



# Office of Insurance Regulation

## **Presentation to the Insurance Committee of the Florida House of Representatives**

**March 24, 2008**



# Subjects to Cover

- **State of the Market**
- **Success/Challenges in Attracting New Capital**
- **Solvency- How it Relates to Rates and Property Market Issues**
- **Actuarial Concepts- What do Inadequate and Excessive Mean?**
- **Procedural Process of Rate Filings**
- **The Citizens Commercial Rate Filing**
- **Models- Issues Raised in 2007 Rate Reviews**
- **Market Conditions of Particular Concern- include Subprime Mortgage Issues**
- **Coastal Areas- Disincentives for Risky Behaviors**
- **Read “Normalized Hurricane Damage in the US”**



# Florida Property Insurance Summary as of year-end 2007

	TOTAL	FLORIDA DOMICILE	OTHER STATES
P&C INSURERS LICENSED	1170	173	997
COMPANIES WITH HOMEOWNERS LINE	441	80	361
COMPANIES REPORTING 2007 FL HO PREMIUM	145	57	88
HOMEOWNERS PREMIUMS IN FLORIDA	\$8,602,528,750	\$6,401,879,354	\$2,200,649,396
NUMBER OF COMPANIES IN A GROUP	916	79	837
<b>QUASR COLLECTS PREMIUMS BY LINE OF BUSINESS. PREMIUM REPORTED DOES NOT REFLECT NEW VS. RENEWAL</b>			
<b>FINANCIAL STATEMENTS REPORTS PREMIUM BY LINE OF BUSINESS. PREMIUM REPORTED DOES NOT REFLECT IF NEW VS. RENEWAL</b>			
<b>SOURCES OF DATA: CORE, NAIC</b>			



# 2007 Financial Results for Insurers in Florida

Type of Business	Direct Written Premium	Pure Direct Loss Ratio
Private Residential (1)	\$13.5 billion	24.34%
Commercial Multiperil (non-liability)	\$1.44 billion	21.98%
Federal Flood	\$861 million	2.93%
Aggregate (all P/C lines)	\$42 billion	43.54%
(1) Fire, Allied lines, Homeowners multiperil, excludes Citizens Property Insurance Corporation		
Data: NAIC 2007 Annual statements		



# Comparison of Citizens to Voluntary Exposure by County

## Homeowners and Dwelling Fire including Wind only Excluding ex wind

County	9/30/2007 Citizens	Pct of Statewide	9/30/2007 Vol Cos	Pct of Statewide	Citizens 9/30/2007 Mkt share
Brevard	4,291,881,419	1.4%	55,642,053,881	3.7%	7.2%
Broward	53,243,396,781	17.5%	88,130,760,897	5.9%	37.7%
Miami-Dade	64,242,732,504	21.2%	70,218,462,962	4.7%	47.8%
Duval	2,031,741,501	0.7%	76,621,865,038	5.1%	2.6%
Escambia	3,096,091,797	1.0%	21,511,756,109	1.4%	12.6%
Hernando	6,101,601,990	2.0%	12,347,415,610	0.8%	33.1%
Monroe	7,693,499,230	2.5%	1,375,137,535	0.1%	84.8%
Okaloosa	1,316,465,911	0.4%	19,486,289,739	1.3%	6.3%
Orange	1,894,686,438	0.6%	111,356,953,501	7.5%	1.7%
Palm Beach	37,112,883,868	12.2%	119,820,015,249	8.1%	23.6%
Pasco	11,007,683,325	3.6%	31,541,713,831	2.1%	25.9%
Pinellas	28,700,640,538	9.5%	58,013,605,894	3.9%	33.1%
Polk	1,489,200,703	0.5%	47,586,423,785	3.2%	3.0%
<b>Total</b>	<b>303,399,510,275</b>	<b>100.0%</b>	<b>1,488,405,566,630</b>	<b>100.0%</b>	<b>16.9%</b>
<b>Inland</b>	<b>8,009,679,600</b>	<b>2.6%</b>	<b>403,099,068,162</b>	<b>27.1%</b>	<b>1.9%</b>
<b>Coastal</b>	<b>295,389,830,675</b>	<b>97.4%</b>	<b>1,085,306,498,468</b>	<b>72.9%</b>	<b>21.4%</b>

Inland counties are Alachua, Baker, Bradford, Calhoun, Clay, Columbia, Desoto, Gadsden, C Hamilton, Hardee, Hendry, Highlands, Jackson, Lafayette, Lake, Leon, Liberty, Madison, Mari Orange, Osceola, Polk, Putnam, Seminole, Sumter, Suwannee, Union, Washington



FAIR, FAST,  
PROFESSIONAL.

# Personal Residential as of 12-31-03 – Does not include Citizens or wind-only

## Florida Office of Insurance Regulation Quarterly Supplemental Report--Market Share Report Top 10 Companies Ranked by Policies In Force

Quarter Ending Date: 12-31-2003		County: Selected County Set		Data Source: QUASR Only			
Rank	Company Name	Policies In Force		Structure Exposure		Premium Written	
1	State Farm Florida Insurance Company	1,030,645	20.8%	\$243,712,863,674	27.9%	\$896,466,043	22.4%
2	Allstate Floridian Insurance Company	619,961	12.5%	\$53,989,148,864	6.2%	\$369,328,611	9.2%
3	Nationwide Insurance Company Of Florida	272,482	5.5%	\$52,129,689,367	6.0%	\$186,922,905	4.7%
4	United Services Automobile Association	163,409	3.3%	\$42,572,618,295	4.9%	\$202,823,496	5.1%
5	American Strategic Insurance Corp.	120,442	2.4%	\$19,199,273,290	2.2%	\$93,568,257	2.3%
6	Clarendon Select Insurance Company	115,967	2.3%	\$15,013,848,597	1.7%	\$94,757,229	2.4%
7	Liberty American Select Insurance Company	111,483	2.2%	\$5,886,671,439	0.7%	\$45,854,661	1.1%
8	First Floridian Auto And Home Insurance Company	90,515	1.8%	\$18,451,422,911	2.1%	\$70,063,120	1.7%
9	Atlantic Preferred Insurance Company, Inc.	89,649	1.8%	\$13,878,292,181	1.6%	\$81,812,115	2.0%
10	Liberty Mutual Fire Insurance Company	86,302	1.7%	\$24,383,193,650	2.8%	\$75,931,758	1.9%
<b>10 Totals For Selected County Set:</b>		<b>2,700,855</b>	<b>54.4%</b>	<b>\$489,217,022,268</b>	<b>56.0%</b>	<b>\$2,117,518,195</b>	<b>52.9%</b>
<b>174 Totals For All Selected Counties And Policies:</b>		<b>4,964,185</b>	<b>100.0%</b>	<b>\$874,324,977,977</b>	<b>100.0%</b>	<b>\$4,004,891,938</b>	<b>100.0%</b>
<b>Policies Selected:</b>		Homeowners (Excl. Tenant and Condo), Mobile Homeowners, Condominium Unit Owners, Dwelling, Fire and Allied Lines, Tenants					

\* FRPCJUA excluded from market share calculation.

Counties Selected: All



# Personal Residential as of 9-30-07 – Does not include Citizens or wind-only

## Florida Office of Insurance Regulation Quarterly Supplemental Report--Market Share Report Top 10 Companies Ranked by Policies In Force

Quarter Ending Date: 09-30-2007		County: Selected County Set		Data Source: QUASR Only			
Rank	Company Name	Policies In Force		Structure Exposure		Premium Written	
1	State Farm Florida Insurance Company	1,024,223	21.0%	\$374,133,783,373	25.0%	\$1,659,535,030	22.2%
2	Universal Property & Casualty Insurance Company	363,574	7.5%	\$74,401,891,900	5.0%	\$528,643,163	7.1%
3	Allstate Floridian Insurance Company	241,218	5.0%	\$46,203,621,276	3.1%	\$252,479,629	3.4%
4	Nationwide Insurance Company Of Florida	204,868	4.2%	\$49,684,056,581	3.3%	\$269,842,501	3.6%
5	United Services Automobile Association	192,631	4.0%	\$69,460,691,749	4.6%	\$239,142,192	3.2%
6	American Strategic Insurance Corp.	149,518	3.1%	\$40,007,127,685	2.7%	\$201,882,205	2.7%
7	Universal Insurance Company Of North America	136,175	2.8%	\$38,092,627,002	2.5%	\$208,130,799	2.8%
8	St. Johns Insurance Company, Inc.	128,338	2.6%	\$46,422,728,192	3.1%	\$217,043,263	2.9%
9	Royal Palm Insurance Company	120,629	2.5%	\$37,404,640,710	2.5%	\$224,962,367	3.0%
10	Liberty Mutual Fire Insurance Company	106,755	2.2%	\$43,263,678,050	2.9%	\$194,952,793	2.6%
<b>10 Totals For Selected County Set:</b>		<b>2,667,929</b>	<b>54.8%</b>	<b>\$819,074,646,518</b>	<b>54.7%</b>	<b>\$3,996,614,142</b>	<b>53.6%</b>
<b>167 Totals For All Selected Counties And Policies:</b>		<b>4,871,076</b>	<b>100.0%</b>	<b>\$1,497,361,490,121</b>	<b>100.0%</b>	<b>\$7,462,257,762</b>	<b>100.0%</b>
<b>Policies Selected:</b>		Homeowners (Excl. Tenant and Condo), Mobile Homeowners, Condominium Unit Owners, Dwelling, Fire and Allied Lines, Tenants					

\* FRPCJUA excluded from market share calculation.

