

**CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING
HELD TUESDAY JUNE 18, 2019**

A meeting of the Audit Committee of Citizens Property Insurance Corporation ("Citizens") was held at 1:00 pm on Tuesday June 18, 2019 in Maitland, FL.

The following members of the Audit Committee were present:

Governor Bette Brown, Chairwoman
Governor Jim Holton (telephonically)
Governor Marc Dunbar (telephonically)

The following members of the Board were present:

Gary Aubuchon
John Wortman
Blake Capps
Will Kastroll (telephonically)
Bo Rivard (telephonically)

The following Citizens Staff were present:

Jay Adams	Eric Addison
Christine Ashburn	Steve Bitar
Violet Bloom	Kelly Booten
Mark Casteel	Brian Donovan
Bonnie Gilliland	Barry Gilway
Paul Kutter	Joe Martins
Hank McNeely	Jennifer Montero
Mike Sills	Nancy Staff
Dan Sumner (telephonically)	
Barbara Walker	David Woodruff
Andrew Woodward	

The following were also present:

Brian Smith, Dixon Hughes Goodman
Drew Davis, Dixon Hughes Goodman
Matt Church, Dixon Hughes Goodman (telephonically)
Fred Strauss, Holborn Corporation
Tom Carlson, RBC Capital Markets
Kapil Bhatia, Raymond Jones
Danny Kriss, Guy Carpenter
Nathaniel Johnson, JP Morgan

Call Meeting to order

MS. WALKER: Good afternoon, and welcome to Citizens June 18, 2019 Audit committee meeting. This meeting is publicly noticed in the Florida Administrative Register and is recorded with transcribed Minutes available at our website. Please do not place this call on hold. Press star 6 to mute your line and pound 6 to un-mute your line. We are going to convene with roll call. Chairman Bette Brown?

CHAIRMAN BROWN: Here.

MS. WALKER: Governor Holton?

GOVERNOR HOLTON: Here

MS. WALKER: Governor Dunbar.

GOVERNOR DUNBAR: Here.

MS. WALKER: Chairman, you have a quorum.

CHAIRMAN BROWN: Thank you. I understand we have several other Board members on the phone. We should acknowledge Will Kastroll and Bo Rivard, not voting, but listening in. So thank you for listening in. We have approval of the March 26 Minutes. Is there a motion to approve those Minutes?

GOVERNOR DUNBAR: This is Marc Dunbar --

GOVERNOR HOLTON: Move to approval.

CHAIRMAN BROWN: Is there a second?

GOVERNOR DUNBAR: Second.

CHAIRMAN BROWN: Any discussion? Then that motion passes. Joe Martins is here to talk to us a little bit about his dashboard and the Audit reports. You are recognized, Joe.

MR. MARTINS: Good afternoon Governors. I would like to refer to page 12 behind tab two. It represents the Audit progress of the 13 engagements scheduled for completion this year. We have completed five, four of which were finalized since the last Audit committee meeting. With the audit of the IT security controls we noted that comprehensive assessment controls were selected and implemented. The SIU advisory assessed SIU for monitoring and reporting processes, and we were able to highlight some opportunities for improvement of the analytics and monitoring processes. On page 13 we present results of the Irma claims settlement audit. We have noted that effective procedures were in place and proper controls were applied to the claimants. Of the targeted payroll audit, we used analytics to evaluate where some vulnerabilities recorded after the implementation of CenterPoint were not exploited. Some minor errors were noted and no fraud or abuse was identified. On page 14, I listed work currently in progress. Here we have four Audit engagements in progress. The first one is the Claims Litigation Legal Billing Audit. With this audit, we will ensure that there are adequate controls in place to monitor and manage litigation vendors and defense related expenses. For the Information Classification and Handling Policy Compliance Audit, we will assess the design and effectiveness of processes and controls to ensure ongoing compliance with that policy. We have a Payroll Audit in progress, for which we will assess the effectiveness of the current payroll practices, and a Reinsurance Recovery Audit to ensure processes and controls are adequate to support the recovery activities. We have an advisory on the RVR scoring model, and here we will assist the vendor management office in developing an RVR scoring scheme that will more objectively support final decisions. We have five more audit engagements planned for this year and one data analytics engagement. We have the Financial Services advisory. We will explore opportunities to leverage rule space tools

within the Oracle system to provide certain efficiencies for that process. With the Proof of Repairs Audit we will assess procedures developed to manage the proof of repairs of Hurricane Irma's transactions to determine renewal eligibility. The System and Information Backup Audit will focus on backup policies, process reliability, restore testing, replication and secure storage. And the Vendor Ability to Design Advisory, we will assist the vendor management office in developing a tiered ability to perform processes that are intended to proactively identify replication and operational risks to ongoing vendor support. And then lastly, we have the targeted Accounts Payable Analytics Audit; this audit is scheduled to be completed in Q1 2020, and we will assess the occupational fraud risk related to the accounts payable processes and evaluate instances where the processes appear compromised to ensure no misconduct was committed.

