

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

CITIZENS PROPERTY INSURANCE CORPORATION

AS OF

November 4, 2005

NAIC COMPANY CODE: 10064



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PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Florida Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 624.3161, Florida Statutes, a target market conduct examination of Citizens Property Insurance Corporation (Company) was performed. The scope of this examination was August 1, 2004 through April 28, 2005. The examination began January 24, 2005 and ended April 28, 2005.

The purpose of this examination was to gather and evaluate data specific to the Company's response to hurricane losses. A data validation review was performed to verify the accuracy of the Company's filed hurricane reports with the Office of Insurance Regulation. An operational review of current systems and controls was performed including evaluation of the Company's processes for complaint handling, agency appointments, general operations, reinsurance, corporate records, depopulation, claims handling, premiums, investments, underwriting and rates, and information systems. Emphasis was placed on identifying processes with material weaknesses. For each area of review, verification was made of the Company's compliance with the Florida Statutes, Florida Administrative Code (F.A.C.), and Emergency Orders and Rules.

The Company records were examined at its office located at 101 N. Monroe Street, Suite 1000, Tallahassee, Florida. In reviewing materials for this report, the examiner relied upon documents provided by the Company.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.

HURRICANE CLAIMS REVIEW

The Company was requested to provide a spreadsheet listing all hurricane claims. The examiner reviewed the spreadsheet for accuracy of the data and reviewed a random sample of 100 claims to determine compliance with Florida Statutes and Florida Administrative Code. The following charts report the statistical data on the Company's hurricane claims for the entire population, unless otherwise noted.

Open and Closed Claims Statistics

The following table shows a breakdown of claims by hurricane as of January 25, 2005:

Hurricane	Total Claims	Claims Open	Claims Closed	% Closed	Total Paid
Charley	20,152	2,346	17,806	88%	\$312,506,171
Frances	49,683	5,932	43,751	88%	\$529,509,821
Ivan	15,751	3,175	12,576	80%	\$211,529,501
Jeanne	30,536	5,012	25,524	84%	\$192,491,489
Totals	116,122	16,465	99,657	86%	\$1,246,036,982

The following tables show a breakdown of the number of days to close for settled claims and the number of days open on claims still outstanding as of January 25, 2005:

Days to Close				
Hurricane	0 – 30	31 – 60	61 – 90	Over 90
Charley	3,929	6,073	3,510	4,294
Frances	7,010	13,210	11,423	12,108
Ivan	1,150	3,871	3,941	3,614
Jeanne	3,443	8,484	8,206	5,391

Days Open				
Hurricane	0 – 30	31 – 60	61 – 90	Over 90
Charley	567	293	239	1,247
Frances	1,345	574	401	3,612
Ivan	601	257	209	2,108
Jeanne	1,382	603	537	2,490

Company Responses to Hurricanes

Significant changes were made to the Company's catastrophe operations after Frances. Lack of dedicated resources to manage the claim adjudication process became apparent. The Company's operations did not allow for proper monitoring of the claims assigned to various adjusting firms, independent adjusters, and the Adjust-Your-Own (AYO) firms. The lack of monitoring of the claim process contributed to numerous complaints received by the Department of Financial Services (DFS), as the Company could not provide a status of the reported claim to its policyholders.

In response to these issues, the Company:

- Set up a Cat Center, which facilitated bringing in 20 independent adjusting firms.
- Implemented a new dispatch system to use adjusting resources more efficiently.
- Re-evaluated its relationship with adjusters and took a more active management role in responding to policyholder questions, complaints, and managing claim closures.
- Established a team of independent adjusters, supervised by team leaders, so more review of claims can be performed in-house rather than relying on adjusting firms to perform the majority of the claim process.
- Developed and implemented a new Claims Tracking System (CTS) in October of 2004 to manage claim files and track progress by each adjuster.
- Redesigned its adjuster fee payments and applied accounting principals to reassess internal controls and processes.

Claims Acknowledgement

The Company was unable to include the acknowledgement date in the data call list. The Company stated that it does not capture this field in its computer system.

A sample of 100 claim files was reviewed. The following table shows the results for the claims included in the sample:

Days to Acknowledge					
Hurricane	0 – 14	15 – 45	46 – 90	Over 90	Unable to Determine
Charley	19	1	1	0	4
Frances	10	7	2	0	6
Ivan	10	3	4	1	7
Jeanne	8	10	1	1	5

Forty-seven (47) out of one hundred (100) claims were acknowledged within fourteen (14) days as required by Rule 69O-166.024, Florida Administrative Code. An additional six (6) claims documented attempts by the adjuster to contact the claimant within fourteen (14) days without success. Twenty-two (22) claims could not be verified as the Company was unable to provide the acknowledgement date for these claims.

Corrective Action: The Company should establish procedures to ensure that all claims are acknowledged within fourteen (14) days and those records are maintained to document compliance with this rule.

