

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2022-011
August 2021

**CITIZENS PROPERTY INSURANCE
CORPORATION**



Sherrill F. Norman, CPA
Auditor General

Board of Governors and Executive Director of Citizens Property Insurance Corporation

Citizens Property Insurance Corporation (Citizens) is established by Section 627.351(6), Florida Statutes. Section 627.351(6)(c)4., Florida Statutes, provides that Citizens operate subject to the supervision and approval of a Board of Governors (Board). Pursuant to Section 627.351(6)(c)4.a., Florida Statutes, the Executive Director of Citizens is engaged by the Board, subject to confirmation by the Senate, and serves at the pleasure of the Board.

Barry Gilway served as President/Chief Executive Officer and Executive Director during the period of our audit and the following individuals served as Board members:

Christopher Gardner	Chair, September 1, 2017, through August 13, 2018
Gary Aubuchon	Interim Chair, August 14, 2018, through October 8, 2019
Bo Rivard	Interim Chair from October 11, 2019
Carlos Beruff	From August 12, 2020
Bette Brown	
Blake Capps	Through August 13, 2020
Mark W. Dunbar, Esq.	From April 2, 2018
Jose Felix-Diaz	August 1, 2020, through August 12, 2020
Reynolds Henderson	From August 20, 2019
James Holton	
Carlos Lopez-Cantera	From October 8, 2019
William Kastroll	From September 27, 2018
John McKay	Through March 31, 2019
Freddie Schinz	Through August 20, 2019
John J. Wortman	Through August 1, 2020

The team leader was Clint C. Boutwell, CPA, and the audit was supervised by Allen G. Weiner, CPA.

Please address inquiries regarding this report to Joshua T. Barrett, CPA, Audit Manager, by e-mail at joshuabarrett@aud.state.fl.us or by telephone at (850) 412-2804.

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CITIZENS PROPERTY INSURANCE CORPORATION

SUMMARY

This operational audit of Citizens Property Insurance Corporation (Citizens) focused on claims handling, customer service, take-out programs and bonuses, underwriting and eligibility, financing agreements, procurement of goods and services, internal controls, the internal audit function, and information technology (IT) controls. The audit also included a follow-up on the findings noted in our report No. 2019-016. Our audit disclosed the following:

Underwriting and Eligibility

Clearinghouse

Finding 1: As of June 2020, only 12 of the 133 insurance companies writing personal residential property insurance policies participated in the Clearinghouse established by Citizens pursuant to State law.¹ Excluding Citizens, these 12 insurers represented only 17 percent of the personal residential property insurance market.

Finding 2: Citizens controls for the Clearinghouse continue to need enhancement to ensure that all applicable policy renewals are submitted to the Clearinghouse for consideration by participating insurers.

Customer Service

Finding 3: While analysis of customer service data and surveys of policyholders and agents indicated that the quality of customer service Citizens provides is generally comparable to that provided in the voluntary market, survey results also showed that the Clearinghouse and Citizens Insurance Suite, used by Citizens and agents to administer policies, claims, and billing functions, could be enhanced to improve user satisfaction.

Probable Maximum Loss Financing

Finding 4: While Citizens continues to take reasonable steps to minimize its net financing costs (cost-of-carry), it may be possible over time to further reduce these costs as the premiums collected become more consistent with those that would be calculated using actuarially determined rates.

Internal Audit

Finding 5: Citizens Office of Internal Auditor did not demonstrate compliance with professional auditing standards by obtaining an external assessment at least once every 5 years.

Selected Administrative Activities

Finding 6: Citizens records for some employees did not evidence that signed user agreements were obtained prior to authorizing the use of Citizens-owned or personally owned mobile devices to access Citizens IT resources. Additionally, Citizens utilized a service organization to retain text messages sent and received using Citizens-owned mobile devices; however, Citizens did not take steps to reasonably

¹ Section 627.3518, Florida Statutes.

ensure that the service organization's controls relevant to text message retention were suitably designed and operating effectively.

Finding 7: As similarly noted in our report No. 2019-016, Citizens did not always timely cancel purchasing cards upon a cardholder's separation from Citizens employment.

Information Technology Controls

Finding 8: Certain security controls related to selected Citizens IT systems need improvement.

BACKGROUND

State law² establishes Citizens Property Insurance Corporation (Citizens) to provide affordable residential and commercial property insurance to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens is a governmental entity that is an integral part of the State and is not a private insurance company.

In accordance with State law,³ Citizens operates subject to the supervision and approval of a nine-member Board of Governors (Board). The Governor, the Chief Financial Officer, the President of the Senate, and the Speaker of the House of Representatives are each to appoint two members of the Board, and at least one of the two members appointed by each appointing officer must have demonstrated expertise in insurance. Additionally, the Governor is to appoint the ninth Board member who is to serve as a consumer advocate. The Executive Director of Citizens and senior managers are engaged by and serve at the pleasure of the Board and the Executive Director is responsible for employing other staff as Citizens may require, subject to review and concurrence by the Board.

State law⁴ provides that all revenues, assets, liabilities, losses, and expenses of Citizens are to be divided into three separate accounts, as follows:

- *Personal lines account (PLA)* – for personal residential policies issued by Citizens. Such policies are to provide comprehensive, multiperil coverage on risks that are not located in areas eligible for coverage in the Florida Windstorm Underwriting Association (FWUA), as those areas were defined on January 1, 2002. The PLA is to also include policies that do not provide coverage for the peril of wind on risks that are located in such areas.
- *Commercial lines account (CLA)* – for commercial residential and commercial nonresidential policies issued by Citizens. Such policies are to provide coverage for basic property perils on risks that are not located in areas eligible for coverage in the FWUA, as those areas were defined on January 1, 2002. The CLA is to also include policies that do not provide coverage for the peril of wind on risks that are located in such areas.
- *Coastal account* – for personal residential policies and commercial residential⁵ and commercial nonresidential property policies issued by Citizens that provide coverage for the peril of wind on

² Section 627.351(6), Florida Statutes.

³ Section 627.351(6)(c)4., Florida Statutes.

⁴ Section 627.351(6)(b)2.a., Florida Statutes.

⁵ Section 627.351(6)(b)2.a., Florida Statutes, specified that, effective July 1, 2014, Citizens was to cease offering new commercial residential policies providing multiperil coverage and instead was to continue to offer commercial residential wind-only policies. Citizens was permitted to offer commercial residential policies excluding wind and to continue to renew commercial residential multiperil policies on buildings that were insured by Citizens on June 30, 2014, under a multiperil policy.

risks that are located in areas eligible for coverage in the FWUA, as those areas were defined on January 1, 2002.

Table 1 provides a summary, by account, of Citizens policies in force, amounts of premiums with surcharges, and loss exposure amounts, as of December 31, 2018, 2019, and 2020. As shown by Table 1, the number of policies in force increased by approximately 115,000 policies (27 percent) from December 31, 2018, to December 31, 2020.

Table 1
Summary of Citizens Policies in Force,
Premiums with Surcharges, and Loss Exposure
As of December 31, 2018, 2019, and 2020

Account	Policies in Force	Premiums With Surcharges	Loss Exposure
December 31, 2018:			
Personal Lines Account (PLA)	304,507	\$524,958,408	\$ 64,271,799,380
Commercial Lines Account (CLA)	919	14,747,772	3,618,943,590
Coastal	121,971	314,701,710	41,005,553,099
Totals	<u>427,397</u>	<u>\$854,407,890</u>	<u>\$108,896,296,069</u>
December 31, 2019:			
PLA	322,792	\$555,974,980	\$ 68,840,798,519
CLA	738	12,158,641	3,016,221,510
Coastal	118,673	305,869,602	39,391,564,418
Totals	<u>442,203</u>	<u>\$874,003,223</u>	<u>\$111,248,584,447</u>
December 31, 2020:			
PLA	407,325	\$ 799,311,763	\$ 95,885,115,958
CLA	727	13,522,570	3,358,490,610
Coastal	134,687	381,731,088	45,554,656,770
Totals	<u>542,739</u>	<u>\$1,194,565,421</u>	<u>\$144,798,263,338</u>

Source: Citizens records.

Pursuant to State law,⁶ to reduce the number of policies in force and Citizens' exposure to loss, authorized insurers may take policies out of Citizens. Table 2 summarizes the policies taken out of Citizens during the 2018 through 2020 calendar years.

⁶ Sections 627.351(6)(q)3.a., and 627.3511, Florida Statutes.

Table 2
Citizens Policy Take-Outs
For the 2018 Through 2020 Calendar Years

Calendar Year	PLA		CLA and Coastal		Total	
	Number of Policies	Exposure	Number of Policies	Exposure	Number of Policies	Exposure
2018	8,427	\$1,160,074,028	9,478	\$3,147,856,740	17,905	\$4,307,930,768
2019	7,470	1,528,504,766	2,614	652,261,826	10,084	2,180,766,592
2020 ^a	95	9,488,640	2,804	955,508,736	2,899	964,997,376
Totals	<u>15,992</u>	<u>\$2,698,067,434</u>	<u>14,896</u>	<u>\$4,755,627,302</u>	<u>30,888</u>	<u>\$7,453,694,736</u>

^a The 2020 calendar year data includes only the 9 months of data (January through September 2020) available during the conduct of our audit fieldwork.

Source: Citizens records.

In general, the premium due from a Citizens policyholder is determined using a standard calculation that incorporates applicable factors obtained from standard manuals, depending on the type and amount of coverage, and then reducing the result by any eligible discounts, for example, wind mitigation credits. Pursuant to State law,⁷ annual non-sinkhole premium rate increases since January 1, 2010, have been limited to 10 percent, even if the application of actuarially determined rates indicated larger increases.

As shown in Table 3, Citizens actuarial estimates depicted a difference of approximately \$452 million between the premiums that would have been due using actuarially determined rates and the premiums actually authorized for the 2018 through 2020 calendar years.⁸ This represented a \$246 million decrease in estimated foregone premiums compared to the \$698 million in premiums estimated to be foregone during the 2015 through 2017 calendar years.

Table 3
Premiums Foregone
Due to Statutory Capping
(In Millions)

Calendar Year	PLA/CLA	Coastal	Total
2018	\$ 98	\$ 66	\$164
2019	103	64	167
2020	41	80	121
Totals	<u>\$242</u>	<u>\$210</u>	<u>\$452</u>

Source: Actuarial estimates provided by Citizens' Chief Actuary.

