2015

Citizens Property Insurance Corporation

Target Market Conduct Report of Examination

February 1, 2015

FLORIDA OFFICE OF INSURANCE REGULATION

Kevin M. McCarty, Insurance Commissioner

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1
SCOPE OF EXAMINATION 2
CORPORATE RECORDS 2
GENERAL OPERATIONS 3
ACCOUNTING 3
OFFICE OF INTERNAL AUDIT 5
PROCUREMENT 7
REAL ESTATE LEASES REVIEW 8
TRAVEL AND EXPENSE REIMBURSEMENT REVIEW 8
INFORMATION SYSTEMS 10
DEPOPULATION 17
AGENT PRACTICES 18
COMPLAINTS REVIEW 19
UNDERWRITING AND RATING REVIEW 21
CANCELLATIONS/NONRENEWALS REVIEW 29
CLAIMS REVIEW 30
RESERVES 33
REINSURANCE 33
ANTI-FRAUD PLAN 34
LEGISLATIVE CHANGES 35
TABLE OF FINDINGS 37
EXAMINATION REPORT SUBMISSION 38

EXECUTIVE SUMMARY

The Office of Insurance Regulation (Office) Market Investigations, Examination Resources, LLC, and Jennan Enterprises, Inc., (IT Specialist), performed a market conduct examination of Citizens Property Insurance Corporation (Citizens or the Company) pursuant to Section 624.3161, Florida Statutes. The scope period of this examination was July 1, 2012 through June 30, 2014. The onsite examination began August 18, 2014 and ended October 3, 2014. 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.

The purpose of this market conduct examination was to determine Citizens' compliance with Florida Statutes, the Florida Administrative Code, its plan of operation, and its internal operational procedures. In addition, the Office reviewed Citizens' application of windstorm mitigation credits, Accounting, Office of Internal Audit and Information Systems.

Review of complaints, policies, cancellations/nonrenewals and claims indicated minor procedural and/or operational system errors. All errors are summarized on page 37.

Review of the procurement process indicates that the process has continued to develop over the years, with significant change occurring in September 2013. These revisions provided stricter guidelines for Citizens to adhere to and ensure that purchasing and contracting functions are performed in compliance with Sections 627.351(6)(e), and 287.057, Florida Statutes.

The travel and expense reimbursement review also indicated a process that has continued to develop over the years with the most recent change in March 2013. Included in these revisions was an update to the corporate credit card policy which provided more stringent guidelines regarding the accepted transactions and the approval process for both credit cards and travel expenses.

The Informational Technology review indicated that two items from the 2010 examination have not been acted upon as of December 31, 2013. It was suggested Citizens relocate at least one of its data centers to a professionally hosted or tier rated data center outside of the state of Florida and recommended an additional generator be obtained for its Tampa Data Center. The primary data center has been moved to a more secure location in Jacksonville, Florida. The company has initiated a project to research and create a new plan for the Disaster Recovery (DR) site. Additional concerns exist with access control, System Development Life Cycle, CORE project successful completion, DR site long-term plan and the new IT Governance Organization. The company has many simultaneous initiatives underway that should be monitored closely during the next two years.

The majority of the Office's review focused on how Citizens issues policies and responds to complaints and claims; and in these areas, Citizens operates efficiently and in a timely manner, responding to consumers within one or two days with few errors. Minor errors were noted in our review of the procurement process and travel expense reimbursement.

SCOPE OF EXAMINATION

An operational review of current systems and controls was performed including evaluation of Citizens' processes for corporate records, general operations, accounting, investments, Office of Internal Audit, information systems, depopulation, agent practices, complaint handling, underwriting and rating, cancellations/non-renewals, claims, reserves, reinsurance, anti-fraud, and legislative changes.

During the planning and review phases of the examination, Citizens provided documentation on its internal controls. Included with this information were the two financial audit reports completed in 2012 and 2013 by the Certified Public Accounting firm of Johnson Lambert & Co. LLP, who performed detailed testing of internal controls. This examination incorporated the testing of internal controls performed by the Company's Office of Internal Audit and by Johnson Lambert & Co. LLP.

Citizens' records were examined at its home office, located at 2312 Killearn Center Boulevard, Building A, Tallahassee, Florida. The Citizens' Information Systems review was completed at the Company's computer facilities located in Tallahassee, Jacksonville and Tampa, Florida. Documentation utilized in this report was provided by the Company, the independent auditors, the Office of Internal Audit, and other external sources.

This Report is based upon information obtained during the examination, additional research conducted by the Office, and additional information provided by the Company. The files examined were selected systematically from data files provided by the Company using Audit Command Language software (ACL). Each finding by the Office was reviewed and given due consideration by Citizens. Procedures and conduct of the examination were in accordance with the *Market Conduct Examiner's Handbook* and the *Financial Condition Examiners Handbook* produced by the National Association of Insurance Commissioners (NAIC).

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 residential 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 a 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 for three-year terms. Each Board member serves at the pleasure of his or her appointing officer.

The examination testing procedures included:

- Reviewing the Plan of Operation;
- Reviewing Board and Committee Meeting Minutes;
- Reviewing the procedure for management's timely filing of the financial interest statements with the Commission on Ethics;
- Reviewing reports of both external and internal audits performed during the scope of the examination;
- Reviewing the Exhibit B – Examination Planning Questionnaire from the NAIC *Financial Condition Examiners Handbook* completed by Citizens at the request of the examiners; and,
- Reviewing Citizens' Organizational Chart.

No exceptions were found.

GENERAL OPERATIONS

This section addresses areas not included in the Accounting or Investment Sections of the examination report. The examination testing procedures included:

- Reviewing deficit assessments; and,
- Reviewing the process for maintaining proper business insurance.

During the examination planning phase, the Company noted that it did not levy any deficit assessments within the period under examination.

The Company has adequate controls and utilizes the Manager of Risk & Safety in its Enterprise Risk Management group to monitor and maintain various forms of business insurance for the Company. The Company maintains those types of insurance customary to its operation. The Company represented that as a result of the KPMG study, during the reorganization in 2013, the monitoring and maintenance of business insurance is handled by its Legal Services.

ACCOUNTING

A review of Citizens' accounting processes and procedures was completed for the period under examination. The testing included the following procedures:

- Verification that the Company's trial balance agreed to the filed Annual Statement at December 31, 2013;
- Verification that the filed 2013 Annual Statement agreed to the audited financial statements;
- Verification that the Company completed all filings as required by Florida's Office of Insurance Regulation and Department of Financial Services; and,
- Review of the processes and procedures for financial reporting.

As required by the Office, Citizens had an annual audit completed on its financial statements for the reporting periods ending December 31, 2012 and 2013, respectively. The audits were performed by the accounting firm of Johnson Lambert & Co. LLP, who issued unqualified audit reports for 2012 and 2013.

Testing concluded all filings were completed timely and accurately. A review of the Company's financial reporting process and procedures did not identify any material weaknesses in controls over the financial reporting process.

INVESTMENTS

A detailed review of the investment processes was completed for the period under examination. The review included the following areas:

- Citizens' investment guidelines;
- Comparison of its investment guidelines to its Plan of Operation;
- Processes and procedures for investments;
- CPA's work papers relative to treasury, other than temporary impairments, and reconciliations;
- Custodian agreements and corresponding Service Organization Controls (SOC) reports;
- Verification of the accuracy of investments reported; and,
- Office of Internal Audit's audits completed in the areas of investments.

In 2012 and 2013, Citizens' investment guidelines were separated into four parts: Investment Policy for Tax Exempt Claims Paying Fund, Investment Policy for Taxable Claims Paying Fund, Investment Policy for Tax Exempt Liquidity Fund, and Investment Policy for Taxable Liquidity Fund. All guidelines maintain a conservative nature in their investment strategies.

Section 21 of The Plan of Operation addresses Citizens' investments. There are two guidelines prescribed by the Plan of Operation. The first guideline provides that Citizens "...shall adopt an investment policy and procedures that are consistent with Florida Statutes, prudent financial management, and restrictions found in applicable investment documents." The second guideline states the assets of Citizens "...may be invested and managed by the State Board of Administration." Citizens is in compliance with both of these guidelines.

A detailed review of the investment processes and procedures was completed during the examination. The review included obtaining documentation from the Company, the Office of Internal Audit, and the external auditors. The areas reviewed were:

- Treasury: Treasury management, bank reconciliations, accounts payable, cash and cash disbursements, and payment services;
- Investments: Investment accounting, account reconciliation, investment policies and procedures, and financial reporting;
- Service Organization Controls (SOC) auditing standard review: Finance SOC review procedures and SOC report review checklist;

- Reconciliations: Walkthroughs and process narratives for the various bank and investment reconciliations; and,
- Management Reporting: Process narratives and process maps for the monthly reporting to the Board of Governors.

The documentation included narratives, process maps, and walkthroughs. There were no material gaps or weaknesses in controls identified by either the External Auditor or the Office of Internal Audit.

The Company has a process in place for monthly review of investments by the investment manager. The investment manager advises the Chief Financial Officer (CFO) and the Finance and Investment Committee on securities that display any potential problems. The External Auditor determined through its testing that the estimate of fair value for those securities not trading are reasonable and have been consistently applied.

The Company provided copies of all custodial agreements. Each custodial agreement was verified to have a corresponding Service Organization Control ("SOC") report, which is an internationally recognized auditing standard for service organizations developed by the American Institute of Certified Public Accountants. The Company has implemented a SOC report review policy, including the use of SOC report review checklists. The SOC report review checklists sampled were completed satisfactorily.

