

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
ACTUARIAL AND UNDERWRITING COMMITTEE MEETING
Tuesday, September 27, 2016**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North on Tuesday, September 27, 2016, at 4:30 p.m. (EDT).

The following members of the A&U were present.

Jim Henderson
Chris Gardner
Gary Aubuchon
Bette Brown
Fred Strauss (*by phone*)

The following Citizens staff members were present:

John Rollins	Mark Casteel
Barry Gilway	Carrie Thomas
Kelly Booten	Andrew Woodward
Dan Sumner	Carl Rockman
Jennifer Montero	Michael Peltier
Steve Bitar	Brian Donovan
Christine Ashburn	Karen Holt
Joe Martins	Barbara Walker
Violet Bloom	Bonnie Gilliland
Jay Adams	David Woodruff

Call Meeting to Order

Roll was called.

1. Approval of Prior Meeting's Minutes (June 21, 2016)

A motion was made and seconded to approve the June 21, 2016, A&U meeting minutes. All were in favor. Motion carried.

1. Action Item – Product Changes - Lender Placed Coverage (Personal Lines)

CHAIRMAN HENDERSON: Opposed? Having passed. Thank you. Action item number two is the product change on the manage repair program, and staff and John and Karen, please lead us through this if you would.

MR. ROLLINS: Thank you, Mr. Chairman, I will recognize Karen Holt to give us an explanation of the endorsements we plan to file to support the manage repair claims program.

MS. HOLT: So for the record this is Karen Holt, Senior Director of Product Development. If you look behind tab two in your binder you will find the summary on this item. This references policy changes to support manage repair contractor network for personal lines. This will be an action item. We are asking for approval. As a brief history, Citizens has developed a multi prong strategy to address the rapidly rising claims costs due to the water losses. A big key element of that program is the manage repair contractor network that is being developed by claims. This provides policyholders the option of using a Citizens approved contractor to handle their repairs. At the March 2016, Actuarial and Underwriting Committee and subsequent Board meeting, Citizens staff recommended an approach to support the manage repair contractor network that included a premium credit that the policyholder would receive by accepting an agreement, an endorsement to use the manage repair network at any loss that occurred during their policy terms. Following that meeting staff conducted additional research and began developing detailed specifications, program structure and policy form. The information gained through these efforts led to a decision to recommend a change in direction to a more consumer oriented approach for offering policyholders the use and the access to the network program. So we are today recommending a change in approach. The proposed program highlights as I mentioned are more consumer friendly and they do give the policyholder the option to participate. This will initially apply only to water losses that are caused by accidental discharge from plumbing systems and other related systems. Other cause of loss may be added in the future but will not be included at the beginning. We will be utilizing two separate programs and there are two separate endorsements to manage these. The first is emergency water removal services. This offers water extraction and drying services to the insured at the time of loss. The cost of the service will be funded by Citizens and will not be subject to the policy deductible. The amount of the services will be limited to \$3,000 or one percent of the coverage A amount for the building, but Citizens may approve additional amounts if they are needed. The second endorsement governs the manage repair contractor network and it will provide a Citizens approved contractor to inspect, estimate and complete repairs for covered losses. Payment is made directly to the contractor and the policyholder is responsible for paying the deductible to the contractor. It is important to note that both programs are supported by a Citizens adjuster who is assigned to the loss and is responsible for coverage decisions and approval of the estimate to repair. If the policyholder chooses not to participate, the original policy provisions do apply. This is available only for H-03 and DP-3 products. Other lines may be contemplated in the future. And for clarity I did mention that the deductible will not apply. The water emergency removal services part will also be paid even if the loss ends up not covered. So if we send somebody out, we will pay for that service. So the changes that are required are the program requires the introduction of two policy endorsements that provide direction as to the application of the two separate programs. The original premium incentive as mentioned will not be applied. We also looked at a deductible waiver option, and the market research suggested that there was not a lot of increased usage or uptake of the program. So we decided not to go with that at this time. Are there any questions?

CHAIRMAN HENDERSON: Any questions from the committee?

GOVERNER GARDNER: Thank you, Mr. Chairman. What would be the process by which to add future items to this? Right now it is just related to plumbing, but other type of water damage, what would be the process?

MS. HOLT: Okay. Any -- in order to make any changes we are including in the endorsement what is covered. So we would come back to the Board and advise you of any changes to broaden the program. And Dan also asked that I mention that in addition to endorsement, and it is actually an approval item, we will be making some changes to the base contracts that are required to support the program. Any other questions?

CHAIRMAN HENDERSON: Okay.

MS. HOLT: If you don't mind I will read the recommendation.

CHAIRMAN HENDERSON: Please do.