That concludes the Internal Audit report. I will continue with the internal controls overview if you don't have any questions.

CHAIRMAN BROWN: Members, any questions of Joe? I do have one, Joe. On your page 16, the dashboard, there are two instances of high open observations. And I was just a little curious how, you know, what the strategy is there. How long are they open normally? What -- you mentioned that it sounds like it is huge issues, but it does sound like something that you have observed, and you are calling them high open. So, can you give me a little detail on that?

MR. MARTINS: Certainly. You will notice that on page 16 we recorded a total of 14 open observations. Of these 14 observations we have two high impact observations. We classify our observations as high, medium, low impact, and in terms of a high impact issue, these are issues that potentially have a real negative impact to the organization if not resolved within a reasonable period of time. Timing associated to all three of the types of issues that we have, depending on the severity and the seriousness of that issue, we try to resolve a high impact issue within 30 to 60 days depending on the complexity associated with that. The two issues that are listed on page 16 mainly refer to the CenterPoint Oracle infusion implementation. The user access management within those applications is relatively complex and an external provider had to be secured to assist the organization in resolving those issues. And so, the timeline associated with resolving those issues was a little bit longer than we would normally advise the organization with, given the fact that they had to bring somebody in to resolve that. On a monthly basis, we monitor the progress the business units have made on these issues. We send a report out; they reply back to us and we monitor whether there is real action being taken. And I am comfortable to say that I think all the issues that we have listed currently in our open items are being addressed by management. In reference to the CenterPoint issues, we actually have five of those issues in total that refer to post CenterPoint implementation and user access issues, which two of them are high. And I believe that all five of those issues were resolved by the end of this month. And so I think the oversight that we have is regular in monthly feedback. And then we don't just close these issues. We actually follow up physically on the high and medium impact issues to ensure that the corrective action is sustainable and appropriate that has been implemented by management.

CHAIRMAN BROWN: Thank you. Members, any other questions on this topic, the dashboard with Joe? If not, he will move on to internal controls.

MR. MARTINS: Thank you. On page 17 we reference the internal controls progress. And here we highlight that the internal control facilitates the roll out of the internal control framework. There are 12 process reviews remaining up to the conclusion of the project, the ICF project. These are in progress and the roll out project is scheduled to be completed by October of this year. Through the framework we enable process and control managers to manage and assess their own control effectiveness through control self assessments. Control self assessments for all completed

process reviews are currently in progress and are scheduled for completion by the end of November this year. Internal Control monitors the completion of control self assessments and assesses quality of management reviews. If there are no questions on internal controls, I will move on to Enterprise Risk.

CHAIRMAN BROWN: Go ahead.

MR. MARTINS: With Enterprise Risk, we look at risks from the top down - strategic risk, from bottom up - operational risk approach. For the operational risk management, we implement the Resolver tool, and training on that tool will begin during the third quarter. A total of 72 residual process risk assessments will be completed and recorded in the Resolver tool by the end of this year. By then all business unit management should be equipped to manage risks within their process areas according to Citizens' aligned risk framework. With respect to the strategic risk, we identified 17 risks within the organization. Enterprise Risk continues to work very closely with the executive leadership team to develop summaries of current and future mitigating actions. That concludes my presentation. And if there are no questions, I would like to hand it over to our CFO, Jennifer Montero, who will join me to present the strategic risk relevant to her areas.

CHAIRMAN BROWN: Members, any questions of Joe? I cut him out a little bit. He had a few more things to talk about on the dashboard, and also strategic risks. Any questions on those two areas? If not, we will move along. Thank you very much.

MR. MARTINS: Thank you.

CHAIRMAN BROWN: Welcome, Jennifer.

