

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING
Tuesday, September 24, 2024**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at The Westin Lake Mary, Lake Mary FL, on Tuesday, September 24, 2024.

The following members of the A&U were present:

Chair Carlos Beruff
Vice Chair Scott Thomas
Josh Becksmith
Robert Spottswood (telephonically)
Fred Strauss (telephonically)

The following Citizens staff members were present:

Tim Cerio
Jennifer Montero
Barbara Walker
Joe Martins
Andrew Woodward
Jeremy Pope
Mark Kagy
Jay Adams

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens' September 24, 2024, Actuarial and Underwriting Committee webinar that is publicly noticed in the Florida Administrative Register to convene immediately following the Finance and Investment Committee and will be 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. Panelists, thank you for identifying yourself prior to addressing the committee. Presiding Chair Beruff, we have no speaker requests for today's meeting. I will proceed with roll call.

Roll was called and quorum established with Chair Beruff, Vice Chair Thomas, Governor Becksmith, Governor Spottswood and Technical Advisor Fred Strauss.

Barbara Walker: Chairman, you have a quorum.

1. Approval of Prior Meeting's Minutes

Chair Beruff: Thank you. Entertain a motion to approve the prior meeting's minutes.

Governor Lydecker: So moved.

Fred Struss: Second.

Chair Beruff: Motion passes. Thank you. Mr. Adams, you're on.

2. Chief Insurance Officer Report

a. Underwriting Field Survey Program [CI]

Jay Adams: Thank you, Chairman and our governors. I just have one consent item today. It's the Underwriting Field Survey Program. And this is really our inspection service. This is what we've been doing for quite some time. And this consent item seeks board approval to renew the five previously approved underwriting field survey contracts for four additional years that will take us out to September of 2029. What we're asking for is approval of \$41,458,723 to cover that increase over that period. And as we've presented before, there's a pretty significant ROI with this inspection program. A little over \$100 million gets returned to Citizens for the \$43 or \$45 million that we spend for that. We're reducing the loss frequency, so we're seeing lower losses on the policies that are inspected, and we've estimated about a \$70 million return for that. We've improved our premium accuracy, and we have had about a \$22 or \$23 million uplift there based on the surveys. And then, of course, it helps make those policies ripe for takeouts, for depop's, when the surveys are attached, and, you know, you have a more complete underwriting file. As a part of this program and included in that amount, we also are doing some commercial surveys, and we've been doing commercial surveys. And at our last meeting, Governor Lydecker asked, due to the growing fraud in the remaining useful life roof programs, that we take up a project to see if we could order our own roof inspections when the risk does not meet Citizens' underwriting guidelines, and we have done that. We've included that into the overall action item here, and we are working with -- beginning to work with the office to see if we can pass those costs on to the consumer. And, Chairman, unless there's any questions, I'll read the action item.

Governor Spottswood: Mr. Chair, could I jump in just for one quick question?

Chair Beruff: Of course.

Governor Spottswood: So, the return on this that we're getting back, is that as a result of non-renewed or canceled policies, or where is the return coming from on this?

Jay Adams: Well, it's multiple layers of it. So, we have reduced loss frequency. So those -- what that means is that when we survey them, and they meet our underwriting guidelines at that point, those policies have fewer losses than those that have not been inspected. The premium accuracy aspect of it is we don't always get all the right rating components, and after the inspection, we can go in and put those right rates in there.

Governor Spottswood: So, the return, you're saying, is estimated return based upon better underwriting and not keeping policies that we don't want and that's –

Jay Adams: That's exactly right.

Governor Spottswood: Okay. So, it's avoiding losses that we would otherwise sustain?

Jay Adams: So, when we get the inspection, we have a more complete underwriting file at that point, so we can make better underwriting decisions. And when you have all the information, it has a more predictable loss trajectory than when we don't have all those pieces of information.

Governor Spottswood: It's pretty amazing that with only 3.65% of the policies surveyed, they resulted in a -- almost a \$9 billion reduction in exposure.

Jay Adams: So, what -- the return on investment I'm speaking about is primarily in the residential, and that is hard dollars. The commercial, when we do the inspections there, that is where we start looking at the exposure reduction because that is making a more significant impact on not writing business that's submitted and non-renewing business that's on the books.

Governor Spottswood: Uh-huh. And what percentage of insureds or policies are we actually looking at with this program?