Counties Selected: All



# The Florida Market is Changing

- **Since January 2006, the Office has licensed 30 new commercial and residential property insurers, representing over \$3.4 billion in new capital.**





# Companies Licensed in 2006

Name	Status Date	Line of Business	Initial Capital
*AMERICAN CAPITAL ASSURANCE CORP.	6/30/2006	HO & Comm. Res.	\$50 million
	9/13/2006	Homeowners	
*AMERICAN INTEGRITY INSURANCE Co. OF FL			9.5 million
AMERIPRISE INSURANCE Co.	10/10/2006	Homeowners	46 million
AUTO CLUB INSURANCE Co. OF FLORIDA	11/22/2006	Homeowners	11 million
EDISON INSURANCE Co.	1/4/2006	Homeowners	10 million
HOMEWISE PREFERRED INSURANCE Co.	5/31/2006	Homeowners	9 million
NORTHERN CAPITAL INSURANCE Co.	5/4/2006	Homeowners	6.8 million
RANCHERS AND FARMERS INSURANCE Co.	1/6/2006	Homeowners	5 million
*ROYAL PALM INSURANCE Co.	3/31/2006	Homeowners	65million
SAFE HARBOR INSURANCE Co.	5/4/2006	Homeowners	6 million
		<b>TOTAL</b>	<b>\$218.3 million</b>

\*Blue type represents capital build-up fund participants

\*\*Minimum Capital requirement is \$5 million for Homeowners, but depends on business plan



# Companies Licensed Since January 2007

Name	Status Date	Line of Business	Initial Capital
<b>*PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE</b>	1/23/2007	Homeowners	\$51 million
AMERICAN KEYSTONE INSURANCE COMPANY	2/8/2007	Homeowners	9 million
HOMEOWNERS CHOICE PROPERTY & CASUALTY INS CO	5/10/2007	Homeowners	15 million
<b>*MODERN USA INSURANCE COMPANY</b>	5/31/2007	Mobile Home	14 million
<b>*OLYMPUS INSURANCE COMPANY</b>	5/31/2007	Homeowners	50 million
AMERICAN COASTAL INSURANCE COMPANY	6/21/2007	Commercial Res.	50 million
MAIN STREET AMERICA PROTECTION	10/9/2007	Homeowners	10 million
LANDMARK ONE INSURANCE COMPANY	10/19/2007	Homeowners	9 million
CAM PROPERTY SELF-INSURANCE FUND	10/31/2007	Commercial Res.	SIF
ARK ROYAL INSURANCE COMPANY	11/9/2007	Homeowners	10 million
PALM BEACH WINDSTORM SELF INSURANCE TRUST	1/16/2008	Commercial Res.	SIF
PEOPLE'S TRUST INSURANCE COMPANY	3/6/2008	Homeowners	<u>10 million</u>
			\$228 million



# Surplus Lines Eligible Since January 2007

<b>Name</b>	<b>Status Date</b>	<b>Line of Business</b>	<b>Initial Capital</b>
<b>PRAETORIAN SPECIALTY INSURANCE COMPANY</b>	<b>3/30/2007</b>	<b>Commercial</b>	<b>\$31 million</b>
<b>ARCH INSURANCE COMPANY (EUROPE) LIMITED</b>	<b>5/10/2007</b>	<b>Commercial</b>	<b>103 million</b>
<b>IRONSHORE INSURANCE LTD.</b>	<b>5/17/2007</b>	<b>Commercial</b>	<b>930 million</b>
<b>AIX SPECIALTY INSURANCE COMPANY</b>	<b>7/2/2007</b>	<b>Commercial Res.</b>	<b>15 million</b>
<b>LANCASHIRE INSURANCE COMPANY LIMITED</b>	<b>7/2/2007</b>	<b>Commercial / Commercial Res.</b>	<b>1130 million</b>
<b>USF INSURANCE COMPANY</b>	<b>7/3/2007</b>	<b>Commercial</b>	<b>43 million</b>
<b>CATLIN INSURANCE COMPANY (UK) LTD.</b>	<b>1/31/2008</b>	<b>Homeowners</b>	<b>168 million</b>
<b>TOTAL SURPLUS LINES</b>			<b>\$2,420,000,000</b>



# Capital Incentive Build-up Program

## FINAL REPORT

### Insurance Capital Build-Up Incentive Program ( As Of 6/28/07)

	Date Application Received		Date \$ Requested	Date \$ Disbursed*	\$ Amount Surplus Note	\$ Amount Contributed by Insurer	Total \$ Amount New Capital	Estimated Total # New Policies
<b>Companies that received a Surplus Note:</b>								
1.) American Capital Assurance Corp	08/29/2006		08/31/2006	11/21/2006	\$25,000,000	\$25,000,000	\$50,000,000	87,203
2.) American Integrity Insurance Co. of Florida	05/25/2007		08/29/2007	08/27/2007	\$7,000,000	\$7,000,000	\$14,000,000	149,000
3.) Cypress P&C	08/30/2006		12/01/2006	02/02/2007	\$20,500,000	\$20,500,000	\$41,000,000	96,000
4.) First Home Insurance Company	01/22/2007		01/31/2007	08/27/2007	\$14,500,000	\$29,000,000	\$43,500,000	59,600
5.) Florida Peninsula Insurance Co.	08/16/2006	Revised	11/01/2006	01/03/2007	\$25,000,000	\$25,000,000	\$50,000,000	310,000
6.) Modern USA	05/25/2007		08/01/2007	06/28/2007	\$7,000,000	\$7,000,000	\$14,000,000	59,964
7.) Olympus Insurance Co.	04/25/2007		05/31/2007	08/28/2007	\$16,500,000	\$33,500,000	\$50,000,000	125,000
8.) Privilege Underwriters Reciprocal Exchange	12/06/2006	Revised	08/30/2007	06/13/2007	\$17,000,000	\$34,000,000	\$51,000,000	3,500
9.) Royal Palm Insurance Co.	08/27/2006		12/01/2006	12/20/2006	\$25,000,000	\$25,000,000	\$50,000,000	144,696
10.) Southern Fidelity Insurance Co.	08/14/2006		07/01/2006	08/12/2006	\$25,000,000	\$25,000,000	\$50,000,000	86,000
11.) St. Johns Insurance Co.	08/15/2006		08/25/2006	07/31/2006	\$20,000,000	\$20,000,000	\$40,000,000	321,172
12.) United P & C	08/16/2006		07/01/2006	09/22/2006	\$20,000,000	\$20,000,000	\$40,000,000	142,000
13.) Universal P & C	08/15/2006		09/01/2006	11/09/2006	\$25,000,000	\$25,000,000	\$50,000,000	150,000
<b>Total Requested</b>					<b>\$247,500,000</b>	<b>\$296,000,000</b>	<b>\$543,500,000</b>	<b>1,713,135</b>

<b>Companies that did not pursue a Surplus Note:</b>		\$ Requested	
Florida Family Insurance Co.	08/30/2006	\$25,000,000	01/01/2007
Homewise Insurance Co.	08/30/2006	\$20,000,000	08/15/2006
Security First Insurance Co.	05/24/2007	\$15,000,000	08/30/2007
Sunshine State Insurance Co.	10/26/2006	\$14,200,000	03/31/2007

