CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, December 12, 2018

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened in Sheraton Orlando North in Maitland, Florida on December 12, 2018 at 9:00 a.m. (EST).

The following members of the Board were present:

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

The following Citizens staff members were present:

Barry Gilway
Barbara Walker
Jennifer Montero
Brian Donovan
Kelly Booten
Jay Adams
Joe Martins
Steve Bitar
Dan Sumner
Violet Bloom
Matt Gerrell
Paul Kutter
Steven Guth
Andrew Woodward
Bonnie Gilliland
Nikki Smith
Elaina Paskalakis
Sha'Ron James
Michael Peltier
Mark Kagy
David Woodruff
Eric Addison
Gene Bednarek
Jeremy Pope

The following people were present:

Dave Newell	FAIA
Kapil Bhatia	Raymond James
Ronda Harrison	RBC
David Hulsey	
Kevin Tromer	Team Focus
Ken Vincent	Guy Carpenter
Danny Kriss	Guy Carpenter
Jason Kutz	Guy Carpenter
Coleman Cordell	Bank of America Merrill Lynch
Adam Schwebach	Willis Re
Tamaa Patterson	Jefferies
Nicole Preston	MacNeill Group
Vince Jannetti	UBS
John Generalli	Wells Fargo
Matt Williams	Bank of America Merrill Lynch
Ann Rossini	CBRE
Nathaniel Johnson	J.P. Morgan

The following people were present telephonically:

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens December 12, 2018 Board of Governors meeting. This meeting is publically noticed in the *Florida Administrative 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, William Kastroll, Freddie Schinz, John Wortman.

Chair Aubuchon: Welcome to the December 12, 2018 Board Meeting.

1. **Approval of Minutes**

Chair Aubuchon: Our first order of business is approval of our prior meeting's minutes from September 26, 2018.

A motion was made and seconded to approve the September 26, 2018 minutes. All were in favor. Motion carried.

2. **Chairman's Report**

Chair Aubuchon: I'd like to take a moment to welcome Governor Kastroll to the Citizens Board of Governors.

William Kastroll: Thank you. It's a pleasure to serve all Floridians and all residents in Florida who need help procuring insurance. It's also pleasure to be on a board of an actuarially sound company with such great employees and fellow Board members who have the depth and experience that they have about the state of Florida.

Chair Aubuchon: Thank you and we're glad to have you on our Board. I'd like to take a little bit of privilege here in my report and talk about a trip I made in early November to Jacksonville to visit with staff. I drove up from Cape Coral, Florida on November 4th; that was a Sunday afternoon so that early Monday morning I could begin my meetings with staff. At 7:15 am, I met with Mark Kagy; he's our acting Inspector General (IG). He reports directly to me and I learned quite a bit about what our IG office is doing. From 8:00 to 10:00 am, I met with Jay Adams and his team and was reinforced in the amazing work they're doing despite the trials and tribulations they've faced following our most recent hurricane. We talked about the claims processes, challenges, and some of the legal obstacles that we have to overcome. Then, from 10:00 to 11:00 am, I met with our General Counsel Dan Sumner and we talked about the corporate legal side of things at Citizens. From 11:00 am to 12:00 pm, I met with Kelly Booten. We did a walking tour, and you can get a good amount of exercise walking the operations side of the organization. We talked about systems. Brian Donovan joined us, and we talked about strategy, management, and planning. We broke for 30 minutes for lunch, which we really didn't have 30 minutes because the meetings went over. We had a brief working lunch, and from 12:30 until 2:00, I met with Jennifer Montero. We talked about all things financial as it relates to Citizens. From 2:00 to 2:45, I met with Violet Bloom and her amazing team. We talked about Human Resources (HR) and some of her initiatives to keep this amazing culture going at Citizens. From 2:45 until 3:15, I met with Steve Bitar, and we did more of a walking tour. Steve got cheated a little bit because the meetings were running over. The one thing I know about Steve from these Board meetings is that if you need something to move along, he's the guy to do it. He moved us along on a quick walking tour. I then met with Barry and we talked about rate indications from 3:30 to 4:30. Governor Dunbar would like this because he's a "travel hawk." Instead of staying overnight, I got in my car and drove 5.5 hours back so we wouldn't have that overnight cost. Here's what I really wanted to tell you. It obviously was a jam-packed day. It was very exciting to me to see the day-to-day operations after 5.5 years of being a Board member. What I want to comment on is the culture. As a long time business owner, I know how important it is in having the right culture at an organization, particularly to one the size of Citizens. Here's what I found: it's a forward thinking organization that is customer-centric. Everyone has the customer in mind. That's exactly what we want out of an organization that is essentially there to serve its customers. Within the Citizens team, I find them very supportive of one another and in each other's missions. I didn't get any sense of territorial feelings. I got a sense in meeting with all the people throughout the day that they're all in it for the greater good. The energy was incredibly positive. Each person took pride in their individual department and team. They were enthusiastic, and probably, most importantly, and there was this overall feeling of concept drive of continuous improvement. I certainly experienced it at the Board level. I witnessed it firsthand where staff is. On behalf of the Board, I encourage you to take the opportunity to visit headquarters. I will say a big thank you and job well done!

Barry Gilway: We thoroughly enjoyed the visit, welcomed the opportunity to see you face-to-face, and understand where you're coming from. We've had other Board members . . . Freddie and his wife have been on a walking tour of the Jacksonville facility. Blake did a secret audit of the Tallahassee operation when he showed up. We encourage each Board member to visit. We're very proud of everything that we're doing. The one metric that supports what you're saying, Mr. Chair, is that five years ago we had a turnover rate of 14.5% and now we're going to 8.2%. This speaks of the wonderful work the HR team has done along with the overall management team in pulling the organization together and getting us on the same page.

3. **President's Report**

Barry Gilway: As you know, this is a little different President's Report. I normally focus on one or two items that are driver for us. This meeting is a little different in that I provide some background on what's going on in the marketplace. There are a couple sections that will be redundant in the rate arena, so I will skip those. First, the overall market – through the past nine months, it's been a vibrant market. 98 combined ratio is the posted combined ratio for all companies. The interesting thing about the numbers through the third quarter – of the 63 companies, 28 have a negative net income. Close to half of the companies have a negative net income. The exit from the Tri-Counties continues. There was an article two days ago indicating that 87 Florida companies in the third quarter cancelled 87,000 Tri-County policies, with only one company writing additional business in the area. The numbers you have here – the 98 combined – do not reflect Hurricane Michael. You're going to see a lot more red ink in the Florida marketplace at the end of the fourth quarter. One of the most important slides that I want to refer you to is on assessment risk. The reason why I want to focus on this is not to "brag about how far we've come" but rather to show you that this is where we need to stay. We do not want any re-population. Most of the Board members are familiar with this slide. Back in 2011, if we had a 1-in-100-year storm, there would have been an $11.6B assessment on Floridians. We can feel comfortable with $6.4B in surplus today, but the bottom line is that it would have been wiped out in 2011. Thanks to a lot of work done by primarily in the financial area and Steve Bitar's area, we were able to structure a program to reduce risk and have an aggressive approach to reinsurance. By structuring reinsurance programs and by reducing risk through shifting the risk internationally, we were able to eliminate that assessment entirely by 2016. Now we're in a healthy position . . . certainly not healthy from a reinsurance standpoint as some of the Florida domestic companies but certainly healthy from a surplus standpoint. We cover 1-in-100 year and 1-in-43 year risks. We'll be getting into a discussion a little later on the overall security of the company because while we're very well structured, only 32% of our risk is in the Coastal Account, which is the only account that we buy reinsurance. We are at risk in the Personal Lines Account (PLA). The PLA is growing and we have almost 58% of our surplus at risk. Jennifer might ask for consideration for the ability to do some research in reinsurance there. Governor Wortman has made note that we would not have this if we're able to integrate accounts. He is absolutely correct and we're looking at the potential of moving in that direction over time. But, given that our assets and assessments are committed to our bonds, it will take a while to make that transition. Previously, I have sent you a presentation made by Ben Watkins to the Cabinet in August. It basically talked about . . . following the meeting I will send this directly to you. I happened to retrieve it in a discussion with Marc Dunbar yesterday when we were talking about the impact of Citizens on the state debt. He had suggested that this might be something to revisit. In the Cabinet presentation it shows that the Florida state ratings were upgraded to AAA, and they were upgraded because of a $41.6B reduction in overall total debt. What this shows is that of that $41.6B, $17.4B is attributed to Citizens improvement and $10B is attributed to improvement in the Florida Hurricane Catastrophe (CAT) Fund. Why do I mention that? Simply because we need to keep these same basic numbers and keep depopulation at the same level; otherwise, it would have a negative impact even on the State. The third slide I'm going over – I'm not going to spend a lot of time on this – I think it's interesting in that we describe this at Citizens as a roller coaster ride. We grow and we drop when there are market changes. One of the management challenges the entire staff has is to keep consistency in the overall management and really use contingency employees to respond to special events, etc. What you'll see in the expense graphs is that premiums tend to go up and down, but on the lower part, you'll see variable underwriting expenses track consistently. You don't have to manage it because – in Steve Bitar's area, for example – if we're procuring support, then obviously when policies go up, we need more support. When policies go down, we use less support. The tougher area to manage is this area of general administrative expenses because we're trying to maintain consistency. The fourth slide is primarily used for the new Board members. Back in 2004, Citizens was 15% of the market. As of December 2011, we had gotten to the point we were 23% of the entire market. In the commercial area, that number was around 42%. Today, the residential area exposure is down to 5%. The only reason why I raise this, particularly in this format, is that whatever decisions the Board makes relative to the rates, it applies to 5% of the market. 95% of the market is independent decision makers. When we talk about rates and an 8.2% increase, I can show you examples of multiple carriers in the Tri-County area that have increased rates by 20% followed by 15%. So, the private market is freely increasing rates in those markets as they should in order stay ahead of the Assignment of Benefits (AOB) issue. One of the major challenges that Jennifer will talk about . . . this carrier litigations slide – the numbers relative to litigation is ridiculously compelling. What do I mean by that? If you take a look at this slide, these are Department of Financial Services (DFS) numbers. Litigation for all companies in 2013 was 27,416. If you roll that to the third quarter of 2018, you'll see that at 63,517. We're on target 85,086 litigated cases. If you look at Citizens, obviously, our numbers are dropping. We're still looking 13,800 estimated litigated cases by the end of the year. The other element I'll throw out there is that this increase is relative to the increase in AOB. If I were to show you the DFS numbers for all companies, at the end of 2016, about 25% of all the litigation was AOB. What it also shows you is that up through October 2018 36% of the industry litigation is AOB. I'm trying to paint the picture that AOB is becoming really prevalent in terms of percentage of overall litigation. Litigation is completely and totally out of hand. I want to go through some of the last slides I included at the last minute. I simply included the total pending up to 15,000. As Chair Aubuchon indicated, Elaina Paskalakis is amazing in how she's handled the increased litigation. This shows what's pending. This next slide shows Dan Sumner's area and shows all the legal bills coming in due to litigation. Now I want to get into the maps. I do have one sheet here that I do find interesting. It's part of the litigation study we provided to you all under separate cover. It shows you the litigated severity of the indemnity costs. Sinkholes are out of the way but the indemnity isn't changing. What's changing is the Loss Adjustment Expense (LAE), which is the claims adjusting expense charged directly to a file for attorney costs. That LAE is going up. Why? Because our litigation is going up and a higher percentage of our claims are litigated. If you take a look at non-litigated severity, it's pretty consistent. If you take a look at loss, it's pretty consistent. If you take a look at LAE, it's going up. Obviously, it takes a lot more resources to handle all that litigation. I think the three next slides are the most compelling. What we have done here is take the litigated cases by county. We track it back to 2013. You've heard the rhetoric that AOB is growing across the state. I've had a difficult time convincing people that this statement is correct. This shows, in unequivocal terms, that this is happening. I'm going to focus on two counties you would not think of as highly litigated. If you take a look at Polk County in 2013, there were 326 litigated cases. In the next graph in 2014, you see 401 litigated cases. In 2015, there were 363. In 2016, there were 449,000. Then, we jump to 623 and 955 for 2017 and 2018. You're looking at a 400% increase in Polk County. It's the same flow for every basic county. In Duval County in 2013, it had 725,000 litigated claims. It went to 780,000 in 2014 . . .