Company Response: Citizens implemented procedures to ensure that claimants are promptly notified of the receipt of the claim. The procedures require that a claimant acknowledgement letter be sent within 10 days of receipt of the claim. In addition, Citizens has internal service standards that require an adjuster to contact a claimant within 14 days of receipt of the first notice of loss.

Citizens claims tracking system, which was developed as a result of the 2004 hurricane season, contains a module which was deployed to management in July 2005 to electronically track these performance standards. In a future phase of the system, projected to be available in 2006, the system will automatically notify Citizens management when the adjuster's required actions fall outside the pre-determined time standards.

Adjuster Assignments and Inspections

The Company was requested to provide data on a sample of 100 claims. The Company was unable to provide fifteen (15) of the claim files selected for review. Fifteen (15) additional claims were selected to obtain a sample size of 100.

Corrective Action: The Company should establish control procedures to ensure claim files are maintained and readily available for review.

Company Response: Citizens redesigned the 2005 catastrophe operations to require that Citizens maintain and control all of its claim files in electronic format. Citizens no longer delegates the administrative function of claims processing to administrators for the maintenance and review of the physical file. Both of these functions have been brought in house. Citizens has implemented a claims file scanning procedure that uploads all claim files and makes them available to all CTS users via the software program.

Corrective Action: The Company should provide a copy of the 2005 Catastrophe Plan to the Office within 30 days of receipt of the Final Report.

The following chart documents the results for the claims included in the sample:

Claim File	CAT ID	Date Reported	Days between Date Assigned & Date Inspected	Days between Inspection Date & Inspection Report Date	Days between Inspection Report Date & Date Co. Received Report	Date Inspection Report was Received by the Company	Days between Date of Loss & Date Report Rcvd. By Co.
1	CHARLEY	8/17/04	3	21	*	*	*
2	CHARLEY	9/2/04	7	0	*	*	*
3	CHARLEY	8/17/04	2	42	*	*	*
4	CHARLEY	8/16/04	4	4	*	*	*
5	CHARLEY	9/15/04	*	16	*	*	*
6	CHARLEY	8/23/04	*	0	*	*	*
7	CHARLEY	8/20/04	5	59	*	*	*
8	CHARLEY	8/19/04	9	10	*	*	*
9	CHARLEY	8/17/04	6	6	*	*	*
10	CHARLEY	8/24/04	25	5	*	*	*
11	CHARLEY	10/20/04	7	4	*	*	*
12	CHARLEY	8/16/04	9	12	*	*	*
13	CHARLEY	8/19/04	7	7	*	*	*
14	CHARLEY	8/21/04	5	0	*	*	*
15	CHARLEY	8/23/04	4	22	*	*	*
16	CHARLEY	8/20/04	0	0	*	*	*
17	CHARLEY	8/20/04	2	100	*	*	*
18	CHARLEY	8/23/04	4	*	*	*	*
19	CHARLEY	8/19/04	*	0	*	*	*
20	CHARLEY	8/16/04	6	27	*	*	*
21	CHARLEY	8/20/04	2	3	*	*	*
22	CHARLEY	8/14/04	9	5	*	*	*
23	CHARLEY	8/16/04	1	4	*	*	*
24	CHARLEY	8/17/04	5	12	*	*	*
25	CHARLEY	9/1/04	1	3	*	*	*
26	FRANCES	9/22/04	*	0	*	*	*
27	FRANCES	9/16/04	52	5	*	*	*
28	FRANCES	9/16/04	11	15	*	*	*
29	FRANCES	9/24/04	0	10	*	*	*
30	FRANCES	9/8/04	*	*	*	*	*

Claim File	CAT ID	Date Reported	Days between Date Assigned & Date Inspected	Days between Inspection Date & Report Date	Days between Inspection Report Date & Date Co. Received Report	Date Inspection Report was Received by the Company	Days between Date of Loss & Date Report Rcvd. By Co.
31	FRANCES	9/9/04	22	20	*	*	*
32	FRANCES	9/8/04	*	0	*	*	*
33	FRANCES	9/7/04	*	0	*	*	*
34	FRANCES	9/22/04	15	0	*	*	*
35	FRANCES	9/13/04	16	30	*	*	*
36	FRANCES	9/23/04	2	21	*	*	*
37	FRANCES	9/9/04	8	30	*	*	*
38	FRANCES	10/20/04	30	51	*	*	*
39	FRANCES	9/29/04	7	4	*	*	*
40	FRANCES	9/21/04	*	*	*	*	*
41	FRANCES	9/7/04	20	77	*	*	*
42	FRANCES	9/20/04	23	6	*	*	*
43	FRANCES	9/14/04	9	1	*	*	*
44	FRANCES	9/27/04	11	10	*	*	*
45	FRANCES	9/9/04	15	17	*	*	*
46	FRANCES	9/13/04	11	0	*	*	*
47	FRANCES	9/22/04	6	5	*	*	*
48	FRANCES	9/10/04	28	3	*	*	*
49	FRANCES	9/13/04	*	0	*	*	*
50	FRANCES	9/17/04	13	92	*	*	*
51	IVAN	9/16/04	70	7	*	*	*
52	IVAN	9/18/04	124	12	*	*	*
53	IVAN	9/21/04	*	*	*	*	*
54	IVAN	10/22/04	*	0	*	*	*
55	IVAN	11/3/04	2	13	*	*	*
56	IVAN	9/19/04	75	*	*	*	*
57	IVAN	9/18/04	*	0	*	*	*
58	IVAN	11/2/04	14	13	*	*	*
59	IVAN	9/24/04	3	1	*	*	*
60	IVAN	9/20/04	44	1	*	*	*
61	IVAN	9/28/04	7	21	*	*	*
62	IVAN	9/22/04	*	*	*	*	*
63	IVAN	9/17/04	76	0	*	*	*
64	IVAN	9/20/04	22	6	*	*	*
65	IVAN	9/21/04	4	40	*	*	*
66	IVAN	9/20/04	17	28	*	*	*
67	IVAN	9/24/04	10	38	*	*	*
68	IVAN	9/27/04	1	4	*	*	*
69	IVAN	9/24/04	*	*	*	*	*
70	IVAN	9/17/04	21	51	*	*	*
71	IVAN	9/23/04	10	13	*	*	*
72	IVAN	9/21/04	1	2	*	*	*

