CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE MARKET ACCOUNTABILITY ADVISORY COMMITTEE MEETING

Tuesday, December 12, 2017

The Market Accountability Advisory Committee (MAAC) of Citizens Property Insurance Corporation (Citizens) convened at Sheraton Orlando North hotel in Maitland, FL on Tuesday, December 12 at 1:00 p.m. (EDT).

The following members of the committee were present:

David Newell, Chair
Brian Squire
Greg Rokeh
Lee Gorodetsky
Lissette Perez
Phil Zelman

The following members of the committee were present telephonically:

Dennis Martin
Gordon Jennings
Steve Roddenberry
Susanne Murphy

The following Citizens staff members were present:

Matt Gerrell
Christine Ashburn
Nancy Staff
Jennifer Montero
Michael Peltier
Adam Marmelstein
Dan Sumner
Paul Kutter
Barry Gilway
Barbara Walker
Bonnie Gilliland
Scott Crozier
Karen Holt
Kapil Bhatia
Andrew Woodward
Carl Rockman
Jay Adams
Violet Bloom
Bruce Meeks
Elaine Thomas
Robert Sellers
Joe Martins

The following members of the Board of Governors were present:

John McKay
James Holton
John Wortman

Call Meeting to Order

Roll was called and a quorum present.

Opening Comments

CHAIRMAN NEWELL: Thank you, Barbara. I appreciate everybody being here today in person and on the telephone. Before we get to the first agenda item I want to go ahead and welcome Lee Gorodetsky, our new member of MAAC. Welcome, Lee.

MR. GORODETSKY: Thank you very much.

CHAIRMAN NEWELL: Would you like to say a few words before we get started?

MR. GORODETSKY: Sure. I am very pleased to be here, happy to be here, happy to be appointed to replace Skip Boylan. I have been in the insurance industry for 31 years and I own my own insurance agency for 24 years, just sold in April of this year.

CHAIRMAN NEWELL: Well, thank you, welcome aboard. I am sure you will bring a lot to the table with that experience. So thanks, Lee.

1. Approval of Prior Meeting Minutes

A motion was made and seconded to approve the June 19, 2017 minutes. All were in favor. Motion carried.

2. Agency Services Update

MR. ROCKMAN: Thank you. Thank you, Mr. Chairman. For the record, this is Carl Rockman, Director of Agency Services. My report today will be brief and will cover five specific areas of interest to the committee. We are going to talk about our current agency counts, our response on Irma, an update on our mandatory education for agents on assignment of benefits, updates to our agency performance program and will round out with an update on our agent outreach efforts and the agent roundtable. Page 1 of my presentation outlines our current distribution footprint. As of October 31st, we have 7,285 appointed agents, and 4,782 points of presence. While down over December 2015 baseline, we are seeing month to month increases in appointment requests, which could indicate a shift in the marketplace towards a need for Citizens. We will keep the committee posted on that. Still overall agent count is down, but appointment requests month over month agents are coming back. Turning our attention to page 2 and Irma. In a few minutes our chief claims officer, Jay Adams, will provide you with an update on Irma. I wanted to take a moment and highlight a new component of our Monroe County was the epicenter of claim activity for Citizens. From an agency perspective, our seventh largest agencies in Monroe County averaged over 800 Irma claims, with the top two agencies averaging over 1,000 Irma claims. Claim volume at this level places an enormous strain on our agencies and jeopardizes the customer experience they strive to provide. With that in mind, and in addition to the deployment of our catastrophe response centers and our adjuster network we were also able to provide in agency support to the seven largest agencies in Monroe County. Our team consisted of our six field agency managers, who you can see profiled on page 2, plus three additional members of our agency administration team, Tina Mondares, Beth Davenport and John Anderson. This team deployed to Monroe County, they moved in with the impacted agencies. They provided an additional layer of support to our agencies and customers at this critically important time. We provided and worked directly with customers, provided a bridge to our claim department, and more importantly, we were able to facilitate $360,000 of additional living expenses, additional living expense payments on the spot in the agencies. Feedback from our agent partners was very good and we plan on adding this in agency support element to our catastrophe response plan going forward. Third, a brief update on our progress to deliver mandatory agent education on assignment of benefits and claim reporting requirements to Citizens. Page 3 of your presentation represents the number of agencies that have completed work as of November. As of yesterday we have had 4,522 agents or approximately 65 percent complete our mandatory education course. In tri-county, Hillsborough and Pinellas, 3,059 or 76 percent of the agencies in those counties have completed the course. Our goal is to have 100 percent of tri-county agents plus Hillsborough and Pinellas completed in January, with the rest to follow in Q one, 2018. Assignments of benefits is not going away. We want to make sure that our agents are equipped to understand the issues at hand, and more importantly, their obligations to report claims directly to Citizens.

Turning our attention to page 4 through 7, I would like to provide an outline of the current state and planned changes to our agency performance program. A reminder to the committee, the program currently has two elements. There is a late submission element. A late submission is a violation. Violations are generated when documents, documents associated with the new business policy are not uploaded and submitted to underwriting within 15 days of the requested effective date. A binding violation is generated when a new business policy is deemed to be uninsurable, ineligible or correct documentation wasn't submitted at all. That is the foundation for our agent performance program, late submissions and binding violations.

We are announcing a couple of changes to the programs today. First, in the binding violation program we are going to clarify the definitions of the current violations and we are moving to expand what counts to include incorrectly applied credits and missing insured signatures. Regarding correct, regarding incorrectly applied credits. We feel it is important to engage agents that intentionally or unintentionally offer a price to a consumer that is not commensurate with the facts at hand. This is policing the landscape. We want to make sure that with all of those agents having access to Citizens, that the prices they charge are the prices that need to be charged.

