

Approval of Audit Committee Minutes

ACTION ITEM

New Contract

Contract Amendment

Other _____

CONSENT ITEM

Contract Amendment

Existing Contract Extension

Existing Contract Additional Spend

Previous Board Approval _____

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.

Item Description	Audit Committee Minutes Meeting April 9, 2024.
Purpose/Scope	Review of the April 9, 2024, Audit Committee Meeting Minutes to provide opportunity for corrections and historical accuracy.
Contract ID	N/A
Committee Recommendation	Staff recommends the review and approval of the April 9, 2024, Audit Committee Meeting Minutes.
CONTACTS	Joe Martins, Chief of Internal Audit.

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE AUDIT COMMITTEE MEETING Tuesday, April 9, 2024

The Audit Committee of Citizens Property Insurance Corporation ("Citizens") was convened at 1:00 p.m. on Tuesday, April 9, 2024.

The following members of the Audit Committee were present:

Chair Jamie Shelton Governor Scott Thomas

The following Board members were present:

Governor Lydecker Governor Knight
Governor Cumber Governor Butts

The following Citizens Staff were present:

Jay Adams	Eric Addison	Christine Ashburn	Ken Tinkham
Tim Cerio	Carl Rockman	Stephen Mostella	Palicia Francis
Bonnie Gilliland	Mark Kagy	Joe Martins	Paul Kutter
Paul Kutter	Jennifer Montero	Jon Schmidt	Andrew Woodward
Alden Mullins	Ray Norris	Michael Peltier	Brian Donovan
Jeremy Pope	Barbara Walker		

The following were present:

Brian Smith, FORVIS	
Kapil Bhatia, Raymond James	John Generali, Wells Fargo
Coleman Cordell, B of A Securities	Mark Weinberg, Citi
Frank Leto, Citi	Duane Draper, Bryant Miller
Dave Newell, FAIA	

Barbara Walker: Good afternoon, and welcome to Citizens' April 9th, 2024, Audit Committee Meeting, which is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. and will be recorded, with transcribed minutes available on our website.

For those attending today's session through the public link, you are automatically in listen-only mode, with presentations appearing in the webinar.

Chair Shelton, we have no speaker requests for today.

Panelists, thank you for identifying yourself prior to addressing the committee.

The roll was called, and the quorum met.

Chair Shelton: Meeting will come to order. The first order of business is approval of the prior minutes from the December 5, 2023, Audit Committee. We'll entertain a motion to approve.

Unanimously approved.

Chair Shelton: Joe Martins, our Chief of Internal Audit, you are recognized to present.

Joe Martins: Thank you, Mr. Chair. Good afternoon, Governors. Apart from the summaries of the work completed, I also included a copy of the annual report presented to the appointing officers annually in February by statute. This report includes a summary of the work that we completed in 2023. In the latter part of the pack, we have an internal audit Quality Assurance Improvement Program review report, a practice that we complete annually. We assess the quality of our work against the Institute of Internal Audit Standards to confirm that we align with the standards.

On Slide 2, we present progress to the plan for the period October 2023 to June 2024. Since the last committee meeting, we have completed nine engagements. I highlight the Purchasing Card and Other Expense Reimbursements Audit and the 2023 Anti-Fraud Activities. For the Purchasing Card and Other Expense Reimbursements Audit, overall, at peak, we found that the p-card and fuel card program have adequate internal controls and robust procedures in place to comply with Citizens' corporate policies and practices. The audit noted one controlling enhancement with p-card segregation of duties and some process improvement opportunities. These have been discussed with management, and action has already been taken and implemented.

The 2023 Anti-Fraud Activity Review referred to Internal Audit's anti-fraud program, which includes preventing and detecting occupational fraud. With the program, Internal Audit provides an approach to prevent, detect, and lessen the risk of internal fraud within the organization. Annually, we perform anti-fraud activities, including fraud prevention through fraud awareness programs, fraud detection through data analytics, and targeted audits. For this period, the Internal Audit activity identified two anomalies. These anomalies were included in the P-card Audit, and the audit didn't identify any wrongdoing or fraud. So, the practice is operating and is working, but nothing major was identified.