Claim File	CAT ID	Date Reported	Days between Date Assigned & Date Inspected	Days between Inspection Date & Report Date	Days between Inspection Report Date & Date Co. Received Report	Date Inspection Report was Received by the Company	Days between Date of Loss & Date Report Rcvd. By Co.
73	IVAN	9/17/04	1	37	*	*	*
74	IVAN	10/18/04	42	36	*	*	*
75	IVAN	9/21/04	*	0	*	*	*
76	JEANNE	10/19/04	13	10	*	*	*
77	JEANNE	9/28/04	*	0	*	*	*
78	JEANNE	10/7/04	*	*	*	*	*
79	JEANNE	10/4/04	*	0	*	*	*
80	JEANNE	9/27/04	*	*	*	*	*
81	JEANNE	9/27/04	5	2	*	*	*
82	JEANNE	10/7/04	*	*	*	*	*
83	JEANNE	9/28/04	25	0	*	*	*
84	JEANNE	9/27/04	*	0	*	*	*
85	JEANNE	10/6/04	59	*	*	*	*
86	JEANNE	9/28/04	*	*	*	*	*
87	JEANNE	9/28/04	10	*	*	*	*
88	JEANNE	10/7/04	5	1	*	*	*
89	JEANNE	9/27/04	11	16	*	*	*
90	JEANNE	9/27/04	*	*	*	*	*
91	JEANNE	9/27/04	13	8	*	*	*
92	JEANNE	9/27/04	7	18	*	*	*
93	JEANNE	9/27/04	52	14	*	*	*
94	JEANNE	9/28/04	70	*	*	*	*
95	JEANNE	10/29/04	8	0	*	*	*
96	JEANNE	10/1/04	*	*	*	*	*
97	JEANNE	9/28/04	26	17	*	*	*
98	JEANNE	10/22/04	23	10	*	*	*
99	JEANNE	11/9/04	6	1	*	*	*
100	JEANNE	10/30/04	17	2	*	*	*

* Data not available

Hurricane Claims – South Florida

As of January 25, 2005, the Company paid approximately \$38 million to insureds for 2004 hurricane claims that were incurred in Broward, Dade and Monroe counties. The following chart shows the total paid claims, by county, by hurricane:

	Broward	Miami-Dade	Monroe
Charley	\$ 234,373	\$ 588,355	\$111,426
Frances	\$13,386,292	\$15,892,229	\$115,253
Ivan	\$ 293,887	\$ 444,052	\$ 0
Jeanne	\$ 3,375,676	\$ 3,589,783	\$ 11,874
Totals	\$17,290,228	\$20,514,419	\$238,553

Less than 1% of the total paid in these three counties was for Monroe. Approximately \$17.3 million of the total was paid for claims reported in Broward. Based on reports from the National Oceanic and Atmospheric Administration (NOAA) Broward County was in the path of Hurricanes Frances and Jeanne. Of the remaining \$20.5 million paid on hurricane related claims which were in Dade County, \$15.9 million related to Hurricane Frances and \$3.6 million to Hurricane Jeanne. The remaining \$1 million were claims paid for Hurricanes Ivan and Charley. Wind speeds of up to sixty (60) miles per hour were reported in Dade County for Hurricane Frances, per NOAA. Hurricane Jeanne was reported as having wind speeds up to forty (40) miles per hour in Dade County. The \$20.4 million paid on property claims in Dade County was further analyzed by amount paid per type of policy, of the total paid, \$13.9 million, or 68%, related to homeowner policies including wind coverage, and the remainder was paid on wind only policies.

