

## CITIZENS PROPERTY INSURANCE CORPORATION

### MINUTES OF THE AUDIT COMMITTEE MEETING Tuesday, December 3, 2024

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened at 1:00 p.m. on Tuesday, December 3, 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 Spottswood Governor Butts

**The following Citizens Staff were present:**

Jay Adams	Eric Addison	Ravi Tadiparthi	Ken Tinkham
Tim Cerio	Carl Rockman	Sudheer Kondabrolu	Matthew Carter
Bonnie Gilliland	Mark Kagy	Joe Martins	John Schmidt
Jennifer Montero	Jon Schmidt	Andrew Woodward	Michael Wickersheim
Ray Norris	Michael Peltier	Raina Harrison	Mike Sills
Jeremy Pope	Barbara Walker	Brian Donovan	Aditya Gavvala
Brian Newman			

**The following were present:**

Nathaniel Johnson, B of A  
Dave Newell, FAIA  
Kapil Bhatia, Raymond James  
Adam Schwebach, Gallagher Re

**Barbara Walker:** Good afternoon, and welcome to Citizens' December 3, 2024, Audit Committee Meeting, which is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. 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, with presentations appearing in the webinar.

Chair Shelton, we have no speaker requests for today.

Panelists, thank you for identifying yourself prior to addressing the committee.

**The roll was called, and the quorum met.**

**Chair Shelton:** Meeting will come to order. The first order of business is the approval of the prior minutes from the September 24, 2024, Audit Committee. We'll entertain a motion to approve.

**Unanimously approved.**

**Chair Shelton:** Joe Martins, our Chief of Internal Audit, you are recognized to present.

**Joe Martins:** Good afternoon, Mr. Chairman and Governors. For today's meeting, I would like to share progress against our plan for the Office of Internal Audit, which includes Internal Audit, Enterprise Risk, and Internal Control. We also have some Action Items that I would like the committee to consider and approve. We have the Office of Internal Audit strategy and plan, the budget, the charter, and the policies for review.

The graph in front of you shows the progress from July through June 2025. So far, a third of the engagements have been completed, and a third are in progress. Since the last meeting, we have completed three engagements. For the Commercial Underwriting engagement, we noted the need to better monitor our underwriter's compliance with authority levels. For the Payroll and Employee Records Management engagement, we noted the need to strengthen security controls on personally identifiable information for some data and these matters are being addressed. We are also conducting a follow-up audit on OFAC to assess the changes made since the last audit of that area. We are providing guidance and support to the Privacy Officer in developing a privacy framework and approach. The Technology Governance engagement result has been communicated to management, and we are awaiting their responses. We intend to produce that report early next year. The Office of Insurance Regulation is working through the market conduct exam that should be completed in February 2025.

This slide shows the areas we, as Internal Audit, will touch on in the next quarter. The graph on the slide indicates that we will focus on Application Programming Interface, Asset Management, Financial Planning and Analysis, Segregation of Duties, IT General Controls, Office of General Counsel (that would be advisory support), Recruitment, and Remittance Processing. Most of these engagements will be finalized before the June Audit Committee meeting.

This slide shows progress against Open Observations. We provide a tracking mechanism for all open observations relevant to Internal Audit, External Audit, and regulators. Two new medium-rated observations have been recorded, and both are currently in progress. These refer to the Commercial Underwriting Authority Limits and Payroll Employee Records Management audits that we have completed.

With this slide, we have shown how audit focuses on the strategic risks throughout the organization and the engagement plans that are being addressed to give an indication of the work that we are doing against the strategic risks as well as the high-impact operational risks. Although the Internal Audit does not focus on CAT ops and rate differentials during this period, this was included in the work completed last quarter, so we have a broad perspective of the risks for the organization. The work that we are doing is focused, and we provide some assurance in terms of how well risks are managed throughout the organization.

