with them on a regular basis. When we get these large rings of activity, and we have all the proof, we sit down with the individual investigator, the corporal, we sit down with the prosecutor, and we talk through what we have and what it is that we need to do to bring it across the finish line.

In the RICO case, we partnered with DIFS and did a joint sting exercise, which is how we had the proof to carry forward to the lawsuit.

We also work closely with the NICB, which is the National Insurance Crime Bureau. And, again, we are communicating information back and forth. As they see things, they publish them to us. As we see things, we publish it up. We have worked with them on joint tasks to try to pull this off. And the different SIUs across the state of Florida come together on a frequent basis to discuss exactly what we are talking about here in a confidential environment where we kind of learn from each other, and then you can take those back to your own operations and be able to move things forward. At the end of the day, I agree with your comment. It is somewhat of a drop in the bucket because we receive 40,000 non-CAT claims a year and we know that there is a large percentage of fraud involved in those, specifically in the non-weather water claims. We are putting all the resources we have into it to prove that stuff out, and you can see we have had pretty significant arrest activity just in the last 12 months. So, I do not know if that really answers your question, but I feel that we have done everything we can do at Citizens.

Board Chair Beruff: Well, the other thing is that you know, as Governor Lydecker knows as well, you know, to do nothing is the worst case because it will just, it's there's always going to be bad actors, there's always going to be out there, and while it is a drop in the bucket, you know, whether it's Citizens or whether it's Citizens partnering with other insurance companies and public service announcements or something that, we're fighting this, here are some of the results we're having. We will get you. Kind of like the click-it or ticket commercials or something, you know. We're out there always looking to do this. You're never going to catch them all, and you just said they just open shop with another name and they're doing it, but to another insurance company. But I think we have to continue doing that. And I look forward to, not next meeting, but maybe the following Audit Committee meeting, kind of update on some of your analytics as the data starts pushing through and seeing some of the results there. So, I think that's good.

Mr. Cerio.

Mr. Cerio: Chairman, thank you. So, I knew Jay was going to knock that answer out of the park. I just wanted to come up and say some things that I knew he would not. And that is that Jay does have a tremendous relationship with these partners, with DIFS, and, you know, we have also reached out to Office of Statewide Prosecutor and the Attorney General's office, I mean, just, and individual state attorneys' offices. And one of the things that you hear is, you know, like any commercial crime, commercial fraud, it is sometimes they are very hard to prove. So, Jay and his team, along with DIFS, do a great job of trying to package this up in a bow and hand it to the criminal authorities and the prosecutors. We also, we try and really publicize, and I hate to be a little crass, you want to wave a scalp. When you take a scalp, you want to wave it, so people see it. It is very, very important for bad guys, for people who commit

crime, to know that they are going to face consequences. And I will tell you, you know, that this individual that was disbarred by the Florida Supreme Court who was one of the lead perpetrators of property insurance fraud, you know, this person was on, there were articles in Florida Trend about them about, you know, sort of the poster child of property insurance litigation in Florida. And when Jay and his team acted, and I don't want to put you on the spot, Jay, forgetting even before the case was over, how many millions of dollars of claims paid out in a month did, came to a halt?

Jay Adams: Overnight, after this prosecution, like I said, we have stopped receiving claims from these three individuals.

Tim Cerio: We recovered a million, but millions of dollars a month were stopped from being paid out to this firm and their associates. So, we get, Governor Lydecker, that we really, we're trying to be as high profile as we can when we take these actions.

Governor Lydecker: Yeah, like I said, it sounds very comprehensive and that you all are doing a great deal on it. And, really, the issue started, you know, are we thinking big enough and do we have enough resources in terms of just pure people power to help continue to be vigilant and address it? And, really, until assignment of benefits was addressed in the legislature, that was the, that was the driver, not wind. That was the driver of carriers pulling out of the state of Florida, just the rampant fraud that just got way out of hand. And so, you know, the other piece that I wonder about, and I think you're addressing this, Jay when you make the comment that you talk with the inner, the inner, with the other agencies, the interagency communications, where is the next assignment of benefits? Where is the next fraudulent roof claims that occurred in the state of Florida? Where's that next big trend going and how do we get on that before, you know, Citizens starts paying for this type of fraud?

Jay Adams: Right. So, analytically, we look at all this information month over month. So, we get all these reports and so forth.

Governor Lydecker: And the new analytical tools are going to help you with that probably.

Jay Adams: It will help some, for sure, but we are monitoring all of our causes of loss to see if anything is spiking or changing significantly month over month, and right now, we are really not seeing that. Most of the litigation that continues to occur today is on claims that have been denied, so they are still challenging those at a pretty high rate.