A review of a sample of thirty (30) hurricane related claims on properties located in South Florida was made to determine whether claims submitted to the Company from South Florida were justified. Based on the chart showing the amount of claims paid for each of the four (4) hurricanes and the wind studies available from NOAA, emphasis for sample selection was placed on the reported claims for Hurricanes Ivan and Charley, as the path of these two storms was less likely to impact the South Florida area, more specifically the Miami/Dade area. The following represents the findings:

1. Seven (7) claim files should have had additional review conducted prior to payment being made by the Company. Six (6) claim files received no additional review. One (1) claim file did receive additional review, however, either the review did not document the findings that would support payment of the claim or the level of review was not sufficient to warrant payment of the claim. The following are the reasons justifying the need for additional review. Four (4) of the seven (7) claims are included in both categories a and c.
 - a. Six (6) claims were reviewed for one or more of the following reasons:
 - i. Claim was reported substantially later than the incurred date;
 - ii. Cause of damage was questioned as to coverage and/or damage was possibly pre-existing;
 - iii. No supporting documentation for damage, such as pictures and/or repair estimates.
 - b. One (1) claim was processed through the Company's Fast Track Program, which means without field inspections. However, the amount of the damage was substantial which should have warranted an inspection or proof of repair of damages.

- c. Five (5) claims had incurred dates ranging from September 15th through September 17th, and were processed as hurricane claims from Ivan. However, Ivan was not near South Florida during this period of time as it made landfall on the Florida panhandle on the 16th of September.

Company procedures for reviewing claims, based upon the sample reviewed, were deficient in that they failed to investigate 7 of 30 claims sufficiently enough to verify that the claims were justified. However, the sample review did verify that 23 of 30 claims were justified.

Hurricane Claims Complaints

As of December 31, 2004, the Company received 6,860 complaints related to hurricane claims. The following table shows a breakdown of complaints by hurricane:

Hurricane	Total Complaints	Total Claims (As of 01/25/05)	% Of Total Claims
Charley	1,473	20,152	7.31%
Frances	3,074	49,683	6.19%
Ivan	1,160	15,751	7.36%
Jeanne	1,153	30,536	3.78%
Totals	6,860	116,122	5.91%

DATA VALIDATION REVIEW

Pursuant to the hurricane claims reporting requirements set forth by the Office, a review was conducted to validate the completeness and accuracy of the Company's filed reports. The reports were reconciled against supporting data files for each report. In those instances in which supporting data files were not available for a report, other historical files were used to recreate source documents for validation of reports.

Reports Submitted to P&C Financial Oversight

The reports included in this section consist of the Weekly General Claims Reports for November 24, 2004 and December 30, 2004, the Monthly Line of Business Reports for November 30, 2004 and December 31, 2004, the one time report of multiple deductibles applied to hurricane claims, and the QUASR report as of June 30, 2004. The following summarizes the errors.

Weekly General Claims Report - November 24, 2004

The data provided did not reconcile to the data reported to the Office. There were eight (8) errors noted involving the number of claims reported (4 errors) and the number of closed claims reported (4 errors).

Corrective action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

Company Response: All reports provided to the Office were accurate based upon the time period and definitional aspects of what was being reported. The differences in the numbers reported to the Office stemmed not from inaccurate data but instead from the following:

1. Date being reported using different “as of “ dates;
2. Failure to retain file copies of submission to the Office which resulted in changes to data as files were recreated; and
3. Different interpretation of what constituted a “closed claim” for reporting purposes.

All of the above discrepancies were addressed and corrected for 2005 reporting. In addition, quality control measures were implemented to ensure the data is consistent with reporting parameters prior to submission.

Weekly General Claims Report - December 30, 2004

The data provided did not reconcile to the data reported to the Office. There were eight (8) errors noted involving the number of claims reported (4 errors) and the number of closed claims reported (4 errors).

Corrective action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

Company Response: All reports provided to the Office were accurate based upon the time period and definitional aspects of what was being reported. The differences in the numbers reported to the Office stemmed not from inaccurate data but instead from the following:

1. Date being reported using different “as of “ dates;
2. Failure to retain file copies of submission to the Office which resulted in changes to data as files were recreated; and
3. Different interpretation of what constituted a “closed claim” for reporting purposes.

All of the above discrepancies were addressed and corrected for 2005 reporting. In addition, quality control measures were implemented to ensure the data is consistent with reporting parameters prior to submission.

Monthly Line of Business Report - November 30, 2004

The data provided did not reconcile to the data reported to the Office. There were twelve (12) errors noted involving the number of claims reported.

Corrective action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

Company Response: All reports provided to the Office were accurate based upon the time period and definitional aspects of what was being reported. The differences in the numbers reported to the Office stemmed not from inaccurate data but instead from the following:

1. Date being reported using different “as of “ dates;
2. Failure to retain file copies of submission to the Office which resulted in changes to data as files were recreated; and
3. Different interpretation of what constituted a “closed claim” for reporting purposes.