On the right-hand side of the slide, we highlight the six engagements to commence during Quarter 2 and for completion in Quarter 3 this year. The Fraudulent Tech Targeted Audit is an audit that we do as part of the anti-fraud program. Internal Audit receives notification of fraudulent checks deposited in Citizens' bank accounts. This quarter, Internal Audit performed analysis of three years of fraudulent check activity and identified the type of check patterns or trends of changes to checks and other anomaly triggers to identify emerging risks and future work needed, and we scheduled the targeted audit following this review to further assess some of the outliers noted in the analysis and the data associated with that. So that's part of the work that we'll be doing next quarter.

I also highlighted a reconciliation review, which follows issues noted through the internal control framework control self-assessment reviews. In this review, management requested, following the review management requested that Internal Audit provide advice and guidance in developing strong controls in their specific reconciliation environment.

On this slide, we identify progress throughout the year. We monitor five flagship projects, and these are all highlighted on the right-hand side of the slide. On the left-hand side, we highlighted the Centerpoint Segregation of Duty Engagement, where although access to information systems and data is limited to unauthorized users, specific user roles and system workflows within the Centerpoint application might cause concerns for the segregation of duties when one user has been granted two or more conflicting tasks, which could potentially lead to unauthorized activity. Internal Audit will record the challenges to user access provisioning for

Centerpoint and identify automation solutions to better monitor the segregation duties going forward.

Citizens is responsible for having a compliance program to ensure the organization follows applicable state and federal regulatory requirements. A 2021 audit that we completed highlighted some concerns and corrective action was needed. With this audit, we will specifically focus on that and provide guidance and advice to the organization on how they can further strengthen their compliance program.

The last one that I highlighted on that slide is the Technology Governance Audit. With this engagement, we will evaluate the effectiveness and adequacy of our organization's technology governance framework. This engagement aims to ensure that technology governance effectively supports Citizens' strategic imperatives. The scope will include a review of technology governance policies, strategic planning processes, enterprise architecture, security and risk management practices, structure, budgeting, and resource allocation.

On this slide, we provide insight into our open audit observations. Although there are three listed on the slide, there are no high-impact issues currently open. Management's action is fluent, and the P-card observation has already been resolved, so none of these are major.

With the Internal Control Framework Program, Internal Audit monitors the effectiveness of the program controls, and annually management completes the self-assessment of every control we have documented as a primary control. Following the 2023 assessment, we noted the following results, and I highlight the one ineffective assessment, which focuses on the segregation of duties, improved documentation, and more robust monitoring associated with the reconciliation procedures. That is part of the process where an internal audit was requested by management to do the reconciliation review for them and help assess and improve the reconciliation practices currently in place.

On this slide, we focus on the Enterprise Risk Management work, and we have documented 439 risks from various perspectives throughout the organization. These include strategic, operational, project, and emerging risks. These risks are refreshed regularly. When needed, mitigation is designed and implemented. This slide also highlights the claims abuse risk.

This completes my part of the presentation. We're going to ask Jay Adams to present management action against the claims abuse risk. If there are no questions for me specifically, I'll ask Jay to join us.

Chair Shelton: Governors, any questions for Chief Martins before he steps aside?

Governor Thomas: Not from me.

Chair Shelton: Thank you.

Jay, you are recognized, sir.

Jay Adams: Thank you, Chairman and Governors.

I would like to do a quick presentation on fraud for you, and I want to talk about this from a Citizen's perspective. So, I'm going to talk about bad actor rings. That's not the only type of fraud we see. That is the primary type of fraud we see here at Citizens. The insured still

commits fraud on occasion, and we catch a lot of those folks and we do get arrests with that. So, how does this bad actor ring operate?

Well, it's typically comprised of a public adjuster, a water mitigation vendor, and a plaintiff attorney. The plaintiff's attorneys are not able to go around and knock on doors, and that's what creates the relationship back to a public adjuster. That is what they do, right? They go around and try to identify claims. So, what they do is they will go and knock on the door and ask an insured if they have coverage in force. If they do, they say, "You're probably owed something from the insurance carrier. Can I come in and do a free inspection?" And what they're primarily looking for, again, from a Citizens perspective, is some kind of water damage, a leaky roof, or some type of pipe leak or break. The way this scheme works is that the public adjuster will sign the policyholder up on some type of smart device, and when they sign them up, they are signing up the public adjuster for their contingency fee, which is 20%, they're signing up, in days prior, an AOB for the plumber, an AOB for the water mitigation company, and they're also signing up the plaintiff attorney in the background. Most of the time, the insured has no idea that any of this has happened.

