CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
AUDIT COMMITTEE MEETING
Wednesday, June 25, 2025

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened at 8:30 a.m. on Wednesday, June 25, 2025.

The following members of the Audit Committee were present:

Chair Jamie Shelton	Governor Robert Spottswood	Board Chairman Carlos Beruff

The following Board members were present:

Governor White	Governor Knight	Governor Becksmith
Governor Butts	Governor Lydecker	Governor Cumber

The following Citizens Staff were present:

Tim Cerio	Jennifer Montero	Jeremy Pope
Jay Adams	Carl Rockman	Michael Peltier
Andrew Woodward	Brian Donovan	Aditya Gavvala
Mark Kagy	Michael Wickersheim	Deena Harrison
Kyle Sullivan	Barbara Walker	Bonnie Gilliland
Eric Addison	John Schmitt	Ray Norris
Mathew Carter	Mike Sills	

The following were present:

Dave Newell, FAIA
Sasha Stipanovich, Raymond James
Mark Wienberg, JP Morgan
Kapil Bhatia, Raymond James
Bryan Friendshuh, Gallager Re
Trevor Hillier, Gallager Re
John Generalli, Wells Fargo

Barbara Walker: Good morning, and welcome to Citizens' June 25, 2025, Audit Committee Meeting, which is publicly noticed in the Florida Administrative Register to convene at 8:30 a.m. This meeting is recorded, with transcribed minutes available on our website.

For those attending today's session through the public link, you are automatically in listen-only mode, with presentations appearing in the webinar.

Chair Shelton, we have no guest speakers for today. Panelists, thank you for identifying yourself prior to addressing the committee. May I proceed with rollcall.

Governor Spottswood is joining via Zoom and we are making efforts to contact him.

The roll was called, and the quorum met.

Chair Shelton: Thank you, Barbara, and good morning. Welcome everyone. We will go ahead and get started. I'm sure Governor Spottswood will join us shortly. The first order of business is the approval of the prior minutes from the March 12, 2025, Audit Committee. We'll entertain a motion to approve.

Unanimously approved.

Chair Shelton: Normally at this time we have Joe Martins here to give us the report from the Office of Internal Audit. Joe is not with us this morning, but we have two esteemed individuals: Deena Harrison, the Director of Enterprise Risk at Citizens, and Kyle Sullivan, the Assistant Director of Internal Audit. The two of you are recognized.

Kyle Sullivan: Thank you, Mr. Chairman, and good morning, Governors.
Can we move to slide 2, please? On this slide, we present a graph that provides a visual representation of our progress against the audit plan over a rolling 12-month period, covering December of 2024 through December of 2025. This approach allows us to maintain an ongoing view of completed and planned engagements. To date, Internal Audit has completed 12 of the engagements appearing on the slide, with an additional 8 currently in progress. In total, 26 audit engagements are included in this plan. Since our last meeting, we have completed four audit engagements, as well as an internal quality review of our 2024 work.

Among the completed audits, I would like to highlight the Asset Management Audit, and the details of it are in the pack. Our engagement determined that Citizens has a number of strong practices demonstrating a commitment to effective physical asset management. While there are a number of favorable practices, the engagement identified several improvement opportunities regarding segregation of duties, inventory tracking, unreturned assets, as well as the disposal of IT assets. These opportunities have been discussed with the relevant business unit leaders, who have acknowledged them and began developing corrective measures.

The second effort I wanted to highlight is our 2024 Quality Assurance Improvement review that we completed this quarter. Internal Audit aspires to meet the audit standards prescribed by the Institute of Internal Auditors International Standards for the professional practice of internal auditing. These require our group to develop and maintain a quality assurance and improvement program that includes both internal and external assessments. The annual self-assessment completed confirmed that the internal audit function conforms with the IIA standards, with one minor opportunity for improvement that has already been addressed. Further details surrounding this assessment are in the packet. Additionally, it is worth noting that Internal Audit engages a third party to perform an external assessment every 5 years, the next of which is scheduled for the middle of 2026.

Next slide please.

Here we show a graph that indicates the 2025 audit plan and how Internal Audit's risk-based rolling approach aligns with Citizens' evolving risk landscape. This visualizes engagements as they apply to elements associated with the major strategic risks identified by the organization. This methodology enables Internal Audit to continuously evaluate and adjust our focus to address the most significant risks as well as any emerging priorities throughout the period.

Next slide please.

Here we present our performance metrics and benchmarking related to hours and completed engagements for Internal Audit. Currently, Internal Audit is developing additional metrics and benchmarking activities in order to compare our performance against that of peer organizations. The enhanced metrics will be presented to the Audit Committee in the coming months.

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Currently, there are thirteen medium-rated observations that remain open. We have no high-impact issues for consideration. The key issues under remediation include System Integrations Engagement; there are some observations around SDLC, access monitoring and SOC reporting As well as Asset Management; there were four medium findings identified, as previously discussed

All of the above observations are continuously monitored for resolution by Internal Audit.
With that, I will give it to my colleague Deena Harrison to cover the Enterprise Risk portion.

