

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE CLAIMS COMMITTEE MEETING
Thursday, September 19, 2018**

The Claims Committee of Citizens Property Insurance Corporation (Citizens) convened telephonically on Thursday, September 19, 2018 at 1:00 p.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 (June 13, 2018)

A motion was made by Governor Schinz and seconded by Governor Holton to approve the June 13, 2018 minutes. All were in favor. Motion carried.

2. Approval of Claims Committee Charter

A motion was made by Mr. Palmquist and seconded by Governor Schinz to approve the current Claims Committee Charter. All were in favor. Motion carried.

3. Litigated Claims Update

Elaina Paskalakis stated, Thank you, Chairman, and good afternoon, Governors. I just have a very brief update for you today. I want to start focusing in on just the Hurricane Irma litigation that we have experienced. As of the time of the report that was issued up until August 15, we had received just under 5,500 Hurricane Irma lawsuits, and then I updated the numbers as of yesterday, we are just over 6,000 at this point. 97 percent of the Hurricane Irma lawsuits are residential policies with 14 percent of the Irma lawsuits being brought by an AOB vendor. As far as the dispute reason for the majority of these lawsuits, 84 percent of the dispute is over scope and pricing. So that means that there is coverage. There may have been a payment or that the loss was below deductible, but 84 percent, and this is tracking with what we typically see for our lawsuits, that the vast majority is over the scope and pricing. We have 86 percent of the Hurricane Irma lawsuits arising out of the tri-county area, with only six percent coming out of Monroe overall.

Elaina Paskalakis continued, Turning to just all litigation in general, we continue to experience new incoming lawsuits in excess of 1,000 lawsuits a month. This is a 60 percent increase over this same time last year in 2017, and that is directly related to the influx of Hurricane Irma litigation in combination with the ongoing water loss litigation that we continue to receive.

Elaina Paskalakis continued, As far as the pending lawsuits, the Hurricane Irma suits represent 34 percent of our overall pending, while our water loss matters represent 31 percent, and while that seems that water loss matters are going down, that is really not the case. It is just that the overall pending is being diluted by in the influx of the Hurricane

Irma. So with that, I conclude my litigation update. I just wanted to keep it very high level and I will certainly entertain any questions you may have.

Chairman Aubuchon stated, Thank you, Elaina. Members, are there any questions?

Mr. Palmquist stated, Mr. Chairman, I have just one question.

Chairman Aubuchon stated, Sure, you are recognized, Jon.

Mr. Palmquist stated, Thank you, Mr. Chairman. Elaina, on the first page you distinguish total AOB from surge involved. Can you explain the distinction of surge involved?

Elaina Paskalakis stated, so what we are talking about with the surge involved was whether there was part of the damages are due to surge which wouldn't be covered. So it would be flood. So it is distinguished -- it is not a distinguishment from the AOB. It is the overall Hurricane Irma litigation and only three percent have involved a surge component.

Mr. Palmquist stated, Okay, thank you for the clarification.

Elaina Paskalakis stated, Sure.

Chairman Aubuchon stated, Members, any other questions? Okay, Elaina, thank you very much for your update, and we will go on to recognize Joseph Theobald to give us an update on the special investigations.

4. Special Investigation Unit Update

Joseph Theobald stated, Thank you. Again, I am Joseph Theobald, I am the Director of the Special Investigations Unit. And just a quick overview of our Special Investigations Unit, this is a dedicated resource within the claims department. And our primary purpose is to identify and respond appropriately to insurance fraud and packing the organization. Now most often we are looking at those that would either carry out fraud to obtain an insurance policy or submit a fraudulent claim to Citizens. And as the Director I have oversight of really a few key areas within the SIU. We have investigative field teams that investigate potential fraud at the point of sale, as well as during the claim process. We have an analytics team that helps identify potential fraud by analyzing data and trends, and we have a research and outsourcing team that investigates from the desk and they give us a scalable resource by overseeing investigative work that is carried out by investigative firms. And we also have a major case unit, MCU, which handles more complex investigations that often involve ring and organized activity.