MS. MONTERO: Hello, thank you. I am here to talk about the strategic risk first. I will be going over four of the strategic risks. They are all enterprise risks. The four are the ability to adapt to our changing revenue, the market dependency on reinsurance, rate differential and then the reinsurance program. So the risk related to the ability to adapt to changing revenue is the fact that as we shrink or grow our premium shrinks and grows, and with that we have to be able to be flexible, recalibrate, re-prioritize our expenses and how we spend money. So we have improved our forecasting capabilities, our predictive modeling, monthly evaluations of our budgets, like cost center. We have weekly cash management reviews, cash balance forecasting and monthly liquidity analysis and long-term cash management. The second risk, the market dependency on reinsurance. That is based on the financial model that the Florida domestic property insurance market as a high dependency on pricing and capacity available in the reinsurance market. So we have conducted cost analysis of reinsurance, traditional versus capital markets and CAT bonds, and if the CAT bonds are advantageous, we are going to direct our transfer our risks in that direction. We continue to use data quality reviews improvement by reducing pricing, the use of multiple vendors to achieve the best pricing, and of course continuation with the Florida Hurricane Catastrophe Fund. The third risk is rate differential. That has to do with the fact that Citizens is on a statutory rate glide path of 10 percent, where the other domestic companies are not. And with both the increase in litigation and the approved rate increases for the other Florida insurers, the impact, the availability of private market coverage could lead to repopulation of Citizens where we will become very competitive. So we are trying to do rate comparisons with the industry at least once a year, monitor insurance companies' quarterly financials, be better prepared if they are facing an insolvency, and then continue efforts with lawmakers and policy figures to educate possible impacts to the industry. The fourth risk is reinsurance program. And that risk is if there is failure of Citizens' reinsurance strategy and associated program to provide adequate risk transfer with the expected protection to Citizens' surplus and accessible cost. So we continue to build

relationships with the reinsurers, we continue to do cost analysis with the traditional versus capital markets, data quality reviews and improvements, and we use multiple vendors to achieve the best value in pricing. That concludes my report on strategic risks.

CHAIRMAN BROWN: Members, do you have any questions of Jennifer Montero regarding her four strategic risks that she just reviewed?

GOVERNOR DUNBAR: This is Marc Dunbar, Chair, if I could ask a couple of questions.

CHAIRMAN BROWN: Go ahead.

GOVERNOR DUNBAR: Jennifer, on the rate differential on the glide path, I am curious, if we get hit by a storm and it is in tri-county so that some of the insurers down there disappear, you begin to repopulate. I mean, from a legislative standpoint how quickly would we need to have the Legislature address the rate differential to practically go through -- I mean, the glide path to go through to try and close that gap so that we could reverse a potential repopulation event? Do you follow my question?

MS. MONTERO: Yes, that would have to be done right away. That would be an immediate need.

GOVERNOR DUNBAR: So would that be something that we would need almost like a special session to deal with? I mean, that is kind of what I am trying to understand is, if we have a January to March session this year going into an election year, if all of a sudden it hit us, would that be a special session event that we would want to address during next storm season probably if we couldn't address it sooner. In terms of our rate filing versus everybody else and when repopulation occurs, I just don't have experience with when we would start to see that influx. Would it be something that we would know almost immediately, so -- or is there a lag?

MS. MONTERO: Well, there are two situations here. If Miami, if the tri-county got hit, the issue would be those two right there are already writing with much higher premiums so consumers would choose to come to us.

GOVERNOR DUNBAR: Right.

MS. MONTERO: Or you would have it so that companies non-renew because they don't want the exposure in the tri-county and then we would be the only shop in town. The problem is if the big storm comes through Miami, there will be a lot of empathy for that and raising rates and getting rid of the glide path at the same time would not fare well. Kind of like what happened with Irma in Monroe.

GOVERNOR DUNBAR: The policyholder is in a difficult situation of knowing full well that the assessment is going to be potentially coming statewide, our surplus is going to get wiped out while they wait and deal with the glide path issue?

MS. MONTERO: Yes, that legislative process takes a long time. So that is something that would need to be done right away for us to have any affect. Because even if it did, we would have to wait a whole year for renewals for that price increase to take effect. So it is, it is a long process. So the sooner it was approved by the Legislature, the better.

GOVERNOR DUNBAR: What has historically been our most aggressive bump in terms of when we go through the repopulation or depopulation cycle? I mean, is it possible that we could have

150,000 new policies this time next year if a bad storm event happened or even more, or is it a more gradual process?

MS. MONTERO: It is usually a more gradual process. The only time we had a large amount of policies all at once was when Poe went under and they had three companies and we had over 300,000 policies in one day. But normally it is a gradual process. That is the only time we have had -- it is called a novation, where we had to go and take all of that business. Usually if a company will non-renew, and as they non-renew, they have come on to our books slowly. Every once in a while, OIR reaches out if they think a company is having trouble to see if we can take those, but we haven't actually had to do that with a large number, except for Poe.