The External Auditors performed detailed testing on cash and investment accounts. No exceptions were noted by the Auditor. However, this examination identified the following issues:

Findings: Although entry to the building is secured, it was observed that there were binders of wire activity in an unoccupied cubicle accessible to anyone in the building. These documents contained the wire activity and the approval sheets with signatures. The lack of safekeeping for these documents exposes the Company to potential fraudulent transactions as these documents could be easily duplicated for accounts other than those used for business transactions and already have approval for the transfer of funds. It was later observed and communicated that these documents build up in this area and are shipped to an off-site storage facility when it begins to become a nuisance because of the volume of documents that have accumulated.

Recommendation: It is recommended the Company institute best business practices and keep sensitive documents secured, out of view and only accessible to those with wire transfer capabilities and approval authority.

Company Response: Citizens responded the risk associated with the findings are all mitigated by Citizens' robust security in the wire transfer process.

OFFICE OF INTERNAL AUDIT

In May 2006, Senate Bill 1980 required Citizens to establish the Office of Internal Audit to coordinate and be responsible for activities promoting accountability, integrity, and efficiency to the policyholders and taxpayers of the state of Florida. The Office of Internal Audit focuses on establishing policies and procedures, participating in corporate compliance initiatives, formalizing the audit process, conducting internal audits, and performing management advisory services and internal investigations.

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

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

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

- Summary of the Office of Internal Audit background, duties, organization structure, training, and certifications;
- Overview of the Internal Audit process;
- Summaries of audits, reviews and investigations conducted by the Office of Internal Audit;
- 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 report's presentation was verified by reviewing the Board of Governors' meeting minutes for both annual reports 2012 and 2013, respectively.

During the scope period of the exam, the Office of Internal Audit conducted 43 internal audits. The audits were in the areas of information technology, escheatment, general accounting, premiums, procurement and contract management, paid losses and loss reserves and ethics program review. There were 18 audits classified as "satisfactory", 8 "needs improvement", 2 "unsatisfactory" and 15 "not rated" as work performed for external sources such as the CPA are not rated. The Office of Internal Audit noted 106 issues in the 43 audits performed during the scope period of the examination. The Office of Internal Audit noted 90 of the issues were closed and 16 issues remained open as of June 30, 2014 in the following areas:

- Information Technology;
- Ethics and Compliance;
- Human Resources; and,
- Legal.

On a quarterly basis, the Office of Internal Audit prepares a Dashboard Status Report. The Report consists of an audit plan status, an open audit items status, and a detailed audit plan status report. The Report is issued to Management and the Audit Committee quarterly.

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

PROCUREMENT

A review of Citizens procurement process was completed for the period under examination. The areas of testing included the following procedures:

- Verification that the Company's procurement processes conformed with Sections 627.351(6)(e), and 287.057, Florida Statutes, including revisions effective September 30, 2013; and,
- Verification that the Company's procurement policies and procedures were being implemented.

Citizens' staff and Board of Governor's continue to expand and enhance its procurement procedures by implementing stricter guidelines for exemption purchases, and voluntarily placing for bid contracts that would be considered exempt under statute, i.e., legal services.

In July 2010, Citizens created an internal division, the Enterprise Planning & Project Portfolio Management Division, (EPPPM) to provide centralized coordination across its business units to evaluate and prioritize the use of resources for new projects. For example, if a business unit is in need of hiring outside vendors, the EPPPM looks at the request and supporting materials and then assembles it for a senior management team to review and approve. The threshold for treating procurement as an enterprise project is whether a competitive solicitation is needed.

From July 2012 through June 2014, Citizens had 3,070 purchase orders, totaling $93,299,121. These purchase orders were for one time purchases, recurring purchases, or purchases with engagements for an ongoing duration. Purchase Orders are subject to Citizens' procurement policies. It was noted during the review that five vendors accounted for approximately 50% of the total procurements during the exam scope with total expenses of $46,848,559 being paid to those five vendors.

As of June 2014, Citizens' vendor contract count was broken down as follows: 251 active vendor contracts, 859 Purchase Order contracts, with an engagement for an ongoing duration of three or more months. Included in that number were 18 contracts (14 sole or single source, 2 emergency and 2 Requests For Quotes-RFQs) exempt from the competitive solicitation process because they meet one of the statutory exemption requirements; sole–source, emergency, statutory exemption, or the vendor has an existing government contract. Citizens' vendors are intertwined with nearly every aspect of Citizens' operations.

Findings: During review of the procurement activity and testing to ensure compliance with policies, procedures and statutes there was an instance where on-line system data and support documentation did not match. For example, solicitation number 12-0035 was listed as an Invitation To Negotiate ("ITN") in some of the documentation and was identified as a Request for Proposal (RFP) in others.

Findings: There was no way of tracking the solicitation process to assess compliance with Company procedures and Florida Statutes. The Company could not supply one document which contained all the pertinent information of the solicitation such as the approvers, contract negotiators, signors, or managers; therefore, an individual who wanted to locate these items would be required to sort through large amounts of documentation.

Recommendation: It is recommended the Company create a summary or cover sheet for each solicitation with specific items to ensure compliance and easily identify all parties and individuals involved in the transaction including verification that the on-line system data matches the support documentation.

Company Response: Regarding instances of inconsistency between on-line system data and support documentation, the process that applies is always the one identified in the final solicitation documents posted online. Solicitation number 12-0035 was conducted as an RFP and appears to be consistently identified as an RFP on all posted solicitation documents. Although the substance of the documents appears to consistently reference RFP, one of the electronic files was erroneously saved with a file name utilizing the identifier of ITN.

Currently, Citizens does not maintain a summary document reflecting all the information identified as pertinent by the auditors. Citizens agrees a single document, tracking list, or database containing such information will better facilitate the audit process and internal control. As a result of this audit, Citizens will implement a summary document as a process improvement.

REAL ESTATE LEASES REVIEW

Citizens has 1,190 employees, and leases office space in Tallahassee, Tampa and Jacksonville. As of November, 1, 2014, Citizens leased 211,288 square feet of office space in Jacksonville, 60,000 square feet in Tampa, and 80,412 square feet in Tallahassee, occupying approximately 351,700 total square feet of office space with a base lease cost of approximately $435,941 per month.

TRAVEL AND EXPENSE REIMBURSEMENT REVIEW

Citizens has made revisions to the travel and expense reimbursement policies along with revisions to the credit card policy. The first revision was in October 2012, and the second revision was implemented in March 2013. Both revisions were approved by the President of Citizens.

Per the current policy, "The purpose of the Business Travel Policy is to establish a standard for incurring and managing travel costs consistent with state laws and regulations and ensuring expenses incurred are appropriate and prudent in the context of Citizens' governmental functions." The policy applies to all employees, committee members, and others who are not Board Members traveling on behalf of Citizens. The policy also states, "Citizens will reimburse the reasonable cost for travel expenses necessary for the purpose of conducting business on behalf of the Corporation in accordance with this policy."

Findings: During the review and testing of the travel and expense reimbursements several issues were noted with the expenses. The examiner reviewed 70 transactions and noted 16 errors including but not limited to the classification of expenses, improper signatures, approver name and title was not printed on expense report and improper documentation of the expense being paid for by the employee. Specific examples of these errors are as follows:

Classifications:

- General Ledger (GL) date December 19, 2013 - Expense reimbursement for food and drink was coded to the Meeting expense room fees;
- There were no descriptions or details electronically associated with approximately 70 credits to the expense accounts in the general ledger. A name should be associated with the transaction if it was a reimbursement to the Company.

Company Response: This is a known issue that has been addressed with the software vendor. At this time, the software vendor does not have a fix for this issue. However, documentation of all voided transactions is kept on file and is available for review. Each of the approximate 70 transactions has corresponding documentation supporting the void status within the system.

Improper Signature:

- Approver name & title - there were 11 issues where the approver name and title were not printed on the expense form leaving the form incomplete and the examiner could not verify if the expense was properly authorized and signed off by the appropriate approver per the policy.

Company Response: It is not a requirement for the approving party to print their name. The line "Print Name" is included for review by Accounting if the approving signature is not legible or if Accounting does not recognize the approving signature. Prior to processing all expense reports, Accounting verifies the name and approval authority.

Office Response: The examiner was unable to verify if the expense was properly authorized and signed off by the appropriate approver per the policy.

Credit Card use:

- GL date December 19, 2013 - Expense reimbursement for food and drink using the corporate credit card. The corporate credit card policy states under prohibited expenses: 1. Food and beverage.
- GL date December 26, 2013 - A December 7, 2013 corporate credit card expense for Pop-A-Lock for unlocking vehicle at residence. The corporate credit card policy states under prohibited expenses: 3. Personal expense of any type and 8. Repairs or maintenance on personal vehicles.

Company Response: the charge was deducted from the employee reimbursement amount.

- Noted on April 30, 2014 an expense for Hungry Howies was paid for using the company credit card. The corporate credit card policy states under prohibited expenses: 1. Food and beverage.

Recommendation: It is recommended the Company follow and enforce the Corporate Business Travel Policy for expense reimbursement and the Corporate Credit Card policy for credit card usage. Furthermore, it would be a best business practice to have a secondary review of journal entries of all expenses prior to the general ledger posting to ensure proper accounting for all transactions including proper documentation and explanation for any adjustments to expense categories.

INFORMATION SYSTEMS

An examination of Citizens' Information Systems was performed in accordance with the guidelines and procedures set forth in the NAIC's *Financial Condition Examiners Handbook,* Exhibit C, Evaluation of Controls in Information Technology Planning Questionnaire, as well as walkthroughs of the processes.

