

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 MEETING
JULY 14, 2016 MINUTES

Ladies and Gentlemen:

A meeting of the Governing Board for the Louisiana Citizens Property Insurance Corporation was held on Thursday, July 14, 2016. 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 Brignac, Chairwoman
Senator Eric LaFleur
Craig LeBouef
Sam Little
Eugene Montgomery
Johnny Reeves
Kevin Reinke
William (Bill) Starr
Rep. Kirk Talbot

Absent were: Eric Berger
Fred Bosse
Jason Dupree
Gene Galligan
Preston Robinson
Sen. John Smith

Also present: Richard Newberry, CEO
Steve Cottrell
Paige Harper
Vijay Ramachandran

Chairwoman's Report

Chairwoman Brignac called the meeting to order at 1:20 p.m., asking Ms. Harper to call roll. With nine members, a quorum was present. Chairwoman Brignac then moved to her report. The first item she had to discuss was compensation for the new CEO, Richard Newberry. After introducing Mr. Newberry to the Board, Chairwoman Brignac explained that Commissioner Donelon selected him for the position in May. He began work on June 1. The Executive Committee met prior to June 1 to approve a compensation package consisting of an annual salary of \$297,000.00, participation in all of LCPIC's benefits, moving expenses up to \$10,000.00 and living expenses for a period of up to six months. She noted that she would entertain a motion for the Board to ratify the Executive Committee's approval of the CEO compensation package. Mr. Montgomery so moved. Mr. Reinke seconded the motion. With no further discussion on the motion forthcoming, Chairwoman Brignac called for a vote. There being no opposition, the motion was approved unanimously.

The second agenda item under the Chairwoman's report was the membership of the Board's committees. Chair Brignac proposed the following:

Audit Committee: Craig LeBouef (Chair), Jason Dupree, Bill Starr;

Executive Committee: Denise Brignac (Chair), Eugene Montgomery (Vice Chair), Thomas Enright (taking Preston Robinson's place on the Board), Eric Berger and Rep. Talbot;

Investment Committee: Craig LeBouef (Chair), Johnny Reeves, Thomas Enright;

Litigation Committee: Sen. LaFleur (Chair), Sam Little, Jason Dupree, Fred Bosse and Bill Starr;

Actuarial Committee: Eric Berger (Chair), Kevin Reinke, Gene Galligan;

Compensation Committee: Kevin Reinke (Chair), Eugene Montgomery, Gene Galligan.

Mr. Montgomery moved to appoint the Committee members as proposed by Chair Brignac. Mr. Little seconded. With no further discussion on the motion forthcoming, Chair Brignac call for a vote. The motion passed unanimously.

With her report complete, Chairwoman Brignac moved on to the minutes of the prior meeting. Sen. LaFleur moved to approve the May 12, 2016 minutes. Mr. Reinke seconded the motion. With no further discussion on the motion forthcoming, Chairwoman Brignac called for a vote. With no opposition, the motion passed unanimously.

The next order of business was the CEO report. Richard Newberry began the report by thanking the Board and saying that it was good to be there and he appreciated all of the hospitality. He also noted that he would like to switch items A and B in his report in the order in which he would address them, if it so pleased the Chair.

B) 2016 Storm Preparation. Mr. Newberry started off by explaining that preparedness means being prepared to react and redundancy is important in being prepared. LCPIC maintains a generator for backup power, outsources the first notice of loss process to Hammond, with backup in Texas and on the East Coast and has up to 1200 adjusters ready to service claims in the event of a catastrophe. Additionally, being able to make payments after a storm depends on the company remaining financially strong and the reinsurance program that LCPIC has adds to that stability. Finally, he noted that the leadership of the company has been open and honest, impressing him. He is excited to continue that in the future.

A) Essential Property Insurance. The next item on the agenda was the issue of whether or not LCPIC provides too much coverage as the property insurer of last resort. Should the company be more restrictive? Mr. Newberry told the Board that he does not believe so and has research upon which he based his belief. The issue that seems to have been the genesis of this question has to do with the dog breeds covered/not covered by the LCPIC's policies and the policies written by depopulation companies. In reviewing the situation it was noted that less than 9% of LCPIC's policies (6,024) are homeowners with liability coverage. A very small portion. Our coverage was also compared with other companies, particularly those participating in PIPSO. LCPIC is in line with what those companies do. The five homeowner's forms that LCPIC uses are standard ISO forms. They are formulated by the Insurance Service Office, tested through the courts and are "tried and true." For LCPIC to change forms and come

up with hybrid forms of our own could get the company in trouble legally in the future. Finally, agents must authorize the assumption of a policy to a depopulation company. The agent has full control to say no if they believe that the coverage is too restrictive or not appropriate for the policyholder. In conclusion, Mr. Newberry recommended no change to LCPIC's coverage with regard to dog breeds. Chair Brignac stated that one of the concerns in the complaints received was that agents were having a difficult time acquiring E&O coverage because of the issue. Mr. Montgomery spoke up and noted that has not been his experience and that E&O will always be a concern for an agent when changing carriers, they just need to pay attention and ask questions. The Board had no further comments and Chair Brignac moved to the next item on the agenda.

