

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE  
BOARD OF GOVERNORS MEETING  
Wednesday, September 26, 2018**

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North in Maitland, Florida on September 26, 2018 at 9:00 a.m. (EST).

**The following members of the Board were present:**

Gary Aubuchon, Interim Chair  
Bette Brown (telephonically)  
Blake Capps  
Marc Dunbar (telephonically)  
James Holton (telephonically)  
Freddie Schinz (telephonically)  
John Wortman  
John McKay (unavailable)

**The following Citizens staff members were present:**

Barry Gilway	Steve Bitar
Dan Sumner	Joe Martins
Mark Kagy	Andrew Woodward
Barbara Walker	Michael Peltier
Jennifer Montero	Elaine Thomas
Kelly Booten	Christine Ashburn
Jay Adams	Bonnie Gilliland
Violet Bloom	David Woodruff

**The following people were present:**

Dave Newell	Nathaniel Johnson
Katil Bhatia	Drake Dalton
Keith Thompson	Adam Schwebach
John Generalli	Ken Vincent
Coleman Cordell	Jason Kutz
Doug Draper	Josh Hopwood
Tamera Patterson	Henry Reyes

## Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens' September 26, 2018 Board of Governors meeting. This meeting is publically noticed in the *Florida Administrative Weekly Register* and is recorded with transcribed minutes made available at our website. Please do not put this call on hold. Press \*6 to mute your line and #6 to unmute your line. We will convene with roll call.

Roll call: Chairman Gary Aubuchon, Bette Brown, Blake Capps, Marc Dunbar, James Holton, John Wortman. Governor Schinz will be joining momentarily.

### **1. Approval of Minutes**

Chairman Aubuchon: I'd like to welcome everyone to today's meeting of Citizens Property Insurance Board of Governors, September 26, 2018.

**A motion was made and seconded to approve the June 20, 2018 minutes. All were in favor. Motion carried.**

### **2. Chairman's Report**

Chairman Aubuchon: I'd like to thank CFO Patronis for his confidence in me in making this appointment. Most importantly, I want to thank our former Chairman, Chris Gardner, for his service, dedication, and leadership to Citizens. It was transformative and he was a great asset to this organization. He will be missed. I also want to recognize Barry Gilway, his Executive Leadership Team, and all the members at Citizens for their hard work and dedication to providing operational and customer service excellence. I'm very proud of the organization and in the direction it is headed.

Freddie Schinz: Good morning, Mr. Chairman. I just got on the phone, and I echo your comments as you just stated.

### **3. President's Report**

Barry Gilway: Thank you, Mr. Chairman and Board members. We have deferred many critical items to the December meeting, particularly the rate discussions. Under separate cover, you have received a pretty extensive litigation report, where we provided you an analysis of litigation which we do not intend to review today. I'll limit my comments today to a few metrics to show where Citizens is today in the marketplace. The numbers Jennifer Montero will show today reveal that we're writing a little less premium, which is good news, and slightly fewer policies than originally budgeted. We are reporting a variable net income variance of \$36M, and we are currently showing \$10M below the original administrative expense ratio. I will note that we will continue to run that by year-end. We think it'll be closer to budget. The real good news is that our policy count is down to 443,000, and we have remained stable at that level for over 18 months. We have really reached a stable point, and that is despite some very significant market changes related to current insurance appetite in the Tri-county areas resulting from litigation. In 2012, we

wrote 23% of the residential market in Florida. That's one out of every four homes. Today, that number is 5%. It's closing in on the level of participation of the other residual markets around the country. The beach plan states are all averaging around 4% of the residential market. At its peak in 2007, we had 79% of the commercial residential market, and today we have 8%. That number is dropping. While the overall policy count is stable, we are showing some growth in the first half in the Personal Lines Account (PLA), where we have the most peril exposure to water exposure. We grew by about 8,500 policies in the first half of the year in the PLA. But, the Commercial Lines Account (CLA) and Coastal Account are dropping, primarily in the Coastal Wind Only areas. The Clearinghouse and Depopulation programs are slowing, and that's been reported several times. But, they're operating effectively to maintain that balance. It's offsetting that 8,500 estimated new policies coming in every single month. One very interesting aspect that we looked at in the first half is the role of the surplus lines market. Back in 2012, the surplus lines market was writing only 100,000 policies. We've been asking ourselves where this business is going. Today, the surplus lines market is writing over 300,000 policies. The surplus lines market is most definitely increasing their overall share in the Florida market. We have a similar pattern in the litigation arena. In 2013, Citizens' litigation represented about 33% of property litigation. In 2017, Citizens litigation represented 15.5%. Clearly, part of that drop related to a drop in overall policy count, but another part of that drop is directly related to some of the strategies that Jay Adams and the litigation team have put into place. Our biggest challenge remains to find solutions to the Assignment of Benefits (AOB) issue but also to find solutions to the litigation issue that exists in the state. Florida CFO Patronis has taken a very aggressive position and has asked to partner with Citizens, the Office of Insurance Regulation (OIR), and others in holding statewide roundtables where we can get insight for every aspect of the industry that's involved in the litigation and AOB issue and get ideas and recommendations into how we might fix this issue going forward. My compliments go to the CFO in being aggressive in finding an industry solution. Christine Ashburn is coordinating our role with the CFO's office relative to setting up those meetings. Although we're only 5% of the market, the bottom line is that we still insure 443,000 policies. It's a huge part of the market. Bottom line is that solutions are still necessary if we are to maintain a competitive private marketplace today. The key is to keep it competitive.

Blake Capps: You mentioned that the PLA has grown some lately. How do we keep that in check to where Citizens does not become too big? I know one way is to make sure our prices are not so attractive that everyone wants to have their insurance with Citizens. What are some of the other ways to keep the company in check?