Citizens promulgated written policies and guidelines to ensure that claims were processed in accordance with industry best practices, including timely and appropriate documentation of verification of coverage,

⁷ Section 627.351(6)(n)6., Florida Statutes.

⁸ In providing these estimates, Citizens assumed that policy counts would remain constant, but indicated that, had actuarially determined rates been used during the 2018 through 2020 calendar years, some policyholders may have obtained insurance in the private (voluntary) market, thus reducing the estimated foregone premiums. However, Citizens did not estimate how many policyholders may have gone into the private market or how much the estimated foregone premiums would have been reduced.

indemnity paid⁹ (losses) including associated expenses, litigation costs, retention of experts if applicable, provision of damage estimates to policyholders, assignment of benefits (AOB) status, and establishment of reserves.¹⁰ To ensure that claims were processed in accordance with Citizens policies and guidelines, Citizens established an enterprisewide quality assurance program with a unit dedicated to reviewing claims. Table 4 summarizes Citizens claims activities during the period January 2018 through August 2020.

**Table 4
Citizens Claims Activity^a**

During the Period January 2018 Through August 2020

Calendar Year	Number of Claims Closed	Total Indemnity Paid on Claims Closed	Allocated Loss and Adjustment Expense on Claims Closed	Reserves on Claims Closed ^b
2018	34,597	\$473,303,290	\$57,414,917	\$134,226
2019	32,243	870,264,679	108,863,483	262,671
2020 ^c	19,932	422,644,264	72,345,157	114,254
Totals	<u>86,772</u>	<u>\$1,766,212,233</u>	<u>\$238,623,557</u>	<u>\$511,151</u>

^a Amounts include only closed claims and expenses up to the date of closing.

^b Claims reserves are management's best estimates of losses and loss adjustment expenses incurred but unpaid.

^c 2020 calendar year data includes data from January through August.

Source: Citizens claims records.

Table 5 summarizes the claims with indemnity payments of more than \$1,000 that were closed during the period January 2019 through August 2020.

**Table 5
Amounts Paid to Policyholders or Assignees
for Claims Identified with or without Related Litigation**

During the Period January 2019 Through August 2020

	With Litigation			Without Litigation		
	Number of Policies	Indemnity Paid	Average Indemnity Paid Per Claim	Number of Policies	Indemnity Paid	Average Indemnity Paid Per Claim
AOB Claims	4,912	\$258,137,974	\$52,553	6,884	\$248,711,404	\$36,129
Non-AOB Claims	4,169	\$230,277,529	\$55,236	21,003	\$555,166,619	\$26,433
Totals	<u>9,081</u>	<u>\$488,415,503</u>	<u>\$53,784</u>	<u>27,887</u>	<u>\$803,878,023</u>	<u>\$28,826</u>

Source: Audit analysis of Citizens ClaimCenter module records.

⁹ Pursuant to the *Citizens 2020 Best Claims Practices & Estimating Guidelines*, indemnity payments include loss payments for buildings, personal property, loss of use, fair rental value, advance payments, and actual cash value and replacement costs.

¹⁰ Property insurance contracts provide protection from damage, loss, and liability (indemnity) in exchange for premiums. The liability for unpaid losses and associated loss adjustment expenses are estimated at the time of loss, and appropriate reserves are established and adjusted as the claim is processed.

State law¹¹ requires the Auditor General to conduct an operational audit of Citizens every 3 years. The scope of the audit is to include, but not be limited to, claims handling, customer service, take-out programs and bonuses, underwriting and eligibility, financing agreements, procurement of goods and services, internal controls, and the internal audit function. Our findings are described in this report under the heading **FINDINGS AND RECOMMENDATIONS** and a detailed description of the audit work performed is included under the heading **OBJECTIVES, SCOPE, AND METHODOLOGY**.

FINDINGS AND RECOMMENDATIONS

CLEARINGHOUSE

Pursuant to State law,¹² Citizens established a clearinghouse program to confirm new applicant eligibility for personal residential policy coverage through Citizens and to enhance applicant and existing policyholder access to offers of coverage from other authorized insurers. To facilitate offers of coverage from authorized insurers and achieve diversion to the private market, Citizens implemented the Clearinghouse System (Clearinghouse) and required that all new applications and policy renewals received by Citizens for certain personal residential coverage be submitted to the Clearinghouse before approving or renewing coverage. Applicants for new coverage were to be deemed ineligible for coverage by Citizens if they received from an authorized insurer an offer for comparable coverage that was less than 15 percent greater than the premium quoted by Citizens. Policyholders renewing their policy were not eligible for coverage by Citizens if they received an offer for comparable coverage with a premium equal to or less than that quoted by Citizens.

Finding 1: Clearinghouse Utilization

During the period January 2018 through September 2020, Citizens processed applications for and renewals of HO-3,¹³ HO-6,¹⁴ HW-2,¹⁵ HW-6,¹⁶ DP-3,¹⁷ and DP-1¹⁸ policies through the Clearinghouse. Effective March 23, 2020, Citizens began processing applications for new mobile home (MHO-3 and MDP-1 D) policies through the Clearinghouse and renewals of mobile home policies effective July 22, 2020. Table 6 summarizes Clearinghouse activity for the period January 2018 through September 2020.

¹¹ Section 627.351(6)(m), Florida Statutes.

¹² Section 627.3518, Florida Statutes.

¹³ An HO-3 (Homeowners) policy is a personal residential multiperil policy that provides the owner of an owner-occupied home with building, other structures, contents, additional living expense, and liability coverage.

¹⁴ An HO-6 (Condominium) policy covers certain features of a unit's interior, as well as personal property, additional living expenses, and liability coverage. It does not cover the exterior of a condominium building.

¹⁵ An HW-2 policy is the wind-only version of the HO-3 policy.

¹⁶ An HW-6 policy is the wind-only version of the HO-6 policy.

¹⁷ A DP-3 policy (Dwelling Fire) is available for tenant-occupied properties that otherwise may not qualify for an HO-3 policy with coverage for the dwelling, other structures, personal property, and loss of rent or additional living expenses. Coverage for tenant or renter's contents and liability is available as well.

¹⁸ A DP-1 policy is very similar to a DP-3 policy, but with fewer perils covered at a reduced cost.

Table 6
Summary of Clearinghouse Activity
For the 2018, 2019, and 2020 Calendar Years ^a

Calendar Year	Number of Applications ^b	Number of Eligible Policies ^b	Number of Ineligible Policies ^b	Ineligible Policies as a Percentage of Applications	Number of Policies Diverted Through the Clearinghouse	Exposure Diverted Through the Clearinghouse (In Billions)
New Policies						
2018	506,552	359,587	146,965	29.01%	20,700	\$ 5.20
2019	490,817	343,207	147,610	30.07%	20,994	5.70
2020 ^a	588,043	471,033	117,010	19.90%	16,666	5.48
Totals	<u>1,585,412</u>	<u>1,173,827</u>	<u>411,585</u>	<u>25.96%</u>	<u>58,360</u>	<u>\$16.38</u>
Renewals						
2018	192,807	190,881	1,926	1.00%	3,389	\$0.70
2019	186,406	185,707	699	0.37%	1,273	0.22
2020 ^a	157,738	157,519	219	0.14%	371	0.08
Totals	<u>536,951</u>	<u>534,107</u>	<u>2,844</u>	<u>0.53%</u>	<u>5,033</u>	<u>\$1.00</u>

^a The 2020 calendar year data includes only the 9 months of data (January through September 2020) available during the conduct of our audit fieldwork.

^b These numbers are greater than the actual unique number of applications received and policies determined to be eligible and ineligible because an application may be resubmitted multiple times as corrections and other changes are made to the application.

Source: Citizens Clearinghouse records.

In our report No. 2019-016 (Finding 4), we noted that, as of September 30, 2017, only 15 of the 123 insurance companies writing personal residential property insurance policies participated in the Clearinghouse, which, excluding Citizens, represented only 23 percent of the personal residential property insurance market. As part of our follow-up audit procedures, we analyzed Clearinghouse and Office of Insurance Regulation (OIR) data to determine the percentage of the personal residential property insurance market that participated in the Clearinghouse. Our analysis disclosed that, of the 133 insurance companies writing personal residential property insurance policies as of June 30, 2020, only 12 insurers participated in the Clearinghouse. As shown in Table 7, these 12 insurers represented only 17 percent of the market share by number of policies,¹⁹ excluding the policies held by Citizens, a participation decrease of 6 percent from the 23 percent noted as of September 30, 2017.

¹⁹ Market share by number of policies was estimated using data from the OIR's Quarterly and Supplemental Reporting System – Next Generation for the quarter ended June 30, 2020, and certain trade secret information as of June 30, 2020.

**Table 7
Market Share of Insurance Companies Utilizing Clearinghouse**

As of June 30, 2020

	Policies in Force	Premiums	Exposure
Totals for the 12 Insurers Utilizing Clearinghouse	1,141,863	\$ 2,020,726,679	\$ 387,580,561,786
PLA Totals	6,647,161	\$10,656,647,698	\$2,461,966,087,380
Clearinghouse Participants as a Percentage of Totals	17.18%	18.96%	15.74%

Source: Citizens and OIR data.

According to Citizens management, two of the original participating insurers dropped out of the Clearinghouse because of changes in their business profiles. Additionally, Citizens management indicated that, as the pool of Citizens policies has been reduced through depopulation efforts, the remaining policies may not be attractive enough to encourage other insurers to participate in the Clearinghouse.

Although we noted efforts by Citizens to increase insurer utilization of the Clearinghouse, including sending letters of invitation to all insurers not currently participating in the Clearinghouse and meeting with current participants to determine what improvements could be made to the Clearinghouse to entice new participation, the effectiveness of the Clearinghouse in reducing the exposure of Citizens is dependent on insurance companies electing to participate in the Clearinghouse. The higher the market share of insurers participating in the Clearinghouse, the greater the potential for diversion of new and renewed policies and corresponding exposure from Citizens.

Recommendation: To facilitate greater diversion of policies and exposure to the private market, we recommend that Citizens management continue efforts to encourage insurers to utilize the Clearinghouse.

