CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, December 7, 2016

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened in Sheraton Orlando North in Maitland, Florida on Wednesday, December 7, 2016 at 9:00 a.m. (EDT).

The following members of the Board were present:

Chris Gardner, Chairperson
Don Glisson, Vice Chair
Gary Aubuchon
Bette Brown
Juan Cocuy
Jim Henderson
James Holton
Freddie Schinz

The following Citizens staff members were present:

Barry Gilway
Barbara Walker
Dan Sumner
Joe Martins
Steve Bitar
Christine Ashburn
Kelly Booten
Violet Bloom
Jennifer Montero
John Rollins
Andrew Woodard
Paul Kutter
Spencer Kraemer
Carrie Thomas
Bruce Meeks
Hank McNeely
Karen Holt
Michael Peltier
Bonnie Gilliland
David Woodruff

The following people were present:

Kapil Bhatia	Raymond James
David Newell	FAIA
Robin Wescott	AAIS
Coleman Cordell	Bank of America Merrill Lynch
Matt Williams	Bank of America Merrill Lynch
Jamie Shreeves	ITEL Laboratories
Kevin Stokes	Guy Carpenter
Mark Weinberg	Citi
Nathaniel Johnson	JP Morgan
Ian Hanson	Willis Re
Alyssa Cobbs	Willis Re

Call Meeting to Order

Barbara Walker: Good morning, everyone. We'll begin with a roll call. Chairman Chris Gardner, Don Glisson, Gary Aubuchon, Bette Brown, Juan Cocuy, Jim Holton, Jim Henderson, Freddie Schinz are present. You have a quorum.

1. Approval of Minutes

Chairman Gardner: Good morning, everyone. Welcome to the December 7, 2016 Citizens Property Insurance Board of Governors Meeting. The first order of business is the approval of the prior meetings' minutes.

Freddie Schinz made the motion to approve the September 28, 2016 Board minutes, and Bette Brown seconded the motion. All were in favor. Motion carried.

2. Chairman's Report

Chairman Gardner: I'll be brief. I want to thank staff for a great year. I want to remind the audience of the incredible investments made by the company over the past year. I think we've had a massive response that's very positive. You've done a great job and kudos to Jay Adams and his team. I do want to draw attention that we are running a complex business here, and the ball is constantly moving and changing. Barry has done a very good job. I want to remind everyone that we've lost two-thirds of our business over the past three years, which isn't a typical business scenario. What's important is that we keep a long view on what we want to accomplish. We have a very substantial balance sheet. We need to make sure we're very thoughtful about protecting that balance sheet. We need to make decisions not based on one year at a time but rather over a multi-year over time.

3. <u>President's Report</u>

Barry Gilway: Thank you, Mr. Chairman and Board of Governors. The primary purpose of my report today is that Jennifer and I will be presenting the key components of the budget for 2017. We will start out briefly with how we see the market and how we see Citizens positioning within that market. I'd like to start, however, by sincerely expressing my appreciation of every single member of the Board. All of you spent considerable time with Jennifer and me on the budget. You gave us a lot of advice and counsel, and we incorporated those components within the budget. I'm going to start out with a market overview. After three very good years of a very positive marketplace where Florida domestic companies improved earnings every single year, we are now in a different state. I start out with an overview on what's happened to the Florida market, literally in the last 18 months. At the year-end of 2014, we were looking at an 81-combined ratio for the Florida domestic market. Through the second quarter of this year, we're looking at a 102-combined ratio, or 21-point deterioration within an 18-month period; not only that, but the earnings reports are now coming out with some of the key leaders in the marketplace and the deterioration continues. Federated National reported a 118-combined ratio. This is impacting the marketplace in a significant way. I've included a couple of quotes here because I thought them very relevant with where we are going. One is from John Forney who worked with Citizens for a long time and is now President and CEO, United Property and Casualty Holdings Corporation:

- "The AOB issue (is) rearing its ugly head down there (Tri-County) … and we just want to make sure that we've got it under control."
- "We have stopped writing new business in Broward County. We don't write any new business in Dade County."
- "Dade and Broward Counties have non-cat loss ratios 20 points higher than the rest of the state. So, it has gotten to be a really bad situation down there and we are walling it off."

That is a consistent message. Bruce Lucas, Chairman and CEO, Heritage Insurance Holdings, states:

- "It not surprising that homeowners rates are going higher, and I predict rates to increase an additional 30 percent to 50 percent in the next three years in the Tri-County unless the legislature passes comprehensive assignment of benefit reform this session."
- "Assignment of benefit fraud, particularly as it relates to water claims, is the largest instance of insurance fraud in the homeowners market in the history of Florida."

If they do not get the rate, there's going to be a financial crisis. It is a different marketplace and changed in a very short period of time. I'll be going over some of the implications for Citizens. The first is that there is very little interest in depopulation. It has dropped off fairly significantly. I have a chart here that shows historically depopulation numbers for Citizens. The interesting part for me is that this already continues into 2017. We already know, for example, that going into January and February 2016, we had over 200,000 Office of Insurance Regulation (OIR) approvals for depopulation. We go the number for 2017 and we're looking at 45,000 approvals. At the end of the day, that'll be about a 10,000 to 15,000 policy count drop, which doesn't keep up with the new business flow that's coming into Citizens. Depopulation is slowing down dramatically. There are some interesting implications because the Coastal Account still experiences depopulation, primarily in the wind-only area. Commercial Lines Account (CLA) business is competitive. As a result, the CLA is dropping off the books rather rapidly. The real impact is in the Personal Lines Account (PLA). With this deterioration in the marketplace, the restrictions that are occurring, and multiple companies backing out of Florida, we're expecting growth. We are looking at a 50,000 policy growth in the PLA next year. When we take a look at these numbers that I have in front of you, I'll pause here for a minute and discuss the approach we take. Starting two years ago, we started taking a much more sophisticated view – we call it "scenario planning" – led by Kelly Booten and the strategic team. We do an in depth analysis down to the policy level relative to what's the interest in the market for these policies, what's the business flow coming in . . . so we do an estimate of the policies and then we step back and do a subjective evaluation of the market. What does that tell us? It tells us that in 21017, we're going to grow significantly in terms of policies in the PLA. However, Coastal policies will continue to drop off by 10,000 policies. CLA – we're already down to 2,200 policies by the end of the year. That'll go down into the 1,800 range. We do a best estimate with a high and a low as a result of the scenario planning approach. You'll see some numbers that use the trend line that shows 2018. Coastal continues to drop. CLA continues to drop. PLA shows growth. From a direct written premium standpoint, we end up with a slight increase. We'll end up at $970M. We will exceed $1B in premium next year. The current estimate for 2018 is that we'll end up in that $1.2B range, driven by the PLA. The real key for us is the loss adjustment ratio and loss adjustment expense (LAE). These numbers are profound. If you take a look at the PLA, we were at a 55.9% of LAE at the end of 2014. We're going to be at 86.3% in PLA. You'll see the CLA and Coastal remain stable over the past couple years.

Chairman Gardner: In a normal environment, what would be your target loss ratio for the PLA?

Barry Gilway: 31% to 32%. We're going to be at 86%.

Chairman Gardner: That 50% is how much in money?

