

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
ACTUARIAL AND UNDERWRITING COMMITTEE TELECONFERENCE MEETING
March 27, 2018**

The Actuarial and Underwriting Committee (A&U) of Citizens Property Insurance Corporation (Citizens) convened telephonically on Tuesday, March 27, 2018 at 11:00 a.m. (EDT).

The following members of the A&U were present:

John Wortman
Gary Aubuchon
Fred Strauss

The following Citizens staff members were present:

Ariel Shami
Barbara Walker
Barry Gilway
Steve Bitar
Stephen Mostella
Scott Crozier
Carl Rockman
Tina Mondares
Karen Holt
Kelly Booten
Robert Sellers

The following members of the Board were present:

John McKay

Call Meeting to Order

Roll was called and a quorum present.

1. Approval of Prior Meeting Minutes

A motion was made and seconded to approve the December 12, 2017 minutes. All were in favor. Motion carried.

2. Action Item - Updates to Building Type II/III form

MR. BITAR: All right, we actually have a very, I would call it a cosmetic change coming for item number two. I have Scott Crozier and Stephen Mostella here. Stephen is our senior director of commercial lines and he can take us through the changes that are being recommended. So Stephen, if you would.

MR. MOSTELLA: Good morning, Chairman Wortman, good morning and other A&U Committee members. For the record my name is Stephen Mostella, senior director of commercial underwriting at Citizens. Citizens and other Florida property insurers are required to utilize uniform mitigation verification and inspection form coming out of the 1802 to capture information necessary to determine the features that warrant wind mitigation credit.

This form was designed for residential and smaller commercial structures and does not capture all of the information needed to evaluate potential credit for larger and taller commercial buildings. To address this issue, Citizens created a building type two and three mitigation inspection form to be utilized as an addendum to capture the additional mitigation features and information possible to type two which is a four to six story building or type three, seven or more story building. We are seeking approval to update the building type two and three inspection form to, 1, ensure alignment with Citizens' current filed and approved underwriting guidelines and the current HR-2 form, and 2, require photos or other documentation to validate the existence of construction and mitigation features. Are there any questions I can address from the committee?

CHAIRMAN WORTMAN: Anybody, any questions?

MR. MOSTELLA: Hearing none, Chairman Wortman, with your approval I can read the recommendation for this action item.

CHAIRMAN WORTMAN: Let's do it.

MR. MOSTELLA: The recommendation is Citizens staff recommends the Actuarial and Underwriting Committee approve and recommend that the Board of Governors, A, approve the form, excuse me, approve the above proposal to update the building type to mitigation and inspection form, and B, authorize staff to take any appropriate or necessary action consistent with this product change, building type two

and three mitigation inspection form action item to include system changes, document changes, filings with the Office of Insurance Regulation and other supporting activity.

CHAIRMAN WORTMAN: Thank you. Any questions or comments on the recommendation from the committee?

MR. STRAUSS: Mr. Chair, this is Fred Strauss. I would make a motion to approve the recommendation as read.

CHAIRMAN WORTMAN: Thank you.

GOVERNOR AUBUCHON: I will second.

CHAIRMAN WORTMAN: We have a motion to approve and a second. Any discussion? Okay. Comments, discussion? Hearing none we will call the question. All in favor say aye. (Chorus of ayes.)

CHAIRMAN WORTMAN: Opposed?

CHAIRMAN WORTMAN: Okay. Motion carries, okay, thank you. The next item on the agenda is the second action item relating to product changes regarding water losses, and again I'll turn it over to Steve.

A motion was made and seconded to approve the Staff's Recommendation for Action Item – Updates to Building Type II/III form on March 27, 2018.

3. Action Item - Product Changes Regarding Water Losses

MR. BITAR: Thank you, sir. I am going to turn it right over to Karen Holt that can just provide us a quick summary of where we stand with our product changes regarding water and our latest changes that we would like to bring forward to A and U. Karen.