Also, missing signatures represent the largest single area of opportunity in our underwriting pursuit. We want to make sure that our applications are in good order. With over 7,000 appointed agents it is very important that Citizens does what it can to police the competitive landscape. Adding these categories it the binding violation program will allow us to work with agents who are presenting deficient risk to Citizens, offer targeted education and support to prevent further occurrences, but also to have a progressive discipline process for repeat offenders. Our plan is to launch the new categories effective January 1st. regarding late submissions, I would remind the committee that due to system limitations we temporarily suspended the late submission program until changes could be made to policy center to allow agents to manage those submissions and avoid a late submission from occurring. I am pleased to report that those changes have been made and we will be bringing back the program effective January 1st, 2018. We are not making any changes to the previously approved thresholds for discipline for either program. These enhancements have been presented to the agent roundtable and they have met with their support. We will be sending communication to all agents outlining these changes before the end of the year and our agency management team will bring additional visibility to our high producing agencies.

Lastly, page eight provides a summary of our agent roundtable and agent outreach events for 2017. We look to maintain this level of engagement in 2018. This concludes my report and I will be happy to answer any questions that you might have.

CHAIRMAN NEWELL: Okay, any questions for Carl about the report?

MR. ZELMAN: Yes, Dave.

CHAIRMAN NEWELL: All right, Phil.

MR. ZELMAN: Early in the report you said there has been an increasing request for agents licensing. Any particular area?

MR. ROCKMAN: It would be in the tri-county area we were seeing more of that. We will get sporadic requests from around the state, but generally in that area where there was some deterioration in agent count, we are seeing some of that bounce back in that area.

MR. ZELMAN: Yes, we have had a bunch of companies that have pulled back in the tri-county.

MR. ROCKMAN: Right.

MR. ZELMAN: It doesn't look like it is getting any better for 2018. Thank you. That was it, Dave.

CHAIRMAN NEWELL: Okay, anything else from the committee, on the phone as well? Well, just two things, I guess we definitely need to clarify, when you talked about incorrectly applying credits, walk us, I guess through that process and then following up, missing signatures.

MR. ROCKMAN: Uh-huh.

CHAIRMAN NEWELL: Again, just try to clarify it for us, Carl.

MR. ROCKMAN: Good question. When you incorrectly apply a discount, a typical example of that might be wind loss mitigation discount features. The wind loss mitigation form speaks for itself, not that it doesn't need to be trained and educated to, but the features on that wind loss mitigation form map to our rating engine and generate a price. If they are applied incorrectly or inappropriately, an agent might generate a premium that is significantly lower than what should be charged, and when that price is presented to a consumer it puts that agent at a competitive advantage which may not be accurate. So credits could be wind loss mitigation, alarm systems. Our pricing engine has a lot of different discount features that candidly are up to the agent to manage at the point of sale and produce appropriately.

CHAIRMAN NEWELL: Okay.

MR. ROCKMAN: We want to be able to have a situation where if it is presented to us we count that as a binding violation. It allows us to engage the agent, allows us to provide appropriate support and education and turn that around and make sure that they understand. So that by having the power of the binding violation on that we think we can eliminate some of the input we candidly get from agents that are looking for us to police that competitive landscape.

CHAIRMAN NEWELL: Okay. And missing signatures?

MR. ROCKMAN: Missing signatures goes without saying. The signature is important for the application of the forms to be in good order, to stand up to legal scrutiny and compliance. We have to make sure that our producers are getting the appropriate signatures on the appropriate forms, and we do have a number of submissions that come in without signatures in the proper place. It is a pursuit item, our underwriters are chasing those, but we like to put some more conformance up front and make sure the agents understand it is important for them to complete signatures and submit applications in good order.

CHAIRMAN NEWELL: Is that taken into consideration, electronic signatures?

MR. ROCKMAN: Dave, it should. We have made the signature process simpler than ever by the acceptance of these signatures.

CHAIRMAN NEWELL: Okay.

MR. ROCKMAN: But again, by producing a binding violation on these we are able then to engage the agent to say you might have an issue, let us come in, our agency managers will work with them and make sure they and their team members understand the process and hopefully we eliminate the process moving forward.

CHAIRMAN NEWELL: Okay. Greg, do you have a question?

MR. ROKEH: Yes. Are the signature violations our response to trying to meet timelines? Are they trying to avoid one violation with a second?

MR. ROCKMAN: It potentially could but we believe we have so much, I will call it slack in our late submission program that having our application and paperwork in good order 15 days after effective date is not unreasonable, all right. So there could be some of that, but we are going to really enforce to the agents what an E-signature capability, you should be meeting with your customer regularly. We don't see it as an undue burden to enforce that signature requirement as part of the VB and the late submission behind it, but there could be some of that but it shouldn't happen in today's environment.

CHAIRMAN NEWELL: Okay.

MR. ROKEH: Thank you.

MR. ZELMAN: Dave, I have a --

CHAIRMAN NEWELL: Okay.

MR. ZELMAN: Going back to the rating, Carl. If an agency rates it wrong but doesn't give the proper credits so it is a higher premium, does that put it in the same situation as a binding violation?

MR. ROCKMAN: We can take that back. We are typically looking at, we are typically looking at, was it applied incorrectly. I am not necessarily looking at what their outcome is. So to your point we are going to work with underwriting to say, if discounts were applied inappropriately or ineffectively, that could also be an opportunity to train the agent on perhaps the premium was too high. We are really looking to make sure the app comes in correctly versus just the rate going lower. But we will make sure that that piece is in our process, that it is inappropriate discount application is our first concern, but if there is other issues we can educate the agent on out of this process, we will.