Barry Gilway: The PLA right now is running around $300M. If you take a look at 50 points on $300M, then that's a $150M impact. The net income is driven by the PLA. We're expecting $100M loss next year, given that 86% estimate. If you roll that forward to 2018 without any adjustments, then you're looking at a $184M loss in the PLA. The only thing that's going to adjust that is Assignment of Benefits (AOB)/litigation changes from a legislative perspective. It will not change unless we can get a handle on the growing litigation costs. The good news is that starting at a little over half a trillion dollars in exposure just four years ago, now we're sitting now at $124B. It's a huge reduction in exposure in the state. We were close to 26% of the market share. Today, we're at the 6% level. We do believe that we'll continue to see some exposure reduction in the Coastal and in the CLA, which helps us because of the reinsurance. We buy reinsurance in Coastal but not in the PLA. I think it's important to go back to the Chairman's opening comments in that we have come a long way over the last four years. We continue to have our mandatory initiatives and then we have a set of discretionary initiatives. In total, we have 84 initiatives, all of which have a positive return on investment (ROI). We can't do them all. In terms of the dollars in this budget, we've allocated $21M to do the key initiatives. The total cost to do them all would be $29M. I want to point that discretionary doesn't mean "nice to have." Some discretionary items that we will not get to are things like more sophisticated fraud analytics, Windows 10, office upgrades, training, etc. As we have developed this company over the last four years, we do have an expense ratio that's closing in on the industry. If you go back four years, we had no claims management capability. We had little catastrophe (CAT) management capability. We had no agency relations organization. Kelly had not yet dreamed of the vendor management organization. Today, we looked like an insurance company with real capabilities. We're at least recognized as being on level with the marketplace, but there is a cost associated with that. It will have an impact on our expense ratio. We have an industry expense ratio that's in the 28% range. We hope to key in on the 25% ratio range and remain competitive with the industry. I will go back to this slide. I always found this fascinating because it's a history of Citizens. We're a roller coaster ride. It shows how Citizens how low we've gone and how we've climbed and then dropped off again. Now we're at a low point, since 2002. It is difficult but doable to consistently to manage your expenses given the range of roller coaster. The blue line shows the variable underwriting expenses. These are expenses directly related to transaction volume, policies in force (PIF), first notices of loss (FNL), claims management, etc. The green line is reaching stability and that relates to administrative expenses. We're trying to manage our administrative costs so that we have consistent expense ratios going forward that are competitive with the private marketplace. Even though we have growth planned for next year, if you extract the claims cost out of the equation, we continue to get more efficient and drop in personnel. Personnel costs are dropping from $104M to $102M. On the contingency side, 85% of the dollars are claims related. The expense will go up. I can do the presentation on water litigation. Jay did a phenomenal job doing a comprehensive presentation to the Claims Committee, so I won't get into detail. I do want to point out some key points. This is driving 80% of our attention and time at this point. If you take a look at this slide, less than 15% of the claims entered litigation. 45% of all claims are going into litigation, which is absurd. It's a completely out of control situation. I think the Claims team did a phenomenal job in keeping their staffing and training in relationship into that claims count. It's a huge challenge when you triple the amount of claims going into litigation. If you go to litigation, your individual claim goes to $20,000 more. I won't spend much more time on that. I think everyone gets the message. Litigation reform will be key. On the next slide, Jay is seeing a slew of lawsuits coming in around 840 lawsuits per month. Pending lawsuits are climbing. I think this slide expresses the slide more than any other. Go back to 2011. Let's go back to Broward County, where the average premium is $2,800 for $220,000 Coverage A home. For the dollars that would apply to the All Other Perils (AOP) is $367. If you roll that forward to the end of 2016, out of that same dollar amount, we're looking at $1,543 applying to water damage claims. It's staggering. If you roll that forward to the end of 2017, $2,100 of the $2,800 premium now relates to water damage claims. The numbers are truly mind boggling. We're committed to do all that we can to focus on AOB, both because of the loss ratio improvement we can see and trying to reduce the impact on the consumer. The so-what of this is clear. Rates will continue to go up dramatically every single year. Unless we have a fix, rates will increase. We have a challenge. We try to be affordable and we were doing that for almost two years. We were able to offer drops for 70% to 80% of our customers. That trend will change and go upward, primarily in Tri County, where 98% of the litigation is coming from. The final slide I have relates to risk transfer. Jennifer will touch on this later in the presentation. What we presented to you compromised. What we have done is look "We have made significant improvements in our reinsurance program over the last few years." We are still not on par with the industry relative to the protection of our surplus. A Florida domestic company is not allowed to have more than 25% of their surplus, given one loss. We're close to that on the PLA, where we do not have reinsurance. On the Coastal side where we do have reinsurance, we're subjecting about 60% of our surplus to any one loss. In a perfect world, I would love to say, "Let's continue to buy and improve our surplus levels." What we've taken here is a conservative view, which included $70M in reinsurance. What this does is keep us stable at the same surplus level protection that we've enjoyed over the last couple years. We're not improving our lot in life. We may be able to depending upon pricing, but it's a placeholder in the budget. The decision on the spend will not be made until April.

Chairman Gardner: I think this slide is important. If you look at 2011, on a forecast basis, we're buying half the limit for twice the cost today. I remember those days. This market has changed. I'm concerned about the costs related to the losses in the PLA. We're going to have legacy claims issues that are going to keep coming in. We can't control pricing. The market can't control pricing. If we're wrong on that, then that will be a double-whammy. I also think about what's been absent in this conversation which is our obligation to the customer. That's what we're in the business for – to provide to the customer and pay claims. It doesn't show on the PNL the job that this staff and this organization have done with the agent community, the customers, the political stakeholders . . . the reputation that's been restored. That takes investment, strategy, and execution. You guys have done a lot of work in that area. I'm really concerned about the situation right now, driving the long term though process in the organization. To dismantle an organization around a situation that we can't predict six to nine months from now . . . this is the sinkhole situation part two. It's a complex situation that we have but I have great confidence of you and your team in figuring it out.

Barry Gilway: Thank you. I agree with you relative to the challenge. We do have a significant spend. When we talk about the project initiatives that we have, all of these are continuing to improve the overall security of the company. We have privacy and security initiatives on the way. We have risk management capabilities on the way. No matter where you look – Enterprise Resource Planning (ERP) and going to the next generation – focuses on improving financial capabilities for our customers and for our agents. No matter where you look, we continue to make investments, but at the same time, we have to be cognizant of the fact to show that we're being very judicious caretakers of the assets that we have available. We are very strong financially, but it's not going to take too many years of this level deterioration before we come closer and closer to the fact that could assess policyholders. Our primary objective has been to make sure that in the event that we do not have to assess the policyholders. We're in a strong position for the near term to support that position.

Jim Henderson: Barry, thank you for your service. The operating improvement of the company speaks to itself. You brought up the assessment. The deck is stacked up against us with respect to adverse selection. We're here to provide a market opportunity for the people of the state, but we cannot select where there are moral questions about litigation. We are to look at the legislature and our policies as to what we're providing. We're providing repair and maintenance coverage. That is not the intent. Whatever we can do to help you protect the boundaries of Citizens and continue to service the job and not become a repair and maintenance company and not be a company for users of claims and insurance to use for a rainy day. This isn't about your leadership. These comments are about how we protect the company to fulfill its mission.

Barry Gilway: You're absolutely correct. One of the questions that happens all the time is, "What happens if we don't get legislative relief?" The issue that we have to face is that more and more companies are taking far more aggressive actions right along the lines that you're indicating. OIR recently approved water damage sub-limits. They have approved water damage exclusions for homes over 40 years old. We are internally looking at what the potential next steps are. In addition to the Managed Repair Program (MRP) which will be launched next year, we are looking at policy restrictions. Most companies will not write if you've already had a water loss in the last three years. We are required by statute to write for anyone who has had up to three water losses. We might need to take a look at that. I have not been a proponent of that. My thing is that that if they're signing up for coverage, then they are getting the solid coverage that they need. But, there is so much fraud and abuse in south Florida of the policy and we might have to take a far more aggressive stature to protect ourselves.

Juan Cocuy: We've identified the problem and we're kind of tiptoeing around the solution which is legislative reform. What specifically do we need to do and who do we need to talk to in order to get this done?

Barry Gilway: Christine Ashburn will be doing a presentation specifically on this. Dan and his team, working with defense council, have been working on a set of legislative responses that cover components of fees and focusing on some of the key provisions relative to the AOB process. What we're doing is "socializing" our proposal with other members of the industry. For example, a whole team will be in front of Commissioner Altmaier tomorrow in Tallahassee, and he has a response that he has developed. We'll be comparing notes to determine if there are commonalities in the approach. Christine is working 24/7 with the insurance industry. I have a meeting with two CEOs this afternoon to talk about their ideas. We will be attending the Florida Insurance Council (FIC) by invitation. I think a lot of people are looking at Citizens to be a cohesive agent to come up with a comprehensive solution and pulling people together. It will really be an issue of getting the message to members of the Senate and House. We have a plan on how we're going to approach that. Governor Holton is working with me on getting me in the door in a couple of key areas. I think all of you have offered your help in terms of working with us within your respective districts. We will take you up on that. We will be working with you and seeing how to get you involved in the legislative process and getting the message across that the constituents will be paying for this in higher premiums.