All of the above discrepancies were addressed and corrected for 2005 reporting. In addition, quality control measures were implemented to ensure the data is consistent with reporting parameters prior to submission.

Monthly Line of Business Report - December 31, 2004

The data provided did not reconcile to the data reported to the Office. There were twelve (12) errors noted involving the number of claims reported.

Corrective action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

Company Response: All reports provided to the Office were accurate based upon the time period and definitional aspects of what was being reported. The differences in the numbers reported to the Office stemmed not from inaccurate data but instead from the following:

1. Date being reported using different “as of “ dates;
2. Failure to retain file copies of submission to the Office which resulted in changes to data as files were recreated; and
3. Different interpretation of what constituted a “closed claim” for reporting purposes.

All of the above discrepancies were addressed and corrected for 2005 reporting. In addition, quality control measures were implemented to ensure the data is consistent with reporting parameters prior to submission.

Reports Submitted to Market Investigations

The reports included in this section consist of the reports that required signed affidavits from a Corporate Officer of the Company addressing compliance with the requirements of Emergency Rule 69OER04-19. The following summarizes the errors:

Part I

The Company provided the affidavit indicating a non-compliant status, the list of non-compliant claims, and a supporting data file as of 11/22/04. Completeness testing performed for the list of non-compliant claims disclosed that from the sample of 100 claims, there were three (3) claims improperly omitted.

Corrective action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

Company Response: In 2004, Citizens did not capture nor have the ability to obtain from claims administrators, the complete information required to respond fully to the affidavits.

Citizens new claims tracking system now captures all of the required information and will be used for reporting in the future. This should resolve reporting limitations and unintentional errors.

Part II

The Company provided the affidavit indicating a non-compliant status, the list of non-compliant claims, and a supporting data file as of 12/8/04. Completeness testing performed for the list of non-compliant claims disclosed that from the sample of 100 claims, there were seven (7) claims improperly omitted.

Corrective action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

Company Response: In 2004, Citizens did not capture nor have the ability to obtain from claims administrators, the complete information required to respond fully to the affidavits. Citizens new claims tracking system now captures all of the required information and will be used for reporting in the future. This should resolve reporting limitations and unintentional errors.

OPERATIONAL REVIEW

The following summarizes specific operations that could be improved in keeping with generally accepted accounting practices relating to insurers, and good internal control as required by Section 624.316(1) (c), Florida Statutes.

General Operations

The person responsible for entering invoices for general expenses and printing checks also has the ability to change the payee. Additionally, check stock is maintained in a locked closet; however, the key to the lock is accessible to any employee.

Corrective Action: The Company should segregate these responsibilities and implement procedures to control locked check stock.

Company Response: Citizens implemented a procedure where the AP Accounting Assistants will not have access to add a vendor or change vendor addresses. That task is now the responsibility of the Senior Accountant backed up by the General Ledger Manager and Supervisor. The Senior Accountant does not have access or responsibility for any other AP process. The key to the check closet is secured and access is provided only to designated supervisors.

Corporate Records

Board of Governors meeting minutes are recorded and subsequently transcribed verbatim, which may result in the omission of relevant information if the tapes are unintelligible.

The Board of Governors established nine (9) committees; Executive, Audit, Actuarial, Investment, Underwriting, Claims, Producer, Quota Share Primary and Reinsurance Committees. The examiners review noted that the Investments Committee met several times during the scope of the examination; however, there were minutes of the meetings drafted or recorded for only one meeting.

The Company's Plan of Operation contains references to a Florida Statute no longer applicable, specifically Section 624.4071, Florida Statutes. Section 4 (PP) and Section 5 (A) of the Company's Plan of Operation contained this cite.

Corrective Action:

1. The Company should consider an alternative method for recording and maintaining minutes to ensure meetings are sufficiently summarized for future review of resolutions and pertinent discussions.

Company Response: Citizens records all Board and Board Committee Meetings. Citizens utilized a number of different methods of recording and transcribing meeting minutes. We are unaware of any instance in which formal action taken by the Board was not properly reflected in the minutes. Moreover, Citizens minutes are more detailed than most residual market facilities.

2. The Company should maintain a record of minutes of the proceedings for all committee meetings and have them available for review by the Office.

Company Response: Citizens does maintain records of minutes for all board committees.

3. The Company should periodically review the necessity of the various committees to ensure efficiency.

Company Response: Citizens periodically reviews and recommends creation of or deletion of various committees. Moreover, Citizens new Chairman as of August 1, 2005, deleted and revised many of Citizens committees in order to meet current needs.

4. The Company should amend the Plan of Operation to reference current Florida Statutes.

Company Response: Citizens will modify the Plan to delete this reference.

Claims Handling

Check stock located in the Company's CAT Center was left on a printer at a time when checks were not actively being printed.

Adjust-Your-Own (AYO) claims are processed by the insurer that accepts the risk for the non-wind coverage. There is a review process in place only for claims processed by AYO's exceeding \$100,000.