So, what happens next is they've identified something. It's typically a kitchen water leak claim, and it's something that has leaked over a period of time. It's not a covered cause of loss. And what they do is they specialize in making it look like it's sudden and accidental.

The first thing they do is call a plumber to replace something in the plumbing line. We've seen tens of thousands of these claims, and we have never seen the broken piece. They don't leave that behind. That's a major red flag, right? Any plumber or vendor who comes to your house knows if it's an insurance claim, so they leave all the evidence behind for inspection.

The next thing they do is call out the water mitigator. The water mitigator can play a host of roles. One, they can do nothing but set up their equipment, but, typically, what they do is to enhance the sudden and accidental nature of the claim, they will introduce water. They will extract the water. They will do what I call destructive drying, which means they bore holes in the base plates, sometimes in the cabinets. They remove cabinets and countertops. And, again, they are frustrating the claim process by not allowing us to engage with the policyholder. So, the public adjuster runs the entire claim.

So, typically, we're unable to deny many of these claims because, again, they've controlled the process, and we cannot determine that it was not sudden or accidental. Once we settle the claim, it usually goes dormant for six to nine months. Then, the plaintiff's attorney comes back, and they file the lawsuit.

Ultimately, the insured, after paying their deductible, still does not collect enough money to repair what these folks have damaged in their home throughout this entire process.

You may wonder, how is Citizens mitigating these risks? And I'm going to talk about this in three separate phases. So, the first is through our structure and our people. During the year, we do SIU training for all the business units, and SIU at Citizens is an enterprise-wide special team. And what I mean by that is we cover agency, so at the front end of the sale, we cover underwriting when it comes in on the books and then, of course, on the claims side. We spend time training all those folks.

We have a major case unit, and they focus primarily on fraud ring-type activity. Those are the most complex cases.

We also have contracts with vendors where we have them focus on low complex risks to really create some scalability for us, and, again, they focus more on the individual homeowners who might be committing insurance fraud. And then, we also continue to develop our relationships with the Division of Investigative and Forensic Services, or DIFS, and then law enforcement.

The next would be our processes. We built out our claims management system and included two ways to refer things over to SIU. First is the automated. If certain policy conditions occur or certain claims conditions occur when that claim is reported, the system will automatically generate a referral over to the SIU team for review. And then we have a second process that's manual, and that's for the adjuster. During the investigative process, the adjuster, at any point in time, can, if they notice any red flags, make a manual referral over to the SIU team for them to pick up and investigate.

We also have implemented our SIU best practices, and part of that is telling people what red flags are and how to make those referrals over to the SIU team. And then, Citizens does have a statutory requirement to report any potential fraud to DIFS.

Governor Lydecker: Question.

Chair Shelton: Go ahead, Governor.

Governor Lydecker: Thank you. Let me just ask if this is an issue that you're having to deal with. First of all, I have a couple of questions. One is the example you are sharing does not suggest that the insured is committing fraud. I am hearing that the outside adjuster is helping lay the groundwork for a fraudulent process. But the insured doesn't necessarily know. I guess at some point, they do know, and now they are part of the problem. Just want to make sure I understand.

Jay Adams: I think that's a fair statement. I think initially a lot of these folks don't understand what's happening because they're not allowed to speak to the insurance company, right? The public adjuster runs interference and doesn't allow that contact.

Governor Lydecker: Okay. Now, they are allowed to. They have just made the, they have made a decision to hire even though it's not money out of their pocket, I guess, money to hire a public adjuster. Am I thinking about that correctly?

Jay Adams: They get 20% of the loss if it's non-catastrophe.

Governor Lydecker: Okay. So now you have a consumer that just wants to get their issue fixed.

Jay Adams: Right.

