



Florida Office of Insurance Regulation

David Altmaier
Insurance Commissioner

Market Conduct Final Examination Report
of
Citizens Property Insurance Corporation

Issued:
January 14, 2019

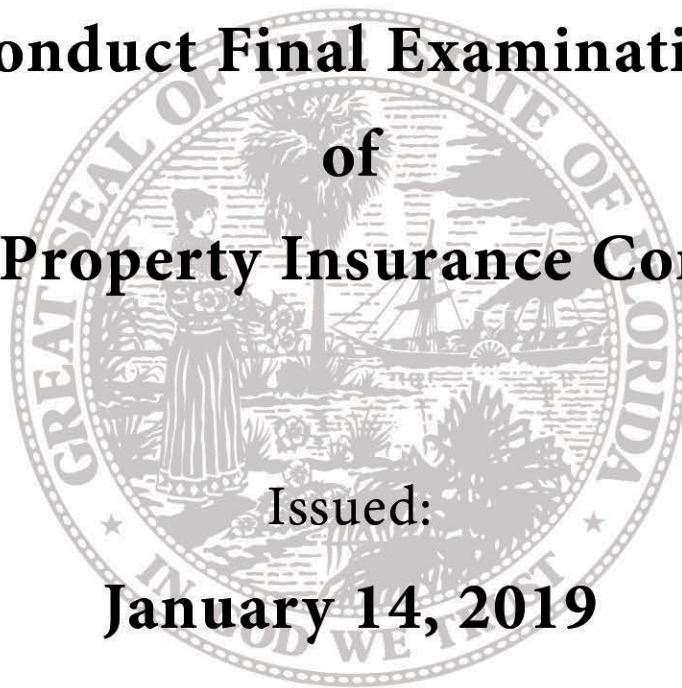


TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

SCOPE OF EXAMINATION..... 1

CORPORATE RECORDS 2

COMPANY OPERATIONS 2

CITIZENS’ OFFICE OF THE INTERNAL AUDITOR 4

MANAGED REPAIR PROGRAM..... 5

CLAIMS REVIEW..... 7

CANCELLATIONS..... 8

EXAMINATION REPORT SUBMISSION..... 8

EXECUTIVE SUMMARY

The Florida Office of Insurance Regulation (Office), Property and Casualty Market Regulation staff and Eide Bailly, LLP, performed a market conduct examination of Citizens Property Insurance Corporation (Citizens) pursuant to Section 627.351(6)(l), Florida Statutes. The scope period of this examination was July 1, 2016 through June 30, 2018. The examination began September 17, 2018 and ended November 8, 2018.

The purpose of this market conduct examination was to determine Citizens' compliance with its plan of operation and its internal operational procedures. A detailed review of Citizens' procedures, operations, activities and records showed few deficiencies. Information relating to these findings is reported herein.

Pursuant to Section 627.351(6)(l), Florida Statutes, this report is being prepared for submission to the President of the Senate and the Speaker of the House of Representatives of the Florida Legislature.

SCOPE OF EXAMINATION

A review of current operational procedures and controls was performed including evaluation of Citizens' processes, reports of corporate records, general operations, internal audits, depopulation, agent licensing, cancellations and claims.

Citizens provided pertinent documentation of its internal controls, as well as responses to numerous reports generated during the scope period. Citizens' records were examined at the Company offices, located at 301 West Bay Street, Jacksonville, Florida, and remotely by the examiners. Documentation utilized in this report was provided by Citizens. This report relied upon and incorporates the reviews performed by the Citizens' Office of the Internal Auditor and the August 2018 State of Florida Auditor General Operational Report.

This Report is based on information obtained during the examination, research conducted by the Office, and additional information provided by Citizens. The files examined were selected systemically from data files provided by Citizens. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners (NAIC).

The examination included a review of the Company's operations over:

- Enterprise Risk Management;
- Managed Repair Program;
- Agent Practices;
- Claims; and,
- Cancellations.

CORPORATE RECORDS

Citizens was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes, as amended in 2002 by Senate Bill 1418 and House Bill 385 (the Act), to provide certain property and casualty insurance coverage to qualified risks in the state of Florida. The intent of the legislation was that property insurance be provided through Citizens to applicants who are unable to procure insurance through the voluntary market. Citizens was formed from a combination of the Florida Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association. The Florida Residential Property and Casualty Joint Underwriting Association was renamed Citizens Property Insurance Corporation. The rights, obligations, assets, liabilities and all insurance policies under the Florida Windstorm Underwriting Association were transferred to Citizens. Citizens is not required to have a Certificate of Authority issued by the Office.

