

Market Conduct Examination Report

***CITIZENS PROPERTY INSURANCE
CORPORATION***

NAIC Company Code: 10064

Issued: February 1, 2023



Table of Contents

Executive Summary	2
Purpose and Scope of the Examination	2
Corporate Records	3
Citizens Operations	4
Plan of Operation	5
Anti-Fraud Procedures	6
Privacy Procedures	7
Disaster Preparedness	8
Policyholder Service	11
Underwriting and Rating	12
Claims	15
Litigation Review	29
Senate Bill 76	35
Recommendations	36
Conclusion	37
Examination Final Report Submission	37

Executive Summary

The Florida Office of Insurance Regulation (“OIR”) performed a targeted market conduct examination of Citizens Property Insurance Corporation (“Citizens”) pursuant to Section 627.351(6)(l), Florida Statutes (“F.S.”). The scope period of this examination was July 1, 2020, through June 30, 2022. The examination began August 8, 2022, and ended December 15, 2022.

The purpose of this market conduct examination was to determine Citizens’ compliance with its plan of operation and its internal operational procedures. A detailed review of Citizens’ procedures, operations, activities and records reflect 11 findings, all of which were determined to be below the permissible error ratio established by the Insurer Conduct Penalty Guidelines in Rule 69O-142.011(2)(k), (2)(l) and (4)(g), Florida Administrative Code (“F.A.C.”). In accordance with the Rule, the permissible error ratio for claim violations is 7% and for other violations 10%. Detailed information relating to these findings is reported herein.

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

Purpose and Scope of the Examination

OIR has primary responsibility for the regulation, compliance and enforcement of statutes related to the business of insurance and the monitoring of industry markets. Due to this responsibility, OIR conducted a targeted market conduct examination of Citizens pursuant to Section 627.351(6)(l), F.S. The examination was performed by a contracted examination firm, INS Regulatory Insurance Services, Inc. The purpose of a market conduct examination is to review an insurer’s operating practices to determine if they comply with the Florida Insurance Code, rules related to the business of insurance, procedures adopted by Citizens, provisions contained within a contract of insurance issued by Citizens and orders issued by OIR.

A review of Citizens’ plan of operation was performed to include the evaluation of current processes and procedures, corporate records, general operations, policyholder service, underwriting and rating, anti-fraud, privacy, disaster preparedness, litigation and claims.

The documentation utilized in this report was provided by Citizens and includes pertinent documentation of its internal controls and numerous reports generated during the examination scope period. Citizens’ records were examined remotely by the examiners.

This report is based on information obtained during the examination, research conducted by OIR and additional information provided by Citizens. The files examined were randomly selected from data files provided by Citizens. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners (“NAIC”). The number of randomly selected items in each sample is consistent with the recommended sample size in the NAIC’s *Market Regulation Handbook’s* Acceptance Samples Table. Examination results with a 95% confidence level permit those results to be extrapolated to the population identified in each of the areas examined.

The examination included a review of Citizens' operations in the following areas:

- Plan of Operation;
- Anti-Fraud Procedures;
- Privacy Procedures;
- Disaster Preparedness;
- Policyholder Service;
- Underwriting and Rating;
- Claims;
- Litigation; and
- Senate Bill 76.

Corporate Records

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

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

Members of the current Board of Governors are:

- | | |
|-------------------------------|---|
| • Carlos Beruff – Chair | • Jillian Hasner, Consumer Representative |
| • M. Scott Thomas, Vice Chair | • Erin Knight |
| • Joshua Becksmith | • JoAnne Leznoff |
| • Jason Butts | • Nelson Telemaco |
| • Charles “Charlie” Lydecker | |

Total Direct Premiums Written in Florida during the examination scope period was:

Year	Total Direct Written Premiums in Florida (Per Schedule T of the Annual Statement)
July 1, 2020-December 31, 2020	\$629,567,057
Calendar Year 2021	\$1,814,135,215
January 1, 2022-June 30, 2022	\$1,494,035,351

Citizens Operations

Citizens is a statutorily created governmental entity whose purpose is to provide property insurance coverage to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Therefore, Citizens does not employ a system to actively seek business. Citizens focuses on communications, training and compliance to facilitate its agents' customer service efforts. As of June 30, 2022, 10,129 licensed and appointed insurance agents served its policyholders. Agents must hold an active 2-20 or 20-44 Florida Resident Agent License or an active 9-20 or 90-44 Non-Resident Agent license. Section 627.351(6)(c)14., F.S., provides that an agent must also be appointed by at least one other insurer writing certain types of property insurance coverage. Prior to an agent's appointment, Citizens requires the completion of at least two training modules.

Citizens assists Florida consumers with obtaining property insurance coverage when they are unable to obtain it from an authorized insurer. Under Florida law, Citizens may write new personal residential insurance policies if a property meets one of the following eligibility criteria:

- Coverage is not otherwise available from an authorized insurer licensed to conduct business in Florida; or
- The premiums offered for coverage by an authorized insurer licensed to conduct business in Florida are 15% greater than the premiums offered by Citizens for comparable coverage.

During the examination scope period, the percentage was amended for Citizens' Personal Lines Account to 20% under Senate Bill 76, which became effective July 1, 2021.

Although outside the examination scope period, the percentage for Citizens Commercial Lines Account was also amended to 20% under Senate Bill 2-A, which became effective December 16, 2022.

Personal Lines Account

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

Commercial Lines Account

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

Coastal Account

Citizens' coastal insurance coverage consists of personal and commercial residential coverage and wind-only insurance for personal and commercial risks located within the eligible areas that are unable to obtain such coverage from authorized insurers.

While created as Florida's insurer of last resort, the number of policies in force for all three Citizens accounts has steadily increased from 474,630 as of June 30, 2020, to 931,357 as of June 30, 2022, and the end of the examination scope period. As of November 30, 2022, Citizens reported the number of policies in force as 1,126,319. Portions of this examination were designed to analyze the changes to Citizens operations in response to the increased number of policies in force over time.

Plan of Operation

Citizens' Plan of Operation ("Plan") was adopted effective August 1, 2002, to establish the structure, function, procedures and powers of Citizens. The Plan was amended October 10, 2013, to incorporate legislative changes.

An Operational Compliance Governance Framework ("Framework") was implemented by Citizens to foster full compliance with all relevant laws, rules and regulations, including the Plan. Citizens' Framework uses a systematic, documented, enterprise approach to retain operational flexibility which includes:

- Identification of all relevant laws, rules, and regulations;
- Documentation of integration of all relevant laws, rules and regulations into work processes, procedures and corporate policies;
- Education and training of staff;
- Monitoring for adherence to laws, rules and regulations;
- Updating as requirements change;
- Communicating changes to the appropriate staff when they occur; and
- Addressing areas of noncompliance in a strategic based fashion.

Citizens coordinates a compliance certification process annually to:

- Identify and review all relevant laws, rules and regulations;
- Document the methods of:
 - Implementing laws, rules and regulations;
 - Monitoring for adherence to laws, rules and regulations; and
 - Training and communicating laws, rules and regulations;
- Certify compliance with laws, rules and regulations; and
- Identify areas of monitoring for compliance improvement.

The results of each annual compliance certification process are presented to Citizens' Risk Steering Committee and the Board of Governors Audit Committee.

Based on a detailed analysis of the Plan of Operation and the review of the annual certification documents presented to the Risk Steering Committee during the examination scope period, Citizens was determined to be in compliance with the Plan of Operation.

No exceptions were noted.

Anti-Fraud Procedures

Section 626.9891, F.S. establishes anti-fraud requirements for all Florida insurers. Section 627.351(6)(k)1., F.S. requires Citizens to establish and maintain a unit to investigate possible fraudulent claims submitted by policyholders or by persons making claims for services or repairs against policies held by policyholders. The statute also requires Citizens to comply with certain reporting requirements outlined in Section 626.9891, F.S. The examiners reviewed Citizens' anti-fraud initiative for compliance to determine if Citizens:

- Implemented statutorily required anti-fraud initiatives;
- Established an anti-fraud unit;
- Conducted required anti-fraud training;
- Timely reported data required by the Florida Department of Financial Services' Division of Investigative and Forensic Services ("DIF"); and
- Was in compliance with DIF's best practices report.

The examiners reviewed Citizens anti-fraud plans filed annually with DIF during the examination scope period. The annual submissions included the following:

- A designated employee with primary responsibility for implementing the requirements of the anti-fraud statute;
- An anti-fraud organizational chart;
- A level of staffing rationale; and
- Description of Citizens anti-fraud education and training for employees.

Each annual submission acknowledged that Citizens:

- Adopted an anti-fraud plan;
- Established procedures for detecting possible fraudulent activity;
- Established procedures for detecting and reporting of possible fraudulent activity;
- Provided anti-fraud training;
- Reports of suspected fraudulent activity contained clear support for the allegations; and
- Recorded the date(s) that fraudulent activity was suspected and the date(s) that reports of such suspected fraud were submitted to DIF.

The examiners reviewed Citizens Special Investigations Unit (“SIU”) *Addendum to 2021 Claims Best Practices*, which sets forth the general principles and guidelines for the assignment, investigation, evaluation and disposition of referrals to the SIU.

The examiners determined that Citizens has an established anti-fraud unit that is comprised of the Director of SIU and key departments including an analytics, investigative research & outsourcing team, claims fraud field team, major case unit field team and agency & underwriting.

No exceptions were noted.

The examiners reviewed the two-hour anti-fraud course training documents and proof of presentations conducted during the examination scope period and determined Citizens provided annual anti-fraud training to employees.