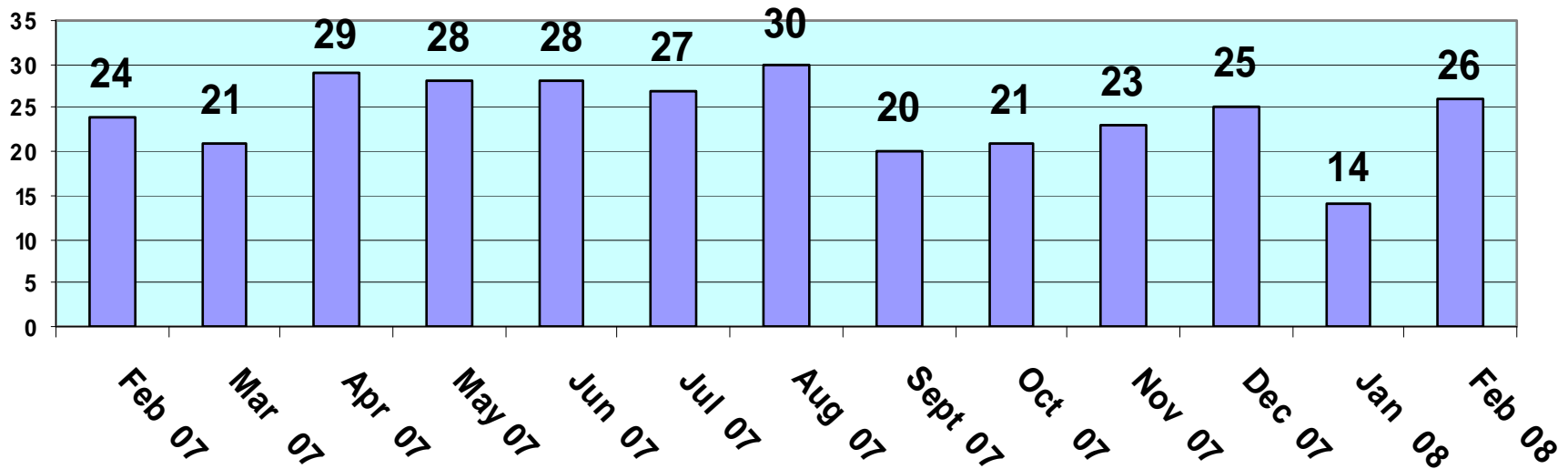
<b>Companies that applied but were not eligible:</b>	
Homeowners Protection Insurance Corporation	05/01/2007
Magnolia Insurance Company	05/18/2007
Seaside Property Insurance Inc.	08/15/2006

Total Appropriated	\$250,000,000
Less: 1% Administrative Expenses	\$2,500,000
Total Available to Applicants	\$247,500,000
Total Disbursed to Date	\$247,500,000
Total Available Remaining	\$0
Additional Requested	\$0
Amount Over- Requested	\$0

\*Amount disbursed = amount requested unless otherwise indicated

# Applications for Licensure

**Total Number of Applications Processed  
(Approved & Withdrawn) in the Past 13 Months**





# The State of the Market

- **Citizens represents slightly over 40% of the CAT fund. That leaves almost 60% of the wind risk for residential property in the private market today.**
- **Citizens has 1.3 million policies. State Farm has over 1 million. New applicants are eligible for Citizens if a private insurance company offer exceeds Citizens rates by more than 15%.**
- **National companies have withdrawn from the coast nationwide in a concerted effort to reduce coastal exposure. This was underway before HB1A.**
- **Citizens policy count has not substantially increased since HB1A was passed in January 2007.**



# Companies were withdrawing from Coastal Areas Before HB 1A

From Allstate's SEC filing for 3rd Quarter 2006 (publicly available on SEC website)

Actions we have taken or are considering to attain an acceptable catastrophe exposure level in our property business include:

- **removing wind coverage from certain policies and allowing our agencies to help customers apply for wind coverage through state facilities such as wind pools;**
- changes in rates, deductibles and coverage;
- limitations on new business writings;
- changes to underwriting requirements, including limitations in coastal and adjacent counties;
- **not offering continuing coverage to some existing policyholders;**
- purchase of reinsurance or other forms of risk transfer arrangements;
- discontinuing coverage for certain types of residences; and/or
- withdrawal from certain markets.

Examples of catastrophe exposure actions taken during 2006, related to our risk of hurricane loss, include purchasing additional reinsurance on a countrywide basis for our personal lines property insurance, and in areas most exposed to hurricanes; **a limitation on personal homeowners new business writings in coastal areas of Texas, Louisiana, Mississippi, and certain other states; and not offering continuing coverage on select policies in eight coastal counties in the state of New York, which may continue for several years.** Additionally, we have entered into a reinsurance agreement to cede losses incurred on 120,000 personal property policies in the state of Florida



# Solvency Regulation





# Income Statement

## Solvency

- This small Florida domestic insurer was licensed on December 31, 2004 to offer residential homeowners insurance in Florida. Company participated in a takeout from Citizens Property Insurance Corporation (“Citizens”).
- At December 31, 2007, Company reports net income of \$2.6 million. The favorable net income from operations is attributed to a net underwriting gain of \$4.2 million. Company rates are at or below Citizens.
- As a result of the favorable underwriting and net income from operations, surplus has increased from \$7.0 million the prior year-end to \$10.0 million.

Line		Current Year	Prior Year
01	Premiums earned	26,842,631	-2,467,682
02	Losses incurred	6,144,656	3,223,844
03	Loss expenses incurred	10,772,426	2,223,496
04	Other underwriting expenses incurred	5,766,835	-4,249,907
05	Aggregate write-ins for underwriting deductions	0	0
06	Total underwriting deductions	22,683,917	1,197,433
07	Net income of protected cells	0	0
08	<b>Net underwriting gain (loss)</b>	<b>4,158,714</b>	<b>-3,665,114</b>
09	Net investment income earned	73,068	247,459
10	Net realized capital gains (losses) less capital gains tax of \$0	36,762	10,115
11	Net investment gain (loss)	109,830	257,575
12	Net gain (loss) from agents' or premium balances charged off (amount recovered \$0 amount charged off \$0)	1,409	-296
13	Finance and service charges not included in premiums	31,160	16,280
14	Aggregate write-ins for miscellaneous income	0	436,067
15	Total other income	32,569	452,052
16	Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	4,301,113	-2,955,488
17	Dividends to policyholders	0	0
18	Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	4,301,113	-2,955,488
19	Federal and foreign income taxes incurred	1,680,321	-88,875
20	<b>Net income</b>	<b>2,620,792</b>	<b>-2,866,613</b>
21	Surplus as regards policyholders, December 31 prior year	6,970,640	6,326,681
22	<b>Net income</b>	<b>2,620,792</b>	<b>-2,866,613</b>
23	Net transfers (to) from protected cell accounts	0	0
24	Change in net unrealized capital gains or (losses) less capital gains tax of \$0	-49,262	88,225
25	Change in net unrealized foreign exchange capital gain (loss)	0	0
26	Change in net deferred income tax	411,514	963,469
27	Change in nonadmitted assets	55,107	34,310
28	Change in provision for reinsurance	0	0
29	Change in surplus notes	0	2,500,000
37	Aggregate write-ins for gains and losses in surplus	0	-75,432
38	Change in surplus as regards policyholders for the year	3,038,151	643,959
39	<b>Surplus as regards policyholders, December 31 current year</b>	<b>10,008,790</b>	<b>6,970,640</b>



