

TO ALL MEMBERS OF THE BOARD OF GOVERNORS FOR THE LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION AND THE PUBLIC

RE: LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
BOARD OF GOVERNORS SPECIAL MEETING
SEPTEMBER 14, 2017 MINUTES

Ladies and Gentlemen:

A special meeting of the Governing Board for the Louisiana Citizens Property Insurance Corporation was held on Thursday, September 14, 2017. The meeting was conducted at the offices of the Department of Insurance located at 1702 N. Third St. Baton Rouge, Louisiana, Hearing Room, commencing at 1:00 P.M.

Present were: Denise Gardner, Chairwoman
Jeff Albright
Thomas Enright (arrived following roll call)
Gene Galligan
Tom Glasson
Craig LeBouef
Eugene Montgomery
Kevin Reinke
William (Bill) Starr (arrived following roll call)
Rep. Talbot (arrived following roll call)
Brian Van Dreumel

Absent were: Jason Dupree
Sen. Smith

Also present: Commissioner Jim Donelon
Steve Cottrell
Paige Harper
Ricky Lindsey
Vijay Ramachandran
Derek Haney
Joe Sciortino

Chairwoman's Report

Chairwoman Gardner called the meeting to order at 1:01 p.m., asking Ms. Harper to call roll. There being a quorum present, she began by noting that she had not yet put together her proposal for Committee membership. Chair Gardner stated that her plan is to send out to all Board members a list of Committees and ask that everyone give their preference for membership. Each member should sit on at least one, if not two committees.

Next, she moved on to the second agenda item, the minutes of the July 20, 2017 meeting. After a review of the minutes, Mr. Van Dreumel commented on the handling of the re-certification of the 2005 debt in the previous meeting and asked that in the future the amount paid toward the debt be included in the discussion. Mr. Galligan also requested that an asterisk be added in the July 20, 2017 minutes by the name of each Board member who was present at the regular meeting on July 13, which could not be held due to a lack of a quorum, but who could not attend the special meeting held on July 20. Mr. Albright then moved to approve the minutes as so amended. Mr. LeBouef seconded the motion. With no further discussion on the motion forthcoming, a vote was taken and the motion passed unanimously.

The next item on the agenda was the CEO Report.

CEO Report

- A) Overview. Mr. Newberry began by giving an update on the Agents Advisory Council. The last meeting was held on June 6th, 2017. The turnout was good with seven of the twelve members present. They were updated on LCPIC's mission statement, the layoffs, and the current reinsurance tower. Additionally there was a good discussion on the assignment of benefits, as well as e-signatures. As a result, LCPIC did some research and now accepts documents from agents and their insureds with valid e-signatures. The next meeting is scheduled for December 5, 2017.

The next item on Mr. Newberry's overview was tropical storm/hurricane preparedness. LCPIC has 775 adjusters trained to be able to work claims for LCPIC in Louisiana. A "train the trainer" event was also held where LCPIC trained Worley and Bright Claims trainers. Additionally, LCPIC held a live test of its catastrophe claims handling plans with Tropical Storm Cindy. Fifty-five (55) claims were received. The company also held a disaster remote test on June 30th where all employees were required to work remotely. Processes, like checking mail, getting checks out, working with the lock box and running payroll, were all handled remotely that day. Cox Cable experienced a brown out that day, which enlightened us to areas where we needed more redundancy; specifically with air cards and cell phones we learned not to have only one vendor. Luckily we did not, but it was not by design. But going forward it will be.

With Hurricane Harvey, LCPIC expects to receive approximately one hundred (100) claims.

Mr. Newberry then moved on to an update on the reinsurance receivables project. In looking back at reinsurance receivables for Katrina, Rita, Gustav and Isaac to insure that LCPIC has collected everything due, the company has billed \$37 million and collected \$32.2 million so far.

The next update had to do with experience rating. LCPIC has researched and would like to file to use claims based rating. Doing so is included in the commercial rates being proposed for filing later in the meeting. Implementing such a rating method is more equitable and aligns LCPIC with the rating methods of 9 out of 10 voluntary insurers. This allows LCPIC to make sure it has an adequate rate in compliance with state statute. With this change, 90% of our commercial policyholders will experience a slight decrease. Finally, with the proposed change, LCPIC would also begin reporting claims history via CLUE reports. Currently the company does not report and the effect is that a policyholder can come to LCPIC and stay for three years and basically leave with no claims history regardless of the number of claims experienced in that three year period.

Mr. Newberry then informed the Board of the layoffs to be effective July 31, 2017. He noted that to date no salary increases have been given for the 2016 or 2017 performance years. With the continued loss of policies, that while the company hopes to not have to lay off any more employees, it anticipates that through attrition and retirement, the number of employees could drop to 59 by the end of next year. That is down from 74 in June of 2016. With the July 31, 2017 layoff's the employee head count will be 64.