Finding 2: Policy Renewal Submissions to the Clearinghouse

To ensure applications for new and renewal residential policies were submitted to the Clearinghouse for marketing to the private insurance market, Citizens established an interface between the Clearinghouse and PolicyCenter²⁰ information systems. For policy types processed by the Clearinghouse, agents were required to enter relevant policyholder information into the Clearinghouse to create a new policy submission for residential coverage. Once the application was acknowledged in the Clearinghouse, the agent requested offers of coverage from Citizens and other participating insurers. The application for coverage was reviewed by participating insurers and, if no disqualifying offers were made, Citizens would accept a policy for the requested coverage and the policy information would be retained in PolicyCenter. Prior to renewal, PolicyCenter automatically sends the policy information to the Clearinghouse to initiate requests for offers of coverage from other insurers.

In our report No. 2019-016 (Finding 5), we noted that Citizens controls for the Clearinghouse needed enhancement to ensure that all applicable policy renewals are submitted to the Clearinghouse for

²⁰ PolicyCenter is a Citizens Insurance Suite module used to process and administer Citizens' insurance policies.

consideration by participating insurers. As part of our follow-up audit procedures, we analyzed Citizens policy data from PolicyCenter and the Clearinghouse for the period September 2017 through August 2020. Our analysis indicated that 51,487 of the 774,789 applicable policy renewals identified in the PolicyCenter data were not included in the Clearinghouse data. We further examined records for 58 of the 51,487 renewals in PolicyCenter and determined that none of the 58 renewals had a Clearinghouse identification number and there was no other evidence that the renewals had been processed through the Clearinghouse. In response to our audit inquiry, Citizens management indicated that underwriting actions and system maintenance issues contributed to the policy renewals not being submitted to the Clearinghouse.

Absent adequate controls that ensure all applicable policy renewals are submitted to the Clearinghouse and offered to participating insurers, Citizens has reduced assurance that pertinent policies are available for consideration by participating insurers.

Recommendation: We again recommend that Citizens management enhance controls to ensure that all applicable policy renewals are submitted to the Clearinghouse for consideration by participating insurers.

CUSTOMER SERVICE

State law²¹ provides, in part, that it is the intent of the Legislature for Citizens to provide services to policyholders, applicants, and agents which is no less than the quality generally provided in the voluntary market. As part of our audit, we evaluated Citizens' customer service function by analyzing complaint and inquiry data maintained by the Department of Financial Services (DFS)²² and surveying a sample of policyholders and a sample of agents appointed by Citizens. As described in Finding 3, the survey results indicated that, in general, most policyholders and agents were satisfied with the level of service and support provided by Citizens. Our analyses of complaint and inquiry data maintained by the DFS indicated that Citizens' complaint experience was similar to that of other large property and casualty insurers.

Finding 3: Policyholder and Agent Satisfaction

Policyholder Surveys

Citizens, like other insurance companies, provides a number of services that range from the issuance of policies to the payment of claims. To measure the degree of customer satisfaction with the level of services provided by Citizens, we mailed surveys during March 2021 to 1,000 policyholders. Specifically, we sent surveys to:

- 500 policyholders without claims who had policies in effect at some point during the period September 2017 through August 2020.
- 500 policyholders who had claims closed during the period September 2017 through August 2020.

²¹ Section 627.351(6)(a)1., Florida Statutes.

²² The DFS utilizes the National Association of Insurance Commissioners' definition of complaints and classifies any written communication that expresses dissatisfaction with a specific person or entity subject to regulation under the State's insurance laws, which is communicated to the insurer, as a complaint. An oral communication, which is subsequently converted to a written form, may also be classified as a complaint.

Survey questions addressed satisfaction with services related to policy issuance and coverage, policy renewal, and claims handling, as applicable. We also included questions to measure policyholder satisfaction with Citizens’ customer service and the services provided by Citizens appointed agents, as well as the policyholders’ overall satisfaction with their insurance policies. **EXHIBIT A** to this report lists the policyholder survey questions.

We received 202 policyholder responses to our survey. Our evaluation of the surveyed policyholders’ responses, as summarized in Table 8, indicated that most policyholders were satisfied with the services received from Citizens and Citizens agents. Additionally, 84 percent of the policyholders who responded indicated that they were neutral to very satisfied with their Citizens policy, which is comparable to the policyholder satisfaction percentages reported in our report Nos. 2019-016 (86 percent) and 2016-009 (82 percent). However, policyholder responses indicated a 14 and 9 percent decline in policyholder satisfaction for Citizens claims handling and customer service, respectively, compared to the percentages reported in our report No. 2019-016. According to Citizens management, the decreases in customer service satisfaction may be attributed to Citizens ending the COVID-19-related moratorium on policy cancellations and nonrenewals. Additionally, changes in operational processes due to COVID-19 may have caused delays in timely concluding interior inspections when processing claims.

**Table 8
Citizens Policyholder Survey Results**

	Very Dissatisfied to Dissatisfied		Neutral to Very Satisfied		Total Number of Responses ^a
	Number of Responses	Percentage of Responses	Number of Responses	Percentage of Responses	
Policy Issuance and Coverage	25	13%	170	87%	195
Policy Renewal	21	12%	149	88%	170
Insurance Agent Satisfaction	27	14%	164	86%	191
Claims Handling	20	27%	54	73%	74
Customer Service	14	30%	33	70%	47
Overall Satisfaction with Citizens Insurance Policy	32	16%	164	84%	196

^a Not all 202 policyholders who responded to the survey provided responses to every question.

Source: Policyholder survey responses.

Complaints

We analyzed DFS, Division of Consumer Services, complaints and inquiries data for the period January 2019 through June 2020 to identify any indications of significant customer service issues and compared, by company, the number of complaints against the company to the company’s quarterly average number of policies in force during that same period. As shown in Table 9, our analysis disclosed that Citizens received the third fewest number of complaints as a percentage of the quarterly average number of policies in force among the top 11 residential, commercial, and other property and casualty insurers in the State. Previously, as reported in our report No. 2019-016, Citizens also received the third fewest number of complaints as a percentage of the quarterly average number of policies in force.

Table 9
Analysis of Complaints and
Quarterly Average Number of Policies in Force
During the Period January 2019 Through June 2020

Company Ranking	Company	Number of Complaints ^a	Quarterly Average Number of Policies in Force	Complaints as a Percentage of the Quarterly Average Number of Policies in Force
1	A	28	259,775	0.01078%
2	B	45	269,465	0.01670%
3	Citizens	117	434,669	0.02692%
4	C	67	199,959	0.03351%
5	D	146	286,536	0.05095%
6	E	69	134,493	0.05130%
7	F	120	220,616	0.05439%
8	G	420	661,983	0.06345%
9	H	203	313,836	0.06468%
10	I	281	421,793	0.06662%
11	J	163	227,270	0.07172%

^a Closed complaints for which the company or agent position was upheld, complaints that did not include sufficient information, complaints that were withdrawn, and requests to the DFS for mediation or sinkhole evaluation services were excluded from each company's number of complaints.

Source: Audit analysis of data provided by the DFS and the OIR.

Survey of Agents

As part of its operations, Citizens appoints agents to serve policyholders and act as the first line of customer service. Consequently, it is critical to the effective and efficient operation of Citizens that appointed agents have the necessary resources to cost-effectively serve policyholders. Such resources should include adequate training, electronically available policyholder information, and consistent support from Citizens underwriting, claims, and other staff. To measure agent satisfaction with the resources made available by Citizens and to identify potential areas where Citizens could enhance its operations with respect to appointed agents, in February 2021 we surveyed 600 appointed agents.²³ Survey questions were designed to gauge agent satisfaction with, among other things, Citizens' training program, new policy issuance, policy renewal, the Clearinghouse, service provided by Citizens staff, and overall satisfaction with Citizens agent support efforts. **EXHIBIT B** to this report lists the agent survey questions. We received 157 agent responses to our survey and our evaluation of the survey responses, as summarized in Table 10, indicated that most respondents were satisfied with Citizens operations.

²³ Surveys were sent to 600 of the 9,745 agents who held a Citizens appointment during the period February 2018 through August 2020.

**Table 10
Citizens Appointed Agent Survey Results**

	Very Dissatisfied to Dissatisfied		Neutral to Very Satisfied		Total Number of Responses ^a
	Number of Responses	Percentage of Responses	Number of Responses	Percentage of Responses	
Appointment Program	19	12%	138	88%	157
Certification Program	12	8%	145	92%	157
Training	7	4%	150	96%	157
Citizens Insurance Suite	37	24%	120	76%	157
Electronic Document Management	17	12%	125	88%	142
New Policy Issuance	33	21%	124	79%	157
Policy Renewal	8	5%	149	95%	157
Policy Issuance Guidance	10	6%	147	94%	157
Service	8	7%	108	93%	116
Claims Handling	3	3%	102	97%	105
Clearinghouse	45	29%	112	71%	157
Quality Assurance	9	6%	138	94%	147
Replacement Cost Estimator	16	16%	86	84%	102
Overall Satisfaction with Citizens Agent Support	15	10%	142	90%	157

^a Not all 157 appointed agents who responded to the survey provided responses to every question.

Source: Appointed agent survey responses.

Additionally, survey results indicated that agent satisfaction with Citizens certification program and training increased compared to the levels of satisfaction disclosed in our report No. 2019-016 (certification program satisfaction increased from 85 percent to 92 percent and satisfaction with Citizens training increased from 89 percent to 96 percent). However, the Clearinghouse and Citizens Insurance Suite (CIS)²⁴ received 29 percent and 24 percent dissatisfaction ratings, respectively. Agents provided comments such as “cumbersome” and “difficult to navigate” to describe their experience using the Clearinghouse and CIS.

Recommendation: We recommend that Citizens management continue efforts to provide quality customer service and evaluate enhancements to make the Clearinghouse and CIS more user-friendly for agents.

PROBABLE MAXIMUM LOSS FINANCING

Citizens is responsible for ensuring that sufficient resources exist to pay no less than the probable maximum loss (PML) associated with a 1-in-100-year storm (100-year PML).²⁵ In meeting this responsibility, Citizens utilized catastrophe modeling to predict a worst-case scenario storm and the resulting losses that would be incurred by Citizens, given its policy commitments. These modeling processes yield two 100-year PMLs, one for the risks accounted for within the combined PLA and CLA

²⁴ The CIS is an insurance operations system used by Citizens and agents to administer policies, claims, and billing functions.

