

TASK FORCE ON CITIZENS PROPERTY INSURANCE CLAIMS HANDLING & RESOLUTION

<http://taskforceoncitizensclaimshandling.org>

June 11, 2008

The Honorable Charlie Crist
Governor, State of Florida
The Capitol, Plaza Level 05
Tallahassee, FL 32399-0001

The Honorable Alex Sink
Florida Chief Financial Officer
The Capitol, Plaza Level 11
Tallahassee, FL 32399-0301

The Honorable Ken Pruitt
Senate President
The Capitol, Suite 409
Tallahassee, FL 32399-1100

The Honorable Marco Rubio
Speaker of the House of Representatives
The Capitol, Room 420
Tallahassee, Florida 32399-1300

The Honorable Kevin McCarty
Florida Insurance Commissioner
Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, FL 32399

Scott Wallace
Executive Director
Citizens Property Insurance Corporation
8301 Cypress Plaza Drive, Suite 500
Jacksonville, Florida 32256

RE: Task Force on Citizens Property Insurance Claims Handling and Resolution
Third and Final Report

Dear Appointing Officials:

This is the third and final report from the Task Force on Citizens Property Insurance Claims Handling and Resolution, which was created by House Bill 1A, Section 38, during the 2007 Legislative Special Session A.

The Task Force held its first meeting on May 21, 2007, and the first interim report was submitted on July 1, 2007. The first report established milestones for Citizens Property Insurance Corporation (Citizens) regarding the closure of 2004/2005 hurricane claims and the training of contracted independent claims adjusters and insurance agents, and it identified other areas of interest. On October 10, 2007, the Task Force submitted its second interim report, which noted Citizens' progress in closing the 2004/2005 hurricane claims and its level of preparedness for future hurricanes or other catastrophic events.

Since October 2007, the Task Force has:

- Continued monitoring the closure of the 2004/2005 hurricane claims and procedures to handle future catastrophic events (CAT claims);
- Reviewed Citizens' implementation of programs relating to management and training of insurance agents, consumer services, administration of policies, and daily claims;
- Monitored the establishment of Citizens' Office of the Internal Auditor;
- Developed proposed legislation on areas of concern that arose during the meetings, which resulted in legislation to address public adjusters and the appraisal process; and
- Reviewed other areas of interest which affect Florida policyholders.

2004/2005 Hurricane Claims / Future Hurricane Preparedness:

On June 18, 2007, Citizens reported to the Task Force that it had 3,330 claims remaining open from the 2004/2005 hurricane seasons. As the following chart demonstrates, Citizens has made significant progress in bringing the 2004/2005 hurricane claims to closure.

**2004/2005 Open Claims – As of May 1, 2008
Mediation, Appraisal, Litigation and Supplements/Others**

Claim Location	Open Claims (as of 6/18/2007)	Closed	Still Pending	Percent Closed
Mediation	290	286	4	99%
Appraisal	1,482	1477	5	99%
Litigation	789	669	120	85%
Supplements/ Others	769	765	4	99%
Total	3,330	3197	133	96%

However, between June 18, 2007 and April 30, 2008, Citizens received 1,828 new claims and 8,531 reopened claims from the 2004/2005 hurricane seasons. As the chart indicates, Citizens has made every effort to bring these claims to closure in an expeditious manner.

**2004/2005 New or Reopened Claims
June 17, 2007 – May 1, 2008**

Event Year	Event Name	Total [New + Reopen]	Total New	Total Reopen	Total Closed
2004	Hurricane Charley	251	17	234	217
	Hurricane Frances	657	35	622	559
	Hurricane Ivan	344	31	313	289
	Hurricane Jeanne	326	21	305	270
2005	Hurricane Dennis	124	18	106	102
	Hurricane Katrina	816	84	732	675
	Hurricane Rita	22	1	21	19
	Hurricane Wilma	7,819	1,621	6,198	6,386
	Totals:	10,359	1,828	8,531	8,517

The Task Force was concerned with the number of new claims and reopened claims that have been reported to Citizens since June 18, 2007. A large number of the claims that were reopened for additional payments can be attributed to the shortage of contractors, roofers and building materials. The rising price of building materials in the years after the storms also explains why some customers felt that Citizens original payment amounts were insufficient to complete needed repairs. Citizens, as well as other insurers, report that many of the newly reported or supplemental claims requests from the 2004/2005 hurricane seasons are attributed to mass solicitations by public adjusters.

