

**CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING
HELD TUESDAY SEPTEMBER 25, 2018**

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 2.00 pm on Tuesday September 25, 2018 in Maitland, FL.

The following members of the Audit Committee were present telephonically:

Governor Bette Brown, Chairwoman
Governor Jim Holton
Governor John McKay
Governor Marc Dunbar

The following member of the Board were present:

Gary Aubuchon
Blake Capps

The following Citizens Staff were present:

Jay Adams	Eric Addison
Christine Ashburn	Violet Bloom
Kelly Booten	Brian Donovan
Bonnie Gilliland	Barry Gilway
Mark Kagy	Paul Kutter
Joe Martins	Jennifer Montero
Dan Sumner	Elaine Thomas
Barbara Walker	David Woodruff
Andrew Woodward	

The following were also present:

Dave Newell, FAIA
Kapil Bhatia, Raymond Jones
Keith Thompson, FTN Financial Capital Markets
M. Lezcano, UBS Financial Services
Keith Thompson, FTN Financial
Jonathan Ruth, FTN Financial
Albert del Castillo, Greenberg Traurig, PA
Tamaa Patterson, Jefferies

Call Meeting to Order

MS. WALKER: Good afternoon, and welcome to Citizens' September 25th, 2018 Audit Committee Meeting publicly noticed in the Florida Administrative Register. Our Board and committee meetings are recorded with transcribed Minutes available at our website. As a reminder and as noticed in the Florida Administrative Register, the Finance and Investment Committee meeting will convene immediately following the Audit Committee meeting. Our meeting will now convene with roll call if that pleases the Chairman.

CHAIRMAN BROWN: Thank you very much, Barbara that would be great.

MS. WALKER: Chairman Bette Brown.

CHAIRMAN BROWN: Here.

MS. WALKER: Governor Marc Dunbar.

GOVERNOR DUNBAR: Here.

MS. WALKER: Governor James Holton?

GOVERNOR HOLTON: Here.

MS. WALKER: Governor John McKay.

Chairman, you have a quorum.

CHAIRMAN BROWN: Thank you, Barbara. Let's go ahead and call the meeting to order. I could accept a motion to approve the Minutes of the June 19th, 2018 meeting.

GOVERNOR HOLTON: Move to approve.

GOVERNOR DUNBAR: Second.

CHAIRMAN BROWN: All in favor.

(Chorus of ayes.)

CHAIRMAN BROWN: Motion passes. I believe Joe Martins is here to talk about his assurance dashboard and audit report, also the audit control management system consent item. Joe, you have a new format, it was quite impressive. I am looking forward to sharing the audits and the format with the group.

MR. MARTINS: Good afternoon, Governors. For the record, this is Joe Martins, Chief of Internal Audit.

I would like to start off behind tab two on page 8, and on this page we provide results based on a rolling audit plan that was completed over the past nine quarters and was scheduled for the next two quarters. We highlight seven audit engagements which were completed since the last meeting. Of these audits I would like to talk about the Centerpoint Access HCM payroll work that we did. The HCM module is used to process and manage payroll benefits, time and labor, and talent management for Citizens. Privileged roles within the HCM module will allow an assigned user the ability to create and modify employees' salaries, benefits, addresses and bank accounts. Within the audit we noted that systems implementations and the complexity of the oracle roles and permissions contributed to challenges in properly managing user access. Specific corrective action plans have been agreed with management and these are being implemented. The Office of Internal Audit further scheduled a detailed audit of Citizens' payroll processes to ensure that these have not been negatively impacted by this. I would also like to talk about the results from the Social Media Audit. Here we concluded that procedures are generally well defined and proper controls are in place. There is however a person dependency