²⁵ A 1-in-100-year storm is defined as a storm having a 1 percent (1/100) chance of occurrence in any year.

accounts, and one for the risks accounted for within the Coastal account. For the 2020 hurricane season,²⁶ the estimated 100-year PMLs for the PLA/CLA and Coastal accounts were \$2.4 billion and \$3.1 billion, respectively.

To fund the payment of the 100-year PMLs, State law²⁷ authorizes Citizens to secure the necessary resources from the following sources:

- Available cash on hand from operations and bond financing (surplus).
- Proceeds from policyholder surcharges.
- Proceeds from regular and emergency assessments.
- Private market reinsurance.
- Mandatory reinsurance from the Florida Hurricane Catastrophe Fund (FHCF).
- Borrowed funds, such as those provided through lines of credit and bond issues.

At the March 2021 Board meeting, Citizens management indicated that, as of December 31, 2020, an estimated \$3.0 billion²⁸ surplus was available to pay claims for the Coastal account, which represented approximately 73 percent of the updated \$4.1 billion 100-year PML. For the PLA/CLA accounts, Citizens management indicated that an estimated \$1.3 billion surplus was available to pay claims, which represented approximately 35 percent of the updated \$3.7 billion 100-year PML. According to Citizens' estimates, the surplus in the PLA/CLA and Coastal accounts would provide sufficient liquid resources to pay claims until FHCF reimbursements (approximately \$1.5 billion and \$1.2 billion, respectively) became available, and provide additional claims-paying resources for additional storms, loss adjustment expenses, or events with losses in excess of those for a 1-in-100-year storm.

Claims in excess of available surplus and FHCF reinsurance would be covered through traditional private reinsurance purchased and catastrophe bonds sold, policyholder surcharges, and assessments. As of December 2020, in the event of a 1-in-100-year storm, the amounts that would be required from such sources were estimated to be \$0 for both the Coastal and PLA/CLA accounts.

Finding 4: Liquidity Financing

To have sufficient cash on hand to pay catastrophic losses, Citizens utilized pre-event bonds (bonds issued in anticipation of storm events) during the period January 2018 through December 2020. Because cash must be readily available to pay claims, a primary goal must be the maintenance of the safety and liquidity of the bond proceeds through conservative investment. However, there is also a need to minimize the net financing cost of carrying the debt (cost-of-carry). The cost-of-carry is defined as the difference between the interest expense accruing on the debt and the investment earnings accruing on the proceeds while they are available for investment. The cost-of-carry can be minimized over the life of

²⁶ The National Hurricane Center defines the Atlantic hurricane season as beginning June 1st and ending November 30th.

²⁷ Section 627.351(6), Florida Statutes.

²⁸ The estimates discussed by Citizens management were primarily based on the prior year surplus (unaudited) plus other projected claim-paying resources. The estimates are compared to the single occurrence 100-year PML and not to actual claims payments.

the debt by initially structuring the debt issue such that the interest rate on the debt is matched as closely as possible to expected rates of return on conservatively invested proceeds.

As part of our audit, we evaluated the effectiveness of the steps taken by Citizens to maintain the safety and liquidity of the invested proceeds and to minimize the cost-of-carry. We found that Citizens had carried pre-event debt and paid issuance costs at rates not considered to be excessive and had earnings that appeared reasonable based upon the safety and liquidity criteria in its investment policies. During the period January 2018 through December 2020, the cost of providing additional liquidity of \$820 million (amount of pre-event liquidity bonds outstanding at December 2020) to pay potential claims in the event of a catastrophic event was approximately \$91 million as shown in Table 11.

Table 11
Bond Interest Expense and Earnings on Investment of Bond Proceeds
January 2018 Through December 2020

Bond Issue ^a	Original Par Value of Bonds	Par Value of Bonds at December 31, 2020	Interest Expense	Interest Earnings	Cost-of-Carry
Coastal 2011A	\$ 900,000,000	\$ -	\$ 33,423,014	\$ 8,294,941	\$ (25,128,073)
PLA/CLA 2012A	1,500,000,000	320,000,000	58,794,334	21,139,724	(37,654,610)
Coastal 2015A	1,000,000,000	500,000,000	57,167,304	28,519,141	(28,648,163)
Totals	<u>\$3,400,000,000</u>	<u>\$820,000,000</u>	<u>\$149,384,652</u>	<u>\$57,953,806</u>	<u>\$(91,430,846)</u>

^a No pre-event bonds were issued during the period January 2018 through December 2020.

Source: Citizens records.

While Citizens had taken reasonable steps to minimize its cost-of-carry, it may be possible over time to further reduce these costs as the premiums collected become more consistent with those calculated using actuarially determined rates. For example, as shown in Table 3 in the **BACKGROUND** section of this report, the use of actuarially determined rates may have produced additional PLA/CLA and Coastal account premiums of up to \$452 million for the period January 2018 through December 2020. The availability of these resources as surplus, together with the earnings thereon, would have reduced the amount of debt financing required.

Recommendation: We recommend that Citizens management continue efforts to reduce the cost of carry on pre-event financing while maintaining the safety and liquidity of the financing proceeds through conservative investment. Additionally, to reduce the amount of debt financing required, we recommend that, to the fullest extent authorized, Citizens premiums be based upon actuarially determined rates.

INTERNAL AUDIT

State law²⁹ establishes the Office of the Internal Auditor (OIA) within Citizens to provide a central point for coordination of and responsibility for activities that promote accountability, integrity, and efficiency to the policyholders and taxpayers of the State. The Chief of Internal Audit’s duties include providing direction for, supervising, conducting, and coordinating audits, investigations, and management reviews

²⁹ Section 627.351(6)(i), Florida Statutes.

related to the programs and operations of Citizens. During the period September 2017 through August 2020, the OIA completed 33 audit engagements.

Finding 5: External Assessments

To provide policyholders and taxpayers of the State with confidence that OIA activities are being conducted in a manner that promotes accountability, integrity, and efficiency, the OIA elected to follow the *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* issued by The Institute of Internal Auditors. The *IIA Standards* provide a framework for performing and promoting internal auditing services. The *IIA Standards* are mandatory requirements that include statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance.

Section 1312 of the *IIA Standards* require that external assessments be conducted at least once every 5 years by a qualified, independent assessor or assessment team from outside the organization to determine the OIA's conformance with the Code of Ethics issued by The Institute of Internal Auditors and the *IIA Standards*. Accordingly, OIA policies and procedures required the OIA to consult a qualified independent reviewer or review team to perform an external review of the OIA at least once every 5 years.

As part of our audit, we interviewed OIA management and requested records supporting that the OIA had obtained an external assessment within 5 years of the prior external assessment dated September 11, 2014. In response to our audit inquiry, OIA management indicated that, as of April 27, 2021, an external assessment had not been requested or obtained due to an OIA management decision to allow the OIA time to research, procure, and implement new audit software. On May 21, 2020, Citizens issued an invitation to negotiate for the procurement of an integrated Governance Risk and Compliance/Control (GRC) system. On December 15, 2020, the Board approved an amount not to exceed \$1.7 million for the OIA to procure a Software-as-a-Service GRC system and the OIA is currently in the process of deploying GRC system Controls, Risk, and Audit modules.

Notwithstanding management's response, absent timely, external assessments performed by qualified independent reviewers, the OIA is not in compliance with the *IIA Standards* and Citizens Audit Committee, Board, and OIA management have reduced assurance that the OIA operates in conformity with the Code of Ethics and the *IIA Standards*.

Recommendation: We recommend that OIA management obtain an external assessment by a qualified independent reviewer at least once every 5 years to determine compliance with the Institute of Internal Auditors' Code of Ethics and the IIA Standards.

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we evaluated selected Citizens administrative activities and controls, including those related to mobile devices³⁰ and purchasing cards.

³⁰ Mobile devices are portable devices, such as laptop computers, smartphones, and tablets, that allow storage and transmittal of entity data.

Finding 6: Mobile Devices

Citizens utilizes Citizens-owned and personally owned mobile devices to execute its statutory responsibilities. Citizens established policies and procedures³¹ that addressed minimum requirements for the assignment, use, and security of Citizens-owned and personally owned mobile devices and that provided specific user responsibilities for such devices. As of August 31, 2020, Citizens had authorized 139 Citizens-owned mobile devices and 72 personally owned mobile devices to access Citizens information technology (IT) resources. To evaluate Citizens administration of mobile devices, we interviewed Citizens management, reviewed mobile device policies and procedures, and inspected documents for 29 (16 Citizens-owned and 13 personally owned) mobile devices. We noted that:

- Contrary to Citizens policies and procedures, Citizens did not obtain signed *Policy Acknowledgment and Remote Wipe Waiver* (PARW) forms for 8 of the 13 personally owned mobile devices documenting the employees' acknowledgement that they must comply with Citizens mobile device and IT security policies, inform Citizens if their approved device is lost or stolen, and are aware that their mobile device will be remotely wiped of all Citizens data and software and that personal data may be lost in the process. In response to our audit inquiry, Citizens management indicated that controls had not been established to prevent mobile device access prior to receiving a PARW form.
- For 7 of the 16 Citizens-owned mobile devices, Citizens did not maintain signed Citizens *Wireless Communications Equipment Agreement* (WCEA) forms documenting the assignment of the Citizens-owned mobile device and understanding that the employee must comply with Citizens mobile device and IT security policies, inform Citizens if their approved mobile device is lost or stolen, and return the mobile device upon employment separation or if requested by Citizens. According to Citizens management, the WCEA forms were retained in a retired system and were no longer retrievable.
- State law³² and Citizens policies and procedures³³ require Citizens to maintain public records in accordance with the records retention schedule³⁴ established by the Department of State, Division of Library and Information Services. The schedule specifies that the retention periods for electronic communications, including text and instant messages, are based on the content, nature, and purpose of the messages. Some of the purposes include administrative correspondence (3 fiscal years), program and policy development correspondence (5 fiscal years), and transitory messages, which are to be maintained until obsolete, superseded, or administrative value is lost.

Our audit found that, in October 2018, Citizens contracted with a service organization³⁵ to retain Citizens-owned mobile device text messages in accordance with State law. As Citizens relies on the service organization's controls to retain text messages, it is incumbent upon Citizens to take steps to reasonably ensure that service organization controls are suitably designed and operating effectively. Such steps may include requiring the service organization to provide a service

³¹ Citizens Corporate Policies 402 and 403, *Wireless Communications Equipment*, effective August 10, 2009, and *Personal Mobile Device Acceptable Use*, effective July 2, 2012.