No exceptions were noted.

In 2017, the Florida legislature mandated DIF to create a report detailing best practices for the detection, investigation, presentation and reporting of insurance fraud and other fraudulent insurance acts. The examiners reviewed the best practices contained in the “Division of Investigative & Forensic Services Best Practices Report 2018” and compared it to the information contained in Citizens’ anti-fraud procedures.

No exceptions were noted.

Section 626.9891(5), F.S. requires insurers to report data related to fraud during the prior calendar year. DIF provides an online portal for insurers to upload the data into an Annual RF Statistical Report. The examiners reviewed the fraud data provided by Citizens and determined that data matched the data reported to DIF.

No exceptions were noted.

Section 626.9891(5), F.S. requires data to be reported to DIF annually before March 1st. The examiners determined that Citizens timely made the required filing for 2020.

Finding #1: The examiners determined that Citizens did not timely file the Annual RF Statistical Report by March 1, 2021, as required by Section 626.9891(5), F.S.

Citizens Response: Citizens agreed with the finding as the filing was not completed until March 17, 2021.

Recommendation: Citizens should ensure that all Annual RF Statistical Reports are filed annually with DIF before March 1st.

Privacy Procedures

Section 626.9651, F.S. established Rule 69O-128, Florida Administrative Code (“F.A.C.” and “Rule”) to govern the treatment of nonpublic personal health information and nonpublic personal financial information about individuals by all licensees regulated pursuant to the Florida Insurance Code. The Rule applies to nonpublic financial information about individuals who obtain or are claimants or

beneficiaries of products or services primarily for personal, family or household purposes from licensees and all nonpublic personal health information.

Citizens provided the examiners with the procedures utilized for protecting the integrity of computer information, personal financial information and privacy of nonpublic personal information relating to its customers, former customers and consumers in effect during the examination scope period.

The examiners determined that Citizens minimizes improper intrusion into policyholder privacy, protects nonpublic personal information for current and prior policyholders and for consumers that are not customers and provides proper notice to consumers regarding how nonpublic personal financial information is treated as required by the statute.

No exceptions were noted.

Disaster Preparedness

The examiners reviewed Citizens' disaster preparedness to determine if sufficient resources were available to support catastrophic claims operations and administrative operations due to the increase in the number of policies in force during the examination scope period.

Citizens states that its disaster plan is intended to respond to any catastrophic event, regardless of the number of policyholders. It is scalable and enterprise-wide to account specifically for the number of policyholders or claims. Citizens leverages the plan to execute each event independently and forecasts claims counts to make the appropriate deployments based on its actuarial tool and resource calculator. The plan consists of the Master Plan and 35 supporting business unit plans and is updated annually or when there are process or systems changes after June of the current year. The Catastrophe Operations Team within claims is specifically tasked with planning, preparing, testing and managing a catastrophe response. The plan outlines how other business units are utilized and participate in the catastrophe response to allow for proper oversight of independent adjusters while maintaining stability in day-to-day operations.

Citizens states that catastrophe planning begins in December with the preparedness phase that includes meetings with business units and incorporating lessons learned from responses during the current year. The Cat Ops Management Team works with the business units to identify potential gaps or areas that can be tested, especially if there is a new process that will be in place for the upcoming catastrophe season. The Cat Ops Team also works in conjunction with the IT Enterprise Resiliency Team which takes the lead on creating, monitoring and working with action plans on the Cat Preparedness and Assurance items in a dashboard. This dashboard tracks over 150 critical IT systems and functions associated with catastrophe response as well as key areas that have critical processes or influence on the catastrophe response.

During the planning and preparation phase, testing modules are identified and discussed, and plans are set forth for how and when to test. Testing modules change depending on what has been implemented or changed from the prior year. The testing includes readiness of the call center vendors, check processing capacity, IT system capabilities, catastrophe response centers and virtual onboarding of independent adjusters. Results are compiled and tracked on the Cat Assurance Dashboard and action plans are put in place for items that did not return the desired results. Cat Ops works with the Corporate Analytics team to utilize their cat modeling software to determine the potential claims count

for a 1:100-year event three to four times per year to ensure Citizens is testing and preparing at the proper level.

To support the efforts in a catastrophe response, Citizens has multiple contracts for different services with independent adjusting firms and other support vendors. These services allow flexibility and options to match the response to the size and severity of the event. Below is a list of the services for residential policies:

- Fast Track Adjusting Services are used for lower severity claims that can be adjusted over the phone by an adjuster without a field inspection. Typically, these claims are for minor damage to the exterior of the home or auxiliary structures such as a shed or fence;
- Field Inspection Services are contracted to support lower severity claims that require a field inspection. The inspector, a licensed adjuster, utilizes a mobile application to document damages. After entering basic information and photographs, the application creates the estimate which is reviewed by the contracted firm;
- Catastrophe Task Field Adjusters handle all field inspections for residential catastrophe claims. Citizens implemented adjuster experience tiers allowing Citizens to select and utilize adjusters with specialized claims experience for large loss and complex claims;
- Catastrophe Desk Adjusters support all desk and phone operations for customer contacts on catastrophe claims; and
- Specialty units are created to handle unique or complicated areas as damage reports are received and claims are filed.

A separate contract was implemented to supply desk and task adjusters for commercial claims. Commercial claims pose a unique challenge when adjusting and documenting damages. Citizens utilizes a team adjusting approach that is coordinated with a lead adjuster and Commercial Manager.

A table of current commitment levels from vendor contracts providing adjusting services is provided below:

Contract or Service Type	Number of Contracted Adjusters
Fast Track Adjusting Services	245
Field Inspection Services	425
Residential CAT Task Field Adjusters	916
Residential CAT and Daily Desk Adjusters	556
Commercial Desk and Field Adjusters	247

The following table illustrates the relation of adjusting resources to the increase in policyholder growth over time:

Contract or Service Type	12/2017	12/2018	12/2019	12/2020	12/2021	11/2022
Total contracted Independent Adjuster Resources	1,097	625	519	543	658	2,289

Citizens initiates emergency contracts to support catastrophe response activities when an Emergency Order is issued by the Governor.

Citizens reviews new technologies to ensure efficiencies in claims handling activities. Recent additions to Citizens technology enhancements include:

- Geospatial Insurance Consortium (GIC) – Working closely with GIC, Citizens quickly integrates post event aerial imagery into claims handling activities. Citizens utilizes emergency contracting to expand the use of service by applying Artificial Intelligence (AI) to image data; and
- PowerBI Reporting – Internal software improvement allows Citizens to analyze and distribute data to targeted groups based on changing needs during the response.

Citizens invested in claims service vehicles to enhance visibility for policyholders and assist with adjuster connectivity and claims management. In 2022, Citizens integrated the use of StarLink, a low orbit satellite connectivity, along with expanded cell phone and internet capabilities.

Citizens realigned staffing and added additional staffing to day-to-day and catastrophic operations to ensure appropriate resources are available due to increasing policy counts.

In 2021, the realignment of claims operations included three main areas:

- Non-litigated claims to include: catastrophe, non-catastrophe, sinkhole, mobile home, specialty claims, non-weather water and commercial claims;
- Non-litigated disputed claims to include: appraisal, mediation, assignment of benefits (AOB) and notice of intent (NOI); and
- Litigated claims to include: first and third-party litigation, AOB litigation and subrogation.

Citizens analysis of claims trends as the number of policyholders increased led to staffing increases in leadership, other key areas impacted by new legislation (AOB and NOI statutes) and new oversight roles for non-catastrophe claims.

Budgeted claims staff positions increased from 288 in 2020, to 381 in 2021, and to 469 in 2022. There was also an increase in day-rate independent adjusters that primarily support disputed claims and litigation from 360 in 2020, to 470 in 2022.

Citizens also utilizes fee-based adjusters for inspections on almost all non-litigated claims. The number of fee-based adjusters increased from 183 in 2020, to 237 in 2021, and to 427 in 2022.

No exceptions were noted.

Policyholder Service

The examiners reviewed and sampled renewals, nonrenewals and cancellations from the Personal Lines Account and Coastal Account to determine if proper notice was provided to the policyholder; the timely issuance of new policies and premium refunds when requested by the policyholder; and the correct calculation of unearned premiums.

New Business and Renewals

Citizens identified a universe of 627,667 Personal Lines Account and Coastal Account policies for new business and renewals during the examination scope period. The universe consisted of 508,444 Personal Lines Account policies and 119,223 Coastal Account policies.

Personal Lines Account

A random sample of 116 new business and renewal policies from the Personal Lines Account was selected for review.

No exceptions were noted.

Coastal Account

A random sample of 116 new business and renewal policies from the Coastal Account was selected for review.

No exceptions were noted.

Non-Renewals

Citizens identified a universe of 49,534 Personal Lines Account and Coastal Account policies that were non-renewed during the examination period. The universe consisted of 36,679 Personal Lines Account policies and 12,855 Coastal Account policies.

Personal Lines Account

A random sample of 116 non-renewed policies from the Personal Lines Account was selected for review.

No exceptions were noted.

Coastal Account

A random sample of 116 nonrenewed policies from the Coastal Account was selected for review.

No exceptions were noted.

Cancellations

Citizens identified a universe of 275,710 Personal Lines and Coastal Account policies that were cancelled during the examination period. The universe consisted of 208,619 Personal Lines Account and 67,091 Coastal Account policies.

Personal Lines Account

A random sample of 116 cancelled policies from the Personal Lines Account was selected for review.

No exceptions were noted.

Coastal Account

A random sample of 116 policies from the Coastal Account was selected for review.