MR. ZELMAN: Thank you.

MR. ROCKMAN: Because we don't want our consumers unfairly harmed by a premium that is too high.

MR. ZELMAN: No. Listen, I am not looking for a consumer to pay more than what they have to, especially in South Florida.

MR. ROCKMAN: Understood.

MR. ZELMAN: Because as we have been doing more rating throughout the state, there is a huge difference between the tri-county in South Florida and the rest of Florida.

MR. ROCKMAN: Okay. Understood, thank you.

CHAIRMAN NEWELL: Thank you, Carl. Folks, from here on out because we have people on the phone. So if you would get a little closer to the mike, speak directly into so everybody can hear our conversation for the next speaker and we want to welcome Jay Adams, Hurricane Irma update. I certainly told Jay when I talked in he looks pretty good, huh, after all of those claims. So, but it could have been worse and we are grateful it wasn't. So welcome, Jay.

3. **Hurricane Irma Update**

MR. ADAMS: Thank you, Chairman and committee members. For the record, my name is Jay Adams, Chief Claims Officer. On the first line in your handout, this is a representation where Hurricane Irma made landfall on September the 10th. It made landfall in the Lower Keys. The next slide talks about our CAT plan and how we executed Citizens' CAT plan for this event. So what I want to do is spend just a few minutes educating on the different teams that we had deployed and what those teams were doing.

The first team that we have is our managed claim model. We refer to that as MCM. These folks are engaged with Citizens every day and they handle our lower severity, high frequency claims. When the storm hit we leveraged this group initially to offload the first Irma claims that came in. These folks were able to fully adjust the claim. It didn't need to go to another team within Citizens. So they handled the claim from cradle to grave.

The next group was desk adjuster teams. These were deployed resources. They were independent adjusters. They were brought into the Everbank Center on the fifth floor where we stood up our resolution and fast track teams. These folks were making contacts initially. They were answering customer questions and on the back end they were closing claims that were coming back from the field. We leveraged our litigation adjuster teams. Historically we have not used these folks to respond to a CAT, but in order to try to retain them and also help reward them for staying with Citizens during the CAT, we allowed them to work catastrophe hours with catastrophe pay. They also were making outbound calls for contact initially, and when claims were coming back from the field they were processing the closings of those claims.

The next group was our CAT field adjusters, and these are independent adjusters. They truly were CAT adjusters, they were deployed to the field and really what these folks were trying to do was make contact, inspect the claim, write a scope and estimate, return it back to Citizens and one of those other teams that I have mentioned would handle the closing and the processing of those claims. These folks never had to touch our claims management system. They worked within the Xactimate system. That reduces the amount of training and orientations that is required so that they can get to the field a little faster.

We deployed large loss field adjusters. These were independents adjusters as well. These were the folks that had the highest level of skill set and maybe the most years of tenure that actually responded to Citizens, and we deployed those folks to handle claims that had any kind of significance structural damage. Those claims take a lot more detail in writing estimates and working with contractors and so forth. So we leveraged those people for those skill sets.

And finally I am going to talk a little bit more about Worley Estimators, but Worley is a contracted vendor for Citizens. When the storm made landfall we knew that we were going to have a shortage of resources based on contracted vendors. So we worked with Worley to create a program that we deemed a trainee program to help bring on some new adjuster types to come in and help us with contacts and inspections. And like I said, I will go into that in a little more detail.

The next page, we had resource challenges based on our contracted vendor numbers. We only had about 850 when we were looking for about 2,500. To make matters a little worse, Hurricane Harvey hit Texas just two weeks prior to Irma making a Florida landfall. Texas wind and the National Flood program deployed significant numbers of independent adjuster resources, and Citizens and our vendors struggled to find qualified resources to respond in Florida. I will tell you that we require all of our vendors to pre-credential their resources in our case system, and what means is we know their name, their license type, their skill sets, how many years' experience, and those types of things. When the storm made landfall, most of the adjusters we had credentials went to Texas. So we didn't even have access to those folks.

So the next slide talks about the Worley Estimator program. So, again, we reached out to a contracted vendor and what we were attempting to do was create an avenue where we could continue to make customer contact. That was one of the main focuses we did for Irma. There were a lot of avenues where we made contact and tried to keep the customer informed. We also wanted to put these folks out in the field to write an inspection, a scope and an estimate to be able to return to Citizens for an adjuster to process. These people were not licensed adjusters as such. They were really estimators. So what we did is we designed a program where they came in for three or four days of intensive training, and what we did is we taught them how to leverage a software package that was uploaded to their smart device, smart phone, tablet, and those types of things. And the way that software worked was, they would go out, for example, on a roof, and they would see damage. So they would use that smart device and take a photo of that. When that photo was read or recognized by the software it prompted that estimator for questions. How many squares or take these dimensions or look here, and as they went through each area of scope damage that software was prompting them what information pieces were needed to complete an estimate. Once they uploaded that package back to Worley, within seconds it converted it to an Xactimate estimate. Citizens leverages the Xactimate platform for all of its estimates. So it became a compliant estimate that they could then ship back to Citizens. Prior to giving it back to us a Worley licensed claims adjuster team lead, reviewed those to make sure that the scope that that software developed was in line with the damages that they saw from the photos.

When we were building this program we went to DIF and they provided us an emergency licensed adjuster list, and these were folks that had not actually committed to an independent adjuster firm or to an insurance carrier. So we reached out to those people who had a desire to be in the adjusting realm. We also leveraged other folks that worked in the home industry, like realtors, home inspectors and agents to be parts of this program, and most of the folks that did participate were Florida residents. So we wanted as much as we could try to keep it here at home.