³² Section 119.021(2)(b), Florida Statutes.

³³ Citizens Corporate Policy 601, *Records Management and Record Requests*, effective July 30, 2018.

³⁴ State of Florida *General Records Schedule GS1-SL for State and Local Government Agencies*.

³⁵ Service organizations provide services to user entities, some of which may be relevant to the user entities' internal control over financial reporting.

auditor's report³⁶ on the effectiveness of the controls established by the organization or, alternatively, Citizens monitoring of the effectiveness of relevant service organization controls. We noted that Citizens had not obtained a service auditor's report for the service organization or performed procedures to ensure that relevant service organization controls were suitably designed and operating effectively. Additionally, we found that Citizens records for 2 of the 16 Citizens-owned mobile devices examined did not evidence that the service organization was retaining text messages sent or received by those devices. In response to our audit inquiry, Citizens management indicated that requests for service auditor reports had been made annually and that the 2 devices were inadvertently not provided to the service organization for text message retention.

Absent completed and signed PARW and WCEA forms, as applicable, Citizens employees may not be aware of their responsibilities when using the mobile devices, thereby increasing the risk that devices will not be used in accordance with Citizens policies and procedures and lost or stolen devices will not be timely reported. Additionally, absent an evaluation of relevant service organization controls, Citizens management has reduced assurance that controls supporting the retention of text messages sent or received by Citizens-owned mobile devices are in place and functioning effectively.

Recommendation: We recommend that Citizens management ensure that Citizens records evidence that PARW and WCEA forms, as applicable, are completed and signed prior to authorizing Citizens-owned or personally owned mobile devices access to Citizens IT resources. Additionally, to ensure that text messages sent or received by Citizens-owned mobile devices are retained in accordance with State law, we recommend that Citizens management make or obtain independent and periodic assessments of the service organization's relevant internal controls.

Finding 7: Purchasing Card Controls

In establishing a purchasing card program, Citizens is responsible for implementing key controls, including procedures for timely canceling purchasing cards upon a cardholder's separation from Citizens employment. Effective May 20, 2019, Citizens required cardholder supervisors to electronically submit MyService User Access Management (UAM) profile requests for all purchasing cardholders. Upon employment separation, the MyService UAM system automatically e-mails cancellation requests to the Purchasing Card Administrators (PCAs). The PCAs were responsible for canceling a purchasing card upon notification of a cardholder's separation from Citizens employment. During the period September 2017 through August 2020, Citizens incurred 17,986 purchasing card transactions totaling \$4,410,273.

In our report No. 2019-016 (Finding 10), we noted that Citizens did not always timely cancel purchasing cards upon a cardholder's separation from Citizens employment. As part of our follow-up audit procedures, we compared Citizens cardholder separation dates to purchasing card cancellation dates for the 95 cardholders who separated from Citizens' employment during the period September 2017 through August 2020. Our comparison found that Citizens canceled the purchasing cards for 27 cardholders 2 to

³⁶ A service auditor's report, as described by the American Institute of Certified Public Accountants, AT-C Section 320, Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting, provides information and auditor conclusions related to a service organization's controls. Service organizations make service auditor reports available to user organizations to provide assurances related to the effectiveness of the service organization's relevant internal controls. AT-C Section 320.04 states that the guidance provided in AT-C Section 320 may be helpful in reporting on controls at a service organization other than those that are likely to be relevant to user entities' internal control over financial reporting.

72 business days (an average of 10 business days) after the employees' separation dates. Additionally, we noted another purchasing card remained active until the card expired in January 2020, 603 business days after the employee's separation date. According to Citizens management, the delays in canceling the purchasing cards were primarily due to cardholder supervisors not establishing MyService UAM profiles for cardholders prior to employment separation.

Although our audit tests did not disclose any charges incurred subsequent to the 28 cardholders' separation from Citizens employment, prompt cancellation of purchasing cards upon a cardholder's separation from Citizens employment reduces the risk that unauthorized purchases will be made.

Recommendation: We again recommend that Citizens management strengthen procedures to ensure that purchasing cards are promptly canceled upon a cardholder's separation from Citizens employment.

INFORMATION TECHNOLOGY CONTROLS

As part of our audit, we evaluated selected Citizens IT controls, including controls related to logical access, user authentication, and change management.

Finding 8: Security Controls – Logical Access, User Authentication, and Change Management

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit procedures disclosed that certain security controls related to logical access, user authentication, and change management need improvement. We are not disclosing the specific details of the issues in this report to avoid the possibility of compromising Citizens data and related IT resources. However, we have notified appropriate Citizens management of the specific issues.

Without appropriate security controls related to logical access, user authentication, and change management, the risk is increased that the confidentiality, integrity, and availability of Citizens data and IT resources may be compromised. Similar findings were communicated to Citizens management in our report No. 2019-016 (Finding 9).

Recommendation: We again recommend that Citizens management improve certain security controls related to logical access, user authentication, and change management to ensure the confidentiality, integrity, and availability of Citizens data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, Citizens management had taken corrective actions for the findings included in our report No. 2019-016.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from November 2020 through May 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of Citizens Property Insurance Corporation (Citizens) focused on claims handling, customer service, take-out programs and bonuses, underwriting and eligibility, financing agreements, procurement of goods and services, internal controls, the internal audit function, and information technology (IT) controls. For those areas, the objectives of the audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed into operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- Determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in our report No. 2019-016.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives; instances of noncompliance with applicable governing laws, rules, or contracts; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, Citizens policies and procedures, and other guidelines, and interviewed Citizens personnel to obtain an understanding of claims handling, customer service, take-out programs and bonuses, underwriting and eligibility, financing agreements, procurement of goods and services, internal controls, the internal audit function, and information technology processes.
- Examined Citizens' organizational structure as of June 2020 to determine whether Citizens created an organizational structure that supported providing policyholders customer service no less comparable than the customer service generally available in the voluntary market.
- To measure policyholder satisfaction, sent surveys to:
 - 500 selected policyholders, from the population of 689,862 policyholders who had policies in force at some point during the period September 2017 through August 2020 without claims.
 - 500 selected policyholders, from the population of 114,801 policyholders who had claims closed during the period September 2017 through August 2020.

We then combined and analyzed the survey responses from the 202 policyholders who returned the survey.

- Compared Department of Financial Services (DFS) complaint and inquiries data related to Citizens for the period January 2019 through June 2020 to corresponding data related to the ten other largest residential, commercial, and other property and casualty insurers in the State to assess whether Citizens provided customer service of no less than the quality generally provided in the voluntary market.
- From the population of 247 regulatory complaints with basis forwarded by the DFS to Citizens during the period September 2017 through August 2020, examined Citizens records for 25 selected regulatory complaints to determine whether Citizens had taken adequate actions to timely and appropriately resolve the complaints.
- From the population of 3,217 complaints recorded in Citizens records during the period September 2017 through August 2020, examined Citizens records for 25 selected complaints to determine whether Citizens had taken appropriate actions to ensure timely and appropriate responses to the complaints.
- To measure appointed agent satisfaction with Citizens services, selected and sent surveys to 600 of the 9,745 agents who held a Citizens appointment during the period February 2018 through August 2020. We then combined and analyzed the survey responses from the 157 appointed agents who returned the survey.
- From the population of 20,177 customer care and vendor evaluation monitoring reports prepared by Citizens during the period September 2017 through August 2020, examined Citizens records for 25 selected customer care and vendor evaluation monitoring reports to determine whether the reports were complete and accurate and, when applicable, whether appropriate recommendations and corrective actions were reported as taken by Citizens.
- From the population of 36,968 claims in excess of \$1,000 and totaling \$1,292,293,526, closed during the period January 2019 through August 2020, engaged a specialist to examine Citizens records for 203 selected claims (100 wind, 40 non-weather water-related, 8 sinkhole, and 55 other), each in excess of \$1,000 and totaling \$72,504,346, to determine the extent to which

Citizens processed claims in accordance with established policies and procedures and guidelines, and the extent to which the claims were properly adjusted.

- Interviewed Citizens management and inspected selected Citizens records to determine whether Citizens had designed and established a claims quality assurance program to ensure that claims were processed in compliance with governing laws, rules, and guidelines.
- From the population of 36,968 claims in excess of \$1,000 and totaling \$1,292,293,526, closed during the period January 2019 through August 2020, examined documentation for 40 selected claims adjusters included in our test of claims payments to determine whether the claims adjusters were qualified and adequately trained.
- Analyzed claims data for the 36,968 claims in excess of \$1,000 and totaling \$1,292,293,526, closed during the period January 2019 through August 2020, to determine whether all claims data needed to identify specific cost items or trends were obtained and analyzed by the Citizens Claims Division.
- From the population of 1,364 managed repair program (MRP) eligible claims, totaling \$30,203,805, where policyholders elected to use the MRP and that were closed during the period January 2019 through August 2020, examined Citizens records for 25 selected claims totaling \$2,714,535 to determine the extent to which Citizens processed the claims in accordance with established policies and procedures and guidelines, and the extent to which the claims were properly adjusted.
- From the population of 9,661 MRP eligible claims, totaling \$119,543,622, where policyholders did not elect to use the MRP and that were closed during the period January 2019 through August 2020, examined Citizens records for 25 selected claims, totaling \$3,497,317, to determine the extent to which Citizens processed the claims in accordance with established policies and procedures and guidelines, and the extent to which the claims were properly adjusted.
- Interviewed Citizens personnel, inspected selected Citizens records, and analyzed Citizens complaint and regulatory complaint data to determine whether Citizens had adequately designed and implemented controls to ensure claims eligible for the MRP were not denied participation in the MRP.
- Analyzed Citizens claims activity and policies in force data for the period September 2010 through August 2020 to determine whether the effects of increased claims activity, including hurricane claims, increased the number of new policies issued by Citizens and decreased the number of Citizens policies taken-out by other insurers.
- Compared the number of Citizens policies in force for the period September 2010 through August 2020 to the number of policies removed from Citizens by take-out agreements over the same period to assess the relationship between the number of Citizens policies in force and the number of take-out agreements executed annually.
- From the population of five consent orders for take-outs, representing 12,983 take-out policies executed during the period January 2019 through August 2020, examined Citizens records for one selected consent order representing 6,461 take-out policies to determine whether Citizens had adequately designed and implemented controls to operate the take-out program in accordance with Section 626.3511, Florida Statutes.
- From the population of 129,738 new personal and commercial line policies issued during the period September 2019 through August 2020, examined Citizens records for 46 selected policies to determine whether policyholders were eligible for a Citizens policy, appropriate underwriting criteria were applied, and the premium was correctly calculated and timely billed and collected.
- From the population of 362,882 policies in force that were renewed during the period September 2019 through August 2020, examined Citizens records for 25 selected policy renewals to determine whether policyholders remained eligible for a Citizens policy, appropriate

underwriting criteria were applied, and the premium was correctly calculated and timely billed and collected.

