



**TASK FORCE
ON
CITIZENS PROPERTY INSURANCE
CLAIMS HANDLING AND
RESOLUTION**

**FIRST REPORT
JULY 2, 2007**

**Alex Sink
Chief Financial Officer
Department of Financial Services**

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Background

During 2004 and 2005, Florida experienced two of the most active hurricane seasons in its history. Consequently, the Citizens Property Insurance Corporation (Citizens), which wrote a significant number of the state's personal lines policies, was faced with post-hurricane claims demands that exceeded its claims handling capacity.

During the 2004 hurricane season, Citizens' Catastrophe Claims Team consisted of 2 staff members and 1230 contracted independent adjusters. During the 2005 hurricane season, Citizens' Catastrophe Claims Team consisted of 8 staff members and 2001 contracted independent adjusters. Therefore, all claims operations were outsourced to various independent adjuster firms.

While Citizens has closed 121,466 claims and paid losses in the amount of \$2,785,558,832 for the 2004 hurricane season, and closed 182,269 claims and paid losses in the amount of \$2,362,884,433 for the 2005 hurricane season, Citizens still has 3330 open claims. In addition, since the 2004 and 2005 hurricane seasons, Citizens policy population has grown to over 1.3 million and continues to increase as the admitted market downsizes its personal and commercial residential business in the State of Florida.

During the January 2007 Special Session, the Legislature passed House Bill 1A and created the Task Force on Citizen Property Insurance Claims Handling and Resolution. (Appendix A) The Task Force was charged with, among other things, providing a report by July 1, 2007, containing actions Citizens should use to dispose of the claims remaining open from the 2004 and 2005 hurricane seasons.

The Task Force members were appointed as follows:

Governor Charlie Crist's appointee:	Michael B. Twomey, Sr., Attorney
Chief Financial Officer Alex Sink's appointee:	Mike Lancashire, CPCU, AIC
Senate President Ken Pruitt's appointee:	Senator Mike Fasano – District 11
House Speaker Marco Rubio's appointee:	Rep. Julio Robaina – District 117
Office of the Insurance Consumer Advocate:	General Bob Milligan
Insurance Commissioner Kevin McCarty's appointee:	Heather Carruthers (FIRM)
Citizens Executive Director Scott Wallace's appointee:	Tim Loftin, CPCU, AIC

The Task Force elected Bob Milligan, Florida's Insurance Consumer Advocate as Chairman and Senator Mike Fasano as Vice Chairman.

On May 21, 2007, the Task Force held its first meeting in Jacksonville, Florida, at the Citizens Catastrophe Center. On June 4, 2007, and June 28, 2007, the meetings were held in Tallahassee, Florida. On June 13, 2007, a public hearing was held from 2:00 to 4:00 and again from 6:00 to 8:00 in Pensacola, Florida, and on June 19, 2007, a public hearing was held from 2:00 to 4:00 and again from 6:00 to 8:00 in Ft. Lauderdale, Florida. All agenda, minutes and presentations from these meetings and hearings are available on the Task Force's website at <http://taskforceoncitizensclaimshandling.org>.

The following report is being submitted in accordance with the provisions of House Bill 1A. The Task Force will also continue to monitor Citizens' CAT Operations Team during the 2007 hurricane season and will meet again in the fall of 2007. Throughout the year, the Task Force will continue to monitor Citizens' implementation of the policies and procedures being developed to address consumer service issues, in terms of responsiveness, timeliness, customer courtesy and overall dealings with policyholders and applicants.

Findings and Actions

The Task Force was specifically charged with providing by July 1, 2007, a first report containing recommendations regarding the process Citizens Property Insurance Corporation (Citizens) should use to dispose of the claims remaining open from the 2004 and 2005 hurricane seasons.

The Task Force heard presentations from Citizens' management and Catastrophic Claims Team and heard testimony from Citizens' policyholders who have open claims from the 2004 and 2005 hurricane seasons. In addition, there were presentations regarding the mediation program, the appraisal process and the role of public adjusters and attorneys in the claims process. As a result of the testimony and materials received, the Task Force is providing the following conclusions and recommendations regarding: closure of the 2004 and 2005 hurricane claims; out-of-state independent adjuster firms; and appointed insurance agents.

1) Closure of Hurricane Claims (2004/2005)

The Task Force found that Citizens has made significant efforts to strengthen its capacity to handle catastrophic events. In 2006, Citizens created a Catastrophe (CAT) Operations Team to internally manage the large number of contracted independent adjusters that may be needed to adjust future hurricane claims and other large loss events. In 2007, the CAT Operations Team consists of 61 staff members and 303 contracted independent adjusters. In addition, for the 2007 hurricane season, Citizens has contracted with 45 independent adjusting firms that will provide 6000 independent adjusters, if needed. Citizens has created two claims centers, the CAT Operations Team for catastrophic events and the Daily Claims Team for other losses, such as, fire, theft and non-hurricane wind events. The claims operations are supported by the Claims Field Operations, the Special Investigations Unit, and Quality Assurance/Training and Program Management.