Jay Adams: On the commercial program for 2025, we're estimating that we're going to be looking at about 38% of the renewal business and about 26% of the new business, and we focus on those risks that have the -- really the highest value, like the A-rated business, \$10 million and above.

Governor Spottswood: Okay. Okay. Thank you.

Jay Adams: You're welcome.

Chair Beruff: Any other comments? Mr. Adams, this is the one we discussed about --

Jay Adams: Yes, sir.

Chair Beruff: -- the expansion of the inspection services is related to the commercial coverage, correct?

Jay Adams: Correct. So, it is –

Chair Beruff: That's where the increased costs are significantly.

Jay Adams: It's –

Chair Beruff: A new contract.

Jay Adams: It's not significant cost. It is \$6.7 million, and not all of that is part of it. Hold on one second. The roof inspection portion is \$5,336,000 of the \$43 million that we're asking for.

Chair Beruff: So, in the depop, what is our current commercial business now in millions of dollars? I mean, we grew exponentially the last 24 months.

Jay Adams: Yeah, I don't have that figure. Jennifer or Andrew, do you have that? What's our commercial exposure?

Chair Beruff: In the depopulation that's currently going on -- for tomorrow's meeting, let's make sure that we can address how much of the commercial business is being depopulated.

Jay Adams: Right. Okay. We have --

Chair Beruff: Not just -- you know, the residential businesses we've been focused on, but really the growth in our exposure as a commercial business, which is profitable businesses for us, but we're still somewhat hamstrung by our -- what we can or cannot charge.

Jay Adams: Right.

Chair Beruff: Okay. So, the other thing I asked you folks to do is -- and I agree with Mr. Lydecker that I think it's an absolute necessity that we inspect -- quite frankly, I think we should inspect every roof on every building that we insure before we insure it. Now, whether that's a possibility or not is -- it's up to you folks, but the difference in particular that I have is that the commercial policies, they should pay for that report and we shouldn't be eating the cost, because at the end of the day, we've made money for the last 24 months. Is that right, Ms. Montero, operationally? I'm sorry. If you take out our investment income, we have made money operationally for 24 months. Is that plus or minus a true statement? Okay. That's going to go away at some point because we're depopulating, but we still have a fixed overhead. Okay. And it has always been my goal to be operationally break even. We don't need to make money. We don't want to make money. But we also don't want to take money from reserves that are accruing on investments that protect the citizens of Florida from being assessed because we didn't do our job correctly. So as we start depopulating, more thought has to go into that part of it and how we not create profit centers, but offload costs to the people who should be able to pay that cost, and the commercial policyholders are best suited to do that than the residential, though I believe at some point they should pay for it, even if it's a reduced rate, because we shouldn't be taking on policies that we don't have an independent report that says, hey, this is a good building, the roof has got whatever life we agree to insure by statute and by regulation. But I want to make sure that as we start rolling back our revenue stream and our premiums start diving, we don't start subsidizing the operations of this company by \$100 to \$150 million like we have done in the past. I think the first year I was on this board, we subsidized the operation \$125, \$150 million of investment income. At least I'd like to discuss it with the board members and see what your -- how you feel about that statement in general, because if that's the case, then it gives you, the staff, direction as to what this board wants to do over the next six and twelve months.

Vice Chair Thomas: Mr. Chairman, if I may? A comment -- a majority of folks on the -- now, this is the personal residential side. The majority of folks, if the home is over 10 years of age, go out and get a four-point wind mitigation inspection. Most insurance companies require that. My question would be, is there any way that we could have a list of certified Citizens' inspectors that if someone's going out and paying \$150 in the marketplace anyway, that they could choose an inspector that has been approved by Citizens? And maybe there's a few additional items that you would want them to go ahead and check a box on. Then that inspection could be universally used with anybody, but it's already been approved and it's our inspectors that have already approved it and then, we're not coming out of pocket. Essentially, what's happening, Mr. Chairman, is insureds are paying \$150 for this inspection, and then, we're paying -- excuse me -- Citizens is paying to send our inspector out to potentially either make sure that that information is accurate, find additional issues with the home, and that type of thing, and it just doesn't make all that much sense to me that we're basically having two inspections on the same property.

Governor Lydecker: And then, there's inspector shopping, which is what, you know, we're trying to --

Vice Chair Thomas: You're exactly right.

Governor Lydecker: Which is the reason why we want to disincentivize. But passing the cost on I don't think is a big deal. And, you know, carriers -- I think the private sector does that anyway.