Deena Harrison:

Thank you, Kyle. Thank you, Mr. Chairman, and good morning, Governors.

Earlier this year, the 2025 strategic risk assessment with the Executive Leadership Team was completed. Ten strategic risks were identified and assessed. Six strategic risks were rated high: Acquisition of Reinsurance, CAT Response, Claims Abuse, Cyber Threats, Rate Differential, and Strategic Workforce Planning. Medium and low-rated strategic risks include Artificial Intelligence, Market Conditions, Technical Debt, and Ethics, Integrity, and Conflicts of Interest. Mitigation plans for each strategic risk have been updated and are executed as needed.

As of June, operational risk assessments have been completed with leaders and subject matter experts across 34 business processes, representing 50% of the annual plan. Mitigating strategies are designed, implemented, and monitored as appropriate.

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Governor Lydecker: May I ask a question Mr. Chair. Good Morning. Thank you for the report. One of the exposures that has been identified is what you referred to as rate differential. Would you mind expanding on what rate differential means?

Deena Harrison: Yes. Rate Differential Risk: As a result of Citizens' current rate making efficiencies and the glide-path application to Citizens' rates, Citizens' competitive position in the market is not aligned with being a residual market.

Governor Lydecker: Let me just make sure I understand that.

Chair Shelton: Business risk as opposed to a traditional Internal Audit Risk. Just making sure we are positioned to price accordingly and working into that is the way Joe explained it to me.

Governor Lydecker: So, in other words, you are auditing to ensure it is done correctly in terms of how Citizens is pricing itself relative to the voluntary market?

Deena Harrison: It's a strategic risk, so my role is Enterprise Risk and Internal Controls, and we work with the executives to look at strategic risks out over 12-18 months of what would impact our vision, mission, and our ability to achieve our strategic imperatives and objectives and initiatives. So, we are looking at those as risks if we are not able to do that and making sure we're mitigating and prepared for what happens with the market and the issues externally. And they could audit it, to your point, to check for that as well, but this is listed as our top risk to be aware of and to prepare for.

Chair Shelton: So, really it's just looking at what is the impact of these things that we might not be able to achieve that we want to achieve, and what that could be an impact on the enterprise itself. As opposed to some internal control to make sure we're billing exactly what we are supposed to. It's not really a traditional internal audit risk in my mind; it's more of an enterprise risk and a value-add to management to understand what we could be doing as to what we are actually doing. Did I say that right?

Deena Harrison: Correct.

Governor Lydecker: If the Chair understands it, I'll go ahead with it. I understood it slightly. Thank you.

Board Chair Beruff: Mr. Chair, I'd like a little more clarification. If I can't understand it, then people who are listening to this meeting can't.

Deena Harrison: Ok, if Tim Cerio and Brian Donovan could come up.

Chair Shelton: Mr. Cerio.

Tim Cerio: Thanks, Deena. Brian, you and I were talking about this this morning. Why don't you take a stab at it?

Brian Donovan: For the record, I'm Brian Donovan, Chief Actuary. I just want to make sure what is the question.

Chair Shelton: The question is, what is rate differential, and what does it have to do with what Internal Audit is doing?

Governor Lydecker: And what is the practical implication of it? How should we apply it.

Brian Donovan: From my point of view, it doesn't impact anything. It's really just a listing of all the things we have to be aware of. But in terms of practical, doesn't change anything we do from a rating perspective. We monitor that and have our procedures in place, so it doesn't really impact what we do. Each year we list out the things we want to be aware of, and that is one of them.

Chair Shelton: The question is, why is it identified as a significant risk on the six we had.

Brain Donovan: That's a fair point, given our standard goal of avoiding assessments, it's pointing out, our rates are inadequate. But to your point, there is not much we can do about it because we have to work within the statute.

Tim Cerio: There are risks identified that we have very little control over. There are risks that we have a lot of control over. The rate differential, the rate inadequacy is something that we put out there as something audit looks at because the bottom line is until we charge actuarially sound non-competitive rates we're not taking in the premium we should, building the surplus we can to pay claims. And I'm going to talk more about that, Mr. Chair, during my report, because of the reforms we've seen a tremendous improvement in what our rate need would be because of the reduction in litigation.

Board Chair Beruff: Mr. Chair, may I ask a question?

Chair Shelton: Absolutely.

Board Chair Beruff: Back to the risk factor that's in this audit. I don't see the risk factor, so I don't see why it's so high on the list. Because at the end of the day, the enterprise risk is non-existent. We are still 30% below everybody else. So there's no risk for us going out of business, because we are beyond competitive by 30%-40%. Is that a true statement?