Governor Lydecker: Okay. Thank you.

Jay Adams: You're welcome.

Chairman Shelton: And those are claims that are outside the reform period, right? These are claims that predate...

Jay Adams: Some of both.

Chairman Shelton: Okay. Yes.

Board Chair Beruff: Has anybody gone to jail?

Jay Adams: Yes. When I talked about the ringleaders, George Espinoza...

Board Chair Beruff: Do we take their mug shots and publicize that and put it in the, why don't we do that? Because back to, it's a public relations issue, for one.

Jay Adams: We have...

Governor Lydecker: Secondly, it's a deterrent, because when people see this white-collar crime is what they call this typically, white collar criminals don't go to jail, but they should go to jail for this. And if they're going to jail, then we should take, make sure that we let the public know that people are going to jail for doing these things that are driving up unnecessarily insurance cost in the state.

Jay Adams: Well, we do work with the CFO's office to try to do joint releases, because Citizens on its own cannot do an arrest, right?

Board Chair Beruff: I understand, but once the arrest is made and, you said they went to jail. So, we got nothing to do that, we're not prosecutors, okay? But once they go to jail, it's a public record, just start posting their pictures, went to jail for fraud, insurance fraud, and put it out there because it might deter somebody from thinking it's easy. Because I think part of the problem is it's easy money.

Jay Adams: Yeah.

Board Chair Beruff: It's easy money, it's easy, low fruit to pick, except it's costing the citizens of Florida billions of dollars every year.

Chairman Shelton: Our CFO, Ms. Jennifer Montero, is next. And as you're walking up, Jennifer, I don't like to throw things at people, but rolling back to Mr. Martin's audit report, one of the things we talked about over lunch one day in his report, and I was looking through my notes and I have this written down, one of the, in one of the audits, there was a question on our TPA Empower and not doing some calculations correctly on some benefits as it relates to adjustments you have to make or may have to make on a routine basis, and they had messed that up. Am I saying that right, Mr. Martins? Just as, just that it was confusing to me when we went through that, that they would not be something that would not calculate the gains accordingly, correctly, some third-party administrator that we pay, and it caused some issues that you may have to deal with outside of the normal scope.

Mr. Martins, thank you for coming up.

Joe Martins: That is correct, sir. Following our meeting, I went back to the results of that work. This is an error that was identified within the HR benefits function in terms of Empowers manual calculation. The reason that this is a manual calculation is that Empower took over Mass Mutual while Mass Mutual was our service provider, and one of the products that we have was not supported by the applications that Empower has. So that is why there is a manual calculation in that product. We chose to be one of the clients that remained from Mass Mutual with Empower that was retaining that specific product, and that is a monthly calculation that they need to make. And, for a short period of time, they did make an error.

Chairman Shelton: They did.

Jennifer Montero: The interest calculation was not adjusted in a timely manner. They have gone back and adjusted and corrected it.

Board Chair Beruff: Correct. But they put in place or were going to put it in place where it's not something that has to be necessarily monitored or manually adjusted. It will happen automatically, as you would think you would in your retirement benefits for what your interest earned or your realized gains or unrealized gains.

Jennifer Montero: Well, we chose to be proactive by auditing them and keeping an eye on them for the next few quarters, even though they said that they have mitigated controls in place, so it will not happen again. But we have decided to monitor it anyway.

Chairman Shelton: Okay. Thank you. Thank you, Mr. Martins.

Jennifer Montero: Behind Tab 4, you will find a document which is called "Q1 2024 Results of Operations and Financial Position." This provides an overview of Citizen's unaudited financial position, including cash flows, invested assets, and surplus, as well as operational results for the quarter ending March 31st. The second document provides the commentary discussion and analysis, which is what I will be going over. So as of March 31st, 2024, cash and invested assets totaled \$10.1 billion, or approximately 200 million more than at December 31st, 2023, driven by net cash inflows from operations of approximately 130 million. Surplus at March 31st was 5.5 billion, reflecting an increase of approximately 510 million in comparison to December 31st, 2023. The increase in the surplus was driven by the first quarter net income of approximately the same amount.

Direct premium written in the first quarter was 1.1 billion, or approximately 125 million more premium than was written in the same quarter the prior year. The number of new policies written in the first quarter of 2024 of 102,000 was lower than the number of new policies written the year prior by 30,000 policies. In addition, the renewal rate of 82 percent reflects a decrease of four percentage points relative to the renewal rate during the first quarter of 2023.