However, the Task Force also found that Citizens needs to bring that same effort and dedication to resolving the open claims by assigning sufficient authority and responsibility for immediate action. Currently, Citizens has 700 open claims from the 2004 hurricane season. Of the 700 claims, 47 are in the mediation process; 105 are in the appraisal process; 264 are in litigation; and 284 were opened or reopened in 2007. In addition, Citizens has 2,630 open claims from the 2005 hurricane season. Of the 2,630 claims, 243 are in the mediation process; 1,377 are in the appraisal process; 525 are in litigation; and 485 were opened or reopened in 2007.

It is imperative that Citizens take extraordinary action to close as many currently open claims as possible by September 30, 2007. To that end, the Task Force requests the following to facilitate the resolution of the 2004 and 2005 hurricane claims and to document its progress:

A. 2004/2005 Open Claim Spreadsheet and Related Data Collection:

- complete the applicable Task Forces' spreadsheet (Appendix B) to capture all open / reopened claims by county;
- assign ownership of each open claim file to a specific adjuster and manager;
- hold the adjuster and manager responsible for resolving the claim or reporting specifics on why the claim cannot be resolved;
- document nature of the dispute, such as, coverage, causation of damages;
- determine amount in dispute – difference between Citizens and the insureds' damages;
- document expenses incurred to date – costs of appraisal, expert and legal – is it worth the fight;

- review and document trends relating to specific adjusters, managers, expert roofers and structural engineers; and
- submit monthly reports (gross numbers) and completed spreadsheet and specifics regarding each claim **to the Task Force on or before September 30, 2007.**

B. Mediation

- give Citizens' representative the authority to negotiate and settle the claim;
- only send representatives who have actually inspected the property prior to mediation;
- require that both parties must bring written estimates to mediation;
- document specific differences and negotiate settlement on each disputed item;
- document specific reasons for impasse on the disputed item and obtain policyholders signature; and
- complete spreadsheet with applicable information.

C. Appraisal

- contact insured or representative to negotiate settlement prior to the umpire's involvement;
- give Citizens' representative authority to negotiate and settle the claim;
- only send representatives who have actually inspected the property;
- document specific differences and negotiate settlement on each disputed item;
- document specific reasons for impasse on the disputed item and obtain policyholder's signature;
- upon signed settlement – issue payment within 10 working days; and
- complete spreadsheet with applicable information.

D. Litigation

- contact insured's attorney to negotiate settlement prior to court ordered mediation, if possible;
- give Citizens' representative authority to negotiate and settle the claim;
- document specific differences and negotiate settlement on each disputed item
- document specific reasons for impasse on the disputed item;
- upon signed settlement – issue payment within 10 working days; and
- complete spreadsheet with applicable information.

2) Independent Adjusters

The Task Force found that a majority of the open claims from the 2004 and 2005 hurricane seasons tend to be the result of work performed by out-of-state and independent adjusters. Based on legislative directives prior to the 2004 and 2005 hurricane seasons, Citizens did not have the staff needed to manage the claims process, and all aspects of the claims operations were outsourced to out-of-state and independent adjuster firms. In some cases, the out-of-state adjusters had no prior training regarding: Citizens personal lines products or the wind-only policies, the Florida Building Codes, County Codes and Florida's unique construction techniques. They also lacked experience in adjusting damages caused by hurricane force winds. In addition, since most of the out-of-state adjusters were temporarily assigned to Florida, there was limited coordination for reassigning the claims files and there was no main computer system to capture the claims information. This led to lost claim files, additional inspections and delays so that policyholders' frustration increased along with out-of-pocket expenses and often further damage

to the property. Many of these policyholders turned to public adjusters, mediation, appraisal and attorneys for assistance.

The following are needed (with milestones) to address this concern:

- utilize Computer Based Training (CBT) to certify all adjusters prior to hurricane season and/or before they arrive in Florida;
- establish a First Response Team of out-of-state independent adjusters who are highly trained in all of the identified areas prior to hurricane season;
- enable First Responders to mentor other contracted independent adjusters in the field;
- establish a Second Response Team to begin training and be certified prior to arriving in Florida;
- develop consistent claims forms and reporting processes;
- require all adjusters to download claims information and pictures directly to Citizens on a daily basis to eliminate lost records and repeat inspections;
- develop criteria for assigning authority to field adjusters to settle claims to relieve in-house bottle neck ; and
- submit action plan with completed action (milestones met) **to the Task Force by July 30, 2007.**