Tim Cerio: I think that's true, Mr. Chairman. I think we've identified it as something; as you know our priorities have been depop, taking care of the consumer and enhancing consumer services, and also trying to get to the point where we are minimizing the risk of assessments. It's been a priority of the ELT and we don't want to stop highlighting. It is important and it is a relevant factor.

Board Chair Beruff: When somebody says to me "Enterprise Risk," says to me that we can't be competitive and the enterprise might be at risk. That's non-existent.

Tim Cerio: Good point, sir. It is more about the assessments on Floridians.

Board Chair Beruff: Thank you. Now I begin to understand what's going on.

Governor Lydecker: Can I just have a separate direction, just to follow up on it. How should we be thinking about the difference between not wanting to compete in the marketplace and, in fact, being a market of last resort, versus actuarially sound? Just the two concepts, and I'll show my cards why I'm asking the question. And it may or may not be appropriate relative to Internal Audit, but once you threw rate differential out there. Because I think we are in a good position at Citizens, and the take-out programs are working, and there does appear to me to be stability in the marketplace that wasn't there as recently as 2 years ago. So there continues to be improvement. Later on I'm going to ask questions as what we have to do to ensure the consumer feels that, but that's a different conversation. Actuarially sound versus a rating, how we price ourselves to be not competitive. The reason I'm asking that, is if the voluntary insurance marketplace keeps raising their rates for whatever the reason, their for-profit motives, are we at a place that we say, ok you're going to raise your rates, but we are actuarially sound, so we are not going to continue to. Isn't there a place where that doesn't work any longer, and my question really is, are we getting to that place?

Tim Cerio: Governor Lydecker, I would put it this way. So, there is a statutory mandate that we charge actuarially sound and non-competitive rates. I will say it is probably easier for us to make a rate filing, than it is for OIR to decide what that outcome is, because they have a broader picture. But here is a perfect example, as the market has improved, and it most definitely has, we are approaching actuarially sound rates in more and more areas around the state, because our rate need has gone down because the litigation is down. Because we are tax-exempt, because we don't need to buy as much reinsurance as the insurer of last resort, all things being equal, we would have a competitive advantage over the private market. So, the government-created insurer of last resort, and Brian, correct me if I'm wrong, we are frequently, if not always, going to be cheaper than the private market. Which is why in the past, and then it was eliminated, but it was put back into statute, there's a requirement that we also charge non-competitive rates. I'd almost call it a kicker, it's like, okay, all things being equal, Citizens is always going to be cheaper than the private market because we don't have the expenses the private market does. So, I'd hate to call it artificial, there is some definite actuarial analysis goes into it, but there is a requirement that we be non-competitive, in other words, slightly more expensive. If the OIR, you know private market does it's rate filings and the OIR finds them adequate and appropriate and grants the rates, ideally, we are going to be a bit more expensive than the private market. Now, here is an example of why that can be very difficult. Miami-Dade, I'm going on last year's data and not this year's data, Miami-Dade was a hotbed of litigation. The litigation has improved quite a bit all over the state, especially Miami-Dade, which is why you've seen more take-out activity. We are actuarially sound in Miami-Dade. Last year, it would have taken an almost 90% increase in Miami-Dade to be non-competitive. Is that right? We would all want to leave town if we got a 90% increase in Miami-Dade. So, it's almost like now what we are hoping is that, as you all know, what the OIR approved and Governor DeSantis announced, and people were very, very happy about it. About 2/3 of Citizens customers in Miami-Dade actually got a decrease because of that, and it was more focused on our actuarially sound rates, because there is still some disagreement on how to calculate the non-competitive piece. And that's fine. Overall, we still got a modest increase of 8.5% statewide. So, it's improving, and the hope is that the private market rates will, you've seen more and more companies do rate filings with decreases, the hope is that the gap will narrow. But to do a 90% increase in one year, that's a lot. Hopefully, it would never come to that.

Governor Lydecker: First of all, that was an amazing explanation, thank you for that. I do have a sense now of what rate differential meant, even though it may not be an exposure priority in the magnitude we listed. But that differential you described between actuarially sound and between competitive versus non-competitive rates, the example being Miami-Dade is a good one, is something that I think we need to rethink, because up until this point, since I've been on this board, we've been in crisis mode. It's been about glidepath, getting rate, tort reform, fixing things, and we are in a spot to do that. And when I see in the newspaper somebody take a salary, of one of the carriers, of $50 million, in the insurance carrier space in this world that we live in, in the state of Florida. That to me says well there's, for the first time, because we've been in crisis mode, but for the first time maybe we're not thinking about this right, because maybe trying to reconcile between actuarially sound and trying to always go up to the next, you know make sure we are within 20% of the average of the voluntary marketplace, that's not sound. When someone can take $50 million out, that's either surplus, there's something else going on there. Why are we, as ultimately a taxpayer-funded or supported entity at Citizens, as a stopgap? Why are we playing that game? Either we are not defining actuarially sound correctly or, and so it's like sort-of actuarially sound and who knows if we get three storms, we may not be actuarially sound, which that's a conversation we should have. Or we are playing a fool's game of trying to be a true market of last resort. And I'm struggling to understand that differential, at a time when things are now moving in the right direction, maybe we should have that broader conversation, not for today, but it seems like that should be an issue.