Barry Gilway: That's a great question. When you take a look at the numbers, we are growing in areas that are subject to multi-peril coverage and the related water damage losses. The growth relates to water related losses. Where we lose business is in areas where there is no exposure to water damage – wind and wind only. We expect those to continue downward. There are really only two ways that we can get a better handle on the growth in the PLA. You have to maintain the positive private market environment that exists today for those policies. You have to make sure Citizens' rates are not out of whack. Once we become highly competitive with the marketplace, obviously people are going to flock to Citizens. We need to be really careful with our rates compared to the industry, and we do extensive modeling. We'll be getting into a competitive analysis in the December meeting, showing everyone where we are today relative to the overall industry. The second issue that is going to drive the private market appetite is the

profitability. The one thing that's driving that in a negative is the level of litigation that's occurring. The solution to that is coming up with alternative ways to control the level of litigation, and as a result, control plaintiff costs and defense council costs. The key is to do everything we can to maintain a highly profitable private market, so they can have a continued interest in assuming policies. Today, that is not the case as shown in depopulation. That is not the case where we have water damage exposure and where you have litigation exposure. There is a recent decision – DCA4 – which is Restoration 1 – that might present a light at the end of the tunnel relative to the AOB issue. We're watching that development very closely if Citizens can take advantage of the DCA4, which may give us more flexibility in the policy language with third parties. We're waiting to see the Supreme Court action relative to that. There are some positive things on the horizon. Citizens is putting in a Managed Repair Program (MRP) that is starting to gain hold. The new language was implemented on 8/1, and we're seeing benefits from that. We're seeing benefits from the litigation strategy. Bottom line is maintaining a competitive private market as the key.

#### **4. Chief Financial Officer Report**

##### **a. Finance and Investment Committee (FIC) Report**

Chairman Aubuchon: We held our FIC meeting yesterday, and for many, it was our first experience in learning how the Florida Hurricane Catastrophe (CAT) Fund and reinsurance recoveries work as the Board experienced its first major hurricane. We also covered an action item: Investment Management Services. We reviewed the quarterly financial statements, and there is one consent item that we will take up later in this meeting.

##### **b. Risk Transfer Programs Update**

Jennifer Montero: I'm going to go through the PowerPoint presentation that we went through yesterday, which is the 2017/2018 Coastal Account layer charts. I'm going to go through the 2017 layer chart, given that we project some recoveries from the 2017 Risk Transfer Program. This is a good opportunity to highlight some of the coverages and how they work. Citizens' layer chart is a virtual representation, showing the resources available on claims for large events. The vertical axis increases with storm size, and in this chart, it goes up to a 1-in-100 year event. Citizens purchases a private risk transfer in the Coastal Account, and like all other property insurers, Citizens must purchase coverage from the FL CAT Fund. The left side of the chart shows coverage for the residential portion for both personal residential and commercial residential, and the right side of the chart shows coverage for the Commercial non-residential (CNR) coverage. The green blocks in the chart indicate losses, which would be funded from surplus. We structured the 2017 Risk Transfer Program so all losses below a 1-in-11 year event would be paid from surplus. You can think of it as a deductible. For the residential portion, we have CAT Fund coverage, a traditional reinsurance coverage which wraps around the CAT Fund, and an \$880M layer of reinsurance which sits above the \$150M wrap. \$300M of the \$880M is placed in the capital market via CAT Bond. The remaining \$580M was placed in the traditional market as aggregate coverage. You will also see the CNR coverage of \$100M off to the right and tan colored block. On slide three, this is the estimated Hurricane Irma recovery. We're going to walk through the Coastal Account residential recoveries from Irma. The blue diamond shows the trigger point for

each of the risk transfer coverages. The green box represents our projections for Citizens recoveries for Irma losses and loss adjustment expense (LAE). We expect recoveries from the CAT Fund and the wrap, but we do not anticipate payouts for Irma losses from the \$880M layer. The CAT Fund triggers are based on losses only and then paid 5% of losses as an allowance for LAE. Our traditional coverages trigger based on loss and actual LAE incurred, but then have inuring coverages, which you see subtracted out in the blue diamond. The CAT Fund recoveries inured to the benefit of the wrap contract meaning the CAT Fund recoveries reduce the losses, which will be covered by the wrap. The layer charts on slide two are a good visual on how coverage works, but it's still a simplification. Not only are the LAE simplified, but the chart only tells a story well when there is a single, large event. In 2017, in addition to Irma, there were Tropical Storm Emily, Hurricane Nate, and Tropical Storm Filipe. Hurricane seasons start from June 1 until November 1. Our hurricane risk transfer runs for the full year, ending May 30, 2018. So, Tropical Storm Alberto, which occurred at the end of May 2018, also falls within the last year's Risk Transfer Program. These four storms are projected to produce a low level of losses with an aggregate total of \$442,000 of loss in LAE. The traditional aggregate coverage have a lower attachment point but are also inuring coverage, meaning, in order to meet the lower attachment recoveries from other low layer contracts, such as the CAT Fund, inure or the benefit of traditional CAT coverage and potentially reduce payouts from the traditional aggregate contract. The Everglades CAT Bond has a higher retention and no inuring coverage, and an attachment of \$2.15B. All covers in the \$880M layer chart have an aggregate retention, meaning all the losses from the storms together need to meet the retention and not each individual storm. Because Irma met the retention, the other four storms in aggregate do as well. The next two slides are layer charts for this year's Coastal Account. The first is residential and commercial residential. The second one is for the CNR. Risk transfer placements for 2018 include \$180M in traditional reinsurance alongside the CAT Fund at a gross rate online of 10.75%; \$250M of capital market risk transfer through Everglades Re at a rate online for 4.75%; \$150M of traditional reinsurance for aggregate multi-year risk at a gross rate online of 6.6%; \$300M of traditional reinsurance for aggregate single-year risk at a gross rate online of 5.52%; and \$60M of traditional reinsurance for CNR risk at a gross rate online of 5%. In addition, we had multi-year coverage that carried over from the 2017 placement that consisted of \$180M of reinsurance for aggregate multi-year risk and \$300M of capital market risk for our Everglades Re. The strengths of Citizens and its marketing efforts in the traditional markets culminated effective pricing terms and enabled Citizens to transfer \$1.42B of risk at a cost of approximately \$89M, with a weighted average gross rate online of 6.1%, while exposing only 34% of Citizens' surplus in a 1-in-100 year storm.

