September 11, 2007

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

RE: LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION SPECIAL BOARD OF GOVERNORS MEETING JUNE 13, 2007 MINUTES

Ladies and Gentlemen:

A meeting of the Governing Board for the Louisiana Citizens Property Insurance Corporation was held on Thursday, June 13, 2007. The meeting was conducted at the offices of the Department of Insurance located at 1702 N. Third St., Baton Rouge, Louisiana, Hearing Room on the first floor commencing at 2:15 p.m.

Present were: Bill Newton, Chairman Jim Napper / Treasurer John Kennedy Lee Mallett Joelle Lapeze Mike Ely Ann Metrailer Michael Domingue Jeff Albright Hon. Robert Kostelka

Also present: Commissioner James Donelon John Wortman, CEO, Louisiana Citizens John Waters, General Counsel and acting Secretary Kerry Fitzgerald, Legislative Auditor’s Office Joe Deutsch., Executive Director, PIAL A.J. Herbert, counsel to PIAL Chris Mills, Banker’s Divisional Director Greg Pelligrini, Vice Pres. and General Counsel, First Premium Dean Stroud, MacNeill Group

Bill Newton, Chairman, welcomed all members and guests to the meeting.
BOD.07.79 PRIOR MEETING MINUTES

Deferred.

SPECIAL MATTER

On the motion of Mr. Napper, seconded by Ms. Lapeze, the Board on roll call vote unanimously approved changing the order of today’s agenda moving the litigation committee’s report to this part of the meeting.

BOD.07.85.A LITIGATION REPORT (moved to this part of the meeting; see SPECIAL MATTER, above)

On the motion of Mr. Mallett, seconded by Mr. Napper, the Board on a roll call vote unanimously approved going into executive session to received the Litigation Committee’s update on the status of potential litigation with SBS and PIAL.

Following the executive session, Chairman Newton announced the Board had discussed the Litigation Committee’s recommendations for strategies on possible litigation, and that no action had been taken.

BOD.07.80 LEGISLATIVE AUDITOR

Kerry Fitzgerald of the Legislative Auditor’s Office updated the Board on its review of LCPIC.

The LLA would have a report coming out Monday comparing Citizens to other residual markets in the southeast, and comparing Citizens’ statute to statutes for governing board of LWCC and Florida Citizens, and also looking at certain regulatory aspects of state law over private companies vs. Citizens.

Other work is still in progress.

BOD.07.81 REINSURANCE

See: BOD.07.27, BOD.07.31, BOD.07.55, BOD.07.63, BOD.07.67 and BOD.07.72.

John Wortman, CEO, updated the Board on placement of the reinsurance program for the upcoming wind season.

Two weeks ago he placed 90% of 400 X of 100 at a little better price than thought. He has been in discussions to fill up some lower layers but does not have
Mr. Wortman reported interest in the reinsurance market due to a proposed bill pending that would provide $100,000,000.

BOD.07.82 RESTRUCTURE OF LOUISIANA CITIZENS; LEGISLATION

Mr. Wortman said his plan was to come up with the ultimate structure best for Citizens, and then to determine if changes in the operating agreements are needed. This review is not completed.

BOD.07.83 CEO REPORT

Commercial Inspection Program:

Mr. Wortman said agents had complained about this program. It was suspended after Katrina but put back into effect a year ago. It is 6 to 8 months behind. By statute the price on commercial policies could not be changed after 60-90 days. Surcharges create huge problems. So the decision was made to start over again, do away with pending inspections because Citizens probably could not charge for them, and plan to do three things:

1. Review the inspection process to eliminate subjectivity;
2. distribute a communication explaining how the inspections worked; and
3. Put together a plan to do the inspections in a professional and timely manner.

Mr. Wortman said he and Joe Deutsch would be reporting on this over time.

Binding Authority:

Mr. Wortman said Citizens was ready to go on this. Citizens will make a public announcement in a week or two.

LPMS Financial System:

They have found nothing so far that they did not expect. Bank reconciliation is well under way. Mr. Wortman discussed what he felt was good news – the system lacked proper definitions. He was able to supply these quickly. Citizens expects to get data in the data mart within the next 90 days
In answer to Mr. Napper’s question, Mr. Wortman said the system will be able to produce some data sooner. Right now he is able to say the policy count is 140,000. Citizens expected to have 190,000 by the end of September, but it will not be that high. Premium for the first 5 months is $93,000,000. Annualized, that is about $230,000,000, less than the $350,000,000 projected for the end of September. Total insured values was expected to be $28 billion, but it looks like it will be closer to $22 billion.

Asset Inventory:

Mr. Wortman reported this is moving quickly.

Cat Plan:

The big issue here for Citizens is the service room. There are cooling issues. The service providers have their plans in place.

BOD.07.84 SERVICE PROVIDER REPORTS

A. PIAL

Joe Deutsche passed out an organizational chart with recently completed changes. PIAL is reluctant to put names of employees on its website.