Controls for claims processed by third party administrators (TPAs) and AYO's were not sufficient to ensure quality and timely processing. This was evident by the numerous complaints indicating the Company could not tell the policyholder the status of his/her claim. The Company implemented a Claims Tracking System (CTS) that will allow the Company to be in a position to better serve the policyholder with respect to processing the claim more efficiently, as discussed previously in this report under the section entitled Company Responses to Hurricanes.

During the hurricane claims review, it was determined that the dates entered in the electronic file for each event in the claims processing cycle were incorrect. The paid date was considered to be the maximum date that each activity could have occurred and, in some cases, was used as the default date when the actual date was not available in the claim file. This caused the dates in the paper files, which were the actual dates on which the events occurred, to differ from the dates in the electronic file. With the Company's implementation of CTS, these discrepancies should cease.

During the data validation review, the Company was unable to provide the supporting data files for the Weekly General Claims Reports, Monthly Line of Business Reports, and the Multiple Deductible Report submitted to the Office.

Corrective Action:

1. The Company should implement controls to ensure check stock is secured at all times in the CAT Center.

Company Response: The check stock is stored in a room secured with a combination lock. The check stock is located in a keyed locked cabinet within this room. One person has primary access and this person has one designated back-up. The two individuals with access to the check stock are responsible for physically supervising the use of check stock at all times.

2. The Company should retain supporting data files for reports filed with the Office.

Company Response: Citizens implemented new procedures whereby all data used for reports to the Office is backed up and maintained as an audit file.

Underwriting and Rating

As this is a residual market program, the Company requires the agent and applicant to sign a certification stating the applicant has not been able to obtain insurance in the voluntary market. However, there is no procedure to document the companies that have declined the applicant in the voluntary market. The lack of this procedure may allow companies that refused to write an applicant in the voluntary market to assume a policy written by the Company on the same applicant through the voluntary company's participation in the Depopulation Program. Further, there are no controls to determine if a policy written by the Company can be written in the voluntary market due to the automatic renewal of Company policies.

Corrective Action:

1. The Company should implement controls that require verification and certification by the agent that the risk is not insurable in the voluntary market prior to renewal.

Company Response: This issue will be referred to the newly created Market Accountability Advisory Committee, which reports to the Citizens Board, for recommendations.

Complaints

The Company did not provide a timely response to the DFS for twenty-one (21) claim related complaints out of the 327 non-catastrophic complaints received in 2004, as required by Rule 69O-166.025, Florida Administrative Code.

Corrective Action: The Company should implement controls to ensure responses to DFS complaints are made within the required timeframe.

Company Response: Citizens implemented procedures to ensure that DFS complaints are responded to timely. All DFS Service Requests (complaints) are sent to one email address, logged and forwarded to applicable parties for prompt review/investigation. Responses are returned to the originating unit via email, and then processed completely in electronic format, thus reducing turn-around time associated with manually faxing and filing complaints. Weekly audits are performed in an attempt to meet or exceed the unit's response time goal of five business days.

Depopulation

The Company was established to provide insurance for residential properties that were deemed uninsurable in the voluntary market. The Company has continued to grow in premium volume as well as in the number of in-force policies.

The two mechanisms to control the Company's growth have been the Florida Market Assistance Program (FMAP) and the Depopulation Program. FMAP is a service organization designed to assist consumers in obtaining property and casualty insurance coverage from authorized insurers in the voluntary market. Depopulation is a program where authorized insurers voluntarily take policies currently written by the Company in an effort to return them to the voluntary market.

The Company is expanding FMAP by adding an internet website for the purpose of offering a common place for consumers, agents and insurers to enter into an insurance contract in the voluntary market. A consumer creates a bio on their property coverage, which will then be available for review by agents and insurers. Agents and insurers will be able to search for potential insureds by selecting certain criteria meeting the voluntary company's underwriting guidelines. Agents and insurers will have to be registered with Citizens in order to participate in the program, and agree to provide periodic status reports once they select a consumer to insure in the voluntary market.

Information Systems

There is a Disaster Recovery Plan in place that indicates that the Jacksonville data center will take over operations for the Tallahassee site in case of a disaster that disables the Tallahassee site and vice versa. Although these two locations are far enough apart to qualify as sufficient reciprocal sites, there is a concern with both sites being located in the North Florida area.

This proximity might introduce a risk that the same storm or storms could incapacitate both sites and prohibit the Company from continuing its operations.

There is no generator in the Tallahassee office. The Company's Director of Technology indicated that the location and design of the building the Company currently occupies will not accommodate a generator. Based on the number of policies insured by the Company, it is imperative that the Company be able to process data with minimal interruption.

The system infrastructure and processes used by the Company have been greatly enhanced during and following the 2004 storm season. There have been significant modifications to support claims processing improvements as well as personnel changes; however, there is no system in place that monitors the process, thus, providing oversight to ensure business goals are being attained.