GOVERNOR DUNBAR: Okay.

CHAIRMAN BROWN: Any other questions of Jennifer? Are you good, Marc?

GOVERNOR DUNBAR: Yes, I am. Thank you very much, Chair.

CHAIRMAN BROWN: Sure. Thank you, Jennifer. You are moving on to the financial summary.

MS. MONTERO: Yes. Behind tab four you will find the March 31st, 2019 financial results and the financial summary, and I will be giving an overview of the financial summary. The operating results through the first quarter of 2019, were relatively unchanged from the first quarter of 2018, and reflect a continuous stability of policy counts, written premium and loss in LAE ratios. Consolidated direct written premium through the first quarter of 2019, was 202.1 million which is 2.2 percent less than the prior year. This decrease is the result of decreases in combined policies in force, primarily the commercial line policies within both the commercial lines account and the coastal account. Decreases in policies in force were one percent for PLA. Approximately 29 percent for CLA and 12.3 percent with the coastal account. No premiums seeded for private reinsurance were recognized through the first quarter of 2019 or 2018. Premiums seeded for private reinsurance are recognized at the inception of the Atlantic hurricane season, which is June 1st. At March 31st, consolidated ultimate losses and loss adjustment expenses related to Hurricanes Irma and Michael were unchanged compared to December 31st, 2018. Hurricane Irma's direct ultimate losses in LAE totaled 1.9 billion with 697.2 million recoverable under Citizens' reinsurance contracts with both the FHCF and private reinsurers. Hurricane Michael's consolidated ultimate losses in LAE totaled 151.7 million. There were no reinsurance recoverables associated with Hurricane Michael as the loss in LAE attachment levels were not met. Although litigated non-weather and water claims continue to be a dominant driver of loss in LAE activity within the PLA, recent trends suggest that the litigation rate may have peaked and is now showing preliminary signs of decline. Within the commercial lines account, volatility in older sink hole claims continues to contribute to material quarterly variances in loss in LAE ratios. The diminishing size of the overall commercial book of business leaves it more susceptible to material swings in the loss in LAE ratio as a result of development in prior accident years when the commercial lines book of business was considerably larger. The reported loss in LAE ratios for the first quarter were driven by favorable development on outstanding reserves for older sink hole claims. Administrative expenses incurred during the first quarter totaled 35.6 million, which were nine percent less than the same period a year ago, and 16.3 less than budget. Variances in contingent staffing were primarily due to lower than anticipated need for independent adjusters that were engaged in response to Hurricane Irma and Michael, as well as a higher than anticipated number of claims entering mediation. The expense ratio for the first quarter was 28 percent, reflecting .8 percent decrease from the same period last year, and a three percent decrease compared to budget. Total investment income for the first quarter of 2019, was 57.6 million, which

is 12 million greater than the same period last year despite a decrease of 839 million in total average invested assets of the same comparable period. This increase is primarily due to three factors. Year over year decreases in realized losses, increases in average coupon yields and decreases in holdings of tax-exempt securities which generally have a lower yield compared to taxable securities. The decreases in realized losses were driven by increases in market values of securities compared to book value when the underlying securities were sold. Increases in coupon yields were primarily the result of portfolio managers reinvesting proceeds from disposition securities at higher overall yields. And holdings in tax exempt securities decreased as a result of decreases in pre-event bond proceeds used to satisfy debt service payments. As we enter the 2019 hurricane season Citizens' capital position remains incredibly strong, supported by a large level of surplus, highly rated invested assets and robust reinsurance program. For the 2019 hurricane season our risk transfer program consist of 1.45 billion in traditional reinsurance and through Everglades Re, supporting a robust and diverse claim paying capacity. And if there are no questions, that concludes my report.

CHAIRMAN BROWN: Members, are there any questions of Jennifer? If not, thank you very much.

MS. MONTERO: Thank you. Also, the audited financials from December are also included in the book, and our external auditors are here to present those to you.

CHAIRMAN BROWN: I think Brian Smith is here from Dixon Hughes. And I have Matt Church on the phone. I am sorry. There you are.

MR. SMITH: Good afternoon. This is Brian Smith from Dixon Hughes. Here with me is Drew Davis. He is our audit manager.

CHAIRMAN BROWN: Welcome, Drew.