We have several Action Items. The first focuses on the Office of Internal Audit Strategy and Plan and Budget we are presenting. Within your slides on the summary pages are descriptions of changes as well as what the plan focus is for the year and the budget, and how it aligns with the budget from last year. The plan was developed using a risk-based approach to understand and assess Citizens' operations associated risks. A copy of the draft plan was previewed and discussed with Citizens Executive Leadership. Our objective here is to use the resources available to the Office of Internal Audit to provide the most timely and comprehensive scope of audit, risk, and control coverage throughout the year. This plan is dynamic, and every quarter,

we have a discussion with management to refocus on risk, and we update that plan or bring that change to the Audit Committee for approval or awareness every quarter so that we align ourselves really close to the business and what is important to the organization throughout the year instead of focusing on an annual plan, the plan remains flexible as we progress through the year. The 2025 budget will be 3.94 million, and that compares to 3.84 million budgeted for 2024. This reflects a 3% total increase in expenses year over year from a budget perspective, which is mainly driven by cost-of-living increases. The budget is materially in line with the 2024 budget with minor deviations. If there are no questions, I will read the recommendation for this Action Item.

**Chair Shelton:** Just to note on the professional services, Joe and I met and went over this. You see, there was \$200,000 this year and \$0 last year. That is a placeholder if we had those expenses. That is just a placeholder in the budget, so I was good with that. If there are no questions, I will entertain a motion to approve.

### **Budget was approved.**

The next item that we have focuses on the charters. Every year, we review the charters, and we have a look to see if there are changes. Both charters are updated annually. The difference this year is that the Institute of Internal Auditors (IIA) that we have chosen to align our audit practices with has updated its standards for the governance of practicing internal auditing. The prior standards that we were applying were roughly around seventeen years old, with a refresh in 2017. What they have done this time is completely redone the standards and the Global Internal Audit standards that were produced in 2024, which will become effective in January 2025. Expectations are that internal audit functions worldwide should comply with and provide conformance to those standards and state their conformance to those standards annually, which we do. The original standards were created quite a while ago, and we reviewed both of the charters against the requirements. With the standards that IIA provided, our draft changes are in the pack for your consideration. Mr. Chairman, I know you have had a look at those as well. In essence, the roles and responsibilities of the Audit Committee and the Office of Internal Audit are not changing within these charters. These charters now highlight specific governance and practice enhancements that have been included in the Global Internal Audit Standards and streamline their structure. A couple of those changes have been highlighted in the bullet points. If there are no questions, I will read the recommendation for this Action Item.

### **Both charters were approved.**

Every two years we also review the policies related to the Office of Internal Audit. These two policies are for the Office of Internal Auditor policy and the Open Observation Management policy. Given the changes to the Global Internal Audit Standards, there were some changes to these policies as well. These changes were shared with the members of the Audit Committee, and the Chairman and I had a brief discussion as well. The Open Observation Management policy informs the organization of the need for an audit observation management process and ensures that management action plans have been effectively implemented and clarifies audit and business expectations. The Internal Audit policy informs the organization of the purpose and authority of the Office of Internal Auditor and clarifies expectations throughout the organization, and makes it easier for us to conduct our work. Following the changes in the standards, we revised these policies, and we are bringing this to the Audit Committee for approval. If there are no questions, I will read the recommendation for this Action Item.

### **Both policies were approved.**

As you know, Enterprise Risk partners with the Executive Leadership Team, management, and subject matter experts across the organization to identify and assess risk from various perspectives. Currently, our organization is managing nine high-rated risks, eight of which are strategic and one operational. Throughout the year, management updates risk descriptions and mitigation actions, and the Enterprise Risk team facilitates risk meetings in every business unit once a year. As of the end of August, 68 of the planned assessments were completed, and operational risks were defined and updated, with the remainder completed prior to year-end. The 2025 Strategic Risk assessment for the Executive team is scheduled in January next year.

Throughout the year, management performs self-reviews and assesses the effectiveness and design of the documented primary controls. The Internal Controls team completes a quality assessment of selected reviews. As of November, 68 of the 97 primary controls have been assessed. If you remember, the Internal Controls focus is a SOX light focus throughout the organization. Citizens is not required to be SOX compliant. Still, the Audit Committee in 2014 made the decision to implement a process where we as an organization focus on the important controls throughout the organization. This process helps us to understand which controls would hurt the organization if they fail and provide assurances that these controls are managed appropriately throughout the organization. The results of the control self-assessments to date show that 60 of the controls that were reviewed were effective, and there were recommendations on three of these controls for design improvements, and five of the controls require re-design due to process changes. No material issues have been identified to date.