Corrective Action:

1. The Company should investigate the cost of an alternative site with IBM, in another location such as the IBM site in Gaithersburg, Maryland, for the AS400 and server applications running in the Tallahassee and Jacksonville data centers.

Company Response: In June of 2005, Citizens hired a Manager of Disaster Recovery and System Security who is currently engaged in the review of IT disaster recovery and business continuity issues for all infrastructure and application systems. This individual is a member of the Citizens management team and has the background associated with large IT organizations and appropriate disaster recovery solutions for such organizations. Citizens review and implementation process will include an investigation of an alternative site for the AS400 and the associated AS400 applications.

Citizens currently runs two primary data centers, one in Tallahassee and one in Jacksonville Florida. Given the significant geographic distance and provisioning with multiple network carriers, Citizens believes that each site provides appropriate failover capabilities for the other site's mission critical server applications. Citizens is continually focused on improving reliability, survivability and failover capability and as an example, recently implementing a mirrored SAN solution to provide data redundancy between the two facilities.

2. The Company should pursue the acquisition and installation of a generator sufficient to maintain the Tallahassee data center operations.

Company Response: Citizens will consider the installation of a generator at its new location in Tallahassee. Currently Citizens Tallahassee data center is located on the Tallahassee City Center main power grid, next to the primary central office for the tri-

county region. While service interruption is always a possibility, in over 3 years, Citizens has not experienced a significant outage. Tallahassee systems are protected by multiple UPS systems; providing over an hour of battery runtime. Citizen's primary data center operations are located in Jacksonville which is outfitted with a generator sufficient to run the Jacksonville based operations plus any applications that might be relocated to Jacksonville as part of a disaster recovery process.

3. The Company's Board of Governors should establish an Information Systems Oversight Committee, staffed with technical experts, to ensure system enhancements and that any new application software and hardware contributes to the improvement of insurance operations.

Company Response: The Information Systems Advisory Committee was established by the Chair at the September 16, 2005 Board Meeting.

REPORT SUMMARIZATION

Findings

Hurricane Claims Review

- Forty-seven (47) out of one hundred (100) claims were acknowledged within fourteen (14) days as required by Rule 69O-166.024, Florida Administrative Code. An additional six (6) claims documented attempts by the adjuster to contact the claimant within fourteen (14) days without success. Twenty-two (22) claims could not be verified as the Company was unable to provide the acknowledgement date for these claims. – Page three (3) of the report.

Corrective Action: The Company should establish procedures to ensure that all claims are acknowledged within fourteen (14) days and those records are maintained to document compliance with Rule 69O-166.024, Florida Administrative Code.

- The Company was unable to provide fifteen (15) of the selected sample of claims – Page three (3) of the report.

Corrective Action: The Company should establish control procedures to ensure claim files are maintained and readily available for review. The Company should provide a copy of the 2005 Catastrophe Plan to the Office within 30 days of receipt of the Final Report.

- Review of a sample of thirty (30) hurricane related claims on properties located in South Florida revealed the following:
 - Seven (7) claim files should have had additional review conducted prior to payment – Page seven (7) of the report.
 - One (1) claim was processed through the Company's Fast Track Program, which means without field inspections. However, the amount of damage was substantial

which should have warranted an inspection or proof of repair of damages – Page seven (7) of the report.

- Five (5) claims had incurred dates associated with Hurricane Ivan at times in which the hurricane did not appear to be in the area – Page eight (8) of the report.

Data Validation Review

- The data did not reconcile to the data reported to the Office in the Weekly General Claims Reports for November 24, 2004 and December 30, 2004 – Sixteen (16) errors – Page eight (8) of the report.

Corrective Action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

- The data did not reconcile to the data reported to the Office in the Monthly Line of Business Reports for November 30, 2004 and December 31, 2004 – Twenty-four (24) errors – Page nine (9) of the report.

Corrective Action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

- The listing of non-compliant claims reported to the Office in accordance with Emergency Rule 69OER04-19 Parts I and II were incomplete – ten (10) errors - Page ten (10) of the report.

Corrective Action: The Company should provide accurate reports to the Office in accordance with Section 624.424(6), Florida Statutes.

Operational Review

- The person responsible for entering invoices for general expenses and printing checks also has the ability to change the payee. Additionally, check stock is maintained in a locked closet, however, the key to the lock is accessible to any employee – Page eleven (11) of the report.

Corrective Action: The Company should segregate these responsibilities and implement procedures to control locked check stock.

- Board of Governors meeting minutes are recorded and subsequently transcribed verbatim, which may result in the omission of relevant information if the tapes are unintelligible - Page eleven (11) of the report.
- The Board of Governors established nine (9) committees. The Investments Committee met several times, however, there were minutes of the meetings drafted or recorded for only one meeting - Page twelve (12) of the report.
- The Company's Plan of Operation contains references to a Florida Statute no longer applicable - Page twelve (12) of the report.