c. Action Item: Investment Management Services with Attachment

Jennifer Montero: On May 3, 2018, Citizens released Invitation to Negotiate No.: 18-0018 for Investment Management Services. Responses were received and evaluated by an Evaluation Committee. The Evaluation Committee recommended award to vendors on August 24, 2018. A listing of the vendors recommended for award in the Notice of Intent to Award is attached as Attachment "A." There are 10 recommended managers for taxable and four recommended managers for tax exempt. This action item seeks approval for Citizens to enter into contract with multiple qualified vendors to provide Investment Management Services. The engagement will require selected vendors to make investment decisions and ensure strict compliance with Citizens' Investment Policies for Taxable and/or Tax-Exempt Funds. Citizens has over \$8.66B of

total managed assets pursuant to its Taxable and Tax-Exempt Investment Policies that are focused on safety, stability, liquidity and competitive returns. The current breakdown of the \$8.66B in assets is approximately 83% taxable and 17% tax-exempt. Citizens' Investment Policies are reviewed at least annually and may be amended from time to time as deemed appropriate and necessary, with approval from Citizens' Board. Estimated fees of \$25,050,000 for the life of the contracts, including renewal terms, is based on Citizens' current \$8.66B managed portfolio. Fees will fluctuate based on the total market value of Citizens' assets:

- Yearly estimated fees of \$4,175,000
- Fees are based entirely on the total average annual assets under management. Fees will be calculated on the aggregate amount of assets:

ASSETS	FEE
All assets up to \$750 Million	5 basis points (.05%)
All assets above \$750 Million	4 basis points (.04%)

**A motion was made and seconded to approve the contracts including renewal periods for Investment Management Services, INT No. 18-0018, to the list of Vendors in Attachment "A", as set forth in this Action Item; authorize staff to take any appropriate or necessary actions consistent with this Action Item; and approve this Action Item for the three (3) year period and three (3) optional one (1) year renewals for fees based on the total average annual assets under management. All assets up to \$750M at 5 basis and all assets above \$750M at 4 basis points, for an estimated yearly annual fee of \$4,175,000. All were in favor. Motion carried.**

d. Financial Summary and Statement of Operations (6-30-2018)

Jennifer Montero: The next tab is the June 30, 2018 financial statements. Through the first half of 2018 and leading into hurricane season, Citizens' financial position remains strong, despite the \$1.3B in net incurred losses in LAE resulting from Irma in 2017. As of June 30, 2018, Citizens' consolidated surplus was approximately \$6.5B with an additional \$1.7B pre-event liquidity, \$1.4B of private risk transfer, and \$2.2B of CAT Fund coverage. Consolidated direct written premium for the first half of 2018 was \$460M, which is \$5.1M less than the first half of 2017. This decrease is the result of decreases of combined policies in force (PIF), primarily in the commercial policies in the CLA and Coastal Account. The PLA increased 3.75% while the CLA and Coastal Accounts had decreases by 29% and 13% respectively. The volume of premiums removed from depopulation was substantially unchanged during the first half of 2018 as compared to 2017. Premium ceded through reinsurance totaled to \$240.9M which is \$10.4M less than the same period in 2017. The decline was driven by the declines in the cost of private reinsurance as well as declines in premiums ceded to the CAT Fund, both largely to the declines in reinsurance exposure and overall declines in risk adjusted pricing on private reinsurance. On a consolidated basis, losses incurred through the second quarter were relatively unchanged as compared to the prior calendar year. By account, the PLA and Coastal Account did not have any significant loss development in prior accident years, whereas the CLA experienced adverse loss development and as a result of settlements of sinkhole losses from prior accident years. While loss in loss adjustment development in the CLA and Coastal Account are less significant to the accident years, the diminishing sides of the overall commercial lines books of business leaves it more susceptible to material swings in the loss in LAE ratios as a result in loss in prior accident years when the

commercial lines book of business was considerably larger. LAE during the current calendar quarter increased as a result of increased resources internally and externally needed to address challenges with non-weather water losses. Recent trends suggest that the traction of non-weather water claims entering into litigation has stabilized but remains in a historical high range of 40% to 50%. Gross losses in LAE attributed to Irma were unchanged compared to prior quarter and remained at \$1.8B. Estimated recoveries from the FL CAT Fund are \$534.7M and estimated recoveries from private reinsurers are \$126.4M within the Coastal Account. Administrative expenses incurred during the first half of 2018 of \$61.6M were relatively unchanged compared to last year and 13% below budget. The \$3.7M variance in travel expense comparing to the rolling 12-month period ending in June 30, 2018 compared to the same period in 2017 is related to travel cost incurred as a result of Irma. These costs included CAT response centers, temporary claims locations, and additional travel. However, all Irma travel related expenses are reclassified to LAE through the ULAE allocation. Through the first half of 2018, Citizens expense ratio was 24.5%, reflecting a 0.7% decrease from 2017 and a 1.5% decrease as compared to budget. We do anticipate that the actual expense ratio for FY 2018 will be in line with the budgeted expense ratio of 24.3%. Total investment income was \$95.2M at June 30, which is roughly \$6M less than the same period a year ago, while total average invested assets declined \$2B over the same comparable period. Net realized losses were \$15.3M, representing an increase of \$11.8M relative to the first half of 2017. Net realized losses were taken as portfolio managers maintained duration targets across portfolios, reinvested maturing positions, and liquidated positions to meet debt requirements. This resulted in increased realized losses due to overall rising market interest rates, volatility, fluctuations, and credit spreads. It is expected that these short term realized losses will be more than offset by the longer term increases and overall returns when re-investing in a higher term interest rate environment.