System Development Life Cycle

During the first week of onsite work, the IT Specialist met with the Chief Information Officer and the Vice President of Application Delivery, which is one of the new positions created by the IT reorganization. Effective July 31, 2014, a new System Development Life Cycle (SDLC) process was implemented as guidelines for all projects after that date. There were no major projects to test as the process was just being implemented. Therefore, the IT Specialist reviewed the documentation and requirements and found them to be appropriately designed. It is recommended some metrics be developed to ensure all projects do follow the process and that no steps are omitted.

The new SDLC was not in effect for the CORE project or the Clearinghouse project. Therefore, the documentation for these two projects was reviewed in detail during the exam.

CORE Project

The IT Specialist had several meetings with the leaders of the various teams to assess the approach, process, budget, and probability of success for the CORE Systems, now being called Citizens Insurance Suite (CIS). The primary software vendor selected was the Guidewire Suite.

Initially, conversations were held with the Chief of Systems and Operations regarding the approach as well as what functions and systems are considered part of the CORE project.

Within the Guidewire Suite are:

- Global Functions utilized in more than one of the centers;
- A Claims Center implemented first for both Commercial and Personal Lines;
- A Policy Center implemented next due to the smaller population and more limited functionality;
- A Billing Center implemented for Commercial Lines as fewer differences were required for it between Commercial and Personal Lines; and,
- A Policy Center for Personal Lines which will be fully implemented by the end of December 2014. Policies will renew into Policy Center from ePas beginning with policies with a February 1, 2015 and later effective date. The process will take a year to migrate each policy at renewal. New policies will be written from Policy Center with effective dates February 1, 2015 and later.

One issue noted was the wording used by Guidewire and, subsequently used by Citizens with the Office, there was no customization, only configuration. Although there was no change to the base product, the configuration required to implement specific functionality in Guidewire requires programming. Citizens elected to have SQL as the database for the system (Oracle was a possibility). SQL implementation was less expensive than Oracle and the company felt more SQL expertise was available.

A concern still exists with the IT Specialist regarding the robustness of SQL when the large Personal Lines policy information is implemented as well as when a flood of claims occur due to a catastrophe. The conversion will be staggered over time; therefore, any degradation of the response time can be handled by increasing hardware capabilities and adjusting load balancing. Some load testing is being done and more is planned. This issue was also discussed with the Supervisor of Database Administration who indicated there may be some issues but they will not be severe and can be handled.

Company Response: The SQL decision was based upon performance data provided by the vendor, interviews with other customers and a proof of concept. The production implementation is backed by extensive performance testing conducted by Citizens personnel.

Another extenuating circumstance is that Guidewire has a proprietary programming or scripting language called GOSU which is a customized version of SQL scripting language. Personnel had to be trained to use this language in developing the configurations necessary to provide all of the necessary unique or custom functionality required by Citizens. Contractors from Guidewire as well as those with prior experience on Guidewire projects were necessary. This issue will remain when the implementation is complete as GOSU will be required for maintenance and any future enhancements.

There are also several other applications being implemented simultaneously as integral parts of the Citizens Insurance Suite.

- Insbridge – Rating engine owned by Oracle – customization and interfaces for this system initially required Oracle consultants to assist.
- Thunderhead – Document Management System that prepares documents to be printer ready.
- Alfresco – Document repository replacing Image Right, which was the product formerly used for document repository and workflow. The workflow is now handled by the Guidewire internal workflow.
- Ephesoft – Email and fax management software
- Oracle Fusion Middleware and SOA (Service Oriented Architecture) – A service bus which connects all the data from one application to another. There were more than 75 Core (insurance suite) integration services implemented using this service bus.
- Data Warehouse – the data warehouse had to be updated to accommodate the Guidewire data elements.

The data warehouse and service bus both had issues caused by the use of Virtual Data Fields within Guidewire and the Guidewire Data Store (mini data warehouses). These virtual data fields are calculated or derived and are not stored in the database, but can be displayed on a screen or in a report. Some of these data fields do not need to be stored but many of them are needed especially to be able to provide audit trails and information at a point in time. Work has been completed to capture this data and store it in tables accessible as needed and included in the Citizens Data Warehouse.

CORE has a building shared with one other business unit and the cost of the equipment and expenses associated with the building are included in the CORE budget. The CORE project is reviewed continuously by the Office of Internal Audit at Citizens. One full time auditor is assigned to CORE. Quarterly reports are provided to the Executive Leadership Team (ELT). Enterprise Risk Management, Office of Internal Audit, Legal and the Executive Leadership Team all maintain a close relationship with each of the CORE teams. The CORE budget is monitored by the Board of Governors. The IT Specialist

met with the Assistant Director of Budget who provided a reconciliation illustrating all CORE expenses are included in the CORE cost centers.

The implementation of the CORE project required many resources and a total budget of $104,958,355. There were controls in place to monitor the CORE budget and the project has had complete support from the Board of Governors. The company is able to access whatever resources are necessary to ensure a successful implementation of the Guidewire Suite.

The Office will monitor the migration process for Personal Lines and the capabilities to maintain the systems.

Company Response: At the time of this audit, the final phase of the CORE program – personal lines policy/billing, had not been implemented. The last phase went live as planned on December 8, 2014. Many of the observations contained within pertain to the three-year time frame of the implementation and have been resolved.

Clearinghouse Project

During the 2013 session, the Florida Legislature passed SB 1770 which created Section 627.3518, Florida Statutes. The bill states that in order to confirm eligibility with the corporation and to enhance access of new applicants for coverage and existing policyholders of the corporation to offers of coverage from authorized insurers, the corporation shall establish a program for personal residential risks in order to facilitate the diversion of ineligible applicants and existing policyholders from the corporation into the voluntary insurance market. Citizens took actions to establish a Single Entry Multiple Carrier Interface Clearinghouse (Clearinghouse) which will provide Florida homeowners additional options for property insurance coverage in the private market.

Citizens contracted with a New York based company, BOLT, to implement the Clearinghouse. Data is sent to the BOLT system from ePAS and from the Guidewire Policy Center as the Personal Lines HO3 policies are migrated to the new system. The data is sent via various methods to participating companies and the quotes are received back from the companies and compared to the Citizens quote. If any of the quotes fall within the criteria established qualifying the insurer as offering acceptable alternate coverage, the policy will not be written by Citizens. The qualifying offers will be displayed to the agent who can work with the customer to select a carrier. The system is available for HO3 policies only and has approximately 11 participating insurers. Additional companies are expected to be added in the future.

The IT Specialist reviewed the development process with BOLT personnel and found it to be satisfactory. Additionally, the IT Specialist questioned the location of the data being stored by BOLT to assess if the data is secure. The data is housed within the BOLT infrastructure and by contract cannot be located anywhere outside the United States.

The Clearinghouse Project was implemented January 2014 and was in its early operations during this examination. The progress of this project will be reviewed during the 2016 statutorily required market conduct examination.

Data Center Review

The IT Specialist visited all three Data Centers housing information for Citizens. Citizens moved the production data center to the CSX Data Center in Jacksonville. CSX has formed CSX Technologies and is hosting infrastructure for clients. The Tallahassee Data Center will not be significant beginning in 2015.

During the visit to the new CSX data center site, the IT Specialist made the following observations:

1. The data center room occupied by Citizens has limited personal recognition identification.
2. The data center room has limited structural security.
3. The fire suppression methodology is Halon, which was mandated not to be manufactured and sold.
4. The CSX Disaster Recovery solution does not include recovery of tenant's data but only of the CSX infrastructure. Generally, hosting data centers provide a Disaster Recovery solution for the hosted site.

In 1989, the Montreal Protocol determined Halon depleted the ozone layer and the U.S. Environmental Protection Agency subsequently banned its manufacture in 1994. Properly maintained systems could be grandfathered in and remain in use. Some are still in use today, but parts are harder to come by and there are fewer people capable of servicing the older units. The health effects associated with exposure to Halon may vary depending on the particular chemical. Inhalation of air containing high levels of Halon may result in breathing difficulties, chest tightness, dizziness, headache, accumulation of fluid in the lungs and unconsciousness.

When the IT Specialist inquired about fire suppressant, the CSX employee responded they use Halon under the floor. He further stated CSX had purchased extra supplies when the ban occurred so that they would be able to continue to use Halon even though it could no longer be purchased. Additional inquiry indicated the Halon gas is released up through the floor in all areas of the data center (all rooms) when a fire is detected in any one of the rooms. Halon is no longer an acceptable fire suppressant but is not illegal.

Company Response: Citizens acknowledges concerns and in follow-up have contacted CSX senior management to review the situation. CSX reports that their primary fire suppression system is water-based with their Halon system specifically focused on under floor areas. As a replacement for the Halon system, they are currently evaluating high pressure water–based systems, though a time-frame for replacement is not available. Citizens states that they will continue to work with CSX for resolution to this issue.

Whereas the new data center is more secure and storm resistant than the previous data center and the move is an improvement, it is recommended the Company discuss these issues with CSX and recommend efforts be made to remediate these issues.

The IT Specialist also visited the Tampa Data Center. The primary issues noted by the IT Specialist at the Tampa Data Center related to the environment and the following issues:

1. The data center is located in a swampy area.
2. The data center is very close to the Tampa Bypass Canal.
3. The area around the front parking lot is often flooded and at times has to be pumped out.
4. Large trees lean over the data center creating a danger in a storm.
5. A crack is visible in the break room floor which could indicate a foundation issue. An additional indication of this would be the sinking of the added porch which "settled" and separated from the building a bit, but has been repaired.
6. Potentially in the path of a hurricane that could also impact the Jacksonville area and CSX.

The environment in which the Tampa data center is located is not optimum.