The next slide really just talks about those independent teams that we had set up, and at the height of our deployment we had about 1,500 resources deployed to the field. Today that number is very small. There are only a handful of people still writing estimates in the field. Today any new catastrophe claim that comes in is being handled by that managed claim model or a daily non-CAT model. We are finally at the volume that we can handle that. The only folks that are still out in the field really responding to Hurricane Irma are folks that are going out doing re-inspections. They are meeting with contractors, handling customer complaints and those types of things.

The next slide talks about our rate increases. So I am sure you heard that we had to make several rate increases for what we were paying the independent adjusters on a day rate and on a fee schedule basis. The first increase was on 09/07, and then we made a second increase on 09/12. And the reason we did that was we were attempting to keep up with what Texas wind and what the National Flood program was paying adjusters. We needed to make sure that we could attract at least the same level of adjusters that they were getting out there. We could not be behind what they were doing because they were continuing to deploy adjusters when we were trying to get brand new adjusters on for day one. So we increased our rates to try to keep up with them in the process.

The next slide, we leveraged every bit of technology we had to try to offset our resource shortage. One of the things that we did is we partnered with Steve Bitar in his call center. They were making outbound contact calls for us. We also leveraged those folks to make outbound calls to the customers in the Keys. So we knew the folks that had reported a claim and after being on the ground down there we knew that we did not have near the volume of claims we should. So we leveraged the call center folks to make outbound calls to every Keys customer indicating that you are likely to have some damage, call in a claim. I am going to talk about a strike force office that we set up. We were attempting to get all the claims we could in the Keys as rapidly as possible so that we could put our claims model around it and adjust those claims prior to leaving the Keys. We also leveraged e-mail, social media advertising campaigns. We used a claims robo dialer where we reached out to people who had no contact and then we also had within our claims management system a lettering campaign that went out every 72 hours if they have not been contacted and basically said we have your claim, this is your adjuster and so forth. We leveraged aerial imagery for the Keys and what I am talking about for aerial imagery is if any of you go into like Google Earth or Google Maps and type in your home address and you zoom down, you are likely to see a picture of your house, right. So what we did is we worked with the National Insurance Crime Bureau and post Irma we flew the Keys. As a matter of fact, I believe it was 72 hours after that we flew and hit aerial imagery of every square inch of the Keys. We used that information to determine what we needed to do for our response. As you might recall, the Keys were closed for quite a time after the storm hit. We were up and running three days after they opened the Keys with our entire claim response for the Keys down in Key West as a basis.

We also leveraged Drones to do inspections. Many of the homes in the Keys had so much debris piled up in the yard and such and on the house, you literally could not get to the home, or it might not be safe to get on the roof. We leveraged these Drones to come in and they were able to take images that were downloaded into our estimating platform and gave us the ability to dimension and so forth where we didn't actually have to get on the roof.

The next slide is Key West Strike Force office that I mentioned. This office was set up in the Margaritaville Inn days after the Keys were reopened. We had to leverage our own contracted satellite technology so that we could have phone and data. It was very sketchy in all of the Keys. Power was sketchy in that area. We also had generators on standby if we needed to bring them in to power this unit up. This -- this site ended up being mission critical for us in the claims settlement process for the Keys. This gave us a basis where we did not have to have people come from South Florida on a three-hour one way drive to get in, and many days shortly after the storm there was so much traffic and so much debris hauling going on, it might take four or five hours to get down to Key West. We also knew that we would struggle to keep independent adjusters engaged if we were trying to ship them in out of South Florida for that same reason. They wouldn't be able to handle enough volume in a day to make it worth their while. So we set up the strike force office. It ended up being an office where a lot of customers came. So anybody that had significant structural damage we sent all the checks and the documents to that office so that we could sit down with the customer and explain to them their settlement and what their next step should be. Any time a complaint arose we were able to real time address it. We didn't have three or four hour commute time to get there. And what happened most times was we had somebody that was not a permanent resident of the Keys, may have come in to check on their house and they would contact the office and say, hey, I am going to be leaving in the morning. Is there any way I can get somebody to come out and inspect the loss. And what we would do is we would deploy people from this office to go meet those needs. And then, of course, we could do timely re-inspections from that as well.

The last slide that I have here is the claims statistics and what you of have here is very dated. As of this morning we have received 63,610 claims. We have closed 80 percent of those claims and our cycle time for closing those claims is about 40 days from receipt. And at that point, Chairman, I will conclude my presentation and take any questions you may have.

CHAIRMAN NEWELL: Well, thank you, Jay, very informative report. Do we have some questions from the committee, Brian?

GOVERNOR SQUIRE: Hey, Jay, just looking at these numbers, the percentage of AOB claims, I know this is outdated, but two percent. That seems pretty low considering. Any reason for that, or --

MR. ADAMS: Typically the AOB claims that Citizens had gotten has been from water mitigation type vendors. Most of this area was overwhelmed with surge, flood, water that may -- where the roof was ripped off and so forth. My belief for the reason that we have not seen a significant number of these are because it was just so widespread and we have so many claims. The two percent probably represents, you know, a pretty good number, but not against all claims across the state. And down in the Keys we saw very little mitigation because they just couldn't get there. By the time they opened the Keys it was too late to mitigate.

GOVERNOR SQUIRE: Okay, thank you, Chair.

CHAIRMAN NEWELL: Phil?

MR. ZELMAN: Jay, thank you for the report. A question of wind versus flood. Have we – I haven't heard much in the way of that conversation. Has there been a lot in the claims area, or no, it is a flood claim, no, it is a wind claim, back and forth?