Governor Lydecker: They have insurance that should be able to accommodate that, and somehow, they're getting with a public adjuster and not interfacing directly with Citizens, which would just otherwise fix it. What I feel like that we are not doing as an organization, and I preface it that I might be wrong, so I'm going off my feelings on this, my instincts on this, is that Citizens as a quasi-governmental entity is more prone to fraudulent activity, is more targeted than private sector insurance companies. I don't mean to be absolute. I just think it just feels to me like there's more activity here than would be privately held insurance companies. Because

of that and because of the mandate that you operate on behalf of the citizens of the state of Florida and, you know, with trying to do the right thing, I feel like some of the actors involved in these fraudulent, this trail of fraudulent activity, these actors that get teed up in this process are repetitive, there's certain targets, and you are trying to develop a system to cope with that. And my question to you is, can we think bigger than coping with it? Can we think more larger? And this is consistent with the conversation you and I had just recently about fraudulent activity with regards to other claims-paying issues. Like shouldn't we be more proactive in thinking about how these other players that are repeat players on this fraudulent activity that you are having to cope with, you are having to cope with all the time, should have skin in this game and that they can become harmed for this activity?

For, and I, so what does that mean? Well, for starters, shouldn't the legislature be playing a role in this? Shouldn't we be advancing some thought process, some legislative response to fraudulent public adjusters? I am aware in my business of public adjusters that have done exactly what you have described, which is put them, on a commercial basis have put themselves between an insurance company and an insured, and that insured's claim ultimately didn't get covered because the public adjuster messed it up along the way and, and the insured, the consumer, did not have any legs to stand on any longer, and a claim that might have been considered at some point wasn't.

So, I think that there's a larger issue here.

Jay Adams: Right.

Governor Lydecker: Can we think about, should we be thinking about not just coping with it within the confines of Citizens and either legislative, either, there's bigger ways to attack this? And that goes back to what I was talking when you and I had a conversation about shouldn't we be controlling some of the vendors in the inspection process so that Citizens is the client, not some insurance agent as the client, you know, putting in whatever they want. Anyway, I know that was a long diatribe to just simply say, like, can't we think larger than coping with? Because the truth is it's whack-a-mole. It's always something.

Jay Adams: Right.

Chair Shelton: That's a lot there, Tim. Jay, if you'd like to respond, there are lots of questions in there. So, your response?

Jay Adams: So, I'd like to go back to the beginning and just clarify. When we talk about these bad actor rings, they are out pursuing these claims, creating these claims, a lot of times without what I'd consider the insured's full understanding, okay?

Governor Lydecker: Agreed.

Jay Adams: So that's very different than an insured making a claim themselves without representation and then it ends up being fraudulent. So, these folks are being taken advantage of.

Governor Lydecker: Just like AOB.

Jay Adams: Correct. Citizens probably has a disproportionate amount of these claims, and I believe it is because of the geography that most of our business is in. Citizens being, you know,

the largest writer in the South Florida area, tend to drive that because most or a lot of this fraud comes out of that marketplace. So I don't know if you guys recall, but we did have a case where we filed a civil RICO action against a bad actor ring, and we recovered over a million dollars from that. So, we were unable to have the state prosecutor pick that up, and it was just recommended that we take it.

Governor Lydecker: Yeah, but that's a one-off. This is a systemic issue that I'm referring to.

Jay Adams: Yeah. Well, I will tell you that there has been some legislative change that occurred in 2023. We are leveraging that. We do have some strategies on a bigger level that I don't want to discuss in a public forum, but we are pursuing all avenues that we can to go after this. And I'll let you comment on anything on the legislative side.

Tim Cerio: No. I mean, I think Jay hit on what he should hit on publicly. I think there are strategies. We could always be doing more, Governor Lydecker. You know, we have reached out to the statewide prosecutor's office. We have at DIFS and CFO Patronis' office that they've received a legislative appropriation for more resources to fight fraud. We do try and work with them. I think that the individual that was, we had the Civil RICO case, I mean, the amount of money. It wasn't just a recovery, but what we cut off that was being siphoned out of Citizens was a tremendous number, and I think it's, you know, we were at the forefront of that effort. It's difficult. You can always do more. There is a challenge getting, and I'm not being critical of the state attorneys and statewide prosecutor's office. These are, in essence, they're commercial fraud cases, and they're hard to prove sometimes; sometimes, they're not very sexy, but we are continuing to beat that drum. This lawyer that was the, that was sued civilly by a civil RICO was disbarred, and we think we just need to keep doing that. The more, and I hate to say it this way, but the more of these examples you can wave to the public, you hope that's a disincentive. But there are other things that you, as you discussed with Jay, that we could...