- Analyzed Citizens data for personal lines policies newly written or renewed during the period January 2019 through August 2020 to determine whether Citizens complied with statutory thresholds for dwelling coverage.
- Analyzed Citizens data for the 774,789 renewal policies that went into effect at some point during the period September 2017 through August 2020 to determine whether the policies included a Clearinghouse identification number prior to approval for coverage. Additionally, for 58 selected Citizens renewal policies that did not include a Clearinghouse identification number, obtained explanations from Citizens management and determined whether it was reasonable for the policies to not be in the Clearinghouse.
- Analyzed data for policies diverted from Citizens through the Clearinghouse process during the period October 2017 through September 2020 and associated Clearinghouse costs to assess the cost effectiveness of the Clearinghouse.
- Analyzed Citizens and Office of Insurance Regulation data for the period July 2020 through September 2020 to determine the percentage of the personal residential property insurance market utilizing the Clearinghouse.
- From the population of 14 financing agreements (11 reinsurance and 3 catastrophe bonds) active at some point during the period September 2017 through August 2020, examined Citizens records for 10 selected financing agreements (8 reinsurance and 2 catastrophe bonds) to determine whether the financing agreements were appropriately vetted, documented, and approved.
- Analyzed Citizens financing agreements, including pre-event financing, in place during the period January 2018 through December 2020, to determine whether Citizens financing agreements were financed in a cost-effective manner.
- Interviewed Citizens management and reviewed applicable Citizens records to evaluate whether Citizens procedures for estimating its probable maximum loss obligations were adequate.
- Analyzed the effect of Citizens' inability to charge actuarially determined insurance premium rates on Citizens' surplus for the 2017 through 2020 calendar years.
- Interviewed Citizens management and inspected selected Citizens investment manager monitoring documents and records for the period January 2018 through September 2020 to determine whether Citizens appropriately monitored external investment managers.
- Analyzed investment returns data from external investment managers, Citizens, and other sources to determine whether Citizens' investment performance for the period October 2017 through September 2020 was consistent with that of investment indices with similar characteristics and constraints.
- Analyzed Citizens data for the 387 contracts exceeding \$35,000 and executed during the period September 2017 through August 2020 to determine whether Citizens utilized competitive procurement methods or procured any large or unusual contracts through a non-competitive procurement process.
- From the population of 362 Citizens contracts exceeding \$35,000 and totaling \$1,072,172,313, that were not exempt from competitive procurement and were executed during the period September 2017 through August 2020, examined Citizens records for 25 selected contracts totaling \$199,810,434 to determine whether the contracts were procured and documented in accordance with Sections 627.351(6)(e) and 287.057, Florida Statutes, and Citizens policies and procedures.
- From the population of 210 Citizens contract payments exceeding \$1,000 and totaling \$18,502,636, made during the period February 2018 through December 2020, examined Citizens

records for 25 selected contract payments totaling \$6,924,715 to determine whether the contracted goods and services were received, the contracts were monitored, contract managers were identified, and contract payments were made in accordance with the contract terms and conditions.

- Examined Citizens records for the 95 purchasing cardholders who separated from Citizens employment during the period September 2017 through August 2020 to determine whether Citizens timely canceled the employees' purchasing cards upon the cardholders' separation from Citizens employment and whether any purchasing card charges were made subsequent to the cardholders' separation from Citizens employment.
- From the population of 29 severance settlement agreements executed during the period September 2017 through August 2020, examined Citizens records for 7 selected severance settlement agreements to determine whether severance settlement arrangements were appropriately reviewed, approved, and documented in accordance with Citizens policies and procedures.
- From the population of 48 employees who involuntarily separated from Citizens during the period September 2017 through August 2020 and did not receive a severance settlement agreement, examined Citizens records for 5 selected individuals to determine whether Citizens properly documented that a severance settlement agreement was not warranted as part of the individual's involuntary employment separation.
- From the population of 211 (139 Citizens-owned and 72 personally owned) mobile devices authorized to access Citizens' IT resources as of August 31, 2020, examined Citizens records for 25 selected mobile devices (16 Citizens-owned and 9 personally owned) to determine whether Citizens ensured that security controls were properly deployed on each mobile device in accordance with Citizens policies and procedures prior to authorizing access to Citizens IT resources. Additionally, interviewed Citizens management and examined Citizens records to determine whether Citizens ensured that controls related to text message retention were in place and operating effectively during the period September 2017 through August 2020.
- Interviewed Office of Internal Auditor (OIA) management and requested the OIA's most recent external assessment to determine whether the OIA received an external assessment at least once every 5 years in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- Examined the 11 service auditor reports and related bridge letters for the 2 service organizations the OIA received services from during the period September 2017 through August 2020 to determine whether Citizens appropriately reviewed the service auditor reports to ensure that service organization controls relied upon were suitably designed and operating effectively. Additionally, requested the service auditor's report or evidence that Citizens performed procedures to ensure that relevant service organization controls were suitably designed and operating effectively for the service organization that retained Citizens-owned mobile device text messages in accordance with State law during the period September 2017 through August 2020.
- Interviewed Citizens personnel and inspected selected Citizens documents and records to determine whether Citizens had adequately designed and implemented appropriate authentication controls to limit authorized individuals access to: three Citizens network domains (administrative accounts and regular users); the Citizens Insurance Suite (CIS) and Alfresco databases; the Citizens Authentication Gateway; the Credentialing Administration Information System; and the Correspondence Handling and Tracking System.
- From the population of 13,673 active CIS (PolicyCenter and ClaimCenter modules) user accounts as of November 9, 2020, and February 9, 2021, examined 40 selected user accounts to determine the appropriateness of the access privileges granted.

- Examined the 31 active CIS and Alfresco administrative-level database accounts as of November 9, 2020, to determine the appropriateness of the access privileges granted.
- For three network domains, examined the 36 administrative network service accounts and the 34 administrative network user accounts as of November 10, 2020, and November 23, 2020, with membership in the *Enterprise Admins*, *Schema Admins*, *Domain Admins*, or *Administrators* security groups to determine the appropriateness of the access privileges granted.
- Interviewed Citizens personnel and inspected selected Citizens documents and records to determine whether Citizens had adequately designed and implemented appropriate password controls to limit access to shared administrative network and CIS and Alfresco database accounts secured in the two password vaults.
- Interviewed Citizens personnel and examined Citizens policies, procedures, and processes for program code reconciliation, including examining Citizens records for 5 selected program changes from the population of 251 program changes made to the CIS PolicyCenter module during the period September 2017 through August 2020, to determine whether the programming changes were appropriately authorized, tested, approved, documented, and implemented to production by appropriate staff.
- Interviewed Citizens personnel and inspected selected Citizens documents and records to determine whether approved rate table changes were implemented and the associated changes to the databases were logged and reviewed.
- Interviewed Citizens personnel and inspected selected Citizens documents and records to determine whether Citizens had adequately designed and implemented back-up and disaster recovery controls.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 627.351(6)(m), Florida Statutes, requires that the Auditor General conduct an operational audit of Citizens Property Insurance Corporation every 3 years. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

EXHIBIT A

POLICYHOLDER SURVEY QUESTIONS

Policy Issuance and Coverage

1. Do you feel your Citizens Property Insurance Corporation (Citizens) policy was issued in a timely manner?
2. Did you encounter problems obtaining insurance coverage from Citizens? If you answered 'Yes', please provide a brief description of the problem(s).
3. With respect to the initial issuance of your Citizens policy, please rate your level of satisfaction with the service provided by Citizens and your insurance agent (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your dissatisfaction.
4. Did you receive coverage offers from other insurance companies subsequent to your application for Citizens coverage? If yes, why did you obtain coverage from Citizens?

Policy Renewal

5. Has your initial Citizens policy been renewed?
6. Do you feel that you timely received your renewal and premium payment notice? If you answered "No", please provide your best estimate of the time period from application to issuance.
7. Did you encounter problems in relation to the renewal of your policy? If you answered 'Yes', please provide a brief description of the problem(s).
8. With respect to the renewal process, please rate your level of satisfaction with the service provided by Citizens and your insurance agent (a through e with e being very satisfied). If you were less than satisfied with the renewal process, please provide details describing the reason(s) for your lack of satisfaction.

Insurance Agent

9. Did your Citizens insurance agent appear knowledgeable with respect to your insurance policy coverage provided by Citizens?
10. Did your insurance agent provide information about Citizens insurance premium rates, if requested?
11. Was your insurance agent able to quickly provide a response to your questions regarding your Citizens policy coverage, amount of premium, and premium payments?
12. Overall, please rate your level of satisfaction with the service provided by your insurance agent through whom you purchased your Citizens policy (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.

Claims Handling

13. Have you filed a claim with Citizens in the past 3 years?
14. Please rate the level of convenience of reporting your claim (a through e with e being very easy).
15. Did you file your claim(s) directly with Citizens or through another party? If you filed your claim through a third party, please provide details describing the reason(s) for doing so.
16. Did your agent appear familiar with Citizens' claims handling procedures?
17. Did a Citizens Claims Adjuster visit your property to observe the claimed damage?
18. Did the Citizens Claims Adjuster appear to thoroughly evaluate your claimed loss?
19. How long after providing your first notification of loss (informing Citizens or your agent) were you contacted by a Citizens Claim Adjuster?
20. Overall, please rate your level of satisfaction with the service provided by the Citizens Claims Adjuster (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.
21. Were you represented by a third party?