Joseph Theobald continued, So if you refer to the fourth tab in the binder you will see the major case overview. And members of that team which is led by Norma Lezana in south Florida, they are supported by the analytics and research teams as well as our Citizens' legal team. The fixed area of their work does involve non weather water. In fact, claims involving non weather water accounts for 75 percent of our investigations. So again, it is a major focus of our SIU. And very similar to the update that Elaina gave, AOB is ever present in the claims investigated by SIU and we see use of AOB in the furtherance of insurance fraud by the bad actors.

Joseph Theobald continued, SIU investigations have resulted in many actionable referrals to the Department of Investigative and Forensic Services. And as a result, various individuals, we have plumbers, we have seen public adjusters have been arrested in their role in committing insurance fraud and submitting false or contrived claims to Citizens.

Joseph Theobald stated, In the next section we talk about some noteworthy cases that have come to light in the last year. During May of 2018, you may have read about a George Espinoza, Sr. and 30 others who have been arrested in a very large scale, massive insurance scheme. They have been arrested, many of them back in 2014. In the earlier part of this year he was sentenced to 20 years in prison and ordered to pay Citizens \$844,000 in restitution. We have received a payment for \$164,000 so far. There was a press release issued by the State Attorney that is attached following my briefing.

Joseph Theobald continued, In another case, in May 2018, we learned of the announcement of three individuals for their involvement in an arson for profit scheme. It was coined Operation Rent to Burn. Along with two others were arrested and that investigation stemmed from a Citizens' discovery of falsified receipts that were submitted with a fire loss claim. So those are the two briefings. You will also see the cases of interest which are in tab six of the binder, and there is also a press release from CFO Jimmy Patronis office on May 18, 2018. That concludes by briefing.

Chairman Aubuchon stated, Thank you, Joe. And well done to the team. Members, do you have any questions for Joe? Okay, we appreciate your update, thank you.

5. Vendor Update

Greg Rowe stated, Thank you, Chairman and Governors. I have five items to bring to you today, the first of which is our Special Investigative Services. The Special Investigations Unit that Joe just updated us on, utilizes vendors to conduct investigations in a capacity to allow for scalability of these services in response to a Cat. And primarily as Joe described, these services involve moderate to complex field inspections related to potential insurance fraud. To secure these services, on May 22, 2018 we issued an RFP 18-0031 for Special Investigative Services. The responses were received and evaluated by an evaluation committee. The committee recommended award to five primary and four contingent vendors on July 26, 2018. Those are attached on Attachment A in your binders. So Mr. Chairman, are there any questions before I move to the recommendation?

Chairman Aubuchon stated, Members, any questions of Greg? Okay, Greg go ahead and proceed with the recommendation, please.

Greg Rowe stated, Thank you, Mr. Chairman. At this time staff recommends that the Citizens' Claims Committee approve and recommends the Board of Governors, approve the recommended vendor contract, including the optional renewal for Special Investigative Services RFP 18-0031 to the vendors identified in Attachment A. Authorize staff to take any appropriate or necessary action consistent with this action item. And finally, approve the contract not to exceed \$850,000 for a contract period of three years with one optional two-year renewal.

A motion was made by Governor Capps and seconded by Governor Holton to approve and recommend Board approval of the Special Investigative Services Action Item, RFP 18-0031. All were in favor. Motion carried.

Greg Rowe stated, Thank you, Mr. Chairman. The next item is for Mobile Home Demolition Services, and this is another continuation of an existing program that we already have. For this particular item the Florida Statute requires Citizens to obtain the title for any mobile home that we deem a total loss, and once we deem it a total loss, Citizens is required to properly remove and dispose of all the mobile home, any part of which we determine to be a total loss. So we utilize vendors in the demolition, the removal and the disposal of these properties. To secure these services, on April 11, 2018, Citizens issued RFP 18-0026 for Mobile Home Demolition. These responses were received and evaluated by an evaluation committee, and the committee recommended an award to four vendors on July 24, 2018, and those vendors can be seen on Attachment A of your binder. Mr. Chairman, are there any questions before I move forward with the item?

Chairman Aubuchon stated, Members, any questions of Greg?

Governor Capps stated, this is Blake Capps, I have one question.

Chairman Aubuchon stated, you are recognized, Blake.

Governor Capps stated, Great. On the issue of demolishing and hauling away mobile homes, I was just curious as to why that is Citizens' obligations? Like if a mobile home is worth \$50,000 and the claim is a total loss, but not \$50,000 worth of damage and Citizens hands the owner of the mobile home a check per se, \$30,000, I am curious as to why it is Citizens' responsibility to remove the totaled mobile home.