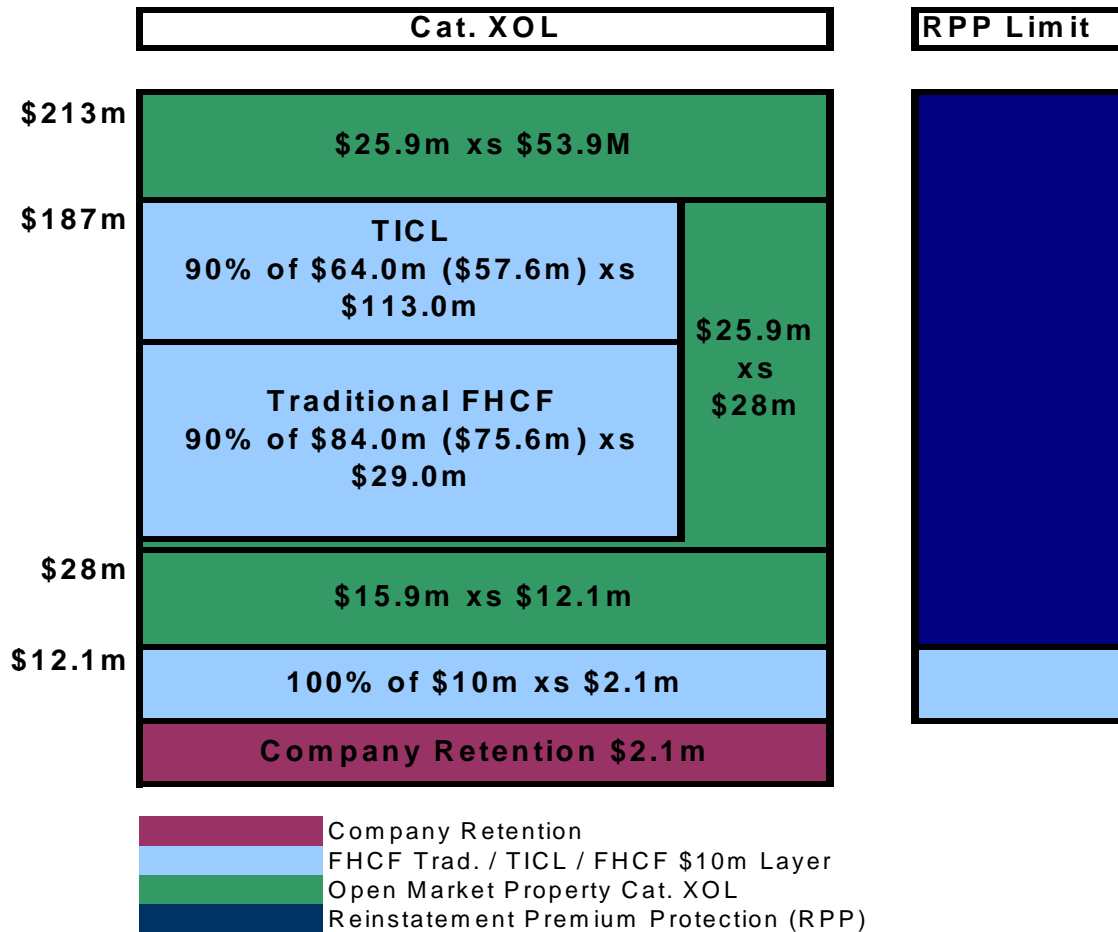
# Trending Analysis

		CoCode				
		<u>TREND DATA</u>				
		2007	2006	2005	2004	2003
<b>SURPLUS</b>		10,008,789	6,970,639	6,326,682	5,507,835	-
<b>NET INCOME</b>		2,620,792	(2,866,613)	(134,334)	(992,265)	-

- Surplus has trended from \$5.5 million in 2004 to \$10 million at December 31, 2007.
- Net income has trended from a negative \$992 thousand in 2004 to \$2.6 million at December 31, 2007.

# Typical Reinsurance Example

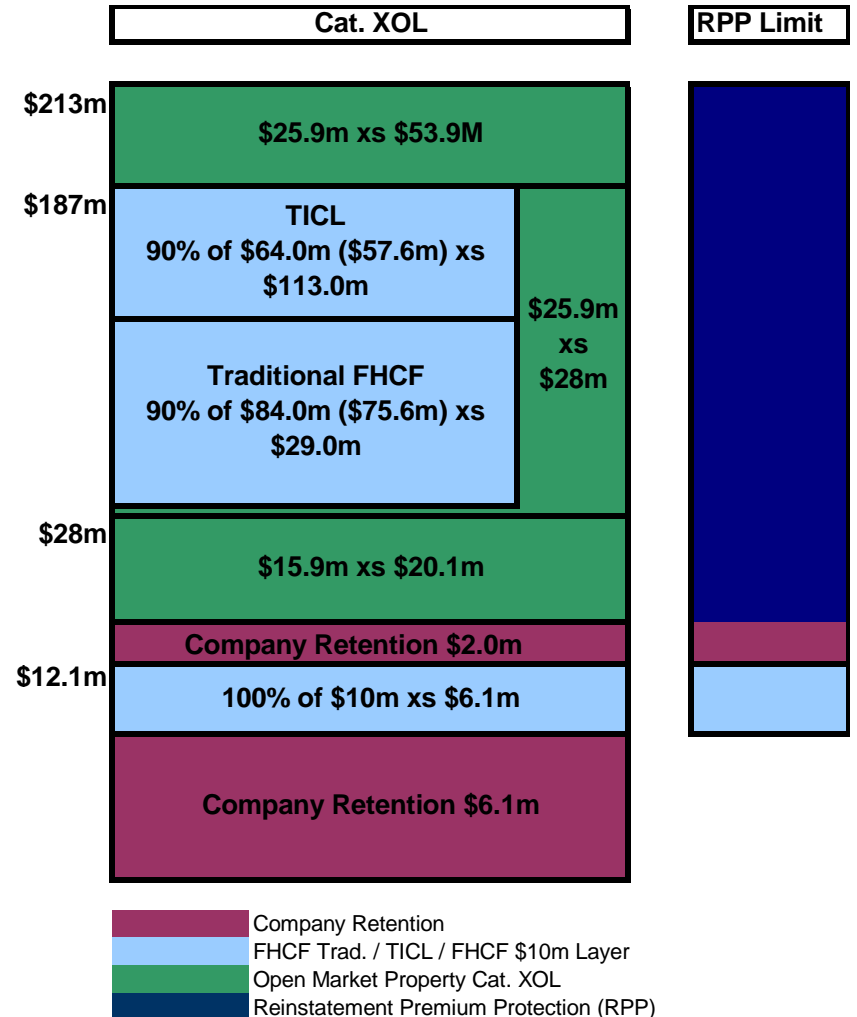
Reinsurance Structure Chart - June 1, 2007





# Large Retention Example

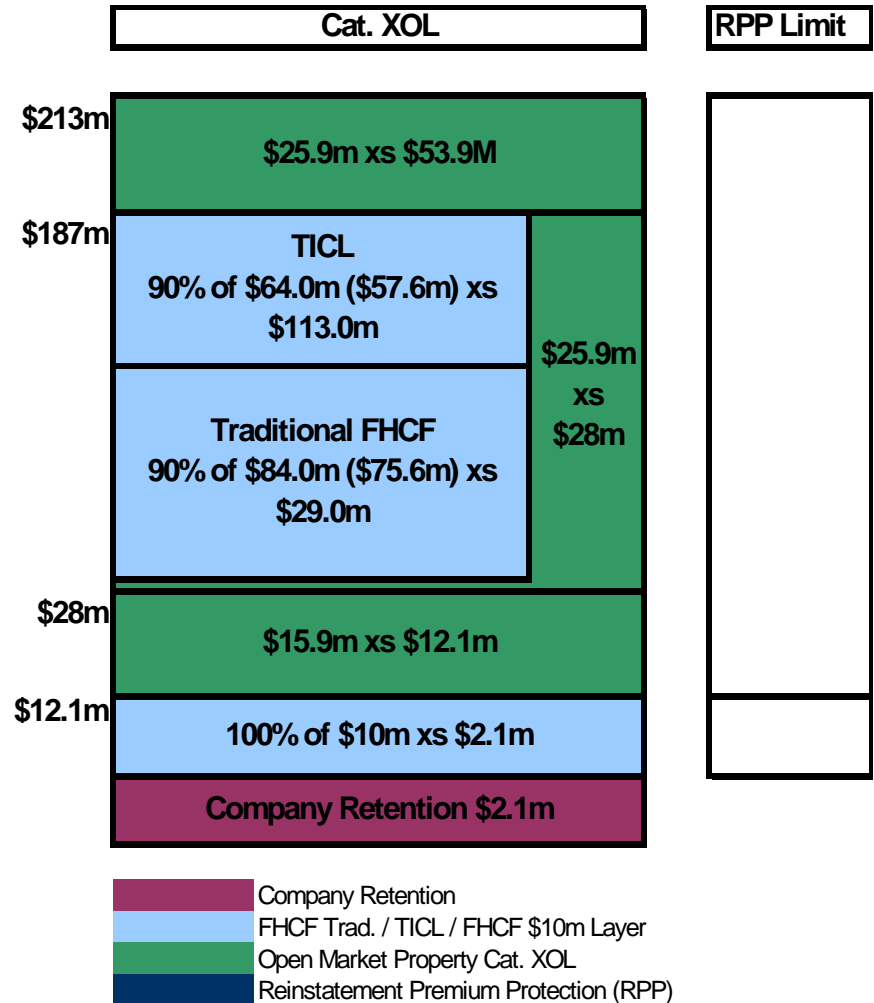
The chart represents a reinsurance structure for the same small Florida domestic insurer with the only change this time being no reinstatement premium protection. The retention for a 1 in 100 year storm was \$2.1 million in the prior example and is still \$2.1 million in this example. However, since there is no reinstatement premium protection, this means the insurer must pay the reinsurer additional premium to reinstate the reinsurance pursuant to the reinsurance agreement. The cost to reinstate, depending on the magnitude of the first storm and how much reinsurance was exhausted, would likely be too large for this insurer with \$12.7 in surplus. This insurer's reinsurance program would be questioned by the Office because the retention from one storm combined with the reinstatement premium, would put the insurer's surplus below the minimum required amount.