-
22. If you were represented by a third party, which title below best describes them?
- a. Public Claims Adjustor
 - b. Contractor
 - c. Attorney
 - d. Other
-
23. How did you first contact the third-party representative?
- a. Through a Citizens' representative
 - b. Internet search
 - c. Third-party initiated contact
 - d. Other
-
24. If the third-party representative was compensated as a percentage of indemnity paid, did you receive an amount sufficient to complete the covered repairs?
-
25. Overall, please rate your level of satisfaction with the service provided by the third-party representative (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.
-
26. If you received a claim payment, how satisfied were you with the timeliness of the payment (a through e with e being very satisfied)?
-
27. If you received a claim payment, how satisfied were you with the explanation of the amount paid (a through e with e being very satisfied)?
-
28. If this was a nonstorm related water damage claim, were you provided with the option to utilize Citizens Managed Repair Program?
-
29. If the managed repairs were not addressed in one evaluation, how many evaluations were required?
-
30. If you accepted the option to utilize Citizens Managed Repair Program, please rate your satisfaction with the Program (a through e with e being very satisfied).

Citizens Customer Service

31. Have you, within the last 12 months, contacted Citizens?
-
32. For what purpose(s) did you contact Citizens?
- a. File a claim
 - b. Policy coverage question
 - c. Premium payment question
 - d. Billing/late notice
 - e. Change information on policy
 - f. Other
-
33. Please estimate the number of times that you have contacted Citizens within the last 12 months.
-
34. Please estimate when you made your most recent contact with Citizens.
-
35. Did the Citizens Customer Service Agent help you obtain the information needed?
-
36. How satisfied were you with the timeliness of Citizens' response to your question(s) or issue(s) (a through e with e being very satisfied)?
-
37. How satisfied were you with the way your question(s) or issue(s) was resolved (a through w with e being very satisfied)? If you replied less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.
-
38. If you were less than satisfied with the way your question(s) or issue(s) was handled, did you file a complaint with Citizens?
-

-
39. If you replied 'Yes' to question 38, how did you contact Citizens to file your complaint?
- a. Via the Citizens Web site
 - b. Via e-mail
 - c. Via US mail
 - d. Other method
-
40. Did a representative from Citizens contact you regarding your complaint?
-
41. How satisfied were you with Citizens response to your complaint (a through e with e being very satisfied)? If you replied less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.

Overall Assessment

42. In your opinion, does Citizens provide better or worse coverage than other insurance companies?
-
43. Do you feel having a Citizens insurance policy is safer than a policy with another insurance company?
-
44. Overall, please rate your level of satisfaction with your Citizens insurance policy (a through e with e being very satisfied). If you were less than satisfied, please provide details describing the reason(s) for your lack of satisfaction.
-

EXHIBIT B

AGENT SURVEY QUESTIONS

Background

1. Name
2. E-mail
3. Approximately, how many years have you been a licensed property and casualty insurance agent in the State of Florida?

Agent Appointment and Certification Process

4. Please rate your level of satisfaction with the Citizens Property Insurance Corporation (Citizens) Agent Appointment System, or its replacement, Salesforce CRM (1 to 5 with 5 being very satisfied).
5. If you answered unsatisfied or very unsatisfied to question 4, please provide details describing the reason(s) for your dissatisfaction.
6. Please rate your level of satisfaction with the Citizens Agent Certification Portal, or its replacement, Salesforce CRM (1 to 5 with 5 being very satisfied).
7. If you answered unsatisfied or very unsatisfied to question 6, please provide details describing the reason(s) for your dissatisfaction.

Training

8. Please rate your overall level of satisfaction with the training and reference materials currently provided by Citizens (1 to 5 with 5 being very satisfied).
9. If you answered unsatisfied or very unsatisfied to question 8, please provide details describing the reason(s) for your dissatisfaction.
10. Which training methods and reference tools are most commonly available from other property insurers that you represent?
 1. Training seminars
 2. Electronic training materials
 3. Technical bulletins
 4. Other
11. In your opinion, based on your experience with Citizens and other insurers, please indicate the most effective method(s) of training and provide any additional comments or recommendations that you may have relating to Citizens training process.

Policyholder Information

12. Please rate your level of satisfaction with the Citizens Insurance Suite information system (e.g., PolicyCenter, ClaimCenter) (1 to 5 with 5 being very satisfied).
13. If you answered unsatisfied or very unsatisfied to question 12, please provide details describing the reason(s) for your dissatisfaction.
14. Please rate your level of satisfaction with the Citizens electronic document management systems (1 to 6 with 5 being very satisfied and 6 being not applicable).
15. If you answered unsatisfied or very unsatisfied to question 14, please provide details describing the reason(s) for your dissatisfaction.
16. Please provide any comments or recommendations relating to the accessibility of Citizens policyholder information.

Underwriting

17. Please rate your level of satisfaction with Citizens procedures related to the issuance of new insurance policies, including valuation of the covered structure and mitigation credits (1 to 5 with 5 being very satisfied).
18. If you answered unsatisfied or very unsatisfied to question 17, please provide details in the text box below describing the reason(s) for your dissatisfaction.
19. Please rate your level of satisfaction with Citizens procedures relating to the renewal of policies, including valuation of the covered structure, mitigation credits, and automated underwriting if applicable (1 to 5 with 5 being very satisfied).
20. If you answered unsatisfied or very unsatisfied to question 19, please provide details describing the reason(s) for your dissatisfaction.
21. How does the commission schedule used by Citizens for renewal policies differ from that of the other insurers you have appointments with for property and casualty insurance (1 to 5 with 5 being significantly better)?
22. Please describe your procedures for documenting the current condition of the property during the underwriting process for Citizens new and renewed policies (e.g. physical inspections, drone pictures, owner pictures).
23. Please provide any comments or recommendations related to the efficiency or effectiveness of Citizens' underwriting procedures and practices.
24. Please rate your level of satisfaction with the manuals, bulletins, and other documentation related to the issuance of Citizens policies (1 to 5 with 5 being very satisfied).
25. If you answered unsatisfied or very unsatisfied to question 24, please provide details describing the reason(s) for your dissatisfaction.
26. Please rate your level of satisfaction with Citizens Clearinghouse Program (1 to 5 with 5 being very satisfied).
27. If you answered unsatisfied or very unsatisfied to question 26, please provide details describing the reason(s) for your dissatisfaction.
28. If you are able to directly bind a policy to Citizens, please rate your level of satisfaction with the Quality Assurance process (1 to 6 with 5 being very satisfied and 6 being not applicable).
29. If you answered unsatisfied or very unsatisfied to question 28, please provide details describing the reason(s) for your dissatisfaction.

Claims Handling

30. Since September 2017, have you reported and/or followed up on any Citizens policyholder claims?
31. Did you encounter any problems in reporting claims to Citizens?
32. If you answered 'Yes' to question 31, please provide a brief description of the problem(s).
33. Have you encountered any problems in acquiring claim status information from Citizens?
34. If you answered 'Yes' to question 33, please provide a brief description of the problem(s).
35. For policyholder claims reported to Citizens, did Citizens timely act to settle the claims?
36. If you answered 'No' to question 35, please provide the time elapsed between the policyholder initially filing their claim and receiving final payment.
37. Please rate your level of satisfaction with the manuals, bulletins, and other documentation related to Citizens' claims handling (1 to 5 with 5 being very satisfied).
38. If you answered unsatisfied or very unsatisfied to question 37, please provide details describing the reason(s) for your dissatisfaction.
-

-
39. Please rate your level of satisfaction with the replacement cost estimator utilized by Citizens to estimate policy amount for new policies and claims damage (1 to 6 with 5 being very satisfied and 6 being not applicable).
-
40. If you answered unsatisfied or very unsatisfied to question 39, please provide details describing the reason(s) for your dissatisfaction.
-
41. Have you received information or training materials regarding assignment of benefits from Citizens or other sources sufficient to discuss with your clients?
-
42. Have you discussed the assignment of benefits process with your clients?
-
43. Have you received information or training materials regarding Citizens' Managed Repair Program sufficient to discuss with your clients?
-
44. Have you discussed Citizens' Managed Repair Program with your clients?
-
45. Please briefly describe the training Citizens provided regarding their Managed Repair Program.
-
46. Please provide any comments or recommendations relating to the communication of information between you and Citizens with respect to the policyholder's claim and utilization of assignment of benefits, Citizens Managed Repair Program, or any other issue.

Service

47. Have you contacted Citizens concerning a problem or question with the policyholder's claim since September 2017?
-
48. Please identify the subject(s) related to your contact with Citizens.
1. Policy coverage issues
 2. New policy issuance
 3. Claims
 4. Suspected Insurance Fraud
 5. Service Request
 6. Other
-
49. Please rate your level of satisfaction with the service provided by Citizens staff (1 to 5 with 5 being very satisfied).
-
50. If you answered unsatisfied or very unsatisfied to question 49, please provide details describing the reason(s) for your dissatisfaction.

Overall Assessment

51. Please rate your overall level of satisfaction with the agent support provided by Citizens.
-
52. If you answered unsatisfied or very unsatisfied to question 51, please provide details describing the reason(s) for your dissatisfaction.
-
53. Please provide any additional comments related to any issues not discussed above and any suggestions to improve Citizens agent services.
-

MANAGEMENT'S RESPONSE

CITIZENS PROPERTY INSURANCE CORPORATION
2101 MARYLAND CIRCLE
TALLAHASSEE, FLORIDA 32303-1001

TELEPHONE: 850.504.4300 FAX: 850.575.1879



August 23, 2021

The Honorable Sherrill Norman CPA
Auditor General
Claude Densen Pepper Building
111 West Madison St.
Tallahassee, FL 32399-1450

Dear Ms. Norman,

On July 26, 2021, we received a copy of the Office of Auditor General's Preliminary and Tentative Audit Findings for Citizens Property Insurance Corporation. I would like to thank your staff for their diligent work compiling and analyzing the data for this report.

As part of the process, I am sending our formal responses to the eight findings and recommendations contained within the report. Thank you for your consideration regarding these important issues. Please feel free to reach out if you have any additional questions or concerns.

Regards,

A handwritten signature in blue ink that reads "Barry J. Gilway".