Tim Cerio: If I may, Mr. Chair. Governor Lydecker, I think that is an excellent point. I'm not trying to step in the shoes of a private market participant, and I'm certainly not trying to step in the shoes of the commissioner. But those are the difficult questions, and I think that we do our rate filings and obviously the OIR has to sort it out. But that's part of the issue. I think our, what is actuarially sound is actuarially sound. Like I said, I'm very comfortable in the team and the analysis, but that's different. It gets complicated when the law says you also cannot compete with the private market. So then, ok, well what rates are being approved for these private market participants, and I guess, and I'm going to go into territory where I probably shouldn't. If a company wants to, if a company winds up paying execs big money and not being very efficient, and I'm not saying anybody is doing this, especially on the efficiency side. If a company wants to be monumentally inefficient they may get approved for higher rates because of their inefficiencies, and the idea is well then people will go elsewhere.

Governor Lydecker: And then we're stuck trying to..

Tim Cerio: It will go into that analysis, that's right.

Governor Lydecker: We're going to go up because they're taking this big salary, there may be a reinsurance gap, which is how companies go down the tubes, they go into liquidation rehab. And we have a freak storm season. So we are ill-prepared for it. Nobody cares because I'm a private-sector insurance carrier, and I'll throw the keys to the Department of Liquidation and Rehab and we're stuck over here trying to do the right thing. And, we're bouncing, we're having conversations between actuarially sound and mindlessly trying to get within this process. And so part of this conversation, which is not on you guys, but somehow maybe we should be having a conversation with the Office of Insurance Regulation. Because times have changed. We are in a period of time where times have changed from where we were 3 years ago. Part of that is, hey, do these companies have the reinsurance they are supposed to have? Are we good for multiple storms in one season? What's going to ensure, should we be thinking about that in terms of our definition of actuarially sound, because I'm increasingly concerned that we shouldn't be just focused on actuarially sound, and then figure out some other way to be the market of last resort in the marketplace.

Tim Cerio: I would love to comply with the statutory mandate that we truly return to being that insurer of last resort, charging actuarially sound non-competitve rates. In my conversations with the commissioner, especially over the non-competitive piece, what you said, not to speak for them, I think that's one of the things that the commissioner and the whole OIR has been very focused on, is the disparity in making sure, what does that non-competitive piece mean? Is it higher than it should be because of all the other things going on in the market, and is that unfair to consumers. Again, not trying to speak for the OIR, but that is one of the things we are hearing that they are being very conscientious about and there is a little bit of angst to get the analysis right.

Governor Lydecker: Well, because we are in a new day, this is a conversation we do have to wrap our heads around a little bit, and OIR, I think, I've not been, I've not watched the insurance marketplace, even in the last 20 years, get to a positive place, a stabilized place, where it is right now. It's tort reform. A lot of legislators, the Governor, worked hard to pass difficult, once in a multi-decade tort reform. I do think we owe it to the leaders of that reform to make sure we are asking those questions. One final comment, I'm in the insurance business, right? And I'm motivated by long-term relationships with our clients, and I'm motivated by a healthy, stable marketplace for our clients in the State of Florida. And part of that is, when, if it's actuarially sound rates should go down and there should be relief, or at least in pockets in the State of Florida. I'm against mindlessly reacting to a defined concept when things were really bad, of how we define market of last resort. Anyway that was my question regarding rate differential and internal audit.

Tim Cerio: Brian did you want to agree with Governor Lydecker?

Chairman Shelton: Thank you Governor Lydecker. Governor Spottswood has joined us; welcome Governor Spottswood. I would refer to the chair here, there may be something in the future, maybe there's some type of workshop that we do, or conduct with some legislative leaders, OIR and members of the Board of Governors here and talk about these things and really wrap hands around that. That's very good points. Will have to refer to Chair on that for secondary consideration.

Governor Spottswood: If I can just jump in for just a moment.

Chairman Shelton: Go ahead, Governor, you're recognized.

Governor Spottswood: Thank you very much. I agree with the comments from the governors that have been made over the past several sets of comments. It's very difficult for us to get our arms around. We have a very specific, kind of narrow lane to go in, but I think looking at the insurance market in the State of Florida as a whole is entirely appropriate. It's difficult for me to understand, certainly difficult for the public to understand when you have folks that are taking out those kinds of salaries and we're sitting here doing a pretty good job when our rates are 30%-40% below the private market and we're doing a pretty good job, and the other private market insurers are struggling. I don't really understand why, and I think a larger conversation with maybe legislators, or the commissioner, or somebody would be entirely appropriate. I would certainly like to see that conversation move forward. Looking at the market in general as you said, we are in a good place right now, and right now is the time to really talk about it. And talk about if the 2 goals that we have as guardrails for us of actuarially sound and depop, I think it's time to look at those goals in the context of the overall market and this organization as insurer of last resort. I would certainly support your suggestion, Governor, to move forward and have a conversation with someone to talk about how Citizens is performing in the context of the overall market and what other changes or reforms could be appropriate.