No exceptions were noted.

Underwriting and Rating

The examiners reviewed and sampled Personal Lines Account and Coastal Account policies issued after approved rate increases during the examination scope period to ensure Citizens utilized accurate rates. The examiners also reviewed and sampled policy declinations and rescissions and reviewed Citizens' Replacement Cost Estimator to document the percentage and coverage change over time.

New Business and Renewals

Citizens identified a universe of 15,000 Personal Lines Account and Coastal Account policies for new business and renewals effective August 1, 2021, and later. The universe consisted of 2,604 Personal Lines Account policies and 12,396 Coastal Account policies.

Personal Lines Account

A sample of 116 new business and renewal policies from the Personal Lines Account was selected for review.

No exceptions were noted.

Coastal Account

A random sample of 116 new business and renewal policies from the Coastal Account was selected for review.

No exceptions were noted.

Declinations

Citizens identified a universe of 6,287 Personal Lines Account and Coastal Account policies that were declined during the examination scope period. The universe consisted of 5,140 Personal Lines Account policies and 1,147 Coastal Account policies.

Personal Lines Account

A random sample of 116 declined policies from the Personal Lines Account was selected for review.

No exceptions were noted.

Coastal Account

A random sample of 114 declined policies from the Coastal Account was selected for review.

No exceptions were noted.

Rescissions

Citizens identified a universe of 22,550 Personal Lines Account and Coastal Account policies that were rescinded during the examination period. The universe consisted of 18,877 Personal Lines Account policies and 3,673 Coastal Account policies.

Personal Lines Account

A random sample of 116 rescinded policies from the Personal Lines Account was selected for review.

No exceptions were noted.

Coastal Account

A random sample of 115 policies from the Coastal Account was selected for review.

No exceptions were noted.

Replacement Cost Estimator and Coverage

Pursuant to Section 627.351(6)(a)3.d., F.S., a personal lines residential structure with a dwelling replacement cost value of \$700,000 or more, or a single condominium unit with a combined dwelling and contents replacement cost value of \$700,000 or more is not eligible for coverage with Citizens. This limitation does not apply in certain counties where a reasonable degree of competition is determined not to exist. On December 22, 2014, OIR issued consent order 165625-14 notifying Citizens that a market analysis was performed. OIR analyzed data from insurers writing personal residential coverage and agents representing affected policyholders. Utilizing the Herfindahl-Hirschman Index, OIR determined that a reasonable degree of competition did not exist in Miami-Dade or Monroe counties and policies otherwise eligible for coverage with Citizens in those counties are not rendered ineligible. In accordance with the statute, in those counties, a personal lines residential structure with a dwelling replacement cost of less than \$1 million, or a single condominium unit with a combined dwelling and contents replacement cost of less than \$1 million, is eligible for coverage with Citizens.

The property insurance industry utilizes various vendor products to evaluate dwelling characteristics and establish replacement cost values. Citizens utilizes an industry recognized Replacement Cost Estimator (“RCE”) to establish such values.

Replacement Cost Estimator

The RCE is an application developed by a third-party vendor. Citizens contracts for the use of this application by underwriters and agents to establish accurate replacement cost values. The application

is based on Florida-specific construction costs. Citizens indicated the RCE application is updated quarterly to reflect appropriate changes in construction costs and wages.

Percentage of Coverage Increases

Citizens was asked to provide the percentage of RCE coverage increases over time during the examination scope period.

Some of the cost change items monitored by the vendor include aluminum conduit, asphalt shingles, concrete block and drywall. A Citizens' leadership team meets quarterly to review the updates and determine the exact date to implement changes and ensure that agents are provided with adequate notice about the changes.

The estimated increase in coverage amounts during the examination scope period were as follows:

Personal Lines	
Average Increase 7/1/2020-6/30/2021	6.6%
Average Increase 7/1/2021-6/30/2022	14.1%
Average increase between 7/1/2020-6/30/2022	21.7%

Commercial Lines	
Average Increase 7/1/2020-6/30/2021	4.9%
Average Increase 7/1/2021-6/30/2022	15.9%
Average increase between 7/1/2020-6/30/2022	21.7%

The examiners determined that Citizens processes for underwriting both new and renewal policies appear to be effective and appropriately identify when dwelling replacement cost limits established by the RCE software exceed the maximum statutory limits to be eligible for coverage with Citizens.

When a new application is entered by the agent, if basic eligibility criteria is not met, the system automatically prevents the creation of a quote and submission of the application to Citizens. Citizens does not capture data on new applications that were deemed ineligible because the replacement cost value exceeded the maximum eligibility limit.

In the case of renewal, all policy replacement coverage amounts are subject to update based on standard inflation adjustment factors. These factors are provided by the RCE vendor and are based on market information regarding construction costs in Florida.

Statistics

The following table illustrates the number of policies declined, cancelled or nonrenewed during the examination scope period when a policy exceeded the maximum eligibility limit. The information is summarized and totaled by the Personal Lines Account ("PLA") and Coastal Account by year. Due to COVID-19, the statistics for July 1, 2020, through February 2021, are understated due to a moratorium on cancellations and nonrenewals.

Declinations			
	PLA	Coastal	Total
7/1/20 - 12/31/20	2	1	3
1/1/21 - 12/31/21	26	6	32
1/1/22 - 6/30/22	29	6	35
Three Year Total	57	13	70

Cancellations			
	PLA	Coastal	Total
7/1/20 - 12/31/20	0	0	0
1/1/21 - 12/31/21	693	274	967
1/1/22 - 6/30/22	394	130	524
Three Year Total	1,087	404	1,491

Nonrenewals			
	PLA	Coastal	Total
7/1/20 - 12/31/20	7	17	24
1/1/21 - 12/31/21	403	513	916
1/1/22 - 6/30/22	1,185	1,227	2,412
Three Year Total	1,595	1,757	3,352

All Termination Types			
	PLA	Coastal	Total
7/1/20 - 12/31/20	9	18	27
1/1/21 - 12/31/21	1,122	793	1,915
1/1/22 - 6/30/22	1,608	1,363	2,971
Three Year Total	2,739	2,174	4,913

No exceptions were noted.

Claims

The examiners reviewed the following types of claims received by Citizens during the examination scope period for compliance with Florida statutes:

- Non-catastrophe non-water claims with pay and claims without pay for the Personal Lines, Coastal and Commercial Lines Accounts;
- Hurricane Sally claims with payment, claims without payment and the first supplemental claims for the Personal Lines, Coastal and Commercial Lines Accounts;
- Managed Repair Program (“MRP”) water claims not caused by weather; and
- Citizens’ use of the mediation program for all claims.

Non-Catastrophe Non-Water Claims with Payment

Citizens identified a universe of 6,831 non-catastrophe non-water claims that were closed with payment during the examination scope period. The universe consisted of 5,922 claims from the Personal Lines Account claims, 893 claims from the Coastal Account claims and 16 claims from the Commercial Lines Account.

Personal Lines Account

A random sample of 109 non-catastrophe non-water claims from the Personal Lines Account that were closed with payment was selected for review.

Finding #2: The examiners determined that in one instance out of 109 claims reviewed, an error percentage of 0.92%, Citizens did not provide the Homeowner Claims Bill of Rights to the policyholder within 14 days after receiving an initial communication with respect to a claim, as required by Section 627.7142, F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure Homeowner Claims Bill of Rights are provided to policyholders within 14 days after receiving an initial communication with respect to a claim.

Finding #3: The examiners determined that in two instances out of 109 claims reviewed, an error percentage of 1.83%, Citizens did not notify the policyholder of the right to participate in the mediation program at the time a first party claim was filed, as required by Section 627.7015(2), F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure that policyholders filing first party claims are notified of the right to participate in the mediation program at the time the first party claim is filed.

Finding #4: The examiners determined that in one instance out of 109 claims reviewed, an error percentage of 0.92%, Citizens did not provide a reasonable explanation in writing to the policyholder of the basis for the denial of the claim, as required by Section 626.9541(1)(i)3.f., F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure that a reasonable explanation is provided in writing to the policyholder of the basis for the denial of a claim.

Coastal Account

A random sample of 105 non-catastrophe non-water claims from the Coastal Account that were closed with payment was selected for review.

Finding #5: The examiners determined that in one instance out of 105 claims reviewed, an error rate of 0.95%, Citizens did not to adopt or implement standards for the proper investigation of the claim, as required by Section 626.9541(1)(i)3.a., F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure the proper investigation of all claims.

Commercial Account

Citizens identified a universe of 16 non-catastrophe non-water claims from the Commercial Account that were closed with payment. The examiners selected all 16 claims for review.

No exceptions were noted.

Non-Catastrophe Non-Water Claims Without Payment

Citizens identified a universe of 6,735 non-catastrophe non-water claims that were closed without payment during the examination scope period. The universe consisted of 5,626 claims from the Personal Lines Account, 1,095 claims from the Coastal Account and 14 claims from the Commercial Lines Account.

Personal Lines Account

A random sample of 109 non-catastrophe non-water claims from the Personal Lines Account that were closed without payment was selected for review.

Finding #6: The examiners determined that in six instances out of 109 claims reviewed, an error percentage of 5.50%, Citizens did not provide the Homeowner Claims Bill of Rights to the policyholder within 14 days after receiving an initial communication with respect to a claim, as required by Section 627.7142, F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure that the Homeowner Claims Bill of Rights is provided to policyholders within 14 days after receiving an initial communication with respect to a claim.