MRS. HOLT: Good morning. For the record, this is Karen Holt, senior director of product development. Before we go to the action item I will call your attention to the first page behind tab three. It is the executive summary. Just as a brief refresher, at the December 2017, Board of Governors meeting Citizens staff advised the Board that the product changes originally scheduled to be effective February 1st, 2018, had been delayed as a result of Hurricane Irma and all the efforts that were required and the resources required to respond to that. The majority of those changes are now scheduled to be implemented for policies effective May 1st, 2018 or later. However, as staff continued to refine the implementation plan for the coverage changes for non-weather water losses and the supporting manage repair program, it became clear that

an opportunity existed to further refine the coverage changes to ensure that the policyholder is protected and that the changes function as intended.

As a reminder, the manage repair program consists of two voluntary services, the emergency water removal services and the manage repair program. The manage repair contractor network. To allow time to review and refine the changes effective dates have been tentatively scheduled for August 1st, 2018, for the following: coverage limit for water losses, introduce a \$10,000 policy coverage limit for non-weather water losses for HO-3 and DP-3 policy types, and provide policyholders the option of utilizing Citizens' manage repair program which will provide full Coverage A limits for covered damage. We also had approval to change the duties after loss section to extend the relevant duties required by the policy to apply to any claimant who will be receiving policy benefits.

As previously discussed the program established that Citizens will offer emergency water removal services to policyholders who report non-weather water losses in a timely manner. Policyholders also will have the option to utilize the manage repair contractor network for repair of covered damage.

The following describes the recommendations for policyholders to choose not to participate in the emergency water removal services program or manage repair contracting network. At this point I will have you flip to the actual action item and we will work from that. Citizens' previous proposal for its manage repair programs established that policyholders will be offered emergency water removal services for non-weather water losses reported in a timely manner. They will also have the option to utilize manage repair contractor network for repair of covered damage. The following describes the recommendations for policyholders who choose not to participate in these programs. First, coverage will be subject to a limit of \$10,000 with \$3,000 of this limit available for water mitigation services. To ensure that coverage remains available for permanent repairs after water mitigation services, the option to request Citizens' approval for any additional water mitigation coverage or a limit of one percent of Coverage A when that amount exceeds \$3,000 no longer will be available. In the event that the \$3,000 is not adequate to complete water mitigation, Citizens will offer the emergency water removal services to complete the water mitigation. The update to the proposal as written staff recommends the following changes. To refine the contract language addressing reasonable emergency measures, modify the coverage amount available for water mitigation services to allow \$3,000, eliminating the option for one percent of Coverage A or requesting Citizens' approval for additional coverage, create a new reasonable emergency measured coverage section that separately addresses non-weather water losses and losses from other perils, and include the coverage for reasonable emergency measures for Coverage C, personal property for non-weather water losses under the \$3,000 limit on coverage. That final bullet is to clarify that coverage for reasonable emergency measures for non-weather water losses does not include permanent repairs. I will pause and ask if there are any questions on that portion.

CHAIRMAN WORTMAN: Any questions?

MR. McKAY: This is John McKay, I have got a question.

MRS. HOLT: Okay.

MR. McKAY: Did I just hear you say that the \$10,000 did not cover permanent repairs?

MRS. HOLT: The \$10,000 is for permanent repairs, but it also includes the \$3,000 that is available for emergency water removal services.

MR. McKAY: I realize, I realize I might be sort of late to the parade here, but that, that seems like that is a, could be a light number if somebody really had significant damage. Is that -- is there some history that limits it to the 10,000 bucks?

MR. GILWAY: So this is Barry Gilway, for the record, Barry Gilway, CEO for Citizens. The number of \$10,000 was established because over 80 percent of our losses are handled with an aggregate limit both water mitigation and from the repairs under \$10,000. The issue here and the intent of this change, policy change is that we establish a preliminary limit of \$10,000. However, if the insured is willing to work with the manage repair program, there is no limit. There is no limit either on the \$3,000 emergency repair and there is no limit on the \$10,000, you know, combined reasonable emergency measures and permanent repair limit in the contract. So the objective here is to really establish a limit that can be exceeded if we get the insured to cooperate with us on the -- on the manage repair program and submit to the manage repair program.

MR. McKAY: And again, I apologize, I am late to the parade, Barry, but would you be kind enough to let me know what the manage repair program is?