Chair Shelton: Thank you, Governor Spottswood. Any other comments? Deena, do you have anything more on your report of Internal Audit.

Deena Harrison: Just a very brief update on Internal Controls. Our 2025 control self-assessments for 95 primary controls are in progress and on schedule for completion by year-end. As of June, no material control deficiencies have been identified. Assessment results will be available in Q4.

This concludes our presentation. Thank you, Mr. Chairman and Governors.

Chair Shelton: Thank you. Any questions before we move forward? Joe Martins is not with us this morning, but understand we continue, Mr. Charmain, having conversations periodically and talking about the audit plan, what they've accomplished, the safeguarding of assets and there's been no issues with management, management is very responsive and proactive at reaching out to Internal Audit for assistance, so the process at this point and time seems to be working well. Thank you.

Ms. Montero.

Governor Lydecker: Could I ask one final question while we are on the Internal Audit piece? We're having these takeouts right now, which I think is really good. What I think is really bad, is if 3 years from now we start to populate again because we have takeouts that are occurring that do not have sufficient reinsurance in place. Which, that is exactly how, I think it was called Southern Family, which I think is the biggest liquidation and rehab debacle from 15-20 years ago. They went down because they had $60 million in surplus, and the reinsurance kicked in at $100 million or $120 million in losses. And that differential, that gap, they made a decision that we don't need to have reinsurance, and they got that passed by the Department of Insurance, at the time it was called the Department of Insurance. Prior to them going into receivership they took $13 million out of the company. And you fight the rest of your life to claw back the $13 million that should have gone to mitigate the loss that was created that the taxpayers end up funding through the Florida Insurance Guaranty Association. And then all those policies come back online that Citizens has to deal with. Is there a role that Internal Audit has for us to interface with OIR to ensure, or at least have another set of eyes, on the quality of the companies regarding when they're taking out? The insurance company business is a really neat business to be in if you can just go pluck out a bunch of policies, and there's no storms. It's a really good business to be in, but that's not the environment we live in, and the last 20 years has taught us that.

Chair Shelton: I'm not aware of Internal Audit having any type of thing with OIR except... Go ahead Tim.

Tim Cerio: If I may, Mr. Chair, so that's something that Chair Beruff has cared very much about. It hasn't been an Internal Audit issue, but Chair Beruff and I have met with the OIR and one of the things that has been quite manifest for the last couple of years, and I think this is a fair statement, OIR has been very focused on making sure the companies that are approved for takeout have the financial wherewithal to avoid the scenario you just described. Much more so than in the past, when we had the major takeouts that started back in 2018, or the last round of major takeouts, when we had more come back, more return to Citizens, more policies come back. I think there is a very robust review process that OIR is engaging in, and our rate right now, and obviously we are in a good market, the rate of policies returning to Citizens now is 1%, is that right Brian? 1.73%, pretty good rate. But you make a great point Governor Lydecker.

Chair Shelton: Mr. Chair, you're recognized.

Board Chair Beruff: This is four years that I started on this roadshow. Besides tort reform, the next biggest thing you continue to ask questions about, Governor Lydecker, it is a problem that we cannot solve at Citizens, that OIR is making better attempts at solving to make sure the companies are better capitalized that are taking out the policies. But until you put some kind of blinders on these companies that they have to maintain adequate reserves, in legislation, I don't think you're going to get there. What's happening now, because of tort reform, we're giving away a bunch of money, and I think we could be in this bag of tricks again in 3 or 4 years when we get all these policies back. When these insurance companies take the money that they made and close the doors.

Governor Lydecker: It used to be the case that OIR had initial approval on carriers that wanted to form and takeout, and then annual review. In between they had no authority to just scoop in. Which is what Southern Family did, you come before hurricane season, and you've made a determination that we can save a lot of money if we don't have to buy that $60 million of gap insurance. Who would ever expect there to be 3 hurricanes in one year, but that's what happened. And so, we taxpayers eat it. I don't know that OIR is permitted to proactively and on an as-needed basis, or if they hear something from you all, to respond. Which is why I brought up the Internal Audit. So at least we know.

Chair Shelton: It's a good point, and that's the thing with OIR, I don't know, they may be, we are handcuffed -separate note on how much we can increase each year – we know that through legislative action. I really don't know through the Office of Insurance Regulation what powers they do, once they approve a company to come in, this administrative oversight, but how far-reaching is it? What authority do they have to say, you have to be… Look, I remember a couple of years ago when I first came in here, to be capitalized for a new company in the State of Florida was like $15 million, well, that's nothing for an insurance company, that's like a gift to them to come in. $15 million? A very good investment play. I don't know what they have to be able to reach out and say, based on the number of policies you have, where they're located, based on our evaluation of your risk of our underwriting analysis of you, you should be maintaining this much in reinsurance above that. I don't know the answer to that, but I think it's a question we could follow up on at some point in the future, whether the Chairman may choose to have some type of discussion with that going forward.

