July 31, 2007

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

RE: LOUISIANA CITIZENS PROPERTRY INSURANCE CORPORATION
SPECIAL BOARD OF GOVERNORS MEETING
MAY 10, 2007
MINUTES

Ladies and Gentlemen:

A Special meeting of the Governing Board for the Louisiana Citizens Property Insurance Corporation was held on Thursday, May 10, 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 2:00 p.m.

Present were: Bill Newton, Chairman
Michael Domingue
Jim Napper
Hon. Karen Carter
Jeff Albright
Ann Metrailer
Hal Stiel
Joelle Lapeze
John Kennedy
Lee Mallett
Hon. Robert Kostelka

Also present: Commissioner Jim Donelon
Treasurer John Kennedy
John Wortman, CEO, Louisiana Citizens
Steve Theriot, Legislative Auditor
Billy Bostick, Bostick Crawford
Bob Crawford, Bostick Crawford
A.J. Herbert, counsel for PIAL
Denise Brignac, Department of Insurance
Warren Byrd, General Counsel, Department of Insurance
Carol Guidry, Assistant Gen. Counsel, Department of Insurance
Bill Newton, Chairman, welcomed all members and guests to the meeting.

BOD.07.56 PRIOR MEETING MINUTES

On the motion of Jeff Albright, seconded by Hal Stiel, the minutes of the April 12, 2007 and April 18, 2007 meetings were unanimously approved.

BOD.07.57 AUDITS

A. Legislative Auditors

Mr. Steve Theriot advised the Board his office hoped to begin issuing a series of reports shortly.

In response to the Commissioner’s query about the appointment of an auditor, Mr. Theriot advised that it was difficult to do an RFP until there was auditable information, but his office would be monitoring the efforts to retrieve data from LPMS, and would make a decision when to issue the RFP when Louisiana Citizens was closer to retrieving data.

There were no questions. Rep. Carter asked Mr. Theriot to testify before the House Committee on Insurance on May 22nd. Mr. Theriot agreed.

B. DOI Auditors

Mr. Billy Bostick of Bostick Crawford updated the Board on efforts to resolve the issues surrounding LPMS and LPMS’ inability to provide an auditable financial statement. He advised the Board that they were on target and had not found anything that would drastically shorten or lengthen the work they were doing.

Mr. Bob Crawford of Bostick Crawford updated the Board on his firm’s review of the allocation of expenses between LCPIC and PIAL. He handed out a worksheet with his firm’s preliminary assessment of 2006 allocated general administrative expenses (see Louisiana Citizens Property Insurance Corporation, General and Administrative Expenses Allocated from PIAL 2006 – Draft). The largest expense was for computers.
The next largest was for payroll (salaries and benefits). PIAL and Louisiana Citizens have allocated people based on their job function. The majority are allocated to either PIAL or Citizens, but there are 14 people that split time.

Inspection fees are allocated to and paid by Citizens.

Office rent, furniture and equipment is allocated based on the number of personnel occupying space, either in Baton Rouge or Metairie. Mr. Crawford noted that allocations are based on budgeted positions, and if those positions change significantly during the year, there is no adjustment of the allocation. This, Mr. Crawford said, may work either for or against Citizens, but his guess was it worked to Citizens’ benefit since Citizens picked up more personnel than the other PIAL-associated entities.

Finally, Mercer’s fees for actuarial services were allocated entirely to Citizens.

Mr. Crawford said his firm still had to verify the validity of the underlying amounts, and it was difficult and time-consuming to do, given the way the records were maintained, and the fact that until just recently the Legislative Auditor was looking at the same files.

In response to questions by Treasurer Kennedy, Mr. Crawford stated that Mercer’s fees were for actuarial services. He also told Treasurer Kennedy the cost of equipment allocated to Citizens was an expense to Citizens, but it was not recorded as an asset on Citizens’ books and Citizens did not have title. Mr. Theriot added that at one point two million dollars worth of furniture had been charged to Citizens but had not been transferred, and there was no inventory. Mr. Crawford advised the Board that this methodology was the same in 2007. A discussion ensued about whether assets charged to Citizens as an expense were being transferred to Citizens. A.J. Herbert, counsel for PIAL, advised that PIAL had engaged an outside accountant to complete an inventory.

The Board also discussed whether PIAL was talking to Citizens’ CEO before buying equipment that would be charged to Citizens. Mr. Wortman advised that so he did not believe anything had been purchased since he had become CEO. Mr. Wortman also stated that he and Mr. Deutsch had agreed to try to tie the inventory back to the purchase documents.

Mr. Herbert, on behalf of PIAL, assured the Board that there was an understanding that if Citizens was paying for equipment, its CEO would be asked to approve it first. Mr. Wortman added that one of his key issues is expense control, and he was in the process of hiring a CFO to help with this process.
In response to a question by Mr. Napper, Mr. Crawford said he believed the approximately $3.5 million allocated to Citizens for computer expense was part of the $6 million cost of the system. Mr. Napper asked for the totals paid to SBS from inception to date.

C. DOI audit.

Denise Brignac of the Department of Insurance advised that Board that she and the Commissioner had met the day before with the Legislative Auditor to discuss the proposed cooperative endeavor agreement between the Department and Citizens for work the DOI’s auditors are doing at Citizens. Following that meeting it was concluded there was no need for the agreement, and the Department would treat this like any other exam, and pass the costs to Citizens on a weekly basis.

Mr. Waters advised the Board that responses to the Department’s market conduct studies were prepared and could be discussed in executive session.