PIAL has a new Accounting Manage, Joe Sciortino.

The asset inventory mentioned by Mr. Wortman is proceeding.

Mr. Deutsche and Mark Brockelman will be looking at allocation of employees and how they are billed to Citizens to make sure the allocation is accurate. Time studies might be needed. Mr. Wortman added everyone at PIAL now knows who they report to, and about 90% have position descriptions and work expectations.

In response to Mr. Napper’s question about the number of people in the IT department, Mr. Deutsche said not all are working on computers. Some are dedicated to customer service, and one is a business analyst.

In response to Commissioner Donelon’s question, Mr. Wortman said they are looking at putting 60 people into Citizens.

There was a discussion about whether Metairie is the right location for Citizens. Mr. Wortman advised PIPSO is discussing a plan to offer members space in other members’ offices in case of a catastrophe, rather than each organization having its own back up facility. Mr. Deutsche advised PIAL is looking at off-site data centers. Commissioner Donelon mentioned Monroe might be a good location given State Farm’s departure 2-3 years ago, and the possibility of trained insurance people in that area.
A.J. Herbert, counsel to PIAL, advised the Board PIAL had initiated arbitration against SBS a week ago.

B. Bankers

Chris Mills, Banker’s Divisional Director, advised the Board Bankers was current. They have about 50 commercial accounts they are waiting on information for. New business, both personal and commercial, is current.

Bankers saw a pretty large jump in new business in May. It was 1,000 more applications than they had in April or March. This might be a blip.

C. First Premium

Greg Pelligrini, Vice Pres. and General Counsel, First Premium, advised First Premium continued to be current.

It is hard to tell if there has been a difference in levels of applications because the number of new applications varies widely day to day.

C. MacNeill

Dean Stroud advised the Board MacNeill continued to be current in processing new business, and they are processing renewals 90 days out.

MacNeill saw a jump in new business last month, but it’s hard to tell if this is a trend.

Discussion:

Mr. Wortman commented that the rate increase that was going into effect June 1st may have contributed to an increase in new business in May.

In answer to Mr. Albright’s questions, Mr. Mills said the surcharge for inspection change processing did not create issues for Bankers.

BOD.07.85 LITIGATION REPORT

General Counsel gave the Board an update on current hurricane-related litigation and claims.

Most mass joinders are stayed pending individual negotiations by the service providers.

The Oubre class action certification was affirmed by the Louisiana 5th Circuit Court of Appeal and writs are being taken to the Supreme Court.
The U.S. 5th Circuit held arguments earlier this month on whether the water exclusion is ambiguous (the “Duval” case), and will hold arguments early next month on whether the “Valued Policy” law applies.

The Calvin Gordon case on increasing premiums will also be argued next month.

Two class certification hearings are set next month.

In response to questions by Mr. Napper about the dispute with Central Claim Service, General Counsel advised that the service providers are trying to audit the numbers Central Claim Service has given them. Some discrepancies have been found, and are being reported to Central Claim Service. The cat teams have been told Citizens expects to be in a position to negotiate in a couple of weeks.

In response to a question by Ms. Lapeze about argument in the “Duval” case, General Counsel advised both sides got a fair hearing, and Judge King said the case was at the top of the court’s list for decision. Commissioner Donelon commented that it’s an important decision industry-wide, and the press had reported the court had agreed to expedite a decision. General Counsel advised the Board that the Louisiana Attorney General had recently filed a brief on the side plaintiffs.

General Counsel also advised the Board that VPL issues were also making their way through the state court system. Decisions from the 3rd and 4th Circuits were expected shortly, and the issue would probably end up before the Louisiana Supreme Court in 12 months.

BOD.07.86 EMPLOYMENT CONTRACTS FOR THE CEO AND CFO

General Counsel advised Mr. Wortman has yet to receive his check. Mr. Wortman advised he is getting prices from a PEO, and spoke to the Legislative Auditor’s office about how best to set up payroll. The fee for a PEO will be about $4,000, which General Counsel said is well within Mr. Wortman’s $15,000 authority and below the State Purchasing Code’s minimum.

As for contracts, General Counsel advised employment contracts for Messrs. Wortman and Brockelman have been drafted and are being reviewed.

In response to questions by Mr. Mallett, Mr. Wortman advised Mr. Brockelman is being paid by the hour instead of salary because he is not full time. Mr. Brockelman works about 60% of his time.

BOD.07.87 OPEN SESSION

Chairman Newton said he would let everyone know when the next meeting would be held.
On the motion of Mr. Napper, seconded by Mr. Albright, the Board voted unanimously to adjourn at 4:40 p.m.

Yours very truly,

John W. Waters, Jr.
General Counsel and Acting Secretary

Attachments:

1. Agenda
2. New PIAL Organizational Chart
3. Transcript