Jim Holton: I think in addition to winning over the legislation, we need to win the hearts and minds of our customers, too. To that point, it would behoove you, Christine, and other staff members to set up meetings with key editorial boards. I can help facilitate something with the *Tampa Bay Times*. This is a consumer issue and not just an insurance industry issue, much like a few years ago. If people start writing their Representative or Senator, then that'll get their attention.

Barry Gilway: We agree with you. I think step one is coming up with a solution that the industry can support, so that we have a cohesive approach. Once we have that approach, we can meet with the editorial boards to get the message out to the consumer.

Jennifer Montero: I'm going to be brief. I'm going to go over the operating budget. You'll see two bound books within your Board book. One is an executive summary and the second one is the operating budget. In the operating budget, if you turn to pages 12-15, that's the actual budget. Page 12 is consolidated, page 13 is PLA, then you have CLA and Coastal respectively. As Barry mentioned earlier, on a consolidated basis, we are expected direct written premium of $1B for our budgeted amount. This is approximately 10% more than the 2016 budgeted amount and 2% more than the $979M projected for year-end 2016. Net earned premium is expected to be $704M in 2017, which is 36% or $187M more than the 2016 budgeted amount and is approximately 15% projected 2016 projected net earned premium. The net earned premium includes the $70M placeholder for reinsurance in the Coastal. We'll talk more about that in the Finance and Investment Committee (FIC) Update. I'll be going over the 2017 Reinsurance Plan. The 2017 budgeted losses and LAE incurred on a consolidated basis are $525M with more than $421M budgeted for the PLA. This is a 91% increase over of the 2016 budgeted amount and an increase of more than 18% for projected losses in the LAE. In the PLA, this is an increase of more than 101% over the 2016 budgeted amount and an increase of more than 35% for the projected 2016 PLA losses and LAE. Net income is budgeted at approximately $4.6M, which is 66% less than the budgeted net income for 2016 and more than 121% more than the projected 2016 consolidated net loss of $121.7M. The PLA has a 2017 budgeted net loss of more than $101M, primarily due to the budgeted losses in LAE driven by litigated water claims. The budgeted CLA is budgeted to have a net income of $38M and the Coastal has a budgeted amount of $68M. On page 21, you'll see the breakout of administrative expenses. We've broken them out between our normal operating expenses, and two of our key initiatives – one is Consumer Clearinghouse with $3.5M. It is a mandatory, statutory required spend. We're adding the wind only business to the Clearinghouse. Our ERP will replace the accounting general ledger and other modules. That is an increase of $8.5M. I will stop here and see if there are questions. I do have to read a formal action item recommendation.

Chairman Gardner: It's astounding to me that the net earning loss in the PLA exceeds our budgeted reinsurance spend in the Coastal. We buy no private reinsurance in the PLA. We can't set rates. We can't price ourselves out of it. We've got to focus on that.

Jennifer Montero: Staff recommends that the Citizens Board approve the 2017 Operating Budget and authorize staff to take any appropriate and necessary action approximate with this action item.

Vice Chair Glisson made the motion to approve the 2017 Operating Budget, and Bette Brown seconded the motion. All were in favor. Motion carried.

4. <u>Chief Financial Officer Report</u>

a. Finance and Investment Committee (FIC) Report

Chairman Gardner: We had a brief meeting yesterday. We looked at the reinsurance chart that's very incomplete. I think we made a couple revisions to the charter and had a few action items.

b. 2017 Risk Transfer Program

Jennifer Montero: There is an executive summary behind tab four. Each year, Citizens is required to make its best efforts to procure CAT reinsurance at reasonable rates to cover projected one-year probable maximum loss (PML) as determined by the Board. As you can see the Coastal layer chart, which is the next tab after that, the only coverage we have carrying over from prior years is the $300M 2015 Everglades Re CAT Bond and the Mandatory CAT Fund coverage. All other coverage is either expiring or maturing. Without additional coverage, the projected surplus exposed in a 1-in-100 year event would be 82.5% in the Coastal. The PLA/CLA only exposed 32.5% of surplus and includes a provision for the purchase of the Mandatory Layer in the Florida Hurricane Catastrophe Fund (CAT Fund). Citizens considers the transfer of CAT risk to the global private reinsurance market instrumental in reducing the amount or the probability of assessments after an event. Citizens has transferred the risk into the private market over the last five years. A key objective has been to consistently transfer risk in both the traditional and the capital markets to ensure there is adequate capacity, lower the overall cost, and construct the most efficient program to minimize or eliminate any assessment while limiting the amount of surplus exposed. The proposed 2017 Risk Transfer Program incorporates strategic elements from the continuation of existing risk transfer which includes coverage for the Mandatory Layer of the CAT Fund, single year or multi-year traditional aggregate reinsurance, coverage for commercial non-residential risk, and a multi-year capital market risk transfer program. Citizens will work with its reinsurance co-brokers for the planning of the traditional reinsurance placement. We also anticipate placing a portion of the 2017 Risk Transfer Program into the capital market. Like the traditional placement, staff will bring the program to the Board during the second quarter 2017 for formal consideration of all material parameters. There is an action item for the Board's consideration.

Juan Cocuy made the motion that the Board approve moving forward on the development of the 2017 risk transfer program strategy for the Coastal Account by using both traditional and capital markets at a most efficient cost, with the understanding that the risk transfer program must be brought back to the Board of Governors for final approval prior to the execution of any financial transaction. Gary Aubuchon seconded the motion. All were in favor. Motion carried.

c. Investment Analytics Software

Jennifer Montero: On August 10, 2016, Citizens released Invitation to Negotiate (ITN) No.: 16-0015 for Investment Analytics Software. Responses were due September 16, 2016. Four (4) responses met Citizens' mandatory requirements and were evaluated by the Evaluation Committee. Two (2) respondents were recommended at a public meeting to move forward to demonstrations and negotiations. After demonstrations and negotiations with both vendors, the Evaluation Committee recommends the award of the Investment Analytics Software contract to FactSet Research Systems Ltd. They will provide software as a solution to assist Citizens in carrying out its fiduciary responsibility to oversee and report on its invested assets, including monitoring of portfolios with regard to performance and risk, ensuring that portfolios adhere to Citizens' investment policies and providing tools necessary to efficiently, accurately and comprehensively evaluate portfolio performance, risk and compliance. The contract amount is not to exceed $2,200,000. The amount includes base contract, two (2) one-year renewals and project implementation. The contract term is anticipated to be three (3) years and, at Citizens' discretion, have two (2) optional, one (1) year renewal terms. This is not a new item but rather a replacement. The old contract expired and we did a solicitation to continue business.

Juan Cocuy made to approve the recommended award and resulting contract, including renewal periods for Investment Analytics Software ITN.: 16-0015 to FactSet Research Systems Ltd.; authorize staff to take any appropriate or necessary actions consistent with this Action Item; and approve this Action Item not to exceed $2,200,000. Bette Brown seconded the motion. All were in favor. Motion carried.

d. Financial Statements, September 2016

Jennifer Montero: You'll find the September 30th financial statements, the quarterly financial analysis (QFA), and a one page analysis addressing water claims. While depopulation activities and administrative expenses have stabilized, we do continue to see a period of substantial declines in written premium and upward trends of loss activity, particularly in the PLA. Direct written premium of $768M mark a decrease of 24%, or $237M, as compared to last year, primarily as a result of the absence of renewal business related to depopulation. Depopulation activity as measured by ceded premiums written decreased 80%, or $76M. As of September 30, 2015, we had a total of $95M of ceded premiums reported. As of September 30, 2016, that went down to $19M of ceded premium reported. The decrease in depopulation activity is presumed to be driven by the depletion of attractive policies in addition to trends and adverse losses in water losses. Through September 30, 2016, net premiums earned of $506M decreased by 19%, or $122M compared to a year ago. Net losses and net LAE decreased 9%, or $33M. However, over the same period, net loss ratio and LAE increased by eight percentage points on a combined basis. By account, attritional losses in LAE ratios were 71%, 11%, and 21% for the PLA, CLA, and Coastal respectively. The PLA non-sinkhole/non-CAT results continue to deteriorate due to the number of claims entering litigation. Based on current trends, the expectation with the PLA accident year will ultimately have more than 50% of all its non-sinkhole/non-CAT claims ending up in litigation. AOB and FNOL representation continue to be strong indicators as to whether a claim will be litigated. With respect to hurricane losses, ultimate losses in LAE related to Hurricane Hermine are projected to be $4.5M. Administrative and underwriting expenses are $114M, decreasing 14%, or $32M relative to the same period a year ago. The expense ratio of 25% through the third quarter remains flat compared to the prior quarter. There's an increase of 3% compared to a year ago. The 3% increase is due largely to a decrease of $37M of direct written premium, outpacing the related underwriting and administrative expenses of $32M. However, year over year administrative expenses excluding underwriting expenses decreased by $7M by September 30th. The expense ratio is 2% lower than the budget of 27% and is anticipated to remain flat at 25% for the remainder of the 2016 year. Policyholder surplus increased by $109M over the past nine months. PIF of 491,079 by September 30th reflects a decrease of 14% as compared to 2015. However PIF have increased since January 2016 by 223 policies. Policies serviced, which includes PIF and policies assumed but not yet taken fully out, decreased by 25%, or 170,471 policies.