Tim Cerio: We can certainly follow up. I just want to, I don't want to, I cant stress enough, though, that one of the successes of the reform, it's not just tort reform, it's giving the OIR more regulatory teeth, holding insurers accountable, they are conducting a more in depth, thorough, robust financial review, and financial wherewithal. For what it's worth, and I know we can have a discussion on this topic too, you can go down a rabbit hole. You do have the rating agencies, Demotech, AM Best, others, but I do think the market is much better poised now because of the reforms than in the past to prevent these companies from just being able to fold their tents and take out a bunch of money, and the policies come back to Citizens. I think that was something that the legislature was mindful of.

Governor Lydecker: if the Chair makes a determination that some of the topics we've had this morning is worthy of a workshop, or a broader discussion separate from today's meeting, part of that discussion ought be re-educating us on the assurances that we can have that OIR does have the regulatory authority to enforce what we're talking about, what needs to be done. Not that complicated, by the way, it's really about having enough surplus, having reinsurance in place, some of the bare basic things that really matter, that when all of the sudden the going is good, then you get all the sudden a $50 million salary coming out and you're like, what are we doing? What happened?

Chair Shelton: Governor Becksmith, you're recognized.

Governor Becksmith: Thank you, Mr. Chair. Number one, I think this is a very healthy conversation and I'm sure that our good friends from Audit probably weren't expecting this, so thank you for enduring the back and forth. Keeping with what the Board is talking about, recognizing the OIR approves the takeout companies, right? Does Citizens have an obligation to, I'm not going to say second guess, but to ok it goes to approval for OIR, company ABC gets approved, does Citizens an obligation then, and or a right, to say, while we agree they may be quasi-capitalized, are they really structured as such to be able to stop, in an instance that we have 2 or 3 storms, back to Governor Lydecker's comment, that we don't have this situation happen again. Do we have an obligation, and or do we have a right to do that?

Tim Cerio: Let me take a stab at an answer, and I may rely on the team. Certainly, we do look at their conduct. When we had a player out there who sent out a whole lot of offer letters, far more than they were approved for, we did take action. If we have concerns, we could certainly relay them to the OIR, but if someone else wants to add anything. We could advocate legislation, but at this point, we do not have the ability to say no, even though you were approved for policies, we're not going to let you take them out. But we could certainly always raise concerns with the OIR if we discovered something. And to Governor Lydecker's point, I don't think we would do it in a vacuum, we would certainly communicate with the appointing authority in the OIR, but if we have ideas for legislation, we can approach it that way as well.

Governor Lydecker: Because we're at the ground level.

Chair Shelton: Any other questions?

Ms. Montero, you're recognized to present.

Jennifer Montero: Good Morning. Behind tab 3, you'll find 2 documents. The first one is Q1 2025 results of operations and financial position, which provides an overview of Citizens' unaudited financial position, as well as the operational results at March 31, 2025. The second document provides commentary discussion analysis of the operating results.

Chair Shelton: Which document are we looking at first, the summary page?

Jennifer Montero: That's the first one and then the one behind it is the commentary. March 31, 2025 cash and invested assets totaled $9.8 billion or approximately $212 million less than December 31, 2024 as a result of net cash flows used in operations of approximately the same amount. Surplus at March 31st was $4.64 billion, reflecting an increase of approximately $462 million in comparison to December 31, 2024. The increase in surplus was driven by first quarter net income of approximately the same amount. Direct written premium in the first quarter of 2025 was $690 million, or approximately $401 million less premium than was written in the same quarter the year prior. The number of new policies written in the first quarter decreased to 55,000, in comparison to 102,000 new policies written during the year prior. In addition, the renewal rate of 85% reflects an increase of 2 percentage points compared to the renewal rate during the first quarter of 2024. Premiums ceded through depopulation during the first quarter were $242 million, which is $70 million less than the premium ceded in the first quarter of 2024. Through March 31, 2025, no premiums for reinsurance or for coverage from the CAT fund have been ceded. The premiums ceded for private reinsurance and the CAT fund are recognized on June 1st, which is the inception of the Atlantic hurricane season.

At March 31, 2025, there are eight named storms that have significant loss and LAE reserves outstanding. There remain outstanding liabilities for Irma (2017), Eta (2020), Ian (2022), Nicole (2022), and Idalia (2023), and Debby, Helene and Milton for 2024. For each of these eight storms, there has been no changes to ultimate losses and LAE from December 31, 2024.

Hurricane Milton, which made landfall on October 10, 2024, has projected ultimate direct losses and LAE of $2.07 billion as of March 31, 2025. No reinsurance recoveries have been recorded due to loss levels not meeting the retention of Citizens' reinsurance contracts.