Marc Dunbar: Real quick, to put it in context, 2013 to today, how many insured did we have because obviously that was dropping? So, our policies are going down but our litigation is going up. Is there an ability to have that data because it's not policy growth?

Barry Gilway: For clarity, this is not Citizens. Thank you for that. This is all companies. If you were to look at Citizens, you'd find that 91% of all of our litigation would be concentrated in the Tri-Counties. This is all companies litigated in the state. The bottom line for Duvall is that you go from 1,487 to 1,535 through nine months. You're over 2,000 litigated cases estimated through the end of the year. The point I want to make is that all you have to do is look at that map, it will show you consistently across the state that litigation is increasing county, by county. Last month 54 new attorneys were added. Every month new attorneys are being added. The next thing I want to talk about is that it's important to understand what's happening in Tri-County. Citizens is becoming a Tri-County company. We are becoming closer to becoming a residual market company. The vast majority of our homes are older homes. The vast majority of the homes are in the Tri-County area. The study we did is this: we basically said, "Let's choose companies and let's take a look at the litigation rates in the Tri-County rates versus the litigation rates outside the Tri-County." Let's take a look at Citizens. If I write a policy in the Tri-County, I will have eight times the number of suits on that policy compared to the rest of the state. This will tell you that Florida Peninsula will have 8.7 times the number of suits for every policy they write. This shows you the impact of the Tri-County business. 91% of litigation is coming out of Tri-County. It shifted a little bit in the last six months, not because the numbers in the Tri-County have dropped but because the numbers outside of the Tri-County are increasing. What we're expecting in a combined basis is that we'll relatively be in the black next year $864M at the end of this year and $848M next year. That is highly suspect. Even with that flattening, we'll still be growing in PLA. We're still getting more policies in PLA. Why? It's multi-peril. That's where the issues are relative to water damage. Commercial Lines Account (CLA) continues to drop off because of a very competitive surplus lines in the private market. Coastal continues to drop off. We still have interest in our wind only business and that 100% due to the exceptional pricing that's available in the reinsurance market. The wind business can still be taken out by companies. I call that arbitrage and the companies can still make money on coastal business given the amount they cede into the reinsurance market. We have very high retentions because of our surplus. A private carrier, in order to get a DemoTech rating, can only commit 8%. These companies, in order to remain solvent, literally buy down in a quota share basis in order to maintain that rating. That's why last year, despite Irma, the Florida surplus in the marketplace dropped only 2%. How can that be with $14B losses? Well, the reinsurance market picked up those losses. Exposure – you know the story there – we were about half a trillion. Next year, we expect to be $103B in exposure, which is about one-fifth of where we were. We will increase in the PLA. We'll drop in the CLA. We'll drop exposure in the Coastal. From a lost ratio standpoint, we are looking at relative stability overall. You'll have some spikes in the CLA arena, but as you'll note, there is very little premium in the commercial arena. That business is dropping off drastically. We lose commercial lines business every week and that happens to be the most profitable part of our book. Jennifer, I'm going to leave the net income numbers for you to review. The next section I'm going to pass over because Brian Donovan is going to talk about rates in the Actuarial and Underwriting Committee (A&U). The argument that I'll be making is simply that in order to maintain a reasonable differential in the marketplace and not repopulate, we'll need to increase the rate. One last set of slides. Basically, it's admin expenses. All of you were good enough to go over the budget over the phone with us. We manage administrative expenses very tightly. However, you can't change the denominator. If you manage the administrative expense line as tightly as you can, when premium drops, the expense ratio is going to increase. It's just pure math. From the employee standpoint, on page 29, we had budgeted for 1,161; we think we'll come in at 1,106 direct employees. We're budgeting for a slight increase in two areas – both directly related to claims. One is for five additional people in Legal Services (Legal Bill Audit) and second is for Jay's area in Claims. I'm always asked for the solutions because there are a lot of solutions to the litigation problem. One of the solutions is one-way attorney fee revisions. The issue there is having the trial bar in a position in which they are in some way at risk before they automatically file these massive files of suits. A second option is alternative dispute resolution options. Jay has done a phenomenal job in this arena. It's basically applying the arbitration provision changes we made in 2016 to our policy form. Today, any AOB claim that is a scope issue goes into arbitration. The third bullet is requirements prior to initiating litigation. These are provisions in the Trumbull Bill and the Hukill Bill that establishes parameters before you can bring suit. For example, there has to be a pre-suit demand and offer and there has to be an agreement on arbitration. That is where we were in our discussions in 2016, and those provisions can have a significant impact. Why does Jay use this number all the time? He uses it in the Claims Committee: 47% of the time, the settlement that has been made has never been questioned. This takes that away; there has to be a pre-suit demand, a pre-suit offer, and an agreement on arbitration. You know what we've done in the Managed-Repair Program (MRP). I think everyone in the market is moving toward MRP. I put down here licensing of all mitigation contractors because there is no question in my mind that by having restoration contractors licensed it's the same way we have mold and mitigation contractors licensed. You're going to get a more professional product and you're going to get a more fair and reasonable product than you will by these fly-by-night operations. Candace Bunker did a review for me. We took all the primary legal firms, all of the AOB contractors working for the legal firms, and she found licensing in only 13% of the firms doing the primary work for these southeast legal firms. These are unlicensed contractors working for these legal firms. Referral fee restrictions – we've talked about that for four years. The bottom line is that it's a network. Then, finally, I don't think we get anywhere with individual fraud and abuse. Joe Theobald and his team have a reputation of being the most effective Special Investigations Unit (SIU) in the state. We not only exceed in fraud referrals, but the quality and number of referrals that are appropriate to take into a prosecutor are far more detailed. Ultimately, you've got to get to the networks. I can define the network for you, but showing where that fraud is taking place is different.

Bette Brown: We talked about a month or so ago about putting together a slide that would compare policy rates now versus without the AOB costs. Have you had a chance to look at that or will you have that for the next Board meeting because I think that would be helpful? You'd have to pick the policies where you'd have the most business. I think that would be really an eye opener.

Barry Gilway: Thank you for that. We've completed that study. [discussion offline to check who is presenting it]

Bette Brown: I didn't mean to put you on the spot. If I paid $1,000 in 2011 and now I'm paying $4,000, we should know that. That number will be very powerful.

Barry Gilway: We have some very compelling data that clearly shows that if the litigation rate had gone back . . . so in 2013, our litigation rate was 15%. Today, our litigation rate is 45%. We calculated what would occur if we were back at a reasonable litigation rate of 15%. Surprisingly, even Dade County gets a rate decrease. Back in 2015, this Board approved rate decrease for 70% of our customers. Two years later here we are saying our customers are getting a rate increase directly related to litigations. We have that information and we'll provide it. Detail doesn't get you what you need today, so we can provide that for you at the next Board meeting.

Bette Brown: If we do our rates and our math is solid, I'm comfortable with that. What I'm not comfortable with is that everyone is paying for the AOB charge. It's not right.

James Holton: Barry, this seems to vindicate what Governor Scott told you and me a couple years ago about AOB that it would reach critical mass when Florida policyholders began to realize that it's biting into their own pockets because of a handful of bad players that abuse the AOB system. I personally think we're there now, but does the data show that there is awareness among policy holders that a handful of lawyers and a few "bad actors" are driving their rates to go up?

Barry Gilway: Absolutely. I think the issue he had at the time was that we were not communicating the real cause and drivers behind this. 91% of all litigation was coming from Tri-County, and I believe the number was that out of the top 65% of the litigation as coming from the top 15 firms. We have all that data and it's all available. I think the concerns expressed by Governor Brown and everyone else showing that every year the rates are going up. 95% of the market is accelerating as much as we are. I do believe there is a "sea change." I think there is awareness today in that it's starting to hit the bottom line, and it's taking a long time to get there. As a result, our view with the legislation going forward and the Chief Financial Officer (CFO) need to take a really hard stand that this needs to be fixed. Meetings that Chair Aubuchon and I have had with Senator Simmons talked about how this has to be fixed. The individual meetings that we're having with legislators clearly show that with the CFO taking lead and the other areas focused on reform . . . whether we can get what we need, I think it's always up for grabs. I think this is the year to make some real progress. I think the visibility is better this year than it has ever been and there has been more support for change.

James Holton: That's my perception. As the Governor correctly analogizes, this is parallel with what happened with PIP where it begged necessity of reform. My indication from talking with Senator Rouson, who is Vice Chair of Banking and Insurance, as well as Senator Galvano there is a real appetite in the Senate and, I think, in the House for that. Congratulations to your group for getting all the data. I think we lead in providing the leadership and the data for the legislature to make the changes that need to be made.