MS. HOLT: Citizens staff recommends the Actuarial and Underwriting Committee approve and recommend to the Board to approve the development of the new endorsements and policy changes that are described above and are required to support the implementation of the manage repair contractor network, and authorize staff to take any appropriate or necessary action consistent with this action item, including filing with the Office of Insurance Regulation, system change implementations and other supporting activities.

CHAIRMAN HENDERSON: Thank you. Any motion?

GOVERNOR BROWN: So move.

GOVERNOR GARDNER: Second.

CHAIRMAN HENDERSON: It has been moved and second. All those in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Opposed? It passes. Thank you for the presentation on that, Karen.

A motion was made and seconded to approve the Staff's Recommendation for Action Item for Product Change: Managed Repair and to present to the Board of Governors on Wednesday, September 28, 2015.

MS. HOLT: So moving on behind tab three we have some additional product changes. These are titled miscellaneous updates. The first item is the Florida Insurance Guarantee Association commercial and personal lines recoupment. This is continuing recoupment activity for the 2012 Florida Insurance Guarantee Association assessments. We have done two rounds of recoupment for the assessments that Citizens paid. Because of our declining volume we have not yet completed our collection. So we are asking for approval to do one more year of collections. These do run for a full year and they do apply to all policies and it does require a filing. The second I tell is to retire underutilized lines of business. Currently Citizens offers 21 policy types including seven different tenant content policy types. The chart that is shown on this page reflects several policy types that are seldom used. In each case similar coverage is available in a different Citizens product. These products do require specific effort to maintain or modify and various product changes always apply to them and do require specific additional work. There is an opportunity to do the research and analysis to try to retire these lines, and that is what we are asking for approval to do. It should allow us to eliminate some administrative costs and extra work. Any action to retire underutilized policy types will reflect minimizing the impact to policyholders and agents, offering appropriate product alternatives that provide comparable coverage and will include approval by the Office of Insurance Regulation of any changes that impacts the policyholders. Staff requests the Board's approval and the committee's approval to conduct the research and analysis and to take appropriate action to retire underutilized products. In order to minimize impacts it should be noted that a multi-year plan may be adopted. Any questions on that?

CHAIRMAN HENDERSON: Any questions from the committee?

MS. HOLT: The third item is to update format and structure of personal lines underwriting manual. Over time specific modifications to portions of the underwriting manuals have resulted in some inefficiencies in format

and structure. These inefficiencies may confuse agents and they definitely slow down updates and revisions. Staff requests approval to update and reformat the personal lines underwriting manual. No changes will be made to eligibility and all manuals will be submitted to the Office of Insurance Regulation for review and approval. Questions?

CHAIRMAN HENDERSON: Any questions from the committee?

MS. HOLT: I will read the recommend. Citizens staff recommends the Actuarial and Underwriting Committee approve the changes described above to restart by the recoupment, research and take appropriate action to retire underutilized lines of business and update the format and structure of the personal lines underwriting manual, and also authorize staff to take any appropriate or necessary action consistent with the action item including filing with the Office of Insurance Regulation, system change implementations and other supporting activities.

CHAIRMAN HENDERSON: I think this constitutes the recommendation under the action item. A motion for approval?

GOVERNOR GARDNER: So moved.

GOVERNOR AUBUCHON: Second.

CHAIRMAN HENDERSON: All those in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Passed. Thank you.

A motion was made and seconded to approve the Staff's Recommendation for Action Item for Product Change: Miscellaneous Updates and to present to the Board of Governors on Wednesday, September 28, 2015.

MS. HOLT: The last item behind tab four is particularly appropriate when you see the items that we just brought forward. This is a product change. It is recommending a procedural change to underwriting manuals. In the normal course of business it is sometimes necessary for Citizens staff to address procedural formatting and non-substantive changes that do not impact eligibility for coverage in our personal and commercial lines underwriting manual. Under Section VII, subsection (a), paragraph 11, Citizens Property Insurance Corporation's plan of operation provides that the Board may delegate to a senior manager the decision to file amendments to an underwriting manual which are solely procedural and do not impact eligibility for coverage or classification of risk. Pursuant to this plan provision staff requests that the Committee and the Board delegate to the senior manager responsible for preparation and filing of underwriting manuals the decision to file amendments to an underwriting manual which are solely procedural and do not impact eligibility for coverage or classification of risk. It should be noted that upon these approvals we will have also gone through our normal internal approvals, including legal approvals and all changes are subsequently filed and approved by the Office of Regulation, Insurance Regulation. Any questions on that?

CHAIRMAN HENDERSON: Any questions of the committee?

GOVERNOR BROWN: I just have a comment. I think that is probably long overdue.

GOVERNOR GARDNER: Thank you, Governor Brown.

GOVERNOR BROWN: We do as well.

GOVERNOR GARDNER: We do as well. It is a delegation that we need in order to properly carry out the new plan of operation, and quite frankly bring you less stuff and the stuff we will bring you will be more important.

