

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE CLAIMS COMMITTEE MEETING Wednesday, March 28, 2018

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened telephonically on Wednesday, March 28, 2018 at 10:00 a.m. Eastern.

The following members of the Claims Committee were present telephonically:

Gary Aubuchon, Chairman
Freddie Schinz
Jim Holton
Blake Capps
Jon Palmquist
Jay Adams, Staff

1. Approval of Prior Meeting's Minutes (December 7, 2017)

Jay Adams stated, the prior litigation update in December 2017 erroneously reported a 12 percent decrease in the average number of new incoming lawsuits for the time period of January through October 2017, as compared to the same time period for 2016. The correct percentage is a 24 percent decrease in the average new incoming lawsuits per month. The raw numbers reported in the December report updates were correct. A mathematical error led to the incorrect percentage decreases as reported.

A motion was made by Governor Schinz and seconded by Governor Holton to approve the amended December 7, 2017 minutes. All were in favor. Motion carried.

2. Strategic Update

Jay Adams stated, I have multiple topics that I would like to discuss briefly today. The first one is the water loss trends for the Florida market. And the source of all of this information that I am about to discuss is directly from the Office of Insurance Regulation, and it is based on their 2017 data call. I am going to start on slide number three. The purpose and scope of the data call was really to look at water damage trends and AOB analysis, and the focus was on H-03 and dwelling policy forms, and they were working with 25 Florida insurers and it is important to note that what we are about to discuss does exclude Citizens data. We will go over Citizens specific information following this.

Jay Adams continued, slide number four, so this is the trends in water losses that they were able to obtain from their analysis. And what is important to note in this first slide here is there are two reporting periods. The first reporting period was January 2010 through September 2015, which is roughly five and-a-half years. The current reporting period was January 2015 through June 2017, roughly two and-a-half years. And what I am going to do is I am going to focus on the bottom half of this chart. So what they did is they looked at the frequency and severity and then they combined those into an average annualized change. So in that first reporting period it is a little over five years. The average annualized change was 14.2 percent. When we look at the current reporting period of two and-a-half years that has dramatically increased to 42.1 percent.

Jay Adams continued, on slide number five, this is looking at the frequency of water damage claims by geography, and as you would guess, southeast Florida is the leader in the marketplace. But we are starting to see some emerging trends where there are other markets in the state such as central Florida that are also having higher frequency.

Jay Adams continued, slide number six, the average severity. So this is always looking at the regions and once again you see south Florida as the leader there. On slide number seven, this is looking at that combined frequency like we did on that first slide. But this has got it broken down by region, and again, what it really does it just states that the average annualized trend over the last two and-a-half year period is 42.1 percent.

Jay Adams continued, on slide number eight, let's switch gears to where they look at the assignments of benefits. And what they gleaned from their data was that a claim with an assignment of benefits cost up to about 85 percent more than a claim that does not have an assignment of benefits. And the usage of AOBs is up from 2015 at 12.8 percent to 17 percent when we get over into 2017. And an interesting fact, maybe a concerning fact is the geography where these AOBs are being utilized is starting to increase in other parts of the state. Primarily it started in the southeast region and now we are starting to see it in other markets.

Jay Adams continued, on slide number nine, this is looking at the average severity of claims, water damage claims. The bars on the left side of the chart are those claims that have an AOB. Those on the right are claims with no AOB. And what you can see here is the average severity of these water claims are increasing, but if there is an AOB on the claim they are increasing at a significantly higher rate.

Jay Adams continued, slide number ten, this again just is a representation of that percentage of water claims with AOB. As stated earlier, in 2015, about 12.8 percent of the claims had AOBs and in 2017, that has increased to about 17 percent. And what I would like to do now is read you the conclusion that the Office had based on this, because I cannot say it any better than they did, and here is a specific quote from them. The significant increase in both frequency and severity of water losses, the rising use of AOBs and the acceleration of those trends over the last several years is resulting in tangible consumer harm. AOBs have been a part of Florida's marketplace for more than 100 years. Loopholes in the way it is being used in the marketplace are driving up costs for homeowners across the state due to unnecessary litigation associated with certain AOB claims. The escalating trends identified in this analysis are showing up in rate filings that are being submitted to the Office and are resulting in significant premium increases for almost all homeowners across the state. These trends, in addition to increasing premium, are reducing consumer choice as insurers cease writing or begin non renewing policies in areas with high water losses. As for any intervening changes in the way AOBs are being used today, it is expected these trends will continue to deteriorate. This may cause availability issues as insurers struggle to control the rising cost and will result in higher homeowner premiums for all Florida homeowners.