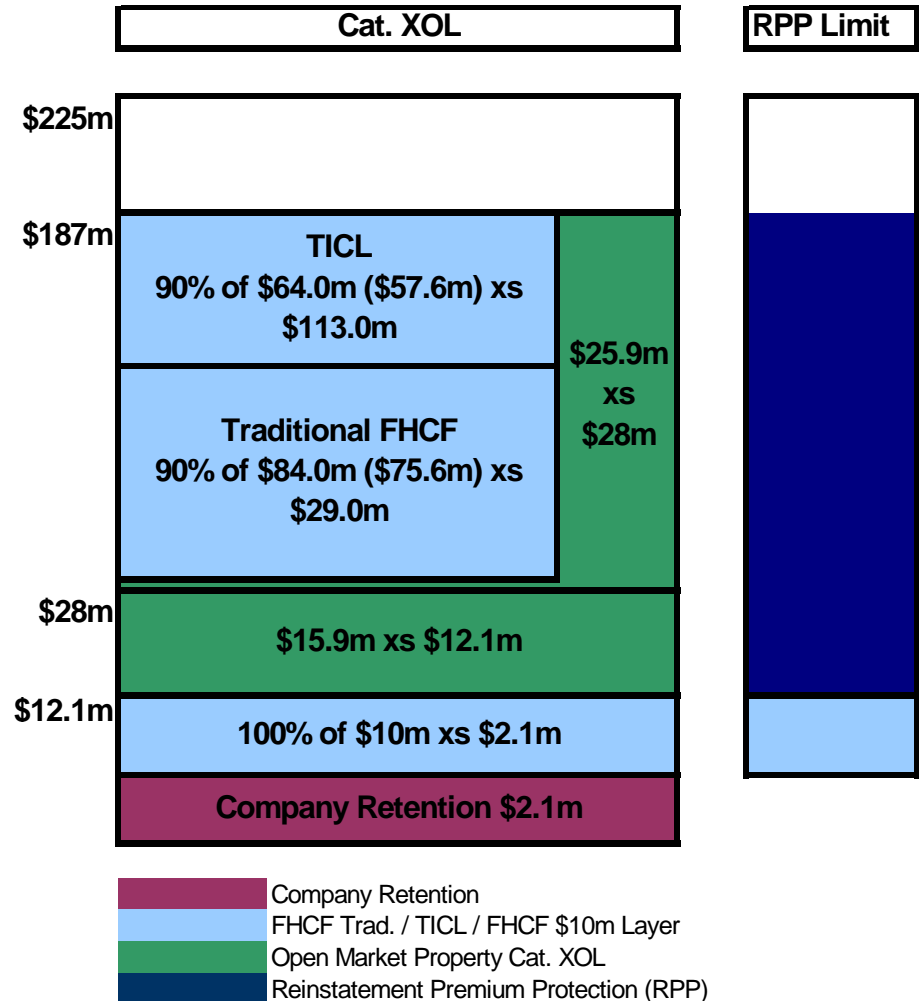
# No Reinstatement Example

The chart represents a reinsurance structure for the same small Florida domestic insurer with the only change this time being no reinstatement premium protection. The retention for a 1 in 100 year storm was \$2.1 million in the prior example and is still \$2.1 million in this example. However, since there is no reinstatement premium protection, this means the insurer must pay the reinsurer additional premium to reinstate the reinsurance pursuant to the reinsurance agreement. The cost to reinstate, depending on the magnitude of the first storm and how much reinsurance was exhausted, would likely be too large for this insurer with \$12.7 in surplus. This insurer's reinsurance program would be questioned by the Office because the retention from one storm combined with the reinstatement premium, would put the insurer's surplus below the minimum required amount.

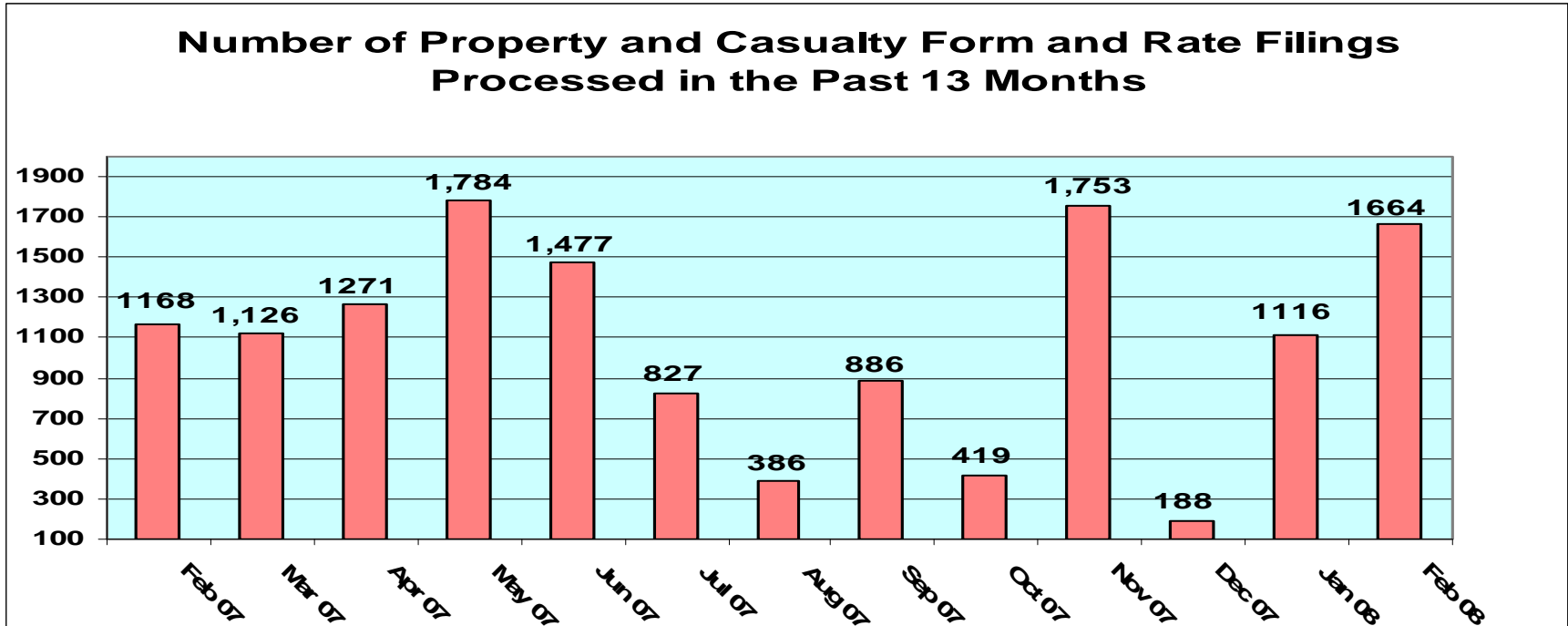


# PML Reinsurance Example

The chart represents a reinsurance structure for the same small Florida domestic insurer with the only change this time being to the PML. This insurer's 1 in 100 year PML was \$190 million in the prior example but is now \$225 million. The purchased reinsurance was to \$187 million, which is \$38 million below the 1 in 100 year PML level of \$225 million. This insurer's reinsurance program would be questioned by the Office because a 1 in 100 year storm would make this insurer insolvent.