Citizens operates under the supervision of a nine-member Board of Governors. Pursuant to its Plan of Operation, Florida's Governor appoints three members, while the Chief Financial Officer, Speaker of the House and President of the Senate each appoint two individuals as members of the Board. Each Board member serves at the pleasure of his or her appointing officer. All board members must be appointed for three year terms beginning annually on a date designated by the plan. However, for the first term beginning on or after July 1, 2009, each appointing officer shall appoint one member of the board for a two-year term and one member for a three-year term.

Members of the current Board of Governors are:

Gary Aubuchon	Marc Dunbar	John McKay
Bette Brown	James Holton	Freddie Schinz
Blake Capps	William Kastroll	John Wortman

Total Direct Premiums Written in Florida was as follows:

Year	Total Written Premium in Florida (Per Schedule T of the Annual Statement)
2015	\$1,267,754,200
2016	\$973,840,305
2017	\$893,989,776
2018 thru June	\$460,040,359

COMPANY OPERATIONS

Citizens is a residual market program and does not employ a system to actively seek business. The Company focuses on communications, training and compliance to facilitate its agents' customer service efforts. Citizens utilizes a mix of independent and captive agents appointed to do business in Florida. As of August 2018, 6,986 licensed and appointed insurance agents served its policyholders. Agents must hold an active 2-20 or 20-44 Florida Resident Agent License or an active 9-20 or 90-44 Non-Resident Agent license. Section 627.351(6)(c)14, Florida Statutes, provides that an agent must also be appointed by at least one other insurer writing certain types of property insurance coverage. Prior to appointment, Citizens requires the completion of at least two training modules.

PERSONAL LINES

Citizens' Residential property coverage consists of the types of coverage provided to homeowners, mobile homeowners, tenants, condominium unit owners, and similar policies. The policies provide coverage for perils covered under standard residential policy forms, subject to certain underwriting requirements, policy conditions, limitations and exclusions. Such policies may exclude windstorm coverage on property within eligible areas.

COMMERCIAL LINES

Citizens' commercial residential coverage (i.e. coverage for condominium associations, apartment buildings and homeowner associations) provide coverage to organizations unable to obtain such coverage from authorized insurers.

COASTAL ACCOUNT

Citizens' coastal insurance coverage consists of windstorm insurance for property owners within the eligible areas who were unable to obtain such coverage from authorized insurers. Insured properties include personal residential, commercial residential and commercial non-residential properties.

DEPOPULATION

The guidelines for depopulation were established by the Florida Legislature in Section 627.3511, Florida Statutes. The purpose of the legislation is to reduce the number of property owners who have insurance through Citizens by encouraging new or existing authorized insurance companies to take out policies from Citizens.

The following table shows the number of take-out policies ceded, the amount of insurance ceded, the number of in-force policies, and amount of insurance in-force:

Year	Number of Policies Ceded	Amount of Insurance Ceded	Citizens In-force Policy Count	Citizens In-force Coverage Amount
2015	272,785	\$ 64,830,051,559	503,865	\$ 150,495,190,065
2016	88,000	\$ 23,362,914,453	455,843	\$ 124,063,055,743
2017	34,008	\$ 7,435,411,434	440,406	\$ 112,309,524,847
Q2 2018	5,005	\$ 1,111,212,655	443,262	\$ 112,751,181,508

Sections 627.351(6)(c)5 and 627.3518(5), Florida Statutes, require Citizens to divert certain personal and commercial residential risks into the voluntary private market, if eligible. A new residential policy is ineligible to be written by Citizens if at least one comparable private market offer of coverage is received with a premium that is within 15 percent of a comparable Citizens'

policy. A policy is ineligible for renewal if there is one or more private-market offers with premiums equal to or less than the Citizens renewal. Citizens takes affirmative steps in accordance with statutory requirements to determine if there are authorized and eligible market offers available for new and existing policies.