At March 31st, no premiums for reinsurance or for coverage from the CAT fund have been ceded. The premiums ceded for private reinsurance and the CAT fund are recognized June 1st, the inception of the Atlantic hurricane season. At March 31st, ultimate loss in LAE related to catastrophe events were unchanged from December 31st, 2023. Gross and net ultimate losses in LAE associated with the CATs were as follows:

Hurricane Ian, 3.6 billion gross and 2.5 billion net; Hurricane Irma is 2.6 billion gross and 1.4 billion net; Tropical Storms Sally and Ada, 430 million with no reinsurance recoveries; Hurricane Idalia, 84 million with no reinsurance recoveries; and Hurricane Nicole, 100 million gross and 86 million net.

The storms that had no reinsurance recoveries, which was due to the loss levels not meeting the retention of Citizens' reinsurance contracts.

The 2024 non-catastrophe loss in LAE ratio continues to show improvement relative to prior years. The dominant driver behind the improvement in loss in LAE over the past several years has been the improvement in the litigation rates, which continue to be the single most important factor in the non-catastrophe loss in LAE and have remained stable for non-catastrophe losses in 2022, 2023, and 2024.

Administrative expenses incurred during the first quarter of 2024 were 52 million, or 6.5 million more than during the same period of 2023 and 8 million less than budget. Citizens' expense ratio for the period ending March 31st, 2024, was 15.4 percent, marking a .3 percent decrease from the same period a year prior and a 1.3 percent increase compared to budget. Through March 31st, total investment income was 82.4 million, approximately 32 percent more than the prior year, and average invested assets increased to 872.4 million, which is 10 percent.

The increase in overall interest rates, specifically within short duration instruments, have had the largest impact on investment income. And at March 31st, 2024, total unrealized losses across the portfolio were 695 million, or 76 million more than at December 31st as a result of higher overall interest rates.

And that concludes my report, unless there are any questions.

Governor Lydecker: I just have one question if I could.

Chairman Shelton: Governor, you're recognized.

Governor Lydecker: What should our operating expense ratio be, or administrative expense ratio be?

Jennifer Montero: The expense ratio is calculated by using your administrative and all your expenses are divided by direct written premium. Because our direct written premium is so large when we are big, it tends to make our expense ratio very low. Then, when we shrink, the expense ratio shoots up because typically, our expenses do not drop as fast as the premium does.

So, typically, a regular company has between, I would say 28 percent is the typical company's expense ratio. Ours is 15.

Governor Lydecker: Well, a typical company that is not going to be doing very well. That's a high expense.

Jennifer Montero: Right. But I wanted to make sure I point it out because we do a good job, we try to do a good job, we try to be good stewards, but the driver of our extremely low expense ratio is the fact that our denominator is \$5 billion.

Governor Lydecker: And our loss ratio did I understand you to say was 24 percent? I'm looking on the First Quarter 2024, CAT and non-CAT.

Jennifer Montero: Yes. So, the direct loss ratio is 23.9 for non-CAT and the same for non-CAT and CAT together.

Governor Lydecker: That's the part that seems low to me.

Jennifer Montero: The 23.9?

Governor Lydecker: Yeah. I mean, good news low.

Jennifer Montero: Brian, do you want to comment on that? No.

Chairman Shelton: Who's speaking?

Brian Donovan: Good afternoon, Brian Donovan, Chief Actuary. So, the question is, the non-CAT loss ratio seems low. Now, one thing to keep in mind is there is a lot of wind-only policies there that gets in the premium and the denominator of that, and we are talking about a non-CAT loss ratio, so it does appear very low. For example, before we combined accounts with the PLA with the multiperil, the loss ratios ran 58 to 59, where we would prefer them to be 54 or so.

Governor Lydecker: So how would that compare to, like, the private sector when they talk about a combined ratio?

Brian Donovan: Yeah. We would have to compare our multiperil to their multiperil because once we introduce wind-only, it's a different comparison. And so, in that regard, typically, the private industry, I think they want to shoot for, you know, give or take somewhere around 50 percent after you consider all their reinsurance costs. Maybe even closer to 45 percent is what their loss ratio would need to be, considering their reinsurance costs and then all their other expenses.

Jennifer Montero: So, it's the (inaudible).

Brian Donovan: Wind only.

Chairman Shelton: Jennifer, thank you.

Jennifer Montero: Thank you.

Chairman Shelton: Next, Mr. Brian Smith I saw earlier. Hi, Brian. Brian is our independent external auditor, and they have completed their audit, and he has a brief presentation and some comments to make to us this morning. You're recognized this afternoon.

