

Office of the
Internal Auditor

ENGAGEMENT REPORT

October 2024

Commercial Lines Underwriting
Engagement



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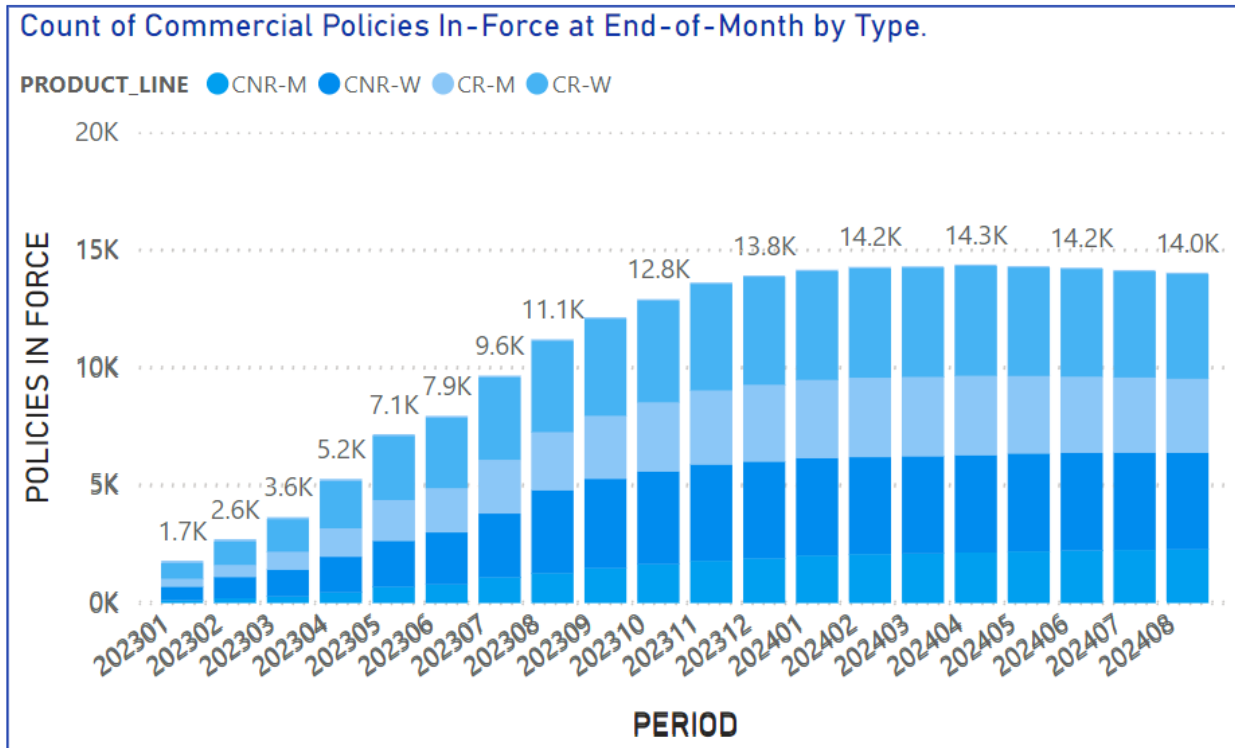
Executive Summary

Background

Citizens provides property and casualty coverage for both residential and non-residential commercial structures. Over the past two years, the commercial lines book of business has grown significantly due to changes in the Florida market, including A-Rate risks (properties valued at \$10M or more per building), resulting in a substantial increase in risk exposure.

Given the large property values (exposure) associated with commercial structures, accurate underwriting is essential to Citizens. The Commercial Lines Underwriting (CLUW) team comprises office and field underwriters who ensure that new business applications and policy renewals for commercial properties meet eligibility requirements and are accurately rated for premium. Every new submission is sent to Citizens unbound. Underwriters also review policy changes, handle telephone inquiries from agents, and collaborate with other divisions and departments.