Chair Beruff: Yeah. Well, that's all I'm trying to do is align ourselves with what the private sector does anyway. I think that's an excellent idea. As you were saying it, I was thinking more in the borrowing terms. Those of us that have appraisals done, we always have the bank order the appraisal because then it's -- you can take that -- if you don't do business with that bank, they can assign it to another bank, and under the FDIC rules, they can use that appraisal. If you order the appraisal yourself, it's worthless. So at the same time, if we can come up with a list that the governor's mentioning, then we have a list of all the inspectors that are approved, and, plus, like you said, add anything that Citizens requires as a requirement, then we can -- they can assign that if the other company doesn't insure them to us and we accept it and there's not an additional fee to the consumer. So perfect idea, and I think that something -- all of these little things -- as I tell my wife every once in a while, I say, "No matter how much money we have, I still count the pennies." Okay. So, I think that's the way you should run a business, still count the pennies.

Governor Lydecker: You know, one point of clarification to Jennifer. Am I thinking about this right, though? There's no such thing really as like, you know, where operations are running above or below. It's just really relative to budget is operations, because any money -- if like you mentioned the last two years that we've been operating in the -- I think you insinuated operating in the black. But there's no such thing because whatever dollars we have go towards reserves, right? I mean, you never have enough reserves.

Tim Cerio: Well, I'll let -- let me jump in. Jennifer -- I mean, I'll botch it and she'll fix it anyway, but, I mean, we do track our underwriting gain and loss and we do track our net income gain and loss, and what the chairman, I think, was referring to was several years ago, we had a -- we were showing income in the black, but that was being subsidized by our investment income, our net underwriting gain. We were showing an underwriting loss. I mean, we don't have a profit, but --

Jennifer Montero: Right. So, you wouldn't have any extra reserves until after you spend all the others.

Chair Beruff: Correct.

Jennifer Montero: But, yes, you're right.

Governor Lydecker: In other words, there's no such thing as making too much on operations.

Jennifer Montero: No, because the idea is that any -- we call it surplus, but really it goes into reserves. The idea is that --

Governor Lydecker: We never have enough reser- --

Jennifer Montero: -- (inaudible) pay claims in a prior -- in a future year.

Governor Lydecker: And that could have an impact relative to rate approvals down the road, but that's a separate subject. Okay. Thank you.

Tim Cerio: Chairman, you did ask about our commercial numbers. We have, as of Monday -- or from last Friday, our numbers were 13,434 commercial policies, residential and non-residential, about \$880 million in premium and about \$95 billion in total insured value. That was down. I mean, we've been showing a steady decrease through depop in our commercial, but also -- and I think we'll get into it in the reports tomorrow -- also, new business coming in has slowed for commercial, which is great -- which has been great.

Chair Beruff: Great news.

Jay Adams: And some non-renewal.

Tim Cerio: And non-renewal activity.

Chair Beruff: So new business has slowed in spite of the fact that you've got this looming deadline for condominiums to do their structural certifications and so forth by January 1st?

Tim Cerio: It has slowed. Now, hopefully, the trend will continue, but, yes, it has slowed.

Chair Beruff: Any other comments? Mr. Adams, you have an action item?

Jay Adams: I do. Could I read the action item at this point? **"Staff proposes that the actuarial and underwriting committee review, and if approved, recommend to the board of governors approving a four-year renewal of the underwriting field survey contracts identified through September 2029, a proven increase in spending authority for the underwriting field survey contracts identified above for an additional \$41,458,723 for the anticipated charges through December 31st, 2026, and authorize staff to take necessary action."**

Chair Beruff: Do I have a motion?

Vice Chair Thomas: I'll make the **motion to approve** the action item as Mr. Adams described.

Chair Beruff: Have a second?

Governor Spottswood: **Second.** And if I may add to that, you know, this is another cost that Citizens is bearing to produce a better book of business and policies that are benefiting the private market when we depop. So not just the acquisition costs and administration costs, but this is also benefiting the market as well.

Chair Beruff: Agreed.

All those in favor signify by saying "aye."

(Chorus of ayes.)

Chair Beruff: **Motion carries.** Thank you, Mr. Adams.

Jay Adams: Thank you. That concludes my presentation.

Chair Beruff: Is there any new business? This meeting's adjourned, I think.

(End of proceedings.)