

# Slammed Florida ratepayers rip Citizens Property spending as 'outrageous'

By CHARLES ELMORE

The Palm Beach Post July 27, 2014

TALLAHASSEE — Tough rules imposed by Florida's insurer of last resort are slamming thousands, including a 97-year-old widow losing coverage entirely, but customers see hardball tactics for them and a relaxed attitude for globetrotting brass at state-run Citizens Property Insurance Corp.

The company's chairman paid back travel costs that overshot company limits on his second trip to Bermuda this year after The Palm Beach Post asked for the records, documents show. At least five company officials have traveled overseas this year to places such as Zurich, Switzerland, and London, records show.

"I think it's outrageous," said Lake Worth resident Diane Jacques, who is battling Citizens on a claim. "The point of paying homeowners insurance is not to keep them in lobster and filet mignon as they hit all these exotic ports of call."

Citizens officials say the trips are necessary to arrange reinsurance, back-up coverage that can help save policyholders money in the long run. The company approved a \$425-per-night bill at the Fairmont Southampton resort in Bermuda for Board Chairman Chris Gardner for a two-day stay in April, records show. The cost exceeded a \$373 limit for Bermuda hotels that Citizens imposed on itself to reassure the public last year after an inspector general's report criticized the company for weak spending oversight.

After The Post asked for the records, Gardner wrote a check to Citizens refunding the difference — \$104 on May 30. The company made a copy of the check available last week, along with a May 22 memo showing Citizens asking Gardner for reimbursement on the hotel charges at his own request.

Citizens exercised "insufficient controls" over travel spending by senior managers and employees that cost policyholders \$1.3 million in eight months, Gov. Rick Scott's chief inspector general Melinda Miguel found last year. Scott appoints three of the company's nine board members and oversees its management along with other Cabinet officials.

Citizens officials adopted tougher travel rules as "a concrete way Citizens can demonstrate to our policyholders and the people of Florida our commitment," President Barry Gilway said then.

The travel is related to buying reinsurance from offshore companies. Citizens did not see the need to purchase any private reinsurance as recently as four years ago, but the company says the

coverage can help avoid assessments to customers of Citizens and other insurance companies after rare, catastrophic storms.

Though Citizens pays third-party agents and brokers substantial sums to represent it in reinsurance transactions, the company says multiple trips by several of its own officials also are essential. Those officials this year include Gardner, Gilway, chief financial officer Jennifer Montero, chief risk officer John Rollins and general counsel Dan Sumner.

“Brokers are used more for making contact and then serve largely in an administrative function once the agreements are penned,” spokesman Michael Peltier said. “It’s up to Citizens executives to convince reinsurers and (catastrophe) bond investors to invest by showing them that its numbers make sense and management has command of its business.” Not everyone buys this argument.

“You don’t need four executives over there,” said Pasco County Tax Collector Mike Fasano, a former GOP state legislator outspoken on insurance issues. “It’s nothing but the opportunity for people to go on a very luxurious vacation at the cost of Citizens ratepayers.” Fasano wonders: “Where’s the outrage from Tallahassee? You would think after all that’s been found out on the spending habits of Citizens, some rationality would come into play and they would say, you know, maybe we shouldn’t be doing this.”

At a board meeting in April, Gilway praised Gardner’s “personal commitment” as demonstrated by his heavy travel slate. “We’ve done great things today,” Gardner said as the board approved \$300 million in reinsurance spending.

Late booking costly The April trip was Gardner’s second to Bermuda of 2014 — after Citizens customers paid for his travel to New York and Boston as well — but this time he was late booking the visit and so his hotel rates were higher, a Citizens spokesman said. Board members work on a volunteer basis, so accounting approved the extra expense, officials said. Gardner serves as managing shareholder of Kuykendall Gardner Risk & Insurance Brokers in Winter Park but is unpaid as Citizens board chairman, unlike the president and other salaried executives.

U.S. News and World Report calls the Fairmont Southampton one of the top luxury hotels in Bermuda: “Travelers staying in one of the Fairmont Southampton’s 593 spacious guest rooms have access to their own private balconies, marble bathrooms (equipped with Miller Harris beauty products) and fully stocked minibars.” Jacques wishes Citizens would pay more attention to its customers in Florida. She said Citizens paid only \$800 of a \$19,000 claim after water leaked in during a January storm. Citizens blamed “faulty workmanship” on the roof as a reason not to pay more, a company letter told her. But Jacques said she replaced the roof four years ago, and Citizens accepted inspections and permits at the time. The company’s refusal to take responsibility has forced her family to go into debt to fix it, she said. Citizens officials met with the family last week and agreed to look into the claim further.