Governor Lydecker: Yeah. So, you know, a lot of this starts with the public adjuster, and ought we be, ought we be putting forward a thought process on holding public adjusters accountable? 'Cause I just feel like they're not being held accountable, that there's this population, adjusters that get in there, and then they bring in a different network. And the reason why I raised this and the reason why I've taken this much time up, Mr. Chairman, thank you for your indulgence, is that, otherwise, we're in the unenviable role of just raising rates to, you know, make up for, yeah, there's hurricane claim activity and there's other activity, but this fraud. And to the extent that, you know, we could lead the charge, and like I said, maybe it's a legislative response, but that we can lead the charge beyond dealing with what you're dealing with right now and we can curtail that fraud or stop that fraud much the way assignment of benefits is backed up quite a bit, then we're also reducing a lot the need to increase rates on consumers in the state of Florida, and that ought to be, that ought to be like inherent in our mission. I think it is for you all.

I hope anything I've said doesn't come across as a criticism because I'm not being critical. I'm just, it's an observation from this side here. Like I think this is like a really big systemic issue and it ought to be addressed, and we ought to be, we ought to be advancing the thought process to addressing it. Thank you.

Chair Shelton: Thank you. And when Chief Martins and I were going through this and you look at some of the enterprise risk that internal audits identified that you're looking at, that's why we asked on this claims because these are, a lot of these things we can't control in the

marketplace and this is a difficult task, but I think this is something to keep, I know you're working hard at it, but I think it's something as Joe and I meet and do the things as the Audit Committee Chair, just kind of keep in the back of my, continue to kind of update things that are happening and appreciate the efforts and be a leader, not a follower, which I know that we are.

Any other questions for Jay?

Jay Adams: I did have one more slide if we have the chance.

Chair Shelton: One more slide. Go ahead, Jay.

Jay Adams: Okay, next slide, please. The last phase is the tools. And this goes a little bit to what Mr. Lydecker is asking about. We do have a fraud analytics software tool that leverages machine learning and integrates with third-party software. And what it's doing is it's looking for the identification of new rings when they happen.

So today, or prior to having this software, we have hundreds and hundreds of adjusters out there handling these non-weather water-based claims. And it takes time for those to filter up through leadership to understand that there's a problem in a ring. This software will identify it when the first two, three or four come in instead of when we're six or eight hundred or a thousand claims in. So, we do believe this is going to be significantly proactive to help move that process forward.

We also have subscriber data that we use to identify fraudulent trends, and we even engineer and grow our own solutions in-house for doing some of the data mining and so forth.

Governor Lydecker: Mr. Chair, I'd like to make one other comment if I may.

Chair Shelton: You're recognized, Governor.

Governor Lydecker: The, you know, one thing that the board, we need to keep in mind is that these issues of coping with fraud in Florida, and, you know, Southeast Florida in this case was identified, but I think it's everywhere, it just might be, it might be more concentrated in some parts of the state, as Jay has pointed out, the way the private sector deals with this is they pull out. They stop writing that homeowners and they start saying, they have very strict procedures. They say any home that's above a certain age, you know, we're not going to write that roof anymore because it's subject to assignment of benefits issues, or we're just going to pull out of the state of Florida. And when they make those decisions, it's putting more pressure on Citizens, who is stuck having to cope with it in the manner by which we're coping with it, which is why it needs a larger, including what you're already doing, it needs a bigger attack field. And that's where I think we got to be thinking about it because, again, it's Citizens that just start ending up paying more and more and a subject to assessment.

Chair Shelton: Thank you. Governor Thomas.

Governor Thomas: Sure. Jay, one question. I noticed as you described the ring, it kind of began with the AOB, and we know the AOB is getting a lot of relief from that, think statutory changes. I take it the AOB is not essential to this sort of fraud, correct?

Jay Adams: Right.

Governor Thomas: Okay.

Jay Adams: So, what ends up happening, the reason so much of this goes to litigation is prior to Senate Bill 2A, the fees and costs helped fund the referral of all this business over to the plaintiff. So today they still have contingency fee agreements, and on a claim like what I described, that's how they got in, on a contingency fee agreement. So even if it goes in through the process, they kind of get to double-dip on it. And that concludes my presentation, Chairman.

Chair Shelton: Thank you, Jay.

Governor Becksmith: Mr. Chair, can I ask a quick question?

Chair Shelton: Absolutely.

