THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

CITIZENS PROPERTY INSURANCE CORPORATION

September 24, 2012

NAIC COMPANY CODE: 10064

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EXECUTIVE SUMMARY

The Office of Insurance Regulation (Office) Market Investigations, Examination Resources, LLC, and Mary Beth Perry, Esq., performed a market conduct examination of Citizens Property Insurance Corporation (Citizens or the Company) pursuant to Section 624.3161, Florida Statutes. The scope period of this examination was July 1, 2010 through June 30, 2012. Pursuant to Section 627.351(6)(l), Florida Statutes, this report is being prepared for submission to the President of the Senate and the Speaker of the House of Representatives of the Florida Legislature.

The purpose of this market conduct examination is to determine Citizens' compliance with Florida Statutes, the Florida Administrative Code, its plan of operation, and its internal operational procedures. In addition, the Office reviewed procurement procedures and travel expenses.

Review of complaints, policies, cancellations/nonrenewals and claims indicates minor procedural and/or operational system errors. The errors are summarized on page 26.

Review of procurement process indicates that while Citizens appears to follow its procurement procedure policies, it does not appear to place any emphasis on price negotiation, instead relying on best and final offer. Citizens allocates millions of dollars to vendor contracts and these vendors are integrally involved in every business unit of Citizens. Approximately 20 cents of every premium dollar collected by Citizens is being paid to vendors when total known contract amount is compared to premium and surcharges collected.

The procurement process has continued to develop over the years, with significant change occurring in January 2011. These revisions provide stricter guidelines to which Citizens must adhere when the procurement method is deemed as "emergency" or "sole source" and exempt from the competitive solicitation process. Additionally, the guidelines now require a Board member be an observer in Citizens' solicitation process for purchases over $2 million.

The majority of the Office's current review focuses on how Citizens issues policies and responds to complaints and claims; and in these areas, Citizens operates in a timely manner, responding to consumers within one or two days with few errors. Our review of the procurement and of travel expense reimbursement processes, however, indicates that, while Citizens follows its written procedures, existing procedures may be deficient. Management must be attentive to their fiduciary responsibilities, and design and execute procedures reflective of this duty.

Upon conclusion of the on-site portion of this examination, the Office commenced an examination of Citizens' application of windstorm mitigation credits and an expanded review of Accounting, Office of Internal Audit and Information Systems. A more detailed report of these areas will be produced under separate cover when complete.

SCOPE OF EXAMINATION

An operational review of current systems and controls was performed including evaluation of Citizens' processes for corporate records, general operations, investments, depopulation, agent practices, complaint handling, underwriting and rating, cancellations/non-renewals, general claims excluding sinkholes, sinkhole claims, reserves, reinsurance, anti-fraud, and legislative changes. The Procurement review of the examination was contracted separately by the Office and was completed by Mary Beth Perry.

During the planning and review phases of the examination, Citizens provided documentation on its internal controls. Included with this information were the two financial audit reports completed in 2010 and 2011 by the Certified Public Accounting firm of Johnson Lambert & Co. LLP, who performed detailed testing of internal controls. This examination incorporated the testing of internal controls performed by the Company's Office of Internal Audit and by Johnson Lambert & Co. LLP.

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

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

HISTORY

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

Citizens operates under the supervision of an eight member Board of Governors (Board) pursuant to a Plan of Operation. Florida's Governor, Chief Financial Officer of the state of Florida, Speaker of the

House and President of the Senate each appoint two individuals as members of the Board for three year terms. Each Board member serves at the pleasure of his or her appointing officer.

The examination testing procedures included:

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

GENERAL OPERATIONS / ENTERPRISE RISK MANAGEMENT

An operational review of current systems and controls was performed including evaluation of Citizens' processes for general operations. In addition to discussions with management, review of the company's organizational structure and business and economic trends, was conducted.

Documentation reviewed was provided by the Company, the independent auditors, the Office of Internal Audit, and other external sources. This section addresses areas not included in the Investment Section of the examination report. The examination testing procedures included reviews of deficit assessments and the process of maintaining proper business insurance.

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

Findings:

The Company has adequate controls and utilizes the Manager of Risk & Safety in its Enterprise Risk Management group to among other responsibilities, monitor and maintain various forms of business insurance for the Company. The Company maintains those types of insurance customary to its operation.

Subsequent Event: In October 2012, Citizens dismantled its Office of Corporate Integrity announcing that those duties were being redistributed throughout the Company.

INVESTMENTS

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

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

In 2010 and 2011, Citizens' investment guidelines were separated into two parts: Investment Policy for Operating Funds and Taxable Pre-Event Bonds Proceeds, and Investment Policy for Tax Exempt Pre-Event Bonds Proceeds. In 2012, four additional investment policies were issued: Investment Policy for Tax Exempt Claims Paying Fund, Investment Policy for Taxable Claims Paying Fund, Investment Policy for Tax Exempt Liquidity Fund, and Investment Policy for Taxable Liquidity Fund. All guidelines maintain a conservative nature in their investment strategies.

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

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

The areas reviewed were:

- Treasury: Treasury management, bank reconciliations, accounts payable, cash and cash disbursements, and payment services;
- Investments: Investment accounting, account reconciliation, investment policies and procedures, and financial reporting;
- Service Organization Controls (SOC) auditing standard review: Finance SOC review procedures and SOC report review checklist;
- Reconciliations: Walkthroughs and process narratives for the various bank and investment reconciliations; and,
- Management Reporting: Process narratives and process maps for the monthly reporting to the Board of Governors.

Citizens has adequate documentation of controls for the cash and investments processes. The documentation includes narratives, process maps, and walkthroughs. There were no material gaps or weaknesses in controls identified by either the External Auditor or the Office of Internal Audit.

The Company has a process in place for monthly review of investments by the investment manager. The investment manager advises the Chief Financial Officer (CFO) and the Finance and Investment Committee on securities that display any potential problems. The External Auditor determined through

its testing that the estimate of fair value for those securities not trading are reasonable and have been consistently applied.

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

The External Auditors performed detailed testing on cash and investment accounts. No exceptions were noted by either the Auditor or the Examiner.

PROCUREMENT

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

- Verification that the Company's procurement processes conformed with Section 627.351(6)(e), Florida Statute;
- Verification that the Company's procurement policies and procedures were being implemented.

Section 627.351(6)(e), Florida Statutes states:

- Purchases that equal to or exceed $2,500, but are less than $25,000, shall be made by receipt of written quotes, written record of telephone quotes, or informal bids, whenever practical.
- Purchases that are greater than $25,000 shall be subject to competitive solicitations (exceptions to the competitive solicitation process exist for purchases provided by a sole-source, deemed an emergency, statutorily exempt, a financial service provider, or a vendor operating under an existing government contract); and,
- Purchases that are greater than $100,000 are subject to Board of Governors approval.

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

In July 2010, Citizens created an internal division, the Enterprise Planning & Project Portfolio Management Division (EPPPM), to provide centralized coordination across its business units to evaluate and prioritize the use of resources to new projects. The threshold for treating a procurement that is not part of a larger initiative as an enterprise project is whether a competitive solicitation is needed.

As of June 2012, Citizens had 485 vendor contracts with a known contract value of over $604,000,000. Of these, 285 contracts came from Citizens' 35 competitive solicitations which were offered from July 2010 to June 2012; the remaining contracts followed other procurement processes authorized by Citizens' purchasing policy, such as using State Term Contracts offered by the Florida Department of

Management Services. All of the 285 contracts in excess of $100,000 received Board of Governors' approval.

From July 2010 through June 2012, Citizens had 3,261 purchase orders, for a total of $106,991,065.80. These purchase orders are for either one time purchases, recurring purchases, or purchases for an ongoing duration. Purchase Orders are subject to Citizens' procurement policies.