#### e. Expense Ratio Overview

Jennifer Montero: I'd like to invite Andrew Woodward who is our Controller. At the last Board of Governors meeting, Chairman Gardner had asked us to put together an expense ratio overview, comparing us to other Florida markets and other residual markets nationally.

Andrew Woodward: Good morning. Jennifer mentioned that at the last Board meeting staff was tasked with bringing back to the September Board meeting an overview of our expense ratio, in particular, how we compare to private market carriers as well as other residual markets. The request was timely because, at the same time, staff in Financial Services was working with Citizens Office of Internal Audit (OIA) on that exact same analysis. That's a point that I really want to emphasize. This analysis was not done in isolation by Financial Services. It was led by the OIA and their work with an external consultant. I say that because I think it really underscores the credibility of what we're about to walk through in a minute. I think it's important to note that the Citizens of today is not the Citizens of six years ago – over the last six years, we've made several market improvements in modernizing our systems. We also implemented, maintained, and subsidized the cost of the Clearinghouse and have really expanded our customer service initiatives. Over that same period of time, we also faced some headwinds, most notably with the AOB issue and, not so long ago, sinkhole issues. I say this because as we are making these improvements, we also had a substantial decline in our top line of direct written premium. It's decreased by 72%, all of this while stabilizing our core infrastructure cost. So, a quick primer on

the expense ratio: it's a simple calculation. It's the sum of underwriting and administrative expenses divided by direct written premium. Administrative expenses consist of personnel costs, rent, depreciation, and professional services. Underwriting expenses, on the other hand, are more variable costs. Those consist of agent commissions and premium tax. The little illustration at the bottom shows the mechanics of the expense ratio, so that it's not only the expenses that influence the result – and in our case, it's really the direct written premium and the decline in direct written premium that has had the most impact. So, moving on to slide 12, this does a really good job of illustrating some of the points just made. You can see there that back in 2012, our premium, which is represented by the dotted red line, was a little north of \$3B. In comparison to today, in 2017, we had just shy of \$900M. Over that same period of time, you can see the underwriting expenses moving in tandem with premium as you can expect because those are more variable expenses. What I think is really important is that if you look at the expenses, which are highlighted in a light blue there, once you take out the project and initiatives commensurate with those comments I made earlier on the projects we've taken over the years, our core costs have really remained unchanged. I think that's a testament to the efficiency of which the organization is run. How does Citizens expense ratio compare to the private market? This is really the brunt of the work that OIA and external consultant performed – build a composite of the number of carriers in the market that they felt most closely approximated Citizens and measured their expense ratio over the past six years. You can see it's stable between 26% and 26.5%. Over that same period of time, we show Citizens' expense ratio. Again, that 72% decline in premium does have an impact on the expense ratio, but at the end of the year, it's slightly north of 1% below the private market. There are several important considerations that need to be kept in mind when we compare Citizens' expense ratio to the private market. I also mentioned that we did a comparison to other residual markets. In this regard, we hold a significant advantage in terms of our operational costs and efficiency. This chart up here, shows that the average of all residual markets over the last six years is tracking around 43%. Recognizing that there are different sizes in these fair plans, we then looked at the top 20. In both cases, we excluded Citizens. Again, we do hold a significant cost advantage. I think it's important because we do operate in the same manner a private insurance company would, but we are also a residual market. This is the last slide and this is something I want to emphasize. We do look at our expense ratio. It does serve as a good check and balance for us when we are preparing the budget. There are several considerations we have to keep in mind when we look at the expense ratio. The overwhelmingly biggest factor is our premium. It's no surprise that we have a significant rate need, and going back to that first or second slide I showed you, by having a deflated premium value that does put pressure on the expense ratio. We do have a different cost of capital. We do buy less reinsurance than private carriers. We also have less influence over our exposure and the geographic exposure of our risks. To a lesser extent, there are other factors that affect our ratio. We're subject to certain statutory provisions and mandates that have an impact on our cost structure. We also have to be nimble to accommodate material swings and policy count. Our commission structure is different than the private market.

John Wortman: Is there any significant difference between the three pools – CLA, PLA, and the Coastal?



Andrew Woodward: Not materially. When we look at the administrative expenses versus the underwriting expenses, the administrative expenses, there is not. For underwriting expenses, I believe the CLA pays a different rate in commission on policies. But, it's not material.

Blake Capps: It seems that generally in life that the government entities are less efficient in general. But, it would appear here that you are more efficient than the private market, and that's to be commended.

## **5. Chief Systems & Operations Officer Report**

### **a. Information Systems Advisory Committee (ISAC) Report**

Jim Holton: Kelly Booten and her team have done an excellent job in advancing all of our initiatives, and as she takes the seat, I'll give her the formal presentation on that.