Governor Becksmith: Jay, just quick, kind of going on with what Charlie said down there on the claims, is there a way in the private marketplace they can exclude the use of public adjusters? So, on a personal or commercial policy, it's written into the policy that this policy will not apply if a public adjuster is chosen, used, et cetera, incertain instances.

Jay Adams: Right.

Governor Becksmith: I would assume we can't do that. Is there a way to have a, for lack of term, panel of public adjusters that have been approved, vetted, et cetera, where if there is a difference, which there will be in certain instances, that a claimant could bring in somebody who has maybe been vetted, who's not part of the ring as you've just discussed, and things of that nature.

Governor Lydecker: Or a public adjuster is licensed, you know. Should the Department of Insurance Regulation, to Josh's point, crack down, and, you know, yeah, one strike, you're out? And the same thing with the insurance agent population, you know. We don't, we just don't talk about public adjusters.

Jay Adams: They are all licensed, and the new statutes that I told you about, we are leveraging that, making referrals back to the licensing agency when we see violations. So, it's out of our hands, but we're doing all we can on the front end to move that stuff forward.

Chair Shelton: Jay, I would ask that at our next meeting of the Audit Committee, just kind of an update report on the things you're working on and the things you can discuss. And a great presentation today. Thank you for bringing that to us.

Jay Adams: Thank you.

Chair Shelton: Next up, we're through with Joe, Chief of Internal Audit. I believe we have Jennifer Montero, our CFO. Ms. Montero, you're recognized.

Jennifer Montero: Good afternoon. Behind Tab 3, you'll find the document titled "Fourth Quarter 2023 Results of Operations and Financial Position." This provides an overview of Citizens' unaudited financial position, including the cash flows, invested assets, and surplus, as well as operational results for the fiscal year ending December 31st, 2023. In addition to that, there's a second document that provides the commentary, which is the discussion and analysis of those operating results and financial position, and that is the document that I will go over in summary.

So at December 31, 2023, consolidated cash and invested assets totaled \$9.9 billion, which is approximately 840 million more than at December 31st, 2022. This was driven by net cash inflows from operations of approximately 1.2 billion, partially offset by a reduction in debt of approximately 30 million as a result of the 2023 defeasance of Citizens' outstanding bonds.

Consolidated surplus at December 31st was \$5 billion, reflecting an increase of approximately 750 million in comparison to the prior year, driven by the 2023 net income of approximately the same amount. Consolidated direct premium written in 2023 was 5.1 billion, or 1.9 billion more than written in 2022 calendar year. Although the number of new policies written during 2023 of 552,000 was slightly below the 573,000 written in 2022, the renewal rate of 85% reflects an increase of 4 percentage points relative to the renewal rate observed in 2022.

Premiums ceded for reinsurance, including the Florida Hurricane Catastrophe Fund, for the 2023 storm season were 1.2 billion, or approximately 634 million more than in 2022. This was driven by a significant increase in the reinsurance exposure and increases in underlying pricing.

At December 31st, 2023, loss and LAE reserves related to catastrophe events increased by approximately \$130 million in comparison to the prior year. The majority of the development occurred on loss and LAE reserves associated with Tropical Storm Ada, which through December 31st, 2023, reflected a litigation rate of 48%.

Gross and net ultimate losses and LAE associated with CAT events were as follows: Hurricane Ian, the gross amount is 3.6 billion and 2.5 billion net after reinsurance; Hurricane Nicole is 101 million gross and 86 million net; Hurricane Irma, 2.6 billion gross and 1.4 billion net; Tropical Storms Sally and Ada together were 430 million with no reinsurance recoveries; and Hurricane Idalia, 84 million with no reinsurance recoveries.

The 2023 non-catastrophe loss and LAE ratio for the personal lines account and the coastal account continue to show improvement relative to prior years. The dominant driver behind the improvement in the loss and LAE over the past several years has been the improvement in the litigation rates, which continues to be the single most important factor in non-catastrophe losses and LAE, and which have remained stable for non-catastrophe losses in 2022 and into 2023. The commercial lines account experienced tremendous growth in 2023 with earned premium increasing from 37.7 million in 2022 to 199.3 million in 2023. In prior years, the underlying commercial lines account loss and LAE ratio was inherently volatile due to the low premium volume and large potential impact of a few claims.