With regard to depopulation, Mr. Newberry reported that five companies have signed up to participate in this round. This is the same number of companies as prior years. If LCPIC were to anticipate a similar depopulation outcome as those years, we can expect to lose 23 to 25% of the total policy count, or 10,000 to 12,000 policies. Losing that number of policies could radically change LCPIC's loss ratio and net income. LCPIC is open to any input on the changes and how to be more scientific in the way in which LCPIC depopulates.

At this point Mr. Newberry fielded questions from the Board concerning the number of adjusters who would be available this season if a storm were to hit Louisiana given the catastrophes that have already hit Texas and Florida. He noted that it would be unlikely that all 775 trained adjusters would be available to work any LCPIC claims. However, we don't know if all 775 adjusters would be needed and we have a contractual provision with Worley which requires them to dedicate a minimum of 400 adjusters exclusively to LCPIC if triggered. LCPIC is staying on top of the situation and looking at all aspects of the situation.

After additional discussion, Mr. Newberry brought the management report to the attention of the Board. He noted that net written premium before reinsurance is down, as of July 2017 to \$7.9 million from \$10.3 million in 2016. Likewise, net policies are down to 38,440 in 2017 from 51,037 in 2016.

- B) Financials. Next Mr. Cottrell introduced Mr. Joseph Sciortino, LCPIC's Controller. Mr. Cottrell invited Mr. Sciortino to present the financials to the Board. Mr. Sciortino informed the Board that as of July 2017 LCPIC had \$126.5 million in operating cash, or true "liquid" cash. He then pointed out the reinsurance recovery of \$32 million mentioned by Mr. Newberry earlier. Mr. Sciortino noted that this particular income will not be something LCPIC will receive again next year.

Next Mr. Sciortino reviewed the income statement. As of July 2017, LCPIC's net income has been \$10.4 million, which is down by more than half of the net income earned at the same time last year. One of the main factors in this reduction in net income is LCPIC's reduction in direct premiums written. At \$53.6 million, LCPIC is almost \$15 million under budget in direct premiums written. This is the where the company is starting to see the long-term impact of depopulation. As LCPIC moves forward, the decrease in premiums written will begin to have more of a negative impact on the company's bottom line. To help,

LCPIC is looking at ways to cut operating expenses across the board, not just through staff reduction. Finally, surplus is up to \$176.7 million through July.

Mr. Cottrell then added that the second quarter financial statements were due to be filed with the Louisiana Department of Insurance prior to the Board meeting. As such they were given to the Audit Committee/Chair of the Audit Committee for them to review and ask questions in advance of the necessary filing. Mr. LeBouef, the Chair of the Audit Committee attested to the fact that he received the financials in advance, had reviewed them and had no questions. To his knowledge, none of the Committee members had had any questions either. As such he moved that the Board approve the June 30, 2017 financials and ratify the submission of the June 30, 2017 financial statements to the Louisiana Department of Insurance. Mr. Montgomery seconded the motion. There being no discussion on the motion forthcoming, Chair Gardner called for a vote. The motion passed unanimously.

- C) Proposed Commercial Rate Filing. Mr. Cottrell explained, for the benefit of new Board members, that statutorily LCPIC is required to review its rates annually. At this meeting, proposed rates for Commercial business is being presented for filing with the Louisiana Department of Insurance. He then gave the Board some historical perspective on LCPIC Commercial rates and how the proposed rates were determined, including the methodology's used. After a lengthy discussion about reinsurance, LCPIC's reinsurance structure, and how it effects the rates, Mr. Cottrell told the Board that this year's proposed Commercial rate filing included a 1.8% reduction in the Coastal Plan, a 5.6% reduction in the FAIR Plan and an overall rate reduction of 5.2%. Most of that reduction is due to reinsurance cost. He also explained that with this proposed rate filing, LCPIC would begin using the CLUE reports for loss history. After discussion related to the CLUE reports, Mr. Albright moved that the Board approve the formulas used in preparing the rate filing, as well as approve the submission of the rate filing with the Louisiana Department of Insurance. Mr. VanDreumel seconded the motion. With no further discussion on the motion forthcoming, Chair Gardner called for a vote. The motion passed unanimously.
- D) Complaints. Ms. Harper informed the Board that for the months of July and August 2017, six complaints were received via the Department of Insurance. Five were claim related and one was policy related.

With the conclusion of the agenda, and with no further business to discuss, Chairwoman Gardner stated that the next Board meeting is scheduled for the second Thursday of November at 1:00 pm. Mr. LeBouef moved to adjourn the meeting; Mr. Starr seconded. There being no opposition, the meeting was adjourned at 2:02 pm.


Adjourn

Paige M. Harper

General Counsel and Corporate Secretary/Chief Administrative Officer

Approved:

I hereby certify that these are a true and correct copy of the September 14, 2017 minutes that were adopted by the Board of Directors of Louisiana Citizens Property Insurance Corporation on November 9, 2017.



Paige M. Harper, Secretary