Jay Adams continued, if we could flip over to slide number 13, now what I would like to do is focus specific on the water trends and results for Citizens. As I said earlier, Citizens was excluded from the Office data call that was presented. So on slide number 13, we are looking at H-03 non weather water severity, and what I really want to call out on this

slide is, it is divided into two sections: a litigated section and a non litigated section. And if you look at the litigated claims indemnity, it is roughly four times higher than a non litigated claim. And if you look at it from an expense perspective, a litigated claim is roughly seven times higher than a non litigated claim, and that is based on Citizens' data.

Jay Adams continued, on slide number 14, we are looking at our litigation rates and these are ultimate projections that are provided through our actuarial group. And if you look at the middle column you can see that the southeast has been primarily the driver of our litigation, and you can see that there has been steady increases over the years. An alarming emerging trend is if you look at the far right column, the rest of the state is starting to pick up significant speed, something that we haven't seen in prior years.

Jay Adams continued, if you go to slide number 15, this talks about representation at first notice of loss. And what it is important about this for us is, those claims that have representation at first notice of loss are much more likely to go straight into litigation than claims that do not have representation. And again, southeast has primarily been the driver of that, and you see that there has been a continued and steady increase in the representation. One thing that I do want to note is that in 2017, the results look lower, but these results are diluted because there are about 65,000 Hurricane Irma claims in here.

Jay Adams continued, slide number 16, this is assignment of benefits. Again, you can see that southeast has pretty much been the leader of the pack for this, but again, the remainder of the state is starting to pick up. So there are other markets where we are starting to see a lot of the assignment of benefit activity. And again, the 2017 data here is diluted by the Hurricane Irma claims. So it is a little bit of an anomaly.

Jay Adams continued, on slide number 17, it is worth noting that our policies in force counts continue to decline, but the number of non weather water losses continues to increase. For 2017, we averaged 905 water claims per month compared to 2016, where we only averaged 882 per month. This is a three percent increase. For this illustration I have excluded the catastrophe claims for September. As a reminder, Hurricane Irma made landfall on 9/10/17. It is interesting to note that in September the non weather water losses only represented 22.7 percent of the non catastrophe claims volume, but in October they increased to 63.2 percent. So how did the hurricane impact the non weather water claim submissions? We don't have an answer to that either. If water damage were to exist it would require remediation per the policy conditions. It is interesting to note that the average dates to report the non weather water losses decreased to 22 days for the months of September, and then increased to 36 days in October and remained higher than the average 23 days for the remainder of the year. Similar trends exist in the new suits received. Another observation is that our new manage repair language was filed and went into effect 07/01/17. The average days to report a claim steadily increased from July through the end of the year, which circumvents any ability to utilize our pre-mitigation services.

Jay Adams continued, with that I would like to talk briefly about manage repair on slide number 19. As of 02/14 we had received a total of 493 claims that were eligible, and what I mean by that is these are claims that had the endorsement on the policy. They had already renewed. Sixty claims have gone into the pre-mitigation services and we have had seven claims enter the full permanent repair process piece.

Jay Adams continued, I am going to slide over to number 21 now and I want to talk briefly about Hurricane Irma, and I am going to talk more from a strategic perspective because Craig Sakraida is going to provide us a Hurricane Irma update. So on slide 21, what were some of the strengths that we had from our response? Well, first and foremost, we had a flexible and adaptable claims staff, and what we mean there is we were able to take our claims adjusters, move them into leadership and oversight roles to provide oversight to the independent adjusters and to also provide training as many of these independent adjusters did not have the skill set that we needed when they first arrived. We had strong lines of communication internally and externally. We had very frequent executive leadership team calls. We had daily claims calls, daily claim coordinator calls, and we also communicated heavily with our agency community and other external stakeholders during the event. We leveraged more technology. We used things such as claims experience, drones, adjuster assist software and others to increase our productivity, and then we opened up an office into Key West which gave us the ability to handle and adjust the all of the claims in the Keys and to put our focus in the area where they had the most damage.