As of June 2012, Citizens' vendor contract count is broken down as follows: 485 active vendor contracts, 418 Purchase Orders contracts, with an engagement for an ongoing duration totaling 903 active contracts. Included in that number are 499 contracts that have been exempt from the competitive solicitation process because they meet one of the statutory exemption requirements: sole–source, emergency, statutory exemption, or the vendor has an existing government contract. Citizens' vendors are intertwined with nearly every aspect of Citizens' operations.

Findings: In some instances there was a large price differential between the chosen vendor's contract price and a lower bidder's price. Due to these large gaps Citizens was asked about the bidding and negotiation process with the vendors and whether they request the vendor to lower their proposed contract price. Citizens responses to these questions were vague, referring the Examiner to their procedure of requesting vendors to give them their "Best and Final Offer".

Since January 2011, two changes have added to the oversight of the procurement policy: 1) a member of the Board of Governors is to be an observer in Citizen's solicitation process for purchases over $2 million, and 2) more emphasis is being placed on vendor price negotiations.

Recommendation: Citizens should follow contract solicitation guidelines contained in Chapter 287, Florida Statutes, for their procurement guidelines and also negotiate for the lowest, best price available.

Subsequent Event: Subsequent to the conclusion of the on-site portion of this examination, it was determined that a more detailed review of the procurement process was warranted. An additional report of this area will be provided separately and subsequently to this report.

REAL ESTATE LEASES REVIEW

Citizens has 1,196 employees, and leases office space in Tallahassee, Tampa and Jacksonville. As of April 2012, Citizens leases 211,000 square feet of office space in Jacksonville, 60,000 square feet in Tampa and 96,000 square feet in Tallahassee occupying approximately 367,000 square feet of office space with a base lease cost of $449,122 per month. Citizens budgeted $7,900,000 for lease payments for 2012.

Citizens has relocated its employees out of the Tallahassee Monroe Park Tower office location, but continues to pay $10,894 per month for unoccupied office space; such payments will continue until December 30, 2013.

Findings: While Citizens has stated that they are trying to sublease the Monroe Park Tower Office location, there has been no market interest. This expense represents payment by Citizens for unused office space until December 30, 2013.

TRAVEL AND EXPENSE REIMBURSEMENT REVIEW

Citizens operates under two different travel and expense reimbursement policies. One policy, for senior management and board members, has no maximum dollar amount for lodging and/or meal reimbursement but rather states that the expenses are expected to be "reasonable and appropriate". The second policy, for Citizens' employees who are not senior management, similarly states that expenses will be both "reasonable and appropriate". Further, this policy does not have a per diem for lodging; however, for meal reimbursement Citizens' makes a distinction for those employees who are above the Director level that their meal reimbursement is "reasonable and appropriate" while those employees that are classified under Director level have a stipulated per diem for meals.

Findings: During a random sampling of expense reports, three corporate credit card statements were reviewed. While expenses appear to comply with Citizens' policies and procedures, many were above the federal guidelines for reimbursement and others appear to be unwarranted expenses. Additionally, it is noted that there are many trips among the three Citizens' locations for employees to meet and/or discuss issues.

Recommendation: Citizens should increase supervision over spending and revise the reimbursement policies to adhere to more specific guidelines for travel and expense reimbursement. In addition, to reduce travel and per diem expenses, Citizens should encourage its employees to take advantage of video conferencing in lieu of face-to-face meetings.

Subsequent Event: Subsequent to the conclusion of the on-site portion of this examination, at the September 7, 2012 Board of Governors' meeting, the Board voted to amend its travel reimbursement policy.

Company Response: A more stringent travel policy that applies to all Citizens' employees and senior management was implemented in October 2012. During the first quarter of 2013, the Company is recommending to the Board of Governors adoption of the state travel standards and reporting requirements.

DEPOPULATION

The guidelines for depopulation were established by the Florida Legislature and are contained in Section 627.3511, Florida Statutes. The intent of this legislation was to reduce the number of property owners who have insurance coverage through Citizens by encouraging new or existing insurance companies to take out policies from Citizens. The following table shows the number of policies and amount of exposure removed from Citizens between January 1, 2003 and July 10, 2012:

Years	Policies Removed	Exposure Removed
2003	28,219	$8,140,681,906
2004	158,416	$30,663,076,480
2005	293,684	$53,658,840,059
2006	67,853	$15,637,589,369
2007	247,887	$68,259,426,361
2008	385,084	$106,870,490,165
2009	149,645	$37,784,506,743
2010	59,792	$13,888,913,857
2011	53,577	$12,057,882,629
2012*	84,339	$20,417,764,590
Totals	1,528,496	$367,379,172,159

*Through July 10, 2012.

As noted in the above table, Citizens' depopulation records indicate that the program declined significantly in 2009 through 2011 from its high point in 2008. The decline in depopulation is partly due to the liquidation of two companies in 2009, contraction by a large national insurer, general market retrenchment by authorized insurers and the competiveness of Citizens' rates in 2010.

The examination testing procedures included:

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

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

Subsequent Event: On December 4, 2012, Citizens verbally reported to the House Subcommittee on Insurance and Banking that new policies are being written in Citizens at a rate of approximately 300,000 to 350,000 policies per year.

AGENT PRACTICES

Citizens is a residual market program and does not employ a system to actively seek business. It focuses on communications, training, and compliance to facilitate its agents' customer service efforts. Citizens utilizes independent agents for its sales force and currently has approximately 8,500 agents authorized to write Citizens' policies. Agents must hold an active 0220 or 2044 Florida Resident Agent's License, or an active 0920 or 9044 Non-Resident Agent's License. Agents must be in good standing with the Department of Financial Services and at the time of appointment, hold an appointment with at least one authorized insurer writing new personal residential, commercial residential, or commercial non-

residential property coverage in Florida pursuant to Section 627.351(6)(c)14, Florida Statutes. Prior to appointment with Citizens, an agent must achieve a passing score on three technical testing modules, in addition to a compliance and general rules testing module that is unique to Citizens.

The examination testing procedures included:

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

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

COMPLAINTS REVIEW

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

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

Year	Number of Complaints
7/1/2010 – 12/31/2010	588
1/1/2011 – 12/31/2011	1,420
1/1/2012 – 6/30/2012	688
Totals	**2,696**

The examination testing procedures included:

- Reviewing Citizens' complaint handling procedures;
- Reviewing the complaint log of all complaints received during the scope of the examination; and,
- Reviewing a randomly selected sample of 105 complaints from the total population of complaints during the scope of the examination. The sample included 85 Department of Financial Service (DFS) complaints and 20 complaints received directly by the Company.

Examination Findings

There were seven instances where deviations from written procedures were identified. They are as follows:

1. Section 627.318, Florida Statutes. In one instance the Company misapplied funds to another policy in error. The issue was caused in part by the lien holder placing the incorrect policy number on the check; however, the payment was received by the Company on June 16, 2010, and on July 19, 2010, the Company told the insured that they had no record of such payment and to seek a copy of the check from the lienholder. The issue was finally resolved September 22, 2010.

   Company's Response: The Company expressed regret for the delay the insured encountered in having this issue corrected and noted that it appeared that the Company had been working to address the issue.

   Recommendation: This instance appears to be isolated in nature and does not appear to be a business practice issue and no additional corrective action is required.

2. Section 627.062, Florida Statutes. In one instance a policy incorrectly included a no prior insurance surcharge. The surcharge should not have been applied due to being a new home purchase. Citizens had received closing documents on December 17, 2010, so the cancellation notice should not have been sent on January 7, 2011. The cancellation notice was rescinded on January 13, 2011.