Kelly Booten: The ISAC met via teleconference on September 11. I briefed the ISAC on IT Governance and Strategic Plans, starting with a brief overview of the IT Governance Structure and how IT plans are in alignment with business plans, which are governed by our Executive Leadership Team. Another area of my responsibility is strategic planning and annual planning for the organization, which also helps keep IT planning in alignment with business objectives. I also covered the primary business systems strategy including progress to date and plans for the upcoming years, which includes a continued focus on customer facing systems, implementation of our agent management solution, and improvements in our business intelligence and analytic set. In addition to the business systems strategy, there are strategies in the areas of IT security, content management, warehouse reporting, and cloud infrastructure. The ISAC was briefed by Robert Sellers on the completion of the Disaster Recovery Strategy implementation and Business Continuity Workspace contract implementation, and he also provided an update on our business continuity plans, including completion of the successful workplace recovery test with our new vendor. Sarah Harrell briefed the committee on the status of the Centerpoint Enterprise Resource Planning implementation, with an anticipated completion by the end of this year and remains within budget.

### **b. Action Item: Field Support Satellite Antenna System**

Kelly Booten: Citizens is seeking Board approval to procure a satellite antenna system to be mounted on Citizens' field support vehicle. The amount is for \$103,710 for a one-time purchase. Burton Enterprises, LLC dba Mobil Satellite Technologies was selected as the lowest priced bidder meeting all ITB requirements.

**A motion was made and seconded to approve the recommended award and resulting contract for ITB No. 18-0034, Field Support Satellite antenna system to Burton Enterprises, LLC dba Mobil Satellite Technologies as set forth in this Action Item; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.**

## **6. Chief Claims Officer Report**

a. Claims Committee Report

Chair Aubuchon: I want to compliment Jay Adams and his team for the excellent job they do in the claims arena. It is certainly one of those most difficult aspects of the Citizens operations, particularly in light of the AOB and non-weather water losses coupled with catastrophes that happen from time to time.

Jay Adams: Thank you. The Claims Committee met September 19, 2018. We had a really light agenda that had multiple action items. We discussed a litigated claims update and we had a detailed report on what our Special Investigative Unit (SIU) does, especially with regard to recent incidences and arrests. A question came up about whether the Claims Department is audited, outside parties making sure processes and procedures are appropriate. We just completed a nine month audit with the Attorney General's Office. We are underway with an OIR audit. The OIA are "frequent fliers" in the claims arena. As I move into the agenda items, I want to pause for a second and explain how all of these action items are budgeted and worked. Everything we talk about today are LAE. They are all budgeted, but they are paid only when they are incurred. They are paid as an expense to each claim as those items are incurred. Each of these contracts that we are discussing today are renewals. We already have these processes in place and those contracts are renewing. These are the solicitations to bring us up to speed.

b. Action Item: Special Investigative Services

Jay Adams: The first item is the Special Investigative Services, RFP 18-0031. This is to scale operations in response to CAT or whenever there is need in capacity. What we do is leverage these resources to help bring investigative services to our SIU department. On May 22, 2018, Citizens issued a Request for Proposals (RFP) 18-0031 for Special Investigative Services. Responses were received and evaluated by an Evaluation Committee. The Evaluation Committee recommended award to vendors on July 26, 2018. Attachment A lists the selected vendors.

**A motion was made and seconded for the Board to approve the recommended vendors for contracts, 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 approve the contract not to exceed \$510,000 for the base period and \$340,000 for the one optional two-year renewal. All were in favor. Motion carried.**

c. Action Item: Mobile Home Demolition Services

Jay Adams: The next action item is Mobile Home Demolition Services – RFP 18-0026. Florida Statute 319.30 requires Citizens to obtain the title to any mobile/manufactured home that has been determined by a Claims' Adjuster to be a total loss. It is Citizens' responsibility to ensure proper removal and destruction of all mobile/manufactured homes that have been determined to be a total loss. The services for this contract are for demolition, removal, and disposal. On April 11, 2018, Citizens issued a Request for Proposals (RFP) 18-0026 for Mobile Home Demolition. Responses were received and evaluated by an Evaluation Committee. The Evaluation Committee

recommended award to vendors on July 24, 2018. Attachment A is a copy of the Notice of Intent to Award listing the selected vendors.

**A motion was made and seconded for the Board to approve the contracts, including the optional renewals, for Mobile Home Demolition, RFP 18-0026, to the vendors identified in Attachment "A" at a cost not to exceed \$1,407,024 for the contract base term and \$1,407,024 for the three optional one-year renewals; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.**

d. Action Item: Lost History Reports

Jay Adams: The next item is the Lost History Reports – ITN 18-0024. This contract was awarded to the Insurance Services Office, Inc. (ISO). This contract is for the secure reporting of prior loss history information which will be utilized by Citizens' claims adjusters and the Special Investigation Unit during the investigation and adjustment of a submitted claim. Citizens issued an Invitation to Negotiate (ITN) 18-0024, Loss History Reports (Claims Dept.) on June 7, 2018. On July 26, 2018 Citizens received only one response from Insurance Services Office, Inc. (ISO). ISO is also our current incumbent for loss history services.

**A motion was made and seconded for the Board to approve the 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 \$3,647,000 for the five year base term and \$4,668,000 for the one optional five-year renewal. All were in favor. Motion carried.**

e. Action Item: Independent Adjusting Services – Litigated

Jay Adams: The next item is the Independent Adjusting Services – Litigated – RFP 17-0002. This contract is already in place, and what we're bringing before the Board today is an amendment. What we want to do is amend the existing terms of the contract to add new adjuster classifications and corresponding compensation schedules for the Pre-Suit Mediation Adjuster I and Pre-Suit Appraisal Adjuster I. As we discussed during the Claims Committee, the marketplace is under significant demand with all alternative dispute resolution methodologies as far as trying to find resources. What we're trying to do is open up the market to create some positions as trainee positions to handle some of the easier stuff for us and then incorporate that into our contract. We are seeing some resource issues in this space and this amendment is trying to address those concerns. In an effort to strengthen our ability to acquire additional resources the action item is seeking approval to create these two new classifications with a less stringent requirement of two-years experience for adjusting multi-peril property losses.