Jay Adams continued, on slide number 22, so if we had some good things happened we probably had some opportunities and some of those opportunities were with the independent adjusting firms. And where we struggled a little bit there is we probably didn't have the level of leadership we needed from those adjusting firms in the handling of these claims and that could be because we haven't had a major catastrophe for the past 10 or 12 years. This was really the first time the marketplace had to come to bear with an event with so many claims. We also had some issues and concerns around the quality of those adjusters and the quantity of the resources they were able to supply. Something we did for this year that we hadn't done in the past was we assigned claim territories within our claim management system, and the task was that the independent adjusting firms needed to assign their adjusters to the new territory and we struggled in that space a little bit where we had more adjusters in one area of the state than we needed and less in others. And it took some time for our staff to work through those issues and get those adjusters placed appropriately. We talked about resources and some of the skill set issues. We had intended on leveraging those resources to do more than they were able to do and caused us to probably not be able to leverage them as appropriately as we needed to. We also did not leverage the Xactanalysis tool to its fullest capability, much like the marketplace does today.

Jay Adams continued, so what are the things we are going to do different in '18, on slide 23? Well, one of the first things we are going to do is we are going to try to come as market compliant as possible by using Xactanalysis. This will help us in the assignment process and give us a significant backend management capability that we were lacking during Irma. We have also evaluated some of the system shortfalls that we had in our claim management system and we have worked really closely with Kelly Booten's IT team. We will have all of those deficiencies fixed by storm season 2018. We also have worked really closely with Kelly Booten's IT team to create more cross functional training support. What we would like to do is have the IT resources that provide all of the full resources we need when we have issues arise. Last year it was more of a cafeteria style where we had to go to multiple parties to get all the issues resolved. And then, of course, we will continue to look for ways to become more technology efficient to increase the productivity.

Jay Adams continued, To make sure we are ready on slide for 2018, we have been working really hard since, I would say late Fall and early into Spring this year on developing solicitations we need to fill in the gaps of areas that we identified as opportunities in 2017. The first solicitation that we are looking at is for aerial imagery, and as you may recall, we relied 100 percent on aerial imagery to determine what our Keys response was going to be, because we had the aerial imagery and we will continue to leverage that type of technology in the future and we are looking at pre and post event imagery, and we also need them to provide us drone services. We will continue to work on our inspector program and we have put a lot of debrief activities around this program so that we can stand up a better contracted program for 2018. We are going to do a fast track claims handling solicitation and this is to handle low severity times claims by phone. Last year our intention was that we would do a lot of this fast track activity, but the skill set of the resources we received were not able to pull this off and that made us push this back into the field for handling. This will help create increased productivity and faster closing rates of these low severity claims. And for Irma we received between 50 and 55 percent of all of the claims that we got, they were eligible for these phone adjusting. So if we can do that it is a cheaper and a faster route for us to go. We have issued a follow on solicitation to attach to our catastrophe adjusting. What that is for is last year with we had to do emergency contracts to pick up additional adjusters. What we are trying to do now is when that emergency contract ended, those contracts ended. We want to give all of those firms that joined us an ability to come on board and be contracted for the season. We also are doing all of these functions to attempt to reduce any emergency contracting that will be needed for our 2018 hurricane season. And the last thing on the list there is really something that Kelly Booten's IT team did under Enterprise Resiliency, and that will be a solution for us for temporary offices in strike zones for our catastrophe.