3) Appointed Insurance Agents

The Task Force also found that Citizens' appointed insurance agents are not taking an active role in servicing Citizens' policyholders (their clients). In recent years, all personal lines policies have become more restrictive and now have additional buy-back options. In addition, the Citizens personal lines products and wind-only policies have several unique coverage limitations or exclusions. Therefore, it is essential that Citizens provide training and certify that each appointed agent has a clear understanding of its personal lines and commercial residential products and wind-only policies and that it ensures that their appointed agents are active participants in both the renewal and claims processes. This will provide the policyholders with an opportunity to gain a clear understanding of their policy coverages, limitations and exclusions. In addition, this will alleviate coverage disputes, facilitate the claims process at the time of a loss, and avoid unexpected financial loss for the policyholder.

The following are needed (with milestones) to address this concern:

- utilize Computer Based Training (CBT) to certify that Citizens' appointed agents understand the unique aspects of Citizens personal lines products and wind-only policies;
- notify agents when their clients submit claims so that they may assist the policyholders with the claims process;
- require agents to contact policyholders before the renewal and explain options, such as mitigation discounts, hurricane deductibles, etc.; and
- submit action plan with completed action (milestones met) **to the Task Force by July 30, 2007.**

Other Areas of Interest:

- 1) Monitor the new re-opened claims, mediation, appraisal, litigation
- 2) Citizens has three accounts: Personal Lines Account (PLA); Commercial Lines Account (CLA) which are multi-peril policies and High-Risk Account (HRA), which are wind-only policies. In June and July 2007, Citizens' bonds will mature. At that time, Citizens' financial advisor, bond counsel and attorneys will review the feasibility of combining the three accounts. When their review has been completed and a determination has been made by the Board of Governors, **please update the Task Force on this issue.**
- 3) Office of Internal Auditor - A comprehensive report due **to the Task Force by September 30, 2007.**
- 4) Citizens' Consumer Claim Department:
 - Communications with claimant
 - Electronic reporting
 - Current status
 - Settlement agreements
 - Denials
 - Closures
 - Implement the use of debit cards for Additional Living Expenses (ALE)
 - Define mitigated damages
 - Citizens subject to Section 626.9541(1)(i), Florida Statutes
 - Claim Payments Advisory – “Cashing this check does not constitute the closure of this claim.”
 - Monitor Independent Adjusters Training:
 - Certification process
 - Florida Building Codes
 - County Code - Location of Assignments
 - Sensitivity Training
 - Monitor – re-inspection program
 - In-house Staffing, Communication and Technology needs
 - Monitor trends in the claims process – common adjuster, contractor, public adjuster; attorney
 - Statute of Limitations for filing a new claim
 - Contracts with AYO insurers
- 5) Monitor Enhancements of Citizens' Customer Care Center:
 - Correspondence and Call Team
 - Acknowledge
 - Routing
 - Consistent handling
 - Uniform responses
 - Turnaround times
 - Deadlines
 - Reporting process
 - In-house staffing, communication and technology needs

FLORIDA HOUSE OF REPRESENTATIVES

ENROLLED

CS/HB 1A, Engrossed 1/c 2007 Legislature

Section 38 Task Force on Citizens Property Insurance Claims Handling and Resolution.--

- (1) **TASK FORCE CREATED.--**There is created the Task Force on Citizens Property Insurance Claims Handling and Resolution.
- (2) **ADMINISTRATION.--**The task force shall be administratively housed within the Office of the Chief Financial Officer but shall operate independently of any state officer or agency. The Office of the Chief Financial Officer shall provide such administrative support as the task force deems necessary to accomplish its mission and shall provide necessary funding for the task force within its existing resources. The Executive Office of the Governor, the Department of Financial Services, and the Office of Insurance Regulation shall provide substantive staff support for the task force.
- 3) **MEMBERSHIP.--**The members of the task force shall be appointed as follows:
 - (a) The Governor shall appoint one member who is a representative of insurance consumers.
 - (b) The Chief Financial Officer shall appoint one member who has expertise in claims handling.
 - (c) The President of the Senate shall appoint one member.
 - (d) The Speaker of the House of Representatives shall appoint one member.
 - (e) The Commissioner of Insurance Regulation, or his or her designee, shall serve as an ex officio voting member of the task force.
 - (f) The Insurance Consumer Advocate, or his or her designee, shall serve as an ex officio voting member of the task force.
 - (g) The Executive Director of Citizens Property Insurance Corporation, or his or her designee, shall serve as an ex officio voting member of the task force. Members of the task force shall serve without compensation but are entitled to receive reimbursement for per diem and travel expenses as provided in s. 112.061, Florida Statutes.
- (4) **PURPOSE AND INTENT.--**The Legislature recognizes that policyholders and applicants of Citizens Property Insurance Corporation should receive the highest possible level of service and treatment. This level should never be less than the private market. The Legislature further recognizes that Citizens Property Insurance Corporation's service standards should be no less than those applied to insurers in the voluntary market with respect to responsiveness, timeliness, customer courtesy, and overall dealings with policyholders and applicants. The purpose of the task force is to make recommendations to the legislative and executive branches of this state's government relating to the handling, service, and resolution of claims by Citizens Property Insurance Corporation that are sufficient to ensure that all Citizens' policyholders and applicants in this state are able to obtain appropriate handling, service, and resolution of claims, as further described in this section.
- (5) **SPECIFIC ISSUES.--**The task force shall conduct such research and hearings as it deems necessary to achieve the purposes specified in subsection (4) and shall develop information on relevant issues, including, but not limited to, the following:
 - (a) How Citizens Property Insurance Corporation can improve its customer service.