Finding #7: The examiners determined that in two instances out of 109 claims reviewed, an error percentage of 1.83%, Citizens did not notify the policyholder of the right to participate in the mediation program at the time a first party claim was filed, as required by Section 627.7015(2), F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure that policyholders filing first party claims are notified of the right to participate in the mediation program at the time a first party claim is filed.

Coastal Account

A random sample of 107 non-catastrophe non-water claims from the Coastal Account that were closed without payment was selected for review.

Finding #8: The examiners determined that in five instances out of 107 claims reviewed, an error percentage of 4.67%, Citizens did not provide the Homeowner Claims Bill of Rights to the

policyholder within 14 days after receiving an initial communication with respect to a claim, as required by 627.7142, F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure that the Homeowner Claims Bill of Rights is provided to policyholders within 14 days after receiving an initial communication with respect to a claim.

Commercial Lines Account

Citizens identified a universe of 14 non-catastrophe non-water claims from the Commercial Lines Account that were closed without payment. The examiners selected all 14 claims for review.

No exceptions were noted.

Managed Repair Program

In June 2017, Citizens initiated a Managed Repair Program (“MRP”) to:

- Reduce the frequency of Assignment of Benefits (“AOB”) and litigation costs;
- Better control claim costs;
- Return policyholders to a pre-loss condition; and
- Facilitate the timely completion of repairs.

Citizens suspended use of MRP in September 2017 due to Hurricane Irma and relaunched it again on August 1, 2018. Policyholders opt into MRP by requesting an endorsement to their policy through their agent.

MRP offers services to new and renewal HO-3 and DP-3 policyholders with homes that have been damaged by water not related to weather. MRP consists of two parts: Emergency Water Removal Services (“EWRS”) and a Managed Repair Contractor Network. When a covered non-weather-related water loss is reported and if there is an MRP endorsement on the policy, EWRS will automatically be provided by Citizens for immediate remediation services to remove the water with no out-of-pocket expenses to the policyholder. If the cause of the non-weather-related water loss is confirmed as a covered loss, the policyholder is given the option to also utilize MRP for completion of the necessary repairs.

MRP allows policyholders to accept or decline repairs through Citizens’ network of approved vendors. For policyholders that opt into MRP, Citizens pays up to the policy limits for repairs subject to other policy limitations, no AOB’s are allowed under the program and repairs are guaranteed for five years by the third-party provider. Should a policyholder choose to opt out of MRP, EWRS are limited to \$3,000 and the reimbursement for all repairs is limited to \$10,000.

The contractors that participate in the Managed Repair Contractor Network are furnished to Citizens by a third-party vendor that ensures a robust and comprehensive credentialing process. To become eligible, contractors must satisfactorily complete all established credentialing requirements.

Contractors must provide Florida Division of Corporations documents, W-9 tax documents, conflict of interest disclosure forms, certificates of insurance, valid IICRC certifications in either applied structural drying technician or water damage restoration technician and proof of an active Florida Certified General Contractors License. Contractors must also pass criminal background screenings. Any contractor that fails to fully maintain these requirements is removed from the Managed Repair Contractor Network. Approved contractors must provide updated documents annually.

To measure and evaluate the effectiveness of MRP at achieving program goals, an incident report escalation process was established to document in-network contractor violations. The process tracks the contractor's adherence in several areas such as compliance with estimating guidelines and completion of accurate estimates; the prohibited use of AOBs; timely communications and appointments with policyholders; contractor conduct; correct permitting; quality of materials guidelines; contractor workmanship, reimbursement requests and repair time; and subcontractor quality of workmanship.

Citizens' Claims Quality Assurance team maintains seven Principal and Senior Quality Assurance Reinspectors and Auditors who evaluate the effectiveness of MRP by conducting onsite reinspections of completed work. Each month, a random sampling of projects is reviewed, and Citizens meets with network contractors three to four times per year to review the results of completed audits. Citizens has participated in several MRP Network Contractor Town Halls to have discussions with and obtain feedback from participating contractors. Citizens states that the program measures indicate that the performance of network providers have incrementally improved since the program's implementation in 2018.

Goal: Reduce the Frequency of AOB and Litigation Costs

Citizens was asked to describe how MRP is tracked and evaluated to determine if the frequency of AOBs is reduced. Citizens prohibits the use of AOBs for policyholders that opt into MRP. Policyholders were allowed to execute AOBs if they opted out of MRP. The examiners' review of the claim files determined that utilization of MRP reduced the use of AOBs by policyholders to zero.

Citizens was asked to describe how MRP tracks and evaluates to determine if litigation costs are reduced. Citizens was unable to provide information to confirm that litigation costs were reduced during the examination scope period. However, the examiners' review of the claim files indicate that the litigation frequency is less for policyholders that accepted MRP than for policyholders that did not accept MRP.

Goal: Better Control Claims Costs

Citizens was asked to describe how MRP is tracked and evaluated to determine if claim costs are better controlled. Citizens stated that MRP is designed to control specific line-item costs not overall claim costs. MRP claim estimates are created by a Citizens claims adjuster and the final estimate amount is agreed upon by the adjuster and the in-network contractor. The estimate amount for the Water Mitigation portion of MRP is prepared by the in-network contractor. A quality assurance review is conducted for all estimates greater than \$1,500 (when not operating during a catastrophe). Any discrepancies are communicated back to the in-network contractor for revision.

When a policyholder opts into MRP, Citizens directly reimburses the in-network contractor for completing the necessary repairs. Citizens stated that 1,544 reviews have been completed and water mitigation estimates reduced by \$368,000 since the program began.

The examiners' review of the claims files reflects that, while the overall costs associated with EWRS are less, the overall costs associated with claims where the policyholder accepted MRP have greater overall claim costs than those claims files where the program is not accepted. The examiners determined that the \$10,000 sublimit and \$3,000 water mitigation limit placed on claims where MRP was not accepted is the principal driver for the overall cost difference.

Goal: Return the Customer to a Pre-Loss Condition

Citizens was asked to describe how MRP is tracked and evaluated to determine if customers are returned to pre-loss conditions. Citizens stated that the success of the program is measured by customer satisfaction surveys known as the Voice of the Customer. Citizens established a 75% success goal for MRP. Analysis completed in July 2022 reflects 303 surveys were conducted, a 30.1% response rate for surveys completed during the prior quarter. The satisfaction surveys reflect a satisfaction score of 86%, exceeding the goal of 75%. Further, Citizen stated that at least 93% of all MRP assignments have not resulted in the escalation of an Incident Report requiring attention.

Citizens states that MRP is designed to be customer centric and allows policyholders the option of having a licensed and insured contractor complete both EWRS and build-back services at no additional cost to the policyholder. The burden on the policyholder of finding a licensed and insured contractor is removed from the process and the contractors are required to work within the specific guidelines to control costs.

Goal: Facilitate Timely Completion of Repairs.

Citizens was asked to describe how MRP tracks and evaluates to determine if completed repairs are facilitated timely. Citizens responded that this data is not tracked. However, Citizens' adjusters monitor MRP to ensure problems are handled appropriately and the third-party vendor managing the Managed Repair Contractor Network utilizes tools to track the progress of repairs.

Citizens identified a universe of 8,189 claims where policyholders accepted participation in MRP for claim resolution and a universe of 11,953 claims where policyholders declined participation in the MRP for claim resolution.

Accepted MRP Participation Claims

Citizens identified a universe of 8,189 claims from the Personal Lines and Coastal Accounts where the policyholder accepted participation in MRP. A random sample of 108 MRP claims was selected for review.

No exceptions were noted.

Declined MRP Participation Claims

Citizens identified a universe of 11,953 claims from the Personal Lines and Coastal Accounts where the policyholder declined participation in MRP. A random sample of 108 claims was selected for review.

No exceptions were noted.

Hurricane Sally Claims

On September 16, 2020, Hurricane Sally, a Category 2 storm, made landfall near Gulf Shores, Alabama and affected residents located in Florida's Panhandle. Since Hurricane Sally made landfall, OIR conducted a data call and published claims data filed by insurers. As of October 26, 2020, the last reporting date, insurers classified the status of those claims as follows:

- 29,382 claims closed with payment;
- 14,375 claims closed without payment; and
- 71,998 total claims reported.

Approximately 57,373 of the claims reported were claims for damage to personal and commercial residential properties, with the majority of the remaining claims, or 3,649 claims, for damage to commercial properties.

This section of the examination was initiated in the wake of Hurricane Sally to review and evaluate Citizens' handling of Hurricane Sally claims reported by policyholders during the examination scope period and focused on Citizens' compliance with the following specific key claims handling standards which directly impact policyholders and claimants:

- Timely communication with respect to claims;
- Timely payment of claims;
- Payment of statutory interest if instances of untimely payments occurred;
- Adjustment and payment of claims in accordance with the terms and conditions of the policy contract;
- Fair claim settlement practices;
- Maintaining reasonable claims records; and
- Adherence to internal claims processing standards.

As of October 26, 2020, in response to the Catastrophe Reporting data call, Citizens reported receiving a total of 2,069 Hurricane Sally claims or 2.87% of the total number of Hurricane Sally claims reported by all insurers as of that reporting date. As of October 20, 2022, the Florida Department of Financial Services Divisions of Consumer Services ("DFS") reported receiving a total of seven complaints related to Hurricane Sally from Citizens consumers. This represents 1.45% of the total number of complaints received from all consumers reporting hurricane complaints.