Barry Gilway: Thanks for that. We are extremely proud of our analytics organization. There is very little data that is not available to Citizens. We're an open book, so we're available to anyone we can assist.

William Kastroll: Thank you so much for leading the reform at Citizens on AOB. On page 7 you have demonstrated in 2016, AOB percentage was around 30% at Citizens, and you reduced it presently in 2018 to 25%. Instead of waiting around for legislation changes, you decided to go ahead and take some actions to reduce it within Citizens. So, thank you. If you turn to page 13, you can see some other companies – and this is the concentration in the Tri-County area. You can see other companies have success just like you've had success in reducing AOB. Have you reached out to our other friends in the business, for example, Florida Family which is a company based in Lee County? They've had success as well as United and Peoples. Have you reached out to them to share any stories on how you've been able to reduce it? I know that these companies are in the business of making money and don't share their data. But, you share a lot of data with every company. I know they may be interested in helping us out.

Barry Gilway: Too many of them, yes. We've established a great relationship with several companies. For example, before we even launched the MRP, Dan, Jay, and I met with the claims teams of every single major company that has an effective MRP in place. The discussions have been on what they do right, what they do wrong, and how we can change practices to ensure we introduce the most consumer-centric MRP. We just completed a study, which falls into March Fisher's arena, that takes a look at about eight or nine companies on their approach to litigation. Are they settling? Are they in advanced settlement mode? You have companies in extremes. You sign up for managed repair if it's AOB, and if you don't comply with AOB, we'll sue you. Then, you'll have another large company that has entered into agreement with attorney firms for rapid settlement, which shortens the litigation timeframe but sets up a precedent to overpay the claim over time. I've had a discussion with our Chair to see if I can get his support on this approach. We are audited more than any other company. We've had 22 people from the Auditor General's (AG) office for nine months. That review gave us a clean bill of health. We just completed with the Office of Insurance Regulation (OIR). So far we have not been able to come up with anything of a material nature that would say that we should change our litigation management practices. I think it's only prudent from my standpoint and the Board's standpoint to consider what other options are available. Are there any other options that we can use to really dig into our litigation process and trends to see if there are any other recommendations? Part of that could be input from different, specific companies. What are the most successful strategies out there? How are they applying those strategies? I've talked to

Chair Aubuchon, and I have his support. At the beginning of the year, we'll probably end up doing under attorney-client privilege, we'll put out a RFI. We'll reach out to an outside firm to find out what kind of analytics is necessary and what we can do to enhance everything we've done to date. We've done our own litigation review, which we shared with the Board. The magnitude of this problem and the financial impacts on the state are so significant – my next suggestion is that we go independent. It would be worth every dime, in my mind. If there are outside entities that bring value to the Board in analyzing independently our litigation strategy, approach, handling, settlement provisions, etc. We intend to do a RFI at the beginning of the year and bring it to the Board for approval. I do have conversations directly with seven or eight CEOs and talked about their strategies. They've been very open because everyone sees this as an industry issue. I think we need a broader look. I won't be comfortable until we see what's out there and what's available.

John Wortman: I think it's critical that we continue to work on ways to improve the litigation situation. In the short term, we need to think about what happens when we become the cheapest on the street. We grow to 1.5 million policies. I think rate adequacy is critical in the short term. When I look at the Tri-Counties, we average between 5% and 15% lower than the average private sector market. That's going to drive increases to Citizens business and that increases the exposure to the taxpayer. Two things are critical to Citizens. One, we continue to work hard to improve these litigation issues, and two, we work hard to maintain rate adequacy so that we don't pick up business just because we're the cheapest on the street.

Barry Gilway: We couldn't agree more.

Blake Capps: It would seem that the seeds of growth for Citizens have been planted, and one of those has to do with rates and our inability to keep up with private markets because of our glide path. That's one of the big seeds, and the other one has to do with the pullout of other insurance companies in the Tri-Counties. 87,000 policies have recently been cancelled. It seems that it would be logical that we'll have to fill that vacuum. We're becoming a residual insurance company. Is that what you project as part of the future? Can you comment what's in the crystal ball in the next few years about the size of Citizens? I know that's hard to predict but it seems like we're going to grow absent reform.

Barry Gilway: There are many, many solutions. I've had a couple discussions recently about the possibility of increasing the glide path to 10% to 15%. We're going back to the discussions we've had five years ago about new business versus renewal rates. My view in this business is that this will not fly in anyone's agenda. I did, however, in preparation for that had Brian just recently complete an exercise in terms of what that would mean to Citizens. It takes a look at what would that do for rate adequacy. It would have an impact, but all it would really do is extend reaching actuarially rate adequacy by a year or two years in advance. That's not something I'd recommend to the Board this year. The focus needs to be on a primary fix to the litigation issue. What has been interesting is that we've been stable for 2.5 years. We reached that 450,000 level 2.5 years ago. Everything we see indicates that we'll grow. Paul does not see it quite that way. In fact, you'll see in our budget that we're very conservative. We know we will grow with PLA, but in the short-term the exposure is being offset by the reduction in the CLA and Coastal businesses. I agree with your assessment. When you take a look at the level of rate increases that many of the major companies have filed and been approved in the Tri-County area, and some of them are in their second year of double digit increases . . . it's hard to imagine where that business is going to go if it doesn't go to Citizens. One of the concerns that Steve Bitar and I have discussed is that some of this business is going away from extended HO3 policy, and agents in the Tri-County area are replacing it with DP1, DP2, or specific risk policies. We are looking forward to looking at the Quasar data at year end to see if there is a movement away from HO3 into other policy forms. That would not be a good thing for the state because the other policy forms exclude water. Many other companies have introduced policy forms, not dissimilar to Citizens that restrict water - $10,000 cap and $3,000 mitigation – unless, in our case, you join our MRP. In other cases, it's an absolute cap. Any home over 40 years old - $10,000 is all you get. My overall assessment, which doesn't necessarily track with our budget, is that all the indications on the surface are that we should get ready for growth. Kelly Booten does a phenomenal job for us in scenario planning. We're always doing scenario planning to look at what we need to do if we need to grow. What do we need to do if it goes the other way and we lose policy count? What are the implications on staff and structure?

Marc Dunbar: Have you been invited to the Governor Elect's transition team along the economy? I know they have a meeting tomorrow in Tampa.

Barry Gilway: I have not. I have been talking to Locke Burt who is the representative on the Governor's transition team. Locke was the individual who said, "Are you looking at all options to make sure that Citizens does not grow?" No, I have not been asked to do that.

Marc Dunbar: Can I make a recommendation and maybe it's to the Chair that we try to get an audience with the economic transition team and make a presentation of what you laid out to ensure that the transition team is aware of what AOB could mean to the reversal of the depopulation under Governor Scott's administration? I think it's something that needs to be at the forefront. William Large's organization released a press release this morning about a national AOB report. I know Congressman Gaetz, who has worked closely to the Governor Elect, has announced that AOB reform is something the Governor Elect will want to look into. But, I think we should proactively be making presentations in front of that transition team so that they and the Governor Elect appreciate what it means to Florida's economy and Florida's bond rating if we have this trend reversal, which we know we are in, so that they will understand and get behind AOB reform during the legislative session. The other thing I was going to recommend, since all of us are essentially appointed by elected entities that have significant influence over the issue – I think it would be worth scheduling a meeting with our appointing principals. I know it would be something that would need to be noticed. I think it should be encouraged that every governor meet with their appointing principals collectively with you and your team so that each of them will know how big of a deal this is. The data that you have compiled is compelling. It'll help put an exclamation point on what it means for constituents.

Barry Gilway: Thank you for that. Obviously, we're available for any meetings we're able to set up. I think we do have very compelling data, and I think we can present it to make the appropriate case. The more we can get in front of the appointing officers, the better.

Chair Aubuchon: The point is well taken to the extent that if we can maneuver through the challenges of Sunshine in trying to get us all together. We can certainly travel individually with you and get in front of our respective appointing officers. The sooner we can do that in early January, earlier in the session, the better. Having the appointing officers' buy in early in session is going to be critical. Members, this has been a great Q&A as a backdrop for the two main things we need to get done today, which is the approval of the 2019 budget as well as rates.

Budget

Jennifer Montero: Behind the President's Report, you have the budget presentation in a spiral form. I'll just hit the highlights. On Page 18 is the Budget Statement of Operations. It's on a consolidated basis. Our Direct Written Premium is budgeted down to $848M. Last year it was $1B. As Barry mentioned earlier, when we were talking about the expense ratio, that drop in Direct Written Premium does drive the expense ratio up. We are budgeting an expense ratio of 26.6%. As of September 30th, it was 24.1%, and our projected year-end is 25.6%. Losses and Loss Expenses Incurred on a consolidated basis $443M, with Administrative Expenses at $130M. That's down from the 2018 budget of $143M. Net income on a consolidated basis is predicted to be $59.5M. I think it's noteworthy that looking at that on an individual basis on page 19 – the PLA is expected a net loss of $14.7M. That loss is attributable to the projected litigation. Page 20 – the CLA is expecting a net income of $37.4M. The Coastal Account is expecting a net income of $36.8M. Policy count, on a consolidated basis, is down approximately 6,000 policies, ending in 2019 with approximately 425,736 policies. But, as Barry mentioned to Governor Capps, on the PLA, we're seeing about a 3% increase in policy count from 306,000 to about 314,000. However, the CLA is going down more than 30% starting out with 965 policies and going down to 648. The Coastal Account is expecting a 10% decrease from 124,000 policies to about 110,000 policies. Those are the big highlights.

John Wortman: This is no storm, right?

Jennifer Montero: Correct.

John Wortman: I've always recommended that we do a no storm, small storm, medium storm, and big storm.

Jennifer Montero: We do at the very end of the packet. It's the 2019 operating budget Probable Maximum Loss (PML) scenarios. It's on page 42. We do it based on a 1-in-10 year event, 1-in-25 year event, and 1-in-100 year event.

John Wortman: That's perfect. That's great.

John Wortman made a motion to approve the 2019 Budget. Bette Brown seconded the motion. All were in favor. Motion carried.