Findings: Consistent with the findings in the 2010 Market Conduct Examination report, the Office recommends Citizens obtain an additional generator for its Tampa Data Center.

Company Response: An analysis was conducted and after assessment, the internal Risk Committee chose to accept the risks and not pursue investment in a second generator. A formal risk acceptance document is on file. Power circuits in all of the facilities have a UPS system that provides power to the equipment while the generator starts and comes up to full operating specification, usually with three minutes by plan. If the generator fails to start, the UPS stays on line until the batteries are exhausted. Each site and individual UPS has a period of time it will run dependent upon the load placed upon the system at time of usage of the UPS. There is a facility for connecting a second generator if maintenance is needed on the first unit. Citizens has rented one in those situations and could also rent one if there was an outage of the primary in place unit. Citizens did purchase two units last year for catastrophe duty that could be placed into service quickly if needed, but not before there was a site outage if the generator failed to start before city electric service resumed at the facility.

Disaster Recovery

Disaster Recovery was discussed with the Disaster Recovery Planner and the Manager of IT Operations. An initiative is underway to revisit Disaster Recovery at Citizens partially in light of the new CSX data center. The initiative will include Disaster Recovery site location, procedures, level of testing and methodology. The current Disaster Recovery Plan has been tested but without actual users and transactions. It is recommended the Disaster Recovery Update Initiative be given top priority and improvements made to the current location and testing procedures.

Findings: Consistent with the findings in the 2010 Market Conduct Examination Report, the Office suggests Citizens incorporate a backup or recovery site location outside of the state of Florida in its Disaster Recovery Plan.

Company Response: A study to evaluate risks, requirements, and alternatives for disaster recovery capability was initiated in 2014. Factors driving this strategic review include changes in Citizens risk profile related to a more secure production facility, emerging technical options that merit evaluation, and concerns with the Tampa facility including the fact that it resides in leased office space. Risks associated with proximity of production and disaster recovery sites are a key consideration. An

objective of a new plan is elimination of the current disaster recovery center. During 2015 options will be presented to Citizens' executive management.

Relocation to Jacksonville

As a part of the re-organization efforts which includes consolidation of IT, almost all IT personnel are being relocated to Jacksonville from Tallahassee, and the Tallahassee Data Center will be closed. Personnel from Tampa are also being re-located to Jacksonville. This has caused a drain on IT resources and corporate knowledge. The IT Specialist discussed the move during each interview. Some people are moving but many are not; while some are indicating they are going to move, but it is dependent on whether they find another job. Some key personnel have left and additional departures are anticipated. This is a serious concern to the Company. Replacements are being hired prior to personnel leaving in order to provide for transition and transfer of knowledge, however, the impact will still be significant. Another concern is having all IT personnel in one building as this exacerbates risks related to a disaster occurring in Jacksonville.

KPMG Audit

In December 2012, Citizens hired KPMG to perform an organizational audit and make recommendations. Many of the subsequent initiatives and reorganizations have been based on the results of that audit. The IT Specialist went over the audit results with the Chief of Systems and Operations and while not every recommendation was followed, the primary ones were implemented.

Data Security and Access Controls

The IT Specialist met with the newly hired Security Officer and discussed issues regarding security at Citizens. Access Management has always been an issue and the issue has been exacerbated by the implementation of the CORE or CIS. During the development stages, personnel had extra access to the CORE systems for testing and training. Identity Access Management is one initiative the Security Officer is implementing this year. The following projects are the Security Officer's main focus:

- IAM Concept Proposal – reviewed – acceptable approach;
- IT Security Policy – reviewed – acceptable;
- Corporate Information Security Policy;
- Corporate Information Privacy Policy; and,
- Corporate Information Classification and Handling Policy.

One issue discussed with the Security Officer was the management of Agents and Adjusters and what access they had to Citizens information. During this examination, the Florida Auditor General was also performing an audit. One of the audit findings indicated 19,000 persons have access to systems that had not used the access beyond a specific period of time. This finding was discussed with the Security Manager. The majority of these persons were agents or adjusters who need to maintain access due to the need to be able to activate them in the event of a catastrophe. Further research is being done by the company to determine the distribution of all of the exceptions. Whereas there are some issues with access management, the risk involved through agent access is not great because agents can only see insureds for which they are listed as Agent of Record.

It is recommended the initiatives proposed by the Security Officer are completed and emphasis placed on Information Security improvements in 2015.

The Company also initiated vulnerability testing and internal testing which indicated over a million hits. Further research showed a majority were for old versions of software packages which may introduce security risks. All high level risks are being or have been mitigated.

Recommendation: It is recommended the process being performed relating to vulnerability testing is reviewed, refined, and includes penetration testing.

No testing was performed by the IT Specialist as the issues have already been identified.

Vendor Management

One issue noted in the KPMG audit was a lack of sufficient vendor management procedures. The IT Specialist discussed this issue with the Vice President of Vendor Management who was recently hired by Citizens to address vendor management for the corporation. A new Vendor Management Policy and Vendor Management Strategy are being developed.

Company Response: A Vendor Management Policy and Strategy have been developed and implemented. Detailed processes and procedures to implement the approved policies are in development.

Follow up on Citizens In-Force Policy Count Reporting Issue

The first issue related to the Guidewire purge process showed quotes unaccepted after a certain period of time were purged. This process was malfunctioning early in the implementation and has been turned off.

The most recent issue with policy counts stemmed from the cancellation/rewrite process within the Guidewire application caused the term number on the policy transactional data to get incremented by a value of "1" on the rewrite transaction. However, based on input from Guidewire consultants and historical knowledge of Policy In-Force Logic, the Policy In-force process was setup to retrieve transactional detail only for the original term number. It was not anticipated the term number would be incremented on detail transactions within the same effective period dates. The Policy In-force process was adjusted to retrieve the latest policy term number, which produced valid results. This issue has now been remediated.

Senior Level Interviews

The IT Specialist interviewed the Inspector General (IG) who has not been at Citizens very long, but has extensive experience as an IG with various companies. The IG has formulated a staffing plan and is presenting it for approval. There was a predecessor to the current role, the Office of Corporate Integrity (2010 – 2012) which was disbanded. This office was created by statute and cannot be dissolved. There are redundancies in the work of the Office of Inspector General and the Office of the Internal Auditor; however, they are to cooperate and coordinate activities with one another. The IG's office will have two units: 1) Investigations – Program Effectiveness; and 2) Efficiency. The IG will be reviewing and

potentially revising the code of ethics. The IG and the Internal Auditor will control a hot line called, "Tell Citizens," which allows for anonymous complaints by fax, web, or phone. The IG estimates 70% of his time will involve investigations, including complaints.

Conclusion:

In summary, Citizens Information Technology, as well as the entire organization, is undergoing many concurrent changes including re-organization, consolidation, new software implementation, projects related to access and data security, vendor management, disaster recovery and depopulation. Personnel are in flux due to the physical move and changing areas of necessary expertise. It is recommended Citizens' management closely monitor the progress of these changes to ensure they remain on track to successful resolution as well as the successful implementation of the final stage of the Citizens Insurance Suite.

DEPOPULATION

The guidelines for depopulation were established by the Florida Legislature and are contained in Section 627.3511, Florida Statutes. The intent of this legislation was to reduce the number of property owners who have insurance coverage through Citizens by encouraging new or existing insurance companies to take out policies from Citizens.

The following table shows the number of policies and amounts of exposure removed from Citizens between January 1, 2003 and September 18, 2014.

All Combined Policy Types		
Year	**Number of Policies**	**Exposure**
2003	28,219	$8,140,681,906
2004	158,416	$30,663,076,480
2005	293,684	$53,658,840,059
2006	67,853	$15,637,589,369
2007	247,887	$68,259,426,361
2008	385,084	$106,870,490,165
2009	149,645	$37,784,506,743
2010	59,792	$13,888,913,857
2011	53,577	$14,473,700,490
2012	277,002	$75,927,165,347
2013	365,767	$112,265,410,122
*2014	127,550	$28,443,561,232
Total	**2,214,476**	**$566,013,362,131**

* 2014 statistics are as of 9/18/2014

As noted in the above table, Citizens' depopulation records indicate the program increased significantly in 2012 through 2013 from prior years. The increase in depopulation, per the Company, was most likely a combination of factors:

- Reinsurance rates began to fall which may have allowed carriers to take on additional policies because the cost of offloading the commensurate risk has dropped;

- Additional carriers entered the marketplace assuming policies which may have added pressure for existing carriers to assume more than they might have otherwise;
- A continued softening of rates on newly written business may make the acquisition of policies from Citizens, which may have higher rates, more attractive.

The examination testing procedures included:

- Reviewing depopulation guidelines;
- Reviewing the process and procedures for depopulation;
- Reviewing the monitoring controls for the depopulation process;
- Reviewing lists of takeout companies; and,
- Reviewing Company records relating to a sample of takeout companies to verify compliance with depopulation guidelines, procedures, and Florida Statutes.

Based on the testing performed, Citizens demonstrated adequate processes and controls to monitor the depopulation process.

AGENT PRACTICES

Citizens is a residual market program and does not employ a system to actively seek business. It focuses on communications, training, and compliance to facilitate its agents' customer service efforts. Citizens utilizes independent agents for its sales force and as of June 30, 2014, had 8,486 agents authorized to write Citizens' policies. Agents must hold an active 0220 or 20-44 Florida Resident Agent's License, or an active 0920 or 90-44 Non-Resident Agent's License. Agents must be in good standing with the Department of Financial Services and at the time of appointment, have an affiliation with at least one authorized insurer writing new personal residential, commercial residential, or commercial non-residential property coverage in Florida pursuant to Section 627.351(6)(c)14, Florida Statutes. Prior to appointment with Citizens, an agent must achieve a passing score on three technical testing modules, in addition to a compliance and general rules testing module unique to Citizens.