MR. ADAMS: Early on in the storm, due to where landfall happened and due to the low areas around Miami, we had spent a lot of time putting together protocol specific to surge versus wind claims. We went out and did significant inspections in the Keys. We also looked at survey data that the National Flood had done and others, and many of the homes that were elevated did not have a surge or flood within the actual property, right, it was elevated above those lines or very close to it. The homes that were slab on grade, absolutely sustained surge and flood in accordance to the wind. In those claims we have engaged engineers.

So some of our delay in getting some of these files closed is we do have quite a few claims that we have submitted to engineers to make sure that we are making the right determination. So all of these have had some element of wind. So they are most all of these claims have some covered peril applied to them. And what we have tried to do is differentiate between how much was wind versus how much was surge or flood.

MR. ZELMAN: Another question, a little different area. Wind driven rain has been a major issue it seems on not as much with Citizens, but with some other companies. How have we been handling the wind driven rain claims?

MR. ADAMS: So all of Citizens' policies require a peril created opening for that water to transfer through. If there is none then there is no coverage under our policy for just pure wind driven rain.

MR. ZELMAN: Okay. Thank you.

CHAIRMAN NEWELL: Any other questions for Jay? Greg?

MR. ROKEH: What are the -- what is the total, the total loss to date dollar wise?

MR. ADAMS: The total ultimate loss and this is everything that has been paid plus what is pending in reserve is $633 million to date.

MR. ROKEH: 633 you said?

MR. ADAMS: Yes, sir.

MR. ROKEH: Thank you, Chair.

CHAIRMAN NEWELL: Okay, thank you, Jay.

MR. ADAMS: Thank you.

CHAIRMAN NEWELL: Appreciate that. All right, folks, as we move through the agenda, we are honored today to have Joe Petrelli of Demotech here and welcome Joe up as he moves forward. Many of you have heard and have seen a lot of reports on the Florida domestics. Demotech is the driving force behind that. We are honored to have Joe today to kind of walk us through a presentation of the Florida marketplace. And so with that, Joe, welcome.

4. Demotech Introduction and Overview

MR. PETRELLI: Thank you, Chairman Newell, appreciate the opportunity to address the group. I think I would like to spend a little time, talk to you a little about what Demotech is, what we do. I would like to talk to you about some of our, the background and experience of our primary analysts, give you a sense of how we review the companies that we review and then being an actuary, the obligatory statistics but I will, I would be glad to take questions as we go. We were incorporated in 1985, and I do put our Mission Statement up there because we are very proud of it. We said in 1985, we would be the leading provider innovative solutions using financial analysis and that is what we have done countrywide. We have approximately 400 companies that we review and rate countrywide, including Puerto Rico, D. C., and Florida. We have about 50 in Florida, about 350 elsewhere. This is kind of a timeline corporate overview. It is in your program. I think the thing that we are very proud of is we were actually the first company to review and rate independent regional and specialty insurers. If there was a small company that was part of a large group, part of a State Farm group or an Allstate group or a Nationwide group that company would be rated by the legacy rating agencies. We were the first to review and rate the independent specialty companies. Fast forward through this, I want to spend a minute, just a second on this. 2007 in terms of the way we view the world to give you a sense of our philosophy. I think while other rating agencies will characterize companies based on their financial size, whether that be assets or surplus or premium, we developed what we call our company classification program back in 2007, because it reflects the business model of the insurance company rather than its size. And so we think that regional and specialty companies can be financially sound the same as a larger company. We point with pride in 2011, an independent Florida State University study that compared Demotech to the legacy rating agencies. We will spend a little bit of time on that later.

My own background, I am an actuary. I have been in the insurance business, depending on how you count it, 1969 to attend the College of Insurance, 1974 when I graduated. Sharon Romana Petrelli, my wife and the co-founder, CPCU Associate Insurance Accounting and Finance, certified compliance professional, associate regulatory consulting. She has been on the Board of Governors, Society of CPCU. She has been in the insurance business since 1981. Sat on the Board of an insurance company prior to the formation of Demotech. Another key person, our chief ratings officer, Barry Kesler, chartered financial analyst. Barry has been in the insurance business since 1994. He has been with us 23 years. Bob Warren, CPA, and I have to say because he is non-practicing, we are not an auditing firm. He is an inactive CPA, but he is also a CPCU. Bob has been in the insurance business with since 1977, active in the insurance accounting and statistical association. I think between us I will put our first team up against anybody's. We have four people with 140 years of insurance experience, 16 college degrees and credentials, three of which have sat on the Board of Directors of an insurance company, and all four of us have been actively involved in professional education. And so I think it is important for the Floridians and for this committee to know that the people at Demotech are insurance people that got into the ratings business in 1989.

Commissioner Gallagher tells me he liquidated 22 companies when Andrew struck Florida. None of them were Demotech rated. There is approximately 2,650 companies that reports statistics to the National Association of Insurance Commissioners. The top 15 percent, about 400 companies write 85 percent of the business. 2,250 companies, 85 percent by count write 15 percent of the business. People talk about having diversified companies putting insurance in a particular state and people, some will talk about the domestics in Florida are smaller and regional. This is a count based on year end 2016 data. There are 57 companies in the small bar that says diversified. That is 57 companies out of 2,650 that write a million dollars in every state and are licensed in every state. The large bar that says specialized represents 1,351 companies with 90 percent or more of their dollar volume in one line of business or 90 percent of their dollar volume in one state.

So we, people tend to talk about diversification, but the reality is that 51 percent of the companies reporting data to the National Association of Insurance Commissioners either write 90 percent of their business or more in one line or one state. The talk of diversification in our opinion is just that, it is talk. The reality is companies are focused on specific markets or specific lines of business. Talk about, we were the first to review and rate regional companies. We review and rate 50 something companies in the state of Florida. It is critical for a regional and specialty insurer to have what we call a high quantity and a high quality of reinsurance.