concern and it was agreed that a member of staff will be trained as backup. The current social media policy needs to be refreshed and access to social media accounts will be improved. On page 11 we noted three advisory engagements that were canceled, that these were no longer needed by the business. Work currently in progress includes audits of the revised Managed Repair Program and oversight of approved Alternative Work Arrangements and Centerpoint User Access focusing this time on finance and the procurement modules. We also have two advisories. One focusing on the review of the vendor management office responsible vendor review process. And the second advisory we look at the maturity of Citizens' new Enterprise planning and delivery methodology. Work we are scheduled to complete in quarter 01/2019 includes audits of payroll processes, management of claims mitigation expenses, implementation of adopted IT security standards and an advisory of coordination and management of data analytics within SIU. On page 13 we provide detail of control deficiency resolution and noted that these receive adequate business focus and are well managed. And lastly, on page 57 we included the consent item to be presented to the Board for approval. This consent item is for approval of an amendment to TeamMate to upgrade Citizens' audit management software with the vendor's TeamMate Audit Management product to its TeamMate Plus product. This upgrade will allow for increased efficiency through enhanced configurability and various components, robust historical insights, work paper versioning, enhanced dashboard reporting and ease of use on many types of devices. The proposed amendment will result in additional contractual payments of \$34,706 over the full nine year term of the contract; but this will not cause Citizens to exceed the amount previously authorized by the Board. The Office of Internal Audit request approval of the consent item for the Audit Committee for presentation to the Board.

CHAIRMAN BROWN: May I have a motion to approve the audit and control management system contract 15-15-0017-00 amendment for Wolters Kluwer Financial Services?

GOVERNOR DUNBAR: Motion to approve.

GOVERNOR HOLTON: Second.

CHAIRMAN BROWN: All in favor say aye.

(Chorus of ayes.)

CHAIRMAN BROWN: Motion passes. Members, do you have any questions of Mr. Martins on his presentation with the new assurance dashboard and the three or four audit reports that are in the package? Okay, thank you, Joe.

MR. MARTINS: I would also like to continue with just a short presentation on the Internal Control Office and the ERM office.

CHAIRMAN BROWN: I am sorry, go ahead.

MR. MARTINS: And then I will turn it over to Jay Adams. On page 15 I provided progress of the roll out of the internal control framework project. This exercise is scheduled for

completion on October 2019. By the end of the year we will have completed our reviews of 56 of the 71 in scope processes. Business units commenced with the annual control assessments with 37 of the completed processes. These self assessments focus on the review of the control design which is then followed by an assessment of the control effectiveness. Control deficiencies are reported to the Internal Control's Office and corrective action is monitored by them. As for Enterprise Risk Management, we would like to note on page 17 that we are currently implementing our risk management administrative tool. The Enterprise's office further performed strategic risk assessment for the executive management and through this, 15 strategic risks were identified and are being further developed. Two of these risks refer to the claims processes and Jay Adams will present the risk and management action to the committee. Operational risk assessments are progressing well with 58 of the 72 assessments scheduled for completion by the end of this year. That concludes my presentation.

CHAIRMAN BROWN: Thank you, Joe.

MR. ADAMS: Hello Chairman and committee members, this is Jay Adams for the record. As Joe indicated I would like to go over the claims unit ERM risks that we have identified thus far. The first one I would like to talk about is claims abuse. And what we mean by that is failure to identify and stay in front of claims abuse schemes that increase litigation costs for Citizens. You have heard the claims report talk about the non-weather water schemes and claims that have happened, and this is the type of thing that we are talking about here when we talk about these claims abuse items. Some of the mitigation things that we have done so far to try to mitigate that and stay in front of it is, we have had our SIU leadership liaison focus on the Florida DFS for PNC industry awareness and reporting. We work really close with those folks making department referrals anytime that we suspect fraud. We have also done a considerable amount of product reviews to recognize contract deficiencies that may provide opportunities for future claim schemes and abuses. So what we try to do is identify those as soon as the trend occurs and start working on making the product language changes. Our UAF leadership team has done a lot of outreach to the agencies to help make them aware of any issues of fraud, and to look for and report any trends they may have to our special investigative units. We have automated our vendor and public adjuster data collection in our claims center or our claims management system, to identify providers. And what we are looking for there is trying to identify relationships. Sometimes we see bad actors working together that create these schemes. We also have put a feedback loop between our non-litigated and litigated claims groups. And the idea there is as we see emerging trends, we make sure that the non-litigated and litigated teams are both aware of it so that we can develop and build out our strategies to help address those as soon as possible. As with any plan that we are ever going to have in this risk structure, there is always going to be some potential gaps or concerns that we will continue to have that we will continue to keep an eye on. Some of those that we have for our claims abuse are, these claims abuse schemes evolve slowly, usually over a period of time. And a lot of times they are difficult to identify. We have created as much reporting and data analytics as we can to try to help to pre-identify