   Company's Response: The Company agreed with the finding. Due to processing times by the Underwriting Department, which was also impacted by the holidays in December and January, it did not have the opportunity to review and process the documentation uploaded on December 20, 2010, until January 13, 2011.

   Recommendation: This instance appears to be isolated in nature and does not appear to be a business practice issue and no additional corrective action is required.

3. Section 627.421, Florida Statutes. In one instance Citizens mishandled the issuance of a policy, which had to be rewritten.

   Company's Response: The Company agreed with the finding. Error was acknowledged in DFS response and offer was made by Company to rewrite the policy internally.

   Recommendation: This appears to be an isolated instance and no additional action is required.

4. Section 627.062, Florida Statutes. In one instance after re-inspection, it was determined that the policy would be amended, however, Citizens billed immediately, not at the next renewal. This was later corrected and billed at next renewal.

Company's Response: The Company agreed with the finding. An error was made and corrected per a DFS response provided on September 16, 2011.

Recommendation: This appears to be an isolated instance and no additional action is required.

5. Section 627.4091, Florida Statutes. In one instance Citizens had already received proof of roof update, however sent a nonrenewal notice. The notice was later rescinded.

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

   Recommendation: This appears to be an isolated instance and no additional action is required.

6. Section 627.062, Florida Statutes. In one instance wind mitigation credits had not been applied correctly for policy terms 2008 to 2012. Credits have been corrected.

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

   Recommendation: This appears to be an isolated instance and no additional action is required.

7. Section 627.062, Florida Statutes. In one instance after a re-inspection the type of construction classification was incorrectly changed from masonry to frame. This was later corrected.

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

   Recommendation: This appears to be an isolated instance and no additional action is required.

UNDERWRITING AND RATING REVIEW

New applications to Citizens must include an agent certification acknowledging that any policy may be taken out, assumed or removed from Citizens, and placed with an authorized insurer writing a policy that may not offer identical coverage. New applications also include applicant affirmation acknowledging that the application may be selected and coverage issued by an authorized insurer other than Citizens, unless the premium for coverage from the authorized insurer is more than 15% greater than the premium for comparable coverage from Citizens or an authorized insurer is not willing to write the risk at its approved rates. Existing policyholders have the option of remaining with Citizens regardless of the premium differential of an authorized insurer. This is consistent with Florida Statutes, as well as Citizens' Plan of Operation and Underwriting Rules and Procedures. Citizens has implemented takeout procedures that are described in the depopulation section of this report.

The examination testing procedures included:

- Reviewing Citizens' underwriting rules, practices and rates utilized during the scope period;
- Reviewing Citizens' Plans of Operation during the scope period;

- Reviewing randomly selected files to determine eligibility, compliance with Citizens' rule and rate filings, Florida Statutes, and Citizens' Plan of Operation; and,
- Reviewing randomly selected files to verify compliance with prior examination and audit underwriting recommendations.

Citizens New ePAS Replacement Cost Estimator

Xactware was selected as the new vendor for its personal residential cost estimator and replaced Marshall & Swift/Boeckh (MSB) effective December 19, 2010. Xactware's 360Value® software utilizes component-based pricing for creating cost estimates, which allows specific individual characteristics of the home to be identified. Filing 10-18448 was approved by the Office effective January 1, 2011.

Citizens has provided agents with periodic technical bulletins and informational e-mails since implementation to ensure consistent use of the estimator. In addition, Citizens has provided agents with a Cost Estimator Reference Guide Manual.

Citizens requires agents to run the replacement cost estimator on all residential properties including mobile homes. Citizens allows other alternative methods for replacement cost valuation, but the agent must still complete the ePAS 360Value® software cost estimator and submit the alternative method for underwriting review. The following reconstruction cost estimate methodologies may be used to establish Coverage A values:

- Replacement (reconstruction) cost valuations generated by 360Value®, MSB or e2Value.
- An insurance reconstruction cost valuation prepared by a licensed appraiser that is specifically formulated to establish the insurance reconstruction cost rather than market value.
- Reconstruction cost valuations prepared by licensed general contractors, architects or engineers which include a contract price for reconstruction cost and an itemized list of the home's features.
- A property inspection report dated within the last 12 months that was ordered by another property insurance company and includes a detailed reconstruction cost valuation.

Citizens continues to require that homes be insured for 100 percent of the reconstruction cost. Market value or real estate appraisals are not acceptable alternative methods for the purposes of establishing reconstruction cost.

Examination Findings:

There were 184 randomly selected files reviewed. The samples were divided into the four major business segments: Homeowners (114), Dwelling Fire (40), Mobile Homeowners (15) & Mobile Home Dwelling (15).

Homeowners:

There were 114 homeowners policies reviewed. There were 71 instances where deviations from written procedures were identified. They are as follows:

1. Section 627.062, Florida Statutes. In 38 instances there was no documentation supporting inspection. The filed rule states, "Prior to binding, the Agent is required to visually verify, within five (5) business days from the policy effective date, that the property to be insured is located at the address recorded on the application. Additionally, the Agent is required to verify that the property meets eligibility criteria and that negative underwriting characteristics are identified."

   Company's Response: The Company stated that the agent signature on the application substantiates all requirements were met. On page 6 of the application, under **Producer's Certification,** the Producer must sign the certification affirming that "Under penalty of law, I state and affirm the following: 1. I affirm the applicant's property is eligible for a policy with Citizens...." Furthermore, the required photos of the front and rear of the dwelling confirm that the agency has inspected the property.

   Recommendation: It is recommended that the agent's certification section in the application include a statement that the property has been inspected and includes photographs and other evidence that all underwriting rules have been met.

2. Section 627.062, Florida Statutes. In 16 instances there was no documentation supporting policy eligibility. The filed Rules of Practice Manual states, "Property owners are eligible for coverage in Citizens if: 1. An authorized insurer is not willing to write the risk at its approved rates; or 2. The premium for coverage from the authorized insurer is more than 15 percent greater than the premium for comparable coverage from Citizens; and 3. The property owner and property to be insured meet all other applicable underwriting criteria." Effective May 1, 2012, Citizens now requires agents to submit proof of eligibility, however, in one of the instances the effective date of the policy was May 20, 2012, and it was missing the proof of eligibility.

   Company's Response: The Company stated, "At this time, agents were not required to submit documentation to prove eligibility. Based upon the Producer's Certification and Applicant's Agreement section of the application, the agent and insured's signatures affirm they were not aware of another offer of coverage or the premium of another carrier was more than 15% higher than Citizens. Effective May 1, 2012, however, the Company initiated new requirements for Proof of Eligibility documentation on both bound and unbound applications. Agents were informed via Agent Technical Bulletin #010-12 distributed on April 20, 2012, that maintaining proof of eligibility in agent's policyholder file will no longer fulfill the requirement; those documents must now be submitted to the Company with all other required documents."

   Recommendation: The Company should establish and enforce procedures to ensure proper proof of eligibility is obtained.

3. Section 627.318, Florida Statutes. In nine instances the Company failed to maintain adequate records; some files contained very limited documentation. This error was noted in the 2010 examination.

   Company's Response: The Company stated,"This was an "Auto-Approve" policy. The agent was notified at the time of submission, via the ePAS system, to retain all documents in their

office. In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012, all auto-approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS)."

Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

4. Section 627.062, Florida Statutes. In two instances the application was either missing or incomplete. The filed manual states, "The fully completed, signed and dated application, required premium and all required documentation must be mailed to Citizens within five (5) business days from the effective date of coverage."

   Company's Response: The Company agreed with the instance of an incomplete application. On the instance of the missing application, the Company stated, "this was an "Auto-Approved" policy. The agent was notified at the time of submission, via the ePAS system, to retain all documents in their office. In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012, all auto-approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS)."

   Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

5. Section 627.410, Florida Statutes. In two instances the renewal declaration page was not worded correctly. The filed manual states, "If an adjustment is made to the Section I Coverage "A" Dwelling limit, it will be indicated on the declaration page by the following statement, *Property Coverage limit increased due to inflation measured by the MSB Index.* The two declaration pages indicated that the "Property Coverage limit may increase." It should state that it was adjusted for inflation.

   Company's Response: The Company agreed with the findings. The Company will evaluate if this recommendation can be implemented within its current systems. If it is not feasible that an interim solution can be implemented within its current legacy systems, the Company will address this recommendation with the implementation of a new system.

   Recommendation: The system should be updated to ensure proper language is displayed on the declaration page. This recommendation can be addressed with the implementation of the new system which is being launched in mid to late 2014.

6. Section 627.062, Florida Statutes. In one instance the Company failed to obtain a signed waiver of flood insurance. Policyholders with properties in Special Flood Hazard Areas, as defined by the National Flood Insurance Program (NFIP), must maintain a flood policy unless the applicant or insured sign the "Election Not To Buy Separate Flood Insurance" (CIT-FW01) form. This was mentioned in the 2010 examination also.

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

Recommendation: Citizens should review its procedures to ensure that guidelines are being followed. This was mentioned in the 2010 examination also.

7. Section 627.062, Florida Statutes. In one instance the inspection contact form was missing. The filed manual states that, "A fully completed, signed and dated Citizens' Inspection Contact Information Form CIT ICI – C" is required.

   Company's Response: The Company stated: "The Inspection Contact Form would have been with the application documents that the agent was required to retain in their office as a part of the "Auto-Approved" policy. In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012, all auto-approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS)."

   Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

8. Section 627.062, Florida Statutes. In one instance the roof type was recorded incorrectly in the system. It was shown as unknown when the photos showed it was Hip type. An incorrect roof type has the potential to impact the rating with respect to wind mitigation credits; however, it did not in this particular policy based on the year of construction.

   Company's Response: The Company agreed with the finding and stated, "This was an Auto-Approved application, therefore not reviewed by Underwriting. The agent should have input the correct information regarding the roof. In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012, all auto-approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS)."

   Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain and review all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

9. Section 627.062, Florida Statutes. In one instance the required photos were missing in the file. The filed manual states "Citizens requires two recent photographs (standard or digital); one photo angled to show the full front of the dwelling and one side, and the other photo angled to show the full rear of the dwelling and the other side."

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

   Recommendation: This appears to be an isolated instance and no additional action is required.

Dwelling Fire:

There were 40 Dwelling Fire policies reviewed. There were 32 instances where deviations from written procedures were identified. They are as follows:

1. Section 627.062, Florida Statutes. In 14 instances there was no documentation supporting inspection. The filed rule states, "Prior to binding, the Agent is required to visually verify, within five (5) business days from the policy effective date, that the property to be insured is located at the address recorded on the application. Additionally, the Agent is required to verify that the property meets eligibility criteria and that negative underwriting characteristics are identified."

   Company's Response: The Company stated that the agent signature on the application substantiates all requirements were met. On page six of the application, under **Producer's Certification,** the Producer must sign the certification affirming that "Under penalty of law, I state and affirm the following: 1. I affirm the applicant's property is eligible for a policy with Citizens...." Furthermore, the required photos of the front and rear of the dwelling confirm that the agency has inspected the property.

   Recommendation: It is recommended that the agent's certification section in the application include a statement that the property has been inspected and includes photographs and other evidence that all underwriting rules have been met.

2. Section 627.062, Florida Statutes. In eight instances there was no documentation supporting policy eligibility. The filed Rules of Practice Manual states, "Property owners are eligible for coverage in Citizens if: 1. An authorized insurer is not willing to write the risk at its approved rates; or, 2. The premium for coverage from the authorized insurer is more than 15 percent greater than the premium for comparable coverage from Citizens; and, 3. The property owner and property to be insured meet all other applicable underwriting criteria." Effective May 1, 2012, Citizens now requires agents to submit proof of eligibility; however, in one of the instances the effective date of the policy was May 4, 2012, and it was missing the proof of eligibility.

   Company's Response: The Company stated: "At this time, agents were not required to submit documentation to prove eligibility. Based upon the Producer's Certification and Applicant's Agreement section of the application, the agent and insured's signatures affirm they were not aware of another offer of coverage or the premium of another carrier was more than 15% higher than Citizens."

   Recommendation: The Company should establish procedures to ensure proper proof of eligibility is obtained.

3. Section 627.318, Florida Statutes. In five instances the Company failed to maintain records. There was very limited documentation on these files. This was reported in the 2010 examination and is a repeat finding.

   Company's Response: The Company stated: "This was an "Auto-Approved" policy. The agent was notified at the time of submission, via the ePAS system, to retain all documents in their office. In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012, all auto-approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS)."

Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

4. Section 627.410, Florida Statutes. In four instances the renewal declaration page was incorrectly worded. The filed manual states, "If an adjustment is made to the Section I Coverage "A" Dwelling limit, it will be indicated on the Renewal Declarations Page. Policy Declaration states "Your property coverage limits may have been adjusted for inflation." It should state that it was adjusted for inflation.

   Company's Response: The Company agreed with the finding. This recommendation can be addressed with the implementation of the new system which is being launched in mid to late 2014. The Company will evaluate if this recommendation can be implemented within its current systems. If it is not feasible that an interim solution can be implemented within its current legacy systems, the Company will address this recommendation with the implementation of a new system.

   Recommendation: The declaration page states that the coverage may have been adjusted for inflation when it has been adjusted for inflation. This appears to be a system issue and Citizens should update its system to ensure proper language is displayed on the declaration page.

5. Section 627.062, Florida Statutes. In one instance the year that the property was built was listed incorrectly.

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

   Recommendation: This appears to be an isolated instance and no additional action is required.

Mobile Homeowners:

There were 15 Mobile Homeowners policies reviewed. There were 10 instances where deviations from written procedures were identified. They are as follows:

1. Section 627.062, Florida Statutes. In seven instances there was no documentation supporting inspection. The filed rule states, "Prior to binding, the Agent is required to visually verify, within five (5) business days from the policy effective date, that the property to be insured is located at the address recorded on the application. Additionally, the Agent is required to verify that the property meets eligibility criteria and that negative underwriting characteristics are identified."

   Company's Response: The Company stated that the agent signature on the application substantiates all requirements were met. On page six of the application, under **Producer's Certification,** the Producer must sign the certification affirming that "Under penalty of law, I state and affirm the following: 1. I affirm the applicant's property is eligible for a policy with Citizens...." Furthermore, the required photos of the front and rear of the dwelling confirm that the agency has inspected the property.

Recommendation: It is recommended that the agent's certification section in the application include a statement that the property has been inspected and includes photographs and other evidence that all underwriting rules have been met.

2. Section 627.318, Florida Statutes. In one instance there was no documentation supporting policy eligibility. The filed Rules of Practice Manual states, "Property owners are eligible for coverage in Citizens if: 1. An authorized insurer is not willing to write the risk at its approved rates; or, 2. The premium for coverage from the authorized insurer is more than 15 percent greater than the premium for comparable coverage from Citizens; and, 3. The property owner and property to be insured meet all other applicable underwriting criteria." Effective May 1, 2012, Citizens now requires agents to submit proof of eligibility. None of the policies reviewed had effective dates after May 1, 2012; therefore, compliance with this new requirement was not verified with Mobile Homeowners policies.