- C) May 2016 Financials. Mr. Cottrell reported to the Board that LCPIC is in as good a cash shape now as it's been in the last six or seven years. The company has in excess of \$100 million in cash. There are still Oubre payments to be made, but the company is in a good position. With regard to the budget, LCPIC is almost \$6 million ahead of budget for the first half of the year. Without a hurricane, the hope is that this trend will continue.
- D) Management Report. LCPIC is in great shape with regard to policy count. Currently there are about 68,000 policies with an insured value of about \$14 billion.
- E) 2015 Audit Report. Next Mr. Cottrell reported to the Board on the two audit reports received for 2015, the statutory audit, which is filed with the Department of Insurance, and the GAAP audit, which is required by the State. The audits are very similar and there are not a lot of differences in them for LCPIC. The good news is the opinion of the auditors. Specifically, they stated, "In our opinion, the financial statements referred to above present fairly in all material aspects, the admitted aspects, liabilities, and surplus of the company as of December 31, 2015, and the results of its operation and its cash flow for the year are in accordance with the basics of accounting described." In short, LCPIC passed its audits. No significant control issues were found. There were a couple of recommendations, but no findings were reported. The audits were issued as unqualified. As such, the audits were successful for 2015. Mr. LeBouef, Chairman of the Audit Committee, added that the Audit Committee met with two members of the audit team and everything went well. They were very knowledgeable and answered any and all questions the Committee had for them. He expressed his pleasure with the job that they did and the timeliness of their work.
- F) Regions Bank Signatory Authorization. The next item on the agenda was the need to authorize Mr. Newberry as a signatory on LCPIC's Regions Bank account. Mr. Starr moved to so authorize the addition of Mr. Newberry as a signatory. Mr. Reinke seconded the motion. With no further discussion on the motion forthcoming, a vote was taken. The motion passed unanimously.
- G) 2005 Deficit Re-Certification. Mr. Cottrell reminded the Board that each year LCPIC has to certify the then current deficit from the 2005 storms. This year the debt increased by approximately \$5.8 million from last year due to the settlement of Taranto cases. That brings LCPIC's total deficit resulting from the 2005 Katrina/Rita storms to approximately \$1.4 billion. As such, LCPIC needs to recertify the 2005 deficit to \$1,392,627,776. Mr. Little so moved. Mr. Montgomery seconded. Chairwoman Brignac asked if there was any discussion on the motion. Mr. LeBouef asked who does the calculations for the recertification. Mr. Cottrell explained that they are performed in-house with review by LCPIC's auditors as part of the company's financials. With no further discussion brought forth, a vote was taken. The motion passed unanimously.
- H) Bond Refinancing Update. Mr. Cottrell noted that the bond refinancing opportunity is a real highlight for LCPIC. The company is refinancing two series of bonds, some 2012's and 2016's, equaling approximately \$320 million. The estimated savings is \$92 million. The belief is that the savings will allow the assessment rate to drop below 2.5% for 2017. It currently sits at 2.92%, down from 5% in 2008. In terms of a timeline, the bonds will be priced the week following the Board meeting, then at the end of July all of the closing documents will be documents will be signed.
- I) Final 2016 Reinsurance Purchase. Finally, Mr. Cottrell updated the Board on the reinsurance program purchased for 2016-2017. With this reinsurance program, the probability of having to levy a regular assessment is .67% and the probability of having to levy an emergency assessment is less than .5%. These are the lowest percentages LCPIC has seen. Additionally, the program ended up costing less than expected and LCPIC was able to get a lower retention and unlimited reinstatements on the reinsurance layers. After a couple of questions concerning CAT Bonds, Chairwoman Brignac moved to the final item on the CEO report.
- J) Complaints. Ms. Harper reported that in May and June of 2016 LCPIC received six complaints. Three of those were claim related, two were policy related and one was both claim and policy related. With no questions on the

Complaints, Chairwoman Brignac announced that she would move to the next item on the agenda, Executive Session.

Before moving directly into Executive Session, Chairwoman Brignac asked if anyone from the public first wished to address the Board. When no one stepped forward, she stated that she would entertain a motion to go into Executive Session to discuss potential and pending litigation. Mr. LeBouef so moved. Mr. Reeves seconded the motion. The Chairwoman called for a roll call vote. The motion passed unanimously and the Board entered into Executive Session. Everyone except LCPIC staff and the Board were asked to leave the room.

-----Executive Session-----

At the conclusion of the Executive Session, Chairwoman Brignac asked for a motion to exit Executive Session and re-enter the public forum. Mr. Little so moved. Mr. Reeves seconded the motion. A roll call vote was taken. The motion passed unanimously. Chairwoman Brignac noted that the Board had re-entered the public forum. She asked that the record reflect that the Board did not take any formal action while in Executive Session.

With the conclusion of the agenda, and with no further business to discuss, Chairwoman Brignac stated that the next Board meeting is scheduled for Thursday September 8th, 2016 at 1:00 p.m. Mr. Starr noted that he would be out of town for that meeting. Mr. Little moved to adjourn the meeting; Mr. Reeves seconded. There being no opposition, the meeting was adjourned at 2:15 p.m.

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 July 14, 2016 minutes that were adopted by the Board of Directors of Louisiana Citizens Property Insurance Corporation on September 8, 2016.


Paige M. Harper, Secretary