At the end of the day it is about the reinsurance program. We perform two reinsurance reviews at a minimum each year. We perform a preliminarily review of the program that the company wants to place and the carriers they will be placing it with, and we also prepare a final review. We look at the modeling that has been done. It could be a blend, it could be several modeling companies, and it could be one. They still have to submit that data also to the State of Florida for the modeling by FIU. Data calls, we look at a variety of parameters. We not only collect the information on the reinsurance program in the traditional sense, we also look at catastrophe bonds and insurance linked securities and all the other alternatives. For example, if a company has a captive insurer which would be within its own family and they want to have say $10 million of coverage, we require $10 million of cash. Not only do we require it, but we also verify it throughout the period of the storm season. So they can't just have it in there and say, yes, we have got $10 million in there on June 1. We are actually going to ask them for a report periodically throughout the season to show that that $10 million is still there. So it is all about the cash, it is all about the reinsurance and if it is an alternative source of reinsurance, it is about verification throughout the process. Minimum event, one in 100 years we have what we call all switches on. Demand surge, secondary uncertainty. That is the minimum. We also have had a second event cover requirement, a minimum of 50 years, one in 50, and then subsequent event coverage.

We also review the companies' catastrophe response program. We also review the company's own disaster recovery program. So if your home offices hit how are you going to respond to that to be able to take care of your insureds. We do quarterly monitoring of financial statements. So we are on the phone whenever there is an issue on a quarterly basis. We actually read the footnotes and we go through the quarterly statements of every company we work with, the 50 plus in Florida as well as the other 350. The Florida State University study, I love talking about this because Dr. Kathleen McCullop, who was one of the coordinators of the study, she said, I found out about you because you rate a company that insures my mom's house. And says we are going to be doing a study on A.M. Best, Standard & Poor's, Moody's and Fitch, and the credibility of their ratings and I would like to include you, and I said done. We sent her the data. And in their independent study we fared well. They had five conclusions. One, we serve the needs of a marketplace of insurers. Those are geographically focused. Comparisons of our ratings to the big dogs, we hold our own. General consistency in the companies that each of us would rate as financially secure. They concluded, this has public policy implications for insurers, regulators as consumers. Is the comparability of Demotech ratings to others and it talks a little bit about it is important for lenders and others, third parties to understand that.

Real quick, some of the statistics, and you can see if you start at the bottom and work your way up you can see a column called first event. That is the amount of reinsurance in billions, 000 omitted that we made companies buy. We ask companies to buy. We can't make them buy it. They comply because they are good people, they want to do the right thing. And if you look, you can see we had $16 billion of reinsurance purchased, $22 billion, $25 billion, $27 billion, $31 billion purchased this season that just expired. If you compared the $31 billion to a one in 100 year event, a one in 100 year event would have been $20 billion. These companies bought 153 percent of the minimum. So basically they bought to a one, rough cuts, and one in 150.

And the thing that is important is we write about 60 percent of the property marketplace. I am told that the cost of Andrew, there is estimates from 40 to $50 billion in today's dollars. If you take 60 percent of that, which would be our market share, that would be 24 to $30 billion. Our guys bought $31 billion. I don't know what the other 40 percent did, but our guys covered what would have been an Andrew in today's dollars, and on top of it they had a second event cover. $16 billion, and they had additional horizontal coverage in place. I covered a lot in a short period of time. I would be delighted to take questions or I also had a few more thoughts that I didn't have in my slides but I would be glad to take questions if you have any for me.

CHAIRMAN NEWELL: All right, thanks, Joe. Any questions from the committee? And those on the phone as well for Joe? All right, hold everybody back, but, all right, well, Joe, let's get the ball rolling, you know, we have just been through and heard an update from Jay about Irma. Certainly other carriers that are involved in your analysis are certainly being studied and looked upon and so on and so forth. As we approach 2018, you know, what, some thoughts that you would have on the Florida marketplace and what you foresee.

MR. PETRELLI: Thank you. Let me say this. In terms of what we did with Irma, because everybody, our primary team, because we are familiar with the insurance business first and that is where we have all grown up with the experience we have, what we did is we waited what we thought was a reasonable period of time, three or four or five days and then what we did, we got in touch with every company. We made phone contact and we said, send us a copy of everything you are sending to your reinsurers, everything you are sending to the state. We are not going to make you create a new report. We will interpret what you are already doing, just send it to us. So we were in touch with everybody.

And I will say this. I am pleased to report not just the 50 something companies that we work with in Florida, but all 400 companies that we work with countrywide, whether it is Texas and Harvey, the wildfires in California, tornadoes, hurricanes, tornadoes and hail in the midwest, every one of the 400 plus companies we review and rate is going to get through 2017. They are going to survive it. You know, it is a little bit like a car. You buy a brand new car, it has got air bags all the way around it and you get hit head on. Well, the air bags deploy, the car saved your life, it is able to get you back home, and that is kind of the way we are looking at this. There will be some companies that will need to recapitalize and retool, but none of them are insolvent. It is a matter of getting more money in. Many of them have it in their holding companies. Some of them are going to have to raise it. We are having those conversations with them now. And Bob Warren and Barry Kesler coordinate that under my supervision. So we are having those conversations, but everybody is going to get through it.

The one slide that I will -- I will go back to if I may. This is the -- the slide of reinsurance that has been purchased over the years. I want to make it clear to the committee and to anyone else who is listening, all Floridians that our reinsurance purchase requirements go up every season. They are not related to the pricing in the marketplace. So if reinsurance costs go up quite a bit, we are indifferent to that. There will still be more reinsurance purchased in 2018 than there was in 2017. The cost of houses go up, the cost of repairs go up, the cost of claims go up. There will be more reinsurance purchased. So if prices double to be hopefully ridiculous as to reinsurance prices, if prices double we are still going to ask for more reinsurance to be purchased.