Jay Adams continued, and the last thing I wanted to talk about today, Chairman, is the Governor's hurricane emergency order extension, and this is a transparency topic. That extension went through January 2nd. On slide 26 we had prior Board of Governor approval to contract for office space in the Keys, and as you may recall, we started out with an office in Key West. After we started adjusting claims in the area and the island became more open we realized that was not that the best location and we wanted to be more central in the Keys. So we have moved our office location to Marathon at the Banana Bay Hotel, and I wanted to just advise this committee that we have entered a contract with the Banana Bay Hotel for the time frame of February 1 through June 30th of 2018 for a total cost of \$609,000 under that emergency order. And Chairman, with that, that concludes my presentation.

Chairman Aubuchon stated, thank you very much, Jay. Members, do you have any questions for Jay?

Governor Schinz stated, this is Freddie Schinz, Jay. I got just a couple of questions, if I may. The first one on the drone service that goes in there, is that real time capable? In other words, are you getting direct feeds from all of the drones that are deployed?

Jay Adams stated, so the way that that works is that on an individual claim, if we were unable to access the roof and that could be because it is a multi-story home, it could be debris on it or such, we would deploy a drone and drone pilot and they would fly over that

individual claim. When they are complete they would provide us that imagery that would then be pushed into our estimating system.

Governor Schinz stated, so you don't have a like, so you don't have a direct feed that feeds back to you. You know, through RF connections or whatever, whatever would be coming back to where you can fly the drones a little longer range and take a peek at what is going on instantly?

Jay Adams stated, so not on the individual claims pieces. The aerial imagery, they may leverage drone technology. Most of them are using aircraft with cameras hanging off of them. They fly those areas, and then they have to code them to a GIS or a GPS location and make those images available and we usually can consume those images within 24 hours of that flight.

Governor Schinz stated, okay, great. Jay, I have one other question, if I may. Are we getting more coverage for adjusters? I know that is a bouncing ball after our little faux pas that we had. We have better access to adjusters just in case of a catastrophic event?

Jay Adams stated, well, that is one of the solicitations that we have released at this point, is to try to obtain additional catastrophe resources. That whole list of solicitations is strategic in that what we are trying do is compartmentalize the claim handling process. So we are trying to get the right claims to the right contracted folks. If we are able to get all of these contracts in place I think that will help us to have the appropriate resources we need for 2018. Now, do keep in mind, if Texas or another state is to get hit before Citizens again that will put a strain on those independent adjuster resources availabilities.

Governor Schinz stated, I understand. Well, thank you. That is all of the questions I have.

Jay Adams stated, thank you.

3. CAT Update

Craig Sakraida stated, thank you, Chairman and committee members. If you turn to tab three in your binders, I just wanted to give you a brief update on where we are with the Hurricane Irma response. Since the last claims committee update provided in December of 2017, we have received 4,641 new Hurricane Irma claims, bringing the total to 66,368. Of those new claims 69 percent we received from the tri-county area. We do have dedicated resources working at the claims in the tri-county and Monroe area and we are utilizing our MCM or managed claims model adjusters for the remainder of the claims across the state. In the tables below, just gives a summary of the field resources that we have for commercial, the tri-county area, the Keys, as well as our mediation team that we are utilizing independent adjusters to back fill. Also with the desk adjusters here at the Everbank Center for commercial or large loss residential, our resolution unit which I will go into a little bit more detail in what they do, and then our appraisal team which is off site.

Craig Sakraida continued, as Jay mentioned, the office in the Keys has moved to Marathon. We have an office open there and adjusters available for reinspections and follow up investigations on the more severely damaged homes. The contractors are not really available in the Keys at this point, so there is some delay in the reconciliation and some of the estimates and pricing differences have been one of the major components for

reopened claims in the Keys. The primary function of the resolution unit adjusters is to handle requests for supplemental payments, negotiate settlements and conclude all outstanding items on the claims. We have 33 of the 85 adjusters that we have here that are assigned specifically for the phone system. So they answer all the incoming calls and we have the capability to expand that to the whole 85 adjusters that we have on the floor. We have had 24,657 or 37.2 percent of the total claim volume reopened for supplements and additional information provided by the insured and/or their representative. The tri-county area accounts for 58 percent of the claim count and 66 percent of the reopened claims. These numbers are primarily being driven by representation by public adjusters or attorneys.