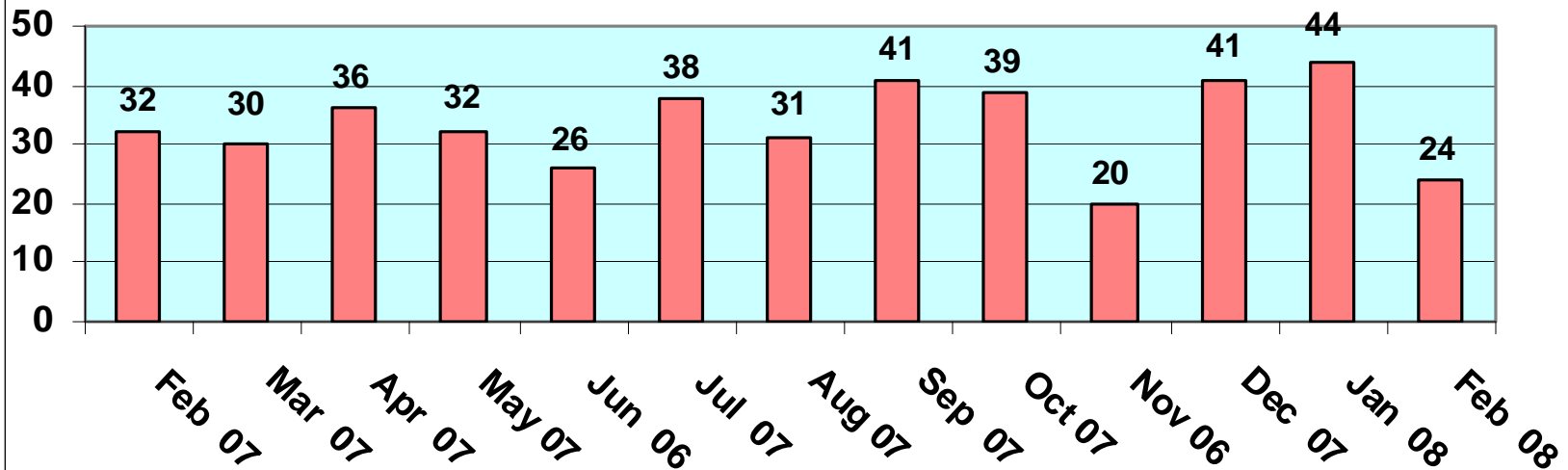
# Rate Review Process



Processed means either approved, withdrawn or disapproved. A Notice of Intent to Disapprove may also be issued, but is not counted as “processed”.

# Rate Review Process

**Average Number of Days to Process Property and Casualty Filings in the Past 13 Months**







# Rate Review Process

## Excerpts from the Rating Law 627.062, Florida Statutes

- (b) Upon receiving a rate filing, the office shall review the rate filing to determine if a rate is **excessive, inadequate, or unfairly discriminatory**. In making that determination, the office shall, in accordance with **generally accepted and reasonable actuarial techniques**, consider the following factors:
1. Past and prospective loss experience within and without this state.
  2. Past and prospective expenses.
  3. The degree of competition among insurers for the risk insured.
  4. Investment income . . . however, investment income from invested surplus shall not be considered.
  5. **The reasonableness of the judgment reflected in the filing.**
  6. Dividends, savings, or unabsorbed premium deposits allowed or returned to Florida policyholders, members, or subscribers.
  7. The adequacy of loss reserves.
  8. **The cost of reinsurance.**
  9. Trend factors, including trends in actual losses per insured unit for the insurer making the filing.
  10. Conflagration and catastrophe hazards, if applicable.
  11. A **reasonable margin for underwriting profit and contingencies**. For that portion of the rate covering the risk of hurricanes and other catastrophic losses for which the insurer has not purchased reinsurance and has exposed its capital and surplus to such risk, the office must approve a rating factor that provides the insurer a reasonable rate of return that is commensurate with such risk.
  12. The cost of medical services, if applicable.
  13. Other relevant factors which impact upon the frequency or severity of claims or upon expenses. . . .



# Rate Review Process

## Excessive

(e) **After consideration of the rate factors** provided in paragraphs (b), (c), and (d), a rate may be found by the office to be excessive, inadequate, or unfairly discriminatory based upon the following standards:

- 1. Rates shall be deemed excessive if they are likely to produce a profit from Florida business that is unreasonably high in relation to the risk involved in the class of business or if expenses are unreasonably high in relation to services rendered.**
  
- 2. Rates shall be deemed excessive if, among other things, the rate structure established by a stock insurance company provides for replenishment of surpluses from premiums, when the replenishment is attributable to investment losses.**



# Rate Review Process

## Inadequate

### **627.062 The Rating Law, continued**

**3. Rates shall be deemed inadequate if they are clearly insufficient, together with the investment income attributable to them, to sustain projected losses and expenses in the class of business to which they apply. . .**

**(f) In reviewing a rate filing, the office may require the insurer to provide at the insurer's expense all information necessary to evaluate the condition of the company and the reasonableness of the filing according to the criteria enumerated in this section.**



# Rate Review Process

## Actuarial Standards of Practice

- 4.1 Conflict with Law or Regulation**—If a law or regulation conflicts with the provisions of this standard, the actuary should develop a rate in accordance with the law or regulation, and disclose any material difference between the rate so developed and the actuarially determined rate to the client or employer.
- 4.2 Documentation and Disclosure**—The actuary should be guided by the provisions of ASOP No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*. If the actuarial work product includes mathematical modeling developed by someone other than the actuary, the documentation should include the source of the model and how the model was used in the analysis. In addition, if the model is outside the actuary's area of expertise, the actuary should be guided by the documentation and disclosure requirements of ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise*.

Source: [http://www.actuarialstandardsboard.org/pdf/asops/asop039\\_072.pdf](http://www.actuarialstandardsboard.org/pdf/asops/asop039_072.pdf)



# Rate Review Process

## Residential Property Rate Review Process

- All filings must be made in the Office Electronic filing system. This system has several components that are required depending on nature of filing. Key items are as follows:
- Cover Letter
- Explanatory Memorandum
- Statewide Indication form to support statewide change
- Territorial support information to support allocation by territory
- Required Reinsurance Support Documentation including contracts
- Required Catastrophe Model support
- Support for any other change to Rating Factors
- Support for any change to rules including Underwriting
- If Credit scores used in underwriting or pricing required component
- Required rate collection system which provides both example of policyholder premium for certain examples as well as rate effect by territory and county including amounts such as number of policies and premium.
- Required HB1A CEO/CFO and actuary certification.



# Rate Review Process

## Residential Property Rate Review Process Cont.

- Filing uploaded by company on the internet to I-file system
- Filing assigned to a reviewer- could be actuary or analyst under actuary's supervision
- Additional information requested if needed
- Company Response to additional information request reviewed
- Once review is completed, actuary will discuss with management in meeting with a recommendation to either approve or to go through Notice of Intent to Disapprove process.
- If NOI is issued, Company has 21 days to request DOAH hearing
- Hearing Officer issues Recommended Order after hearing
- Office issues Final Order
- If Company disagrees, may appeal to 1st DCA
- Review is based on Florida Statutes, Applicable Rules, Requirements of Electronic Filing system and applicable Actuarial Principles and Standards of Practice.



# Rate Review Process

## Reinsurance Issues in 2007 Residential Property Rate Filings

- Use of Model or adjustments not accepted by the Hurricane Loss Projection Methodology Commission to establish PML.
- In some instances, the company purchased reinsurance at higher PML than previous year (from 1-in-100 to 1-in 250 or just at higher 1-in-100) at same time as the Cat fund expansion which leads to less consumer savings.
- In some cases, the filing estimated that long term loss recovery is very low such as 10% leading to issues of excess cost versus services rendered not permitted per 627.062 due to average expense and profit/contingency of 90%.
- In some cases, the Reinsurer is an affiliate or parent with unreasonable costs, given this relationship.
- In some cases, the Reinsurance cost was allocated from a national treaty and the office questioned the reasonableness of the allocation.
- In most cases, companies did not include the cost of private reinsurance if that reinsurance duplicated the Cat fund layers, but in a few cases this duplication was included contrary to the prohibition in HB 1A.



# Rate Review Process

**FAIR. FAST. PROFESSIONAL.**

STATE OF FLORIDA -- OFFICE OF INSURANCE REGULATION  
PERSONAL LINES STANDARDIZED RATE INDICATIONS WORKBOOK

## R A T E I N D I C A T I O N S

GROUP NAME:	ABC Ins. Group
PRODUCT TYPE:	Homeowners
PRODUCT SUB-TYPE:	N/A
STATE:	Florida Experience Only

PROGRAM NAME:	Ultra-Preferred*
POLICY TYPE:	HO-2+HO-3*
COMPANY (IES):	XINS+XIND*

(A) Loss Experience Eval. Date:
(B) Annual Premium Trend:
(C) Annual Loss Trend (Up-to-Date):
(D) Annual Loss Trend (Projected):
(E) Avg. Acc. Date for Proj. Rates:

### PREMIUMS:

(1) Accident Year Ending	(2) Months of Maturity	(3) Earned House Years	(4) Written Premiums (\$000's)	(5) Earned Premiums (\$000's)	(6) Current Rate Level Factors (SUPPORT)	(7) Premium Trend Factors	(8) Trended Earned Premiums at C.R.L. (\$000's)
3/31/1999	63	10,000	\$10,000	\$10,000	1.000	1.000	\$10,000
3/31/2000	51	10,000	10,000	10,000	1.000	1.000	10,000
3/31/2001	39					1.000	0
3/31/2002	27					1.000	0
3/31/2003	15					1.000	0
TOTAL		20,000	\$20,000	\$20,000			\$20,000