   Company's Response: The Company stated: "At this time, agents were not required to submit documentation to prove eligibility. Based upon the Producer's Certification and Applicant's Agreement section of the application, the agent and insured's signatures affirm they were not aware of another offer of coverage or the premium of another carrier was more than 15% higher than Citizens. Prior to May 1, 2012, agents were not required to submit documentation to prove eligibility, but were allowed to retain that proof in their office. Effective May 1, 2012, however, the Company initiated new requirements for Proof of Eligibility documentation on both bound and unbound applications. Agents were informed via ATB #010-12 distributed on April 20, 2012, that maintaining proof of eligibility in agent's policyholder file will no longer fulfill the requirement; those documents must now be submitted to the Company with all other required documents."

   Recommendation: The Company should establish and enforce procedures to ensure proper proof of eligibility is obtained.

3. Section 627.318, Florida Statutes. In one instance the Company failed to maintain records. There was very limited documentation on these files. This was reported in the 2010 examination and is a repeat finding.

   Company's Response: The Company stated: "This was an "Auto-Approved" policy. The agent was notified at the time of submission, via the ePAS system, to retain all documents in their office. In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012, all auto-approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS)."

   Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

4. Section 627.062, Florida Statutes. In one instance there was no documentation supporting the American National Standards Institute (ANSI)/American Society of Civil Engineers (ASCE) credit. The filed manual states Florida law requires a discount, credit, or other rate differential

for Mobile Homes constructed to comply with American Society of Civil Engineers Standard ANSI/ASCE 7-88, adopted by the U.S. Department of Housing and Urban Development on July 13, 1994.

Company's Response: The Company stated: "This was an "Auto-Approved" policy. The agent was notified at the time of submission, via the ePAS system, to retain all documents in their office. In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012, all auto-approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS)."

Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

Mobile Homeowners Dwelling:

There were 15 Mobile Homeowners policies reviewed. There were 16 instances where deviations from written procedures were identified. They are:

1. Section 627.062, Florida Statutes. In nine instances there was no documentation supporting inspection. The filed rule states, "Prior to binding, the Agent is required to visually verify, within five (5) business days from the policy effective date, that the property to be insured is located at the address recorded on the application. Additionally, the Agent is required to verify that the property meets eligibility criteria and that negative underwriting characteristics are identified."

   Company's Response: The Company stated that the agent signature on the application substantiates all requirements were met. On page six of the application, under **Producer's Certification,** the Producer must sign the certification affirming that "Under penalty of law, I state and affirm the following: 1. I affirm the applicant's property is eligible for a policy with Citizens...." Furthermore, the required photos of the front and rear of the dwelling confirm that the agency has inspected the property.

   Recommendation: It is recommended that the agent's certification section in the application include a statement that the property has been inspected and includes photographs and other evidence that all underwriting rules have been met.

2. Section 627.062, Florida Statutes. In five instances there was no documentation supporting policy eligibility. The filed Rules of Practice Manual states: "Property owners are eligible for coverage in Citizens if: 1. An authorized insurer is not willing to write the risk at its approved rates; or, 2. The premium for coverage from the authorized insurer is more than 15 percent greater than the premium for comparable coverage from Citizens; and, 3. The property owner and property to be insured meet all other applicable underwriting criteria." Effective May 1, 2012, Citizens now requires agents to submit proof of eligibility. None of the policies reviewed

had effective dates after May 1, 2012; therefore, compliance with this new requirement was not verified with Mobile Homeowners Dwelling policies.

Company's Response: The Company stated: "At this time, agents were not required to submit documentation to prove eligibility. Based upon the Producer's Certification and Applicant's Agreement section of the application, the agent and insured's signatures affirm they were not aware of another offer of coverage or the premium of another carrier was more than 15% higher than Citizens. Prior to May 1, 2012, agents were not required to submit documentation to prove eligibility, but were allowed to retain that proof in their office. Effective May 1, 2012, however, the Company initiated new requirements for Proof of Eligibility documentation on both bound and unbound applications. Agents were informed via Agent Technical Bulletin #010-12 distributed on April 20, 2012, that maintaining proof of eligibility in agent's policyholder file will no longer fulfill the requirement; those documents must now be submitted to the Company with all other required documents."

Recommendation: The Company should establish and enforce procedures to ensure proper proof of eligibility is obtained.

3. Section 627.062, Florida Statutes. In two instances the inspection contact form was missing. The filed manual states, "A fully completed, signed and dated Citizens' Inspection Contact Information Form CIT ICI – C." is required.

   Company's Response: The Company agreed with 1 instance and on the other stated, "the Inspection Contact Form would have been with the application documents that the agent was required to retain in their office as a part of the "Auto-Approved" policy."

   Recommendation: The "Auto-Approve" process is not contained in the filed rules, therefore, the Company should obtain all required documents to ensure eligibility and applicability of any credits or debits as stated in its filed manual.

Best Practice Recommendation:

As noted above, policy coverage amount for mobile homes is not adjusted for depreciation unless requested by the policyholder at renewal. This may present an over insured exposure after a policy has been in force a few years. It is recommended that the Company establish a procedure to periodically ensure the proper stated value is calculated.

CANCELLATIONS/NONRENEWALS REVIEW

The Company cancelled/nonrenewed 55,426 policies during the scope of the examination.

The examination testing procedure included:

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

Examination Findings:

Fifty (50) randomly selected files were reviewed. No errors were found.

GENERAL CLAIMS REVIEW

Aging of Reported Claims in Open Status:

Number of Days Open	# of Claims	Percentage
0 – 29	7,040	24.95%
30 – 59	1,725	6.11%
60 – 89	1,236	4.38%
90 – 119	1,050	3.72%
>120*	17,171	60.84%
Totals	28,222	**100%**

Aging of Reported Paid Claims in Closed Status:

Number of Days to Close	# of Claims	Percentage
0 – 29	43,963	57%
30 – 59	13,763	18%
60 – 89	5,986	8%
90 – 119	3,033	4%
>120*	10,252	13%
Totals	**76,997**	**100%**

Claims Closed Without Payment/Denied:

7/1/10 – 12/31/10	1/1/11 to 12/31/11	1/1/12 to 6/30/12	Totals
8,828	21,565	13,233	**43,626**

Claims Payments:

7/1/10 – 12/31/10	1/1/11 to 12/31/11	1/1/12 to 6/30/12	Totals
17,194	43,965	15,838	76,997
$281,972,286	$598,843,664	$147,742,162	$1,028,558,112

*In reviewing the aged claims statistics, it is noted that there is a high number of claims that were closed more than 120 days after being opened. Citizens reports the number of days on such claims by calculating the entire number of days from the date the claim was initiated to the final date it was closed. In many cases the claim was actually closed at some point during the counting period but it was necessary to reopen it for additional processing. Such additional work might be the result of additional claims made or, in some cases, the result of handling a trailing expense payment. Thus, the period of time counted for aged claim reporting may have included one or more time periods, during which the claim was actually considered closed.

The examination testing procedures included:

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

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

Examination Findings

The general claims handling review by the Office consisted of a review of 164 non-specific claims selected randomly from the entire population of claims for homeowners, mobile homeowners, condominiums, and condominium associations, which were opened or reopened during the scope of the review.

In 164 claim files reviewed, there were 14 instances where deviations from written procedures were identified. They are as follows:

1. Section 627.4137, Florida Statutes. In six instances the Company failed to timely respond to a claims request for disclosure of insurance coverage, which is not in compliance with Section 626.9541(1)(i)3.c, Florida Statutes.

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

   Recommendation: The Company should review the process of handling such requests to ensure compliance with the statutes.

2. Section 627.318, Florida Statutes. In three instances Citizens failed to pay the correct claim amount due to inaccurate calculation of the county sales tax amount which varies by county.

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

   Recommendation: The Company has established procedures; however, adjusters should be trained in the proper application of sales tax.