Chairman Gardner: You look at the PLA, CLA, and Coastal, and we have three very different dynamics. CLA has functioned as a true residual market; we're losing business and that's a good thing. Coastal is neutral; we're purchasing a lot of reinsurance and that is where are largest surplus chunk is located. When we look at combined results, it's a very misleading story. It's frustrating that we report it that way because we don't operate that way. This just adds to the complexity to what we're dealing with right now. The concern I have with the PLA is how many more years are we going to look at that $2.5B before it is cut in half?

Jennifer Montero: Not very long.

Chairman Gardner: That's right.

e. Action Item: ePayments

Jennifer Montero: This action item is also a continuation of a service but with a new vendor. On July 13, 2016, Citizens released Invitation to Negotiate (ITN) No.: 16-0016 for ePayments Services. Responses were due August 15, 2016. Six (6) responses met Citizens' mandatory requirements and were evaluated by the Evaluation Committee. Three (3) respondents were recommended at a public meeting to move forward to demonstrations and negotiations. After demonstrations and negotiations with all three vendors, the team recommends the award of the ePayments contract to KUBRA Data Transfer, Ltd. Services consist of processing electronic policyholder premium payments through a vendor–hosted Interactive Voice Response (IVR) system and a vendor-hosted website, each of which (i) is designed with a Citizens-branded look and feel, and (ii) communicate with Citizens' electronic payment website (ManagemyPolicy). Additionally, production of a daily combined electronic payment file that Citizens will upload into its payment processing software system to ensure that payments are properly posted to the correct policyholder accounts. Contract amount includes a provision for additional services to expand payment processing options. Proposed contract amount is not to exceed $1,500,000 during the term of the contract. This amount includes base contract five years (5), renewals up to five years (5), and project implementation. The proposed contract will have a five (5) year base term and may be renewed for up to five (5) additional years by Citizens upon 90 days advance written notice.

Bette Brown: Considering the cost of this type of work, is five years long enough when we know so many things are changing in the IT area.

Jennifer Montero: That's why we have in this contract a provision to expand payment processing options.

Bette Brown: Super.

Gary Aubuchon made the motion to approve the recommended award and resulting contract, including renewal periods for ePayments ITN No.: 16-0016 to KUBRA Data Transfer, Ltd.;

authorize staff to take any appropriate or necessary actions consistent with this Action Item; and approve this Action Item not to exceed $1,500,000. Jim Holton seconded the motion. All were in favor. Motion carried.

5. **Chief Systems and Operations Officer Report**

    a. Information Systems Advisory Committee (ISAC) Report

Jim Holton: I'd like to thank the committee members and Kelly and her staff in moving projects forward this year, especially ERP that we now call it Centerpoint.

Kelly Booten: The ISAC met telephonically on November 29th. We had two projects we briefed the ISAC on during the meeting. We had a Disaster Recovery Strategy Update, which is to decouple our disaster recovery site from our site in Tampa. That lease is up in October 2019. We'll be doing a solicitation to determine our facility needs in Tampa. We finished the RFI and solicitation requirements and we are looking at three vendors on the state-run contract. However, we decided to pause the solicitation portion of that project until the third quarter 2017 and continue with the technical design, allocate the project dollars across multiple years, focus on infrastructure refresh for those systems we know we'll need to be in that data center, and look at service-oriented solutions for those that can run in the cloud environment. On the ERP Centerpoint, Sarah Harrell briefed the ISAC on that project, which is progressing according to plan. The first phase is financial and procurement. We finished two development sprints to configure the system to meet our requirements and we're on schedule to go live with financials and procurements in April. Phase II will soon follow with advanced procurement.

    b. Action Item: Security Officer Services - Tampa

Kelly Booten: The vendor is AlliedBarton Security Services, LLC and it is for 2017 for the amount of $127,343.

Jim Holton made the motion to approve the recommended Security Officer Services – Tampa (vendor AlliedBarton Security Services, LLC.) Action Item and to authorize staff to take any appropriate or necessary action consistent with this Action Item. Gary Aubuchon seconded the motion. All were in favor. Motion carried.

6. **Chief Claims Officer Report**

    a. Claims Committee Report

Gary Aubuchon: What an environment that Claims is operating in. We have the increase of AOB. We have skyrocketing FNL. We have an increase in the number of lawsuits. Two hurricanes hit Florida this year. Yet, Jay, you and your team remain steadfast, being agile in this environment. On behalf of the Board, we greatly appreciate you keeping us abreast of claims response and conditions during both hurricanes. You and the team have both done exemplary jobs.

Jay Adams: Thank you. I'd like to go over a brief summary of what we went over in the Claims Committee last week. During Hurricane Matthew's response, Citizens learned that the Independent Adjusting firms (IA firms) that we're currently under contract with were unable to deploy all the resources requested by Citizens. One thing that I do want to say about Hurricane Matthew's response, even though we did not get all the resources we asked for, we were able to exceed the expectations of our policyholders. I think our Claims Department came together and did a fantastic job in our response. One thing I'd like to leave the Board with is that Citizens in the claims area is that we have multiple contingency plans. Claims is a very dynamic arena. It changes all the time. Plan A would have been that we would have received all the resources we needed and we would have followed our CAT Plan accordingly. Since that did not happen, we shifted over to contingency Plan B. Plan B is where Claims had to step in and fill in for the IA resources. We managed to move Claims around internally and there was no decline in any of the services we provided to our insured. Plan C would have been to engage in our contract with emergency vendors if we needed additional resources. We were blessed that Hurricane Matthew resulted in only 3,500 claims and we were able to get enough of a response from our IA partners and our claims staff to adequately handle the event. When we went into the storm season this year, we were leveraging a solicitation that we did in 2015 for IA. We had eight vendors under contract, which represented 3,441 adjuster resource commitments. Those were all credentialed in our case claim system and available for deployment based on Citizens standards. The vendor CAT performance areas that they were unable to perform in . . . they weren't able to deploy the resource request that we asked for. They were unable to have their resources arrive at the appointed timeslots for training and orientation. They were unable to deploy the resources into positions that we asked for, such as team leads, desk adjusters, and field adjusters. We asked for 624 resources out of a commitment of 2,048, which represented only 30% of the commitment, so Citizens asked for 30% of the committed resources of the currently activated firms. Only 279, or 45% of what we asked for, actually were able to respond to Hurricane Matthew. What are the results of those IA firms? We went to the contract and leveraged the corrective action plans which were all issued. None of the firms were able to rectify our deployment needs. We then moved into liquidated damages and non-realized staffing penalties. The biggest concern we had in response to Matthew and any future responses is Citizens' reputational risk. That's already come up a couple times today. We were fortunate that this storm was small enough to get through this with resources with the staffing Citizens has. What I want to make sure everyone understands is that we would not be able to scale to size like we did for a larger event. We called in all the IA that were asked for deployment and we offered settlement agreements to each of the firms. In the settlement agreements, we assessment liquidated damages in total of $120,000. We assessed unrealized staffing penalties for $107,000. We are deactivating their daily or non-CAT teams. The vendors will not be able to compete in future solicitations for CAT and non-CAT. We asked for any non-compete clauses to be stood down. What lessons did we learn from this? We did not have a contract in place that would guarantee resources. The contracts we've had in place and the firms we had were not sufficient enough for compliance. As we called out and reached out to talk to them about that, they were all willing to go down the fine path without any issues. Citizens' current claim model is that we leverage our non-CAT work as a training platform for the IA firms. The idea is that they rotate adjusters through that to build relationships. In the time of a CAT need when we ask for those resources, the relationships are there for the deployment.

