



Lisa Miller & Associates

Business Development, Government Consulting, Public Relations

Citizens Actuarial and Underwriting Committee Conference Call of 7-9-24: (meeting agenda and supporting documents/reports available at <https://www.citizensfla.com/-/20240709-a-u>) Meeting started at 2:26pm.

Actuarial and Underwriting Committee

- Carlos Beruff – Chair
- Josh Becksmith
- Scott Thomas
- Robert A. Spottswood
- Fred Strauss - Technical Advisor
- Jay Adams - Staff
- Jennifer Montero - Staff

Approval of Prior Meeting's Minutes of April 9, 2024 (by Chair Beruff)

[Prior A&U Meeting Minutes 04.09.24](#)

APPROVED

Chief Insurance Officer Report (by Jay Adams, Chief Insurance Officer)

[Product Updates - July 2024](#)

Roof Covering Exclusion – Commercial Lines

Adams said that Citizens commercial underwriting unit, due to the hardening private market, has been receiving requests to insure buildings that don't meet its eligibility requirements, due to the roof's age or condition. Staff is proposing to introduce a Roof Covering Exclusion that would allow a commercial building that is undergoing roof replacement to get a Citizens policy – minus coverage for the roof – until the new roof is installed. Proof of a fully executed roof replacement contract would be required along with proof of a downpayment. Once the new roof is installed, the exclusion could be removed and the policyholder would pay the additional premium required to provide coverage for the new roof. Adams said instituting this policy exclusion would "rehabilitate these buildings so they are able to be taken out (depopulated from Citizens) and more attractive to the private market," as these properties right now "have

nowhere else to go” to get insurance coverage. The proposal raised a red flag with several members of the committee and revealed that Citizens has, at times, been under political pressure to write a commercial policy that it otherwise wouldn’t.

Governor Spottswood and Chairman Beruff said they wondered if there wasn’t a better solution, one that’s less potentially burdensome on Citizens. “I understand the need for this...but this is what’s going to happen,” warned Beruff, predicting rainfall damage situations where one party will say “It came through the windows, not the roof, so you got to cover me” and the other will say “No, it came through the roof. We don’t have to pay.” Governor Spottswood said “This could boomerang...and could give us a black eye later.”

Adams said traditionally, Citizens hasn’t seen a huge volume of these type of requests but in the past has written some of them and then non-renews them if the roofs haven’t been repaired, “but (we) would have been on the hook if the hurricane did hit,” he said.

When pressed by Governor Spottswood about simply not writing those type of risks, Adams replied “If it didn’t meet our standards for age or condition, we get a lot of pressure to write some of these that are ineligible in the marketplace. Pressure doesn’t mean we write them (but) we write some of them,” he said.

Chair Beruff, noting Citizens rapid growth in commercial lines, said “We’ve got condominium associations with two-, three-, four-hundred members get the people in Tallahassee’s attention, (and) political pressure starts getting put on us to write these uninsurable buildings, because these are well organized condominium associations. Correct me if I’m wrong, Jay.” “That’s correct,” replied Adams. “Some of them in pretty expensive buildings,” continued Beruff. “And all of a sudden, we’re picking up the pieces. Sounds good when it’s working, but it’s going to clean our clock when it’s not,” warned Beruff.

Citizens commercial lines multi-peril and wind-only policies increased in 2023 by 210% and the building count by 290%, with total insured value of \$108.7 billion. While Adams said Citizens has no policy limit on commercial building coverage, “Given that A-rated commercial buildings have actuarially-sound rates, we’re no better (in pricing) than the open private market,” he said. Citizens A-rated buildings have coverages of \$10 million or greater and are not subject to legislatively-mandated rate caps. Some depopulation of Citizens commercial policies resumed this past spring after years of inactivity.

Commercial Non-Residential Multiperil Valuation Requirements

Citizens staff recommends updates to the commercial non-residential multiperil program to require an appraisal rather than relying on a Citizens inspection. Adams explained that this will better align with Citizens’ other Commercial programs, streamline commercial underwriting workflow, and ensure that properties are properly valued at time of policy issuance.

This and the Roof Covering Exclusion were part of a package of product updates and changes presented to the committee but the only ones that were discussed, as most are simple updates

and those required to meet statutory requirements. You can read about the rest in the link above.

APPROVED for consideration by the Citizens Board of Governors at its meeting tomorrow (July 10, 2024)

Business Process Outsourcing (BPO) - Underwriting Production Services

Citizens does some policy underwriting with internal staff and farms out other underwriting work to two outside vendors. Adams explained that due to market conditions that have heightened the demand for underwriting services, its current spending limit of \$45.9 million 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. Adams and staff are requesting another \$28.5 million to bring the new spending authority for outside underwriting up to \$74.5 million.

Adams said as private market conditions deteriorated over the past few years, the Citizens policy count bloomed from 427,397 when the contract was first executed in December 2018 to just under 1.17 million policies in March 2024. As the number of policies grew, so too did the need for underwriting, along with additional underwriting activities associated with legislative requirements that Citizens' policies carry flood insurance and different rating structures for primary and non-primary residences.

"We've sent more business to them than we anticipated. We also did more inspections and someone has to review those before it goes into the file," Adams explained.

He and the committee discussed the use of computers versus human beings in conducting underwriting, both by Citizens internal staff and the two vendors. Adams said about 30% of those policies handled internally are done by computers. He and Stephen Mostella, Citizens VP of Underwriting, said they believe all the underwriting work sent to the two vendors are performed by human beings.

Chair Beruff asked "So why can't AI do more, for cost savings? Adams replied, "We've determined as of right now, that all those we send to vendors have to be done by a human." It's an issue that Beruff said he wants to touch base on again next March.

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New Business (by Chair Beruff)

None

Adjourn @2:53pm