4. Chief Financial Officer Report

a. Finance and Investment Committee (FIC) Report

Jennifer Montero: At the FIC meeting yesterday, Barry talked about reinsurance and the layer charts. One of the subjects we discussed was the PLA. We've gone multiple years without significant years and we were able to grow our accumulated surplus across the three accounts. The PLA and CLA continued to improve their financial strength in terms of claims paying capacity. As such the risk transfer was focused on the Coastal Account. As an example, in 2014 the PLA had a total available surplus of $2.5B and a 1-in-100 PML of $1.6B with surplus exposed of approximately 18%. Through the robust risk transfer program that leverages the traditional and capital markets, the Coastal Account has been able to reduce its surplus exposed in a 1-in-100 year event from 100% exposure in 2014 to approximately 34% in 2018. After losses due to Hurricanes Irma and Michael along with the financial impacts from the non-weather water losses, surplus in the PLA has decreased significantly and is now exposing much more of its surplus in a 1-in-100 year event. For CAT refund reimbursements and credit purposes, the PLA and CLA are evaluated together while the Coastal Account is evaluated separately. For 2018, the surplus amount in the PLA and CLA are relatively equal. They are both contributing approximately 50% to the combined surplus, while the PLA represents approximately 90% to 95% of the combined risk profile. While the PLA and CLA are combined for credit purposes, the CLA cannot fund financial losses for PLA. Therefore, contribution of the CLA surplus to the combined claims paying resources of the PLA/CLA does not give a perfect picture. On a combined basis, the PLA/CLA has available surplus of approximately $3.6B and a 1-in-100 year PML of $2.3B with surplus exposed in a 1-in-100 year event of 32%. However, on its own, the PLA has available surplus of $1.8B and a 1-in-100 year PML of $2.1B, leaving surplus exposed of 58%. Citizens Strategic Risk Transfer Plan will include the evaluation of risk transfer for the Coastal Account as well as evaluating the PLA in order to reduce the amount of surplus exposed in a 1-in-100 year event. We will come back to the Board in March with an update once we see what's available.

Marc Dunbar: Moving forward – I can see that you're reading a written narrative – would it be possible to provide the written narrative to the Board beforehand so that we have the ability to read that in the event that we have any questions? I can see all of us doing the same thing, looking at the blank tab, and that's a lot of data that you provided. Thanks.

i. Action Item: Custodian Banking Services

Jennifer Montero: On July 31, 2018, Citizens released Invitation to Negotiate No.: 18-0029 for Custodian Banking Services. Responses were received and evaluated by an Evaluation Committee. The Evaluation Committee recommended award to the following Vendor on November 13, 2018: The Bank of New York Mellon. This Action Item seeks Board approval for Citizens to enter into a contract with The Bank of New York Mellon to provide Custodian Banking Service to assist Citizens in its fiduciary responsibility in custody, overseeing and reporting on its invested assets. The Vendor will provide custodian banking services for Citizens' approximately $8.6 billion portfolio for Citizens' three separate business accounts: PLA, CLA, and Coastal. The estimated contract amount of $1.3 million is for the base term of five (5) years and the optional four (4) one year renewals for the contract.

John Wortman made the motion for the Board to approve the contract for five (5) years and the four (4) optional (1) year renewals for a total contract amount not to exceed $1.3 million

for Custodian Banking Services, ITN No.: 18-0029 to The Bank of New York Mellon as set forth in this Action Item; and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. John Wortman made the motion and Bette Brown seconded the motion. **For the record, Marc Dunbar has a conflict and abstained from the vote.[1]

Blake Capps: I have one question. This is a general question. At the bottom of the action item on the first page, it talks about "these evaluation committees." I wonder if you can tell us a little about those evaluation committees – who is on them, who puts the people on them, etc.

Jennifer Montero: It's usually the subject matter experts (SME). In this case, it was our Controller, our Investment Consultant, and our Treasury Consultant. When I say "consultant," those are our employees and not outside consultants. Each evaluation committee is different. It depends on who is the SME. I was not on this one, but I was on the next action item. For that one, it was me, Andrew Woodward, and Jonathan Norfleet – the CFO, Controller, and Investment Consultant. It depends on the solicitation.

All were in favor. Motion carried.

ii. Bond Underwriting Services

Jennifer Montero: On July 9, 2018, Citizens issued Invitation to Negotiate No.: 18-0017 for Bond Underwriting Services Panel. Responses were received and evaluated by an Evaluation Committee. On November 13, 2018 the Evaluation Committee recommended award to a Panel of Vendors. A list of the recommended Panel is as follows: Senior Managers – Citi Group; Global Markets Inc.; Goldman Sachs; Merrill Lynch; Pierce, Fenner & Smith (BAML); JP Morgan Securities Inc.; Co-Managers – Barclays Capital Inc.; Jefferies, LLC; Morgan Stanley & Co. LLC; RBC Capital, LLC; Samuel A. Ramirez & Co. Inc.; UBS Financial Services Inc.; Wells Fargo Securities, LLC. This Action Item seeks approval to appoint a Panel of Senior and Co-Managing Bond Underwriters for Citizens' future financings. The Letter of Appointment will be for four (4) years with three (3) optional one (1) year renewals. This appointment does not guarantee nor indicate any specific decision with regard to future participation in bond or other security issuances during a vendors' Term.

Bette Brown made the motion for the Board to approve the appointment for the above-listed Senior and Co-Managers to the Bond Underwriting Services Panel for four (4) years with three (3) optional one (1) year renewals, with the understanding that appointment does not guarantee nor indicate future participation in bond or other security issuances during the vendors' term; and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. John Wortman seconded the motion. **For the record, Marc Dunbar has a conflict and abstained from the vote.[2] All were in favor. Motion carried.

[break]

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[1] Governor Dunbar's Form 8A for Custodian Banking Services is attached.
[2] Governor Dunbar's Form 8A for Bond Underwriting Services is attached.

b. Financial Summary and Statement and Quarterly Financials

Jennifer Montero: For the next couple of tabs, you'll find the September 30th financial results, consisting of the financial summary and the statement of operations and financial update. Through the first three quarters of 2018, Citizens financial position remained strong and reflective of our successful risk transfer efforts and discipline in investment and expense management. As of September 30, 2018, Citizens consolidated surplus was approximately $6.4B, with an additional $1.7B in pre-event liquidity, $1.4B in private risk transfer, and $2.2B in CAT Fund coverage. Cash and invested assets totaled $9.5B. Consolidated direct written premium through the third quarter was $679.6M, which $22M or 3% less than the same period a year ago. This decrease is a result of combined decreases in policies in force (PIF), primarily commercial policies within the CLA and Coastal. The PLA increased 1.1%, while the CLA and Coastal decreases in approximately 32% and 13% respectively. The volume of premiums removed due to depopulation is $5.3M, which is $3.6M less than the same period in 2017 and considerably below the levels of depopulation that occurred 2012-2015. Premiums ceded through reinsurance arrangements totaled $240.7M, which is $10.2M or 4% less than the same period in 2017. The decline was driven by declines in the cost of private reinsurance as well as declines in premiums ceded to the CAT Bond, both largely due to the declines in reinsured exposure and overall declines in risk adjusting pricing private reinsurance arrangements. On a consolidated basis, losses incurred through the third quarter were relatively unchanged as compared to last year. By account, the PLA and Coastal did not have significant loss development in prior accident years; whereas, the CLA experienced adverse loss development as a result of settlements on sinkhole losses in prior accident years. While loss in LAE development in the CLA and in the commercial lines policies within the Coastal are less significant to the accident years in which they relate, the diminishing size of the overall commercial liens book of business leaves it more susceptible to material swings in loss LAE ratios as a result of prior accident years. LAE incurred during the current calendar quarter increased as a result of increased resources both internal and external needed to address challenges with the non-weather water losses. This increase in necessary resources contributed to the overall deterioration of the LAE ratio, particularly within the PLA. Recent trends suggest that the fraction of the non-water weather claims in litigation has stabilized, but it remains within the historically high range of 40% to 50%. Gross losses in LAE attributed to Hurricane Irma were unchanged from the prior quarter and remain at $1.8B. These ultimate losses in LAE included a projected litigation rate of approximately 30% for all PLA claims, along with associated increases in the loss LAE severity for the claims that enter litigation. Estimated recoveries from the FL CAT Fund are $534.7M and estimated recoveries from private reinsurance are $126.4M within the Coastal Account. Administrative expenses incurred during the first three quarters of 2018 of $95.7M were approximately $4.6M below the same period in 2017 and 12% below budget. Total employee costs are $5.3M below budget, primarily as a result of favorable variances and budgeted headcount reported through the third quarter. These employee costs represent 40% of the total variance in the budget. Professional services and software licenses in fees related to CenterPoint ERP and Guidewire Version 9 as well as the accrued subscriptions and dues expenses at year-end 2017 that were reclassified to Other Underwriting Expense comprised of the remaining variances. Through September 30, 2018, Citizens expense ratio was 24.1%, reflecting a 0.5% decrease from 2017 and a 0.6% decrease as compared to the budget. We anticipate that the actual expense ratio for FY 2018 will be 25.6%, or 0.9% above budget, largely due to decrease in business in the Coastal Accounts and the PLA. Total investment income was $146.3M, which is roughly $30.2M, or 17% less than the same period a year ago, while the total invested assets declined $2.3B over the same period. Net realized losses were $22M, representing an increase of $37.6M relative to the same period in 2017. Net realized losses were taken as portfolio managers maintained duration targets across portfolios reinvest maturing positions and liquidate existing positions to meet scheduled debt service requirements. This resulted in increased realized losses due to the overall rising market interest rates, volatility, and fluctuations in credit spreads. It is expected that the short term realized losses will be more than offset by the longer term increases in overall returns when reinvesting at a higher interest rate market. Looking ahead, we expect to finish 2018 with $865M in direct written premium, a decrease of approximately $141M, or 14% relative to the 2018 budget. In addition, we anticipate net losses of $118M, approximately $145M less than the budgeted net income of $27M. Despite the decline in the 2018 projected direct written premium, the variance in projected net income is largely due to the financial impact of Hurricane Michael, the effects of which are not included in the September 30th financial statements, since Hurricane Michael occurred on October 10th.

Jim Holton: I noticed that you had mentioned that our assumptions are based on a continuing higher interest rate if you take in account the inverted yield curve and a potential "Fed pause." Can you elaborate on that a little further?

Jennifer Montero: Can you repeat the question for me.

Jim Holton: An inverted yield curve may suggest a recessionary economy – no one knows or has a magic ball to look into that. The Fed has indicated a pause in rate increase. I'm trying to gauge what we're basing our assumptions on, and I'm glad our very knowledgeable friend has joined you at the table. Maybe he can comment on that.