- (b) How Citizens Property Insurance Corporation can improve its adjuster response time after a hurricane.
 - (c) How Citizens Property Insurance Corporation can efficiently use its available adjusting sources for claims.
 - (d) How Citizens Property Insurance Corporation can improve the time it takes to conduct damage assessments.
 - (e) How Citizens Property Insurance Corporation can dispose of and settle claims remaining from the 2004 and hurricane seasons and can improve the time it takes to dispose of and settle claims remaining from the 2004 and 2005 hurricane seasons.
 - (f) How Citizens Property Insurance Corporation can improve the time it takes to dispose of and settle claims.
 - (g) Whether Citizens Property Insurance Corporation has hired an adequate level of permanent claims and adjusting staff in addition to outsourcing its claims- adjusting functions to independent adjusting firms.
- (6) **REPORTS AND RECOMMENDATIONS.**--By July 1, 2007, the task force shall provide a report containing recommendations regarding the process Citizens Property Insurance Corporation should use to dispose of the claims remaining open from the 2004 and 2005 hurricane seasons. By July 1, 2008, the task force shall provide a report containing findings relating to the issues identified in subsection (5) and recommendations consistent with the purposes of this section and also consistent with such findings. The report shall include recommendations regarding the process Citizens Property Insurance Corporation should use to dispose of claims. The task force shall submit the reports to the Governor, the Chief Financial Officer, the President of the Senate, and the Speaker of the House of Representatives. The task force may also submit such interim reports as it deems appropriate.
- (7) **ADDITIONAL ACTIVITIES.**--The task force shall monitor the implementation of the provisions of chapter 2006-12, Laws of Florida, relating to the creation of the Office of Internal Auditor in Citizens Property Insurance Corporation and shall make such additional recommendations as it deems appropriate for further legislative action during the 2006-2008 legislative biennium.
- 8) **EXPIRATION.**--The task force shall expire at the end of the 2006-2008 legislative biennium.

- 6) Public Adjusters (FAPIA):**
 - National Association of Insurance Commissioners model law
 - Review and Make Recommendations
 - Regulation
 - Licensing requirements
 - Continuing education
 - Apprentice program
 - Solicitation and the offer of gifts
 - Commissions and fees for both hurricane claims and daily claims
 - Conference August 8 – 10, 2007
- 7) Monitor Appointed Insurance Agents:**
 - Training
 - Responsiveness to Policyholders
 - Commissions
- 8) Mediation Program (21/10 days)**
- 9) Xactimate**
- 10) Replacement Cost Estimator (Marshall & Swift / Boeckh)**
- 11) Underwriting Criteria**
 - Renewal Process
 - Inspections
- 12) Citizens claims files subject to public disclosure – Legal Opinion**
- 13) Coastal States Catastrophic Fund**
- 14) Monitor Court Decisions:**
 - Wind / Flood
 - Permit Fees
- 15) Tax Revenue Funding for Catastrophic Events**
- 16) Sarbanes-Oxley**
- 17) Value Policy Law**
- 18) Wind Driven Rain Exclusion**

**Task Force on Citizens Property Insurance Corporation
 Claims Handling and Resolution
 2004 / 2005 Hurricane Claims
 Appraisal Process Worksheet**

County Name	Claim Number	Date Claim Filed	Date of Mediation	Date Demand for Appraisal	*Who Made The Demand I / PA / A	Date Appraiser Assigned by Citizens	Date Umpire Appointed	Reinspection Completed By Both Appraisers	Insured's Estimate Completed	Citizens' Estimate Completed	Agreement Y/N	Date to Umpire	Umpires' Determination Amount	Date The Award Is Signed By Two of The Three	Date Payment to Insured

**Task Force on Citizens Property Insurance Corporation
Claims Handling and Resolution
2004 / 2005 Hurricane Claims
Litigation Worksheet**

Appendix B

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