MR. GILWAY: Yes, the manage repair program is we contract, we contract, Citizens contracts, there is several varieties in the industry, Mr. McKay. Citizens program is a program where we contract with a company called Contractor Connection, and Contractor Connection we do not assign and are not able to assign a contractor directly to fix or repair or do any emergency mitigation. So we contract with a vendor, in this case, Contractor Connection, it is part of the Crawford Company. Contractor Connection has licensed, certified contractors available on their list all across the state. So they have multiple contracts available in every area where Citizens has business, from Monroe County to Dade, to Broward, to northeast Florida. So they have multiple contractors that are certified, they are licensed. They are pre-established as being contractors to complete specified damages. They are typically general contractors and they are really pre-certified. So any contractor that accepts the -- accepts their role as a -- as a Crawford Contractor Connection, Connection member, has to provide warranty on all of the work that, that is provided. They have to certify that the work is provided effectively. The claim is never completed until obviously the insured signs off that the work is completed to their satisfaction. So the contractors that participate in the Contractor Connection network are already pre-certified, they are licensed and capable to handle the -- the assignment. So the way it works, the way it works is basically is the

insured calls in a claim into the Citizens' network and the Citizens' network immediately, Steve Bitar's organization immediately refers that call over to the Contractor Connection network who assigns a -- a certified contractor to come out and do the remediation work.

And again, if they make that call and they agree to participate in the manage repair program, then there are no limits in the policy. There is no reasonable emergency repair limits and there is no maximum on the -- on the permanent repair component.

MR. BITAR: And this is Steve Bitar for the record, if I can supplement that, too. I think it is important to note that once we receive the notification of the loss and we enter into this program, we have an adjuster that is on site that scopes the damage at that initial point of report and the customer is well aware of what the estimated damage is going to be. So if it is something that can be handled within \$10,000 and they feel they want to do that with their own chosen vendor, they absolutely have the right to do that and they are subject to the sub limit of the \$10,000. However, if they want to enter into the managed repair program they also have that option, and like Barry said, the \$10,000 at this point does not apply and they can ask that their full Coverage A limit.

MR. McKAY: And Barry, the -- I assume that the relationship in the managed program has been satisfactory to date?

MR. GILWAY: Yes, the relationship has been satisfactory to date. There is no question that there is a lot of work to do in preparation for the new policy language that will go into effect later this year. We have to be prepared for significantly higher usage of the manage repair program when we implement the policy changes. So these policy changes if approved by this committee and approved by the Board, you know, obviously establish the sub limits for permanent repair, sub limit for reasonable emergency mitigation. And so we -- it is not acceptable to us that the -- that the program is operating successfully today. We have to verify that the organization can handle the additional flow of work that we are expecting when the policy changes go into effect.

MR. McKAY: Okay, thank you for your answers.

MR. GILWAY: Yes, sir.

CHAIRMAN WORTMAN: And I think, this is John Wortman again, but it is kind of obvious that this is being done to address all of the fraud issues that have been -- been there with the -- the non-CAT water losses.

MR. GILWAY: Yes, sir, Barry Gilway again. The primary reason for this is there is heavy litigation between third parties that are completing the mitigation component and the permanent repair component, and the sue count, the sue count really, really continue at unprecedented levels. We believe that the manage repair program will be able to give us a greater degree of involvement and control over the -- over the claims. And there is no question in our minds that it will -- will have a significant impact on the

litigation level. And frankly, you know, given the fact that the Legislature did not react or at least I should say the Senate did not react to the legislation numbers required this year. The House passed 70/15 on an 80 to 21 vote. We were hopeful that that same assignment of benefits legislation would get passed by the Senate, it was not heard by the Senate. So this leaves both Citizens and the rest of the marketplace in a really an untenable situation where we have out of control litigation and no, you know, opportunity to control the underlying repairs that are -- that are generated in this litigation. This is a proposal that we do believe as indicated in the past would be adopted on a broader basis by companies that have the capability, you know, to operate a manage repair program.

CHAIRMAN WORTMAN: Thank you, Barry. Any other questions or thoughts?

MRS. HOLT: Okay, so this is Karen Holt again, for the record. Continuing, there are also some minor changes being recommended for the duties after loss section. To update this section to clarify that the duties include keeping records of expenses for reasonable emergency measures and for all other costs, including permanent repairs. Staff is also including additional technical policy changes to ensure the introduction of the \$10,000 limit on coverage and the other related changes described in this and previous action items addressing water losses do not result in unintended changes to the policy contract, and that the interactions of the manage repair programs with the contract language are clearly defined. Any questions on that portion? With your approval I will read the recommendation.