What we have also done this year for both Enterprise Risk and Internal Control is update the frameworks for both of these areas, as it has been quite some time since they had been updated. We bring these frameworks to the Audit Committee for awareness. These have been discussed with and agreed upon by management and have been presented to the Risk Steering Committee. The frameworks are not materially changing what we are doing, but they are much better aligned with what we are doing currently, and as we progress through the years, we update and refresh our practices but have not updated the frameworks. Now that the frameworks are updated, they are more aligned with what we are doing in terms of work in Enterprise Risk and Internal Control.

This completes my presentation.

**Chair Shelton:** Governors, any questions for Chief Martins before he steps aside? For the record, what your team is doing, you are doing a great job; the conversations I have had with you, the conversations I have had with our external auditors, and feedback from the senior management team is that you are doing a good job. So, I just wanted to say well done.

**Joe Martins:** Thank you, Mr. Chair; I appreciate it.

**Chair Shelton:** Mr. Adams, you are next, sir.

**Jay Adams:** Thank you, Chairman and Governors. At the July board meeting, Chairman, you asked me to return and provide a FRISS dashboard update. We had just launched much of that information at the front end. The FRISS tool, as a reminder, is what we use in our Special Investigative Unit, and it is a suite of products. It has a piece for Claims, Underwriting, and our SIU investigators. It uses machine learning and rule-based predictive modeling to generate referrals. We link some third-party data subscriptions into this tool. You can see on the slide that all of those are active; when we were here in June, we were working on many of those. Finally,

it does some visualization, which helps to determine ring activity and other things like that for the team.

When we look at the actual dashboard, it represents 2023 to 2024 and again, the tool was active in 2024. This shows that the time it takes for the referral to come into our SIU unit has gone from the mid-90-day mark down to 28 days. It is significantly faster than when we get things from the adjustor, and the reason for that is that the adjustor doesn't have insight into all of the information that FRISS is looking at. They do not have that all at one time like the tool does. This slide also shows how many SIU referrals are being accepted and you can see when they come from the tool, about 92% of them are being picked up by our SIU unit. When they come from an adjustor, again not having all of the information that the tool has, it is a little lower. Also, at the bottom, it is shown that the tool has screened over 235,000 claims. That doesn't necessarily mean individual claims. It looks at our open claims in population, and it has done screenings. Every time new information is brought into the file from third parties, anything that the adjustor may add to the file, once it sees that, it goes in and does a new screening. This process generated about 15,000 referrals to our triage team in SIU. What they have done is gone through that, and in doing so, they are training the tool to make better and better referrals, and we have acted on 274 of those. So, of those 15,000, 274 were credible, which is a much higher rate than we typically get from an adjustor making a referral. An adjustor is typically going on a gut reaction, and the tool relies on fact. Any questions?

**Chair Shelton:** So, this is continued Artificial Intelligence. It will continue to get better and better, the more data that comes into it over time, the better predictability it will have.

**Jay Adams:** Today, we still have not implemented the underwriting piece. We are hoping to do that in the third or fourth quarter of 2025 or, for sure, in 2026. Once we get that engaged, we will be able to see the activity on the front end all the way through the claims process. That will again create better and better referrals for us because it will have all of the information from the front end. That concludes what I had today, Chairman.

**Chair Shelton:** Next up is Jennifer Montero, our Chief Financial Officer. Ms. Montero, you're recognized.

**Jennifer Montero:** Good afternoon. Behind Tab 4, you'll find the document titled "Q3 2024 Results of Operations and Financial Position." This provides an overview of Citizens' unaudited financial statements, including the cash flows, invested assets, and surplus, as well as operational results for the quarter ending September 30, 2024. In addition to that, there's a second document that provides the commentary, which is the discussion and analysis of those operating results and financial position, and that is the document that I will go over in summary.