Hurricane Helene, which made landfall on September 26, 2024, has projected ultimate direct losses and LAE of $313.5 million as of March 31, 2025. No reinsurance recoveries have been recorded due to loss levels not meeting the retention of Citizens' reinsurance contracts.

Hurricane Debby, which made landfall on August 5, 2024, has projected ultimate direct losses and LAE of $76.5 million as of March 31, 2025. No reinsurance recoveries have been recorded due to loss levels not meeting the retention of Citizens' reinsurance contracts.

Hurricane Idalia, which made landfall on August 30, 2023, has projected ultimate direct losses and LAE of $97.1 million as of March 31, 2025. No reinsurance recoveries have been recorded due to loss levels not meeting the retention of Citizens' reinsurance contracts.

Hurricane Ian, which made landfall on September 28, 2022, has projected ultimate direct losses and LAE of $3.42 billion as of March 31, 2025. Of the $3.42 billion of direct losses and LAE, $925.6 million is recoverable under Citizens' reinsurance contracts, resulting in net losses and LAE of $2.5 billion.

Hurricane Nicole, which made landfall on November 10, 2022, has projected ultimate direct losses and LAE of $106.5 million as of March 31, 2025. Of the $106.5 million of direct losses and LAE, $4.6 million is recoverable under Citizens' reinsurance contracts, resulting in net losses and LAE of $101.9 million.

Tropical Storm Eta, which made landfall on November 12, 2020, has projected ultimate direct losses and LAE of $347.5 million as of March 31, 2025. No reinsurance recoveries have been recorded due to loss levels not meeting the retention of Citizens' reinsurance contracts.

And Hurricane Irma, which made landfall on September 10, 2017, has projected ultimate direct losses and LAE of $2.56 billion as of March 31, 2025. Of the $2,561.5 million of direct losses and LAE, $1.12 billion is recoverable under Citizens' reinsurance contracts, resulting in net losses and LAE of $1.44 billion.

Continuing the trend from past, for the past, sure.

Governor Lydecker: The results that you just shared with us regarding previous storms and how much our company paid for those storms versus reinsurance paid, it feels to me like, given what you went through during those time periods, that it was a pretty thoughtful strategy in the use of reinsurance. So, you know, congratulations.

How should that report that you just shared with us inform our view for future reinsurance placement? Should we be buying more lower-layer insurance?

Jennifer Montero: So it's the attachment point, which is why most of these didn't hit, and that's because we start buying where we attach to the CAT fund. And the larger we are, the bigger retention we have, and the smaller we get, the smaller retention we have. So, it depends on how big we are when we get hit with how much retention we'll have, but -

Governor Lydecker: So let's assume we understand that concept for a moment. With the change in the marketplace, how is that informing your view on future reinsurance purchase? Because, right, it's more competitive now in the marketplace?

Jennifer Montero: Correct.

Governor Lydecker: And how should we be thinking about that?

Jennifer Montero: So we do, we have gone out two or three different times and priced the cost of reinsurance below the CAT fund, and, unfortunately, it's a lot more expensive below the CAT fund than above the CAT fund. And we've historically at individual times made the decision to buy more above the CAT fund to protect surplus than to spend a lot for a little bit right below the CAT fund. That's kind of where that logic has been.

Governor Lydecker: Okay. And I agree with that, and I think that is highly logical. So let me just concur.

Given the marketplace changes next one or two years, should we be thinking about that differently, or do we just, you know –

Jennifer Montero: Absolutely. That's something we should definitely look at, because we'll be smaller, hopefully, and our retention will be smaller, and we can make a decision to buy a little bit under there, we won't need to buy as much, or because it's smaller, maybe we don't, we buy more above. But that's definitely something we look at each year.

In 2023, I think '23 was the first year we had combined accounts, I can't remember, '23 or '24, when we had one big combined account. That's the first time we had the huge, such a big retention because it was all combined. But, yeah, that's definitely something we look at.

Governor Lydecker: Well, I think you've been thoughtful about it. I was just wondering about, you know, how we should think about in the future, but thank you.

Jennifer Montero: Absolutely.

Chair Shelton: Thank you, Governor. Jennifer.

Jennifer Montero: Continue with the trend from the past few years, the non-catastrophe losses in LAE ratio continue to show improvement. The primary contribution to that improvement is due to the lower litigation rates.

Administrative expenses incurred during the first quarter of 2025, of $48.8 million were $3.4 million less than administrative expenses incurred during the same period in 2024 and $7.6 million less than budgeted.

Citizens' expense ratio for the period ending March 31st, was 19.2%, reflecting a 3.8% increase from the same period a year prior and a 1.9% increase compared to the budget.

And as a reminder, as our direct written premium goes down, our expense ratio goes up because that's the denominator in that equation. So, as we shrink, you'll see the expense ratio go up.