CHAIRMAN WORTMAN: Let's do it.

MRS. HOLT: Citizens' staff recommends the Actuarial and Underwriting Committee approve and recommend that the Board of Governors approve the above proposal for updates to product changes regarding water losses, and authorize staff to take any appropriate or necessary action consistent with this action item to include system change implementation, document changes, filings with the Office of Insurance Regulation and other supporting activities.

CHAIRMAN WORTMAN: Thank you. Any questions or comments on staff's recommendation? Then we would entertain a motion to -- to support the staff's recommendation.

MR. STRAUSS: Mr. Chair, this is Fred Strauss. I would make the recommendation to approve the recommendation as read.

CHAIRMAN WORTMAN: Okay, we have a motion to approve the recommendation as presented. Is there a second?

MR. McKAY: John McKay, this is a second.

CHAIRMAN WORTMAN: Any discussion?

MR. BITAR: Governor McKay, since you are not a voting member of the Actuarial Underwriting Committee, we have to defer to Gary Aubuchon to make the second since he is in attendance.

MR. McKAY: I am sorry, I thought I was a member of this committee.

MR. BITAR: No problem. We would love to have you for our list for the next round, how is that?

GOVERNOR AUBUCHON: This is Gary Aubuchon. I second the motion.

MR. BITAR: Thank you very much, Governor.

CHAIRMAN WORTMAN: Any other discussion? If not, all -- all in favor of the motion say aye.
(Chorus of ayes.)

CHAIRMAN WORTMAN: Opposed? Motion carries. The recommendation passes unanimously. Thank you, Karen. And we will move to the next item on the agenda which is another action item regarding a new agency management system. And again I will turn it over to Steve.

A motion was made and seconded to approve the Staff's Recommendation for Action Item – Updates to Product Changes Regarding Water Losses on March 27, 2018.

4. Action Item – Agency Management System

MR. BITAR: Thank you very much, Chairman. As you know, we have had an open solicitation now for several months trying to bring on board a system that will help us manage our robust agency workforce. It is not common for many insurance companies to have to deal with 7,000 plus agents and be able to engage with them in a productive manner that supports their business as well as our own. And so with that we entered into this solicitation to bring on a platform that could really help us communicate with our agents and provide the level of support and information in a bi-directional manner that works not only for the agents but also the Carrier. So with that what I would like to do is turn this item over to Carl Rockman who is our Director of Agency Services. He was an evaluator and negotiator on this solicitation and have him walk you through this action item which I think will definitely position Citizens for success and positive relations with our agency workforce. So with that, Carl.

MR. ROCKMAN: Thank you, Steve, good morning, Chairman Wortman, and other members of the A & U Committee. I am going to go ahead and cover the purpose and scope of the system this morning. I am going to talk about our procurement method and then talk about the contract terms that we would intend to enter into with your support. This action item, this action item requests Citizens Board of Governors approval to authorize staff to enter into contracts with Vertiba, Sales Force and Jitterbit to implement, maintain and support an agency management system to improve the way Citizens staff manages and transacts business with its authorized insurance agencies and agents in Florida. Citizens currently has over 5,000 authorized agencies and over 7,000 authorized agents. The proposed agency management system will be a software as a service product with the following functional and technical capabilities. Web based user interface for Citizens staff and agent, online appointments and confirming licensure of agents, online management of agent and agency appointment statuses. System of record for all agency and agency staff information, and systematic tracking and/or managing of commissions, performance, investigation of agent and agency compliance and complaints, reporting and analyzing data and key performance indicators and high level data security, reliability and business continuity. Vertiba's contract will provide sufficient implementation and training services to ensure that the agency management system operates as intended. Implementation services include providing a detailed proof of concept, interfaces with multiple internal and external applications and databases, data conversion services and other services. Vertiba will also provide ongoing support services to ensure that the sales force product that interfaces remain operational and will lessen the need for specialized support from Citizens' internal staff. Sales force contract will allow Citizens to gain access to sales forces' industry leading cloud based management system platform. The sales force platform is designed to provide maximum ease of use and flexibility as Citizens needs evolve over time.