Kapil Bhatia: Good morning, Governor Holton, governors, and Mr. Chairman. For the record, Kapil Bhatia from Raymond James. We are the financial advisor to Citizens. When we talk about interest income, we expect interest income to be higher. It only accounts for a 50 to 75 basis point increase we've had so far. We also discussed at the FIC that we expect only one more rate increase this year or March of 2019, but we do not expect anything above and beyond that. All of that is accounted for in our planning, which is why we've been able to extend some of the yield so the average duration is four years and income return is closer to 2.70%, which is closer to a five year Treasury. On a risk adjusted basis as well as looking into the future, we expect our income to be stabilized even though our portfolio is down by almost 20%. Our portfolio is in a really good, stable shape from a credit perspective as well as from overall diversification as well as from a duration perspective.

Blake Capps: You mentioned the expense ratio was 24%

Jennifer Montero: 24.1%, yes.

Blake Capps: What is the standard in the industry?

Jennifer Montero: Andrew Woodward gave a presentation on the expense ratio. The industry average is about 25%. We have always been under; it used to sit around 18% because our direct written premium was $3B. That's the denominator. We've dropped down to $868M for the year end, so that's what's really driving it. It's not the expenses. We are at 24.1% and we do think it'll be at 25.6% at the end of the year, which is right where the industry is, but ours is driven by that decrease in direct written premium.

Blake Capps: I remember how Barry said how when the expense ratio goes up as we depopulate and lose premium and that presents very unique challenges on this issue with regard to Citizens because there aren't that many companies that swell and shrink over short periods of time.

Jennifer Montero: Right. As you see that happen, you'll see the expense ratio go up and down being driven by the premium number. Even if the administrative expense drops, but the premium dropped so much more that the expense ratio went up.

Freddie Schinz: On slide three, the percentage of increases that we're proposing here, those will go into effect August 2019 or is that September?

Jennifer Montero: The rates? That's September 1, 2019 and it'll go through August 31, 2020 for the increase to hit every single policy.

c. 2019 Rates

i. Action Item: Annual Recommended 2019 Rate Filings and Exhibits

Brian Donovan: Good morning. For the record, I am Brian Donovan, Chief Actuary of Citizens. I will discuss the current rate recommendation. The proposed effective date for these recommended rates is 9/1/2019 and it will take affect for the full year to hit our book of business. The full effect will not be fully realized until 8/31/2020. Not much has changed since we last talked about this in June. We took our indications and updated them with more recent data to recalculate the numbers. If you turn to Exhibit 1, what you see there is the result of all the indications for all the lines of business across all the accounts. We're not going to talk about every single indication. I believe Barbara provided a summary packet of the exhibits, which is a subset of the larger set. On Exhibit 1, if we just focus on the lower right hand corner, columns 10, 11, and 12. If you look at the second slide there, you should see a summary of the total numbers all rolled up. As you can see for PLA, the total uncapped indication is 25.9%. For Citizens rates to be actuarially sound for PLA, we would need to increase them by an average of 25.9%. However, due to the glide path, we have to ensure that no single policyholder goes over a 10% rate increase. Once we apply the glide path, our proposed rate change is 8.2%. For CLA, the uncapped indication is 54.2%, with a proposed rate change of 9.0%. Across all lines of business, total rate need is 28.6%, with a proposed rate change of 8.3%. Similar to what we discussed in June, there are four identifiable forces pushing our rates upward – one is by design and one is not. As Barry talked about in his presidential report, our Coastal Account (wind-only policy) is still being removed and we are shrinking there. As you would expect, policies finding a home with a private insurance company are the more adequately priced policies. This puts an upward pressure on the indication. The second upward pressure is the impact of litigation of water claims. I'd like to take a moment on what we're doing to adjust that. As of 8/1/2018, policy forms had new language, and that language said that if a policy has a non-weather water claim, then they have the option to use Citizens MRP or they'd have a $10K sublimit apply. To account for the anticipated savings from the policy change, we have adjusted the indication. Without consideration of this program, our projected litigation rate built into it would have been 50%. For the MRP, we do not have a lot of actual data at this point since it just went into effect 8/1/2018. We had to make some projections. For claim holders entering into the MRP, we're going to assume that litigation rate is half, or 25%. We have to bake that into the indication, and it did have a significant impact. It lowered the overall HO3 indication by 19%. Rather than the 24.9%, we are showing for HO3 that indication would have been closer to 31%. We view this as a reasonable, maybe optimistic, adjustment downward of the indication. The impact of water litigation cannot be understated. If you turn to Exhibit 2, you can see the proposed rate changes across the state. The blue represents increases and the green represents decreases. If you remember in 2017, we had this exact same exhibit up, and for the most part with a couple exceptions, the only blue you saw was in southeast Florida. Since that time, we have seen an increase in litigation rate outside of Tri-County. Governor Dunbar, I believe you asked Barry if there are specific numbers when he was going through the industry numbers. There are. Overall, litigation rates are 50%. When you get to southeast Florida, it's more like 60%. The rest of the state, about three or four years ago, that litigation rate was 7%. It's currently in the 18% to 20%. In just a few years, it has tripled. What happening at Citizens is happening in the industry. You'll see in a later exhibit, 97% of homeowners will be facing a rate increase. To put the impact into perspective, and this goes directly to Governor Brown's question about a specific example, Table 1 shows up what the current indication is for HO3 multi-peril (PLA and CLA). The uncapped indication is 25.2%, and we're proposing 8.5%. If we take our indication back to litigation levels of several years ago back in the 15% range, that indication is 1.5% overall. Instead of 25.2%, we'd be looking at 1.5% and we'd be proposing a 0.2% change, which is pretty close to actuarially sound, at least in the aggregate. To dig in a little deeper, if you look at Table 2 and if we look at Miami Dade since that's Ground Zero for this phenomenon, the current average premium is about $3,700. If we were looking at the current indication, the actuarially sound uncapped premium would be closer to $4,700. That would be $1,000 increase; however, if we look at the same number under the assumptions of the adjusted indication, Miami Dade would get a 2.9% decrease. Rather than the $3,700 current premium, we would be recommending $3,600.

Chair Aubuchon: Just so I'm crystal clear, if we had litigation reform, there would be a reduction in rates in Miami Dade County?

Brian Donovan: That is correct. Let me be clear in what I'm describing. There are two aspects of the litigation issue. One is the AOB and the other is non-AOB permanent repairs. What I'm describing is total litigation, so it's AOB and non-AOB. But, absolutely, it's a very strong point. If we went back to a litigation rate of four or five years ago, we would see a decrease in Miami Dade.

Chair Aubuchon: I want to make sure that I understand what litigation reform is when you refer to it. AOB is one issue. What's the remaining aspects of litigation reform that would lead to a decrease in rates in Miami Dade County in your opinion?

Brian Donovan: That's related to the permanent repairs that happen after the mitigation and where most of the AOB happens. So that, I believe, is related to the one way attorney's fees. It's an increase in litigation and to bills submitted after the permanent repairs are made.

John Wortman: Since this rate increase isn't in effect until the end of August, do we have an opportunity to take a relook at this with the first and second quarter results?

Brian Donovan: We do follow these things closely and we would look at it quarterly. We will have a good idea of where things are going by the time these rates hit the streets. If you take a look at the next slide, you can see what this translates to. Here we have a distribution of the policy recommended rate changes. For example, you see 82%. If you look at the very bottom of that graph, it's in the 5% to 11%. So, 82% of HO3 policyholders would get an increase of 5% to 11%. 15% would be in the 0% to 5% . . . so 97% of homeowners would be getting a rate increase. 3% would be getting a decrease. You see a similar story for Dwelling, Condo . . . Mobile Home – not so much. I think it's informative to know what this slide looked like several years ago. On the slide, you'd see the same recommended rate changes we put before the Board in 2013 for rates to be effective in 2015. This is right before the litigation rate ramped up. At that point, we were recommending that 70% of homeowners get rate decreases. Things have deteriorated since that time. First, as a reminder, the OIR order issued for the 2018 rates directed Citizens to consider four specific items related to Monroe County. These items were discussed in detail at the June Board meeting, so I'll give a brief reminder. Citizens has one rating territory for Monroe. The OIR asked us to consider if it makes sense to have additional rating territories. The second was to look into the possibility of applying a wind mitigation credit for shutters. The third was to collaborate with Monroe in its completion of its detailed study of its building standards in Monroe County. The fourth was to ensure that we are using the most up-to-date models that reflect county level building codes. We did extensive research for items one and two, and we are recommending no change. It doesn't make sense to introduce additional rating territories in Monroe. It also did not make sense for Citizens to be the only company offering a credit for shutters. For item three, we did work with FIRM on the detailed report. We consider that a closed item. If additional information comes to light, we'll be happy to re-engage. And, yes, for item four, we will always use the most up-to-date models. That's it as far as the actual rate recommendation. The only other item I want to discuss was Citizens rates compared to the industry. At the last Board meeting, Citizens staff was directed to get a sense of Citizens rates compared to the industry. As discussed earlier, there is a concern that Citizens rates are capped at 10% and the industry is taking in more than 10%. Citizens could end up being cheap which would cause Citizens to grow again. We took two approaches to this. With every single rate filing made in Florida, the OIR requires every company to submit three rate examples. It gives a broad comparison on the various book of business. In this case, the three examples are a lower value older home with no wind mitigation, a lower value older home with wind mitigation, and a newer higher value home. We can look at these and compare it with 27 companies. The number represents the lowest rates. In Broward, for the older homes with wind mitigation credits, the four represents that Citizens is the fourth cheapest. The lower the number the cheaper you are relative to the industry. It's not surprising that we find Citizens as one of the cheapest in this segment because that particular example is most representative of Citizens book of business. Over 90% of Citizens policies consist of homes built before 2002.

80% of them have wind mitigation credits and 85% of them have Coverage A less than $300K. The second approach we took is a little more sophisticated. We were able to work with a third party vendor, and they were able to take our book of business in force as of June 30, 2018 and re-rate those policies with 38 different companies' rates. We have a policy by policy comparison and used an average of those rates to do a comparison. That's what this exhibit represents. The green represents where Citizens has the bulk of its policies and the lighter color indicates the cheaper Citizens is and the darker the color is where Citizens is more expensive. There are things to keep in mind when you're looking at averages based off 38 companies. It does not say anything about underwriting guidelines. We know all 38 companies write actively throughout the state. While this is a general picture, the next thing we did was limit it to the Tri-County area. In particular, we identified seven companies where we can see that the policy count has increased from March 31, 2016 to June 30, 2018 and the premium increased. As Governor Wortman pointed out earlier, in the southeast, Citizens is 10% less. That concludes my presentation.