This examination testing procedures included:

- Reviewing the program for the utilization of agents, including the appointment and approval process;
- Reviewing the Office of Internal Auditor's report on commercial and personal underwriting which included a review of the quality assurance process;
- Reviewing the flow of operations of the agent appointment process for weaknesses in controls;
- Reviewing and documenting agents in the underwriting policy review sample were both licensed and appointed by Citizens; and,
- Reviewing the CPA's testing of commission payments and underwriting process.

Based on the testing performed, the controls in place for the Agent Services processes were found to be adequate.

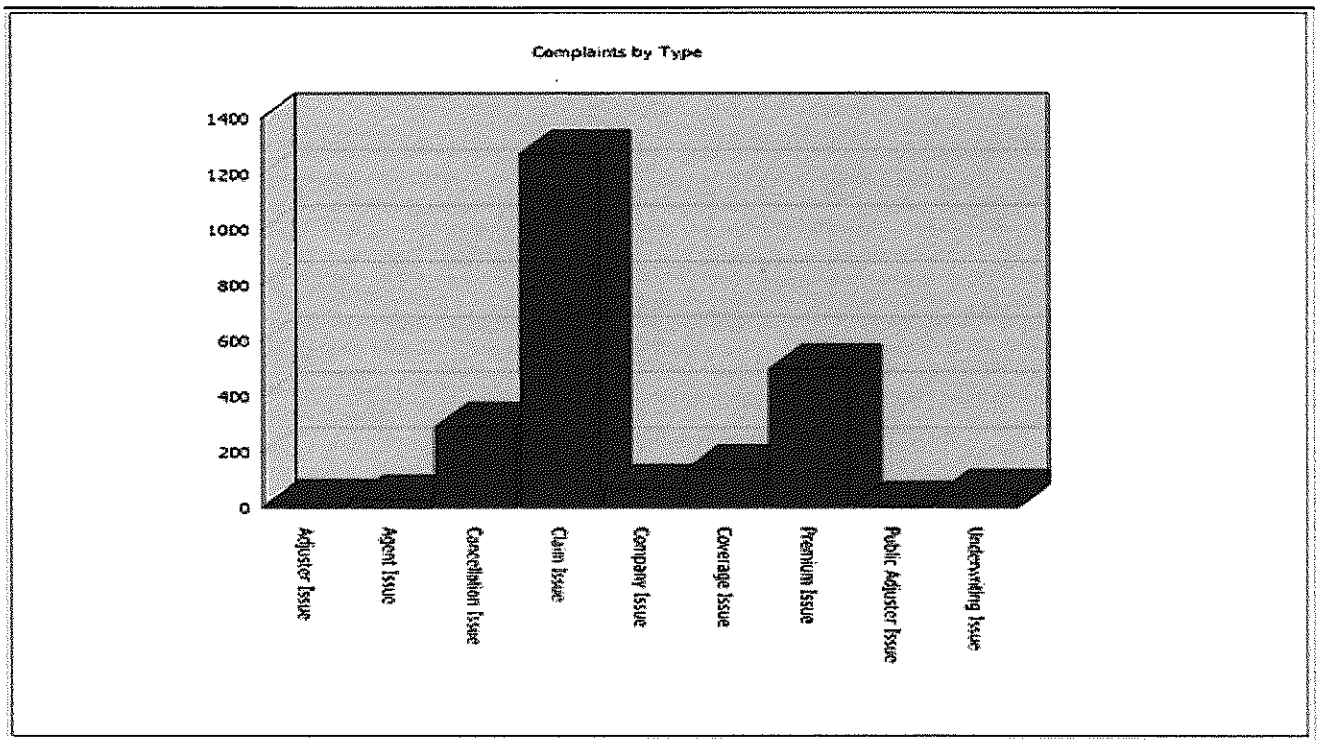
COMPLAINTS REVIEW

Complaints originate from different sources: Florida Regulatory, Legislative, and Executive offices, as well as directly from consumers via mail or Citizens' website. Incoming complaints are recorded in the complaint log by an assistant and then referred to a service specialist. If the specialist cannot resolve the issue, the specialist consults with a subject matter expert for handling, i.e., claims adjuster, underwriter, etc. A written response is prepared by the Consumer Services Department and sent to the party making the inquiry. Complaint handling is documented in the complaint log and the appropriate policy administration system(s).

The following table shows the number of complaints received by Citizens by year during the scope of the examination:

Year	Number of Complaints
7/1/2012 – 12/31/2012	1,174
1/1/2013 – 12/31/2013	1,967
1/1/2014 – 6/30/2014	945
Totals	**4,086**

The following graph shows the complaints by type:



The examination testing procedures included:

- Reviewing Citizens' complaint handling procedures;
- Reviewing the complaint log of all complaints received during the scope of the examination; and,
- Reviewing a randomly selected sample of 115 complaints from the total population of complaints during the scope of the examination. The sample included 67 consumer complaints filed with the Florida Department of Financial Service (DFS) and 48 complaints received directly by the Company.

The Company has established the following timeframes for response and disposition of complaints:

Consumer Complaint Category	Business Unit Response Timeframe	Disposition Timeframe
E-mail Complaint	Within 1 business day	Within 2 to 3 business days
Non-Claims Complaint	Within 3 business days	Within 14 calendar days
Claims-Related Complaint	Within 7 business days	Within 14 calendar days
Expedited Complaint	Within 3 business days	Within 5 business days
Executive Complaint	Within 3 business days	Within 5 business days
Legislative Complaint	Within 3 business days	Within 5 business days
Non-Claims Regulatory Complaint	Within 3 business days	Within the timeframe specified by the federal or state agency
Claims-Related Regulatory Complaint	Within 7 business days	Within the timeframe specified by the federal or state agency

Findings:

In 10 instances deviations from written procedures were identified, as follows:

1. Sections 627.062 and 627.4133(1)(a), Florida Statutes. In one instance the Company failed to provide timely advance notice of renewal premium and policy changes.

   Company's Response: The Company agreed with the finding and stated it will revise the effective date of the endorsement from May 24, 2013 to May 24, 2014. The policyholder will receive an endorsement refund of $40.00 as a result of this correction. The Correspondence Team will provide a follow-up letter of explanation to the policyholder.

   Recommendation: This appears to be an isolated incident and not a business practice; therefore, no additional corrective action is required.

2. Section 627.351(6)(k)(2), Florida Statutes. In nine instances, the Company did not respond timely to directly received complaints in the time allotted by its complaint handling procedures.

   Company's Response: The Company agreed with the findings.

   Recommendation: The Company should remind staff about meeting timeframe requirements.

UNDERWRITING AND RATING REVIEW

PERSONAL LINES

Citizens writes homeowners, dwelling fire, mobile home dwelling and mobile homeowners policies in Florida. The following is a breakdown of policies issued during the scope period:

Period	Number of New Policies Issued	Number of Policies Renewed	Total Number of Policies Issued
July 2012 to December 2012	137,017	532,840	669,857
January 2013 to December 2013	223,590	1,004,915	1,228,505
January 2014 to June 2014	82,411	414,718	497,129

The examination testing procedures included:

- Reviewing Citizens' underwriting rules, practices and rates utilized during the scope period;
- Reviewing Citizens' Plans of Operation during the scope period;
- Reviewing randomly selected files to determine eligibility, compliance with Citizens' rule and rate filings, Florida Statutes, and Citizens' Plan of Operation; and,
- Reviewing randomly selected files to verify compliance with prior examination and audit underwriting recommendations.

There were 184 randomly selected files reviewed. The samples were divided into the four major business segments as follows:

Policy Type	Sample Size
Homeowners	124
Dwelling Fire	46
Mobile Home Dwelling	8
Mobile Homeowners	6

Homeowners:

There were 124 homeowners policies reviewed. In 18 instances deviations from written procedures were identified, as follows:

1. Section 627.062, Florida Statutes. In four instances the required photos were missing in the file. **The filed manual states:**

   Photograph Requirements

   Citizens requires two recent photographs (standard or digital): one photo angled to show the full front of the dwelling and one side, and the other photo angled to show the full rear of the dwelling and the other side. Additional photographs are required for Other Structures, Coverage B, when that structure is clearly separated from the main building (i.e. pool houses, in-law/guest quarters, detached garage or workshop.

   Exception: Photographs are not required on HO-4 or HO-6 properties located in buildings with more than four (4) units. However, photographs are required to verify Loss Mitigation Credits for roof shape.

   Company's Response: The Company disagreed with these instances stating "that due to being an HO-4 policy or high rise condo", photos were not required. However, wind mitigation credits were provided, therefore photos are required to verify roof shape.

   Recommendation: The Company should remind its staff of photograph requirements.

2. Section 627.062, Florida Statutes. In 10 instances the wind mitigation form was missing. **The filed manual states:**

   Exceptions to the windstorm mitigation form requirement:

   - ***Year built on or after January 1, 2002:*** *Structures built on or after January 1, 2002, are eligible for the minimum FBC 2001 credit by providing documentation that validates the year of construction. Acceptable documents include: certification of occupancy, copy of property appraisal or any other document Citizens deems acceptable. Completion of mitigation affidavits/forms are not required to receive the minimum FBC 2001 credit. Additional credits may be obtained by completing mitigation verification affidavits/forms available on our website.*

   - ***Year built 2002 or later (Dade and Broward County only:*** *Type II and Type III Structures built on or after January 1, 2002 in Dade or Broward County are eligible for opening protection Class A credit by providing documentation that validates the year of construction. Acceptable documents include certification of occupancy, copy of property appraisal or any other document Citizens deems acceptable. Completion of mitigation affidavits/forms is not required to receive this Class A credit.*

Company's Response: The Company agreed with eight findings and disagreed with two due to manual exceptions to the use of mitigation forms for structures built after 2002. The Company stated the exceptions applied to the two policies because they are only receiving credit for roof shape which does not require a mitigation form as it can be verified by photographs in each respective file. The examiners reviewed the Company's response and determined that in one policy there were no photos in the file; and in the other instance, a condominium, the photos in the file did not document roof terrain. In the absence of proper photos the wind mitigation forms would have been required.

