

CITIZENS PROPERTY INSURANCE CORPORATION  
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING HELD  
TUESDAY APRIL 10, 2018

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 2.00 pm on Tuesday April 10, 2018 in Maitland, FL.

The following members of the Audit Committee were present:

Governor Bette Brown, Chairwoman  
Governor Jim Holton  
Governor John McKay (on the telephone)

The following members of the Board of Governors were present:

Chris Gardner  
John Wortman  
Blake Capps

The following Citizens Staff were present:

Jay Adams	Christine Ashburn
Steve Bitar	Bonnie Gilliland
Barry Gilway	Stephen Guth
Mark Kagy	Joe Martins
Jennifer Montero	Michael Peltier
Carl Rockman	Dean Savage
Dan Sumner	Barbara Walker
David Woodruff	

The following were also present:

Dave Newell, FAIA  
Kapil Bhatia, Raymond Jones  
Mark Weinberg, Citi  
George Smith, BMO  
Doug Draper, BAML  
Henry Reyes, J.P. Morgan

Call Meeting to Order

MS. WALKER: Ladies and gentlemen, thank you, and welcome to Citizens April 10th, Audit Committee meeting. We will now convene with a roll call. Chairman Bette Brown?

CHAIRWOMAN BROWN: Here.

MS. WALKER: Governor James Holton?

GOVERNOR HOLTON: Here.

MS. WALKER: Governor John McKay? Chairman Brown, John McKay is going to be joining us by phone. Would you like to wait for him for a couple of moments, or do you want to convene?

CHAIRWOMAN BROWN: We will convene.

MS. WALKER: Thank you, you have a quorum.

CHAIRWOMAN BROWN: The first order of business of course would be to approve the Minutes of the December 12th, 2017, meeting. Is there any amendment? Is there a motion to approve the Minutes?

GOVERNOR HOLTON: Move to approve.

CHAIRWOMAN BROWN: And I will second. The minutes are approved. Welcome, Joe Martins.

MR. MARTINS: Good afternoon. Thank you, Governors. I would like to take us through the work that we completed within the internal audit and talk about the internal control organization as well as enterprise risk management. With respect to the internal audit, our main goal is really to provide assurance to the Audit Committee and Board with respect of the effectiveness of all the infrastructure of the organization. In doing that we developed a risk based audit plan that focus mainly on audit engagements and advisory engagements. Since the last Audit Committee we completed 11 of the engagements that we have on the audit plan. We also reassess the plan on a regular basis, and this time around we made two changes to the plan that we previously presented. One of them was the addition of an audit of the catastrophe field check inventory, and the second change was a deferral of the ABC budgeting audit which is deferred mainly because of changes that the finance management is planning to that process this year. Seven of the audit engagements that we completed refer to the audit work scheduled following Hurricane Irma. With each of these audits we confirmed that processes and controls deployed by management were appropriate and operating effectively. In respect of our work of the processes in place to manage CAT field checks, we noticed that although all payments were made appropriately, the process of managing check stock inventory could be improved. To ensure that all checks are accounted for we also conducted a field check inventory review. On page 75 I would also like to highlight the work that we did on the IT network assessment. Every year Citizens' IT security function performs some type of an assessment on the strength of Citizens network penetration and network vulnerability security controls. During 2017 they contracted with a specialist supplier to conduct a full scope network assessment. Internal audit participation from the assessment was mainly to provide assurance that a comprehensive independent assessment was completed. Results from this external assessment were provide to management and a detailed plan was developed to address the opportunities that were raised. On page 96 I would like to highlight the work that we did on the third party access management. In respect of this audit we confirmed opportunities for improving structure and governance over access including the continued implementation of defined IT security standards.

MS. WALKER: Excuse me, is someone on the phone?

CHAIRWOMAN BROWN: Welcome, Governor McKay.

GOVERNOR MCKAY: Thank you.

MR. MARTINS: If there are no questions on the audit work then I would like to continue to the Internal Controls office.

CHAIRWOMAN BROWN: Does anybody have any questions? Governors, any questions?

GOVERNOR HOLTON: None here.

CHAIRWOMAN BROWN: Alright, go ahead, Joe, thank you.

MR. MARTINS: In respect to the internal control's office we continue to assess management with the roll out of the internal control framework and the project, itself, is well advanced. We have some process reviews currently in process, and we also commenced this year with the control self-assessments and foresee these will continue until the end of the year, after which we will be in a position to present some of those results to the committee. We have also assessed the quality of the documentation we have in the controls management system and we are in the process of improving the data recorded with the view to give management access which will then provide management the tools which they need to manage these controls throughout the organization. With respect of staffing, we had two staff members on this team of which one resigned recently and we are in the process of replacing that person. This will have an impact on the planned schedule for this year, and I can see that some of the financial and operation reviews will be impacted.