The Task Force monitored Citizens as it prepared for the 2007 Hurricane Season. The Catastrophe Claim Plan includes: contracts with 45 Catastrophe Independent Adjusting Firms (CAT IA Firms); 6000 trained and certified adjusters; six mobile emergency operations centers; contract with Lynx Catastrophe Call Center; and contracts with Xactmate (Claims Adjusting Computer Program) and XactAnalysis. The contracts Citizens negotiated for the 2007 hurricane season were for two-year terms; therefore, Citizens should be prepared for the 2008 hurricane season.

In late 2007 Citizens formed its Claims Operations and consolidated the Catastrophe (CAT) Claims and Daily Claims Departments. Currently, Claims Operations has 51 internal claims staff available to supervise the independent adjusters and the ultimate goal is to have a staff of 64 available to respond to a catastrophic event during 2008.

Recommendations:

- Citizens to review level of supervision/oversight provided on the claims outsourced to CAT IA firms to ensure that resources are adequate to: supervise the large number of CAT IA adjusters; monitor compliance with vendors' contracts; review claims handling; address training needs; and ensure that Citizens' procedures and services standards remain consistent throughout the organization.
- Citizens to review communications (both verbal and written) to ensure that the claims process is outlined for consumers in a realistic step-by-step format and not only includes the claims handling process, but how to submit supplemental claims. This recommendation is based on the large number of supplemental claims filed in 2007.
- Citizens to continue the training and certification program for independent adjusters.

Agency Management Program:

Citizens has appointed approximately 9,000 insurance agents who are located in over 6,000 locations throughout the State of Florida and other states. Citizens' Division of Agent Services consists of 58 employees who handle appointment administration, compliance, communication and training. The Task Force found that this Division has aggressively tackled communication and training concerns. In January 2008 the Division's Agent Certification Program was approved by the Department of Financial Services. It was anticipated that insurance agents who enrolled in this program would earn one (1) continuing education (CE) credit for taking the three-hour course; however, due to a change in the law, the CE credit will no longer be available after July 2008. The Agent Resources website (<https://www.citizensfla.com/agent/index.cfm>) offers Training and Reference Materials for the Electronic Policy Administration System (ePAS), Agent Informational Bulletins, Underwriting Manuals, Depopulation Process, and the Policy Take-Out Program. In addition, this Division conducts desk and on-site agency audits to ensure compliance with Citizens' policy administration processes and to provide additional training, if needed.

Recommendations:

- Citizens to continue the Agent Certification Program including education and training.

Customer Care Center:

Citizens has made "Consumer Service" a priority and has dedicated resources to hire an Internal Consumer Advocate who continually evaluates Citizens' departmental processes to ensure that consumer contact points support consumer needs. In July 2007 the Customer Care Call Center and a Customer Care Correspondence Team were established along with several Website enhancements. The Customer Care Call Center responded to 8,718 consumer

requests for assistance between July 2007 and December 2007. During that same period, the Technical Resource Call Center responded to 611,752 requests for assistance, and the Lynx Catastrophe Call Center responded to 15,455 consumer requests for assistance. Citizens is working to consolidate call center operations to provide uniform service which will lead to greater efficiency and reduced costs.

Recommendations:

- Citizens should continue to consolidate call centers, where appropriate, to continue to improve its consumer service.

Policy Administration (Homeowners Policies):

The Task Force heard testimony from Citizens' managers regarding the: application process; underwriting and inspection criteria; insurance to value and Coverage A validation; premium collection procedures; and renewal process.

During 2007 Citizens received 741,619 new personal residential multi-peril (homeowners) applications and processed 435,992 endorsements, and processed 107,441 new personal residential wind-only applications and 159,100 endorsements. The majority of these transactions were underwritten by Citizens' 105 personal residential underwriting staff. The MacNeill Group, Inc., Citizens' outsourced policy administration vendor, also provides underwriting and policy administration support. Policies are audited by an independent team in the Product Development Unit to ensure that quality standards are met and to identify areas requiring additional training.

The Task Force's observation of Citizens' policy administration procedures indicates that management is continually striving to improve not only the policy administration processes, but to also improve all services provided to its policyholders.

Note: The Task Force focused on personal residential policies; however, as of April 30, 2008, Citizens has a total of 1,234,727 policies in force in its Personal Lines Account, Commercial Lines Account and High Risk Account combined.