Barry Gilway
President/CEO and Executive Director
Citizens Property Insurance Corporation

Carlos Beruff, Chairman, Manatee County • Marc W. Dunbar, Leon County • Lazaro Fields, Leon County
Jillian Hasner, Palm Beach County • Reynolds Henderson, Walton County • Erin Knight, Miami-Dade County
Carlos Lopez-Cantera, Miami-Dade County • Nelson Telemaco, Broward County • M. Scott Thomas, St. Johns County
Barry Gilway, President/CEO and Executive Director

Underwriting and Eligibility

Finding 1: As of June 2020, only 12 of the 133 insurance companies writing personal residential property insurance policies participated in the Clearinghouse established by Citizens pursuant to State law. Excluding Citizens, these 12 insurers represented only 17 percent of the personal residential property insurance market.

Recommendation: To facilitate greater diversion of policies and exposure to the private market, we recommend that Citizens management continue efforts to encourage insurers to utilize the Clearinghouse.

Management Response: Citizens' management acknowledges and agrees with the information provided in the finding, which was also included in the 2017 report (see "Prior Action" section below). It is understood that greater participation in the Clearinghouse by the private market increases the likelihood that applicants for coverage, or existing Citizens' policies, may be diverted to the private market. Citizens will continue its ongoing effort to persuade private market companies to join the Clearinghouse.

This response includes additional Market Share (QUASR) data that will provide beneficial context to the finding. As numerous carriers report to QUASR under trade secret protection, including nine of the 12 Clearinghouse participating carriers, the additional information will be gleaned from publicly available information.

While accurate, the auditor's finding benefits from being viewed in the context of the current Florida private insurance market. Specifically, that while there may be 133 property and casualty insurers that are authorized to write new business in Florida, only a small subset of these insurers is actively issuing new policies¹.

- In the fourth quarter of 2020, of the 133 insurance companies described in the audit, 33 of those insurance companies had 0 policies in force.
 - Of the remaining 103 insurance companies, 87 wrote new business in Q4 2020.
 - Of those 87, only 24 wrote more than 1,000 policies in the fourth quarter of 2020, and 78% of these policies (150,960) were written by just 10 insurance companies.

In addition, market volatility as seen by private market performance and surplus degradation, rate increases that are not keeping pace, declines in underwriting profitability and steadily declining private market appetite for growing pockets of Florida business contributes to the private market's unwillingness to invest in the Clearinghouse at this time.

¹ The data provided was obtained through (QUASR). Some insurers report to QUASR under trade secret protection, including 9 of the 12 Clearinghouse participating carriers, and that data is not included.

Nevertheless, Citizens will continue to seek out and market the Clearinghouse to private market insurers across the state so that the insurers can quickly engage when conditions and appetites for new business improve. Most notably, Citizens demonstrated its commitment to this approach through the creation of a new role within the organization: Carrier Relations Manager. The current incumbent's responsibilities as related to Clearinghouse fall into two main categories, both of which tie directly to this finding. They are:

1. Actively and consistently work with current Clearinghouse participants to ensure their continued participation in the Clearinghouse. As there is a significant and on-going monetary cost to remaining a participating Clearinghouse insurer, and the current insurance environment allows for limited return on this investment, providing each participating insurer with direct, high-level support and engagement is critical to maintain their participation. In addition, the Carrier Relations Manager provides reports, metrics and data to participants that identify additional opportunities for writing new and renewal business through the Clearinghouse.
2. Identify and contact emerging potential Clearinghouse participants to gain their participation in the Clearinghouse. Traditionally, the focus of efforts to gaining additional participants was on existing admitted insurers and traditional insurers who were looking to enter the Florida marketplace. With the recent interest in the capital marketplace and the proliferation in new insurance purchasing platforms, this effort has expanded to include private equity groups, insurtechs, and aggregators, all of which could, through either investment of capital or creation of platforms or insurers, increase the number of Clearinghouse participants.

Prior Action: As a result of a similar audit finding in the 2018 audit, Citizens drafted and sent a letter in April 2019 to the CEOs of 120+ insurance companies that were authorized to write personal residential property insurance in the state. This invitation reiterated the value of the Clearinghouse and invited their executive teams to meet with Citizens executive leadership to discuss participating in the Clearinghouse. Citizens received one response; the insurer declined the invitation.

Clearinghouse

Finding 2: Citizens controls for the Clearinghouse continue to need enhancement to ensure that all applicable policy renewals are submitted to the Clearinghouse for consideration by participating insurers.

Recommendation: We again recommend that Citizens management enhance controls to ensure that all applicable policy renewals are submitted to the Clearinghouse for consideration by participating insurers.

Management Response: Citizens acknowledges that all applicable policy renewals must be submitted to the Clearinghouse for consideration by participating insurers and further recognizes that a certain percentage of renewals have not been submitted.

This finding was also included in the 2017 audit report. Since that finding, and as a result of process and technology changes implemented from 2017 to 2018, there has been a 73% reduction in the number of renewal policies that were incorrectly not submitted to Clearinghouse. Specifically, the percentage of renewal policies eligible to be sent from PolicyCenter to Clearinghouse that were incorrectly not submitted decreased from 4.4% in the last audit period to 1.2% for this audit period.

Our efforts to ensure all applicable renewal policies are sent through the Clearinghouse have served us well and we will continue our efforts to enhance controls that ensure all eligible renewal policies are processed through the Clearinghouse.

Customer Service

Finding 3: While analysis of customer service data and surveys of policyholders and agents indicated that the quality of customer service Citizens provides is generally comparable to that provided in the voluntary market, survey results also showed that the Clearinghouse and Citizens Insurance Suite, used by Citizens and agents to administer policies, claims, and billing functions, could be enhanced to improve user satisfaction.

Recommendation: We recommend that Citizens management continue efforts to provide quality customer service and evaluate enhancements to make the Clearinghouse and CIS more user-friendly for agents.

Management Response: While analysis of customer service data and surveys of policyholders and agents indicate general satisfaction with the quality of customer service Citizens provides, Citizens remains committed to continually improving service to our policyholders, agents, and the constituents of Florida. While Citizens' Clearinghouse and PolicyCenter are sophisticated capabilities and certain interactions are sometimes complex, these capabilities do achieve the objective of providing homeowners with greater access to Florida's insurance market and reducing the number of homeowners with no option other than Citizens for their property insurance needs. Based upon feedback from Citizens' Agent Roundtable, Voice of the Customer, and other survey mechanisms, Citizens has improved and will continue to improve agent experience when working within these capabilities. Citizens recently received Board approval to seek alternative solutions to the current Clearinghouse platform, the contract for which expires in August 2023. As Citizens seeks to replace the current platform, customer experience and satisfaction will continue to be of utmost priority.

Probable Maximum Loss Financing

Finding 4: While Citizens continues to take reasonable steps to minimize its net financing costs (cost-of-carry), it may be possible over time to further reduce these costs as the premiums collected become more consistent with those that would be calculated using actuarially determined rates.

Recommendation: We recommend that Citizens management continue efforts to reduce the cost of carry for pre-event financing while maintaining the safety and liquidity of the financing proceeds through conservative investment. Additionally, to reduce the amount of debt financing

required, we recommend that, to the fullest extent authorized, Citizens premiums be based upon actuarially determined rates.

Management Response: Ensuring the availability and sufficiency of resources to meet policyholder obligations is critically important to Citizens and its stakeholders and is supported by pre-event bond proceeds. Net financing costs are monitored throughout the year in evaluating Citizens' capital structure to optimize the level and availability of claims paying resources at efficient prices. Included as part of this ongoing evaluation are: 1) early retirement of pre-event bonds (In January 2020, Citizens retired \$150 million in pre-event bonds), 2) proposing recommended changes to Citizens' investment mandates to increase returns while preserving liquidity and safety or principal, 3) use of liquid and/or highly rated risk transfer vehicles to reduce Citizens' net retained probable maximum loss. Citizens' established premium rates are subject to approval by the Florida Office of Insurance Regulation and must adhere to provisions of Florida Statutes including the glide path.

Internal Audit

Finding 5: Citizens Office of Internal Auditor did not demonstrate compliance with professional auditing standards by obtaining an external assessment at least once every 5 years.

Recommendation: We recommend that OIA management obtain an external assessment by a qualified independent reviewer at least once every 5 years to determine compliance with the Institute of Internal Auditors' Code of Ethics and the *IIA Standards*.

Management Response: Management has taken note of the finding and the recommendation. A third-party firm has been contracted by the Office of the Internal Auditor to conduct a Quality Assurance Review by the end of this year.

Selected Administrative Activities

Finding 6: Citizens records for some employees did not evidence that signed user agreements were obtained prior to authorizing the use of Citizens-owned or personally owned mobile devices to access Citizens IT resources. Additionally, Citizens utilized a service organization to retain text messages sent and received using Citizens-owned mobile devices; however, Citizens did not take steps to reasonably ensure that the service organization's controls relevant to text message retention were suitably designed and operating effectively.

Recommendation: We recommend that Citizens management ensure that Citizens records evidence that PARW and WCEA forms, as applicable, are completed and signed prior to authorizing Citizens-owned or personally owned mobile devices access to Citizens IT resources. Additionally, to ensure that text messages sent or received by Citizens-owned mobile devices are retained in accordance with State law, we recommend that Citizens management make or obtain independent and periodic assessments of the service organization's relevant internal controls.

Management Response: Management has taken note of the findings and the recommendation and are implementing appropriate controls.

Selected Administrative Activities

Finding 7: As similarly noted in our report No. 2019-016, Citizens did not always timely cancel purchasing cards upon a cardholder’s separation from Citizens employment.

Recommendation: We again recommend that Citizens management strengthen procedures to ensure that purchasing cards are promptly canceled upon a cardholder’s separation from Citizens employment.

Management Response: Effective February 2021, UAM profiles were established for all active purchasing card holders and all new purchasing card requests must be submitted through the UAM process. Upon employee separation and as part of the deactivation of all system access, a purchasing card deactivation request is processed through the UAM workflow and sent to the purchasing card administrator for deactivation. The following additional processes have also been established: the purchasing card administrator reviews the weekly Human Resources Terminations Report; the purchasing card administrator monitors the time elapsed between cardholder termination date and the deactivation of the cardholder’s purchasing card – any discrepancies are researched and documented.

Information Technology Controls

Finding 8: Certain security controls related to selected Citizens IT systems need improvement.

Recommendation: We again recommend that Citizens management improve certain security controls related to logical access, user authentication, and change management to ensure the confidentiality, integrity, and availability of Citizens data and IT resources.

Management Response: Management has taken note of the findings and the recommendation and are implementing appropriate controls.