CHAIRMAN HENDERSON: Thank you. With the recommendation being read, a motion from the committee?

GOVERNOR AUBUCHON: Motion made.

GOVERNOR BROWN: I will second.

CHAIRMAN HENDERSON: Made and seconded. All those in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Those opposed? Passed, thank you.

MS. HOLT: Thank you.

A motion was made and seconded to approve the Staff's Recommendation for Action Item for Product Change: Procedural Changes to Underwriting Manuals and to present to the Board of Governors on Wednesday, September 28, 2015.

MR. ROLLINS: Mr. Chairman, if it please the Committee would like to ask Brian Donovan, our Chief Actuary and Director of Actuarial Services at Citizens to join me for the final two items which, excuse me, not the final two, but the next two items which deal with rates. For the record I apologize, this is John Rollins, Chief Risk Officer, I didn't announce at the beginning, but I would like to turn it over to Brian Donovan to take us through two items related to rates.

MR. DONOVAN: Good of afternoon, Chairman, Committee members. For the record my name is Brian Donovan, Chief Actuary here at Citizens. And I would like to discuss two separate issues. First is an A rate change recommendation. The second is an update on the recently received rate order from the Office of Insurance Regulation. Concerning the A rates. To refresh your memory, individually rated risks also known as advisory rates or A rated risks, private structures on a commercial residential multi-peril policy or a commercial residential wind only policy when the structure for any structure that exceeds \$10 million. These rates are not filed with the Office of Insurance Regulation and they are not subject to the 10 percent glide path. As a result these rates have been pretty close to adequate over the years. Not surprising, because there is many of these risks have found a home in the private market. Back to this point for the commercial residential multi-peril we are down to 80 A rate structures and the premium of \$10.8 million. The indication on these remaining structures is 6.5 percent, and based on this 6.5 percent indication we are proposing a rate change of five percent. For the commercial residential wind only we are down to 38 structures with \$3.3 million in premium, and the indication on these remaining structures is 11.6 percent of which we are proposing a seven percent rate change. Now, I just mentioned that these rates are not subject to the glide path. However, for the past several years we have elected to remain in the spirit of the glide path and cap these A rated rate changes at 10 percent above and minus five percent below, which is why the proposed rate change is slightly lower than the fully indicated change. Are there are any questions concerning the A rates at this point?

CHAIRMAN HENDERSON: Any questions of the Committee? Thank you.

MR. ROLLINS: Read the recommendation.

MR. DONOVAN: I will go ahead and read the recommendation then Citizens staff recommends the Actuarial Underwriting Committee approve the recommended proposal to change A rates as shown in the summary above and as just discussed, and authorize staff to take any appropriate or necessary action consistent with this action item. Upon Board approval appropriate changes will be applied to the commercial residential multi-peril rates for A rated buildings, and to the commercial residential wind only rates for A rated buildings.

GOVERNOR GARDNER: Move to approve.

GOVERNOR AUBUCHON: Second.

CHAIRMAN HENDERSON: Those in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Approved. Thank you.

A motion was made and seconded to approve the Staff's Recommendation for Action Item for 2017 Rates for Individually Rated Risks and to present to the Board of Governors on Wednesday, September 28, 2015.

MR. DONOVAN: The next item pertains to the rate order. We did receive the rate order for personal lines of business. We have not received the rate order for commercial lines. We are anxiously awaiting that and should receive it any day now. But concerning the personal lines order, our rates were generally approved as filed. The only exceptions were with H-03 and DP-3 where the Office slightly tweaked the water loss trend projection. This resulted in for H-03 we had filed for a 6.9 percent increase. What was approved was a 6.4 percent increase. For DP-3 we did file 5.3 and 5.3 percent was approved, however, it was slightly different and varied a little bit by territory based on the slight adjustments from the Office. All other lines were approved as filed. There was in the order additional comments concerning Monroe. In particular, as you recall, when we set the wind rates we look at four different hurricane models, and in the case of Monroe, three of the four hurricane models produced an indication of double digit positive indication while the fourth model produced a minus eight indication. Based on this there was discussion at the rate hearing to pause the increases and request that the Florida Commission on Hurricane Loss Projection Methodology address the differences in the models. The order did approve nine percent increase for Monroe as Citizens had filed, but it did come with a couple additional comments. The first was that the Office of Insurance Regulation will ask the Florida Commission to review a couple of items. The first item is to try to -- to get into a better understanding of why these models diverge so much by territory. And the second request was to also look into the wind rates versus the flood rates and how these models compare. Based upon any information the Office receives from the Florida Commission on Hurricane Loss Projection Methodology, Citizens may be required to make additional filings in the future. A second issue that was addressed in the order pertains to the outstanding mitigation study that Citizens' finance firm. If you recall a few years back, Citizens did provide firms some funding to investigate the mitigation features of their structures to ensure that they were properly being considered in the rates. We did, we at Citizens did receive some preliminary information from that study prior to making on our rate filing, but it wasn't enough. There was no information there to support us doing anything different with our rate recommendation. So we did with our initial filing, however, it appears the firm is still cracking through some of these numbers and they may provide the Office with additional information at a further date at which time if there is useable information Citizens may be required to make another rate filing.