Administrative expenses incurred in 2023 were 164 million, or 25 million more than in 2022, and 22 million less than budgeted. Citizens' expense ratio for the year ending December 31st, 2023, was 13.8%, marking a 1% decrease from 2022 and .2% more than budgeted.

For 2023, total investment income was 294 million, which is approximately 82 million more than in 2022, while average invested assets increased 283 million. The increase in the overall interest rates, specifically within short duration instruments, has had the largest impact on investment income.

At December 31st, 2023, total unrealized losses across all portfolios were 619 million, an improvement of over 298 million relative to total unrealized losses at September 30th, 2023, of 917 million. However, at March 31st, 2024, the total unrealized losses were 666 million, or 47 million more than at December 31st, reflecting an increase in interest rates during the first quarter of 2024.

I'm happy to answer any questions you may have, but if there are no questions, that concludes my report.

Chair Shelton: Governor Thomas, any questions for Jennifer?

Governor Thomas: Not from me.

Chair Shelton: Any questions, Governors? Nice report, then no questions. Thank you, Jennifer.

Jennifer Montero: Thank you.

Chair Shelton: Next, Brian Smith with FORVIS will give us an update on the 2023 audit. Brian, thank you for our conversations and staying in touch. You're recognized to present your report.

Brian Smith: Good afternoon. For the record, Brian Smith from FORVIS external audit firm.

My report today is brief. It's just a verbal update of our status of the external audit for 2023. We began our final field work this week. We expect to be completed at the end of April here with anticipation of our report by the middle of May. At this point, we have no findings, or control deficiencies identified for the committee.

Chair Shelton: That's a very brief, succinct report, but as we know, we're moving along and we've had conversations working well with management, no disagreements or anything of that nature.

Any questions, Governor Thomas?

Governor Thomas: Not from me.

Chair Shelton: Any other members? Thank you. We look forward to hearing your full report at the next committee meeting.

Brian Smith: Same. You're welcome.

Chair Shelton: Next on the agenda is the Office of Inspector General's quarterly report. It's presented in our binders, soon to be electronically, we hope, but it's for information only. I do want to take a moment to recognize Mark Kagy, the inspector general. I asked him to give just a few brief remarks and if there's anything he'd like to discuss with us. You're recognized.

Mark Kagy: Thank you, Chairman Shelton. For the record, my name is Mark Kagy. I'm the Inspector General at Citizens Property Insurance Corporation. I thought I'd take just a minute to point you behind Tab 5; there is an annual report of our activities and accomplishments from the OIG office, and it gives you just a brief understanding of what the office does. On occasion, I will present in front of the Board or in front of the Audit Committee to just kind of talk a little bit about the office and give you guys an opportunity to ask any questions.

The Office of the Inspector General is administratively housed within Citizens, but I do not report to the CEO. So, the most important structure, I believe, of you know, government oversight and accountability is kind of this dual reporting structure. I'm hired and fired by the Financial

Services Commission. That's your four statewide elected officials, that's your Governor, CFO, Attorney General, and Agriculture Commissioner.

The primary responsibility of the Office of the Inspector is just to coordinate and handle any activities that involve any kind of fraud, waste and abuse, accountability, integrity, and efficiency within the company. And so, I always, you know, my 30-second elevator speech that I give people is that I'm an independent investigative entity which is administratively housed within Citizens. So, I'm always very, very concerned with anything that has to do with accountability, integrity, and efficiency, and I conduct fact-based analysis and develop impartial reports. So, I use a lot of objectivity and a lot of transparency in what I do, and the hope is that Citizens will continually, as it does, operate with high levels of accountability, integrity, and ethics.

A lot of our reports, the biggest question I typically get are, are the reports confidential and exempt from public record? There is a period of time where they are confidential and exempt while they're open, while they're under investigation. Upon closure, they do become a matter of public record. In the back of the annual report, you'll see a couple of examples of the investigations that we've conducted over the years, or over the past year. To give you a little bit of an understanding, our correspondence numbers have continually risen year over year. I think largely that has to do with, you know, Citizens' policy count. We tend to follow that policy count with our internal complaints.

I will point out that Citizens has a complaint-reporting hotline called tellcitizens.com. There's also an 800 number attached to that website. This can be an anonymous reporting tool that internal and external folks use to notify me of any concerns that they may have.