Craig Sakraida continued, as far as the catastrophe claim, we started to expand our appraisal teams to meet the anticipated volume of Hurricane Irma claims coming into this process. The appraisal teams utilize the existing work flows in place to address the incoming volume for both valuation differences and AOB requests. There are currently 3,227 claims assigned to the teams with over 7,900 matters that involve separate negotiation action by the adjuster. Our mediation teams currently has 224 claims across the state with efforts to negotiate settlements with policyholders or their representatives. Claims team is diligently working to resolve all open claims as we prepare for the upcoming 2018 hurricane season, and our catastrophe planning, testing and preparation are well underway to ensure that the action items and the things that Jay mentioned are completed for implementation in our next catastrophe response. That concludes my presentation. Is there any questions?

Chairman Aubuchon stated, thank you, Craig. Members, any questions of Craig?

Mr. Palmquist stated, I have one question.

Chairman Aubuchon stated, sure.

Mr. Palmquist stated, Craig, what is your overall closure rate percentage of claims since the storm?

Craig Sakraida stated, we are at 97.79 of all claims have been closed at least one time. So the ones that are still open are, there are some that we actually never got closed and they are in another department, litigation. We have others that are still pending settlements because they are more complex claims.

Mr. Palmquist stated, does that include reopens then?

Craig Sakraida stated, with the reopens we have 87 percent of all claims are closed. So that is kind of how the numbers fluctuate, but almost 98 percent have been closed the first time with those as I mentioned pending full and final settlement. Most if not all have had partial settlements.

Mr. Palmquist stated, okay, thank you. Congratulations. Nice job.

Craig Sakraida stated, thank you.

Jay Adams stated, could I add one comment to this CAT update?

Chairman Aubuchon stated, go ahead, Jay.

Jay Adams stated, I would like to have just a brief conversation around the Keys. There are still a significant amount of frustration with our customers down there. I think that the public adjusters and the plaintiff attorneys are starting to go out there, prepare estimates and such, and I believe that this is creating some confusion for our customers. Christine Ashburn and her communication team have been working very closely with Craig and myself to come up with some new communication activity that we plan on launching very soon into the Keys to reinforce to people that, you know, what we have provided them is an estimate, and that if they do have a contractor estimate that is different from ours, please submit it to our resolution team. That does not mean your claim has been concluded. We also need people to understand about the hurricane deductible limits that they have and such, and we are anticipating that we will probably start to hold some office hours in the Keys for any customers that want to come and actually speak with a claims adjuster live in that space. More to come on that topic, but I did want this committee to understand that we are trying to address some concerns and frustrations in the area.

Chairman Aubuchon stated, thank you, Jay, and members, any further questions of Craig or Jay?

Governor Capps stated, yes, I had one question about public adjusters versus attorneys. It is my understanding that attorneys get all of their compensation from the insured's insurance company because of the one way attorney fee statute, and that a public adjuster on the other hands gets his money from the settlement. Is that right?

Jay Adams stated, that is partially correct. We never know what arrangement the plaintiff attorney may have with the customer. They are entitled to fees and costs under the one way attorney fee statute if they do file suit. But they can have some type of contingency arrangement in addition to that. And you are correct under the public adjuster, they are entitled to a fee and it is limited when it is a catastrophe to 10 percent.

Governor Capps stated, Right, so is it, from our perspective as an insurance company, is it better for people to go with public adjusters as opposed to attorneys? I mean, not that we really are able to dictate that, of course, but I suppose our exposure is lower with the public adjuster route?

Jay Adams stated, our preference would be to deal directly with the insurance carrier and give us a chance to work through any dispute, and then, you know, it would be up to each individual homeowner to determine the best course of action beyond that. You know, it is worth noting from a dispute resolution perspective, we certainly want you to talk to your adjuster. If you are unable to resolve that, there is a free service where you can have mediation, and if you don't want to go the mediation route there is an appraisal route and the appraisal route is binding on Citizens and the insured, and then the last resort would be to go to litigation.

Governor Capps stated, okay, great, thank you.

Jay Adams stated, you are welcome.