MR. SMITH: On the engagement. And also, on the phone is Matt Church. He is our lead engagement partner and signing partner. We are here to present our report for the 2018 Audit at Citizens, both on a statutory basis as well as a GAAP basis under government accounting standards. We issued our Audit May 22nd, for the 2018 year. We are required to communicate certain matters in our audit to the Audit committee and certainly ask any questions as we go through. First there is no new adopted accounting pronouncements during the year. We are also required to communicate any significant accounting estimates or significant areas in our audit. One of those is evaluating loss reserves. What we have done during the 2018 Audit, is we engaged a third-party actuary from Marlinos & Associates, and they work with Brian Donovan and his team in the actuary department to really look at the assumptions and methods of actuarial determination for the December 31 reserves. Behind the scenes we actually also audit the data provided to the actuaries being looking at loss claims and loss reserves and evaluation of those on a sample basis, and then we took a step back and looked at the reasonableness of those reserves. Looking at assumptions taken by management. A few things to communicate. The net reserves carried as of December 31 was 239 million rounding, and then the gross reserves, 1.346 billion. A few things to look at. There was adverse development taken there in 2018, of about \$136 million, mostly attributable to Hurricane Irma; also, non-weather litigation, which we are aware of. Jennifer has communicated that to the Audit committee and the Board in previous meetings. Overall, we found loss reserves to be adequate. Working through our specialists and also working with Brian Donovan's team as well. So we are certainly pleased to report that. One other area of significance is valuation, evaluation of investments, and Drew is going to walk us through those results.

MR. DAVIS: As Brian said, significant as related to the bonds is the valuation. And one of the procedures that we do over that is a third-party evaluation. And the team that does that is part of DHG Evaluation Services. And then also in addition to that procedure, we assess the potential for other than temporary impairment, and part of that is we compare the investments and unrealized loss position at 12/31 to subsequent sales. And then we also note at 12/31 the market overall had a significant decline, and a majority of this loss had been recovered as of Q1.

MR. SMITH: Correct. Other areas to point out, we had no corrected or uncorrected misstatements to report to the Audit committee. So that is good. We had no difficulty in working with management, everything was smooth there. Also, no significant deficiencies or material weaknesses in internal controls to report. And just one last item I think to point out, I think we are very pleased with the finance team this spring. Their assistant comptroller left back in the middle of the spring, and the amount of lift that Andrew and Jennifer had to pick up during that period I think was very good on their side. So I certainly want to give them an applaud and thank you for that.

CHAIRMAN BROWN: That is great. So, nothing substantial.

MR. SMITH: Nothing substantial, that is correct.

CHAIRMAN BROWN: That is what I read. Members, do have you any questions?

GOVERNOR DUNBAR: This is Marc Dunbar. Chair, I have one question if I could? And maybe this is more to Jennifer than to you guys. But on page 24 one of the things, and Jennifer, this will follow up on an e-mail I sent you, the drop in our matching contributions to the 401K that is noted on bullet nine on page 24, were you able to run down like what that attributed to or why we had the drop in the match? The statutory basis financial statement to supplementary information.

MS. MONTERO: Governor Dunbar, this is Jennifer Montero. Yes, I sent you the e-mail with what we thought it could be which is basically employees may not be taking full advantage of their 401K match, or we might have a different mix of employees with lower salaries and they don't start out necessarily with their eight percent or choose not to. We do have a call out to our retirement administrator, Fiduciary First, to ask them for the granular detail of why that contribution. And the question that Governor Dunbar has is, why is the contribution, the match that Citizens does to the employees, why is it less in 2018 than it was in 2017. And so we do have a call in and as soon as we get a response and we have that detail broken out, I will either let you know hopefully by tomorrow at the Board meeting or else send an e-mail out to the Board and let them know what that is.

GOVERNOR DUNBAR: That is great. And if it is in fact that our employees just aren't taking advantage of the match, to the extent we can through HR start to increase our education, because I would hate for our employees to lose out on free money that we are making available to them for whatever that is worth.

MS. MONTERO: Right. And the retirement committee as a group, we actually changed last year I believe, Violet can keep me honest. That before when you started you had to opt into that program, and now we have where it automatically puts you in at four percent and then it goes up I think every so often by two percent until you reach the eight unless you opt out. That way they are getting the full advantage without having to do anything gradually when they start versus it being nothing and then having to opt into it.

CHAIRMAN BROWN: Great, thank you. Any other questions of either our Dixon Hughes partners or Jennifer? And we expect the report mid July, August?

MR. SMITH: It was issued on May 22nd, that is correct.

CHAIRMAN BROWN: Okay, great, thank you. Okay. Gosh, that is it. There is some complaint management statistics. Nothing major that are in your book. We have talked about those. Pretty minor. Is there any new business to come before the group today? If not, I will entertain a motion to adjourn.

(Whereupon, the meeting was adjourned.)

Draft