In respect of the Enterprise Risk office, we mainly focus our attention on two types of assessments, namely strategic risk and operational risk. The focus for the ERO in 2018 is to implement the revised strategic risk management process and continue to enhance the on-going Operational Risk management processes. Following a facilitated ELT risk workshop we recorded 16 strategic risks. The ERO will be working with these risk owners to further develop a summary of current and future mitigation activities. The top strategic risks will be presented to the Audit Committee once this work is completed. The ERO also commenced, late last year, with the operational risk assessments, mainly in support of the Internal Control Framework roll-out. In 2018 the operational risk assessments will continue to be coordinated and collaborate with the on-going Internal Control Framework (ICF) roll-out. The ICF project has defined 76 functional and operational processes and IT functions. Operational risk assessments are in process for 29 processes / functions with another 15 to begin this year. These 29 risk assessments have resulted in the identification of 169 inherent operational risks. Of these 169 inherent operational risks, 10 have been rated as High, 105 as Medium and 54 Low. All of these risks have been documented in a risk register, which is at moment in Excel form, and we are in the process of implementing the Resolver Enterprise Risk Management tool and once that is implemented we will be in a position to spread that throughout the organization, train the risk champions that have been identified and provide management an opportunity to do their own risk assessment and their own identification of risks going forward.

The last item that I have on my list is the assessment that we do annually of the Audit Committee and the Office of Internal Audit Charters. We have completed that assessment and have found the charters fit for purpose and no changes are needed.

Lastly, if there are no questions we ask for a motion from the committee to approve both the Audit Committee and Office of the internal Auditor charters as they are presented in the pack.

CHAIRWOMAN BROWN: Members, do you have any questions of Joe Martins regarding the Charters?

GOVERNOR HOLTON: No questions and I will make a motion to approve.

CHAIRWOMAN BROWN: Is there a second?

GOVERNOR MCKAY: Second.

CHAIRWOMAN BROWN: The motion passes. All in favor?

GOVERNOR HOLTON: Aye.

**The Audit Committee passed the motion to approve the Office of Internal Audit Charter and the Audit Committee Charter for 2018 with no changes.**

CHAIRWOMAN BROWN: The motion passes. Joe, I just want to make a comment regarding your report, and you always do a really good job, a very complete, very detailed, very concise report, and thank you. And we all are always particularly concerned about third-party vendors and the cyber issues that we deal with when we see some of the things that go wrong out there. So thank you for providing assurance through all of these reports with important and valuable information.

MR. MARTINS: Thank you, Governor Brown.

CHAIRWOMAN BROWN: We will welcome Jennifer Montero to the table.

MS. MONTERO: You are welcome.

CHAIRWOMAN BROWN: Sorry about the microphone.

MS. MONTERO: Good afternoon. If you will turn to tab three of your Audit Committee materials, you will find the unaudited December 31st, 2017, financial results consisting of the financial summary and statement of operations, the quarterly financial update and the 2017 management discussion and analysis. At the December 2017, Board meeting the modeled gross losses from Hurricane Irma were \$1.2 billion. Following the year-end actuarial reserve review, including an independent analysis from an external actuarial firm, the gross losses and LAEs were increased to \$1.8 billion, reflecting increases in both the losses and the loss adjustment expenses driven by litigation rates. Assumed in the actuarial reserves is an estimate that shows close to 30 percent of the personal lines Irma claims will enter litigation or close to 40 percent in the southeast where almost 60 percent of all the claims were reported. In the coming quarters as more information becomes known on the underlying claims, gross losses and LAE will develop which result in further adjustments to our loss and loss adjustment reserves. Despite Citizens incurring more than an estimated \$1.2 billion in net losses and LAE from Hurricane Irma, the financial position remains sound and well capitalized as we head into 2018 hurricane season. Through the end of 2017, Citizens' consolidated surplus was \$6.4 billion, while cash and invested assets were \$10.1 billion. We continue to see declines in the overall PIF or policies in force, mostly within the commercial book, within the commercial lines account and the coastal account. The PIF decreases in the CLA and the coastal account are 31 percent and 14 percent respectively, while the PIF in the personal lines account increased 2.5 percent. Reductions in the reinsured exposure contributed most significantly to declines in reinsurance premium, which decreased from \$181 million to \$92.7 million in 2017, almost a 50 percent decrease while maintaining our goal of preserving surplus and eliminating the assessment risk of a one in 100-year events. The non-catastrophe loss and LAE ratio within the PLA decreased 7.6 percent to 70 percent. There was a noticeable decline in the number of litigated water claims entering litigation in the fourth quarter of 2017, which led to a modest level of favorable reserve development on our prior accident years. However, there is some uncertainty as to whether or not this decline is the result of temporary suspension in litigation activities due to Hurricane Irma. Despite the favorable reserve