Greg Rowe stated, Sure. So at this point within the action item, we do have Florida Statute 319-30. So in the state of Florida a mobile home is considered a vehicle and once we obtain the title to that mobile home, just like anything else, it is deemed a total loss and per the statute we have to dispose of that. So we wouldn't want a mobile home open and unsecured if it was in a totaled status. It would be an attractive nuisance and certainly bring liability, potential, if that just remains. So it is our duty to remove that, and within the scope of the contract, you know, the company that comes out certainly disposes of that and takes it so it is off of our hands in the sense of a liability concern and allows the homeowner to replace it if they so choose on that same property.

Governor Capps stated, Okay, that sounds reasonable and I understand now. Thank you.

Greg Rowe stated, You are welcome.

Chairman Aubuchon stated, Members, any further questions? Okay, Greg, go ahead and read the recommendation, please.

Greg Rowe stated, Thank you, Mr. Chairman. Staff recommends that the Citizens Claims Committee approve and recommends the Board of Governors, approve the recommended vendors for award and resulting contracts including the option renewals for Mobile Home Demolition, RFP 18-0026 to the vendors identified in Attachment A at a cost not to exceed

\$2,814,048 for the contract base term and renewals. And finally authorize staff to take any appropriate or necessary action consistent with this action item.

Chairman Aubuchon stated, Okay, members, you have heard the recommendation. Are there any questions? Hearing no questions, do we have a motion?

A motion was made by Governor Schinz and seconded by Mr. Palmquist to approve and recommend Board approval of the Mobile Home Demolition Action Item, RFP 18-0026. All were in favor. Motion carried.

Greg Rowe stated, Thank you, Mr. Chairman. The next item is another continuation of replacement for an existing service for Loss History Reports. Basically this contract allows us to secure reporting of prior loss information on properties that we insure, and allows the adjusters and the SIU, Special Investigations Unit, to properly adjust the submitted claim. To secure these services we issued ITN 18-0024 for Loss History Reporting on June 7, 2018, and on July 26, we received a single response from the Insurance Service Office, ISO, and ISO is also our current incumbent for loss history services that we have in place today.

Greg Rowe continued, Mr. Chairman, are there any questions before I move towards the recommendation?

Chairman Aubuchon stated, Members, any questions? Hearing no questions, Greg, go ahead and read the action item, please.

Greg Rowe stated, Thank you, Mr. Chairman. Staff recommends the Citizens Claims Committee approve and recommends the Board of Governors approve the recommended award and resulting contract, including renewal periods for Loss History Reports, ITN 18-0024, to Insurance Service Office, Inc., as set forth in this action item. Authorize staff to take any appropriate or necessary action consistent with this action item and approve the contract not to exceed \$8,315,000 for a contract period of five years with one five-year renewal option.

A motion was made by Governor Holton and seconded by Governor Schinz to approve and recommend Board approval of the Loss History Reports Action Item, ITN 18-0024. All were in favor. Motion carried.

Greg Rowe stated, Thank you, Mr. Chairman. This next action item falls under our existing Independent Adjusting Services - Litigated contract. What we are looking to do is amend the existing terms of the contract to add new adjuster classifications and a corresponding compensation schedule for what would be pre-suit mediation adjusters and pre-suit appraisal adjusters. Market conditions after Irma have resulted in a shortage of resources that were just not able to meet the current qualifications, and obviously our litigation department has a need for continued resources in that space. So this action item is seeking to approve and create two new additional classifications within the existing contract that are less stringent and allows us to bring on a pre-suit mediation adjuster I and a pre-suit appraisal adjuster I, both of which meet the qualifications and compensation schedule listed in the contract. And for this particular piece the action item doesn't necessitate any changes in contract spend. We are just seeking to add additional

resources to allow us to meet the needs of the litigation unit. Mr. Chairman, is there any questions before I move forward with the recommendation?

Governor Holton stated, Mr. Chairman, Jim Holton, one quick question. The amount that you guys articulate in there, the \$625 rate and the \$525 rate, that is completely in line with current industry standards in Florida?

Greg Rowe stated, It is. It absolutely is.