BOD.07.58 PRODUCER BINDING REQUIREMENTS

Warren Byrd and Carol Guidry of the Department of Insurance updated the Board. Mr. Byrd advised that after receiving input from Messers. Newton, Wortman, Waters and Albright, they now had the regulation prepared. Although some changes had been made to the version approved by the Board, those changes were not substantial, and the regulation now proposed was essentially the and would be presenting to the Legislative Auditor for a fiscal impact statement. The proposed regulation would likely be published in the June 20th Register, and a public hearing would likely be held on July 30th.

Mr. Napper asked if there were any bills before the Legislature to change Citizens or its Board make up. Mr. Byrd said he was not aware of any, but they would monitor to catch anything before the July 30th public hearing.

BOD.07.59 DOI’S MARKET CONDUCT EXAMINATION REPORTS FOR THE FAIR AND COASTAL PLANS

See BOD.07.57. Mr. Waters advised the Board that responses to the Department’s market conduct studies were prepared and could be discussed in executive session.

BOD.07.60 CEO REPORT

Mr. Wortman presented his report.

He is monitoring the financial system plan daily. As Bostick and Crawford advised, there have been no surprises, and its moving ahead.
A response to the Legislative Auditor’s report on rate making is being prepared and will be submitted before the May 18th deadline. The Legislative Auditor’s operational audit report is not complete.

Jeff Albright has been kind enough to put together a list of 20 bills that might impact Citizens, and Mr. Wortman has copied the Board. A couple relate to depopulation of Citizens. Six bills relate to rates, and these will be monitored. A couple of bills relate to the Governor’s selection of Board members and do not appear to be anything too major. There are, however, three bills that are. One would privatize Citizens. Another would have a policy holders’ bill of rights, which Mr. Wortman, the Department of Insurance and the governor all thought would be a positive thing. Several bills dealt with premium taxes, a couple with incentive programs to take business out of Citizens, one bill would require Citizens to favor Louisiana adjusters and finally there is one that directs the House and Senate insurance committees to hold hearings on Citizens.

Mr. Wortman said he had been asked to attend the House Insurance Committee hearing on May 22nd.

There were no questions.

BOD.07.61 SERVICE PROVIDER REPORTS

1. PIAL

Joe Deutsch and Dr. Christine Berry, respectively the new CEO and chair of PIAL, and A.J. Herbert, PIAL’s counsel, provided PIAL’s report. With a power point presentation, they discussed the history and original purpose of PIAL, what type of entity it was, what it does and its evolution. They discussed its present structure and function, and identified its officers and directors. Recent management changes and efforts were identified. Finally, the purpose of these recent changes, including elimination of the perception of conflicts of interest, improvement of operations and consideration of the future role of PIAL with respect to Citizens and the LAIP, and PIAL’s return to its original purpose were discussed.

Dr. Berry mentioned that PIAL was cooperating with the Legislative Auditor in its audit of Citizens, and with the DOI in its exam of Citizens. They were working closely with Mr. Wortman to develop collaborative efforts, and exploring legal claims against SBS and any others responsible parties relating to SBS. Dr. Berry also advised the Board that PIAL was looking at concluding its agreement with Citizens in an orderly fashion, not during storm season, and assigning all of its claims against third parties to Citizens. In response to questions by Rep. Carter, Mr. Deutsch and Dr. Berry assured the Board that any transition would not be done
overnight, would be orderly and would be done with the best interests of
the policyholders in mind. Mr. Herbert added that PIAL’s board had
not voted to do this, but any transition would be done on an agreed time
schedule.

Mr. Napper asked Mr. Deutsch how many employees did PIAL have, and
how many were devoted to Citizens. Mr. Deutsch responded PIAL had
about 120 employees. Mr. Crawford advised about 100 employees were
devoted to Citizens.

In response to questions by Treasurer Kennedy, Messrs. Deutsch and
Herbert said Mr. Wortman did not work for PIAL. They also advised that
Mr. Lisotta was a PIAL employee but was presently on medical disability.

2. MacNeill Group

Dean Stroud and Tom Clark presented the report of the MacNeill Group.

Mr. Stroud told the Board that MacNeill is current on processing all new
work, getting it out the day it is received from Citizens. MacNeill is not
seeing drastic increases in new business.


Chris Mills presented Bankers’ report. Bankers, too, is current on all new
business. Bankers had a big push in May to get all new business for
commercial accounts current. Everything is processed in stated time
frames. Bankers currently has 45 people on staff, including two in its St.
Petersburg office.

4. First Premium

Greg Pelligrini provided First Premium’s report. His company has been
current for some time. He has not seen a huge increase in new business.

Mr. Albright asked that the service providers provide the same, standard
report. Mr. Wortman said he would design the form.

Rep. Carter asked that the service providers provide their plans for
emergency preparations as we move into hurricane season. Mr. Wortman
said that was on his list.

BOD.07.62 LITIGATION REPORT

On the motion of Mr. Dominque, the Board voted unanimously to go into
executive session to discuss current litigation and future exposure.

The Board took no action in executive session.
BOD.07.63  REINSURANCE

Mr. Wortman reviewed his strategy to buy as much reinsurance as possible for $50 million, which he thought was a fair price for the level required to meet the status quo. On the motion of Jeff Albright, seconded by Mr. Mallet, the Board voted unanimously to adopt this strategy.

BOD.07.64  OPEN SESSION

None.

Mr. Newton, after informally polling the Board, announced the next meeting would be on May 17th at 2 p.m.

At 5:30 p.m., on the motion of Mr. Napper, seconded by Mr. Mallet, the Board voted unanimously to adjourn.

Yours very truly,

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

Attachments:

1. Agenda
3. PIAL’s power point presentation
4. MacNeill Group’s handout