Chair Aubuchon: On this slide in the dark blue area in the northeast of Miami Dade County, what is significant about that?

Brian Donovan: There is nothing identified there that really sticks out . . . we're looking at coded counties. We actually rate on a more refined level at county level. That would represent a specific territory in the Coastal that has higher rates. The one thing to keep in mind when we look at this is that even though we've identified seven other companies that write in that area, it doesn't mean that they write in that specific territory. That would represent a specific territory within that county where Citizens is higher than the seven companies we looked at.

Marc Dunbar: It sort of jumps off the page in Miami Dade County with dramatically different colors than the rest of the counties. To the right and east of that is white colored and then you have northwest of that the dark blue. I was curious about what the difference was between those two areas and why such a significant color differences.

Brian Donovan: It is somewhat happenstantial. We have different rating territories there and it turned out that when we did the comparison among those seven companies that's where it landed.

Marc Dunbar: Only because I anticipate that slide leading to more questions, is it possible in an unrelated way to research what the significance is for the colors in that county for both the blue and the white.

Brian Donovan: Absolutely.

Bette Brown: I have a comment as we get ready to vote on rates. I want to say that we all represent the state of Florida. I live in Monroe County and I work in Miami Dade County. These things affect the people I'm around every day, and now it's affecting the whole state. I'm really unhappy that our clients are bearing the burden of the attorneys making money on these AOB claims. It's hard to approve a rate increase when you know it's the right thing to do actuarially. We know your science is right. We use the right methodology. It's just a shame that raising rates is going to pose more of a burden on our clients when really it's an AOB litigation issue. I hope this is the year the legislature will take a good, hard look at that.

John Wortman: First, I'd like to thank Brian and his staff. I think they did a really nice job. You've complied with the existing law and regulation in doing an actuarially sound calculation and then applying the glide path. With that, I would move that we approve staff's recommendation for the 8.3% increase. Second, I'd like to ask a question. Do you think it's time we look at the glide path law and suggest some changes?

Brian Donovan: I believe that question is a little above my pay grade. Barry was asked about it and we did put some work together. As Barry alluded to, it doesn't get us there automatically. It might get us there a year or two earlier. A lot of thought has to go into that and due consideration will be given.

Chair Aubuchon: Before we take that as an official motion, I'd like for you to read the action item.

John Wortman made the motion that the Board of Governors approve and recommend the 2019 Annual Recommended Rate Filings, and upon approval, the presented rate changes will be filed with the Office of Insurance Regulation. Marc Dunbar seconded the motion.

Marc Dunbar: Governor Brown hit it square on. We don't have a choice on the statutes. You guys did a phenomenal job. As this gets reported, I hope the media will at least accurately characterize the meeting for this rate increase. For the Citizens affected by the rate increase, I hope they fully appreciate as it shows up in their bills that the logical response for them is to contact their legislators to let them know that this is the year for AOB reform. As an attorney, I don't like to say that the attorneys are making money on this. The Justice Association is at the table with some solutions at the last session. It's a minority of attorneys and it certainly a minority of unscrupulous offenders who are causing the problem. To the insureds who are getting this rate increase, please contact your legislator and let them know we need to have AOB reform this year.

Jim Holton: I'd like to underscore Governor Dunbar's comments. In Pinellas County, we're going to have a rate increase, too, and many folks have asked me what my vote would be. I have to say that it's with a heavy heart that I will have to support this motion because the data compels it. There is no other way around it. Again, we all have to do our part alerting the legislature and the differing advocacy groups to take effective action. I will not be as kind as Governor Dunbar. I'm a "recovering lawyer," but I do think we all have a stake in this. There are good lawyers and bad lawyers. Unfortunately, there are a handful of predatory lawyers that are driving this. I support this motion, but reluctantly, especially during the holiday season to have to raise people's rates. It's a tough decision.

Bette Brown: I have a question. Can we go back to the question about the rates being effective on August 31, 2020?

Brian Donovan: No, they'll go into effect September 1, 2019, but then it takes a year to roll on for renewals. They will not all be in effect until August 31, 2020.

Bette Brown: So, everyone's policy will be affected by August 31, 2020.

Brian Donovan: Correct.

Bette Brown: So, if we voted today to raise rates, and we do find that the legislature does wake up this session and makes reforms, is there any adjustment we can do at that point? Because, we will have approved a rate increase that OIR would have to approve the recommendation because it's their decision. If something happens at the end of March during the session, can we revisit or are we set on a path?

Brian Donovan: We always have the flexibility. If we approve these rates and if something comes up in March that requires a change, it would be a challenge – it would take a little time to get it programmed but there is flexibility built in there and we would do what we need to do to get it there. Approving these rates now doesn't say there's no turning back.

Bette Brown: I'm struggling with it as I think we're all struggling with it.

William Kastroll: I'd like to echo that the AOB reform has to happen. We all know that. The thing I do want to emphasize is that when people buy a product, they expect that product to perform. People buy insurance for a lot of reasons. A mortgage company might tell you to buy it. Your spouse might want it. When it's time for a claim, there is only one reason why someone would want insurance – it's to be handheld. Putting aside the AOB reforms that need to happen, Citizens has responded extremely well in times of need for Floridians. At Hurricanes Irma and Michael, Citizens employees were embedded at small towns across the state, sleeping in sleeping bags, helping people with tremendous empathy to help them get back to where they were. That's all we're trying to do when we get insurance – we're trying to get back to where we were. Citizens, with the customer service data that was provided to us and through stories – we've responded well. Yes, it seems like we're going to have a rate increase, but I do want people to realize that what they're buying from Citizens is something that's been tested by two major storms. I thank you for that and what you've done for the people in times of claims.

Chair Aubuchon, Blake Capps, Marc Dunbar, Jim Holton, William Kastroll, John McKay, Freddie Schinz, and John Wortman voted for the motion. Bette Brown voted against the motion. Motion carries.

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

    a. Information Systems Advisory Committee (ISAC) Report

Jim Holton: Kelly, as usual, has done a great job along with her team as we close out this year. We have no major issues. There is a deferral of cloud migration due to some vendor issues which can easily be overcome. Kelly, as always, outperforms the level of expectation.

Kelly Booten: Thank you on behalf of the team. The ISAC met via teleconference on November 27. I briefed the committee on IT's contribution to Hurricane Michael CAT response and the status of open audit findings that are owned by IT. The employees and Systems Operations have done a tremendous job this year in supporting CAT response and in completing many initiatives while addressing open audit findings to reduce risk at Citizens. I think we have a lot to be proud of. Sarah Harrell, Enterprise Program Director, briefed the committee on the status of the Centerpoint Enterprise Resource Planning implementation. Two additional phases – budgeting and career development – have concluded successfully since the last update with no remarkable issues. The final phase, Oracle Learn, was initially delayed pending resolution of Oracle software defects, which had rendered the product unusable. To date, the software defects remain unresolved with no projected solution date. Therefore, we have decided to cancel this phase and have requested that this product be removed from our annual subscription services. The Vendor Management Office is working with AST – our implementation partner in Oracle – on contract amendments. Our current product, SAP Success Path will remain as our LMS tool in the short term. A competitive solicitation will be initiated to seek a long term solution. With that, the 2.5 year Centerpoint project is officially coming to an end. I'd like to congratulate the team across the whole organization and Sarah for her leadership in that great accomplishment.

i. Action Item: Office Building and Datacenter Electrical Services

Kelly Booten: This action item is for General Electrical Services required for routine and emergency services in our Citizens offices and data centers. The estimated contract amount is $145,000 for the recommended base term of the contract and $25,000 for the renewal term, for a total of $170,000. Citizens issued an Invitation to Bid (ITB) and selected Miller Electric Company.

A motion was made for the Board to approve the contract, including the optional renewal, for Office Building and Data Center Electrical Services, ITB 18-0037, to Miller Electric Company; authorize staff to take any appropriate or necessary action consistent with this Action Item; and approve this Action Item not to exceed $170,000 for the contract term as described above. Bette Brown seconded the motion. All were in favor. Motion carried.

ii. Action Item: Information Technology Research and Advisory Services

Kelly Booten: The second action item is for Information Technology Research and Advisory Services. Citizens will utilize the Information Technology ("IT") Research and Advisory Services provided by Gartner, Inc. under this contract to provide Citizens IT staff with expert advice, a peer community and events to support Citizens' IT objectives with the appropriate subscription at each level. These services allow staff to gain critical insight via analyst and peer interactions. Also included is the ability to leverage proprietary tools and research to make informed key decisions. This subscription will not only be used by IT but also by other areas such as our Vendor Management Office and our Strategy and Planning Office. There are two major components to it: Leadership and Cross Function Members, which is really for the CIO level and executive partnership and then the Gartner for technical professionals advisory. This item has been included in the 2019 budget for $293,492.

Jim Holton made the motion for the Board to approve the contract for Information Technology Research and Advisory Services 81141902-VITA-18-ACS with Gartner, Inc. for a 1-year term; authorize staff to take any appropriate or necessary action consistent with this Action Item; and, approve this Action Item not to exceed $293,492 for a 1-year term. Bette Brown seconded the motion. All were in favor. Motion carried.

Kelly Booten: We had two action items we discussed during the ISAC, but we had another pulled because it was still be considered and under negotiation with the vendor. We will bring it back in March. The Annual Infrastructure Software for Professional Services and Staff Augmentation consent item is in the consent agenda.

b. Action Item: Tampa Office Space

Kelly Booten: For a background on this item, the current lease in Tampa is approximately 60,000 square feet and it expires October 31, 2019. As we continue to focus on our real estate strategy, major contributing factors to our decision to downsize the space in Tampa were due to the policy count decrease, initiative to reduce contractor and contingency workforce, a change in our business continuity strategy, different vendors closer to our Jacksonville main office, implantation of an alternative work arrangement program, and the migration of our disaster recovery datacenter to Winter Haven. A small presence will remain to represent Agent Roundtable meetings, conduct staff training, support other business unit meetings, and our AWA staff a place to meet with their supervisor. As part of the approved real estate strategy, Facilities Management proceeded in locating a satellite office space of less than 5,000 square feet. As a governmental entity, we are required to engage a State Term Contract real estate broker to procure leased office space as outlined in Chapter 255, F.S. and Chapter 60H-1 Rules for Leasing. The brokerage firm, CBRE, was engaged and it was determined there was no suitable state space available therefore an informal solicitation was conducted. Citizens received three quotes and of those, only two were feasible options. The Department of Management Services has provided preapproval. Citizens selected the North Park Professional Center at 6800 North Dale Mabry Highway, Suite 220 in Tampa which is a full service lease for approximately 4,434 square feet of office space. There will be a cost savings of $3.1M annually as a result of implementing a smaller office space footprint. The initial term is for three years with a one year renewal option. In order to secure best pricing because it's a short lease, we wanted to get out of it in the future if we decided to completely get out of the Tampa area. In order to receive that, the renewal options will be immediately executed with Citizens retaining the right to cancel after the fourth year. Citizens contributes half, or $95K, to direct tenant improvements. That cost has also been budgeted. The lease cost over the six year term is $717,022.14 and the beginning base rate is $25 per square foot, which is in line compared to other state contracts leased and negotiated. There is also a $230K savings in tenant improvement costs. The goal is for an April/May commencement date as long as the permitting timeline stays. There will be a cost savings of $3.1M annually as a result of implementing a smaller space footprint.