**A motion was made and seconded for the Board to 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 at a daily compensation rate of \$525 for non-catastrophe deployments; and authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.**

f. Consent Item: Commercial Adjusting Services

Jay Adams: We have an item here that is asking for an increase in contract-spend for Commercial Adjusting Services – RFP 15-0018. The Board of Governors approved a total initial contract spend of \$16.8M on September 30, 2015. This Consent Item is requesting an additional \$15M in funds be approved to cover expenses for the remaining contract term and renewals. The new total would be \$31.8M. When we set up this contract originally, we forecast the expenditures we thought we would have over the life of the contract, excluding any CAT activity. We all know we had Irma last year. We are getting close to the contract spend, so we want to bring before the Board this consent item that will carry us out through the renewal period, exclusive of any CAT activity. If we have a CAT in 2018, we may have to bring this back for additional increases.

Chairman Aubuchon: If you have any questions regarding this item in which we will take up in the Consent Agenda, then this is the appropriate time to ask those questions. It'll be read with the rest of the items at that time.

Marc Dunbar: I want to thank you for allowing that additional explanation. It was very helpful to me and I appreciate Jay going through it.

**7. Chief Human Resources Report**

Violet Bloom: Good morning. Thank you all for the recent opportunity to speak with each of you to review our employee benefit program. With the Board's support, Citizens provides a competitive benefit program that is critical to our efforts to attract and retain high performing employees. The results of our last employee engagement survey illustrate the importance of our employee benefits. 86% of our employees indicated that employee benefits are one of their top three drivers of their overall engagement. Culture and work environment are the other two drivers. The HR items presented today will allow Citizens to continue our current employee benefit program.

a. Action Item: Stop Loss Coverage for Medical and Prescription

Violet Bloom: The first action item is Stop Loss Coverage for Medical and Prescription. With the exception of one HMO plan, Citizens' medical plans are self-funded. Stop Loss Coverage provides reinsurance protection for claims over \$175,000. The funding will be included in the annual operating budget for the contract year. The estimated total cost of Stop Loss Coverage through Florida Blue for the contract period of January 1, 2019 through December 31, 2019, is estimated at approximately \$654,778. The actual cost will be determined by the moment in the medical plan. This Action Item represents a new contract with Florida Blue to provide stop loss coverage for catastrophic claims as needed. The term is January 1, 2019 through December 31, 2019.

**A motion was made and seconded to approve the contract with Florida Blue as set forth in the Stop Loss Coverage for Medical and Prescription Drug Insurance Coverage Action item for the period of January 1, 2019 through December 31, 2019 in the amount of approximately \$654,778**

**and authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.**

b. Action Item: Medical and Prescription Drug Insurance Coverage

Violet Bloom: The next item is Medical and Prescription Drug Insurance Coverage. The recommended vendor is Capital Health Plan (CHP) – Tallahassee Only. This is an HMO and our one fully insured plan. The funding will be included in the Annual Operating Budget for the contract term year. The estimated cost of Medical and Prescription Drug Insurance Coverage with CHP for the contract period of January 1, 2019 through December 31, 2019 is estimated at approximately \$1,558,000. This Action Item requests approval for the renewal contract for a fully-insured Health Maintenance Organization (HMO) medical plan and prescription benefit program to be offered to Citizens' employees in Tallahassee, effective January 1, 2019. This quote is an estimate of the amount for the one year renewal coverage for fully insured Medical and Prescription Drug Insurance Coverage. Employee participation and actual cost will be a function of the enrollment in CHP.

**A motion was made and seconded to approve the contract with Capital Health Plan as set forth in this Medical and Prescription Drug Insurance Coverage Action Item for an estimated amount of approximately \$1,558,000 and authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.**

c. Action Item: Short Term Disability and Leave Administrative Services

Violet Bloom: The next item is for administrative of Short Term Disability and Leave Benefits. The recommended vendor is Cigna. Funding will be included in the annual operating budget, the base term is two calendar years, 2019 and 2020. The total base term estimated cost is \$122,588.64 over the two year term. This is a new contract for a third party administrator to provide all administrative services needed for the self-funded Short Term Disability and Leave Benefit program. Are there any questions regarding the Short Term Disability and Leave Benefit action item?

**A motion was made and seconded to approve the contract with Cigna as set forth in the Administration of Short term Disability and Leave Action item in an amount of \$122,588.64 for a two year term; and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. All were in favor. Motion carried.**

d. Action Item: Amendment and Reinstatement of Employee Retirement Plans

Violet Bloom: The next item is the Amendment and Reinstatement of Employee Retirement Plans. The amendments do not alter the amount of the previously authorized employee retirement benefits and will have no financial impact on Citizens. The amendment will take effect January 1, 2019 subject to the Board's approval. The action requests Board approval for the amendment and reinstatement of Citizens' three retirement plans. The plans include the 457(b) Deferred Compensation Plan. This plan became effective on the date Citizens was created (August 1, 2002). The plan allows Citizens employees to direct salary payments to a tax deferred retirement account