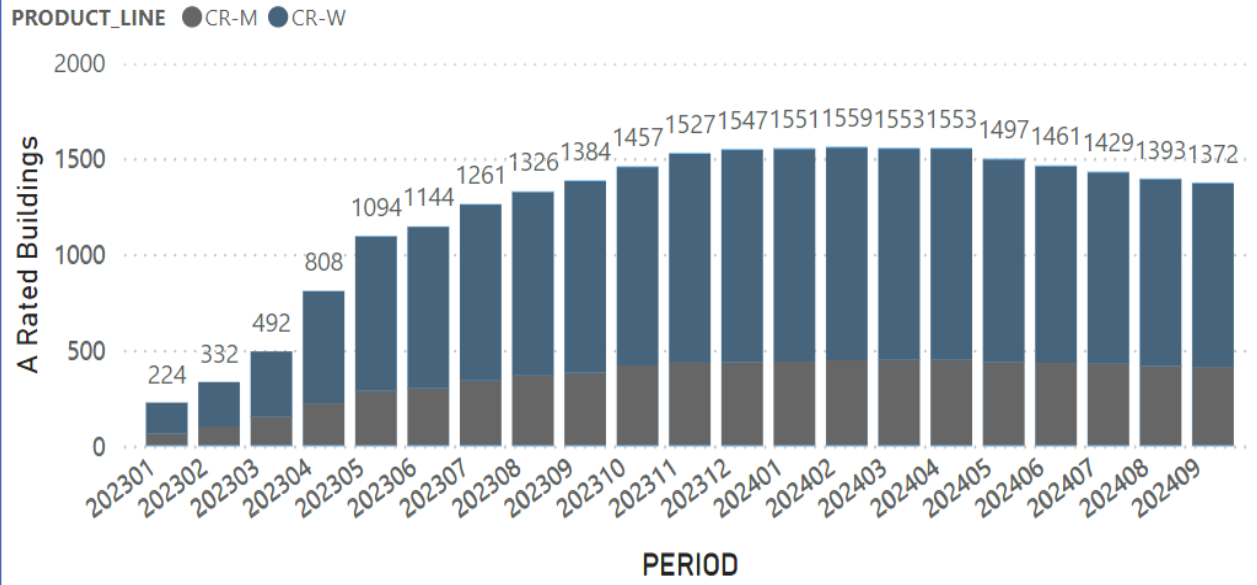
The graph below shows the growth in commercial lines' policies in force as of August 30, 2024. At the end of August, approximately 14,000 policies covered 57,200 buildings, with a coverage A exposure of approximately \$94 billion.





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Count of Commercial A-Rated Buildings at End-of-Month by Policy Type.



The graph above presents the number of A-rated commercial buildings with a policy value of \$10M and above. As of September 30, 2024, this book of business had 1,372 buildings.

Objectives and Scope

To evaluate the business processes and controls to ensure that commercial policies meet eligibility and underwriting requirements. Specifically, we focused on:

- Eligibility Verification:
 - Assess whether new business policies meet the established eligibility requirements.
 - Ensure system controls for policy renewals effectively prevent renewals of ineligible policies.
- Quality Assurance:
 - Review quality improvement (QI) data to verify the accuracy of underwriters in meeting new business submission requirements.
- Field Survey Validation:
 - Confirm that field surveys assess overall building condition, rating attributes, and risk eligibility.
- Automation and Technology:
 - Validate the effectiveness of the robotic process automation (RPA) bot in identifying unsigned new business applications.
- Data Accuracy:
 - Ensure the accuracy of data presented in key management reports.



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- Underwriter Training:
 - Assess ongoing support and development programs for underwriters.
- Management Operational Monitoring of key PowerBi reports.
 - Verify that management monitors aging and cycle times and takes corrective action as necessary.

