

Office of the
Internal Auditor

ENGAGEMENT REPORT

February 2025

Hurricane Claims Closed
without Payment



Table of Contents:

Page



Executive Summary

Background

1

Objectives and Scope

1

Results

1 - 3



Appendix

Distribution

4



Executive Summary

Background

Recent reports have raised concerns about the Citizens Property Insurance Corporation's handling of hurricane-related claims, particularly the high percentage of claims closed without payment. A November 2024 report by Weiss Ratings highlighted that Citizens closed 50.4% of its claims without payment in 2023, a rate higher than other private insurers in Florida. In response, a Citizens' spokesperson explained that many of these closures were due to factors such as damage falling below deductible thresholds, claims being withdrawn, or damage not covered under the policy, such as flood-related losses.

Further scrutiny arose after Hurricanes Debby, Helene, and Milton in 2024. Reports indicated that many claims from these hurricanes were closed without payment. For instance, as of October 28, 2024, 27,834 out of 202,989 claims for Hurricane Milton damages were closed without payment. In response to these concerns, Citizens' Chief Insurance Officer noted that the rate of claims closed without payment ranged between 44% for Hurricane Milton and higher percentages for other storms, attributing many closures to damage not covered under the policy, such as flood-related losses.

These reports have led to increased scrutiny of Citizens' claims-handling practices, prompting a request to the Citizens Chief of Internal Audit to conduct an audit to assess the appropriateness of claims closed without payment.

Objectives and Scope

In response, Citizens Office of the Internal Auditor, supported by claims specialists from KPMG, initiated an audit to assess whether the decisions to close claims without payment were adequately supported by documentation on file. The audit also reviewed procedural practices, including:

- Issuance of 60-day letters when required
- Inclusion of closed without payment letters in claims files
- Management approval of claim denials
- Policyholder Complaints

Methodology

A sample of 630 claims closed without payment was selected for review, encompassing all three hurricanes and all closure categories. In the absence of prescriptive detail, Internal Audit provided a short description of each category with the agreement of claims management. The 'Closed no Payment' categories included:

- **No Coverage – Flood Loss** - The claim was denied because the loss was caused by flooding or storm surge, which is not covered under Citizens' policies.
- **Below Deductible** - The total damages are less than the policy's hurricane deductible; therefore, no payment is issued.



Executive Summary

- **No Coverage** - The policy does not afford coverage for the damage reported. Examples of this would be interior damages that were not caused by a peril-created opening, specific additional structures not covered, or the policy containing a wind exclusion.
- **Claim Withdrawn** - The policyholder withdrew the claim before a final determination was made.
- **Invalidated Claim** - Refers to a claim that should not have been set up or was set up incorrectly. Examples include duplicates and incorrect policies.
- **No Policy In Force** - At the time of the loss, the claimant did not have an active policy with Citizens.
- **Assumed Policy** – Another carrier assumed the policy.
- **Closed for Misc Reason** (All other reasons not above) – The claim was closed for reasons that do not fall into the specified resolution categories. An example of this would be claims that had to be reopened to address particular situations and then re-closed.

Results

Our review confirmed that all 630 claims were processed fairly and transparently, supported by thorough documentation justifying the decisions to close without payment. Additionally, the claims were processed efficiently, with an average completion time of 21 days, well within the 60-day timeframe mandated by Florida Statutes.

We noted that in 142 of the reviewed cases, the policyholders had one or more claims related to the other hurricanes that occurred during the 2024 calendar year. In cases where coverage was afforded or where the policyholders met the deductible threshold¹ for the second or subsequent hurricanes, payments were issued under these other claims.

Internal Audit also reviewed 79 policyholder complaints. Our review confirmed that each complaint was adequately researched to ensure proper concern resolution, decisions were well supported, and files were well documented and managed in a timely manner. Every policyholder was notified of the complaint resolution.

While the overall findings are positive, the audit identified areas for improvement:

- **Mislabeled Claims:** 53 instances were found where the actual reason for closure did not match the reporting category. For example, some claims labeled "Closed for Miscellaneous Reasons" had more specific closure reasons that were not accurately reflected.
In 15 of these claims (marked as Closed for Misc Reason), coverage had been afforded, and payments were issued to the policyholders. Some of these claims had been reopened at one point after the payment to address communications received and then "Closed for Misc Reason (All other reasons not above)."
- **Missing Internal Process Elements/Items:** 95 instances were identified where claim files lacked certain internal process elements, such as management authorization of denial letters.

¹ The Hurricane deductible applies to the calendar year provided that the policyholder remains insured with the same company for the second or subsequent hurricanes during the same calendar year.



Executive Summary

While these omissions did not impact the non-payment determination, addressing them would strengthen procedural compliance.

- **Claims Resolved Over 60 Days:** 5 instances where the claim was resolved after 60 days. In one of these instances, an over 60-day letter was sent to the insured notifying them that the investigation would exceed the statutory timeframe for resolution. In another instance, the claim was handled as a duplicate claim. In three instances, a letter was not sent to the insured. These were closed at 62, 63, and 64 days, respectively.

The improvement opportunities were discussed with claims management, who will include these topics in the current adjuster training to reinforce the process.

Conclusion

The audit concludes that Citizens' decisions to close hurricane-related claims without payment were appropriately supported and documented. The identified areas for improvement are procedural and do not indicate any wrongful denial of claims. Implementing the recommended improvements will enhance the accuracy and consistency of claims processing.

We thank management and staff for their cooperation and professional courtesy throughout this engagement.



Distribution

Addressee(s) Tim Cerio, Chief Executive Officer

Business Leaders:

Jay Adams, Chief Insurance Officer

Audit Committee:

Jamie Shelton, Citizens Audit Committee Chair

Carlos Beruff, Citizens Audit Committee Member and Chairman of the Board

Scott Thomas, Citizens Audit Committee Member

Following Audit Committee Distribution:

The Honorable Ron DeSantis, Governor

The Honorable Jimmy Patronis, Chief Financial Officer

The Honorable John Guard, Acting Attorney General

The Honorable Wilton Simpson, Commissioner of Agriculture

The Honorable Ben Albritton, President of the Senate

The Honorable Daniel Perez, Speaker of the House of Representatives

The External Auditor

Completed by John Fox, Director-Internal Audit, under the Direction of Joe Martins, Chief of Internal Audit.