(up to an annual limit set by the IRS). The second plan is the 401(a) Defined Contribution Plan. This plan also became effective on the date Citizens was created (August 1, 2002). The plan requires Citizens to match the amount an employee contributes to their 457(b) plan. The matching amount is capped at the lower of (i) 8% of the employee's salary, or (ii) the annual IRS limit on 457(b) plan contributions (currently \$18,500 for employees under age 50, \$24,500 for employees age 50 or older). The third plan is the 401(k) Defined Contribution Plan (the "Frozen" Plan). This plan became effective on January 1, 1995 through a predecessor to Citizens and was frozen on the date Citizens was created (August 1, 2002). The plan has approximately 20 participants and \$300,000 in assets. The plan has never been active since 2002 and Citizens does not make any contributions into the plan. Also on December 9, 2015, following a competitive solicitation and negotiation process, the Board approved the hiring of Massachusetts Mutual Life Insurance Company ("MassMutual") as the record keeper and administrative services provider for the Plans. One of the benefits offered by MassMutual is the ability to use their IRS-approved plan documents to ensure ongoing regulatory compliance. Using these documents also allows Citizens to use MassMutual's specialized support teams to handle more of the day-to-day Plan administration tasks (such as processing loan requests). Adoption of the Amended and Restated Plan Documents will result in three relatively minor operational changes that are consistent with standard practices in the retirement plan industry. On August 20, 2018, the Citizens Retirement Plan Committee voted 7-0 to present the Amended and Restated Plan documents to the Board for approval. The Committee was advised during this process by its financial advisor (FiduciaryFirst) and outside counsel (Constangy, Brooks, Smith & Prophete).

**A motion was made and seconded to approve the Amended and Restated Plan Documents as described in this Action Item; formally adopt the Amended and Restated Plan Documents by way of the Board Resolutions set forth on Exhibit D, attached hereto; and authorize the Citizens Retirement Plan Committee to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.**

e. Action Item: Learning Management Services Renewal

Violet Bloom: The next item is SAP/SuccessFactors Learning Management Services Renewal. This is a renewal, contract 18-18-2006-00. This is not a budget item, although, the funds are available in the 2018 budget and contingency renewals will be included in the 2019 budget. The contract amount is \$170,000 (\$81,000.00 6 month renewal; \$89,000.00 Up to two 3 month renewals if needed). The requested term of services is needed to maintain the core functionality of the LMS for employees, contractors, independent adjusters and agencies until the transition to the new Oracle Learn solution is complete. The implementation of Oracle Learn has been delayed until Oracle corrects a software defect that was introduced in the last Oracle Learn upgrade. The continuation of the LMS module benefits Citizens, its customers, and its stakeholders by maintaining the current LMS functionality through the period of transition to Oracle Learn. This contract also ensures that Citizens can support critical training delivery needs particularly through CAT season. Single source SS 18-2006 was publically posted and an opportunity for vendor inquiry and protest was provided in accordance with the Citizens Purchasing Policy and s. 287.057, Florida Statutes. The single source authorizes up to an additional 12 months of license term as the legacy LMS system is replaced and retired.

Marc Dunbar: In this area of service, are there competitors to SAP?

Violet Bloom: There are competitors. This is an online system, and if we were to change vendors, we would have to implement a new system. This allows us to continue our current system until we implement Oracle, which is underway.

Chairman Aubuchon: The implementation of Oracle Learn has been delayed because Oracle needs to correct a software defect. Is there an opportunity to recover our cost due to the fact that we are waiting on Oracle?

Violet Bloom: Over Vendor Management Office is already making plans to pursue that once the bug has been fixed.

**A motion was made and seconded to approve up to a six-month additional contract term at a cost not to exceed \$81,000.00 and two optional three-month renewals if needed not to exceed \$89,000.00 for SAP/SuccessFactors as set forth in this Action item and authorize staff to take appropriate or necessary action consistent with the Action Item. All were in favor. Motion carried.**

Marc Dunbar: Before we leave this section, I'd like to make a couple of comments. As we work through all these various items related to the benefits for our employees, one of the things I hope we'll look at in 2019 is how the total compensation benefits package that we offer our employees match up against the private sector P&C competitors. One of the things I would hate to do is lose our talented people because our total benefits compensation package is not competitive and have our folks leave us because they can have better benefits to take care of their families and have better retirements elsewhere. To the extent that we're able, I would love to look at our overall benefits and retirement structure to see how we can continue to create incentives to recruit and retain good people.

## **8. Chief Internal Audit Office (OIA) Report**

Bette Brown: We had our meeting yesterday. Joe Martins did a great job of giving us an update and an OIA Dashboard update. He streamlined a few things, which I'm sure he'll go through. We also discussed the consent item.

### **a. Audit Committee Report**

Joe Martins: I refer you to the OIA dashboard in your package. As Governor Brown mentioned, we changed the dashboard slightly on a rolling plan rather than an annual plan. At the Audit Committee, we discussed audit progress. 87% of the scheduled engagements were either completed or in progress. Seven engagements were completed since the previous meeting. Of these, we discussed the results of the Centerpoint Access audit as well as the social media audit. No audits are overdue or of high impact for the results from the Auditor General. The Enterprise Risk Office is continuing with developing Citizens' strategic operations risk register. 15 strategic risks were identified and are being further developed within the organization. Of these strategic risks, Jay Adams provided a detailed description of the Claims actions to address the top two risks.

## 9. Consent Agenda Items

Chairman Aubuchon: Are there any consent items that we need to discuss individually?