Audit Results

Receiving and processing Commercial Lines underwriting applications is complex as most policies cover multiple large buildings. Results from the audit indicate that effective business processes and controls ensure effective management, risk eligibility, accuracy, and data quality for new business submissions and renewals. Specifically, Internal Audit observed the following:

- Eligibility controls over critical risk data requirements for new submissions and renewals are in place to ensure the accuracy of proper risk replacement cost valuation and premium.
- The PolicyCenter has automated controls to review specific policy elements and renew commercial policies if all elements are met. Suppose one or more of the elements are not met. In that case, an auto-generated activity is applied to the policy for the underwriter to review, confirm, decline, or request updated information before renewal.
- Field surveys are completed for new business submissions to address potential risk concerns, assess roof and structural conditions, and verify other critical eligibility requirements. The new field underwriting (UW) dashboard supports the prioritization of these surveys based on the risk criteria provided by the underwriter, ensuring accurate information for proper eligibility, rating, exposure, and premium determination. Notably, 487 field surveys were completed between August 22, 2023, and August 16, 2024.
- Management views the CLUW dashboard reports daily to monitor cycle times, aging, and policies in force (PIF) count. In addition, to ensure daily communication with underwriters to answer questions and resolve issues, the commercial underwriting management team utilizes a continuous MS Teams chat for the underwriters. Weekly underwriter team meetings are held to discuss current underwriting topics, answer questions and provide lessons learned training.
- Manager file reviews are completed quarterly to evaluate each underwriter's decision-making process and ensure that new business submission data is accurate and meets eligibility requirements.
- The valuation of a new business submission requires a replacement cost appraisal submitted by the agent. Typically, these appraisals are generated using CoreLogic software, an industry standard for determining risk valuation. It relies on widely accepted data from Marshall & Swift/Boeckh (MSB) and is updated quarterly to ensure valuations accurately reflect current market conditions.

Results from our work indicate that PolicyCenter is not configured to prevent commercial underwriters from approving policies that exceed their authority limits. Additionally, there is no automated control to escalate such policies to the appropriate level for approval. Underwriters are expected to manually forward policies that exceed their authority to a manager for review, relying on an honor system. To address this, management agreed to add a User Story to develop system



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support to ensure underwriters only approve risks within their authority and possibly implement an automated escalation process for policies requiring higher-level approval. As this will be delayed due to the Citizen Business Insurance Suite moving to a SASS environment in 2025, management will devise an interim detective control. A dashboard will be created to identify instances where authority has been exceeded. Any violations identified can be addressed by management within a few days of the occurrence.

In addition, the following opportunities for improvement were noted:

- Establish naming conventions for agents and underwriters for the following items:
 - **Signed Applications:** With the recent implementation of an RPA Bot to identify unsigned new business applications, it is crucial to name these documents correctly. If an application document is incorrectly labeled, the bot may not recognize it, missing the opportunity to flag unsigned documents. A standardized naming convention, such as 'Signed Application,' should be used when agents upload applications into PolicyCenter.
 - **Building Photos:** Agents should consistently label Photos of each building with either the location address or building number. This will help underwriters efficiently identify and review the photos.
 - **New Business Document:** To improve the efficiency of document management and review, underwriters should apply a specific naming convention to the internal New Business Document.
- Consider including a field on the risk analysis screen within PolicyCenter, located in the prior insurance section for all new business, that provides a 'Yes' or 'No' drop-down menu with options for a new purchase or no previous insurance. This would help the underwriter know whether this policy is for a new purchase.
- The Commercial Underwriting Managers are highly involved in the day-to-day file activities of their underwriting staff. A recommended process enhancement is to set a standard number of file reviews per underwriter and develop a consistent process for documenting the results monthly or quarterly.

We thank management and staff for their cooperation and professional courtesy throughout this audit.



Distribution

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The Honorable Ashley Moody, Attorney General
The Honorable Wilton Simpson, Commissioner of Agriculture
The Honorable Kathleen Passidomo, President of the Senate
The Honorable Paul Renner, Speaker of the House of Representatives

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