97-year-old may lose policy In Riviera Beach, retired educator Angenora Brown has weathered a lot of storms in her life, but at 97 is not sure what to make of the three-paragraph form letter she

got from Citizens. It says her policy will be terminated in October because her roof is too old. “If my roof is not leaking, why do I need to replace it?” she said.

No state law orders Citizens to do this, company officials have acknowledged. It is acting on an internal company policy begun in 2010 that declares some roofs ineligible due to age, even if there is no evidence they are leaky or unsound.

Citizens officials said this mirrors “industry standards.” It is affecting large numbers of homeowners now, many in older homes with no private insurers willing to cover them.

Brown, who lives on a fixed income, does not have \$15,000 sitting around to pay for a new roof, said longtime family friend David Rolling, who said he has power of attorney. He does not know of any private insurer with regulated rates willing to cover her. She does have a mortgage, so that could mean a “force placed” policy selected by the bank at up to four, five or 10 times the normal cost. “Do they recognize these are real people affected by their decisions?” Rolling said.

The company declared asphalt-shingle roofs uninsurable if they are 25 years old or if an inspector decides they have less than three years of life left. Some tile and metal roofs are given up to 50 years under the policy.

State Sen. Jeff Clemens, D-Lake Worth, who met with the Jacques family and Citizens representatives last week on their case, said he does not recall a substantial public debate over the roof rule.

“We never had that discussion,” Clemens said. “If a home has survived hurricanes for 60 or 70 years, it’s probably a good indication it isn’t going anywhere.”

Meanwhile, Citizens is telling thousands of mobile home owners it will no longer offer enough coverage to rebuild after a storm, which could mean, say, only \$20,000 coverage on a home that would cost \$100,000 to replace. Some retirees say this means they risk becoming homeless after a storm.

Again, no state law requires Citizens to refuse full replacement coverage for mobile homes built after 1994. The company says it is aligning with what private insurers do by offering only a depreciated coverage limit for all mobile homes, regardless of age. ‘Not traveling for fun’

Amid all this, Citizens President Gilway was well aware the foreign travel could be a PR headache in January.

“From a public relations perspective, it is difficult, if not impossible, to avert the perception from some quarters that these trips are unnecessary junkets,” Gilway wrote in a letter to board members. “Even the names of the destinations — Bermuda, London, and Zurich — evoke images of exotic places and glamorous getaways. Rest assured we are not traveling to these places for fun. We are traveling to take billions of dollars in potential losses off the backs of our policyholders and the people of the state.”

Company officials maintain meetings with reinsurers based outside the United States must take place on foreign soil to comply with IRS regulations, and it is worth the trouble.

For about \$300 million a year, reinsurance coverage has increased from \$1.5 billion in 2012 to more than \$3.2 billion, Peltier said. Potential assessments have dropped from \$11.6 billion in 2011 to \$2.3 billion for a 1-in-100 year storm, he said. Company officials have also acknowledged the company's assessment risk is dropping in part because it has 900,000 customers now — including about 100,000 in Palm Beach County — compared with 1.5 million a couple of years ago.

The private reinsurance does lower potential assessment risk, but the odds are low it will be needed in any particular year — in which case private financial interests keep about \$300 million of policyholder money as yearly premiums and fees. The chance of a 1-in-100 year storm hitting in any given year, for example, is 1 percent.

That \$300 million cannot be put into the Citizens surplus, where it would otherwise be available to pay claims year after year. Thanks to its \$7 billion-plus surplus and low-cost coverage from the state's hurricane catastrophe fund, Citizens can already handle a repeat of the 2004 or 2005 storm seasons, for example, without assessments. It would take a storm considerably bigger than the worst in modern state history, 1992's Hurricane Andrew, to trigger assessments to customers of other insurers.

While Citizens officials are jetting around to London, Zurich and Bermuda, Jacques says back in Lake Worth the company's questionable decisions are hurting people like her and her 82-year-old mother.

“Honestly, I'm just so angry,” Jacques said. “We paid \$15,000 in premiums over several years so we can send this guy to Bermuda? Have a surf and turf on me? This should not be happening.”