Recommendation: The Company should remind staff to obtain wind mitigation forms when applicable.

3. Section 627.062, Florida Statutes. In two instances the construction type of the property was incorrect.

   Company's Response: The Company agreed with the finding.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

4. Section 627.062, Florida Statutes. In one instance the inspection contact form was missing. **The filed manual requires:**

   Inspection Contact Information Form
   A fully completed, signed and dated Citizens Inspection Contact information Form CIT ICI-C.

   Company's Response: The Company agreed with the finding.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

5. Section 627.062, Florida Statutes. In one instance the year built of the property was incorrect.

   Company's Response: The Company agreed with the finding.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

Dwelling Fire:

There were 46 dwelling fire policies reviewed. There were two instances where deviations from written procedures were identified. They are as follows:

1. Section 627.062, Florida Statutes. In one instance the flood waiver form was missing. **The filed manual states:**

   Flood Insurance – Insureds with properties in Special Flood Hazard Areas, as defined by the National Flood Insurance Program (NFIP) (e.g. A, AO, AH, A1-A30, AE, A99, V, V1-V30, VE) must maintain a flood policy unless the applicant or insured signs the "Election Not to Buy Separate Flood Insurance" (CIT-FW01) form, or an exception in this rule applies.

   Waiver of Flood Option – Securing flood insurance is not a condition of coverage if the applicant or insured sign form CIT-FW01. An applicant or insured who does not maintain a flood policy, or does not sign the CIT-FW01 form, may be denied Citizens coverage.

   Company's Response: The Company agreed with the finding.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

2. Section 627.062, Florida Statutes. In one instance the wind mitigation form was missing. **The filed manual states:**

   Exceptions to the windstorm mitigation form requirement:

   - ***Year built on or after January 1, 2002:*** *Structures built on or after January 1, 2002, are eligible for the minimum FBC 2001 credit by providing documentation that validates the year of construction. Acceptable documents include: certification of occupancy, copy of property appraisal or any other document Citizens deems acceptable. Completion of mitigation affidavits/forms are not required to receive the minimum FBC 2001 credit. Additional credits may be obtained by completing mitigation verification affidavits/forms available on our website.*

   - ***Year built 2002 or later (Dade and Broward County only:*** *Type II and Type III Structures built on or after January 1, 2002 in Dade or Broward County are eligible for opening protection Class A credit by providing documentation that validates the year of construction. Acceptable documents include certification of occupancy, copy of property appraisal or any other document Citizens deems acceptable. Completion of mitigation affidavits/forms is not required to receive this Class A credit.*

Company's Response: The Company agreed with the finding and stated that this was part of the rewrite program. Although the documents in the prior policy were confirmed to substantiate the appropriate wind mitigation credits and the new policy was issued correctly, the wind mitigation documents were not moved over per the guidelines for the project.

Recommendation: The Company should remind staff to obtain wind mitigation forms when applicable.

Mobile Homeowners Dwelling:

There were eight mobile homeowners dwelling policies reviewed. There was one instance where a deviation from written procedures was identified, as follows:

1. Section 627.062, Florida Statutes. In one instance the application was not signed by the insured. **The filed manual states:**

   Application
   Completed, signed and dated Ctiizens application, with required premium payment, including when applicable, a copy of the Cancellation or Non-Renewal Notice from the immediate previous insurer or proof of new purchase or new lease.

   Company's Response: The Company agreed with the finding.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

Mobile Homeowners:

There were six mobile homeowners policies reviewed. There were no violations found.

COMMERCIAL LINES

Citizens writes commercial residential and commercial non-residential policies in Florida. The following is a breakdown of policies issued during the scope period:

Period	Commercial Residential	Commercial Non-Residential
July 2012 to December 2012	8,662	13,501
January 2013 to December 2013	17,271	22,540
January 2014 to June 2014	8,465	10,118

The examination testing procedures included:

- Reviewing Citizens' underwriting rules, practices and rates utilized during the scope period;
- Reviewing Citizens' Plans of Operation during the scope period;
- Reviewing randomly selected files to determine eligibility, compliance with Citizens' rule and rate filings, Florida Statutes, and Citizens' Plan of Operation; and,
- Reviewing randomly selected files to verify compliance with prior examination and audit underwriting recommendations.

There were 184 randomly selected files reviewed. The sample was divided proportionally as follows:

Policy Type	Sample Size
Commercial Non-Residential	105
Commercial Residential	79

Commercial Non-Residential

There were 105 commercial non-residential policies reviewed. In 53 instances deviations from written procedures were identified, as follows:

1. Section 627.062, Florida Statutes. In 29 instances the photos were missing. **The filed manual requires:**

   Photograph Requirements

   1. Building – Two photos of the exterior of each building and structure(s) are required. One photo should reflect the front and one side view of the building or structure to be insured and the second photo reflecting the back and remaining side of the building or structure to be insured.

   2. Business Personal Property Only – A photograph of the building in which the business personal property is contained is required when Citizens writes business personal property coverage only.

   Company's Response: The Company did not agree with the findings stating policies were contents only; therefore, photographs were not required. However, the filed manual states that business personal property only coverage requires a photograph of the building.

   Recommendation: The Company should remind its staff of photograph requirements.

2. Section 627.062, Florida Statutes. In 15 instances the inspection contact form was missing. **The filed manual states:**

   Inspection Contact Information Form
   A fully completed, signed and dated Citizens Inspection Contact Information Form CIT ICI-C.

Company's Response: The Company agreed with the finding in some instances and stated it was not required on others. However, there are no exceptions noted in the manual, therefore, the form should be obtained on all cases.

Recommendation: The Company should remind its staff of inspection form requirement.

3. Section 627.062, Florida Statutes. In five instances the signed application was missing. **The filed manual states:**

   Application
   Completed, signed and dated Citizens application, with required premium payment, including when applicable, a copy of the Cancellation or Non-Renewal Notice from the immediate previous insurer or proof of new purchase or new lease.

   Company's Response: The Company agreed with the finding.

   Recommendation: The Company should remind staff to obtain signed and dated applications.

4. Section 627.062, Florida Statutes. In four instances the previous carrier documentation was missing.
   The filed manual states:

   Required Documents
   1. Previous Carrier documentation is required, when applicable:
   a. Copy of a cancellation or nonrenewal notice
   b. Proof of coverage with a copy of a current declarations page

   Company's Response: The Company agreed with the finding.

   Recommendation: The Company should remind staff to obtain previous carrier documentation.

Commercial Residential

There were 79 commercial residential policies reviewed. In 19 instances deviations from written procedures were identified, as follows:

1. Section 627.062, Florida Statutes. In seven instances the year built of the property was incorrect.

   Company's Response: The Company agreed with the finding.

   Recommendation: The Company should remind its staff to validate the year of construction.

2. Section 627.062, Florida Statutes. In four instances the inspection contact form was missing. **The filed manual requires:**

   Inspection Contact Information Form
   A fully completed, signed and dated Citizens Inspection Contact Information Form CIT ICI-C.

   Company's Response: The Company agreed with the finding in some instances and stated it was not required on others. However, there are no exceptions noted in the manual, therefore, the form should be obtained on all cases.

   Recommendation: The Company should remind its staff of inspection form requirement.

3. Section 627.062, Florida Statutes. In four instances the signed application was missing. **The filed manual states:**

   Application
   Completed, signed and dated Citizens application, with required premium payment, including when applicable, a copy of the Cancellation or Non-Renewal Notice from the immediate previous insurer or proof of new purchase or new lease.

   Company's Response: The Company agreed with the finding.

   Recommendation: The Company should remind staff to obtain signed and dated applications.

4. Section 627.062, Florida Statutes. In three instances the construction type of the property was incorrect but no premium overcharges resulted.

   Company's Response: The Company agreed with the finding.

   Recommendation: The Company should remind its staff to verify the construction type.

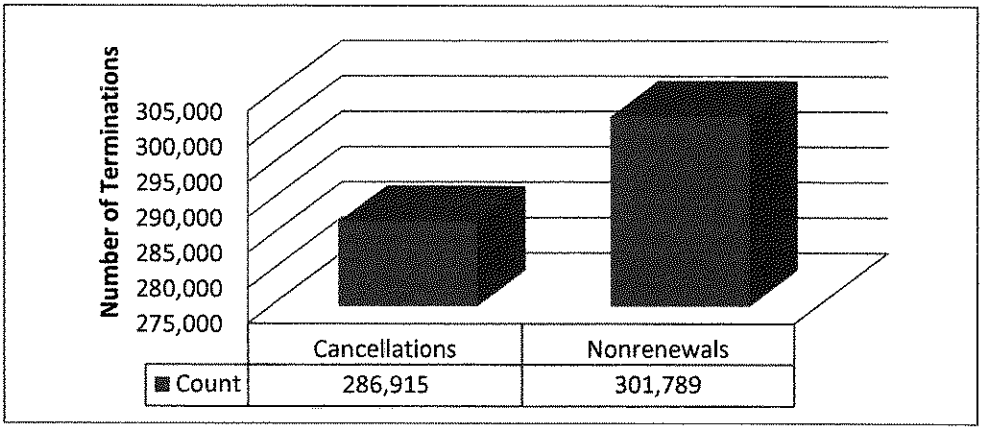
5. Section 627.062, Florida Statutes. In one instance the wind mitigation credit was incorrect. Based on the wind mitigation form, the roof deck was Level B not C, and the roof shape was Non-Hip, and should have been Hip.