In terms of where things are going, I think there is going to be a few companies that because of the judicial climate in Florida and some of the precedents that have come down over the last 18 months, I think there is going to be a few companies that will be downgraded, not because they are not in -- they are nowhere near being in trouble financially. But we will downgrade them because they don't have on hand what we think is sufficient capital resources to get through the new reinsurance purchases, and the funding of reinsurance is going to happen, we are going to have them fund reinsurance at 2018 costs, but they only have 2017 dollars and the difference has to come from somewhere. So that is going to be the cause of some downgrades, but we are doing, we are working with those companies now. They will be buying more reinsurance, they probably will be paying more for it, but that is the price of -- of being a financially stable company.

The other thing that we will be doing this year that is I think something that is being a thought process that is being fully, it hasn't fully developed yet, but a lot of companies and reinsurance brokers are looking at it, is the idea that there are

geographical areas throughout the state where what might be a one in 100 loss in one geographical area is not enough in another geographical area because you have more of a concentration of business there. And so we are looking at whether it is called a conditional probable maximum loss or it is called a characteristic event, we are looking at those pressure points. We had conversations on those in 2017. Many companies used quarter share reinsurance or another protection to kind of buy down that coverage. Our conversation in 2018 will be more focused on that because we want to make sure that there isn't a pressure point in a geographical area that can cause harm to the company that is atypical of its overall reinsurance program. From my perspective, I think the companies are in better shape than ever. I mean, they have been through the storm, they took the hit. I mean, you look at Irma at one point it is the first time in the history of Florida all 67 counties under a hurricane watch. The point was made earlier and it is one of the points I think it is, that gets missed is in 24 hours you have 60 years of debris. I mean, you got to have places to put it, you got to clear the roads. I mean, these companies I think under trying circumstances when you look, when I look at the judicial changes over the last 18 months, the companies got through it. We had companies recapitalizing at the end of 2016. We had them re-evaluating their loss reserves at the end of 2016. We are always looking at adequacy of prices as well. I think the companies, I mean, it is like the Timex watches, the Timex watches, right, they took a licking and they kept on ticking. I mean, I think, I am a bit frustrated from time to time because there is a few, a few folks in the newspaper business that maybe don't understand what we have outlined here today, maybe they didn't know that in the past, but I am also frustrated for the companies. We deal with these folks on a regular basis, six or eight meetings a year on a variety of issues. They are all trying to do the right thing. They are buying more reinsurance every year than they purchased the year before. They are trying to do the right thing on claims. And I think when you are an actuary and you are an insurance person, claims, it is past practices, protocols, procedures and anytime you disrupt those with a judicial decision or a law change and you don't know how it is going to be anymore, it creates difficulty for the companies because there is a learning curve. And I think they have all gotten over that pretty well, and I think the market is in great shape and I hope from the -- from the graph, there you go, sorry, I hope that folks can be comfortable that the overwhelming majority of companies that report to the National Association of Insurance Commissioners are specialty companies, whether it is a geographic region or a line of business.
This idea that, you know, there is all of these diversified companies out there clamoring for business. No, it is not what the statistics show. I apologize for the length of my answer. If there is another question I would be glad to take it.

CHAIRMAN NEWELL: No, that was great. Thanks, Joe. Lee.

MR. GORODETSKY: I have a question, and I am going to make some assumptions that the Florida consumer doesn't know or understand reinsurance very much at all. They may or may not even know it exists, but you are saying a few companies are going to be downgraded but are not necessarily in trouble which is really good news and I kind of felt that way myself. But you are saying that we are going to have reinsurance increases and they are going to have to also be buying more reinsurance, correct?

MR. PETRELLI: Yes, sir.

MR. GORODETSKY: So how does that trickle down to the consumer? I think the Florida consumer needs to know. They obviously I think have to assume prices are going up, but how do you think with the condition that these companies are in is that really going to trickle down?

MR. PETRELLI: I think -- I think I understand your question. I think the cost of reinsurance, I think you have to look at it from -- if you look at it, I think a consumer has much more in common with the insurance company they are insured with than they think. For example, a consumer pays their premium and at the end of the year is extremely thankful they never had a claim. They are still out the money. The same thing happens for an insurance company that buys reinsurance. We make them -- we ask them to spend up to 60 percent of their premium on reinsurance. They buy that reinsurance. If the wind doesn't blow that year, the money is gone. So I think the consumers have much more in common with the companies than they think. Will the costs go up? Yes, they probably will, to consumers, premiums go up, but I think part of that certainly the judicial decisions have I think been more liberal than they are conservative in terms of liberalizing policy terms and conditions. And I think when you look at a consumer's home, the reality is that that house, they are proud of the fact that house is worth more this year than it was last year. So therefore it has got to cost a little more this year than last year. I think about it, I always think of things in terms of drywall. The people who are putting up the drywall and painting it, drywall doesn't cost less, tape doesn't cost less, putty doesn't cost less, and the person that works there doesn't get less per hour. So I mean I think it is just, it is a cost plus business. And I think to the extent that, I do, I genuinely have empathy on the affordability issue, but at the end of the day if you want financially stable companies they have to be able to buy the reinsurance they need, and I think what we have shown is over time the companies willing to do that. As a matter of fact, they are willing to beat the minimums because they think it is the right thing to do. Part of that is getting specific reinsurance in areas where they might have a geographical concentration that is a little different than they have otherwise.