What we found is that they are not creating the right relationships for folks to be able to do that. What are we doing going forward? We're going to conduct new solicitations in 2017 and we're going to look for reliable CAT adjusters. We're going to do three separate solicitations: litigation, CAT, and non-CAT. This will provide for more accountability for us to manage the IA firms and will provide a more accounting of available resources. We already released a RFI for CAT resources. We're looking to see if there are any CAT specific firms may have a better model that might be better utilized in the future for future responses. What are their capabilities? How would they respond? What kind of practices do they have? What kind of organizational structure do they have? What do they do about relationships and how do they prioritize deployments among their different contract holders? What's the quality of the adjusters and resources that they provide? Once we get those back, we're going to complete some serious due diligence and look at the models we deploy to ensure that we get the resources we need. One other statistic I'd like to provide . . . I believe the Board at the last meeting asked me based on the new policy language where we made changes for water – how many claims have we seen and what was the representation numbers? Those numbers went into effect July 1st. We received 1,373 claims thus far. Of those, 182 have AOB and six of them have some sort of representation.

Vice Chair Glisson: Obviously you and your team did the right thing with these contracts in place with these adjusters. I do remember that there were some restrictions on who could bid on those contracts. It had to be a certain size. Is that something we need to look at to bring more adjusters into the fold?

Jay Adams: Basically, the answer to that is yes. What we really want to do is focus on our non-CAT book of business in the Florida arena, meaning we want to look at the number of adjusters in Florida. That's where we want to give our business because that's consistent day in and day out. When we look at the CAT pieces of that, we're looking more nationwide. We really want people who are not residents of Florida. The way Matthew occurred, many of us were moving out of the way of the storm. We want people to standby outside of the state so that when the event is over, we can bring them in and we don't have to worry about evacuating them and then bringing them back in. We're going to look at all of that in the due diligence area as we move forward.

Chairman Gardner: I want to thank you on the transparency on that issue. Thank you, Barry, for that. I got the call the day after the storm. You guys continue to be nimble and stay ahead of issues. We're certainly learning from experience. I agree with Governor Aubuchon. Jay, you're doing a great job in providing the information to us. Thank you.

7. <u>Vice President of Human Resources Report</u>

a. Action Item: HRMS Consultant Services

Violet Bloom: Good morning. I have two action items. The first is a contract for Human Resources Management Systems Consultant Services. The recommended vendor is Cognizant Technology Solutions U.S. Corporation. The funding is included in the proposed 2017 Annual Operating Budget and will be included in the subsequent budgeting years of 2018 and 2019.

The contract for HRMS Consulting Services is to ensure the availability of HRMS technical expertise when needed, however Citizens does not guarantee any minimum spend amount. The annual contract spend for services is estimated to range from $50,000 to $75,000. The total contract spend, including renewals, is not to exceed $450,000 over a six (6) year period. The Contract is anticipated to commence in January 2017. The Contract term will be three (3) years and may be renewed for up to three (3) additional years. Services will be provided pre- and post-ERP installation. It will provide coding services in current and future systems as well as data conversions, scrubbing, and archiving. The procurement method used was an RFP and the evaluation committee recommends awarding the contract to Cognizant.

Jim Henderson made the motion to approve a contract with Cognizant Technology Solutions U.S. Corporation, as described above; and to authorize staff to take appropriate or necessary action consistent with this Action Item. Jim Holton seconded the motion. All were in favor. Motion carried.

b. Action Item: Employee Benefits Consulting and Brokerage Services

Violet Bloom: The second item I have is for Employee Benefits Consulting and Brokerage Services. The recommended vendor is Mercer Health and Benefits, LLC. The funding to be included in the Annual Operating Budget for each respective contract term year. The base term is three years, from January 2017 thru 2019. The annual contract spend is $190,000. This does represent a $15,000 increase over the current vendor's annual cost. However, the recommended vendor will provide broader expertise in consulting services, particularly as it relates to medical plans and wellness programs. The first renewal term would be in 2020, and upon that renewal, that fee would go to $175,000 annually. This is a continuation of a current service; it is a new contract award. The solicitation method involved an evaluation committee and the committee recommended the award go to Mercer Health and Benefits.

Jim Henderson: I want to make sure there is an annual evaluation to look at the vendor and to give a signal to leadership and to the Board that the contract is in good standing going forward.

Violet Bloom: Thank you, Governor Henderson. We will plan to do that.

Chairman Gardner: This is a sensitive area and to increase our costs seems a little arbitrary. I think some of these additional services are a bit esoteric. I'm not sure how tangible they are.

Juan Cocuy made the motion to approve the contract with Mercer Health & Benefits, LLC as set forth in the Employee Benefits Consulting and Brokerage Services Action item:

- **Three (3) year Base Term estimated contract spend of $570,000 to Mercer Health & Benefits, LLC**
- **Three (3) - one (1) year renewals estimated contract spend of $525,000 to Mercer Health & Benefits, LLC benefit plan**

The motion also authorizes staff to take appropriate or necessary action consistent with this Action Item. Gary Aubuchon seconded the motion. All were in favor. Motion carried.

8. Chief of Internal Audit Officer's Report

a. Audit Committee Report

Juan Cocuy: We met yesterday. We had the report from the Office of Internal Auditor (OIA), which Joe will summarize in a minute. Jennifer Montero presented the September 30th Financials. We also had a report from the external auditors and received their audit plan for the 2016 fiscal year. They will commence that shortly after the beginning of the year. We expect to have the final report in May. Joe's department and staff – their goal is to be almost 50/50 – advisory and audit. Currently, about 55% of their efforts are on the audit side and 45% are advisory. That's a good optimal blend in helping the organization with management types of issues versus auditing. We made great progress on the internal audit framework.

Joe Martins: We discussed changes to the audit plan for 2016, which included the cancelation of two advisory projects. One included the cancelation of the IA Vendor Management and deferral of completion of the third party access audit. We also discussed progress and completion of the 2016 plan, with 31 of the 33 projects either completed or in draft form. We also discussed progress on the ICF implementation, and highlighted that we are progressing well within the organization. One area that we haven't touched much is IT and that is mainly due to the fact that we didn't have the resources in place. We have secured a resource at this point for 2017 to complete the work that needs to be done in the IT area in respect of ICF. We also discussed control deficiencies, which are slowly declining year on year because management is addressing these quite well. Of the nine that we are currently open, eight of those will be completed by the end of the year with only one remaining, which refers to a claims system issue that will be addressed by February of next year. We also presented the Audit Plan that was approved by the Audit Committee. The 2017 Audit Plan strategy is aligned with Citizens strategic objectives and goals, utilizing information derived from the OIA Annual Enterprise Risk Assessment. We assess risk at operational levels with performance details for specific risk areas, allowing us to identify the risks that have the highest impact. The plan allows for a balanced overview throughout the organization. We are endeavoring to provide equal focus to assurance through audits as well as consulting and advisory, like Governor Cocuy mentioned. On page 21, we provide a view of the assessment of the risk and it touches the audit universe. On page 23, we have detailed descriptions of the plan engagement for this year.

[Meeting break]

9. <u>Chief Underwriting and Agency Services Report</u>

a. Market Accountability Advisory Committee (MAAC) Update

Dave Newell: My name is Dave Newell and I'm the Chair of the MAAC. We had a lengthy but informative meeting. As the policy count goes down, it seems like the agent and agency count is depopulating. Some of that has to do with mergers and acquisitions. Some has to do with agencies cleaning up who is appointed and who is not. A lot was discussed about the outreach, about education, webinars . . . . Citizens has done a real good job in trying to inform the agent to get the information out. I think it's helped during Matthew and it'll certainly help during policyholder choice, which is quite a change that starts in February. Another thing we discussed is about the Clearinghouse. Interesting enough, year-to-date, about $4.5B in Coverage A has been averted by use of the Clearinghouse. In 2017, for the first time, wind only policies will start going through the Clearinghouse, which is something that has not happened before. Jay Adams gave us a great update on Hurricane Matthew and some of the strides they've made to continue to outreach to agent and consumers on what's happening during an event.

Chairman Gardner: Can you describe from five years ago where Citizens is with its Agency Plan, agency relations, and how it treats its agents?