Corrective Action:

1. The Company should consider an alternative method for recording and maintaining minutes to ensure meetings are sufficiently summarized for future review of resolutions and pertinent discussions.
 2. The Company should maintain a record of minutes of the proceedings for all committee meetings and have them available for review by the Office.
 3. The Company should periodically review the necessity of the various committees to ensure efficiency.
 4. The Company should amend the Plan of Operation to reference current Florida Statutes.
- Check stock located in the Company's CAT Center was left on a printer at a time when checks were not actively being printed - Page twelve (12) of the report.
 - Adjust-Your-Own (AYO) claims are processed by the insurer that accepts the risk for the non-wind coverage. There is a review process in place only for claims processed by AYO's exceeding \$100,000 - Page twelve (12) of the report.
 - Claims processed by third party administrators (TPAs) and AYO's were not sufficient to ensure quality and timely processing. The Company implemented a Claims Tracking System (CTS) that will allow the Company to be in a position to better serve the policyholder with respect to processing the claim more efficiently - Page thirteen (13) of the report.
 - During the data validation review, the Company was unable to provide the supporting data files for the Weekly General Claims Reports, Monthly Line of Business Reports, and the Multiple Deductible Reports submitted to the Office - Page thirteen (13) of the report.

Corrective Action:

1. The Company should implement controls to ensure check stock is secured at all times in the CAT Center.
 2. The Company should retain supporting data files for reports filed with the Office.
- The Company requires the agent and applicant to sign a certification stating the applicant has not been able to obtain insurance in the voluntary market. There is no procedure to document the companies that have declined the applicant in the voluntary market - Page thirteen (13) of the report.
 - There are no controls to determine if a policy written by the Company can be written in the voluntary market due to the automatic renewal of Company policies - Page thirteen (13) of the report.

Corrective Action:

1. The Company should implement controls that require verification and certification by the agent that the risk is not insurable in the voluntary market prior to renewal.
- The Company did not provide a timely response to DFS for twenty-one (21) claim related complaints out of the 327 non-catastrophic complaints received in 2004 - Page fourteen (14) of the report.

Corrective Action: The Company should implement controls to ensure responses to DFS complaints are made within the required timeframe.

- The proximity of the Company's data centers, both being in the North Florida area, might introduce a risk that the same storm or storms could incapacitate both sites and prohibit the Company from continuing its operations - Page fifteen (15) of the report.
- There is no generator in the Tallahassee Office - Page fifteen (15) of the report.
- The Company greatly enhanced its system infrastructure and processes to support claims processing improvements as well as personnel changes. However, there is no system in place that monitors the process, thus, providing oversight to ensure business goals are being attained - Page fifteen (15) of the report.

Corrective Action:

1. The Company should investigate the cost of an alternative site with IBM, in another location such as the IBM site in Gaithersburg, Maryland, for the AS400 and server applications running in the Tallahassee and Jacksonville data centers.
2. The Company should pursue the acquisition and installation of a generator sufficient to maintain the Tallahassee data center operations.
3. The Company's Board of Governors should establish an Information Systems Oversight Committee, staffed with technical experts, to ensure system enhancements and that any new application software and hardware contributes to the improvement of insurance operations.

SUBSEQUENT EVENTS

Subsequent to the examiner's departure, Citizens has made additional changes.

1. Citizens required all Officers of Citizens to comply with the background provisions of Florida Statutes and Florida Administrative Code, which applies to officers of licensed insurers. Additionally, Citizens added a nationwide criminal background search to their employee recruitment and selection processes for all new Citizens employees. Citizens has also promulgated and implemented both a Conflict of Interest Policy and a Secondary Employment Policy.

2. Citizens made improvements in its catastrophe response plan following the unprecedented 2004 Hurricane Season. The problems faced by Citizens stemmed largely from inadequate catastrophe staff, too much reliance on outsourced catastrophe adjusting firms, and an inability to systematically track the status of its catastrophe claims. As a result, the Company lost control of the claims adjustment process.

Over the final months of 2004 and continuing to date, Citizens has made the following improvements:

- a. Citizens created a Catastrophe Operations unit, headed by a Catastrophe Operations Director, with a staff of eight management positions. These catastrophe resources are currently located in three catastrophe operations centers in Tallahassee, but will eventually be permanently located in a self-contained catastrophe facility in Jacksonville.
- b. Citizens completely revamped its relationship with its contracted catastrophe claims adjusting firms. These firms will provide catastrophe adjusters for Citizens, but Citizens will manage their adjustments of the loss through Citizens' Team Leaders. As a result of this active management of the claim, Citizens will always know the status of each claim and will provide direct customer service and "own" the claim until it is closed.
- c. Citizens developed further functionality for its new Claims Tracking System to improve dispatch, claim file management and adjuster progress.
- d. Citizens implemented internal controls to assure that claimants receive prompt response when filing a catastrophe claim.
- e. Citizens implemented system changes to assure the reporting of accurate summary claims data to regulators.

EXAMINATION FINAL REPORT

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