Governor Holton stated, Okay. I know there is a scarcity here. So these rates I think are pretty much on the money. I was just knowing is there flexibility with doing that or do you have to stick kind of directly with that schedule if say for instance there was an abundance given current market conditions, is there some maneuverability in that schedule to go down or below that ceiling?

Greg Rowe stated, Yes, sir. So last year within this contract we actually did. We offered the Board the opportunity to change those rates based on market conditions after Harvey. So there would be flexibility. Obviously we would need to come back to the Board on that, but at this point it is just strictly for the contract as it states based on our current market conditions.

Governor Holton stated, Okay, got it.

Chairman Aubuchon stated, Freddie, do you have a question?

Governor Schinz stated, Yes, sir, I do, please. The question I have is under the recommendation. It says, approve the recommendation for the increased total contract authority 15 million from 16.8 and a total of 31.8. With that being said, it says above it was approved, but it also says that will be depleted 2019. Has that additional 16.8 been approved in the upcoming budget or the current budget?

Greg Rowe stated, Yes, sir. I believe you are actually referring to the Commercial Adjusting Services Action Item, which is our next one. So if you flip back to RFP 17-002, Independent Adjusting Services, those are the numbers that we are referencing.

Jay Adams stated, For the record, this is Jay Adams. Governor Schinz, under the Independent Adjusting Services these are not budgeted in our administrative budget. These are expenses that are tied directly to the claims handling and they are coded as our loss adjustment expense. So from an actuarial perspective we do put that into what our financials are, but we don't do a line item budget specific to these.

Governor Schinz stated, So that additional monies are in the 2019 budget or the 2018 budget?

Jay Adams stated, for the contract that Greg is speaking to right now, for the addition of those two categories of adjusters, we are not asking for any increase at all. We are just putting in two new categories. You may be referring to the Commercial contract that Greg is going to speak to next.

Governor Schinz stated, Right. Okay, well, that answers my question and I appreciate it. Thank you, Mr. Chairman.

Chairman Aubuchon stated, Okay, Freddie, and members, any further questions?

Governor Capps stated, This is Blake Capps, I have one. These two new classifications of adjusters, can you explain just a little bit more about why you need them and what the differences are? I know that it appears that the experience requirement is two years instead of four. How will this help you to obtain more adjusters and to meet the demand by having these two new categories as compared to our current situation?

Greg Rowe stated, It really is just a matter of resources. So when we seek to procure new resources from our adjusting firms in this particular space, a lot of the candidates that they come back with did not meet the four-year threshold that we have currently in our contract, but they do meet one that will be less stringent of a two-year contract. So with the amount of work that we have in our litigated space today we have seen based upon the existing resources that if we allow what I would say an adjuster with less experience, there is a larger pool for them to come in and work in these pre-suit adjusting spaces. So the market is there based on what we have seen and that is what our vendors are also telling us. They have exhausted their resources in terms of a lot of those who have four or more years. So that is what we are going off of.

Jay Adams stated, And this is Jay Adams again. And just to help clarify. So the Florida marketplace has seen a significant increase in the amount of litigation across the entire state. Citizens has certainly seen our fair share of that increase as well. And what that is doing is putting a significant pressure on resources that are involved or engaged in anything to do with appraisal and litigation. And what we are trying to do is create really a trainee type position that we can give some of the easier cases to, to help bring some of these folks up to the full standard level of the four-year, and to supplement the marketplace to date, because what is really important is we don't want to over burden any adjuster with too many claims because then they can't handle those claims appropriately. So in order to create some expansion Greg is bringing forth this action item to try and create some new space with a little less requirement. The rate being a little less than what we pay for a four-year adjuster of the same type.

Governor Capps stated, Great, thank you.

Chairman Aubuchon stated, any further questions? Hearing none --

Barry Gilway stated, Mr. Chairman, Barry Gilway. May I make a comment?

Chairman Aubuchon stated, You may. Welcome, Barry.