Dave Newell: It is light years different. With Barry and the executive team, the leadership resonates down to the partnerships. Just the communication part of it, the availability part of it . . . now there is someone they can talk to.

b. Clearinghouse Update

Steve Bitar: I have presented to you today the Clearinghouse Report. We share this with your quarterly. Chairman Newell provided some highlights to the success we've had so far this year with the Clearinghouse. For HO3 risks that are currently being presented, 15% of them that hit the front door are being deemed ineligible for entry because our offers are outside of Citizens in the private market. This is an increase of 79% with regard to the results we saw in 2015. The Clearinghouse continues to do what it needs to do. Our volumes are down. We expect those trends to change next year. The only appetite there seems to be in the depopulation area is with Coastal so it makes absolute sense to be adding the wind only next year so we can follow those trends in the marketplace.

c. Action Item: Policy Document Generation and Mail Service

Steve Bitar: Citizens outsources to an outside vendor, Novitex, through the Florida state contract. It's for our print and mail needs for policy outbound mail. This contract would be a continuation of service, and we're proposing a one-year contract for the base term with a one-year renewal. The spend would not exceed $19,091,260 over the life of this two year term.

Vice Chair Glisson: Because of the size of this contract, have we thought about bringing this back in house?

Steve Bitar: We have not. I have been at Citizens for 13 years, and when I joined the organization, we did do this in house. From the staffing perspective and the cost to do the maintenance of the machinery, it just made sense to outsource it where we have a company that has this as its core competency. From a long term perspective, this is where most companies go. I think it's one of the wisest things we've done. I will share with you that when you look at the $19M spend over the course of two years, there is some concern there. One of the projects Barry was talking to earlier with regard to things we're looking at strategically is a self-service initiative where we hope to deliver these documents electronically to consumers that opt into that.

Vice Chair Glisson: Does the cost include the postage?

Steve Bitar: This is with postage.

Jim Henderson: Steve, you addressed my comment and that's about getting into the digital world. We would appreciate a game plan on how to apply technology to move faster there with our agents and with our policyholders.

Steve Bitar: I agree with you. Luckily, we're already there with the agents. All policy info goes electronically through our policy center to our agents. We need to move it next to policyholders and mortgage companies and we already have actions in place.

Bette Brown: In the banking world, people are now used to getting statements online and they pay for the physical statements. Keep in mind that this is the cost of doing business and people are now starting to understand that there is a cost of doing business to have something physical in your hand.

Steve Bitar: We will take that under advisement. I think statutorily we are required to at least provide cancelations and non-renewals by paper. But, there are other opportunities for a charge when providing for other items.

Jim Holton made the motion to approve the contract, including renewal period, to authorize staff to take any appropriate or necessary actions consistent with this Action Item, and to approve this Action Item not to exceed $19,091,260.00. Jim Henderson seconded the motion. All were in favor. Motion carried.

Steve Bitar: I do have one item that's new business that's taken out of order. At the September meeting, the Board approved the revised depopulation plan that supported the necessary changes for the new depopulation program that is launching in 2017 for the personal residential policies. We submitted that plan to the OIR. I'm happy to report that last week they approved the depopulation plan that we submitted. However, they did make a few changes. Those changes are not material. They are no substantive, but we felt it appropriate to bring them to your attention from an awareness perspective. We added to your books to the last portion of my section copies of the plan that you approved as well as the plan that was issued by the OIR. The first page is a summary of all of those changes. I will not go through all of these. I just wanted to bring this to your attention. I would like to seek ratification of the changes made by the OIR by the Board.

A motion was made and seconded to ratify the OIR changes to the depopulation plan. All were in favor. Motion carried.

10. <u>Vice President of Communications and External Legislative Affairs</u>

a. Consumer Services Committee (CSC) Update

Freddie Schinz: Christine, I would like to thank you and your staff for a great 2016 and for pulling together the brochures and the information to provide to the consumers. I know we have an exciting project for next year and getting into more information about deductibles.

Christine Ashburn: The CSC meeting on December 1st via teleconference and we received reports on the focused consumer outreach efforts that we undertook as an organization, followed before, during, and after Hurricane Matthew. We're excited to report that we were able to leverage new technology and policyholder emails. For the first time, we were able to do an outbound email in advance of landfall, which allowed us to reach out to 101,000 policyholders. We got back positive feedback and I'd like to read one of them: "A huge thank you for the information, care, and concern in the aftermath of Hurricane Matthew. My neighbors, some with serious damage, were unable to get response from any of their insurance companies for several days, thereby, increasing their levels of frustration and stress. Citizens contacted me immediately with offers to help. My neighbors are stunned by your reaction to the problems in our area. Like some current TV car insurance ad, I told them, "Maybe you have the wrong company." We have several of those notes. We had about 13,000 that bounced because it's a new email. This cost us nothing. It's exciting to provide this information. We were able to outbound radio time advertising for our Call Citizens First campaign and also to share our EOC location, where we were able to help over 130 consumers. Jay Adams and the claims team were able to leverage our auto dialer technology through the phones. We made over 102,000 outbound calls to make sure everyone knew how to get to us after the storm. We were able to test ourselves before we get the "big one." With respect to Chairman Schinz' comment, he did ask for us to look at putting tougher some education materials related to flood vs. wind. There were a lot of questions with regard to Matthew because there was a lot of surge damage that we saw in St. Augustine. Surge is really a flood peril and there are some complicated information around that. We look forward to working with jay and the team to see if we can find some consumer focus, plain language so people understand what's in their policy. There's a lot of confusion in the marketplace about the hurricane deductible vs. the AOP deductible. Not a lot of people understand the calendar year hurricane deductible. Our claims calling center were encouraging our customers to make the second hurricane claim so we could count it.

b. 2017 Legislative Session Update

Christine Ashburn: There is a legislative summary that's been added to your books. The 2017 legislative session will return to its normal slot in the March/April timeframe. Tuesday, March 7th is the opening day of session and sine die is scheduled for May 5th. Because of the election, we're a little behind in the bill filing process from what we normally would see in a non-election year. There are just about 100 bills being filed. We don't know the committee assignments so I can't share with you on who the chairs are. I do know that Chair Diaz is the Chair of the larger Regulatory Commerce Committee, but we do not have an Insurance Chair, yet. The focus I want to share with you today with regard to the impact to the budget and what we're seeing in litigation is the AOB issue. Before I jump into the solutions I've been assigned to . . . Dan has been doing a great job educating us internally about what we're really seeing and where the abuses really are with AOB.