### NOTES:

(1) Incurred losses are unadjusted with respect
---

### ACTUAL LOSSES:

(1) Accident Year Ending	(9) Incl. Cats.	(10) Non-Hurr. Cat.	(11) Hurricane Cat.	(12) Excl. Cats.	(13) Incl. Cats.	(14) Non-Hurr. Cat.	(15) Hurricane Cat.	(16) Excl. Cats.	(17) Incl. Cats. (SUPPORT)	(18) Non-Hurr. Cat. (SUPPORT)	(19) Hurricane Cat. (SUPPORT)
3/31/1999	\$5,000	\$0	\$0	\$5,000	\$1,000	\$0	\$0	\$1,000	\$1,000	\$0	\$0
3/31/2000	5,000	0	0	5,000	1,000	0	0	1,000	1,000	0	0
3/31/2001	0	0	0	0	0	0	0	0	0	0	0
3/31/2002	0	0	0	0	0	0	0	0	0	0	0
3/31/2003	0	0	0	0	0	0	0	0	0	0	0
TOTAL	\$10,000	\$0	\$0	\$10,000	\$2,000	\$0	\$0	\$2,000	\$2,000	\$0	\$0

### EXPECTED CATASTROPHE LOSSES:

(1) Accident Year Ending	(22) Losses (SUPPORT)	(23) ALAE (SUPPORT)	(24) ULAE (SUPPORT)	(25) Losses (SUPPORT)	(26) ALAE (SUPPORT)	(27) ULAE (SUPPORT)	(28) Expected Incurred Cat. Loss & LAE (\$000's)
3/31/1999	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3/31/2000	0	0	0	0	0	0	0
3/31/2001	0	0	0	0	0	0	0
3/31/2002	0	0	0	0	0	0	0
3/31/2003	0	0	0	0	0	0	0
TOTAL	\$0	\$0	\$0	\$0	\$0	\$0	\$0

### DEVELOPMENT OF PROJECTED LOSS & LAE RATIO:

(1) Accident Year Ending	(29) Actual Incurred Loss & LAE (Excl. Cats.) (\$000's)	(30) Loss & ALAE Development Factors (SUPPORT)	(31) Loss Trend Factors	(32) Trended & Developed Incurred Loss & LAE (Excl. Cats.) (\$000's)	(33) Expected Incurred Loss & LAE (Cats.) (\$000's)	(34) Expected Incurred Loss & LAE (Incl. Cats.) (\$000's)	(35) Bad Faith/Punitive Damage Loss & ALAE Incl. in (34) (\$000's)	(36) Expected Incurred Loss & LAE (Incl. Cats.) Excl. BF/PPD (\$000's)	(37) Adjustment Factor for Law Changes, Etc. (SUPPORT)	(38) Final Adjusted Expected Incurred Loss & LAE (\$000's)	(39) Projected Incurred Loss & LAE Ratio (Incl. Cats.) (\$000's)
3/31/1999	\$7,000	1.000	1.000	\$7,000	\$0	\$7,000	\$0	\$7,000	1.000	\$7,000	70.0%
3/31/2000	7,000	1.000	1.000	7,000	0	7,000	0	7,000	1.000	7,000	70.0%
3/31/2001	0		1.000	0	0	0	0	0		0	0.0%
3/31/2002	0		1.000	0	0	0	0	0		0	0.0%
3/31/2003	0		1.000	0	0	0	0	0		0	0.0%





# Rate Review Process

## Statewide Average Premium Change 2003-2007

Voluntary Insurance Companies- Excludes Citizens

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Average Premium	\$ 949.00	\$ 1,068.00	\$ 1,250.00	\$ 1,635.00
Average Policy Exposure	\$ 222,716.00	\$ 253,177.00	\$ 283,656.00	\$ 351,024.00
Policy Count	3,583,195	3,685,019	3,997,085	3,720,969
Premium Written	\$ 3,400,518,333.00	\$ 3,933,777,585.00	\$ 4,994,529,830.00	\$ 6,081,962,436.00
Total Exposure	\$ 798,034,377,060.00	\$ 932,961,968,284.00	\$ 1,133,795,865,520.00	\$ 1,306,151,098,980.00

\*Average policy exposure with all coverages, including contents. Also takes into account deductibles offered at the time.



# Subprime Mortgage Market: How it may affect Insurance Companies

- Insurance company investments
  - SVO exercise
- Mortgage Guaranty Insurers
- Bond Insurers
- Other?



# Insurance Company Investments

**625.324 Corporate stocks.**--An insurer may invest in stocks, common or preferred, of any corporation created or existing under the laws of the United States or of any state or Canada or any province thereof.

Note: 625.304 requires board action to authorize investments.



# Insurance Company Investments

## 625.305 Diversification.--

(2) Investments eligible under subsection (1), except investments acquired pursuant to s. [625.331](#), are subject to the following limitations:

(a) The cost of investments made by insurers in stock authorized by s. [625.324](#) **shall not exceed 15 percent of the insurer's admitted assets**; the cost of such investment in **common stocks shall not exceed 10 percent** of the insurer's admitted assets; and the cost of such investment in **stock of any one corporation shall not exceed 3 percent** of the insurer's admitted assets.

Notwithstanding any other provision in this chapter, the cost basis or market value, if lower, of all stock investment shall be used for the purpose of determining the asset value against which such percentage limitations are to be applied.



# Mortgage Guaranty Insurers Direct Written Premium in Florida

<u>Company Name</u>	<u>Domicile</u>	<u>Mtg. guaranty</u>
MORTGAGE GUAR INS CORP	WI	143,512,980
RADIAN GUARANTY INC	PA	90,711,987
PMI MORTGAGE INS CO	AZ	80,148,655
UNITED GTY RESIDENTIAL INS CO	NC	72,234,401
GENWORTH MORTGAGE INS CORP	NC	66,552,097
REPUBLIC MORTGAGE INS CO	NC	46,050,768
TRIAD GUARANTY INS CORP	IL	13,068,319
CMG MORTGAGE INS CO	WI	5,269,286
GENWORTH RESIDENTIAL MORTGAGE INS CO	NC	5,211,026
UNITED GUARANTY MTG INDEM CO	NC	802,360
<b>AZTEC INS CO</b>	<b>FL</b>	<b>23,891</b>
MGIC IND CORP	WI	15,436
TRITON INS CO	TX	13,414
VEREX ASSURE INC	WI	13,403
CMG MORTGAGE ASSUR CO	WI	2,920
GENWORTH MORTGAGE INS CORP OF NC	NC	1,610
MGIC CREDIT ASSUR CORP	WI	174
		523,632,727



# Bond Insurers

**AMBAC UNITS HOLD ON TO KEY TRIPLE-A RATINGS.** No byline. The Wall Street Journal. 2008/03/13. Page C2.

On March 12 Moody's Investors Service Inc. and Standard & Poor's Ratings Services affirmed the AAA ratings of the insurance subsidiaries of Ambac Financial Group, the second-largest bond insurer in the U.S., but said that the ratings are more likely to fall than to rise in the long term. Fitch Ratings left the ratings of the Ambac subsidiaries at AA with a negative outlook and said that it would be difficult for the units to regain AAA ratings. Moody's affirmed the ratings after Ambac announced the completion of its efforts to raise \$1.5 billion in capital. Lawmakers in Congress are calling for action to resolve problems in the market for municipal bonds. One measure being supported by some members of the House Financial Services Committee would increase the involvement of the Federal Home Loan Banks, or some other federal program, in the municipal market. [from NAIC daily news March 13, 2008]



# Berkshire Hathaway Assurance Corporation



MAR 7 2008

OFFICE OF  
INSURANCE REGULATION

Booked by: RJ

## OFFICE OF INSURANCE REGULATION

**KEVIN M. McCARTY**  
COMMISSIONER

IN THE MATTER OF:

Case No: 94554-08-CO

Application for the issuance of a Certificate of Authority to  
**BERKSHIRE HATHAWAY ASSURANCE  
CORPORATION**

### CONSENT ORDER

THIS CAUSE came on for consideration upon the filing of an application with the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") for the issuance of a Certificate of Authority to BERKSHIRE HATHAWAY ASSURANCE CORPORATION (hereinafter referred to as "APPLICANT") as an authorized foreign insurer, pursuant to Sections 624.401, 624.404, and 624.413, Florida Statutes, to write Financial Guaranty (0100) insurance pursuant to Chapter 627, Part XX, Florida Statutes. Following a

**OFFICE OF INSURANCE REGULATION**



# Commercial Rate Filing Process

## Homeowners and Commercial Rating are Different

**Homeowners:** Rate determined by construction type (e.g. brick), geographic location, cost of property, hurricane resistance, and fire department.