3. Section 627.318, Florida Statutes. In three instances Citizens failed to reduce reserves timely. It took two, three, and four weeks respectively to reduce reserves after payments were made.

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

Recommendation: The Company has established procedures; however, adjusters should be trained to reduce reserves timely.

4. Section 626.9541, Florida Statutes. In one instance there was a claim payment delay without justification. Property was inspected on April 2, 2011, and check was not mailed until June 8, 2011. There was no documentation in the file justifying the delay.

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

   Recommendation: This appears to be an isolated instance and no additional action is required.

5. Section 626.9541, Florida Statutes. In one instance Citizens failed to include Overhead and Profit in settlement estimate as repairs would have required the use of a general contractor.

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

   Recommendation: This appears to be an isolated instance and no additional action is required.

SINKHOLE CLAIMS REVIEW

Sinkhole Claims Reported:

7/1/10 – 12/31/10	1/1/11 to 12/31/11	1/1/12 to 6/30/12	Totals
1,518	4,461	1,791	**7,770**

During the scope of the prior examination there were 3,202 sinkhole claims reported. The number of sinkhole claims reported during this current examination more than doubled when compared to the prior examination number of claims.

Top Five (5) Counties with Sinkhole Claims:

County	# of Claims	Percentage
Hernando	3,463	45%
Pasco	1,684	22%
Hillsborough	1,329	17%
Pinellas	607	8%
Miami-Dade	252	3%
Other counties	435	5%
Totals	**7,770**	**100%**

The top five counties are the same found in the prior examination.

There were 7,770 sinkhole claims reported during the scope of the examination. In reviewing sinkhole claims, 12 sinkhole claims were selected randomly from the entire population of claims for

homeowners, mobile homeowners, condominiums, and condominium associations, which were opened or reopened during the scope of the review.

Examination Findings

The findings from the review of sinkhole claims were as follows:

1. Section 626.9541, Florida Statutes. In two instances there were unjustified claim delays. In one instance the engineering firm stated they never received the assignment and in the other instance the adjuster was not aware of the assignment.

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

   Recommendation: The Company should establish procedures for periodic follow-ups to ensure there are no delays in the handling of claims.

RESERVES

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

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

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

The year ended December 31, 2011, is the second year that the actuary report has been prepared by an internal actuary. The internal actuarial report is peer reviewed. The Company completes actuarial reviews annually. For the period ending December 31, 2011, the Board of Governors appointed Citizens' Chief Actuary to analyze the Company's reserves and prepare a Statement of Actuarial Opinion.

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

REINSURANCE

Citizens utilized reinsurance coverage through the Florida Hurricane Catastrophe Fund (FHCF) and through private placement during the period under examination. Private placement reinsurance has not been utilized since 2008. On May 11, 2011, the Board of Governors approved the decision to purchase

the Mandatory FHCF coverage and to purchase Temporary Increase in Coverage Limit (TICL) coverage through private placement reinsurance instead of from the FHCF.

On April 20, 2012, the Board of Governors approved to enter into a fully collateralized reinsurance contract with Everglades Re to transfer $750 million of risk in the Coastal Account for the 2012 and 2013 hurricane seasons.

For the examination, the following areas were reviewed:

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

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

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

ANTI-FRAUD PLAN

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

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

The Company has an Anti-fraud Policy and Procedure, including a process map approved by the Manager of the Special Investigative Unit. The Company files a description of its anti-fraud plan,

including any changes, with the Division of Insurance Fraud within the Department of Financial Services.

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

As noted in Citizens' anti-fraud plan, the Company and its Special Investigation Unit have established criteria that are used to detect suspicious or fraudulent activity during investigations relating to all types of insurance offered by Citizens, including personal residential, commercial residential, and wind-only endorsements.

The Company reports all suspected fraudulent insurance acts directly to the Florida Department of Financial Services, Division of Insurance Fraud using a digital reporting format or interface as provided at www.MyFloridaCFO.com/fraud. It is the practice of the Company that all such reports of suspected insurance fraud contain information that clearly defines and supports the allegation of suspicious activity. Also, it is the practice of the Company to maintain a record of suspected fraudulent claims activity, as well as record the date that suspected fraudulent activity is detected, and the date that reports of such suspected insurance fraud are sent directly to the Division of Fraud.

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

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

TABLE OF EXCEPTIONS

Reviews of Corporate Records, Investments, Depopulation, Agents Practices, Complaints, Underwriting and Rating, Cancellations and Nonrenewals, Claims, Reserves, Reinsurance, Anti Fraud Plan, Legislative Changes and Procurements were included. A sample of 105 complaints, 184 policies, 50 cancellations/nonrenewals, and 176 claims were reviewed. The following represent general findings, however, specific details are found in each section of preceding report.

Page Number	Description	Files Reviewed	Number of Exceptions
10	Complaints - Company misapplied funds to another policy in error. Section 627.318, Florida Statutes	105	1
10	Complaints - The policy incorrectly included a no prior insurance surcharge. Section 627.062, Florida Statutes	105	1

Page Number	Description	Files Reviewed	Number of Exceptions
10	Complaints - Citizens mishandled the issuance of a policy, which had to be rewritten. Section 627.421, Florida Statutes	105	1
10	Complaints- After re-inspection, it was determined that the policy would be amended, however, Citizens billed immediately, not at the next renewal. Section 627.062, Florida Statutes	105	1
11	Complaints - Citizens had already received proof of roof update, however sent a nonrenewal notice. Section 627.4091, Florida Statutes	105	1
11	Complaints - Wind mitigation credits had not been applied correctly. Section 627.062, Florida Statutes	105	1
11	Complaints - After a re-inspection the type of construction classification was incorrectly changed from masonry to frame. Section 627.062, Florida Statutes	105	1
13	Homeowners - No documentation supporting agent inspection. Section 627.062, Florida Statutes	114	38
13	Homeowners - No documentation supporting policy eligibility. Section 627.062, Florida Statutes	114	16
13	Homeowners - Company failed to maintain records. Section 627.318, Florida Statutes	114	9
14	Homeowners - The application was either missing or incomplete. Section 627.062, Florida Statutes	114	2
14	Homeowners - The renewal declaration page was incorrectly worded. Section 627.410, Florida Statutes	114	2
14	Homeowners - Company failed to obtain a signed waiver of flood insurance. Section 627.062, Florida Statutes	114	1
15	Homeowners - The inspection contact form was missing. Section 627.062, Florida Statutes	114	1
15	Homeowners - The roof type was recorded incorrectly in the system. Section 627.062, Florida Statutes	114	1
15	Homeowners - The required photos were missing in the file. Section 627.062, Florida Statutes	114	1
16	Dwelling Fire - No documentation supporting agent inspection. Section 627.062, Florida Statutes	40	14
16	Dwelling Fire - No documentation supporting policy eligibility. Section 627.062, Florida Statutes	40	8
16	Dwelling Fire - Company failed to maintain records. Section 627.318, Florida Statutes	40	5