Recommendations:

- None

Daily Claims (non-hurricane claims):

Daily Claims are processed in both the Tampa and Jacksonville Service Offices by Citizens' claims staff and independent contracted adjusting (ICA) firms. The ICA firms are: Insurance Servicing & Adjusting Company; Cunningham/Lindsey; York; Lozano Insurance Adjusters, Inc.; and NCA Group. Citizens has a dedicated daily claims staff of 67 (49 internal adjusters and 18 field estimators) and they processed 14,389 or 36% of the 39,890 claims reported in 2007. The remaining 25,502 claims or 64% of the daily claims were handled by the ICA firms, who also have dedicated staff for non-hurricane claims. Currently, Citizens has three staff members who oversee the claims processed by the ICA firms. Citizens reported that the 39,890 claims were closed as follows: 48% were closed within 30 days; 75% were closed within 60 days; and 90% were closed within 90 days. By the end of 2009, Citizens plans to increase its daily claims operations to 153 employees (100 internal claims staff and 53 external field staff) in order to handle 80% of all daily claims.

In May 2008 Citizens launched a Claims School for its existing employees and new staff. The training provided by the Claims School includes: Consumer Service, Ethics, Policy Contracts, Field Inspections, Xactimate, XactAnalysis and Claim File Quality Standards.

Recommendations:

- Citizens to review level of supervision/oversight provided on the claims outsourced to ICA firms to ensure that resources are adequate to: supervise the large number of ICA adjusters; monitor compliance with vendor's contracts; review claims handling; address training needs; and ensure that Citizens' procedures and service standards remain consistent throughout the organization.

Office of the Internal Auditor:

The Task Force's Second Interim Report reported that Citizens hired HuffThomas & Company to conduct the internal audit for 2007 in order to adhere to the statutory requirement of Section 627.351(6)(h)1, Florida Statutes, and that the position of the Office of the Internal Auditor (OIA) would be filled in November 2007. Since November, the Chief Internal Auditor (CIA) has made significant progress in developing the operational processes to meet the statutory requirements. The CIA is accountable to Citizens' Board of Governors (Board) and, as delegated by the Board, to the Board's appointed Audit Committee (Committee). The Charter for the OIA was developed and approved by the Committee on January 23, 2008, and ratified by the Board on January 24, 2008. The Audit Committee Charter was developed and approved by the Committee on March 12, 2008, and ratified by the Board on March 13, 2008. Currently, the CIA is drafting the Audit Committee's Checklist and formalizing the investigation procedures for the Internal Complaint Reporting Policy.

During the June 2008 Audit Committee meeting, the OIA will present a Summary of Open Items Policy to the Committee. The Open Items Policy will identify the status of open items that were noted in previous audit reports, and formalize the process to ensure proper disposition of all open items. The remaining open items have been identified from the following audit reports: the January 1, 2004 through October 20, 2005, Auditor General's Operational Audit Report; the November 4, 2005, Financial Services Commission, Office of Insurance Regulation's Target Market Conduct Final Examination Report; the February 2007, HuffThomas & Company's Audit Report; and the Carrs, Riggs, Ingram's 2006 Annual Financial Statement Audit which was completed in 2007. The formalized Open Items Policy identifies the benefits of the open items process, establishes ratings and target dates, develops reports for tracking aging and status; establishes open communications with management; develops escalation process of past due items and target completion dates. If target dates are not or cannot be met, unit managers must seek the written approval from senior management to establish a new target date for implementation.

The OIA has developed a comprehensive 2008 Audit Plan and it was approved by the Audit Committee on April 30, 2008, and ratified by the Board on May 1, 2008. In addition, the OIA will submit the 2008 Annual Report to the Financial Services Commission and the Florida Legislature by February 15, 2009.

Note: As required by Section 627.351(e)2, Florida Statutes, the Office of the Florida Auditor General is conducting an Operational Audit that is expected to be completed in August 2008, with the final report submitted to the Financial Services Commission and the Florida Legislature by February 15, 2009.

The Office of Insurance Regulation, Division of Market Investigations, will conduct its statutorily required review of Citizens' policies and procedures in the summer of 2008, and the final report will be submitted to the Financial Services Commission by February 2009.

Recommendations:

- None

Proposed Legislation:

During the review of Citizens' 2004/2005 hurricane claims, the Task Force became acutely aware of the involvement and impact that Public Adjusters were having, not only on Citizens' hurricane claims, but also on claims handled by the Florida Insurance Guaranty Association and on the mediation and appraisal process for insurance claims.