Governor Lydecker: And is that because you're not making cuts to personnel relative to the size of the organization?

Jennifer Montero: Exactly. The premium cuts much quicker than the expense, and it's a much larger number, so it has a bigger change.

Governor Lydecker: Thank you.

Jennifer Montero: Through March 31st, 2025, total investment income was $94.9 million, or $12.6 million more than the same period in 2024, while the average invested assets decreased $57.6 million, which is 1%. Net realized losses in 2025 were incurred by dispositions of tax-exempt holdings and taken in order to reinvest proceeds into higher-yielding securities that are expected to produce higher levels of investment income, net of the realized losses. Additionally, the increase in holdings and treasury bills to meet hurricane claims payment obligations also contributed to the period-over-period increase in the investment income.

I'm happy to answer any other questions, but if there are none, that concludes my report, Mr. Chairman.

Chair Shelton: Thank you, and any questions, it really is Charlie your question, and we've gone through this in our individual briefings, but the financials, sometimes they're kind of, at this point and juncture where we are, we've never really been here since my tenure on the Board, it's if you look at it like, well, you know, revenues are going down, well, that's intentional. But, you know, you've got certain fixed expenses that stay up, and you've got reserves moving the other way because policies are no longer in place. So sometimes you look at the financials, and I always ask Jennifer a lot of questions like, "okay, I think I understand this, but is this right?" And most times she says, "Yes," but it's good that everyone's taking a look at this. I know the staff is doing a good job, and it's a good report, Jennifer. Are there any questions? Governor Spottswood? Thank you, Jennifer.

Jennifer Montero: Thank you.

Chair Shelton: Next, we have Brian Smith with Forvis, who's going to give us an update on his recently completed independent audit, the issuing of two separate audit reports to which we raise that, at least I do each year when that comes about, but, and not to steal a lot of Brian's thunder, he's going to give an analysis, but, you know, in summary, there were really no disagreements with management, there were no reportable matters prior to the engagement or during the engagement related to accounting principles, no difficulties in performing the audit, no fraud was identified, and there were no material weaknesses.

With that, if I missed anything, you're recognized, Brian.

Brian Smith: Good morning. Good morning to the committee. For the record, Brian Smith, audit partner with Forvis Mazars. As a reminder, our scope was to complete the financial statement audit of Citizens under a statutory basis and GAAP, which is government accounting standards. We issued our report on May 16th. Our report was audited financial statements, not an internal control report, just as a reminder.

No new account pronouncements were adopted in 2024. A few areas to highlight, significant estimates and significant risk for the company. We focused on insurance loss reserves. We engaged an actuarial specialist to evaluate the company's actuarial methods and assumptions and the loss picks that were taken, and we found those to be reasonable. A few other items. We tested the investment portfolio for fair value. We engaged a third-party fair value specialist to determine the independent price of those securities and found those to be reasonable as well. Also, a few areas related to credit risk. We do evaluate certain procedures around reinsurance recoverables and premiums receivable as well, and we do confirmation procedures and look-back procedures to understand the appropriate collections of those. We had no corrected misstatements during the audit. We did have a few past adjustments that were uncorrected, which we and management determined to be immaterial. One was related to premiums receivable, where we looked to see if those receivables were collected subsequent to December, and we found there were instances where the premiums were essentially canceled in 2025. Those were offset with unearned premiums, but that was about $17 million that the company and ourselves did an analysis on to determine should there be a reserve against those if they're ultimately not collected, and so that was passed on. We believed it was to be immaterial. There's minimal income statement impact with that as well because of the unearned premium offset. We also found one item related to cash and interest income. There was cash and interest income recognized in 2025 that should have been recognized in 2024. That was $10 million. Ourselves and management believed that to be immaterial as well, so that was not corrected. Those are in the management representation letter and in our report as well.

As you mentioned, there was no controlled efficiencies or material weaknesses identified, and we agree there is no disagreements with management. We certainly appreciate their efforts to help us reach our completion.

Last item to report, under our NEIC standards, we have a rotation requirement for the audit partner to rotate every five years. And so, my five years is met, so I have to rotate off the engagement, and Matt Church, who's with me today, will be taking over as the lead engagement partner, and certainly want to thank the committee and the board for ability to serve you. I appreciate it.

Chair Shelton: Thank you, Brian, and thank you – notice we talked earlier, when we were rolling off I was going to mention that. Know that Brian and I, during the audits and even during what I call the off-season, we touch base. He keeps me aware of what's going on there from an independent perspective, and we've had no real issues to report to the audit committee or anything beyond the report that Brian has issued. So, thank you. Any questions for Brian from the governors?
Thank you Brian.

Brian Smith: Thank you.

Chair Shelton: Next, the report from the Office of Inspector General. Their annual report is presented in your packets for information only. And with that, Mr. Chairman, unless there's any new business to be brought before the committee, that concludes our report.

We are adjourned.
Whereupon the meeting was adjourned.