Dan Sumner: Thank you Mr. Chairman and Board Members. I appreciate the opportunity to take a few minutes to preface the ideas that Christine is going to share with you, with some underlying concepts that we believe are important to consider and understand when you look at the litigation and AOB issue. The first thing I think we all need to understand is that all of this is really driven I think fundamentally by the ability to obtain an attorney's fee in what is called "the one way attorney's fee statute" which is section 627428 which indicates that the insured is entitled to obtain an attorney's fee when there is a judgement or decree in favor of the insured and against the insurer in any amount. So, if you obtain anything as the insured, then you are going to get an attorney's fee. That statute has been around for a long time. But again, looking at the increase in litigation, one of the things that we heard Jay Adams talk about, is that we are getting first notice of loss with attorney representation already in place. In other words, what they are doing is positioning those cases for litigation and for attorney's fees by at first notice of loss putting everything in dispute. If you put everything in dispute, before Citizens even has a chance to evaluate the claim or make an offer what you are really doing is essence is teeing that case up for fees. So, the issue is to some degree larger than simply AOB. And, it is about positioning all of these cases, or a great many of these cases, to maximize the opportunity for a fee. But, let me stop and say, obviously under the attorney fee statute and under our insurance policy, these attorneys, particularly the ones who concentrate in losses involving assignment of benefits, they already have a plaintiff, they have the insured. So, it is not a matter of trying to find a plaintiff who they can represent to obtain benefits for, the natural plaintiff is the insured. Then the question becomes, if they have a natural plaintiff what is the motivation for either in addition to the insured, or as an alternative to the insured, having representation of a vendor who has received an assignment of benefits from the insured and what makes that from the point of an attorney who is looking to position a case for a fee, what makes that advantageous to that attorney? And I think we have to understand that, to understand solutions. And I think there are two things that drive that motivation to make an assignee a more desirable plaintiff for that attorney than the insured. The first is fairly common sense. And that is the assignment of benefits assignee, the vendor, is in a better position to drive the cost of the claim. As the vendor doing the work, they can influence both the scope of the repairs and the cost of the repairs. So, that is advantageous in the terms of getting a benefit, which would entitle you to a fee. And, that is fairly common sense. Obviously, you get the vendor as the plaintiff, the vendor is controlling the work, and they are controlling the cost of the work and the scope of the work. You are in a very good position to get some benefit that will entitle you to a fee. But, I think the second part of the advantage is one that is more subtle but is far more significant in terms of why you want to have the assignee as your plaintiff. And, that is that the insured has duties under the policy which allow the insurer to make a reasonable and adequate inquiry into the loss, to be able to assess and evaluate a claim and by making an offer of judgement based upon that inquiry, you can limit your risk to be subject to fees. So, you have things such as examination under oath, you potentially have appraisal, you could have production of records, all of which are duties of that insured. None of those duties apply to the assignee. So, when an insurer is trying to do a due diligence when there is an AOB, they are bargaining against a party who has none of the policy duties, has no duty to cooperate, and you are trying to evaluate and cost out a claim essentially against a face down dealing of the cards. And, that puts you in a position where it is very, very hard for you to assess the value of a claim and then avoid attorney's fees by knowing exactly what a claim is worth. So when you have the combination of the ability to drive the cost, and the ability to avoid cooperation which would allow an insurer, including Citizens, to properly evaluate a claim, then you are in a position where you step into litigation, with the likelihood of being able to get some decree against the insurer which would be entitle you to a fee, is amplified by having the assignment of benefits assignee as your plaintiff. So I think we have to understand that dynamic, when we understand why AOB's have become so predominant in this marketplace, particularly for things like non-weather water claims, and I wanted to give you that context for the things that Christine is talking about.

Jim Holton: Thank you, Dan, for all of your hard work in this area. I was heartened to hear a story last week from a defense lawyer in another area where there is a lot of abuse which is public records request. Apparently, there was a judge in Miami who said, "Enough is enough. You're doing this just to generate fees." Is there anything we can do to look into the 57105 as a vehicle to start turning this around the other way and getting some sanctions against some of these abuses by the attorneys?

Dan Sumner: We certainly can look into that, yes. What you have in this situation is that if the plaintiff is the AOB vendor, then it's very hard to get to a 57105. They're going to say, "We're exercising our professional judgment. We assessed in real time what the need for repairs was and we acted accordingly." Then the attorney says, "I rely on the professional judgement of this licensed or credentialed individual." That is a more difficult scenario with 57105, but we will look into it.

Jim Henderson: We seem to go back to the core of the controversy which is liberalization of policy language by the courts indicating what represents "collapse" with a change in interpretation of policy. We need to say this is more maintenance than something of backing of water . . . . our element that would traditionally been covered before under a different venue. I encourage you and leadership to go back and look at the promises that we're making out there. They seem too broad with regard to how the court views them. We're in this position of constant fighting and interpreting the nature of our product. We need to change that.

Dan Sumner: Karen Holt can certainly elaborate, but in our most recent policy reforms particularly dealing with water losses, there were two things we really focused on. Those things were never intended to solve the entire problem but they were intended to be a precursor to a broader change. One of the things we did focus on in our policy form changes was what was meant by collapse, cause of loss, repairing cause of loss, and not repairing items collateral to that. That was something directly dealt with in those form changes. The other thing that was important was that we instituted timelines where you cannot permanent repairs without giving us a certain amount of time – I believe it's 72 hours – to view the loss. I think a lot of those glaring issues where the policy provisions had been liberally construed . . . I think we aligned a lot of those with the form changes.

Gary Aubuchon: So, the problem is identified. The solution is somewhat evident. The question is if there is legislative appetite for reform in the upcoming session.

Christine Ashburn: We worked with our defense council this summer. He had a team that came up with these concepts, some of which had been attempted in the last few years. At Citizens, this is our number one legislative priority. We will be speaking before the Broward County

Commission before Christmas. We will be meeting with Senator Flores who is the Chair of Banking and Insurance the week before Christmas during the Depopulation Summit. I will also be talking to her about these issues. This is looking to absolutely unravel all of the depopulation successes we've had over the past few years. It's evident in the budget with what we're seeing. Other carriers are seeing similar results. We know in zip codes and areas where there is fraud abuse, carriers are going to stop writing. As the carriers raise their rats 15% to 20% and we raise our rates by 10%, even if they continue to write that business, more folks will become eligible to go through the Clearinghouse and then come back to us. We had a lot of depopulation coming up on that three year anniversary where they were required to keep these policies for three years. We probably will start seeing attrition in that part of that business. Where is it going to go if no one is writing? That is the driving concern beyond just the financial concerns. This is going to affect the health of the Florida market. I've outlined for you today the concepts we believe must be addressed during the 2017 legislation. It's a heavy list and a heavy lift. It's controversial.

- Prohibit vendors working under an assignment of benefits (or any variation) from seeking fees under the one-way attorney fee statute when litigation occurs. That statute was never contemplated for vendor vs. vendor litigation. It's absurd that larger vendors would have access to a one-way fee statute when suing an insurance company. It's meant to protect a consumer.
- Require that the assignment agreement contain a written, itemized, per unit cost estimate of the work to be performed by the assignee. We need to know what the workers are about to do to ensure there is coverage.
- Require that an assignment agreement be provided to the insurer no later than three (3) business days after an assignment of benefits is executed by the policyholder. There is a law that tracks that for public adjusters. They have to provide us copies of those contracts. It will also allow us to be notified of the claim, especially if there is a late notice.
- Limit assignments to only the work being performed (not the entire claim). These are really broad agreements right now and you can give them a wide range of benefits in the policy.
- Create statutory provisions requiring assignees to comply with responsibilities that are parallel to those required of the policyholder in the insurance policy. If they want to act like the insurer to get the benefits, then they need to be treated like the insurer with regard to the duties.
- Provide consumer protections including the ability to rescind the assignment and notice in writing as to what insureds are signing and what rights they are giving up. We'll use the example of the 3AM flood due to a pipe burst. You're scared and nervous, and the vendor comes in and says, "If you don't sign this, we can't do the work." The consumer needs to know what s/he is signing, giving up, and having the right to change his/her mind.
- Prohibit an assignment from containing cancellation fees, check processing fees or overhead and profit charges in estimates.
- Prohibit lien of a property for work that is completed under an assignment and is paid for with insurance proceeds. If you have the AOB on a policy for insurance proceeds, you need to give up your lien right as a contractor. You shouldn't get to go lien the property for the disputed amount.

We believe these are the critical items that have to be addressed. We have heard both Speaker Corcoran and Chair Flores say they understand the AOB needs to be addressed. We've talked about the workers comp issue that's out there. I believe that if we did not have a rate cap, then workers comp would not even be on the radar. If we filed for what the actuarially sound rates were for Citizens in July, I believe there would have been an outcry far beyond what we're hearing now because 10% holds this down. This is a critical issue. Until consumers start to complain to their legislators . . . there are pockets of people who understand this issue, but there is a huge education hurdle that we're still working on. There will be a bill. I believe it'll be one bill and I believe there needs to be a coalition in the insurance industry to be on the same page with Citizens and the OIR for us to have any chance to get meaningful reform done. I do believe it's a tough fight to amend the fee statute in this environment with a number of plaintiff attorneys who have been elected in both Chambers.

Gary Aubuchon: There isn't a member in a leadership position in the House, Senate, or Executive Branch that didn't run on the platform of reforming fraud and abuse. Oftentimes, they focus on fraud because that's the easy one. This is focusing on abuse and the abuse is allowed by the statutory requirements. In the Tri County area, in particular, Citizens role has been move to say we're no longer an insurance carrier but a conduit for policyholder's dollars to go directly to water mitigation firms and the trial bar. The spotlight on the abuse is essential and that we can underscore the fact that there is not a person in leadership who does not want to remove abuse, even when it's difficult. That's what we're looking at. We're looking for champions who will stand up even when it's difficult.

Christine Ashburn: I believe there are champions in both chambers on these issues. We lost a few due to term limits. There are insurance professionals who are also in the legislature. We have agents in both parties and both chambers. We work with those who are knowledgeable and willing to take this on. The abuse is a huge piece and the connection that we're able to make now is that it's impacting rates.