As part of determining eligibility under these requirements, Citizens has instituted an automated process known as the Clearinghouse for certain personal lines that it has determined to be the most amenable for the process of authorized market coverage. These procedures have not been implemented for commercial policies. Citizens has indicated that obstacles exist to prevent commercial application including the complexities of commercial underwriting and the necessity for additional legislation.

For new applications for personal lines coverage to be placed in the Clearinghouse, the agent enters the application information to initiate the process. For renewals, the system initiates automatically. In both scenarios, participating insurers may submit quotes for these policies and eligibility is determined.

CITIZENS' OFFICE OF THE INTERNAL AUDITOR

In May 2006, Senate Bill 1980 required Citizens to establish the Office of the Internal Auditor to coordinate and be responsible for activities promoting accountability, integrity, and efficiency to the policyholders and taxpayers of the state of Florida. Citizens' Office of the Internal Auditor provides direction for, supervises, conducts, and coordinates audits, investigations, and management reviews relating to the programs and operations of the Company.

During the examination, a review was completed for the following areas of the Office of the Internal Auditor:

- Policies and Procedures;
- Annual Reports;
- Management Reporting of Activities; and,
- Open Items Process.

The Florida Statutes require the Chief of Internal Audit to submit an annual report summarizing the activities of the Office of the Internal Auditor during the preceding fiscal year. The report includes:

- Summary of the Office of the Internal Auditor background, duties, organizational structure, training and certifications;
- Overview of the Internal Audit process;
- Summaries of audits, reviews and investigations conducted by the Office of the Internal Auditor;
- An evaluation of the effectiveness of Citizens' internal controls;
- Recommendations for corrective action, if necessary; and,
- Other information as necessary.

The Report is presented to the Board of Governors, the Executive Director, the members of the Financial Services Commission, the President of the Senate, and the Speaker of the House of Representatives. Confirmation of the presentation of these annual reports for 2016 and 2017 was verified by reviewing the Board of Governors' meeting minutes.

On a quarterly basis, the Office of the Internal Auditor prepares a Dashboard Status Report. The report consists of an audit plan status review, open items status, and details on plan updates. The reports are issued to Citizens' Management and the Audit Committee.

The Office of the Internal Auditor has policies and procedures in place to monitor the open audit items. It is the responsibility of Management to remediate all open items. The Office of the Internal Auditor is responsible for communicating on a quarterly basis to Management and the Audit Committee the status and aging of open items.

Based on review of the reports, board and committee meeting minutes, and the actions of the Office of the Internal Auditor, Citizens timely reviews, prioritizes and acts on findings and recommendations appropriately for both internal and external audits.

No exceptions were noted.

MANAGED REPAIR PROGRAM

The Company initiated the Managed Repair Program (MRP) in June 2017, with the purpose and goals of:

- reducing the frequency of assignment of benefits (AOB) and litigation costs;
- better controlling claim costs;
- returning the customer to a pre-loss condition; and,
- to facilitate the timely completion of repairs.

The Program was suspended in September 2017 due to Hurricane Irma, and restarted January 1, 2018. In April 2018, the Company amended and submitted to the Office for review its HO-3 and DP-3 "Emergency Water Removal Services" and the "Managed Repair Contractor Network Program" endorsements. Effective August 1, 2018, the Company relaunched the MRP and offered the Program on all new and renewal HO-3 (Homeowner Special Form) and DP-3 (Dwelling Fire Special Form) business.

The MRP offers services to qualified HO-3 and DP-3 customers whose homes have been damaged by water not related to weather. The MRP consists of two parts: Emergency Water Removal Services and a Managed Repair Contractor Network.

At the time a covered non-weather-related water loss is reported, an insured is given the option to utilize the Program or opt out. If an insured chooses to use the Program, Emergency Water Removal Services are covered with no out-of-pocket costs and no deductible to the insured. This service is provided by water remediation companies that are contracted with Citizens.

For the Managed Repair Contractor Network, Citizens uses a network of preapproved licensed and insured contractors to make permanent repairs to the home. The Company will pay up to the policy limits for repairs, less the All Other Perils deductible. Repairs are guaranteed for three years.

Should the insured choose to opt out of the Program, Emergency Water Removal Services are limited to \$3,000, and permanent cosmetic repairs are limited to \$10,000, less any costs of Water Removal Services.

Agent Outreach

The Company has developed training courses to educate agents on the MRP. The Company also provides agents with information to advertise and explain the Program.