   Company's Response: The Company agreed with the finding.

   Recommendation: This appears to be an isolated instance; however, the premium should be adjusted accordingly.

CANCELLATIONS/NONRENEWALS REVIEW

The Company cancelled/nonrenewed 588,704 policies during the scope of the examination. The following chart shows the breakdown between cancellations and nonrenewals:



The examination testing procedure included:

- Reviewing randomly selected files to determine timely delivery of cancellations/nonrenewal notices, if specific reasons for termination were provided, issuance of timely refunds, compliance with Citizens' rule and rate filings, Plan of Operation and Florida Statutes.

There were 184 randomly selected files reviewed. In five instances deviations from written procedures were identified, as follows:

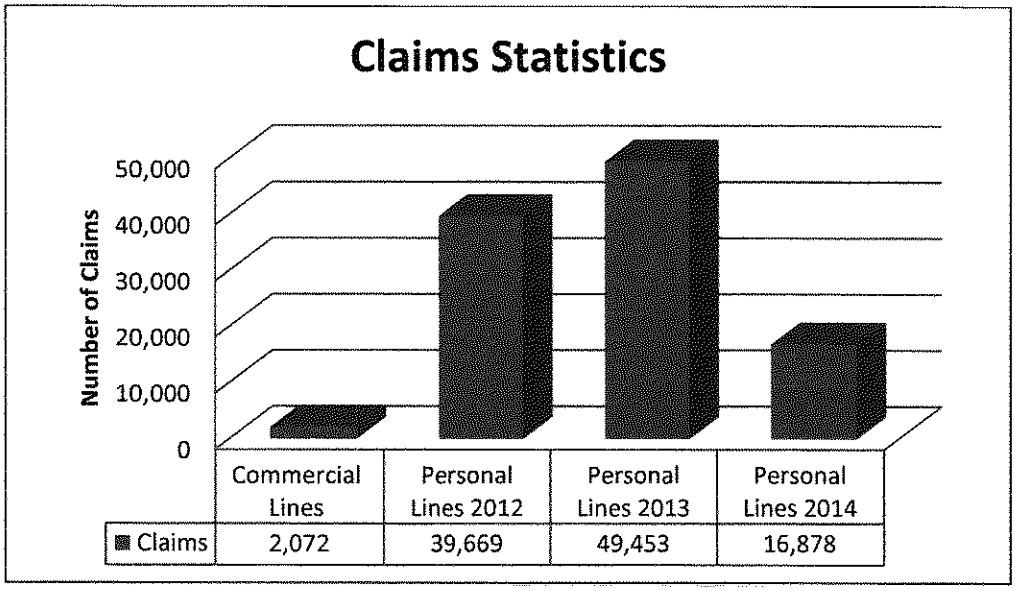
1. Rule 69O-167.001, Florida Administrative Code. In five instances the Company failed to timely return unearned premiums within 15 working days as required.

   Company Response: The Company agreed with three of the findings and disagreed with two. The Company stated that two findings involved multiple policy terms and that the refund was made timely based on the latest policy term.

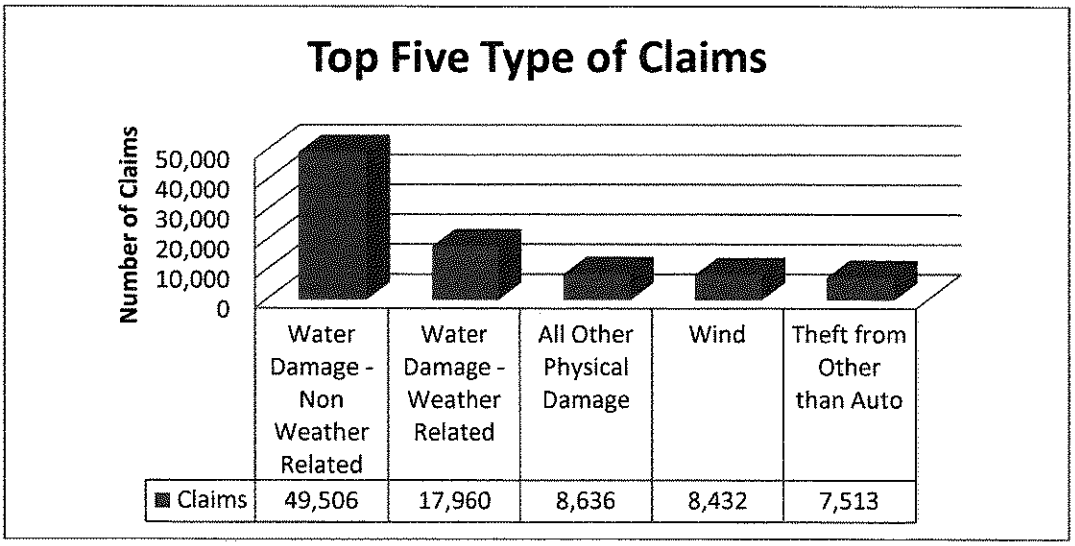
   Corrective Action: Each policy should be processed individually and the timeframe for refunds applies to each policy individually. The Company should establish procedures to ensure unearned premiums are returned timely.

CLAIMS REVIEW

The Company received a total of 108,072 claims during the scope of the examination. The following chart shows a breakdown by year:



The following chart shows a breakdown of the top five type of claims received during the scope of the examination:



The examination testing procedures included:

- Reviewing Citizens' claim handling procedures;
- Obtaining a list of the population of all claims reported during the scope period;
- Making random selections from the overall population for each of the groups of claims reviewed;
- Reviewing policy records for each claim selected to confirm coverage was applicable; and,
- Reviewing the entire claim file for each selected claim to confirm claims handling met all statutory requirements and complied with Citizens' internal procedures.

While the claims handling process involves many factors which could be evaluated, the primary focus of the review by the Office was on Citizens' effort to promptly handle claims by either paying all that is owed to the claimant, without overpayment of the claim, or by promptly declining payment for a valid reason.

Findings

The claims handling review by the Office consisted of a review of 184 non-specific claims selected randomly from the entire population of claims for homeowners, mobile homeowners, condominiums, commercial residential and commercial non-residential, which were opened or reopened during the examination scope period.

In 184 claim files reviewed, there were 20 instances where deviations from written procedures were identified, as follows:

1. Section 626.9541, Florida Statutes. In 11 instances there were claim processing delays without justification. Most delays were due to not processing the claim within five days of receipt of the estimate as established by the Company's claim handling procedures.

   Company's Response: The Company agreed with the findings.

   Recommendation: The Company should remind staff to timely process claims in accordance with the Company's claim handling procedures.

2. Section 626.9541, Florida Statutes. In four instances the claims reserves were not updated timely.

   Company's Response: The Company agreed with the findings.

   Recommendation: The Company should remind staff to adjust claim reserves timely.

3. Section 627.4137, Florida Statutes. In one instance the Company failed to timely respond to a claims request for disclosure of insurance coverage.

   Company's Response: The Company agreed with the findings.

Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

4. Section 626.9541, Florida Statutes. In one instance the Company made an improper payment. The property had been vacant for over 30 days so the claim should have been denied.

   Company's Response: The Company agreed with the findings.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

5. Section 627.7015, Florida Statutes. In one instance the Company failed to notify the policyholder of its right to participate in the mediation program.

   Company's Response: The Company agreed with the findings.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

6. Section 626.9541, Florida Statutes. In one instance an acknowledgment letter to the insured had an incorrect cause of loss.

   Company's Response: The Company agreed with the findings.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

7. Section 626.9891, Florida Statutes. In one instance the Company failed to refer a potential case of suspected fraud to its Special Investigations Unit.

   Company's Response: The Company agreed with the findings.

   Recommendation: This appears to be an isolated instance; therefore, no additional action is required.

RESERVES

A review of the actuarial reserving process was performed. The areas of examination included:

- Management Reporting;
- Independent Actuarial Review;
- Actuarial Process; and,
- CPA's testing of the reserves.

Citizens' management is informed of the actuarial processes through the established Actuarial and Underwriting Committee consisting of five members of the Board of Governors, two members of management and one independent technical advisor. The committee meets on a regular basis, at least quarterly depending on need.

The internal actuarial reports were prepared for 2012 and 2013 and both reports were peer reviewed. The Company completes actuarial reviews annually. For the period ending December 31, 2013, the Board of Governors appointed Citizens' Chief Actuary to analyze the Company's reserves and prepare a Statement of Actuarial Opinion.

The Company demonstrated adequate processes and controls to monitor and communicate the reserves and losses to the Board and Management.

REINSURANCE

Citizens utilized reinsurance coverage through the Florida Hurricane Catastrophe Fund (FHCF) and through private placement during the period under examination. Reinsurance coverage is purchased separately for the Coastal Account, and is combined for the Personal Lines Account ("PLA") and Coastal Lines Account ("CLA"). As required by statute, Citizens participates in the FHCF. Coverage provided by and premium ceded to the FHCF with respect to the Coastal Account is considered by FHCF a separate participating insurer with its own exposure, reimbursement premium and loss reimbursement. Likewise, the PLA and CLA are considered by FHCF together as a single, separate participating insurer with its own exposure, reimbursement premium and loss reimbursement.