11. <u>Chief Risk Officer's Report</u>

a. Actuarial and Underwriting Committee (A&U) Update

Jim Henderson: I think John has a couple items. We did some good housekeeping. There were changes in coverages. We do need to be mindful of the people we insure. These are good changes that select risks that we should be insuring.

John Rollins: I would like to amplify a couple things Dan and Christine mentioned. Our average premium is in the $2,500 area for multi-peril. Christine is correct. I would remind you that the statewide rate indication without the glide path is 65%. We are not sending to consumers a note that says, "Your policy costs $2,500, but it's on a path without reform to cost well over $4,000." That puts perspective on Christine's comment that the crisis would get more airplay if we were subject to the private insurer standards. Governor Henderson, with regard to your comments about changes to products, the changes were never to solve the whole problem. The focus of those changes were around the duties "after the loss section" of the policy. Improving duties after the loss in the policy only works for the parties that are sharing the duties after the loss. It's important to remember Dan's point that the reason these attorneys are seeking other plaintiffs isn't that they don't have plaintiffs available. It's to use the vendors to get around those duties in the first place. You can't optimize the duties after loss in the policy to solve the problem as long as the middle party is involved and allowed to share the benefits but not the duties. I do have some items. They are not actuarial. They are products to make underwriting a bit more efficient and of higher quality.

b. Action Item: Product Change – Residences Held in Trust (PLA)

John Rollins: This change will help us better to write for residences held in trust in personal lines. This is a demographic trend in Florida. We need updates to rules and forms to ensure that we're providing the appropriate coverage for these properties. Our market research and legal analysis brought us here. There are two paths to make us more robust. One would be using an additional insured endorsement, which is a common path that many insurance carriers take. The other alternative would be a trust endorsement. This trust endorsement is a little more resilient and robust. It provides additional provisions that address unique aspects of trust. It imposes stringent notification requirements on the policyholder, particularly as occupancies change. It's more specific about limiting the liability coverage in the homeowner's policy when the home is held in trust to the individual only in their capacity acting as trustees. If we use the ISO based trust endorsement, we need to file both the endorsement and some eligibility guidelines for underwriting to ensure that we are getting the right form, getting the right guidance to the agents, and obtaining all the necessary information we need.

Freddie Schinz made the motion to authorize the filing with the Office of Insurance Regulation (OIR) of the modifications of the underwriting rules and submission requirements to establish uniform underwriting treatment of residences held in trust; to authorize the filing of the new "Trust Endorsement"; and to authorize staff to take any appropriate or necessary action consistent with this Action Item to include filing with the OIR, system change implementations, development of necessary forms and other supporting activities. Gary Aubuchon seconded the motion. All were in favor. Motion carried.

c. Action Item: Product Change – Required Building Change (CLA)

John Rollins: The history here is three points. Citizens' current eligibility rules regarding updates to buildings for commercial lines policies are outdated and no longer effectively address hazards associated with older buildings that have not been updated. Furthermore, agents and policyholders do not have a clear and consistent method to provide details on building updates to Citizens Commercial Underwriters. Finally, the current rules do not provide for any exceptions to be granted. To enhance the current rules and provide a systematic method for updates to be reported, staff recommends the rules for roof and electrical updates be amended as follows and that the attached Roofing Inspection Form and Electrical Inspection Form be established as a recommended means of reporting updates that have been made. What you have in your books is a table, which I will not go into detail. You have the current state with a rule that says a building or business property located in a building in which the roof has not been updated over the last 30 years – we're going from that being ineligible to something more granular, which varies the eligibility or ineligibility requirements for updates based on the shape of the roof, the covering used on the roof, and the age of the roof. The text in the exceptions paragraph is also included in your executive summary. On the electrical side, included in the ineligible rule, is simply buildings or business personal property located in a building in which the electrical system has not been updated in the last 30 years. The proposed changes are now buildings or business personal property located in a building constructed on or before 1975 in which the electrical system has not been updated or inspected to verify if any unsafe or inadequate wiring conditions /deficiencies exist and what electrical system components have been updated. There are forms that we have drafted and inspection forms to collect this data. The forms are included in your tab. Acceptable documentation to verify the electrical system inspection / update requirements above includes submission of completed Citizens Commercial Electrical Inspection Form or equivalent document providing similar information from a Florida licensed electrician or general contractor.

Jim Henderson made the motion to authorize filing with the Office of Insurance Regulation (OIR) of the building update requirements for commercial risk as described above and to authorize staff to take any appropriate or necessary action consistent with this Action Item to include filing with OIR, system change implementations, development of necessary forms and other supporting activities. Final changes may vary slightly, depending on guidance from the OIR. The motion was seconded. All were in favor. Motion carried.

12. <u>Chief Legal Office and General Counsel's Report</u>

a. Action Item: General Corporate Legal Services

Dan Sumner: Every few years, as a best practice, Citizens competitively solicits our Corporate Legal Services. This is for legal services other than claims defense. We did a RFP in October and identified 43 legal firms over 20 subject areas, which will be our panel over the next few years. They are preselected and prearrangements. There is no guarantee of work.

A motion was made to approve a legal services contract with the forty-three (43) law firms in Exhibit A and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. Vice Chair Glisson seconded the motion. All were in favor. Motion carried.

13. <u>Consent Items</u>

Barbara Walker: There are several items.

- **Agency Management System Download - (Contract No. 09-08-0034-00) – It is an amendment #2 and Amendment #3 to the Contract. The recommended vendor: Applied Systems, Inc. (IVANS). Recommendation: Approve the contract amendments as set forth in this Agency Management System Download Consent Item; and Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.**
- **Business Process Outsourcing – Insurance Services (Phone Answering). This is amendment #2 to the Contracts. Recommendation: Approve the contract amendments as set forth in this Business Process Outsourcing – Insurance Services**

(Phone Answering) Consent item; and Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.

- **IT Staff Augmentation – Requesting Contracting Approval: $2,443,203. Recommendation: Approve the recommended IT Staff Augmentation Services (contracting authority) Consent Item; and Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.**
- **IT Infrastructure, Software and Professional Services – Requested Contracting approval: $21,339,045.56. Recommendation: Approve the recommended IT Infrastructure, Software and Professional Services (contracting authority) Consent Item; and Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.**
- **Investment Management Services – Recommendation: Approve the recommended one-year renewal for the named Investment Management Services firms; and Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.**
- **January 2017 Corporate Insurance Renewals – Approve the renewal of the 2017 corporate insurance policies (Business Owners, Workers' Compensation, Business Auto, and Financial Institution Bond) above; and Authorize staff to take any appropriate or necessary action consistent with this Consent Item.**
- **Office Supplies – Florida State Term Contracts No. 618-000-11-1 & 441115143. Recommendation: Approve the continued use of the Office Supplies Contracts and any successor contracts established or authorized by DMS through December 31, 2017; and Authorize staff to take any appropriate or necessary action consistent with this Consent Item.**
- **ePayments – Six month contract extension (Contract number 09-08-0008-00). The current vendor is FISERV CP LLC). Recommended: Approve a contract extension of up to six months for Contract 09-08-0008-00, as described above to allow for transition of services to a new vendor; Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.**
- **Security Officer Services – Tallahassee. Recommendation: Approve the expenditures for services for the renewal to US Security Associates, Inc. as set forth in this Consent Item; and Authorize staff to take any appropriate or necessary action consistent with this Consent Item.**

A motion was made and seconded to approve the above said consent agenda items. All were in favor. Motion carried.

New Business

Chairman Gardner: I want to say thank you to this Board and to this group of talented group of colleagues. Thank you to staff. We've built a world class claims organization. Freddie Schinz, you've built a renaissance in our communications strategy. I think of the transformational risk transfer program. No one talks about Core. When I first got on this Board, that was all we talked about. That was a major initiative. Kelly, hats off to you. Clearinghouse – it's something we're required to do and something we constructed and implemented. We embraced an Independent Investigator and Inspector General in Bruce Meeks and who has done a wonderful job for us. He's done a lot in restoring our reputation. When you look at those major lifts, you do have to use the words "discretionary projects" because there really isn't enough time leftover in running a large insurance organization. Thank you, everyone.

Meeting adjourned.