Jim Holton made the motion for the Board to approve the recommended lease with Hakeem Investments Florida, LLLP as set forth in this Action Item for a three year lease with three, one-year renewals plus $95,000 in tenant improvements in total not to exceed $812,022.14; and authorize staff to take any appropriate or necessary action consistent with this Action Item. Freddie Schinz seconded the motion.

William Kastroll: Thank you for saving this large amount of money and thank you for thinking outside of the box to get cost down.

Kelly Booten: It was the Executive Leadership Team that discussed it and thought this was the right thing to do.

Blake Capps: If Citizens grows a great deal in the next year, would our course of action be the same with regard to Tampa?

Kelly Booten: My understanding is that we would predominantly grow in Jacksonville if we're going to grow anywhere. We have used Tampa in the past to augment staffing needs because there is a good staffing market in Tampa. I think our current strategy is Jacksonville and Tallahassee.

Barry Gilway: I would echo that comment. I think we're in a position in Jacksonville and Tallahassee to really respond to any volume growth and we would not need to put another major facility in Tampa. Kelly runs a scenario planning exercise that considers all of the decisions we have to make relative to both growth and reduction. We were, at one point, in seven locations, and we're down to two locations and I think they can accommodate any direction Citizens takes.

All were in favor. Motion carried.

6. Chief Claims Officer Report

a. Claims Committee Report

Jay Adams: Citizens Claims Committee met telephonically on December 5th. During that meeting, I had a strategic update. We talked about Hurricane Michael and our response from a customer-centric perspective. I've included that presentation in the binder. I don't plan to cover it today because I've covered it in three separate committee meetings. What I did want to point out though is if you would look at slide 17, we did update these numbers to reflect where we are as of 12/9/2018. The biggest change is that our closing ratio has significantly increased over what we originally showed in previous presentations. I also spoke to the settlement agreements we're doing for Hurricane Irma. Finally, we published the MRP Dashboard. I had indicated to this Board that when we had a credible dashboard that we would bring that back to this Board so you can monitor how our MRP is doing. I don't plan on spending any more time on this today because there isn't enough data to make a whole lot of sense of this report. This is something that we will continue to update and continue to carry forward. Once we have relevant data, we will bring this back as a discussion topic. Our Senior Director of Claims, Craig

Sakraida, provided an update on Hurricane Michael and he did it more from a statistics perspective than our actual response was. Elaina Paskalakis, our VP of Litigation, gave us a pretty significant litigation update. Finally, Greg Rowe, our Vendor Operations Manager, discussed our action item that I'd like to bring forward today.

b. Action Item: Sinkhole Stabilization Services

Jay Adams: We'd like to bring forward the Sinkhole Stabilization Services. This is in response to RFP 18-0033. We awarded multiple vendors as listed in Attachment A. This is a renewal of a program that Citizens started in response to Senate Bill (SB) 408 when the sinkhole changes went into places. We had so many claims and litigation that we offered a settlement agreement. Part of that settlement agreement was that we offered contractors to provide stabilization services. Although that program has come to an end and all those claims have moved through that process, we did want to offer this service for any new sinkhole claims that have occurred. The contract amount of this is $15,000,000 for the recommended three-year base term of the contract and $15,000,000 for the three optional one-year renewals, for a total of $30,000,000. What I do want to point out is that this is a benefits paid under the insurance proceeds. This is not an additional expense to Citizens. If a consumer has a sinkhole claim and enters stabilization program, their proceeds from their indemnity pays this contract stabilization price.

Jim Holton made the motion to approve the contracts, including the optional renewals, for Sinkhole Stabilization Services, RFP 18-0033, to the vendors identified in Attachment "A" at a cost not to exceed $15,000,000 for the contract base term and $15,000,000 for the three optional one-year renewals; and authorize staff to take any appropriate or necessary action consistent with this Action Item. Freddie Schinz seconded the motion. All were in favor. Motion carried.

Chairman Aubuchon: Since this Board hasn't convened since the hurricane, once again, terrific job by you and your team on the customer-centric approach, getting out to the Panhandle with boots on the ground. I learned last night that our Executive Leadership Team making lunches for staff so they can process claims timely. Job well done.

Jay Adams: Thank you on behalf of the whole enterprise. It really is an enterprise effort.

7. Chief Underwriting and Agency Services Report

a. Market Accountability Advisory Committee (MAAC) Report

Dave Newell: Thank you, everyone. For the record, Dave Newell, Chair of the MAAC. We met on December 6th and to discuss several things. Before we get to that, we had a little transition on our committee. I want to thank Brian Squire, who was a former Chair of the MAAC and who served on the MAAC for a long time. I want to thank Gordon Jennings who also served on the MAAC for the last few years. We want to welcome Bruce Lucas as well as Kurt Llewelyn for joining the MAAC. Getting to the report, we had an update from Carl Rockman in reference to the agency, and agent counts continue to decline as far as appointments with Citizens. It's certainly a good thing. We also looked at something that's been put in place for the last year or so which is trying to create some performance metrics for agents to be guided as it dealt with late submissions and to make sure the documentation and underwriting process continues down the path to approval. As you have talked about with Jay's team, Steve's team, and the whole enterprise them working with the industry to get information out to agents associations and other interested parties – they host many events around the state to engage the industry on things they're trying to do but also to update agents specifically on some of the pitfalls they are seeing in the industry. Jay updated us on Hurricane Michael. We saw boots on the ground. We arrived at the Village the Monday after the storm. Citizens was already set up in the parking lot and ready to go. Most committees of Citizens have a charter. We were asked to look at a charter for the MAAC. There were some comments made from the committee, and we're going to do some revisions before coming back to the March meeting.

b. Actuarial and Underwriting Committee Report

John Wortman: The A&U met yesterday. Brian Donovan briefed us on the rate increase. Steve went through action items that he will discuss in a few minutes. We did review the newly developed underwriting charter and the committee approved it.

i. Action Item: Business Process Outsourcing Underwriting Production Services

Steve Bitar: The first item I have for you is an action item: Business Process Outsourcing Underwriting Production Services. In order to maintain a scalable operation within the Underwriting Department, we rely on partners to help us underwrite our work. We conducted a public solicitation ITN No.: 18-0038. We received three responses. All three met our mandatory requirements and were advanced to negotiation. On December 4, 2018 the negotiation team awarded three (3) vendors to provide services. The award was structured as follows: two Primary Vendors: Blue Cod Technologies, Inc. and MacNeill Group, Inc. and one Contingent Vendor: Genpact Limited. The vendor identified as the contingent vendor will be utilized in the event that the primary vendors are unable to perform or meet Citizens' needs. It's important to note that there is not guaranteed minimum whatsoever for work. We decide what to send and how much work.

John Wortman made the motion for the Board to approve the contracts to the recommended vendors as set forth in this Business Process Outsourcing Underwriting Production Services Action Item in an amount not to exceed $35,616,803 for the five (5) year base term and optional three (3) year and two (2) year renewal terms; and authorize staff to take any appropriate or necessary actions consistent with this Action Item. Freddie Schinz seconded the motion. All were in favor. Motion carried.

ii. Action Item: Policy Document Generation and Mail Services

Steve Bitar: As many of you are aware, Citizens does not print its own policy output when we issue insurance policies. We outsource that function. Both the print and the mail notices of our documentation are outsourced. We do leverage the Florida State Term Contract No. 80141800-15-01. We would like to continue with that service with the vendor we have used for years.

John Wortman made the motion that the Board approves contracting with the recommended vendor, for a term of 23 months and a one-year optional renewal period; authorize staff to take any appropriate or necessary actions consistent with this Action Item; and c) Approve this Action Item for an amount not to exceed $17,326,263.00. Freddie Schinz seconded the motion.

John Wortman: Has there been any thought at looking at bringing that inside?

Steve Bitar: We've done the cost benefit analysis, and it really hasn't made sense for us to do it. We used to handle it internally years ago. It was just more prudent to outsource it. It's a function that's easily handled and we can easily leverage pricing from the Florida state contract.

Bette Brown: This is the mailing of policies and renewal notices. I bet you have a plan to cut that back.

Steve Bitar: We actually do. In light of the storm activity, we had to reprioritize my policy initiatives which require self-service to our customers. We're looking in 2019 bringing back that initiative, looking at electronic delivery for many of the policy documentation, invoices, etc. – things that, by law, we have to deliver with proof of mail. We absolutely want to bring an electronic delivery option. We will research that in 2019 and we hope that will be able to further reduce the spend in this category.

All were in favor. Motion carried.

8. Chief of Communications and Legislative and External Affairs Update

a. Consumer Services Committee (CSC) Update

Steve Bitar: If I may, Christine Ashburn, our Chief of Communications and Legislative and External Affairs had to leave to go to Tallahassee for some legislative meetings.

Freddie Schinz: We met last week, and one thing that Steve did a real good job and Christine is putting this first slide together which reflects how many different mobile homes are in what counties. They got out brochures to all the mobile home owners to make sure they knew how their mobile home policies work as we knew there was a problem knowing their a depreciable asset. I want to thank you for everything you did.