In 2012, Citizens executed a $750 million multi-year, collateralized reinsurance placement in the capital markets with Everglades Re that provided coverage of catastrophic risk for both residential and commercial losses (commercial non-residential losses are not covered). In 2013, Citizens executed a similar placement with Everglades Re that transferred $250 million of additional risk.

On April 24, 2014, the Board approved a three-year fully collateralized reinsurance contract with Everglades Re., Ltd. to transfer up to $1.5 billion of aggregate risk in the Coastal Account for the 2014, 2015 and 2016 hurricane seasons. The Board also approved a multiple layer traditional risk coverage for the Coastal Account with one-year contracts for risk transfer through traditional markets for layers one, two and four, and a one, two or three-year contract for risk transfer through traditional markets for layer three. Additionally, it approved the purchase of the mandatory layer of FHCF coverage for both the PLA/CLA and Coastal Account.

The examination testing procedures included:

- Reviewing the Reinsurance Program; and,
- Reviewing the Reinsurance Authorizations.

Citizens is required by statute to make an effort to procure private catastrophe reinsurance at reasonable rates to cover its projected 100 year probable maximum loss as determined by the Board of Governors.

Management prepares an Executive Summary describing its analysis and conclusion on the types and amounts of reinsurance to purchase for the upcoming year. Management first presents the Executive Summary to the Finance and Investment Committee for recommended approval by the Board of Governors. Management then presents the Executive Summary to the Board of Governors for final approval in authorizing the purchase of reinsurance either by a full vote or through the consent items vote.

The Company's process for purchasing reinsurance has a high level of management oversight and Board involvement in the decision making process.

ANTI-FRAUD PLAN

As part of the examination, a review was completed on Citizens' compliance with Section 626.9891, Florida Statutes, and Rule 69D-2.001-005, Florida Administrative Code, regarding Anti-Fraud processes. The examination included a review of the following areas:

- Verifying the Company has an established Anti-Fraud Policy and Procedure;
- Verifying the Company has a process map for Special Investigative Unit (SIU);
- Determining the Company has filed with the Division of Insurance Fraud a description of the Insurer Anti-fraud Investigative Unit;
- Reviewing the organizational structure for the Special Investigative Unit;
- Reviewing the criteria that the Special Investigative Unit has established and implemented to detect potentially fraudulent activity;
- Reviewing the criteria that the Special Investigative Unit has established and implemented to investigate suspected fraudulent activity;
- Reviewing the Special Investigative Unit method for reporting all suspected insurance fraud acts directly to the Fraud Division; and,
- Reviewing the information relating to the training of personnel on the detection and investigation of fraudulent acts.

The Company has an Anti-Fraud Policy and Procedure, including a process map approved by the Manager of the Special Investigative Unit. The Company files a description of its anti-fraud plan, including any changes, with the Division of Insurance Fraud within the Department of Financial Services.

The Company has developed a defined Special Investigation Unit program including a Special Investigation Unit Business Plan. The Special Investigation Unit's Business Plan consists of performance metrics, investigative results, and fraud awareness training.

As noted in Citizens' anti-fraud plan, the Company and its Special Investigation Unit have established criteria used to detect suspicious or fraudulent activity during investigations relating to all types of insurance offered by Citizens. The Company reports all suspected fraudulent insurance acts directly to the Florida Department of Financial Services, Division of Insurance Fraud using a digital reporting format or interface provided at www.MyFloridaCFO.com/fraud. It is the practice of the Company that all such reports of suspected insurance fraud contain information clearly defining and supporting the allegation of suspicious activity. Also, it is the practice of the Company to maintain a record of suspected fraudulent claims activity, as well as, record the date when suspected fraudulent activity is detected, and the date reports of such suspected insurance fraud are sent directly to the Division of Fraud.

It is the practice of the Company to provide training related to the detection and investigation of fraudulent insurance acts for all personnel involved in anti-fraud related efforts. Citizens provides both basic fraud awareness training, as well as continuing fraud awareness education and training to its adjusting staff in accordance with the Fraud Training and Regulations required by Section 626.989, Florida Statutes.

Citizens has demonstrated adequate processes and controls for its Anti-Fraud Unit.

LEGISLATIVE CHANGES

For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the state of Florida. As such, Citizens' operations are affected by the legislative process.

As part of the examination, a review was conducted of the processes and controls Citizens has in place to monitor and communicate the legislative changes affecting the Company's operations. The review included the following areas:

- Legislative Guiding Principles; and,
- Process of managing legislative changes.

The 2013 Legislative session concluded on May 3, 2013, with 286 bills passed and under consideration by the Governor for final approval. Senate Bill ("SB") 1770, and House Bill ("HB") 573, were the two main vehicles enacted containing the majority of changes relative to Citizens.

The 2014 Legislative Session ended May 2, 2014, with 264 bills passed. Of the bills signed into law, the majority of legislative changes impacting Citizens operations can be found in four key bills: SB 1672, SB 708, SB 846 and HB 1089.

Citizens, as part of the controls process, provided a worksheet containing the detailed portion of the legislative changes impacting Citizens and the action taken or that will be taken for both the 2013 and 2014 legislative changes.

The Company recently changed the process to monitor and communicate legislative changes to the Board and management. An advisory group comprised of the business unit owners/subject matter expert is formed to oversee and manage the specific assigned change. The group meets on a regular basis to receive updates throughout the organization and mark items that have been completed. A Project

Manager ("PM") is assigned to lead the group under the VP of Communications, Legislative and External Affairs direction. The PM ensures all business aspects are accounted for in the change process by engaging affected business units. Some projects require subgroup work which is also monitored by the PM as the various changes progress toward completion.

The Director of Legislative and External Affairs prepares an executive summary of the changes to be presented to the Board of Governors.

Citizens demonstrated adequate processes and controls to monitor and communicate the legislative changes to the Board and Management.

TABLE OF FINDINGS

Reviews of Corporate Records, Accounting, Investments, Office of Internal Audit, Information Systems, Depopulation, Agents Practices, Complaints, Underwriting and Rating, Cancellations and Nonrenewals, Claims, Reserves, Reinsurance, Anti Fraud Plan, Legislative Changes and Procurements were included. A sample of 115 complaints, 184 personal lines policies, 184 commercial lines policies, 184 cancellations/nonrenewals, and 184 claims were reviewed. The following represent general findings, however, specific details are found in each section of preceding report.

Page Number	Description	Files Reviewed	Number of Exceptions
5	**Investments** - Binders of wire activity in an unoccupied cubicle accessible to anyone in the building.	n/a	1
7	**Procurement** - On-line system data and support documentation did not match.	n/a	1
7	**Procurement** - Citizens does not maintain a summary document reflecting all the information identified as pertinent by the auditors.	n/a	1
8	**Travel & Expenses** - Citizens failed to follow its Travel & Expenses policies and procedures.	70	16
14	**Information Systems** - Consistent with the findings in the 2010 Market Conduct Examination report, the Office recommends Citizens obtain an additional generator for its Tampa Data Center.	n/a	1
14	**Disaster Recovery** – Consistent with the findings in the 2010 Market Conduct Examination Report, the Office suggests Citizens incorporate a backup or recovery site location outside of the state of Florida in its Disaster Recovery Plan.	n/a	1
20	**Complaints** – Citizens failed to provide proper timely advance notice of renewal premium and policy changes.	115	1
21	**Complaints** – Citizens did not respond timely to complaints received directly by the Company as required by its complaint handling procedures.	48	9
22	**Homeowners** - Required photos were missing in the file.	124	4
22	**Homeowners** – The wind mitigation form was missing.	124	10
23	**Homeowners** – The construction type was incorrect.	124	2
23	**Homeowners** - The inspection contact form was missing.	124	1
23	**Homeowners** - The year built of the property was incorrect.	124	1
24	**Dwelling Fire** - The flood waiver form was missing.	46	1
24	**Dwelling Fire** - The wind mitigation form was missing.	46	1

Page Number	Description	Files Reviewed	Number of Exceptions
25	**Mobile Home Dwelling** - The application was not signed by the insured.	8	1
26	**Commercial Non-Residential** - The photos were missing.	105	29
26	**Commercial Non-Residential** - The inspection contact form was missing.	105	15
27	**Commercial Non-Residential** - The signed and dated application was missing.	105	5
27	**Commercial Non-Residential** - The previous carrier documentation was missing.	105	4
27	**Commercial Residential** - The year built of the property was incorrect.	79	7
28	**Commercial Residential** - The inspection contact form was missing.	79	4
28	**Commercial Residential** - The signed and dated application was missing.	79	4
28	**Commercial Residential** - The construction type of the property was incorrect.	79	3
28	**Commercial Residential** - The wind mitigation credit was incorrect.	79	1
29	**Cancellations/Nonrenewals** – Citizens failed to timely return unearned premiums.	184	5
31	**Claims** - Claim processing delays without justification.	184	11
31	**Claims** - The claims reserves were not updated timely.	184	4
31	**Claims** – Citizens failed to timely respond to a claims request for disclosure of insurance coverage.	184	1
32	**Claims** – Citizens made an improper payment.	184	1
32	**Claims** – Citizens failed to notify the policyholder of its right to participate in the mediation program.	184	1
32	**Claims** – Acknowledgment letter to the insured had an incorrect cause of loss.	184	1
32	**Claims** – Citizens failed to refer a potential case of suspected fraud to its SIU unit.	184	1

EXAMINATION REPORT SUBMISSION

The Office hereby issues this Final Report based upon information from the examination draft report, additional research conducted by the Office and additional information provided by the Company.

FLORIDA OFFICE OF INSURANCE REGULATION

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