Total Reported Claims and Complaints			
Citizens' Claims	Total Claims	Citizens' Complaints	Total
2,069	71,998	7	483

A review of Citizens' consumer complaints by reason category, as assigned by DFS, reflects that:

- One complaint, or 14.29% of all Citizens complaints, was reported by a consumer experiencing a claim handling delay; and
- Six complaints, or 85.71% of all complaints, were attributed to requests made by Citizens or a policyholder to participate in mediation due to unresolved claim issues.

Consumer Complaints by Reason	
Mediation	6
Claim Handling Delay	1
Total	7

At the time of the reporting, the complaint related to a claim handling delay was closed after DFS explained Citizens' position to the consumer; and the mediation complaints were resolved in accordance with DFS' mediation program.

No notices were issued to OIR of alleged violations of the Florida Insurance Code.

This portion of the examination was designed to analyze the adherence of Citizens to specific key claims handling standards and the adherence of Citizens to its own claims processing standards.

In preparation for this portion of the examination, Citizens was requested to provide the total number, or universe, of Hurricane Sally claims reported with a Florida exposure during the examination scope period. Citizens reported receiving a total of 2,121 Hurricane Sally claims during that period. This count excludes claims that were submitted when a policy was not in force with Citizens.

To facilitate a thorough review of Citizens' claims files and to address with particularity the specific key claims handling standards discussed previously in this report, the claims universe was divided into three categories: claims closed with payment, claims closed without payment and supplemental claims. Each of the three categories were evaluated for compliance with the specific key claims handling standards.

Citizens reported the universe of claims for each category as follows:

- 1,606 claims closed with payment;
- 312 claims closed without payment; and
- 501 supplemental claims.

For purposes of this section, the selection of claims reviewed for each of the three categories was defined as follows:

- Claims Closed With Payment: The first or initial Hurricane Sally claim filed by the named insured, policyholder or legal representative during the examination scope period due to a loss occurring to a personal residential or commercial residential risk that was closed with payment

during the examination scope period.

- Claims Closed Without Payment: The first or initial Hurricane Sally claim filed by the named insured, policyholder or legal representative during the examination scope period due to a loss occurring to a personal residential or commercial residential risk that was closed without payment for any reason during the examination scope period. Reasons for closing a claim without payment could include but are not limited to claims valued at less than the policy's hurricane deductible, claims determined not to be covered by the policy or claims that were voluntarily withdrawn by the named insured or policyholder.
- Supplemental Claims: The first or initial Hurricane Sally supplemental claim filed by the named insured, policyholder or legal representative during the examination scope period. Section 627.70132(b), F.S. defines the term "supplemental claim" as a claim for additional loss or damage from the same peril which the insurer has previously adjusted or for which costs have been incurred while completing repairs or replacements pursuant to an open claim for which timely notice was previously provided to the insurer.

The examiners reviewed a total of 546 randomly selected Hurricane Sally claims.

The 546 selected claims consisted of:

- 217 claims closed with payment;
- 164 claims closed without payment; and
- 165 supplemental claims.

In reviewing materials for this report, the examiners relied on records provided by Citizens, including catastrophe claims information provided to OIR in its Catastrophe Reporting data calls.

Review for Compliance with Section 627.70131, F.S.

This portion of the examination focused on Citizens' compliance, with respect to its Hurricane Sally claims, with statutory requirements and timeframes found in Section 627.70131, F.S. The review evaluated the specific key claims handling standards of timely payment of claims; timely communication with respect to a filed claim; and payment of statutory interest, if required. Other specific key claims handling standards which were evaluated are discussed in the Findings section, below.

Section 627.70131, F. S., provides in pertinent part:

(7)(a) Within 90 days after an insurer receives notice of an initial, reopened, or supplemental property insurance claim from a policyholder, the insurer shall pay or deny such claim or a portion of the claim unless the failure to pay is caused by factors beyond the control of the insurer which reasonably prevent such payment. Any payment of an initial or supplemental claim or portion of such claim made 90 days after the insurer receives notice of the claim, or made more than 15 days after there are no longer factors beyond the control of the insurer which reasonably prevented such payment, whichever is later, bears interest at the rate set forth in s. 55.03. Interest begins to accrue from the date the insurer receives notice of the claim. The provisions of this subsection may not be waived, voided, or nullified by the terms of the insurance policy. If there is a right to prejudgment interest, the insured shall select whether to receive prejudgment interest or interest under this subsection. Interest is payable when the claim or portion

of the claim is paid. Failure to comply with this subsection constitutes a violation of this code. However, failure to comply with this subsection does not form the sole basis for a private cause of action.

To determine Citizens' adherence to these statutory requirements and timeframes, the examiners conducted detailed analyses of 546 claims. The examiners reviewed and analyzed each of the claims to determine if the claims were paid or denied within 90 days after Citizens received notice of the initial, reopened or supplemental claim. In accordance with the statute, the examiners also analyzed whether factors reasonably beyond the control of Citizens may have prevented payment of that claim within 90 days. In instances where factors reasonably beyond the control of Citizens existed, the claims were determined to have met the 90-day standard, as provided in Section 627.70131(7)(a), F.S. The examiners applied those statutory requirements and timeframes to each of the 546 randomly selected Hurricane Sally claims by category: 217 claims closed with payment; 164 claims closed without payment; and 165 supplemental claims.

Claims Closed With Payment

After reviewing 217 claims closed with payment, the examiners determined that when measuring from the date Citizens received notice of the first or the initial claim to the date the claim payment was made to the policyholder, Citizens paid 206 claims, or 95.0% of the claims closed with payment, in 90 days or less, in accordance with Section 627.70131(7)(a), F.S. Eleven claims were paid after 90 days.

Claims Closed With Payment	
Paid Within	Number of Claims
0-30 days	164
31-60 days	31
61-90 days	11
Over 90 days	11
Total Claims Reviewed	217

The examiners determined that 11 claims in the over 90 days category were not in violation of Section 627.70131(7)(a), F.S. because Citizens was pending receipt of documentation or communication needed from the policyholder or the policyholder's representative to resolve the claim. These factors were reasonably beyond the control of Citizens and the claim was determined to have met the 90-day standard.

The results of the examination determined that 217 of the 217 claims reviewed, or 100% of the claims closed with payment, complied with Section 627.70131(7)(a), F.S.

Claims Closed Without Payment

After reviewing 164 claims closed without payment, the examiners determined that when measuring from the date Citizens received notice of the first or the initial claim to the date the claim was denied,

Citizens denied 158 claims, or 96.3% of the claims closed without payment, in 90 days or less, in accordance with Section 627.70131(7)(a), F.S. Six claims were denied after 90 days.

Claims Closed Without Payment	
Closed Within	Number of Claims
0-30 days	126
31-60 days	24
61-90 days	8
Over 90 days	6
Total Claims Reviewed	164

The examiners determined that the six claims in the over 90 days category were not in violation of Section 627.70131(7)(a), F.S. because Citizens was pending receipt of documentation or communication needed from the policyholder or the policyholder’s representative to resolve the claim. These factors were reasonably beyond the control of Citizens and the claim was determined to have met the 90-day standard.

The results of the examination determined that 164 of the 164 claims reviewed, or 100% of the claims closed without payment, complied with Section 627.70131(7)(a), F.S.

Supplemental Claims

After reviewing 165 supplemental claims, the examiners determined that when measuring from the date Citizens received the first or initial supplemental claim to the date the claim was paid or denied, Citizens paid or denied 141 claims, or 85.5% of the supplemental claims, in 90 days or less, in accordance with Section 627.70131(7)(a), F.S. Twenty-four claims were paid or denied after 90 days.

Supplemental Claims	
Paid Within	Number of Claims
0-30 days	83
31-60 days	40
61-90 days	18
Over 90 days	24
Total Claims Reviewed	165

The examiners determined the remaining 24 claims in the over 90 days category were not in violation of Section 627.70131(7)(a), F.S. because Citizens was pending receipt of documentation or

communication needed from the policyholder or the policyholder's representative to resolve the claim or the claim was in litigation or participating in the appraisal process. These factors were reasonably beyond the control of Citizens and the claims were determined to have met the 90-day standard.

The results of the examination determined that 165 of the 165 claims reviewed, or 100% of the supplemental claims, complied with Section 627.70131(7)(a), F.S.

Other Hurricane Sally Claims Findings

The following findings, or violations, are compiled from the examiners' analysis of Citizens' adherence to specific key claims handling standards. Each finding includes Citizens' response to each violation, and, in certain cases, additional conclusions made, when necessary.

The statutory standards that were reviewed are Section 627.70131(1)(a), F.S., requiring the timely acknowledgement of claims communications, Section 626.877, F.S., requiring the adjustment of claims in accordance with the terms and conditions of the insurance contract, and Section 626.9541, F.S., that defines unfair trade practices.

Claims Closed With Payment

Citizens identified a universe of 1,606 Hurricane Sally claims closed with payment during the examination scope period. The universe consisted of 589 claims from the Personal Lines Account, 1,012 claims from the Coastal Account and five claims from the Commercial Account.

Personal Lines Account - A random sample of 105 Hurricane Sally claims from the Personal Lines Account that were closed with payment was selected for review.

No exceptions were noted.

Coastal Account - A random sample of 107 Hurricane Sally claims from the Coastal Account that were closed with payment was selected for review.

Finding #9 : The examiners determined that in one instance out of 107 policies reviewed, an error percentage of 0.93%, Citizens did not provide the Homeowner Claims Bill of Rights to the policyholder within 14 days after receiving an initial communication with respect to a claim, as required by Section 627.7142, F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure Homeowner Claims Bill of Rights are provided to policyholders within 14 days after receiving an initial communication with respect to a claim.