Read more here: <http://www.bradenton.com/2014/07/27/5274392/slammed-florida-ratepayers-rip.html#storylink=cpy>

## **Bradenton Herald (Bradenton, FL)**

### **Opinion**

#### **Consumer advocate defends Citizens Property Insurance**

**By Jay Neal**

**August 4, 2014**

The recent Palm Beach Post article critical of Citizens Property Insurance Corporation's alleged lavish travel junkets to buy reinsurance was unbalanced, unfair, and frankly over-the-top.

<http://www.bradenton.com/2014/07/27/5274392/slammed-florida-ratepayers-rip.html>

My defense of Citizens may seem unlikely to some. During my tenure with FAIR, our members have filed not one, but two, class action lawsuits against Citizen's practices which we believed

were unfair to policyholders.

But FAIR is FAIR (pun intended). Over the last two years, we have witnessed a positive cultural change in Citizens, a change that, if it continues, will bring lasting benefits to the people and policyholders of the state of Florida. The folks at Citizens still have a long way to go. But when you criticize someone and they start to fix the problem, don't you owe them a good word?

The Post article covered four areas: denied coverage because of a roof condition, handling of water claims, reinsurance purchases, and so-called lavish travel. The article unfairly attempts to weave these issues together in such a way to suggest that Citizens would prefer to go on junkets to exotic travel spots and waste millions on unneeded reinsurance than to provide coverage to senior citizens and pay legitimate claims.

Indeed, the roof policies and claims handling need work. Citizens must operate like any private insurance company. But they must also serve as the insurer of last resort for those Florida homeowners who simply cannot obtain affordable coverage from the private market. This is a difficult balance. Two years ago Citizens would have likely resisted change. But today, the "new Citizens" has a much better understanding of the need for balance, and a senior management team willing to roll up their sleeves, sit down with stakeholders, and work to improve their policies.

That gets us to reinsurance. Reinsurance is simply insurance for insurance companies. Much like those of us with a mortgage are required to buy homeowner's insurance, private insurance companies are required by regulators and rating agencies to buy reinsurance. It's expensive. Roughly half of total collected premium goes to pay for it. On the other hand, much like homeowners who do not have a mortgage, Citizens is not required to buy reinsurance. With the power to assess, or tax, Florida's insurance consumers if they run out of money to pay claims, Citizens has a deep well from which to draw. The policyholders hardest hit are at Citizens, but every other property insurance consumer in Florida, including auto insurance consumers, are also on the hook. Citizens has to determine each year whether buying reinsurance coverage and minimizing the possible tax they would need to levy is worth the cost of that reinsurance.

In our view, Citizens management made a smart and reasoned choice. They spent \$300 million on reinsurance which secured \$3.39 billion of coverage and contributed to a reduction in assessment risk from \$11.6 billion to \$2.3 billion. The transaction had negligible impact on the terms private insurance carriers received and paved the way for potentially more favorable terms from the investment community in the future when we really need it. Even slightly better terms in such a scenario could mean billions of dollars in savings for Florida insurance consumers.

That gets us to travel. Travel is unavoidable when buying reinsurance. Almost two thirds of reinsurance companies are located in Bermuda with a bunch more in London. Investors who make multi-billion dollar deals want to see principals face to face, ask tough questions, and take the full measure of who they are dealing with. Citizens has a new CFO, a new Chief Risk

Officer, and a new Board Chair. Along with other key executives, all three needed to be physically present and play an active visible role during the negotiations. Hotels in these locations are expensive.

A quick search on one of those budget travel sites showed the cheapest room in all of Bermuda at \$352 per night, with several choices at twice that rate. Citizens had a travel expense problem in the past that was fixed. Their employees now have the same travel standards as any other state or federal agency. Chris Gardner, as Board Chair, serves as an unpaid volunteer, not an employee. Still, he reimbursed Citizens for the \$104 (\$52 per night for two nights) over the travel guidelines. Was this really newsworthy? The Brits have a name for frivolous news stories in the heat of summer when there is little else to print. It's called "Silly Season".

As the legendary Sam Rayburn, the longest serving speaker of the US House of Representatives once said: "Any jackass can burn down a barn, but it takes a carpenter to build one." We at FAIR prefer to work with the new Citizens to find better ways for them to operate a smart business that covers Floridians who have nowhere else to go and treats them fairly when they have a claim.

*Jay Neal is President and CEO of FAIR, the Florida Association for Insurance Reform*

<http://www.brudenton.com/2014/08/04/5286314/consumer-advocate-defends-citizens.html>