

# Executive Summary

Actuarial and Underwriting Committee Meeting, July 9, 2024

**Board of Governors Meeting, July 10, 2024**

## Business Process Outsourcing (BPO) – Underwriting Production Services

### Topic

This Consent Item requests the Board's approval to increase existing spending authority for the Business Process Outsourcing (BPO) Underwriting Production Services contracts in the amount of \$28,518,476 through the initial renewal term ending on October 3, 2027. If approved, the total authorized contract amount will be \$74,451,583. The additional spend results from increased demand for underwriting services and the expansion of services designed to verify eligibility and ensure appropriate premiums.

### History

Citizens uses a combination of Citizens' staff and vendor services to deliver underwriting production services. The use of contracted vendors provides program scalability throughout policy growth and contraction cycles. Citizens entered contracts for these services with two vendors awarded under ITN No.: 18-0038, Business Process Outsourcing (BPO) - Underwriting Production Services. The original total spend authorization of \$45,933,107 was based on a policy in force count that was approximately 427,397 (12/31/18). On March 31, 2024, the policy in force count was 1,168,919.

Under these BPO contracts Citizens pays for each authorized activity completed by the vendor. As private market conditions deteriorated the demand for underwriting services under these contracts surged. In addition, new activities were activated to implement strategies designed to ensure Citizens only issues policies for qualifying properties. These newer contract activities include reviewing proof of flood insurance, verifying evidence of primary residence, and increasing the utilization of property survey reports.

To accommodate the surge in underwriting activity, the Board approved aggregating the renewal authority for an additional spend of \$10,316,306 on December 6, 2022. As underwriting demand and policies in force have remained at high levels the utilization of these BPO contracts also remains elevated. High policy in force counts results in a high volume of policy changes, reinstatements, and property surveys, each of which involve services provided under these contracts.

Strategies implemented by Citizens to reduce the overall costs for underwriting production services include:

- Automation of 60% of cancellation activities
- Leveraging predictive analytics
- Use of automated underwriting for certain policy types

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Based on contract spend to date and the most recent projections for policies in force, an additional \$28,518,476 in spend authority is estimated to be needed through October 3, 2027, the end of the first three (3) year renewal period.

## Recommendation

Staff proposes that the Actuarial and Underwriting Committee review, and if approved, recommend the Board of Governors:

- a) Authorize an additional \$28,518,476 in spending authority for the Business Process Outsourcing (BPO) – Underwriting Production Services through October 3, 2027, bringing the total authorized contract amount to \$74,451,583.
- b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.

## Business Process Outsourcing (BPO) – Underwriting Production Services

ACTION ITEM

New Contract

Contract Amendment

Other \_\_\_\_\_

CONSENT ITEM

Contract Amendment

Existing Contract Extension

Existing Contract Additional Spend

Previous Board Approval 12/12/2018, 12/6/2022

Other \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

<p><b>Purpose/Scope</b></p>	<p>This Consent Item requests Board approval to increase the spending authority for Business Process Outsourcing (BPO) Underwriting Production Services, initially approved by the Board on December 12, 2018. The funding for renewal years was aggregated with an approved BOG Consent Item on December 6, 2022. Due to market conditions that have heightened the demand for underwriting services, our current spending limit of \$45,933,107 for both the initial five-year term (October 2019 to October 2024) and the first renewal term (three-year renewal) is projected to be exhausted by first quarter of 2025.</p> <p>This Consent Item seeks to raise the contract spending by \$28,518,476, resulting in a new total spending authority of \$74,451,583 for funding through October 3, 2027, the end of the first renewal period.</p>
<p><b>Contract ID</b></p>	<p><b>Business Process Outsourcing (BPO) – Underwriting Production Services</b></p> <ul style="list-style-type: none"> <li>• Blue Bird aka Xceedance – (Contract 19-18-0038-01)</li> <li>• MacNeill Group aka Focus Insurance Services – (Contract 19-18-0038-02)</li> </ul>
<p><b>Budgeted Item</b></p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>Funding for these contracts is included in the 2024 Annual Operating Budget and will be included in subsequent budgeting years.</p>

## Business Process Outsourcing (BPO) – Underwriting Production Services

<b>Procurement Method</b>	<p>On August 30, 2018, Citizens issued ITN No.: 18-0038 for BPO Underwriting Production Services. On December 4, 2018, three (3) vendors were recommended for award:</p> <p>Primary</p> <ul style="list-style-type: none"><li>• MacNeill Group, Inc. aka Focus Insurance Services</li><li>• Blue Bird Technologies, LLC aka Xceedance, Inc.</li></ul> <p>Contingent</p> <ul style="list-style-type: none"><li>• Genpact</li></ul>
<b>Contract Amount</b>	<p>On December 12, 2018, the Board approved a total contract spend authority of \$35,616,803 as follows: \$19,308,403 for the five (5) year base term; \$9,685,040 for the first three (3) year optional renewal term; and \$6,623,360 for the second two (2) year optional renewal term.</p> <p>A previous Consent Item from December 6, 2022, aggregated the previous authority into the initial term, increasing the total spend authority to \$45,933,107, through March 3, 2025.</p> <p>This Consent Item seeks to increase the spend authority to \$74,451,583 through October 3, 2027, which is the end of the first (1<sup>st</sup>) renewal term period.</p>
<b>Contract Terms</b>	<p>The contract has a five (5) year base term, with optional one (1) three (3) year renewal, and one (1) additional two (2) year renewal.</p>
<b>Committee Recommendation</b>	<p>Staff proposes that the Actuarial and Underwriting Committee review, and if approved recommend the Board of Governors:</p> <ol style="list-style-type: none"><li>Authorize an additional \$28,518,476 in spending authority for the Business Process Outsourcing (BPO) – Underwriting Production Services first renewal option described in the contract terms section, bringing the total authorized contract amount to \$74,451,583 through October 3, 2027, and</li><li>Authorize staff to take any appropriate or necessary action consistent with this Consent Item.</li></ol>
<b>Board Recommendation from Committee</b>	<p>If approved at its July 9, 2024, meeting, the Actuarial and Underwriting Committee recommends that the Board of Governors:</p> <ol style="list-style-type: none"><li>Authorize an additional \$28,518,476 in spending authority for the Business Process Outsourcing (BPO) – Underwriting Production Services first renewal option described in the contract terms section, bringing the total authorized contract amount to \$74,451,583 through October 3, 2027, and</li><li>Authorize staff to take any appropriate or necessary action consistent with this Consent Item.</li></ol>

## Business Process Outsourcing (BPO) – Underwriting Production Services

**CONTACTS**

Jay Adams, Chief Insurance Officer