4. Litigated Claims Update

Elaina Paskalakis stated, good morning, Chairman and committee members. Behind tab four in your books you will find the litigated claims update. And for the purposes of today I would really like to focus in on the Irma experience and how it is affecting litigation. The other traditional updates were litigation overall are also contained within my report, but we are going to focus on Irma and I will take any questions that you have.

Elaina Paskalakis stated, to date we have received 1,922 Irma lawsuits. So your report is based on our numbers through the end of February, and at that point we had a 1,302 Irma lawsuits. What we are seeing are 97 percent of the lawsuits filed have been residential claims as opposed to the three percent we see for commercial claims. Overall we are also experiencing 15 percent of Irma lawsuits are AOB law suits, meaning they are brought by the assignee. We have approximately one percent of the lawsuits that involve surge which is the issue of damage caused by wind or caused by flood. Although the landfall date for Hurricane Irma was September 10th of 2017, we are realizing a range of dates of loss anywhere from the 7th of September through the 16th of September. In terms of how quickly the lawsuits are coming in, we are seeing a steady increase since September until now that we are getting more and more lawsuits, Irma lawsuits per month. As an example, in October we received three Irma lawsuits, but then as of today's date in March we are already up to 681 lawsuits for this month.

Elaina Paskalakis continued, the dispute reasons track with what you traditionally see. So scope in pricing is realized in the residential suits for 82 percent of those lawsuits, but what is interesting is that 59 percent of the residential lawsuits the claim was actually paid at what Citizens considered full value. Only 15 percent of the lawsuits involve a claim that was denied for no coverage. The tri-county area accounts for 92 percent of the residential lawsuits with Miami-Dade leading with 62 percent. And when we look at Monroe County, the residential, it only accounts for four percent of the volume. If you look at commercial suits of which we received 36 by the end of February, the dispute reason again is 64 percent of the scope in pricing, but what is different for residential is for commercial we see 47 percent of those lawsuits where the loss is deemed to be below the deductible which, of course, track with the higher deductibles that you often see with commercial policies. We do see a more significant percentage of the commercial lawsuits with 19 percent involving the surge issue. And then as far as where the commercial lawsuits are coming from, we have 39 percent coming from Miami-Dade, with 2.7 coming from Monroe.

Elaina Paskalakis continued, if we look at the overall impact of Irma and the frequency of the Irma suits as compared to where we were pre-Irma, in 2017 overall our average new suits were 632 per month, which as Jay mentioned earlier, was 24 percent lower than when we compared to 2016. But if we look at 2018 now, we are averaging 916 lawsuits per month which is a 28 percent increase as compared to 2017, and this is directly related to Hurricane Irma. Fifty-eight percent of the new incoming suits are Irma related lawsuits. Additionally, we have 12 percent of the overall pending, excuse me, AOB lawsuits in relation to Irma. If we look at the water losses and the effect on the pre-Irma non weather water losses, they continue to be the leading cause of loss in regard to the pending volume as opposed to the new incoming volume, and continue to represent 42 percent of the pending. We have also seen AOB lawsuits are continuing to go up in in our pending.

They are now at 29 percent which is just a slight increase over the last report. They have gone up about a half a percentage. One thing we are also seeing with Irma is the lawsuits are coming in faster than normal. Seventy percent of the Irma lawsuits have come within six months of the date of loss. This is a 26 percent increase as compared to the statistics we see with pre-Irma lawsuits, and that is actually despite the fact that in Irma claims we have a 20 percent decrease in the number of claims that were reported with representation. So even though the insureds are recording own their Irma lawsuits much more frequently, we are still seeing that the lawsuits are coming in faster than without representation as a percent of loss. And with that I conclude my presentation unless there are questions.

5. Vendor Update

Greg Rowe stated, yes, thank you, Mr. Chairman and committee members. The first item I would like to bring before the committee is for the Special Investigative Services contract. This program is critical to our Special Investigations Unit to assist in the investigations pertaining to fraudulent or false insurance claims along with any other potential fraudulent activities throughout the insurance cycle. The primary types of services to be provided typically involve moderate to complex field investigations related to potential insurance fraud. On January 9th, 2018, Citizens issued an RFP, 18-0016 for Special Investigative Services. The responses were received and evaluated by an evaluation committee, and on March 13th, 2018, the evaluation committee recommended awards to multiple vendors which resulted in the selection of seven primary vendors and six contingent vendors. So Mr. Chairman, if there are no questions I will move forward with the recommendation.