[no response]

- **Reinsurance Advisory and Brokerage Services – Contract Renewals.** This is budgeted. Approval is requested for the first, one-year renewal for each contract. Recommendation: Approve the first, one-year contract renewal to Guy Carpenter & Company LLC and the first, one-year contract renewal to Willis Re Inc. for Reinsurance Advisory and Brokerage Services for a total amount of \$3,000,000 for both one-year contract renewals. b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.
- **Remittance Processing Systems – Ratification of Contract Amendment #1.** This is budgeted. The contract has a five-year (5) year base term from the system implementation date (which occurred on August 31, 2018). The contract may be renewed for up to five (5) additional years. Recommendation: Ratify Amendment #1 to Contract 18-17-0008-00, for implementation of one year of Disaster Recovery Services for a one year cost of \$12,400; and b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.
- **Commercial Adjusting Services.** This is a budgeted item; however, current estimates indicate the initial approved contract spend will be depleted by approximately February 2019. In the event resources are deployed for a 2018 storm event, contract spend will be depleted prior to February 2019. The current contract has a four-year base term, with three optional one-year renewal terms. Recommendation: Approve the recommended increase of the total contract authority by \$15,000,000 from \$16,800,000 to a total of \$31,800,000 for Commercial Adjusting Services, RFP 15-0018 for the remaining contract term and renewals; and b) Approve staff to take any appropriate or necessary actions consistent with this Consent Item.
- **ERP Software Licenses and Subscription Services – Reduction of Licenses and One Year Renewal.** This Consent Item will reduce the amount of contract payments to the Vendor. The budget required for each contract year will be requested in the applicable Annual Operating Budget. The Oracle licenses which resulted from the Board approval have an initial 5 year term with 5 one-year optional renewal terms. This Consent Item requests authorization to exercise the first one-year renewal term (8/1/2021 – 7/31/2022). Recommendation: a) Approve the request to reduce the Oracle ERP software licenses and exercise the first one-year contract renewal option as described above. b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- **Audit and Control Management System Contract# 15-15-0017-00 – Amendment.** This is a budgeted item. Funding for this contract amendment has been included in the 2018 Annual Operating Budget. Funding for remaining years of the contract term will be budgeted in the appropriate years. The contract has a base term of five (5) years, ending January 3, 2020. The contract may be renewed at Citizens' discretion for two (2) optional



two (2) year renewal terms, for a total of nine (9) years. Recommendation: a) Approve a contract amendment with Wolters Kluwer Financial Services, Inc. to upgrade Citizens' Audit Management Software, as described above; and b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.

- **Dental Insurance Coverage.** Estimated total cost of Dental Insurance Coverage through MetLife for the contract period of January 1, 2019 through December 31, 2019, is estimated at approximately \$869,552. Base Term: January 1, 2019 through December 31, 2019. Recommendation: a) Approve the contract with MetLife as set forth in the Dental Insurance Coverage Action item for the period of January 1, 2019 through December 31, 2019 in the amount of approximately \$869,552. b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
- **Directors and Officers Liability Insurance.** This item is budgeted. The term of the base policy is October 1, 2018 to September 30, 2019 will be purchased with the Starr Insurance Company. The term for the excess policies is October 1, 2018 to September 30, 2019, to be purchased with Argo and AIG. Citizens' agents of record solicited quotes from over ten carriers. Starr Insurance Company (an admitted carrier) is recommended as D&O carrier for the first \$10 million layer 2018/2019 policy term due to breadth of coverage, stability of carrier, and pricing. Recommendation: (a) Approve the purchase of the 2018/2019 Directors & Officers Liability Insurance renewal policy with Starr Insurance Company, and with excess coverage renewed with Argo and AIG as provided above for total coverage of \$20 million with a total annual premium of \$218,658; and (b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- **Cyber Risk Insurance.** This is a budgeted item. The term for the policy is one year with a one year renewal to be purchased with the Beazley Group for the 2018/2019 and 2019/2020 policy periods. Total premium for the two year period is \$202,114. Insuring Company: Beazley Group Financial Strength: A (Excellent) A.M. Best Rating Financial Size: XV The Beazley Group is recommended as carrier for the 2018/19 and 2019/20 policy terms due to pricing, stability of carrier, breadth and depth of coverage, and extensive breach response capabilities (including legal; forensics, public relations and crisis management services). Recommendation: (a) Approve the purchase of a one year term 2018/19 with a one-year renewal for 2019/20 Cyber Risk Insurance policy with Beazley Group at an annual premium of \$101,057; and (b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.

**A motion was made and seconded to approve the above Consent Agenda Items. All were in favor. Motion carried.**

### **New Business**

Blake Capps: I would like to take a moment to relay an experience that I had on July 4<sup>th</sup> weekend. We were in Tallahassee to see my son who works. I had an impromptu notion to visit the Citizens office in Tallahassee. I pulled in and walked in. There was security guard there and was very gracious. I asked for Dan Sumner, Christine Ashburn, or Jennifer Montero. Dan Sumner brought me into his office, and we talked about the Managed Repair Program and a number of other things about his department. Then he proceeded to take me around and introduce me to a lot of the key staff and what they do. As a newer member of the Board, it was enlightening to put faces to

the departments. I'd like to highlight a few of those departments: Purchasing – who handle the large purchases and who handle these large action items in our meetings. I got acquainted with the Public Records department that handles hundreds of public record requests, and they have sophisticated technology to handle these records. There is the Legal Review Bill department, which I was very impressed with. What they do is take in all of the legal bills submitted statewide by attorneys through the state. They go through each of these bills meticulously. They strike illegitimate charges, and last year they struck \$8M charges. That was a tangible measure of what they accomplish. There's Claims Legal Services. These folks deal with coordinating outside counsel needed to defend Citizens. Lastly, there's Corporate Legal Services, and they handle more of the in-house legal matters like underwriting, employment matters, Sunshine Law, etc. It appears that you're doing a great job and appreciate all that you do. I also met Steve Bitar, Barbara Walker, and Bonnie Gilliland.

Chairman Aubuchon: Thank you for attending these meetings. We got off easy today with an easy agenda. Don't expect the same in December. We expect a very robust agenda for December and please plan accordingly.

Meeting adjourned.