The Company provided agent training during Phase 1 (2017) via online courses and online weblink training. Phase 2 (2018) training includes webinars, online, and live training sessions. The Company provides ongoing training, with training scheduled as recently as October and November 2018.

Consumer Outreach

With the relaunch of the MRP effective August 1, 2018, the Company communicates the MRP to all new and renewal business for HO-3 and DP-3 customers through direct mail and email. Information about the Program is also available on its website.

The Company has numerous consumer education initiatives projected for implementation during the first quarter 2019 and beyond which includes sending emails to eligible policyholders explaining the MRP and Emergency Water Removal, providing a declarations packet, informational brochures, infographics on the Company's website, revising AOB and Claim brochures, utilizing social media and traditional media (press releases).

The following table shows the number of claims that utilized the MRP from August 1, 2018 through October 2018:

Number of Non-weather-related Water Damage Claims Eligible for MRP	Number of Eligible Claims Offered Water Mitigation Services	Number of Claims that Accepted Water Mitigation Services	Number of Eligible Claims that Accepted Permanent Repair from Citizens Contractor Network
180	176	74	20

Early feedback from consumers using the Program since August 1, 2018, has been generally positive. Citizens will monitor and evaluate the utilization and impact of the Program on an ongoing basis as more data becomes available.

CLAIMS REVIEW

CLAIM PROCESSING AND PROCEDURES

Citizens provided written processes and procedures covering claim handling, including claim processing and settlement, and supervisory review process to monitor claim processing practices. The material was received and reviewed by the examiners for compliance with the Florida Insurance Code.

No exceptions were noted with respect to the Company's written procedures.

CLAIM FILES

Citizens provided data sets of homeowner claims, including those which were related to Hurricane Irma claims, with total payments or reserves greater than \$2,000. The claims data sets reviewed included the following:

Type of Claim	Number
Homeowner claims open	155
Homeowner claims closed	5,263
Homeowner claims re-opened	15,142
Non-weather Water Damage	3,931
Total	24,491

During the review of the 115 claims files from the various sample categories, examiners reported 88 files contained a Notice of the Right to Mediation Form used by Citizens. No error was detected specific to the use of the Notice, but examiners noted the Forms did not incorporate clarifying language adopted in April 2016 to Rule 69J-166.031, Administrative Code. Citizens' Notice language read, in part, *"The parties will have 21 days from the date of the notice to otherwise resolve the dispute before a mediation hearing can be scheduled."* The language that should be used, and as currently presented in the Rule, reads: *"The parties will have 21 days from the date the request is received by the Department to otherwise resolve the dispute before a mediation conference can be scheduled."*

In 1 instance, the Notice to Right of Mediation form could not be verified as provided to the insured as the form was not retained in the record.

In 2 instances, the Company did not timely respond to correspondence within 14 days from receipt.

Citizens' Response: Citizens agreed with these findings.

Recommendation: The Company should review its version control process for forms provided to insureds. Additionally, the Company should take appropriate measures to ensure that statutorily required claim communication response times are met.

CANCELLATIONS

Citizens provided written processes and procedures covering policy cancellations and settlement of related unearned premiums

The material was received and reviewed by the examiners for compliance with Florida Statutes and the Florida Administrative Code.

No exceptions were noted with respect to the Company's written procedures.

Homeowners - Cancellations during the period September 1, 2017 through June 30, 2018

A sample of 25 cancellations during the period September 1, 2017 through June 30, 2018 were reviewed.

Findings:

In 3 instances, where the cancellations were back-dated per the insured request, the Company did not mail the refund of unearned premium within 15 working days after the cancellation effective date or Citizens' receipt of the request to cancel the policy, whichever is later, as per its filed forms.

Citizens' Response: Citizens did not object to the finding.

Recommendation: For policy cancellations at the request of the insured which have a back-dated cancellation effective date; the Company should mail the refund of unearned premium within 15 working days after the cancellation effective date or Citizens' receipt of the request to cancel the policy, whichever is later, as per its filed forms and Rule 69O-167.001(1), Florida Administrative Code.

EXAMINATION FINAL REPORT SUBMISSION

The Office hereby issues this Final Report based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by Citizens.



Florida Office of Insurance Regulation

David Altmaier, Insurance Commissioner

200 East Gaines Street – Tallahassee, FL 32399

(850) 413-3140

www.floir.com