Jitterbit's contract provides software that will significantly improve the way sales force integrates and communicates with Citizens other information technology systems, such as Guidewire, Policy Center and Billing Center. Citizens currently manages its 7,000 plus insurance agents through a collection of disparate systems. The proposed sales force system will allow Citizens to replace and decommission five of those systems and will bring Citizens in line with current insurance industry standards.

Our procurement method, we started on October 10th, 2017. Citizens issued ITN number 17-0023 for an agency management system. Seven responses were received and four of those were advanced to on-site product demonstrations and negotiations. On March 26th, 2018, the negotiation team recommended an award to Vertiba, LLC. The ITN provided that Citizens made contract directly with any third parties included as part of the vendor's proposal, both Sales Force and Jitterbit were included in Vertiba's proposal and have provided acceptable pricing terms. The contract terms, the implementation services contract will have a term of one year. Following system implementation, the ongoing support and software subscription contracts will have an initial term of five years and may be renewed for up to five additional years at Citizens' discretion. With that I will take a pause, Mr. Chairman and see if there is any questions.

CHAIRMAN WORTMAN: Any questions or comments? I just have one quick question. Can you tell us a little bit about Vertiba?

MR. ROCKMAN: Well, we went through a very rigorous negotiation process. Vertiba to us seemed to be and was a far superior implementation partner when it comes to sales force platform. With our IT partners certainly looking in in terms of their competence we felt that they were the partner that could help us integrate Sales Force, plus a proven track record of implementation in terms of their implementation numbers relative to other vendors, clearly a superior track record when it came to --

CHAIRMAN WORTMAN: Where are they located?

MR. ROCKMAN: Vertiba is located I want to say on the west coast, but I am not sure where San Francisco or LA or in that area.

MR. BITAR: When I dialed in, this is Steve Bitar, when I dialed into the actual award call yesterday, Mr. Chairman, it was great to hear the number of implementations they have done especially on the insurance for property and casualty perspective. Some of the solutions did not nearly have the robust experience on the insurance side and that really was a differentiator.

CHAIRMAN WORTMAN: So they do have a proven track record?

MR. ROCKMAN: Absolutely, sales across the country and in terms of our negotiations we felt they were very competent.

CHAIRMAN WORTMAN: Any other questions, comments from the committee? Do you want to go to the recommendation?

MR. ROCKMAN: Mr. Chairman, I will go ahead and go to the recommendation. Citizens staff recommends the Actuarial and Underwriting Committee approve and recommend that the Board of Governors, A, approve the recommended award and resulting contracts to the recommended vendors as set forth in this action item. B, authorize staff to take any appropriate or necessary action consistent with the action item. C, authorize staff to use authorized resellers as determined to be in the best interest of Citizens. And D, approve contract for agency management system not to exceed \$11,428,421.

CHAIRMAN WORTMAN: I --

GOVERNOR AUBUCHON: This is Gary Aubuchon. I move to approve.

CHAIRMAN WORTMAN: We have a motion to approve the staff recommendation. Is there a second?

MR. STRAUSS: This is Fred Strauss. I would second.

CHAIRMAN WORTMAN: Thank you, Fred. We have a motion and a second to approve the recommendation. Any discussion? Hearing none we will call the question. All in favor say aye?
(Chorus of ayes.)

CHAIRMAN WORTMAN: Opposed? Motion carries. Staff's recommendation will be presented to the board. Thank you.

A motion was made and seconded to approve the Staff's Recommendation for Action Item – Agency Management System on March 27, 2018.

MR. BITAR: Thank you, sir, and just for the record, this is Steve Bitar. We are Vertiba's headquarters located in Bolder, Colorado and they do have a presence in Miami. So with that, Mr. Chairman, I think we can move to new business if would you like.

CHAIRMAN WORTMAN: Okay. Committee, any new business to present, anyone? Fred, Gary?

GOVERNOR AUBUCHON: No, sir.

MR. STRAUSS: None from me.

CHAIRMAN WORTMAN: Okay, I need a motion to adjourn.

GOVERNOR AUBUCHON: So moved.

MR. STRAUSS: Second.

CHAIRMAN WORTMAN: Okay, motion made and second, I guess it is me, we are adjourned.

MR. BITAR: Thank you, sir, have a great day, everyone.
(Whereupon, the meeting was adjourned.)