And again, I think the modelers, when they do the catastrophe modeling to come up with an estimate of the cost of what reinsurance you might have to buy, the modelers change their assumptions year over year, and I think one of the things that Irma is going to do for the modelers is, and I think, I got to be honest with you. You had a whole bunch of people in Columbus, Ohio, watching the Weather Channel when Irma approached your state. And when Irma went west a little bit, what we were afraid of is the nightmare scenario is that Irma hits the Keys and goes north up the middle of the state and guts Florida. Well, thank God that didn't happen, but I guarantee you every CAT modeling company in the world is going to build that simulation into their estimation of events. So the cost of reinsurance is going to go up, not just because the cost of reinsurance goes up, because the modelers have a different set of scenarios to utilize in their projections. So to a consumer I would say, yes, if your house value is going up and the cost of repairing it is going up, I am disappointed to report that the cost of insuring it is going to go up.

CHAIRMAN NEWELL: All right, Greg, last one?

MR. ROKEH: I guess it would be a fairly reasonable assumption based on what you are saying with the cost of reinsurance going up and a number of companies having to recapitalize in some way, that there will probably be less, less ability to absorb policies in the marketplace, and that a reasonable expectation would be that there will be more policies heading Citizens' way next year and the year to follow? Would that be a reasonable expectation?

MR. PETRELLI: I hesitate, I hesitate to say that, because I really am hoping that with – with the additional purchase of reinsurance, with the benefit of the recapitalization, even if Demotech downgrades companies, the level they will be downgraded to is still going to be a very strong company. And it would be my hope that if we could, if I could have this conversation with every consumer in the state of Florida, it would be my hope that the opposite happens, because from my perspective, sir, in the strength of our team and the review that we do, there is no rationale reason for that to happen. Unfortunately, we don't live in a rational world. But there is no -- I hear what you are saying, but I think that if that happens is because there is misinformation out there. I would love to see the companies that we work with continue their efforts to depopulate Citizens and to maintain the companies, the premium they -- the insureds they have, because there is no real rationale reason for it. The companies we work with are great companies, purchasing reinsurance like there is no tomorrow. I tried to show that and I -- but I reluctantly I must say, you may be right, but it will not be a rationale movement in my opinion, sir.

CHAIRMAN NEWELL: Well, let's welcome Barry Gilway up to the table. Barry, your thoughts?

MR. GILWAY: Yes, Mr. Chairman. Barry Gilway for the record, Citizens. We will be talking about this, you know, in more detail tomorrow when we present the budget and the financial plan for Citizens. Our expectation, this is not at all in disagreement with our hopes are exactly the same as Joe's. We are looking at a growth in the -- in the personal lines account in the 60,000 plus range policies that would be about a 15 percent growth. That is our expectation. We -- we believe that we will see continued reduction in the coastal account, the wind only, a business, and we will see some additional reduction in the commercial business primarily because of the highly competitive nature of the -- of the commercial business. So we are expecting some I would call it modest growth, you know, in the personal lines account. I agree with Joe that we are anticipating that there is a lot of very well positioned companies with excess surplus that are definitely in the market that are Demotech rated companies that are more than willing to pick up additional coverage that, that might be available in the marketplace. I would say this that I don't believe Irma will be the driver, and it is appropriate to say this I think in this forum, I don't believe Irma will be the driver of that 66,000 policies. I believe AOB and the lack of any kind of reasonable legislation to fix the AOB problem will absolutely be a driver in more policies coming to Citizens. So I don't think it is the capitalization as a result of Irma as Joe indicated, but I do believe that continued AOB pressure and the significant increase in litigation for every one of the primary companies, most definitely could lead them to reducing their volume, particularly in tri-county, and as we have seen, reducing -- increasing rates substantially in the tri-county area.

CHAIRMAN NEWELL: Okay. Go ahead, Joe.

MR. PETRELLI: Mr. Chairman, thank you for indulging me. I did want to make another point here. I think one of the concerns, if you – the association for, the American Tort Reform Association just put out a report, and unfortunately it has got Florida at the top, number one on its list of what it calls judicial hell holes. The legislative piece, if I may and I don't mean to pick on the judiciary, the report is out, it is not mine, but three thoughts, if I may. If you look at Sawgrass, Mount Beacon and Elements, we had three companies that had very soft landings. They required books of business acquired by other domestics. What we saw, we being Demotech, it is not so much there is three companies that are no longer in the market. From our perspective it was the investment community said, we give up, and so Sawgrass, Elements and Mount Beacon were acquired, the books of business were acquired by the folks who are still here. When the investment community gives up it is because of a lot of little things. There is no big thing, because a big thing, a black swan will create an opportunity. A lot of little things chipping away --

CHAIRMAN NEWELL: Right.

MR. PETRELLI: -- they are going to say, there is too many, too many things to deal with. If it is one thing, I am smart enough to fix it, but, so I think that would be one of my concerns. And I think that echoes what Mr. Gilway said about the growth. It is not going to come from companies going away. It will come from a variety of issues that drive them. And I assure you that we will do, we, Demotech, will do whatever it can to educate and inform and when necessary address misinformation that we think is getting into the marketplace.

CHAIRMAN NEWELL: Well, thank you so much, Joe, we really appreciate it. It is a great presentation and a lot of great Q and A. I want to thank Barry for coming up as well and enlightening us on some of the growth, potential growth at Citizens. For your packet, you have a report for information only on depopulation and the Clearinghouse. So certainly take a look at that. There will be questions later to make sure you read remember it, but we are out of time. And, do I have a motion to adjourn?

MR. ROKEH: Motion to adjourn.

MR. GORODETSKY: Second.

CHAIRMAN NEWELL: All right, meeting adjourned. Thank you so much. Thank you, everybody, on the phone as well.

(Whereupon, the proceedings were concluded.)