Commercial Lines Account - Citizens identified a universe of five Hurricane Sally claims from the Commercial Lines Account that were closed with payment. The examiners selected all five claims for review.

No exceptions were noted.

Claims Closed Without Payment

Citizens identified a universe of 312 Hurricane Sally claims that were closed without payment during the examination scope period. The universe consisted of 80 claims from the Personal Lines Account, 230 claims from the Coastal Account and two claims from the Commercial Lines Account.

Personal Lines Account - Citizens identified a universe of 80 Hurricane Sally claims from the Personal Lines Account that were closed without payment. The examiners selected all 80 claims for review.

Finding #10: The examiners determined that one instance out of 80 files reviewed, an error percentage of 1.25%, Citizens did not notify the policyholder of the right to participate in the mediation program at the time a first party claim was filed, as required by Section 627.7015(2), F.S.

Citizens Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure that policyholders filing first party claims are notified of the right to participate in the mediation program at the time a first party claim is filed.

Coastal Account - Citizens identified a universe of 230 Hurricane Sally claims from the Coastal Account that were closed without payment during the examination scope period. A random sample of 82 claims was selected for review.

No exceptions were noted.

Commercial Lines Account - Citizens identified a universe of two Hurricane Sally claims from the Commercial Lines Account that were closed without payment during the examination scope period. The examiners selected both claims for review.

No exceptions were noted.

Supplemental Claims

Citizens identified a universe of 501 Hurricane Sally supplemental claims during the examination scope period. The universe consisted of 146 claims from the Personal Lines Account, 353 claims from the Coastal Account and two claims from the Commercial Lines Account.

Personal Lines Account - A random sample of 80 Hurricane Sally supplemental claims from the Personal Lines Account was selected for review.

No exceptions were noted.

Coastal Account - A random sample of 84 Hurricane Sally supplemental claims from the Coastal Account was selected for review.

Finding #11: The examiners determined that in four instances out of 84 policies reviewed, an error percentage of 4.76%, Citizens did not timely acknowledge receipt of a claims communication within 14 calendar days, as required by Section 627.70131(1)(a), F.S.

Citizens' Response: Citizens agreed with the finding.

Recommendation: Citizens should ensure that claims communications are acknowledged within 14 calendar days.

Commercial Lines Account - Citizens identified a universe of two Hurricane Sally supplemental claims from the Commercial Lines Account that were closed without payment during the examination scope period. The examiners selected both claims for review.

No exceptions were noted.

Mediation

To address a critical need for the effective, fair and timely handling of residential property claims in Florida, the Florida legislature enacted Section 627.7015, F.S. which set forth a nonadversarial alternative dispute resolution procedure for conducting mediation claim resolution conferences. Residential property mediation allows policyholders to settle disputes relating to all residential property claims. Mediation is a pre-appraisal and pre-suit process that allows policyholders to meet with their insurers in an informal conference with a certified, neutral mediator who assists with resolving claim disputes. Administered by DFS, the outcome of mediation is non-binding to either party unless a settlement is reached, and the agreement is not rescinded within a certain timeframe. During the examination scope period, mediation could be requested only by the policyholder, as a first-party claimant, a third-party, as an assignee of the policy benefits, or the insurer. However, an insurer was not required to participate in mediation if it was requested by a third-party assignee. If requested by the policyholder, participation by legal counsel is permitted.

Citizens provided certain data related to the use of mediation which the examiners evaluated for this portion of the examination. The examiners determined that a small percentage of Citizens total claims result in mediation. Citizens data reflects 1,511 requests were received from consumers to participate in the mediation process, while Citizens reported submitting zero requests for mediation during the examination scope period.

Citizens provided the following statistics reflecting that 85.77% of the mediation conferences conducted during the examination period were completed.

Date Range	July 2020 – December 2020	January 2021 – December 2021	January 2022 – June 28, 2020	Total
Received	275	777	459	1,511
Closed	212	652	432	1,296
Open	63	125	27	215 / 14.23%

DFS data regarding the mediation program reflects 1,331 requests to attend residential property mediation were completed or closed during the examination scope period. The data reflects mediation resolution codes were assigned by DFS as follows:

Mediation Resolution Codes	Number Resolved	Percentage
Impasse	564	42.3%
Settled in Mediation	450	33.8%
Settled Prior to Mediation	133	10.0%
Withdrawn by Submitter	99	7.4%

Ineligible for Mediation	30	2.3%
Policyholder Did Not Attend Mediation	28	2.1%
Ineligible for Mediation due to Litigation	14	1.1%
Insufficient Information	9	0.7%
Withdrawn Before Mediation	3	0.2%
Mediation Declined-Third Party Request	1	0.1%
Total	1,331	100%

DFS provides the following definitions for the mediation results listed above.

- Impasse – Occurs when the two sides negotiating an agreement are unable to reach an agreement and become deadlocked;
- Settled in Mediation – Occurs when the parties agree to settle their dispute during a mediation conference;
- Settled Prior to Mediation – Mediation was requested, and the parties were able to reach an agreement prior to a conference;
- Withdrawn by Submitter – The submitter withdrew the mediation request after a mediator was assigned;
- Ineligible for Mediation – DFS determined the request to participate in mediation was invalid based on certain statutory requirements of the program;
- Policyholder Did Not Attend Mediation – The policyholder did not attend the scheduled mediation conference;
- Ineligible for Mediation due to Litigation – DFS determined the request to participate in mediation was ineligible as litigation had commenced;
- Insufficient Information – The information received regarding a request for mediation was insufficient;
- Withdrawn Before Mediation – The submitter withdrew the mediation request prior to the assignment of a mediator by DFS; and
- Mediation Declined – Third Party Request – The insurer declined to participate in mediation because the party requesting mediation was a third party (such as an assignee).

The above data indicates that of the 1,147 mediation conferences completed, Citizens settled eligible claims either prior to or during the mediation conference 51% of the time and was unable to settle eligible claims due to impasse 49% of the time.

No exceptions were noted.

Litigation Review

As part of the examination, Citizens provided certain data related to litigated claims during the examination scope period. The purpose of the review was to evaluate the concentration of lawsuits and claims by county to determine if similarities exist or if anomalies occur. The analysis was conducted by OIR.

To conduct the analysis, the data set was separated into three time periods, as follows:

- Period 1: July 1, 2020, through December 31, 2020;
- Period 2: January 1, 2021, through December 31, 2021; and
- Period 3: January 1, 2022, through June 30, 2022.

The analysis reviewed three main categories of data:

- Total number of claims reported for each period;
- Total number of lawsuits filed during each period; and
- Total number of policies in force (“PIF”) reported for each period.

A lawsuit ratio was derived by dividing the total number of claims by the total number of lawsuits. The results are presented as percentages of the total values for each period. (For example: if Miami-Dade County claims are shown as 29.1% for Period 1, this represents 29.1% of all claims filed for that period in the state of Florida.)

Claims Findings

Overall, the percentage of Citizens claims reported in Palm Beach, Broward and Miami-Dade counties (“Tri-County”) decreased throughout the examination scope period. While the overall percentages for the Tri-County area decreased for each period, Palm Beach County realized a 6.9% share of claims in Period 1 which increased to an 8.5% share in claims for Periods 2 and 3.

The percentage of claims reported in the Tri-County area by period were:

- Period 1: 60.5%
- Period 2: 57.6%
- Period 3: 50.7%

Seminole, Orange, Lake and Osceola (“SOLO”) counties saw an increase in the percentage of claims reported. The percentage of claims reported in Orange County quadrupled from Period 1 to Period 3 from 1.0% in Period 1 to 4.1% in Period 3.

The percentage of claims reported in the SOLO counties by period were:

- Period 1: 2.1%
- Period 2: 4.5%
- Period 3: 8.0%

Other counties experiencing increased percentages of reported Citizens claims were:

- Hillsborough County: Period 1 = 4.9% to Period 3 = 6.0%
- Highlands County: Period 1 = <0.1% to Period 3 = 1.8%

Lawsuit Findings

As with the claims data, the percentage of lawsuits filed in the Tri-County area decreased over time while the overall percentage of lawsuits filed increased in the SOLO counties. While the overall percentages for Tri-County decreased, Miami-Dade County decreased in Period 1 from 55.7% of lawsuits to 46.0% of lawsuits filed in Period 3. The percentage of lawsuits filed in Palm Beach County decreased from Period 1 to Period 2 but increased again in Period 3.

The percentage of lawsuits filed in the Tri-County area by period were:

- Period 1: 87.2%
- Period 2: 84.2%
- Period 3: 76.7%

During the same period, the SOLO counties saw an increase in the percentage of filed lawsuits. Each of the four SOLO counties realized an increased percentage of filed lawsuits during each period. The percentage of lawsuits filed in Orange County increased from 0.4% in Period 1 to 1.8% in Period 3.

- Period 1: 0.7%
- Period 2: 1.3%
- Period 3: 3.5%

Other counties experiencing increased percentages of reported litigation were:

- Hillsborough County: Period 1 = 4.9% to Period 3 = 8.4%
- Lee County: Period 1 = 0.5% to Period 3 = 1.3%

Litigation Ratio Findings

While the analysis indicates reducing litigation percentages in the Tri-County area, the percentage of lawsuits filed is not decreasing at the same rate as the percentages of claims filed. The established litigation ratios indicate the following pattern:

- Miami-Dade County reported a lawsuit every 2.6 claims in Period 1 and in Period 3, every 1.9 claims;
- Broward County reported a lawsuit every 4.9 claims in Period 1 and in Period 3, every 2.9 claims; and
- Palm Beach County reported a lawsuit every 5.3 claims in Period 1 and in Period 3, every 5.5 claims.