Chairman Aubuchon stated, Members, before the recommendation are there any questions? Hearing none, Greg, you are recognized to bring forth your recommendation.

Greg Rowe stated, the staff recommends the following. A, approve the recommended vendors for contracts in an amount not to exceed \$850,000 for a three-year contract period with one optional two-year renewal for special investigative services under RFP 18-0016. B, authorize staff to take any appropriate or necessary action consistent with this action item. And C, approve the contract not to exceed eight \$850,000.

A motion was made by Governor Holton and seconded by Governor Capps to approve and recommend Board approval of the Special Investigative Services Action Item, RFP 18-0016. All were in favor. Motion carried.

Greg Rowe stated, thank you, Chairman. The next is the first of the two consent items I would like to bring before the committee today. I know we have had some discussion pertaining to catastrophe response and the availability of resources here in Florida. So that is pretty much what these consent items relate to. So the first item is for an amendment to the Independent Adjusting Services – Non-Litigated/Catastrophe contract. So as we continue our efforts to maintain adequate adjusting resources for both our non catastrophe and catastrophe billed services rely quite heavily on our independents adjusting firm business partners, and the most critical aspect of these contracts relies on their ability to supply us with the field adjusting resources when we call upon them. In the current contract all of these vendors are ranked top to bottom based on the scoring in their RFP response and we award work based upon that scoring. If the vendor fails to provide

the minimum number of resources as agreed in their contracts they are assessed liquidated damages, but their rank is unchanged. For this consent item in lieu of liquidated damages if the vendor fails to provide their minimum CAT resources as agreed upon in their RFP response, the vendor's existing ranking will be changed, ranking them below all other firms providing those services. So that basically means for future deployment requests those vendors that fail to provide their contractual resources will rank below all other vendors who have met their contractual obligations, and this ensures that its vendors who do provide their committed resources remain at the top of the rankings which again determines how we award work to these vendors. So Mr. Chairman, if there are no questions I will move forward this recommendation.

Chairman Aubuchon stated, Members, any questions? I do have one, Greg, and that is if none of the vendors provide the total number of resources they have committed to, will you take it on a ranking system on the percentage of resources that they committed to that they actually provided?

Greg Rowe stated, that is absolutely correct. So we will go with the highest percentage, I would say, would remain at the top and the lowest the percentage would be at the bottom of the rankings.

Chairman Aubuchon stated, okay, thank you. You can go ahead and read the recommendation, please.

Greg Rowe stated, staff recommends the committee approve an amendment of Section 5.5.1 of the contract for the Independent Adjusting Services – Non-litigated/Catastrophe under RFP 17-0006, to remove liquidated damages and provide a revised vendor ranking as an alternative to the liquidated damages section of the contract. And B, authorize staff to take any appropriate or necessary actions consistent with this consent item.

A motion was made by Governor Schinz and seconded by Governor Holton to approve and recommend Board approval of the Independent Adjusting Services – Non-Litigated/Catastrophe Consent Item, RFP 17-0006. All were in favor. Motion carried.

Greg Rowe stated, thank you, Chairman. So the last consent item is for an amendment to the Independent Adjusting Services - Catastrophe contract. And really mirrors the prior consent item in terms of the consent and the intent. As a brief history, to ensure we had adequate adjusting resources to be able to respond to a catastrophe event, on August 2nd, 2017, Citizens awarded 10 contracts for catastrophe field task adjusting services. And just like I outlined in the prior consent item, these vendors were ranked top to bottom based upon their scoring and their RFP response. And again, we award work based upon said scoring. To ensure our adjusting services contracts are structured in the same manner concerning the supply of adjusting resources, for this consent item, again, in lieu of liquidated damages, if the vendor fails to timely provide the minimum CAT responses as agreed upon in their RFP, again, the vendor's existing ranking will be changed, ranking them below all other firms providing CAT field services. So, again, for future deployment requests, those vendors that fail to provide their contractual resources will rank below all other vendors who have met their contractual obligations. So in essence, it is the exact

same terminology, it is the exact same content, it is just for a separate contract. So, Mr. Chairman, if there are no other questions I will move forward with this recommendation.