development due to a reduction in the 4<sup>th</sup> quarter litigated claims, adverse development was recognized on prior accident years for sinkhole claims. Sinkhole claims that predate Senate Bill 408 that are in settlement are continuing to close as anticipated. However, claims that are not in settlement have experienced adverse development. The estimated Hurricane Irma gross losses and LAE of \$1.8 billion are offset by estimated recoveries from the Florida Hurricane Catastrophe Fund of \$534.7 million, of which \$193.8 million is within the PLA account, a \$6.2 million within CLA and \$334.7 million within the coastal account. Additionally, \$126.4 million in recoveries are estimated from private reinsurers from the wrap layer in the coastal account. Administrative expenses incurred during 2017 are \$6.1 million or four percent below administrative expenses incurred in 2016, and 11 percent below budget. Total employee costs which are salaries, employee benefits and payroll taxes increased by less than one percent during 2017, as compared to 2016, while a favorable budget to actual variance of two percent was reported in 2017. Year over year increases in salary expenses were partially offset by decreases of \$3 million, 14 percent, within employee benefits. This is largely driven by savings realized through the adoption of the self-funded group health plan. The favorable budget variance is primarily the result of the 2017 head count being well below budget estimates. The liquidation of approximately \$1 billion of invested assets in advance of Hurricane Irma generated nearly \$17 million of realized gains. Changes made to our investment policy, particularly those that permitted an increase in duration contributed to the year over year, year over year increases in portfolio return. Notwithstanding the overall reduction in surplus of more than \$1 billion during 2017, Citizens' capital position is strong. We anticipate another highly successful placement across risk transfer markets which will further augment our available claims paying resources and maintain the elimination of the assessment in a one in 100 year PML. During 2018 we expect to maintain our competitive market advantage over operational expenses while continuing to make prudent investments in infrastructure and improving the cost efficiencies of our operation. Also we continue to evaluate our investment policy to identify opportunities to increase overall yield with an emphasis on liquidity and preservation of capital. And if there are no questions that concludes my report. There is a very detailed management discussion also included in here for you as well.

CHAIRWOMAN BROWN: Members, any questions of Jennifer?

GOVERNOR HOLTON: Chairman, one question. Jennifer, how did the number of litigated storm Claims compare to prior years in terms of the number of actual claims going to court?

MS. MONTERO: Well, the number in the fourth quarter was actually down as compared to the quarter prior to that, but we think that was because of Hurricane Irma, because then according to stats, I think they started right back up again. But I don't have the numbers to get a comparison from last year versus this year.

GOVERNOR HOLTON: All right.

CHAIRWOMAN BROWN: Thank you very much.

MS. MONTERO: Thank you.

CHAIRWOMAN BROWN: Brian Smith with Dixon Hughes is here, do you want to give us an update on the audit.

MR. SMITH: Good afternoon. For the record, Brian Smith from Dixon Hughes. I am a partner in our Tampa office. I serve as the external audit and metrics leading engagement partner. A quick update today. I just want to give you the status update of where we are with the audit currently.

We began our final field work in Tallahassee this week. We plan to be on site for the next four weeks, and we are on target to finish our audit by May 15th, in time for the filing deadline. One point to emphasize is we have engaged Merlinos & Associates, an external actuary firm, with Brian Donovan and his team, to look at the reserves for 2017. I just want to make sure that is emphasized. With that I will take any questions, but we are on target. No findings today that we need to report.

CHAIRWOMAN BROWN: Great report. Thank you. Any questions?

GOVERNOR HOLTON: No questions.

CHAIRWOMAN BROWN: Thank you very much. I believe we have in our book a complaint specific report for information. There is nothing there that is needs attention. Is there any new business to come before the group today?

GOVERNOR HOLTON: No.

CHAIRWOMAN BROWN: If not, do I hear a motion to adjourn?

GOVERNOR HOLTON: Move to adjourn.

CHAIRWOMAN BROWN: Is there second?

CHAIRWOMAN BROWN: I will second. Have a great day. The meeting is adjourned.

(Whereupon, the meeting was concluded.)