Page Number	Description	Files Reviewed	Number of Exceptions
17	Dwelling Fire - The renewal declaration page was incorrectly worded. Section 627.410, Florida Statutes	40	4
17	Dwelling Fire - The year built of the property was incorrect. Section 627.062, Florida Statutes	40	1
17	Mobile Homeowners - No documentation supporting agent inspection. Section 627.062, Florida Statutes	15	7
18	Mobile Homeowners - No documentation supporting policy eligibility. Section 627.318, Florida Statutes	15	1
18	Mobile Homeowners - Company failed to maintain records. Section 627.318, Florida Statutes	15	1
18	Mobile Homeowners - No documentation supporting the American National Standards Institute (ANSI)/American Society of Civil Engineers (ASCE) credit. Section 627.062, Florida Statutes	15	1
19	Mobile Homeowners Dwelling - No documentation supporting agent inspection. Section 627.062, Florida Statutes	15	9
19	Mobile Homeowners Dwelling - No documentation supporting policy eligibility. Section 627.062, Florida Statutes	15	5
20	Mobile Homeowners Dwelling - The inspection contact form was missing. Section 627.062, Florida Statutes	15	2
22	General Claims - The Company failed to disclose insurance coverage that was requested under Section 627.4137, Florida Statutes	164	6
22	General Claims - Citizens failed to pay the correct claim amount due to inaccurate calculation of county sales tax. Section 627.318, Florida Statutes	164	3
22	General Claims - Citizens failed to reduce reserves timely. Section 627.318, Florida Statutes	164	3
23	General Claims - Claim payment delayed without justification. Section 626.9541, Florida Statutes	164	1
23	General Claims - Citizens failed to include Overhead and Profit in settlement estimate. Section 626.9541, Florida Statutes	164	1
24	Sinkhole Claims – Unjustified claims delay. Section 626.9541, Florida Statutes	12	2

EXAMINATION FINAL REPORT SUBMISSION

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

From: Sara Golding [Sara.Golding@citizensfla.com] on behalf of Christine Turner Ashburn [Christine.Ashburn@citizensfla.com]
Sent: Monday, January 28, 2013 5:42 PM
To: Phillips, Cara
Cc: Groszos, Amy; Miller, Belinda
Subject: RE: Citizens Market Conduct Examination Report
Attachments: Draft Market Conduct Exam Citizens Response.docx

Cara:

Please find attached our company responses for the draft audit as released to us on December 28 per the below email correspondence. We appreciate the opportunity to provide this commentary.

Should you have any questions or comments, please do not hesitate to contact me.

Regards,
Christine

Christine Ashburn
Director of Legislative and External Affairs
Citizens Property Insurance Corporation
850-513-3746 office
850-728-7255 cell

From: Phillips, Cara [mailto:Cara.Phillips@floir.com]
Sent: Friday, December 28, 2012 2:55 PM
To: Sara Golding
Subject: RE: Citizens Market Conduct Examination Report

Thanks!

From: Sara Golding [mailto:Sara.Golding@citizensfla.com]
Sent: Friday, December 28, 2012 2:55 PM
To: Phillips, Cara
Cc: Christine Turner Ashburn
Subject: RE: Citizens Market Conduct Examination Report

Cara –

We have received the report.

Thank you,
Sara

Sara J. Golding
Tel 850.513.3874 | Fax 850.513.3903
sara.golding@citizensfla.com | www.Citizensfla.com

From: Phillips, Cara [mailto:Cara.Phillips@floir.com]
Sent: Friday, December 28, 2012 2:32 PM
To: Barry Gilway; Sara Golding; Christine Turner Ashburn
Subject: Citizens Market Conduct Examination Report

Attached is a copy of the Target Market Conduct Draft Examination Report for your Company covering the scope of July 1, 2010 through June 30, 2012. Please do not hesitate to contact me with any questions.

Cara Phillips, ALMI, MCM, Senior Management Analyst II
Market Investigations, Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399-4210
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PRIVILEGED AND CONFIDENTIAL INVESTIGATION OR EXAMINATION COMMUNICATION EXEMPT FROM PUBLIC DISCLOSURE OR INSPECTION PURSUANT TO SECTION 624.319(3)(a) AND (b), FLORIDA STATUTES

Draft Market Conduct Exam – Edits from Citizens

We would like to suggest, for consideration, the edits below to the report text:

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In July 2010, Citizens created an internal division, the Enterprise Planning & Project Portfolio Management Division (EPPPM), to provide centralized coordination across its business units to evaluate and prioritize the use of resources to new projects. The threshold for treating a procurement that is not part of a larger initiative as an enterprise project is whether a competitive solicitation is needed.

As of June 2012, Citizens had 485 vendor contracts with a known contract value of over $604,000,000. Of these, 285 contracts came from Citizens' 35 competitive solicitations which were offered from July 2010 to June 2012; the remaining contracts followed other procurement processes authorized by Citizens' purchasing policy, such as using State Term Contracts offered by the Florida Department of Management Services.~~; and 242 of those~~ All of the 285 contracts in excess of $100,000 received Board of Governor approval.

From July 2010 through June 2012, Citizens had 3,261 purchase orders, for a total of $106,991,065.80. These purchase orders are for either one time purchases, recurring purchases, or purchases for an ongoing duration. Purchase Orders are subject to Citizens' procurement policies.

As of June 2012, Citizens' vendor contract count is broken down as follows: 485 active vendor contracts, 418 Purchase Order contracts, with an engagement for an ongoing duration totaling 903 active contracts. Included in that number are 499 contracts which were entered without a full open market competitive solicitation process. Ninety-five percent of these were procured through an existing government contract (i.e., a State Term Contract or Alternate Contract Source authorized by the Florida Department of Management Services, the same contracts and processes utilized by the Office of Insurance Regulation and state agencies following Chapter 287, Florida Statutes). Citizens follows the established guidelines for use when purchasing from an existing government contract. ~~that have been exempt from the competitive solicitation process because they~~ The remaining 5% meet one of the statutory exemption requirements: sole-source, emergency, or statutory exemption~~, or the vendor has an existing government contract~~. Citizens' vendors are intertwined with nearly every aspect of Citizens' operations.

Findings: In some instances there was a large price differential between the chosen vendor's contract price and a lower bidder's price. Due to these large gaps Citizens was asked about the bidding and negotiation process with the vendors and whether they request the vendor to lower their proposed contract price. Citizens responses to these questions ~~were vague, referring~~ referred the Examiner to their procedure of requesting vendors to give them their "Best and Final Offer." The process of requesting Best and Final Offers mirrors the process typically utilized by state agencies when conducting Invitations to Negotiate under Chapter 287, Florida Statutes. Citizens also uses the Chapter 287 concept of awarding such negotiated contracts to the vendor representing the "Best Value" which includes considerations other than price, such as qualifications, functionality and service levels.

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Company Response: A more stringent travel policy that applies to all Citizens employees and senior management was implemented in October 2012. ~~The Company continues to evaluate their policy to better comply with state travel standards and reporting requirements.~~ The Company is recommending to the Board of Governors adoption of the state travel standards and reporting requirements during the first quarter of 2013.

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Add to the second paragraph

The first table below reflects the number of complaint incidents received by Citizens by year during the scope of the examination. The second table below reflects the number of Claims Complaints as a Percentage of all New Reported Claims for each Calendar Year indicated.

Year	Total Number of Complaints
7/1/2010 – 12/31/2010	588
1/1/2011 – 12/31/2011	1,420
1/1/2012 – 6/30/2012	688

Year	Total Number of New Reported Claims	Total Number of Claims Complaints	Claims Complaints as "% of New Claims Reported"
2009	40,039	508	1.27%
2010	47,517	427	0.90%
2011	66,044	611	0.93%
2012	74,089	543	0.73%

The data reflects an ongoing improvement of the ratio of Claims Complaints and is driven by claims organizational workflow refinements, implementation of claims best practices and enhanced claims training for Citizens' claims employees.