Chairman Aubuchon stated, Members, any questions?

Governor Capps stated, this is Blake Capps. I have one question. When we try to figure out what we can do to make sure that adjusting firms are going to be there for us in lieu of a hurricane or a big event, and we are putting incentives and penalties into place to kind of make sure they are there for us, you know, you are looking at liquidated damages as one alternative and then this ranking system on the other side. Why is the ranking system viewed as something that is better than the liquidated damages?

Greg Rowe stated, well, we have had some internal discussions and basically for our liquidated damages, they really don't do anything other than really hurt our reputation in the market space. Again, from a financial consequence, it doesn't change anything, and the liquidated damages aren't such that they are going to really do anything to remedy or cure that particular item for the firm. With this what we feel is, it will, A, allow us to maintain a good reputation in the marketplace in the sense that there is still a consequence if you do not supply the resources needed. But it is not going to scare certain firms away or certain vendors away from doing business with us, particularly if they may be somewhat smaller, may only be able to provide us maybe 30 to 40 adjusters. If they can only get us 20, we still may need them. So we want to attract those individuals, those individual firms. The other piece for the ranking, as I said, the big thing is that we don't know what the size of the event is going to be as they come in. So it may be something where we don't need all of these vendors from A to Z. If it is large event we absolutely will, but if it is a smaller event, knowing that the rankings can change based upon their performance from catastrophe to catastrophe, it really incentivizes them to do better because the next event may be smaller. And if that event doesn't necessitate the availability of all said adjusting firms, then maybe just the top five or six get the work. We feel that from an incentivized standpoint that will do more. It is kind of a carrot versus the stick approach, and I don't know, Jay, if you have anything to follow up on that, but that was our thought process in this particular recommendation.

Jay Adams stated, for me, Blake, what it really is about is trying to create strategic vendor partnerships. And what we have found in the past is, we had leveraged that language in the past. We had executed some penalties, and what that did in the next round of solicitations was it prevented a lot of firms from doing business because the risk associated with independent adjusters showing up for a CAT is significant, and we can look at Hurricane Harvey hitting Texas first. Most of the people that were on our rosters for these vendors actually deployed to Hurricane Harvey, and once they were there, I certainly wouldn't want them or expect them to leave Harvey and leave them in a lurch to run over and help Florida. So it is these relationships at these IA vendor, with those IAs is usually not an employee/employer relationship. It is a little bit of a free market, and they tend to go where the work is and whoever is paying the highest. So in order for us to keep the right relationships, we felt it was more important to do this rank ordering versus a liquidated damages. If I do a liquidated damages, that does not adjust any of the outstanding claims that we have, and that is really what we are about, is providing the level of customer service in that vendor relationship.

Governor Capps stated, great, thank you.

Chairman Aubuchon stated, thank you, Blake. Any further questions? If there are no further questions, Greg, would you please read the recommendation?

Greg Rowe stated, yes, Mr. Chairman. So the staff recommends that the Citizens Board approve amendment Section 5.5.1 of the contracts for Independent Adjusting Services - Catastrophe under RFP 17-0020 to remove liquidated damages and provide a revised vendor ranking as an alternative to the liquidated damages section of the contract. And B, authorize staff to take any appropriate or necessary actions consistent with this consent item.

A motion was made by Governor Capps and seconded by Governor Schinz to approve and recommend Board approval of the Independent Adjuster Services – Catastrophe Consent Item, RFP 17-0020. All were in favor. Motion carried.

6. Addendums

Chairman Aubuchon stated, behind tab six there are Addendums: Recovery Cases of Interest and Special Investigation Unit Cases of Interest. Any comments or questions about the items behind tab six? Hearing no questions.

7. New Business

[Meeting Adjourned]