MR. ROLLINS: Brian, would you remind the Committee, what was the amount of the grant to firm?

MR. DONOVAN: I think it was 480,000, an amount just under \$500,000.

MR. ROLLINS: \$480,000 and when did do that again?

MR. DONOVAN: I believe it was three years ago.

MR. ROLLINS: December, 2012 Board meeting is when it was authorized. I don't know when the check was cut, but it wasn't too long after that.

GOVERNOR GARDNER: Okay, thank you.

MR. DONOVAN: That concludes my update of the rate order. Are there any questions?

CHAIRMAN HENDERSON: I think certainly the committee would continue to encourage you to I think listen to that committee, and anything that they can provide as input to help us as being reasonable and fair and actuarially sound as we can to them. It is not the purpose here to create rates that are not justified. I know that is the posture, I know that is practice with it, but I think keeping an open mind is admirable to the staff and I think the committee to continue to do that.

MR. ROLLINS: Thank you, Mr. Chairman, for that praise. We appreciate it, and is a large team effort at Citizens to listen to the concerns of all of the state regarding rates as well as to do all the many calculations and model runs we need. So Brian and his team stay very much on top of it. That is an update item, not an action item. So any further questions on that item?

CHAIRMAN HENDERSON: No, but congratulations on the results in Tallahassee. Thank you. Job well done.

MR. ROLLINS: Thank you, and if it please the committee now, we do have one more item which is an action item we will bring to you your attention. I would like to reintroduce Steve Bitar who has staffed several other committees. I know you are familiar with him.

CHAIRMAN HENDERSON: We know who he is.

MR. ROLLINS: Property inspections for underwriting. So Steve, take it away.

MR. BITAR: Thank you, good afternoon, Mr. Chair and committee members. Behind tab seven you will find an executive summary on the usage of property inspections and the underwriting process at Citizens. I won't take you through the entire executive summary, but I will just for point of reference share with you that on the personal lines side there are two types of inspections that we order, either general conditions or mobile home tie downs. And within the commercial lines business we actually have field underwriters that go out and actually inspect when there is a need and we have parameters around that. So what we have decided to do moving forward is conduct an actual solicitation. We have an invitation to negotiate where we wanted to officially contract with various vendors to provide not only the types of inspections we historically order, but also a few other types of inspections as well as itemized here. So what I would like to do today is bring forward this action item that will hopefully get us access to the vendors that can complete a slew of inspections should we need them in the underwriting process both in personal lines as well as commercial licenses. So if I may I would like to go ahead and move forward and read the recommendation.

CHAIRMAN HENDERSON: Please.

MR. BITAR: Thank you very much. Citizens staff recommends that the Actuarial and Underwriting Committee approve and recommend that Citizens Board approve the recommended awards and resulting contracts including renewal periods for property inspections administration for Underwriting ITN number 16-0006 to the following vendors. C & E Information Service, Eular Reports, Sun Inspection Bureau, and Inspection Depot. Also, authorize staff to take any appropriate or necessary actions consistent with this action item and approve this action item not to exceed \$15,268,905. And I do think it is important to note here that that is a maximum spend based on the life of the contract. It is a three-year term with an optional two year renewal. We have no guaranteed minimum to any of these vendors at all whatsoever, but this would be a maximum spend should we need it and we decide over the next course of the five years that we grow significantly and need to have that in our Underwriting budget.

CHAIRMAN HENDERSON: Very good. Motion?

GOVERNOR GARDNER: Move to approve.

GOVERNOR AUBUCHON: Second.

CHAIRMAN HENDERSON: Motion made and second. All those in favor, aye.

(Chorus of ayes.)

CHAIRMAN HENDERSON: Opposed. Having passed. Thank you.

MR. BITAR: Thank you.

CHAIRMAN HENDERSON: Thank you, Steve.

MR. ROLLINS: Thank you, Mr. Chairman, that concludes the items the staff has for you.

A motion was made and seconded to approve the Staff's Recommendation for Action Item for Property Inspection Administration for Underwriting and to present to the Board of Governors on Wednesday, September 28, 2015.

CHAIRMAN HENDERSON: Very good. Any new business or announcements before the committee? There being none, I ask a motion for adjourn?

GOVERNOR GARDNER: So moved.

CHAIRMAN HENDERSON: And so we try to resemble the Chairman's efficiency and the Finance Committee, we almost got there.

(Whereupon, the proceedings were concluded.)