At September 30, 2024, consolidated cash and invested assets totaled \$11.2 billion, which is approximately 1.4 billion more than at December 31st, 2023. This was driven by net cash inflows from operations of approximately 1.4 billion. Surplus at September 30th was \$5.6 billion, reflecting an increase of approximately 552 million in comparison to December 31<sup>st</sup>, 2023. The increase in surplus was driven by net income from the first three quarters of 2024 of approximately the same amount. Direct premium written through September 30 was \$3.7 billion, or 312.1 million less premium than written in the same period in 2023. The number of new policies written through the third quarter of 2024 decreased to 310,000 in comparison to the 436,000 new policies written a year prior. In addition, the overall renewal rate is 82%, reflecting a decrease of 3 percentage points relative to the renewal rate during the same period in 2023.

Premiums ceded through depopulation through September 30<sup>th</sup>, 2024, were 304.3 million, marking a significant increase in comparison to 2023, where 54.2 million of premiums were ceded through depopulation. Premiums ceded for private reinsurance and for coverage through the CAT fund totaled 988.5 million, a decrease of 195 million or 17%. A decrease in reinsured exposure was the primary driver for the period-over-period decrease in the premium ceded.

During the third quarter of 2024, two hurricanes, Debbie and Helene, made landfall in Florida. Hurricane Debbie, which made landfall on August 5<sup>th</sup>, 2024, has projected ultimate direct losses in LAE of \$67.9 million as of September 30<sup>th</sup> no reinsurance recoverable recoveries have been recorded due to the loss levels not meeting the retention of the Citizens reinsurance contracts.

Board Chair Beruff: Back on the statement of operation, the change in direct unearned premium for the 9 months in 2024 versus the 9 months 2023, again what is driving the big flip there? A billion-dollar negative to \$47 million positive. Help me understand that.

**Jennifer Montero:** That is the earned amount. The change I was referring to was the direct written premium which is the higher number above that the 3.7. That is just the earning of the premium because all of the premium has to be earned over 12 months.

**Chair Shelton:** Last year, it was a billion dollars, and we have a reduction this year of a \$37 million increase. I am trying to wrap my head around policies coming in and going out why is it such a flip for those nine months?

**Jennifer Montero:** Let me look into that, and I'll get an answer for you right after this.

Hurricane Helene, which made landfall on September 26<sup>th</sup>, 2024, has projected ultimate direct losses in LAE of \$426.6 million as of September 30<sup>th</sup>, 2024. No reinsurance recoveries have been recorded due to the loss levels not meeting the retention of Citizens reinsurance contracts. Given the immaturity of both storms as of September 30<sup>th</sup>, the projected ultimate loss in LAE will most likely be adjusted at year-end to reflect the actual development experienced. Hurricane Milton did not make landfall until October 9<sup>th</sup>; therefore, the losses in LAE are not captured in September 30<sup>th</sup> financials. However, the model loss in LAE for Hurricane Milton totaled approximately \$3.8 billion gross of reinsurance and \$2.8 billion net. These ultimate losses in LAE will also be adjusted at year-end to reflect the actual development experienced.

No adjustments were made to ultimate losses and LAE associated with prior CAT events from December 31<sup>st</sup>, 2023. Gross and net ultimate losses and LAE associated with the CAT events were as follows: Hurricane Ian \$3.6 billion gross and \$2.5 billion net, Hurricane Irma was \$2.6 billion gross and \$1.4 billion net, Hurricane Nicole was \$101 million gross and \$87 million net, Tropical Storms Sally and Ada were \$430 million with no reinsurance recoveries, and Hurricane Adalia was \$84 million with no reinsurance recoveries.

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

**Board Chair Beruff:** We talked about this in one of our calls, for the three storms, the most recent storms we had this year. When you take out what we would get for the reinsurance

companies and ones we didn't have, net, net, net, those three storms, approximately our total exposure, total losses, were around \$3 billion, is that about right?

**Jennifer Montero:** No, Hurricane Milton alone. The model number for Milton is \$3.8 billion, including LAE, but it is \$3.5 billion without the LAE. The other two are approximately \$68 million and \$426 million, I think. Brian has not done the loss analysis on that yet because it did not hit until October.