those, but new schemes again evolve very slowly. We continue to look at our product language and we engage the product folks, our legal, claims legal and our claims folks to look at the product language to see if there is any areas that can be tighten up, present less opportunity for these schemes to occur in the first place. And then we rely on our outside vendors for claim adjustment and litigation handling. And as we rely on those others, we have to do that for scalability reasons. That might obscure some of our trend analysis. We might not see things as fast as we would like to because we have non-staff members handling a portion of our claims. The second issue that we identified is in our CAT response. And what we are concerned about here is the failure to have adequate resources to respond to a major catastrophe event. As this Board is fully aware last year during Hurricane Irma we ran into that problem, and you know, one of the largest causes of it was that Hurricane Harvey hit Texas a few weeks before and most of the independent adjusters deployed out to that storm. So some of the things that we have been doing to help mitigate this, and again, the claims group has brought this before the full Board, we have done significant amount of work in the solicitation field to try to make sure that we secure the right types of contracts for the right resources. We have done that for independent adjusting services, at field inspection services, aerial drones, and we have also made sure in our contracts, for example, the IAC schedule, that we keep that market compatible all the time to make sure that we can get the resources that we need. We also have established not only a fast track solicitation and team, we have also set up a processing guide and sent our catastrophe team out to those locations to make sure that they had the infrastructure in place ready to be responsive in 2018, if we need those folks. We also established some new Xactanalysis workflows, and those workflows are to help take pressure off of our claims administrative system as far as doing the assignment. So there is not as much logic needed to make the assignment. And also the process that we move to also is an industry standard for independent adjusting services using the Xactanalysis platform. And again, I just wanted to close herewith a few of the gaps or concerns that we still have. As I mentioned earlier we are always at risk if another state or geography outside the state receives a storm or if there were multiple storms if Florida were to sustain a hurricane. When we have multiple events even within the state of Florida, it tends to stress our resources. So if we have adequate resources and we have a prolonged event or multiple events, those resources that are currently engaged, including our staff, become stressed and become less productive over time. We have enhanced our catastrophe response plan by allowing our non-catastrophe team, what we call the managed claim model, to be our first responders when a catastrophe hits. Those resources are already on the ground. They can take claims immediately. So when we do that and start to infuse the claim volume into that team, we always have to take a step back and make sure that we are not doing it to the detriment of non-catastrophe claims. And with that, Joe, I think that concludes my presentation. Any questions?

CHAIRMAN BROWN: Members, any questions of Jay Adams?

GOVERNOR DUNBAR: Jay, this is Marc Dunbar. I only have one quick question and comment, and it is as it relates to how we are watching ourselves on the claims side. I

know one of the practices that I think you are doing, but I didn't see in here, is that you are regularly monitoring the rate and form filings of other PNC carriers in Florida, right, so that we are watching them to see how they are reacting to various schemes that are out there, is that correct?

MR. GILWAY: Yes, Governor Dunbar, for the record, Barry Gilway. Yes, that is correct, we do. We are consistently looking at all the product of form filings for other carriers and assessing whether the language in those policies would be beneficial. We are also looking prospectively at the potential of the latest cases and what adjustments might be needed to take advantage of the most recent decisions that are handed down, such as the latest DC four decision on restoration one.

GOVERNOR DUNBAR: Yes, that is what I thought. I just wanted to make sure that that was. I didn't see it in the bulleted items, but I thought that was the practice, Barry, thank you, and I appreciate it. That is all I had, chairman.

MR. GILWAY: Yes, sir, thank you.

CHAIRMAN BROWN: Any other comments from other members? Okay, I will tell you, Jay, I am very pleased with your handle on getting ahead of those fraudsters. It is hard. You have a great team and you are doing a really good job. It is amazing how much of that goes on, but you guys are on it and I appreciate the amount of work that takes. Also living in Monroe County which was Irma's first stop, I can tell you, you did a great job on the claims and the CAT response. I know it is always hard when you have hired adjusters that, and I know you train them and now and again you have a problem, but I didn't see much of that here. So I compliment you on that. Good job.

MR. ADAMS: Thank you, Chairman.

CHAIRMAN BROWN: I assume we are ready to move on to Jennifer Montero.