Brian Smith: Good afternoon. For the record, Brian Smith partnered with Forvis Mazars. Purpose of our presentation or verbal update is we completed our audit for the Fiscal Year 2023. We issued a report on May 23rd. Our scope included auditing Citizens both on a statutory basis and a GASB basis. We have a comprehensive report in your packet. I'm going to give a voiceover. Certainly, stop with any questions.

Citizens did adopt a new accounting pronouncement in 2023. This relates to the GASB report. Government accounting standards had a new pronouncement in 2023 related to subscription-based IT arrangements, which is very similar to leases where there's a capitalized asset would be amortized over the life of a contract with an existing liability as well. If you notice in the report for the GAS report, you'll see 2022 was restated. This was a requirement for the adoption to have a retroactive adoption. So that's disclosed there in the footnotes.

As I highlight a few areas for audit risk using significant estimates and specialists, we audited the loss reserves. In doing so, we engaged Marlinos and Associates, or now known as Davies, an external actuary firm to evaluate the insurance loss reserves. They looked at the actual reports of Citizens, along with their specialists, and found those reserves to be reasonable as a whole for the financial statements.

Other areas, we use specialists in auditing the investment portfolio for fair value. We use both internally our Forvis valuation specialist, as well as Level 2 investments we outsource to a firm called Harvest to get prices on certain Level 2 investments. Found those investment valuations to be reasonable.

Board Chair Beruff: Mr. Chair?

Chairman Shelton: You're recognized.

Board Chair Beruff: Are there any notes to your audit?

Brian Smith: Any notes to our audit?

Board Chair Beruff: Yeah. Any exceptions to your audit?

Brian Smith: No exceptions, no.

Board Chair Beruff: It's a clean audit.

Brian Smith: Yeah.

Board Chair Beruff: There's two clean audits.

Brian Smith: Yeah. So, our, I can report on that for findings. We had no proposed audit adjustments, we had no uncorrected misstatements, we also had no controlled efficiencies identified.

Chairman Shelton: Brian, in our conversations leading up to the meeting, you had mentioned to me there were no disagreements with management, nothing to report outside of what your reports indicated and the opinions. One is not an opinion; one is an opinion. Only question I have, and as I've gone through them and I was just, I have them here with me, and this may seem simple, but when you look at this statutory report as required by the Florida Legislature, and then we have the GASB report with things, and we look at the differences between the two as a basis of presentation and its amortized cost versus value and NAIC rating or GAAP, my question is, and this isn't for you, but for the, maybe it's for Tim or someone that's been here longer than me, is there really a need for two reports? Is there if the Florida Statutes are requiring one, can the Florida Statutes be amended to say we just need a GASB report, or do we use these for two different things for rating agencies when we're going out for things of that nature? Do we really need both? And maybe that's Jennifer's, can ask that for it and then we'll move forward.

Jennifer Montero: So, we're required to file the statutory and the GAAP with the Office of Insurance Regulation. We also file the GAAP with the State of Florida as a component unit of the state. They add us on to the tail end of their financials.

Chairman Shelton: So, it's an OIR requirement through the legislature that makes us have their thing?

Jennifer Montero: Statutory is for the NAIC, the National Association of Insurance Commissioners, and for the OIR and everything insurance really.

Chairman Shelton: So, it would take some legislative action to change this so we can just have one report versus two?

Jennifer Montero: But they serve two different purposes. One is your GAAP accounting is your typical accrual accounting, where statutory accounting is more like cash accounting. And the reason it is like that is because they do not want companies to count a \$5 million picture on the wall as assets when it comes to paying claims when they are really not liquid.

Chairman Shelton: So, GAAP accounting essentially misrepresents what the actual cash position is of the company.

Christine Ashburn: Right. It is not cash. It is accrual accounting.

Board Chair Beruff: And you need the GAAP accounting financial statements for something you're doing externally outside the state of Florida, whether it be for bond financing or any type of things you may need?

Jennifer Montero: Yes, we would need that.

Chairman Shelton: Okay.

Jennifer Montero: We also need the GAAP financials because they are used to calculate a deficit for purposes of assessment; it is based on adjusted GAAP accounting.

Chairman Shelton: Okay. Thank you.

Mr. Smith, anything else to add?

Brian Smith: That completes our report. Any questions?

Chairman Shelton: Any questions? Governor Thomas? Mr. Chairman? Thank you, Brian.

Brian Smith: Thank you.

Chairman Shelton: I think the Office of Inspector General's quarterly report has been included for information only for the Governors and the Audit Committee.

Whereupon the meeting was adjourned.

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