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Homeowners

1. **Company's Response**: The Company stated that the agent signature on the application substantiates all requirements were met. On page 6 of the application, under **Producer's Certification,** the Producer must sign the certification affirming that "Under penalty of law, I state and affirm the following: 1. I affirm the applicant's property is eligible for a policy with Citizens: ...". Furthermore, the required photos of the front and rear of the dwelling confirm that the agency has inspected the property.
2. **Company's Response:** The Company stated, "At this time, agents were not required to submit documentation to prove eligibility. Based upon the Producer's Certification and Applicant's Agreement section of the application, the agent and the insured's signatures affirm they were not aware of another offer of coverage or the premium of another carrier was more than 15% higher than Citizens." Prior to May 1, 2012 agents were not required to submit documentation to prove eligibility, but were allowed to retain that proof in their office. Effective May1, 2012, however, the Company initiated new requirements for Proof of Eligibility documentation on both bound and unbound applications. Agents were informed via Agent Technical Bulletin #010-12 distributed on April 20, 2012 that maintaining proof of eligibility in agent's policyholder file will no longer fulfill the requirement; those documents must now be submitted to the Company with all other required documents.
3. **Company's Response:** The Company stated, "This was an Auto- Approved policy. The agent was notified at the time of submission, via the ePAS system to retain all documents in their office." In ATB #007-11 on November 9, 2011, all agents were informed that effective January 1, 2012 all auto approved applications and supporting documents must be uploaded to the Company via Electronic Document Submission (EDS).

   The Company's Agent Audit and Compliance department conducts audits of the Auto Approved policies. This includes a random selection of 25% of the Auto- Approved policies. If the Required Documents are not in

ImageRight the agent must submit the documents within 48 hours. If the documents are not received, the agent is then referred to the Agent Audit and Compliance Representatives for further corrective action.

4. **Company's Response:** See response to #3 above. Same explanation applies.
5. **Company Response**: The Company agreed with the findings. This recommendation can be addressed with the implementation of the new system which is being launched in mid to late 2014. The Company will evaluate if this recommendation can be implemented within our current systems. If it is not feasible that an interim solution can be implemented within our current legacy systems, the Company will address this recommendation with the implementation of a new system.
6. No change
7. **Company's Response:** See response to #3 above. Same explanation applies.
8. **Company's Response:** See response to #3 above. Same explanation applies.
9. No change

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Dwelling Fire

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2. No change
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4. **Company Response**: The Company agreed with the finding. This recommendation can be addressed with the implementation of the new system which is being launched in mid to late 2014. The Company will evaluate if this recommendation can be implemented within our current systems. If it is not feasible that an interim solution can be implemented within our current legacy systems, the Company will address this recommendation with the implementation of a new system.

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Mobile Homeowners:

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2. **Company's Response:** The Company stated: "At this time, agents were not required to submit documentation to prove eligibility. Based upon the Producer's Certification and Applicant's Agreement section of the application, the agent and the insured's signatures affirm they were not aware of another offer of coverage or the premium of another carrier was more than 15% higher than Citizens." Prior to May 1, 2012 agents were not required to submit documentation to prove eligibility, but were allowed to retain that proof in their office.

Effective May1, 2012, however, the Company initiated new requirements for Proof of Eligibility documentation on both bound and unbound applications. Agents were informed via Agent Technical Bulletin #010-12 distributed on April 20, 2012 that maintaining proof of eligibility in agent's policyholder file will no longer fulfill the requirement; those documents must now be submitted to the Company with all other required documents.

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Mobile Homeowners Dwelling

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Subject: FW: Market Conduct Report for Citizens Property Insurance Corporation
Attachments: 02.04.13_Gilway to McCarty.pdf

From: Barry Gilway [mailto:Barry.Gilway@citizensfla.com]
Sent: Monday, February 04, 2013 1:28 PM
To: McCarty, Kevin
Cc: Miller, Belinda; Christine Turner Ashburn
Subject: Market Conduct Report for Citizens Property Insurance Corporation

Good afternoon Commissioner McCarty,

Please find the attached letter regarding OIR's Target Market Conduct Final Examination Report containing clarifications and responses where appropriate. I appreciate the opportunity to have our input included as a company response in the final report. The original letter is being sent to your office.

Feel free to contact me if you want to further discuss.

Regards,

Barry Gilway
President/CEO
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CITIZENS PROPERTY INSURANCE CORPORATION
2312 KILLEARN CENTER BLVD., BUILDING A
TALLAHASSEE, FLORIDA 32309

TELEPHONE: (850) 513-3700 FAX: (850) 513-3903

February 4, 2013

The Honorable Kevin M. McCarty
Commissioner
Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, Florida 32301

Dear Commissioner McCarty:

On February 1, 2013, I received the Office of Insurance Regulation's Target Market Conduct Final Examination Report for Citizens Property Insurance Corporation. I would like to thank OIR for all the hard work that went into compiling and analyzing the data for this report. Citizens also appreciated the opportunity to review the draft report and provide clarifications and responses where appropriate. I believe this helped to ensure that the overall final product was a more accurate reflection of Citizens' operations and procedures.

I do, however, have concerns with the Procurement section, which begins on page 5 of the report:

1. The final paragraph before the Findings on page 6 references the number of contracts that Citizens entered into without a competitive bid process. Citizens clarified that 95 percent of these were procured through an existing government contract (i.e., a State Term Contract or Alternate Contract Source authorized by the Florida Department of Management Services). These are the same contracts and processes used by the Office of Insurance Regulation and state agencies following Chapter 287, F.S., and are required contracts for agency use. Citizens also clarified that the remaining 5 percent of the 499 referenced contracts met one of the statutory exemption requirements (i.e., sole-source, emergency, or statutory exemptions).

2. The Procurement section Findings states that Citizens gave "vague" answers to questions about bidding and negotiation process, specifically referencing our process of requesting that vendors provide a "Best and Final Offer." Citizens clarified that, far from being vague, the process of requesting a "Best and Final Offer" mirrors the process typically used by state agencies when conducting Invitations to Negotiate under Chapter 287, Florida Statutes.

Although Citizens included this information in our response to the draft report, it was not included in the final report, either as an edit or as a company response. This is concerning, as the

Carlos A. Lacasa, Chairman, Miami-Dade County
Carol Everhart, Pinellas County • Chris Gardner, Orange County
Don Glisson, Jr., Duval County • Tom Lynch, Palm Beach County • John Rollins, Alachua County
John Wortman, St. Johns County • Barry Gilway, President/CEO and Executive Director

exclusion of this information makes it appear as though Citizens' procurement practices have large irregularities when, in fact, Citizens follows its own rigorous set of procurement procedures established in statute 627.351(6), F.S. In situations not covered by 627.351(6), Citizens conducts competitive solicitations using the same style of processes as state agencies, i.e., Invitations to Bid, Requests for Procurement and Invitations to Negotiate.

Although the report writer was under no obligation to use Citizens' suggestions in their final report, given the important context this information provides, I strongly believe that, at the very least, this information needs to be included in the final report as a company response. I therefore am requesting that the following Company Response to the Procurement section be added to the final report:

Procurement Section – Company Response

1. In situations not specifically addressed in our statutory procurement guidelines outlined in 627.351(6), F.S., Citizens conducts competitive solicitations using the same style of processes as state agencies (i.e., Invitations to Bid, Requests for Procurement and Invitations To Negotiate).

2. Of the 499 contracts entered into without a full open market competitive solicitation process, 95 percent were procured through an existing government contract (i.e., a State Term Contract or Alternate Contract Source authorized by the Florida Department of Management Services). These are the contracts and processes used by state agencies following Chapter 287, F.S., and are required contracts for agency use. Citizens follows the established guidelines for use when purchasing from an existing government contract. The remaining 5 percent meet one of the statutory exemption requirements (i.e., sole-source, emergency, or statutory exemption).

3. Citizens' process of requesting a "Best and Final Offer" mirrors the process typically used by state agencies when conducting Invitations to Negotiate under Chapter 287, Florida Statutes. Citizens uses the Chapter 287 concept of awarding such negotiated contracts to the vendor that represents the "Best Value," which includes considerations other than price (e.g., qualifications, functionality and service levels).

Thank you for your consideration of these important concerns.

Regards,

Barry J. Gilway

Barry Gilway
President/CEO and Executive Director