With increasing percentages in the SOLO counties, the litigation ratios also identify this trend:

- Orange County reported a lawsuit every 12.6 claims in in Period 1 and in Period 3, every 8.7 claims;
- Lake County reported a lawsuit every 21.0 claims in Period 1 and in Period 3, every 12.4 claims;
- Osceola County reported a lawsuit every 18.2 claims in Period 1 and in Period 3, every 7.8 claims; and
- Seminole County reported a lawsuit every 25.0 claims in Period 1 and in Period 3, every 9.1 claims.

Other counties of note:

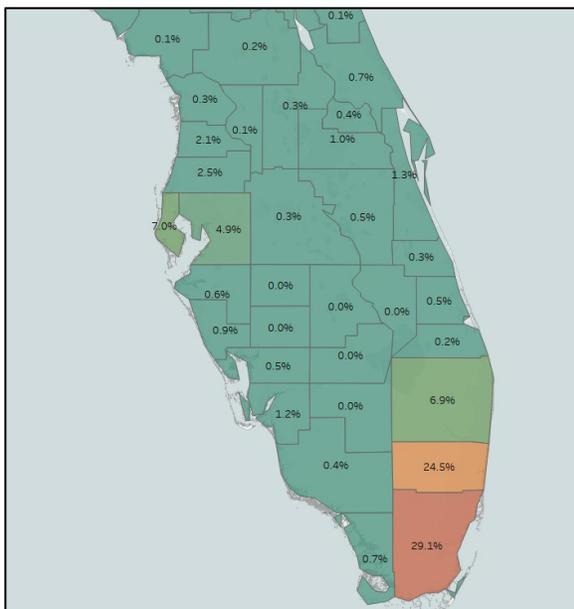
- Duval County reported a lawsuit every 23.0 claims in Period 1 every 23.0 and in Period 3, every 10.9 claims;
- Hernando County reported a lawsuit every 21.4 claims in Period 1 and in Period 3, every 12.4 claims; and
- Pinellas County reported a lawsuit every 25.4 claims in Period 1 and in Period 3, every 11.0 claims.

Conclusion

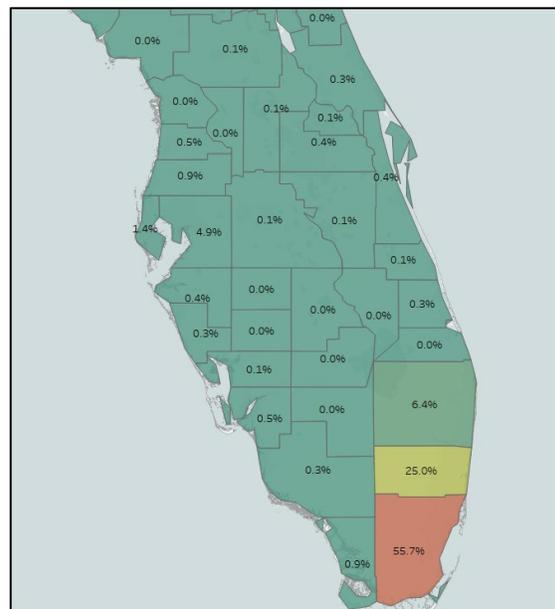
While the majority market share for Citizens claims and litigation remains in the Tri-County area, SOLO counties and the Tampa metropolitan area have realized gains in the percentage of policies in force issued by Citizens. The number of lawsuits filed in these counties outpaces the increased number of policies in force. With the percentage of policies in force decreasing over time in the Tri-County area, litigation ratios also continued in a negative trend.

The increase in litigation is not limited to these two populated regions. Of the 33 counties that reported at least one claim and at least one lawsuit filed for each period, two-thirds of the counties recorded lower litigation ratios (meaning the rate of litigation is increasing) in the third period than the first. The Tri-County market share for policies in force decreased from 53.7% in Period 1 to 48.2% in Period 3. SOLO counties policies in force increased from 2.3% in Period 1 to 5.5% in Period 3.

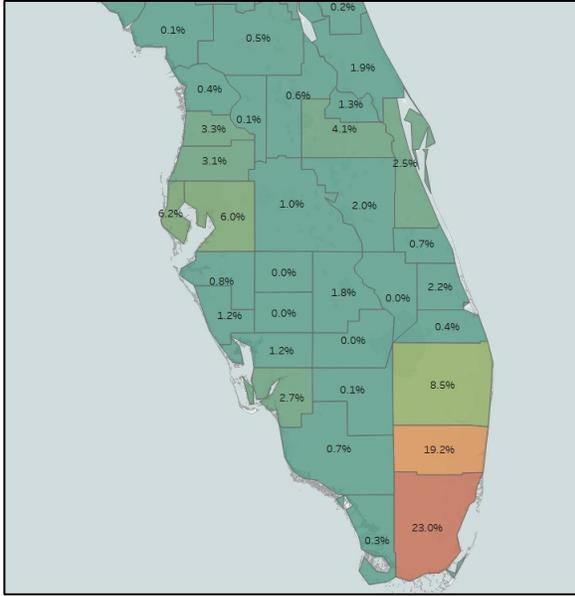
Based on this analysis, it was determined that the concentration of lawsuits and claims by county contains anomalies and is not based on the number of policies in force or the number of claims filed by Citizens policyholders in any given county.



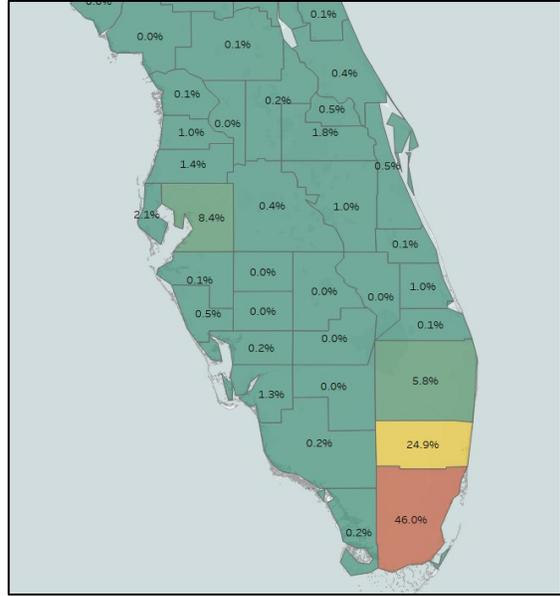
Period 1 - Market Share (Claims)



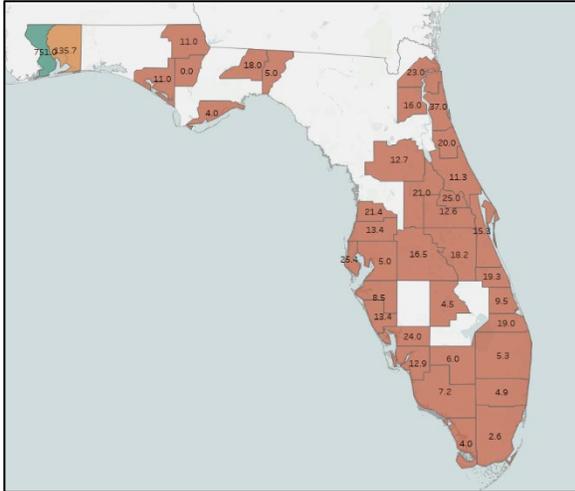
Period 1 – Market Share (Litigation)



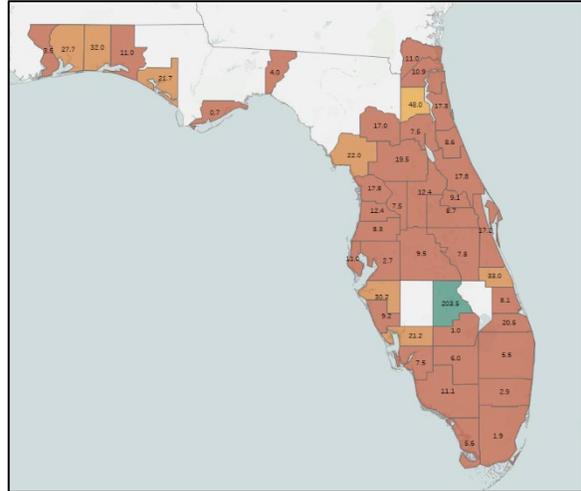
Period 3 – Market Share (Claims)



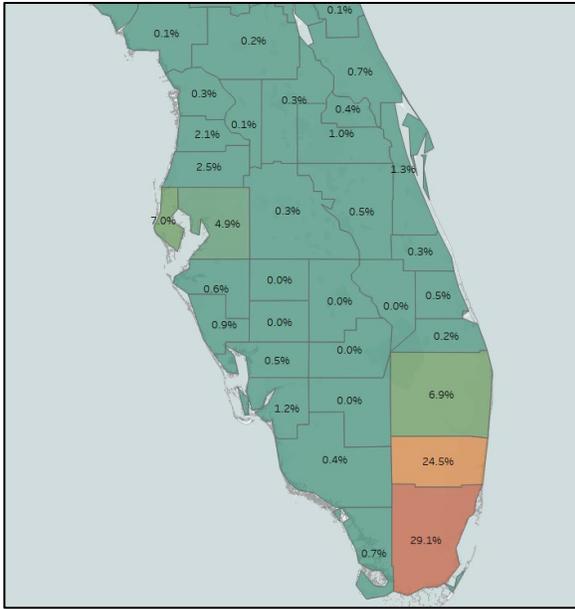
Period 3 – Market Share (Litigation)