So, the office has been running for about 10 years, and I think it's running well. One of the features that I like to point out is that we do have kind of a reactive method of responding to any kind of complaints or concerns that we receive, but I do like to take proactive steps in looking at our compliance program, looking at how Citizens operates from kind of procedural standpoints. So, there's not just a reactive component to our office, but also a proactive component as well. But a little bit of, all the information you need from the office is there in the annual report. If I can ever do anything for you or answer any questions, I'll be happy to do so.

Chair Shelton: Mark, thank you very much. Governor Thomas, any questions?

Governor Thomas: Not from me.

Chair Shelton: Governors?

Governor Lydecker: Question.

Chair Shelton: You're recognized.

Governor Lydecker: In the report that you provided to the board, you talked about licenses and there's, you know, three employees of Citizens had licenses and insurance that were not deactivated.

Mark Kagy: Right.

Governor Lydecker: Why is that? Why does that matter? I would think licensing is a good thing.

Mark Kagy: It is, and we want them to be licensed, and we want them to be licensed, and the law actually said that you know, in order to adjust claims, you have to be licensed, and you have to be assigned to the company that you're providing licensure for. So, there have been occasions where we have found internal staff that are kind of moonlighting on the side and they're adjusting claims for another company, and we just can't have that. That's a conflict of interest in our eyes.

Governor Lydecker: So, it's an appointment issue?

Mark Kagy: It is an appointment issue.

Governor Lydecker: Okay, got it.

Mark Kagy: And we do get, we work very well with DFS. They'll notify us if we have an employee in that.

Governor Lydecker: But they could be appointed by Citizens?

Mark Kagy: Yes.

Governor Lydecker: You wanted, I know you're supposed to have two appointments, but if they just, one appointment by Citizens and they have an active license, and that you wouldn't have a problem with?

Mark Kagy: Right. Well, we ask them to put that on hold while they're employed at Citizens.

Governor Lydecker: Right, you ask them to put it on hold, but if you have it, if you change it and say you can be appointed by Citizens, then they have to also keep up with continuing education hours, don't they?

Mark Kagy: If it's on hold, they do not.

Governor Lydecker: Right. So my argument is we want it, we don't want it on hold, we want it to be activated because we want them to do continuing education hours and stay on top of the issues in their field.

Mark Kagy: Right, and, but we cover that. We'll, my understanding is that Citizens will cover those.

Governor Lydecker: But to maintain your license, you have to do 40 hours, I think it is. And just, again, don't we want that? And my question is, don't we want continuing ed to occur for the employees of Citizens? And all it is, is a simple recommendation, which is, I take the point that it shouldn't be appointed by insurance companies. I get the conflict issue there. But why don't we change it to say it can be appointed one appointment by Citizens and now they're obligated to get their 40 hours in? I just want to you know, fraud, all this stuff, you know, we want to, we got to be game on because we're trying to depopulate this thing.

Jay Adams: An adjuster, whether an independent adjuster or a staff adjuster at Citizens, has to be licensed. They're required to do their continuing education as outlined by DFS, and they can only be appointed to Citizens. So, there are no dual appointments. And I think that's what Mark

is trying to point out. So, if they're appointed to Citizens and then they're appointed to somebody else on the side, then that creates the conflict.

Governor Lydecker: No, I got that. Okay. I'm saying it needs to be an active license that requires.

Jay Adams: It has to be an active license.

Governor Lydecker: Continuing ed. That's not what this says, Jay.

Jay Adams: But that's what we do.

Governor Thomas: I think this is referring to if you have a license and it's not essential to your duties as an employee of Citizens. So, let's say you work for Citizens and you're not on the adjustment side of Citizens; you're doing whatever else might be. But your license is not central or necessary for what you're doing for Citizens. Those are the only ones we're talking about going on.

Governor Lydecker: Well, if you're a licensed 220 agent, which is a very broad license, you would want the 40 hours of continuing ed. If you're an underwriter, if you're in the claims process, you would want them to have an active license. We require that in our company.

Jay Adams: We do on the claims side as well.

Mark Kagy: They're still getting their continuing education.

Governor Lydecker: Okay, they may be getting continuing education some other way but I'm telling you it is required here. Anyway, it's for another conversation. I think you should make everybody get licenses. But it needs to be an appointment by Citizens to make it active for continuing ed purposes.

Chair Shelton: Thank you, Mark, and thank you, Jay. Any new business?

Whereupon the meeting was adjourned.