MS. MONTERO: Thank you, good afternoon, committee members, and for the record, my name is Jennifer Montero, Chief Financial Officer. Behind tab four of the Audit Committee material you will find the June 30th, 2018 financial results which consist of the financial summary and the statement of operations and quarterly financial updates. Through the first half of 2018, and leading into hurricane season Citizens' financial position remains incredibly strong despite the 1.3 billion in net incurred losses and LAE resulting from Hurricane Irma in 2017. At June 30th, Citizens' consolidated surplus was approximately 6.5 billion with an additional 1.7 billion and pre-event liquidity, 6.5 billion, sorry, 6.5 billion and an additional 1.7 billion of pre-event liquidity, 1.4 billion in private risk transfer and 2.2 billion of Cat Fund coverage. Consolidated direct written premium for the first half of 2018 was 460 million, which is 5.1 million or one percent less than the first half of 2017. This decrease is the result of decreases in combined policies in force, primarily commercial lines policies within the commercial lines account and the coastal accounts. The personal lines account increased 3.7 percent, while the CLA and coastal accounts had decreases in PIF of 29 percent and 13 percent respectively. The volume of premiums

removed through depopulation was substantially unchanged during the first half of 2018 as compared to '17. Premiums ceded through reinsurance arrangements totaled 240.9 million which is a 10.4 million less than the same period in 2017. The decline was driven by declines in the cost of private reinsurance, as well as declines in premium ceded to the CAT Fund was largely due to declines in reinsured exposure and overall declines in risk adjusted pricing on private reinsurance agreements. On a consolidated basis losses incurred through the second quarter of 2018, were relatively unchanged as compared to the prior calendar year. By account the PLA and coastal account did not have any significant loss development on prior accident years, whereas the commercial lines account experienced adverse loss development as a result of settlement of sinkhole losses from prior accident years. While losses in LAE development within the CLA and commercial line policies in the coastal account are less significant to the accident years to which they relate, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings and the loss in LAE ratio as a result of development in prior accident years when the commercial lines book of business was considerably larger. LAE incurred during the current calendar quarter increased as a result of increased resources both internally and externally needed to address continued challenges with non-weather water losses. Recent trends suggest that the fraction of non-weather water claims entering litigation has stabilized, but remains within a historically high range of 40 to 50 percent. Growth losses and LAE attributable to Hurricane Irma were unchanged from the prior quarter and remain at 1.8 billion. Estimated recovery from the Florida Hurricane Catastrophe Fund are 534.7 million. Estimated coverage from private reinsurance are 126.4 million within the coastal account. Administrative expenses incurred during the first half of 2018, of 66.1 million were approximately unchanged relative to the first half of 2017, and 13 percent below budget. The 3.7 million variance and travel expense when comparing the rolling 12-month period ending June 30th, 2018, to the same period in 2017, is related to travel costs incurred as a result of Hurricane Irma. These costs include catastrophe response centers, temporary claims locations and additional travel. However, all Irma related expenses are reclassified to loss adjustment expense through the ULAE expense allocation. Through the first half of 2018, Citizens' expense ratio was 24.5 percent, reflecting a .7 percent decrease from 2017, and a 1.5 percent decrease as compared to budget. We anticipate that the actual expense ratio for fiscal year 2018, will be in line with the budget expense ratio of 24.3 percent. Total invested income was 95.2 million at June 30th, which is roughly six million less than the same period a year ago, while total average invested assets declined two billion over the same comparable period. Net realized losses were 15.3 million representing an increase of 11.8 million relative to the first half of 2017. Net realized losses were taken as portfolio managers maintained duration targets across portfolios, reinvesting maturing positions and liquidated existing positions to meet scheduled debt service requirements. This resulted in an increase in realized losses due to overall rising market interest rates, volatility and fluctuations and credit spreads. It is expected that these short term realized losses will be more than offset by longer term increases in overall returns when

reinvesting in the higher interest rate environment. And I will pause for any questions. If there are none, that would conclude my report.

CHAIRMAN BROWN: Members, any questions of Jennifer Montero? Thank you, Jennifer.

MS. MONTERO: Thank you.

CHAIRMAN BROWN: Under tab five you have the complaint management statistics. There is nothing there of any substance. So I will move on to see if there is any new business for the committee. Hearing none, I will entertain a motion to adjourn.

GOVERNOR HOLTON: Move to adjourn.

CHAIRMAN BROWN: Is there a second? We are adjourned.

(Whereupon, the meeting was concluded.)

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