Barry Gilway stated, so I just think some numbers might help in this situation relative to really the lack of resources that are going to occur in the industry. The numbers that I will be actually presenting this afternoon at INCON show that in total there were 27,000 litigated cases for all companies in 2013. In 2017, that had grown from 27,000 to 49,000, and through six months of this year the industry was already at 40,600 on track for close to 80,000 litigated cases. So the issue that Jay and his team are trying to address is how

do we get competitive resources in the industry when the expectation is that by the end of 2018, you will have four times the number of litigated cases across the industry. So it really is it is very similar in nature to the issue we had with independent adjusters during Irma. However, I think the way Jay and his team are attempting to handle this is creating additional categories of defense counsel that can respond, that may have less overall experience, but still have the capability to handle the less sophisticated cases. So I just wanted to put the numbers on the table, Mr. Chairman, just so that people understand the magnitude of what is happening from the litigation perspective across the industry. Thank you.

Chairman Aubuchon stated, Thank you, Barry, I appreciate that clarification. So before we read the recommendation, any further questions?

Governor Schinz stated, Yes, this is Freddie Schinz, Gary. Could I just clarify something?

Chairman Aubuchon stated, Sure.

Governor Schinz stated, When I was turning the page I asked the questions on the consent item, my thumb went the wrong way. So I have already got those answered. I have no questions on the action item about the adjusters.

Greg Rowe stated, Got you, appreciate that.

Chairman Aubuchon stated, So at this point, Greg, please go ahead and read the recommendation.

Greg Rowe stated, Thank you, Mr. Chairman. Staff recommends that Citizens Claims Committee approve and recommend to the Board of Governors, approve the recommended contract amendment to add pre-suit mediation adjuster I and pre-suit appraisal adjuster I classifications for Independent Adjusting Services - Litigated, RFP 17-0002, and authorize staff to take any appropriate or necessary action consistent with this Action Item.

A motion was made by Governor Schinz and seconded by Governor Capps to approve and recommend Board approval of the Independent Adjusting Services – Litigated Action Item, RFP 17-0002. All were in favor. Motion carried.

Greg Rowe stated, Thank you, Mr. Chairman. This is our last item and it is a Consent Item for Commercial Adjusting Services. Again, this is an existing contract we have in place today. It has been in place since September 30 of 2015, with an initial contract spend approval of \$16,800,000.

Greg Rowe stated, So after Hurricane Irma there was obviously a shortage of resources much like we have seen in the litigation space. So with that, Citizens increased our rates to attract resources, specifically due to Hurricane Harvey without having many here in Florida. And as a result of this the assignment volume, the contract to spend currently stands just below \$16.2 million which is around \$600,000 less than the approved spend. So with this piece looking like we would not be able to stay under the approved amount by February 2019, this Consent Item is seeking to increase its total contract spend from

\$16,800,000 to \$31,800,000. And this increase spend would basically cover us for any expenses without a storm or potentially with a storm until this contract renews. Mr. Chairman, is there any questions before I move forward with the recommendation?

Chairman Aubuchon stated, Members, do you have any questions? Greg, I have one. Giving the increase spends from the 16.8 to the 31.8, it is the spend authority, but I just want to clarify. There is no obligation to spend that should the need not arise, is that correct?

Greg Rowe stated, That is absolutely correct. It would be as needed, and if we don't have any storms, then obviously the spend would be much less and we don't anticipate getting anywhere near that.

Jay Adams stated, This is another one of those contracts where it is really not a budget amount that comes out of the administrative budget. This is paid on a claim by claim basis as it is incurred as loss adjusting expense. So to answer your question, we certainly don't spend it unless we get the claims to initiate that activity.

Chairman Aubuchon stated, Very good, I appreciate that clarification. Members, any further questions? Okay, Greg, please go ahead and read the recommendation.

Greg Rowe stated, Thank you, Mr. Chairman. The staff recommends that Citizens Claims Committee approve and recommend to the Board of Governor, approve the recommended increase of the total contract authority by 15 million, from \$16,800,000 to a total of \$31,800,000 for Commercial Adjusting Services RFP 15-0018 for the remaining contract terms and renewals and approve staff to take any appropriate or necessary action consistent with this Consent Item.

A motion was made by Governor Holton and seconded by Governor Schinz to approve and recommend Board approval of the Commercial Adjusting Services Consent Item, RFP 15-0018. All were in favor. Motion carried.

6. Addendums

[For information only.]

7. New Business

Chairman Aubuchon stated, Before we adjourn, members, is there any new business to come before the committee? Hearing none, I will entertain a motion to adjourn.

A motion was made by Governor Holton and seconded by Governor Capps to adjourn. All were in favor. Motion carried.

[Meeting Adjourned]