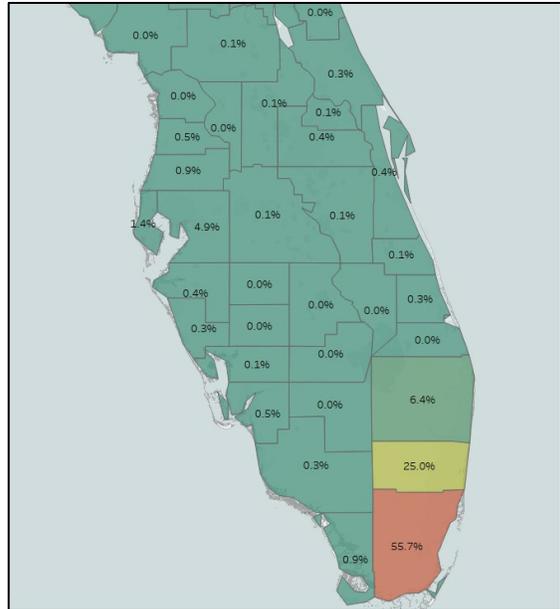
Litigation Ratio – Period 1



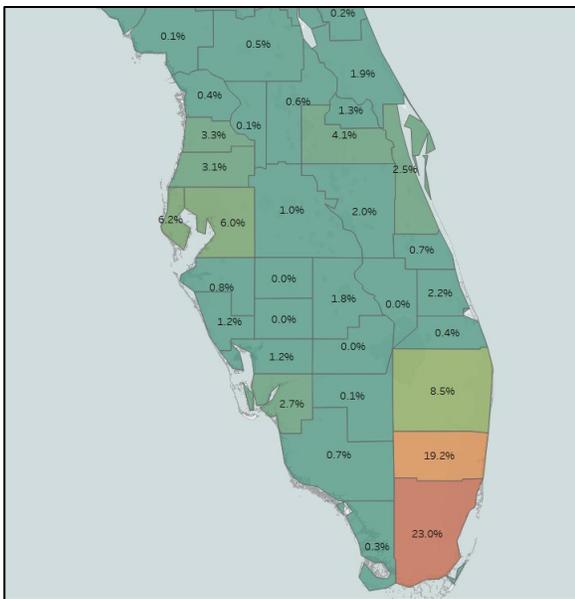
Litigation Ratio – Period 3



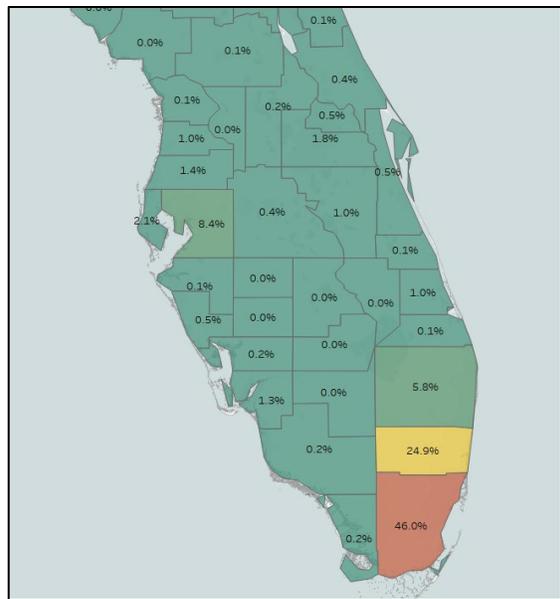
Period 1 - Market Share (Claims)



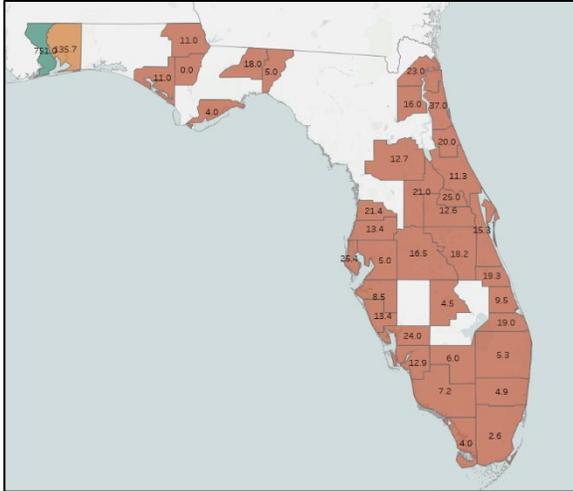
Period 1 – Market Share (Litigation)



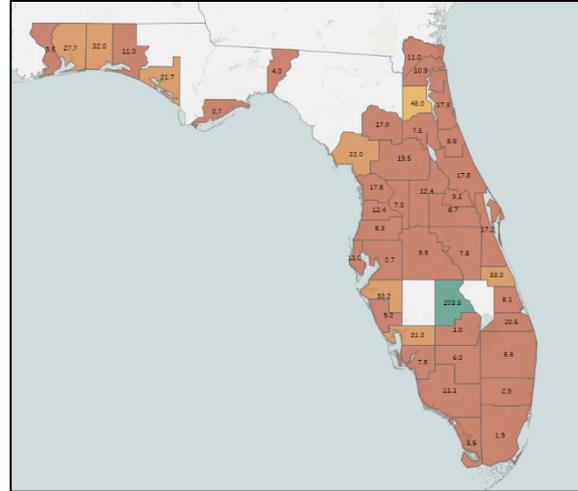
Period 3 – Market Share (Claims)



Period 3 – Market Share (Litigation)



Litigation Ratio – Period 1



Litigation Ratio – Period 3

Senate Bill 76

In 2021, the Florida legislature enacted Senate Bill 76 (“SB-76”) to address certain property insurance matters, such as:

- Prohibited property insurance practices by contractors;
- The examination by OIR of insurer affiliates;
- Insurer reporting of residential property insurance closed claim date to OIR;
- Insurer payments to insurer affiliates;
- Managing General Agents;
- Public adjusting;
- Actual cash value coverage;
- Notice of property insurance claims;
- Notice of insurance litigation;
- Insurance holding companies; and
- Citizens Property Insurance Corporation.

Citizen stated the major impact from SB-76 is that, as a condition precedent to filing a suit under a property insurance policy, a policyholder must provide a ten-day written Notice of Intent (“NOI”) to initiate litigation regarding the loss. An insurer has the responsibility to respond in writing within ten business days after receiving the NOI, and the response requirement of the insurer is contingent upon whether the insurer denied coverage for the claim or for other reasons such as disputes related to the claim’s scope and price. If the NOI alleges an act other than denying coverage occurred, the insurer must respond by making a settlement offer or requiring the claimant to participate in appraisal or another method of alternative dispute resolution. If the appraisal or alternative dispute resolution process is not concluded within 90 days after the 10-day notice of intent to initiate litigation, the claimant may immediately file suit.

Citizens provided the following data regarding the positive impacts of SB-76 since July 1, 2021:

Comments	Results
Total # NOIs received since 7/1/2021	6,595
# NOIs received due to a coverage denial	4,946 (75%) (Coverage Denials Maintained)
# NOIs received due to a scope and price dispute	1,648 (25%)
# NOIs negotiated and settled by Citizens NOI Team	118
# NOIs referred to Appraisal	486
Total # of claims diverted from litigation	604
Average cost of Legal spending for all causes of loss per matter in 2021	\$39,094

Of the 1,648 NOIs that were related to scope and price disagreements, Citizens provided the following data:

Scope and Price	Results
Total # NOIs received due to scope and price	1,648 (25%)
# NOIs negotiated and settled by Citizens NOI Team	118
# NOIs referred to Appraisal	486
Remaining falling into the below categories:	1,044
(1) Policy limits were reached prior to receipt of the NOI;	
(2) Additional policy limits were agreed to by the NOI adjuster;	
(3) Improper NOI received (NOI was filed by vendor and not the policyholder; or	
(4) NOI was received however the claim is in appraisal prior to the receipt of the NOI.	

No exceptions were noted.

Recommendations

The following recommendations were compiled from the findings contained within this report. Citizens is to provide a written report to OIR of actions taken on each recommendation within 60 days of Citizens' receipt of OIR's Final Examination Report.

It is recommended that Citizens:

- Ensure the RF Statistical Reports are filed annually with DIF before March 1st;
- Ensure Homeowner Claims Bill of Rights are provided to policyholders within 14 days after receiving an initial communication with respect to a claim;
- Ensure that policyholders filing first party claims are notified of the right to participate in the mediation program at the time a first party claim is filed;
- Ensure that a reasonable explanation is provided in writing to the policyholder of the basis for the denial of a claim;
- Ensure the proper investigation of all claims;
- Ensure that claims communications are acknowledged within 14 calendar days.

Conclusion

The purpose of this market conduct examination was to determine Citizens' compliance with its plan of operation and its internal operational procedures. A detailed review of Citizens' procedures, operations, activities and records reflect 11 findings, which were determined to be below the permissible error ratio established by the Insurer Conduct Penalty Guidelines in Rule 69O-142.011(2)(k), (2)(l) and (4)(g), Florida Administrative Code ("F.A.C.").

Examination Final Report Submission

This examination report and the Findings contained therein are the result of factual, data-driven analysis of Citizens' current processes and procedures, corporate records, general operations, internal audits, underwriting and rating, clearinghouse and depopulation, agent practices, and claims. This report contains a number of recommendations for improvement and remediation that should be implemented by Citizens. The Office hereby issues this final report based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by Citizens.



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