**Board Chair Beruff:** So, it is a little higher than the \$3 billion. I know it is not a final number.

**Jennifer Montero:** The net would be \$3 billion.

**Board Chair Beruff:** After the reinsurance comes in, right now we are around \$3 billion.

**Jennifer Montero:** Although we do think that the model losses for Milton are high.

**Board Chair Beruff:** Okay, so you think it is high, so if it is a little higher it could be less than \$3 billion.

**Jennifer Montero:** Yes.

**Board Chair Beruff:** Thank you.

**A Voice:** Inaudible

**Jennifer Montero:** Well, we have had no problems with the cash balances so far. We have had the investment managers stop reinvesting, so they have liquid cash as the policies.

**Board Chair Beruff:** Inaudible

Investments due to the interest rate market over the last 24-36 months, right? So, have we had to liquidate any positions to pay any claims?

**Jennifer Montero:** No. We have not liquidated anything. We have allowed things to just mature and carry it from there.

Administrative expenses incurred during the first three quarters of the year were 133.7 million, or 11.8 million more than in the same period in 2023 and 23.8 million less than budgeted. Citizens' expense ratio for the period was 14.5%, marking a .5% increase from the same period a year prior and a .6% increase compared to budget.

Through September 30<sup>th</sup>, 2024, total investment income was 273.1 million, which is approximately 56 million more than the prior year, while average invested assets increased 786.6 million. The increase in the overall interest rates, specifically within short-duration instruments, has had the largest impact on investment income.

At September 30<sup>th</sup>, total unrealized losses across all portfolios were 435 million, or 184 million less than at December 31, 2023, reflecting a decrease in interest rates during the third quarter of 2024. As of November 30<sup>th</sup>, the total unrealized losses were down to 510 million as interest rates have gone down.

I'm happy to answer any questions you may have, but if there are no questions, my report is concluded.

**Chair Shelton:** Mr. Smith, our partner with Forvis, you are recognized for a presentation on the audit plan for next year.

**Brian Smith:** Good afternoon; for the record, Brian Smith and Sam Wishard (our Audit Manager) from Forvis Mazars with me. We can begin with our plan. In tab 5 of your report, there is an audit plan. We have been engaged for the 2024 audit of Citizens; as a reminder, they produce statutory financials and GASB financials, and we have been engaged for both. We began our interim procedures and our planning procedures, and we intend to have that completed here in the month of December. We will return to fieldwork at the year's end in April with the intention to complete a report by the middle of May, at which time we will release our opinion. Sam is going to walk us through our planned significant risk areas for 2024.

**Sam Wishard:** Good afternoon, everyone. As Brian mentioned, we have our three reports here at the top of this page: the statutory financial statements, the GASB financial statements and the GAAP financials for the Florida Market Assistance Plan. There are three phases here: as part of our audit, we will get our Internal Control understanding, go through our substantive testing and reporting, and then communicate with the Audit Committee and management as well.

Next, I want to go through the significant risk areas we have identified. The first is investments, and so we will evaluate that portfolio using our business evaluation group. Next is IBNR for which we will engage a third-party actuary to value IBNR. The third one is premium recognition. We will take a look at policy cancellations to address cutoffs in addition to any top-side entries made to premiums. The fourth bullet here is reinsurance. We will confirm all treaties and agreements for any adjustments, modifications to the contracts, and risk transfer. Finally, management override of controls is our fifth risk there, and I will address that through journal entry testing.

The next bullet point down is the professionals we plan to utilize for the audit. For information technology, Matthew Smith is a partner within our Forvis Mazars Information Technology group. For investment valuation, as I mentioned, we use a business valuation group within Forvis Mazars. The actuary we plan to use is Merlino, now Davies. For internal audit, we will utilize Joe Martins. Finally, we have the engagement team, Brian Smith, partner, and myself as the Audit Manager. Wesley McCloud will be the engagement quality review partner, and then, as I mentioned, Matthew Smith will be the IT partner.

**Chair Shelton:** Any questions for the auditors? Thank you, Gentlemen.

**Chair Shelton:** Next on the agenda, the Inspector General quarterly report has been included in our package for information only and has been made available to all of the governors.

**Chair Shelton:** Any new business?

**Whereupon the meeting was adjourned.**