Steve Bitar: We provided the CSC an update on our Hurricane Michael response. It really is an enterprise initiative when a CAT strikes. Jay provided the claims response and updated the committee on that. Christine talked about our communications efforts and how we reached out to our policyholders before and after the storm. My team provided an update – Scott Crozier, our Vice President of Underwriting and Product Development, gave an update on the emergency order and how we implemented that. Jeremy Pope provided an updated on our CAT response centers and well as our call center response from a first notice of loss perspective and the outbound call campaigns we facilitated following Michael. Also, we always put a focus on our mobile homes policyholders following a storm. We talked about the Mobile Home Discount Program that we launched in relation to Hurricane Michael. We've had significant mobile home losses and there was a discount program we were actually able to advertise that we sent information on for people with retail purchase. We also talked about the Contractor Connection, the network we use for our MRP, and how it was available following Michael. Any customers needing help finding a contractor were able to take advantage of that program. There is a distribution of mobile home policies that are insured by Citizens with their distribution as well as their total insured value by county on the one-pager included in our books.

Bette Brown: Isn't it the agent's responsibility to educate their clients about replacement costs – do we offer a replacement cost?

Steve Bitar: We do not offer a replacement cost on mobile homes. We offer stated value depreciated assets. We do expect there to be a partnership between the agent and the consumer and Citizens for that matter to make sure that valuation remains appropriate.

Bette Brown: There might be other companies that offer replacement value.

Steve Bitar: On newer mobile homes, it might be possible

Blake Capps: I was really impressed with all I've heard about your personal involvement at the Panhandle. I want to commend you for that. I would imagine that most executives of the other companies were not there personally, and I was impressed with hearing you were there. I also heard during the meeting telephonically all of the things Citizens seems to do that goes beyond the call of duty in a crisis like this where you are the leaders of the industry, hanging flyers on people's doors. I thought that was very impressive and I was thinking that most insurance companies don't do all of that.

Steve Bitar: For us to make outbound calls following a storm to check on our policyholders to see help filing a claim, many of our customers were shocked to receive that type of call to check on them to see how they're doing and to receive assistance directly over the phone.

9. **Chief Internal Audit Office (OIA) Report**

   a. Audit Committee Report

Bette Brown: Joe Martins will talk about some new items on this Office of Internal Audit (OIA) Dashboard. We did approve the 2019 OIA Strategy and Plan and Joe gave us an update on the Internal Control Framework Project. As usual, you do a complete and thorough job and I thank you for that.

Joe Martins: Yesterday, at the Audit Committee, we presented the results completed by the internal audit function. We paused on an audit that was finalized. Later in the meeting, we had a discussion about work within the organization and how to improve focus towards licensed vendors. We also looked at progress with the internal control program, and we're pleased to announce that this program will be finalized early next year. We also presented progress on the Enterprise Risk Management (ERM) program. We discussed operational risk management approach and the implementation of that. The rollout is expected to be next year. We have a tool that's being implemented later this quarter that management will utilize through document and management mitigation of risk on an ongoing basis. Kelly Booten presented on the four strategic risks banks to the Audit Committee. We presented on the OIA plan and budget for 2019. The internal audit plan will focus on 65 themes. These themes link well with the strategic goals for the organization for 2019. The six we will focus on are expense management, reliance on third parties, fraud detection and deterrence, innovation systems conversion, enterprise resiliency, and security and privacy culture.

b. Internal Control Framework Project

Joe Martins: The Internal Control Framework (ICF) Project commenced in 2014 which was aimed at strengthening and improving the organization's overall control and operating environment. As we near the end of the final phase of the control framework rollout, we thought we should provide some insight in terms of what this entails. As a basis for designing Citizens ICF the organization selected COSO 2013 (developed by the Committee of Sponsoring Organizations of the Treadway Commission), which provides an Internal Control - Integrated Framework that enhances fundamental concepts of what defines an effective system of internal controls. Although the slides are busy, I thought I'd provide copies of the work we've completed. On slide three, the COSO framework focuses on 5 components of internal controls and explicitly articulates 17 principles to consider as the Internal Control Framework is designed. The five components within the cube on that page are control environment, risk assessment, control activities, information and communication, and monitoring activities. On this slide, since the inception of an Internal Controls Office, it developed a comprehensive project plan, ICF roll-out approach and procured a controls management System. IC consists of two fulltime staff, and is supported by Enterprise Risk and Business Unit Control testers. On this slide, we indicate where we currently are with the program, and we foresee we will be implementing the final 15 processes. We will also continue with control self-assessments which are beginning in earnest for all completed processes in January 2019, and we should be in a position to provide an opinion on the strength of Citizens control infrastructure by the end of 2019. As we roll out the reviews, management will take over the management of the controls and will continue with self-reviews and an annual quality assessment completed by the IC office. On slide five, you see an indication of the number of processes that we are reviewing. We have identified 72 processes, and we envision with the 72 processes, we may have between 150 to 200 specific controls that the organization will focus on in an ongoing basis. With this process, we ought to have completed an inherent operation risk assessment. There may be as much as 300 to 350 inherent risks identified in the organization. Slides six and seven provide insights on the control assessment lifecycle with the five components: scoping assessment, documentation, control testing, result assessment and QA, and deficiency review. Slide seven shows exactly the same processes but with more details to show that it is a well-defined program. Slide eight provides an example of the process flow within the IC office. Step one is to work with the process goals; management will agree with the goals. Then, we define the risks that will impact the organization in achieving those goals they set for themselves. During step two, we do a thorough walkthrough. We document the process and identify the controls. Step three is where we confirm the results and share the results with management. Step four is the controls self-assessment. Slides nine through 12 provides a picture of the results of the work that we do. During step one we do a risk assessment. This is a copy of a risk control matrix that we complete from a risk perspective and what we provide to management. Slide 10 gives us an indication of how we develop the narrative and identify the primary control. On this page we document what a primary control may look like and who we describe that. On slide 11, we show a one-page of a workflow assessment, and within that workflow assessment, we depict the way that control would specifically be in the process. All of this documentation is provided to management and will be analyzed and reviewed on an annual basis to make sure we maintain accuracy. Slide 12 gives you an indication on what a control test should look like, specifically how we identify what the test would be and how often the test would be completed. Slides 13 through 15 focus on the progress to date. On slide 13, we focus on the processes that we are working on in completion. Most of these have been completed and we should be finalizing the last couple by the end of next week. With slide 14, we indicate that there are 32 self-assessments being completed during 2018. The full spectrum of these will be finalized by the end of 2019. On the last page, we show where we are currently with the identification of controls – 99 controls identified and documented. With these, we've indicated that eight controls are not operating as expected and there is corrective action with management.

10. <u>Consent Agenda Items</u>

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

[no response]

- **Technology Infrastructure, Software, Professional Services, and Staff Augmentation.** Contracting approval in the amount of $29,771,560, as further described herein, is requested for a broad array of technology goods and services under the categories of Infrastructure, Software (inclusive of cloud computing), Professional Services, and Staff Augmentation that are available under existing Citizens-procured contracts and State Term Contracts and Alternate Contract Sources approved by the State of Florida Department of Management Services. As explained in further detail under the Contract Amount section later in this Consent Item, Citizens is seeking Board approval to utilize the following contract vehicles: Citizens-Procured Contracts – 15-15-0019-01 through 15-15-0019-24 Contingent Staffing Services, having a term of December 21, 2015 - December 20, 2020, with five 1-year renewals. The budgeted amount is $16,502,908. The Citizens' Information Services Advisory Committee recommends the Citizens' Board of Governors: a) Approve this Consent Item totaling $29,771,560; and, b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.
- **Business Insurance – January – December 2019 renewal period 17-16-0023-00; The agent of record is Arthur J. Gallagher.**

Policy	Insurance Carrier	Premium	Increase %
Business Owners ($41.5 million aggregate limit – property coverage and $2 million aggregate limit – liability with $8 million aggregate - umbrella)	Zurich Insurance Co.	$99,070	<.05
Workers' Compensation	Zurich Insurance Co.	$189,514	-10.2%
Business Auto ($1 million aggregate limit)	Zurich Insurance Co.	$106,669*	-17.9%
Financial Institution Bond ($10 million aggregate limit)	AIG	$18,586	No change

*Citizens went from 67 to 57 automobiles

The purpose of this is to renew corporate insurance coverages for 2019. All of the coverages above are with the same carriers as 2018. It is recommended that Citizens' Board: a) Approve the purchase of the 2019 Corporate Insurance policies (Business Owners, Workers' Compensation, Business Auto, and Financial Institution Bond) as described above; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

- **Loss History Reports – Underwriting Contract No: 14-13-0019-00; The vendor VERISK - ISO A - PLUS LOSS HISTORY REPORTS.** The previously approved contract amount of $2,000,000 was approved by the Board on December 13, 2013 for an initial three year contract term with one two year renewal. This Consent Item will not increase the contract amount previously approved. The Citizens' Actuarial and Underwriting Committee recommend the Citizens' Board of Governors: a) Approve Extension No. 1 to Contract No. 14-13-0019-00 adding six months to the contract term; and, b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.

Marc Dunbar made the motion was made to approve the Consent Agenda. John Wortman seconded the motion. All were in favor. Motion carried.

New Business

Chairman Aubuchon: We're about to adjourn but I want to remind the Board to stay for our FMAP Board meeting.

Marc Dunbar: I'd like to ask a couple questions. I didn't know where to bring up these items. Barry and I have swapped emails on this. The RFI that is being contemplated on Legal Analytics is something that I think is very important. I know as Chair, you can assign a Board observer to the procurement. I'd like to serve on that. It's something the CFO talked to me about, so I want that request to be on the record. The second thing is in regard to one of the items that's in front us is the Board of Governors meeting schedule for 2019. It's more of a question, I guess. Do we not move the Board meetings around the state? Is that not a thing? I was curious as to how this is our permanent location and meeting dates.

Barry Gilway: The location is of the discretion of the Chair. In this situation, in order to lock down a government rate, I believe we have contracted through 2019. We're getting a pretty extraordinary rate. From that point on, it's at the discretion of the chair where we hold these meetings.

Marc Dunbar: How far out do you need to know? The only reason I throw it out there is that maybe we should consider having a meeting in the Tri-County area because that's a bulk of our business. I notice there aren't many who show up at these meetings, in particularly, the insured.

Barry Gilway: I would suggest that any recommendations relative to location can go to the Chair. I would say lead time would be close to six months in order to negotiate an appropriate transaction. We do hold the rate hearings in the Tri-County area and we get considerable representation at those rate hearings. Those are put on by the OIR.

Chair Aubuchon: I'll be certainly open to hearing suggestions as to location. One of the things we mentioned is travel, yesterday. I'm keenly aware of perception of where government meetings are held. Holding it here keeps us on the back page of the news rather than the front page. I don't think we'll be accused of living high off the government.

Meeting adjourned.