The Task Force held an informal workshop on November 16, 2007, and proposed legislation was drafted to protect consumers from unqualified or unscrupulous Public Adjusters and to ensure that homeowners receive and maintain adequate funds in order to re-build their homes after a loss. The proposed legislation was sponsored by Senator Mike Fasano and Representative Julio Robaina. The Task Force's recommendations were adopted by the Florida Legislature as part of a package of insurance amendments adopted in CS/CS/SB 2012. This legislation places a limit on contingency fees charged by adjusters; prohibits intrusive solicitation practices; and requires that a person work as an apprentice under the supervision of a licensed public adjuster for one year before being eligible to be licensed as a public adjuster.

In addition, the Task Force became aware that the Appraisal Process is not adequately addressing its intended purpose for consumers or the insurance industry. Since Citizens had approximately 1400 claims from the 2004/2005 hurricane seasons available for the Appraisal Process, the Task Force felt compelled to propose legislation which defined the Appraisal Process and to ensure that the Appraisal Umpires are qualified to make binding decisions regarding the re-construction of consumers' homes. Currently, there are no standards and the Appraisal Process can take as long as 18 months or longer. Senator Fasano and Representative Robaina sponsored the Task Force's proposed legislation; however, it was not adopted by the Legislature during the 2008 Legislative Session.

Recommendations:

- Office of the Insurance Consumer Advocate to monitor the implementation of adopted legislation relating to Public Adjusters to ensure that consumer interests are adequately protected and to recommend additional legislation, if needed.
- Office of the Insurance Consumer Advocate to continue monitoring the Appraisal Process and to pursue legislation relating to licensing appraisal umpires during the 2009 Legislative Session.

Other Areas of Interest:

The Task Force also reviewed other insurance issues that adversely impacted Florida policyholders during the 2004/2005 hurricane seasons. One of the issues was the Wind Driven Rain Exclusion which is applied to all policies (both residential and commercial). This excluded coverage is based on the statutory definition of hurricane. The following is an excerpt of Section 627.4025 (2)(a), Florida Statute:

*"627.4025 Residential coverage and hurricane coverage defined:
(2) As used in policies providing residential coverage:
(a) "Hurricane coverage" is coverage for loss or damage caused by the peril of windstorm during a hurricane. The term includes ensuing damage to the interior of a building, or to property inside a building, caused by rain, snow, sleet, hail, sand, or dust **if the direct force of the windstorm first damages the building, causing an opening through which rain, snow, sleet, hail, sand, or dust enters and causes damage.**"[emphasis added]*

As noted, during the 2004/2005 hurricane seasons, water worked through soffits, roof vents, siding, and around windows. Although the interior damage of the home was caused by the hurricane, in most cases, coverage was denied because there was no opening caused by direct force of the wind.

Recommendations:

- Office of the Insurance Consumer Advocate to review this issue to determine how this gap in coverage can or should be remedied.

Summary:

Since May 21, 2007, the Task Force held nine meetings, two public hearings, three conference call meetings, one informal workshop, proposed and followed the two legislative proposals, and submitted three reports, including this report, to the elected appointing officers. The Task Force is confident that Citizens' policyholders will not experience the same type of delays in the claims handling process as those affected by the 2004/2005 hurricane seasons as long as the policies and procedures presented to the Task Force are implemented, tested and adjusted to meet intended goals. The operational audits that are being conducted by the Office of the Auditor General and the Office of Insurance Regulation will determine whether the policies and procedures have been implemented and are being followed. The Task Force also found that Citizens' Chief Internal Auditor has demonstrated a great deal of working knowledge of the operational process and internal controls and has taken a proactive approach to meeting the statutory requirements. Finally, due to the hard work and diligent efforts of the Task Force, legislation was adopted that ensures that Public Adjusters are properly trained and that Florida consumers are protected from unfair solicitation practices and excessive fees.

The Task Force's activities were either video-taped or audio-taped and can be viewed on its website along with the agendas, minutes, presentations, and reports. The link to the website is: <http://taskforceoncitizensclaimshandling.org/>.

This report concludes the Task Force's legislative charge as directed by House Bill 1A, Section 38. If you or your staff have any questions or concerns regarding the information contained in this report, feel free to contact me at (727)848-5885 or Vicki A. Twogood with the Office of the Insurance Consumer Advocate, Department of Financial Services at (850)413-2970.

Sincerely,



Mike Fasano, Chairman
Florida State Senate – District 11
Task Force on Citizens Property Insurance
Claims Handling and Resolution

cc: The Honorable Bill Posey, Florida Senate
The Honorable Don Brown, Florida House of Representatives