### Commercial Rating

- All of personal factors used, plus
  - Type of business conducted (over 1000 class codes)
  - Most Commercial Lines Companies rely on Rating Organizations
  - Rating Organizations file Loss Costs for the primary rating factors: construction type (frame, brick, fire resistive, etc.), risk location (territory) plus other standard rating factors such as what type of business the insured runs (apartments, gasoline stations, etc.)
  - Up +/-25% judgment/Individual Risk Premium Modification (IRPM) credit
  - Unlimited experience rating credits on liability part of package policies
  - Different rate tiers in different sister companies that may vary by as much as +/-150%
  - Alternatively, for large risks, companies may disregard the manual entirely and make a rate using “individual risk rating”





# Commercial Rate Filing Process

## How Companies Use Rating Organization Loss Costs

- Rating Organization Loss Costs cover average costs of the claims in each pricing combination (Including items such as Protection Class, Construction Types, Locations, Building Codes, Types of Business Operations, etc.)
- Companies file “expense multipliers” to add in their overhead, sales expense, profit, and other expenses.
  - Typically between 1.25 and 1.50 to add in 20%-35% expenses
- Companies may file “loss cost modification factors” that theoretically reflect the difference between their claims cost levels and those of the rating organization. Most often, corporate groups file different loss cost modifications for different sister companies to create pricing tiers
- Some companies have one tier at 15% credit, one at no credit or debit, and one at +15%
- Some have more complex structure at -30%, -15%, level, +10%, +25%, +50% over 6 companies



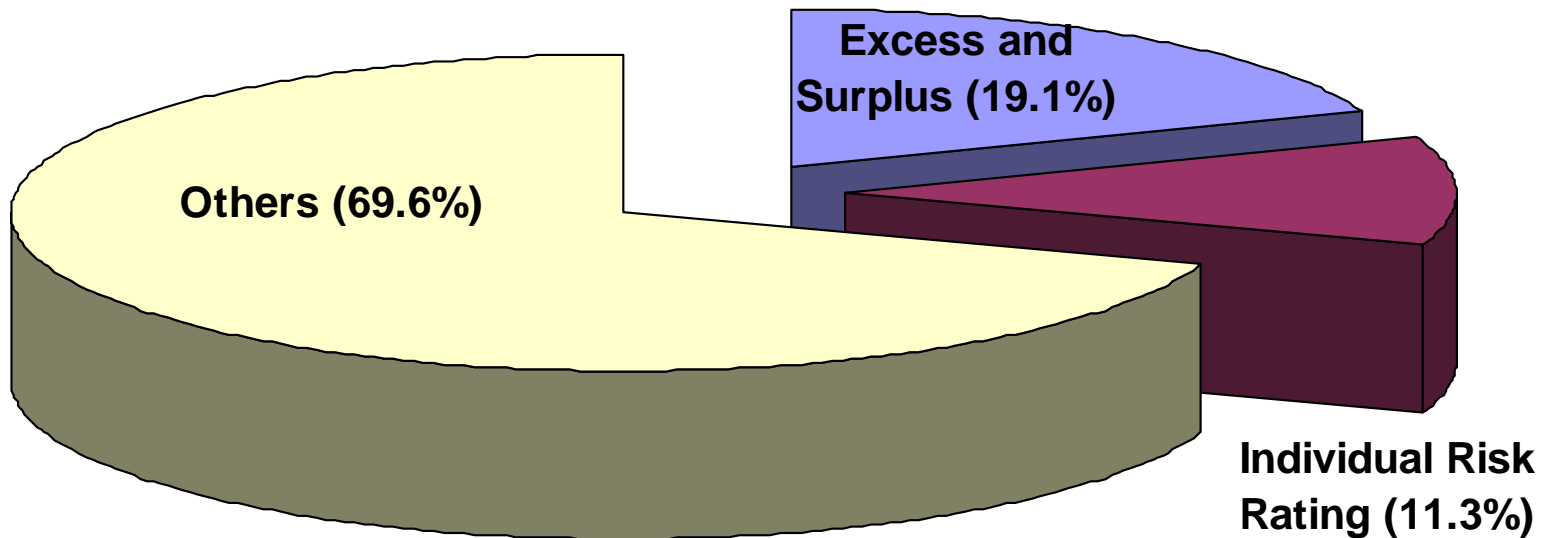
# Commercial Rate Filing Process

Beyond the manual rates, company can use several legal methods to customize rates

- Individual Risk Premium Modification/Schedule Rating
  - As a judgment credit, limited to +/-25% by Rule 69O-170.004 F.A.C.
- Assignment of Customer to a company/price tier
  - In some cases highest tier may be 250% of lowest tier
- Experience Rating
  - Based on customers prior loss history- unlimited upward swings possible (for Liability portion of the package policy)
- Individual Risk Rating (larger risks)
  - Any price possible, must only report per Section 627.062(3) F.S. and Rules 69O-137.008 and 69O-170.019, F.A.C.

# Commercial Rate Filing Process

## Flexible Rating in Commercial (Excl. WC) Risks





# Commercial Rate Filing Process

## FLORIDA OFFICE OF INSURANCE REGULATION PRODUCT AND CASUALTY PRODUCT REVIEW "a" RATE AND EXCESS RATE REPORT

03-03-2008 2:57:34 PM

FOR: Quarter 4 Year 2007

QTR	YEAR	COMPANY	"a" Rate Number of Policies	"a" Rate Written Premium	X-S Rate Number of Policies	X-S Rate Written Premium
4	2007	ACE American Insurance Company	28	\$805,557.00	0	\$0.00
4	2007	ACSTAR Insurance Company	0	\$0.00	0	\$0.00
4	2007	Addison Insurance Company	389	\$445,483.00	0	\$0.00
4	2007	AIPSO - Illinois National Insurance Company	0	\$0.00	0	\$0.00
4	2007	AIPSO - National Union Fire Insurance Company	0	\$0.00	0	\$0.00
4	2007	American Alternative Insurance Corporation	5	\$35,951.58	7	\$405,655.00

Excerpt from Florida OIR-B1-588 report



# Commercial Rate Filing Process

## **Our Regulatory Focus: The Small “Mom and Pop” Insureds**

- Small Apartment Example: One story building with 2 units, owner occupied in one of the two units, Building insured value \$250,000, \$2,000 Business income (rental value for 4 months), Year built 1987, Joisted Masonry Construction, Protection Class 2, No Sprinklers, 80% Coinsurance, Building code effectiveness – none, Windstorm protection device – Windstorm shutter installed, 2% Hurricane Deductible (per occurrence), Deductible (other than hurricane) – \$1,000, \$300,000 Liability limit
- Office risk as tenant; 500 square feet, joisted masonry construction, built in 1994; \$10,000 business personal property, agreed value; \$500 deductible, all perils; Owner plus one full-time employee, payroll \$2,500/month; No business income coverage; \$1,000,000 Liability limit; Non-owned auto coverage.



# Commercial Rate Filing Process

## Citizens Commercial Rate Filing

Overall Statewide Average of 312.5 % Requested

Some businesses would have seen 1500%

FWUA had not made a filing since 1981 on this business

123.8% of requested rate was for Reinsurance Cost for anticipated reinsurance based on quotes, not yet purchased

Indicated Rate Change was supported with a version of ISO loss costs that has not been approved by OIR, and by RMS 6.0

OIR Actuary updated the indication by removing reinsurance cost and using ISO approved loss costs. Result was 74% indication

OIR approved 20% cap; statewide average 15% and Ordered filings every year.

File number 07-18275



# Commercial Rate Filing Process

## Citizens Commercial Rate Filing

**EXAMPLE:** Walton county office condo, masonry \$250,000 contents; base deductible of 3%, 100% insured to value. No wind mitigation or BCEGS credits. No surcharges.

**Wind Rate before rate change: \$2,850**

**Wind Rate if Original Filed: \$8,489**

**Wind Rate with final approved: \$3,135**



# Commercial Rate Filing Process

## Comparison of Citizens Loss Ratios

### Wind Only vs. Multi-peril

PLA			
YEAR	NET PREMIUMS EARNED	LOSSES INCURRED	LOSS RATIO
12/31/04	\$ 456,174,800	\$ 698,565,059	153.14%
12/31/05	\$ 408,097,717	\$ 460,738,051	112.90%
12/31/06	\$ 979,119,553	\$ 260,477,237	26.60%
12/31/07	\$ 1,492,286,502	\$ 543,638,011	36.43%

HRA			
YEAR	NET PREMIUMS EARNED	LOSSES INCURRED	LOSS RATIO
12/31/04	\$ 512,219,241	\$1,681,290,544	328.24%
12/31/05	\$ 600,202,921	\$1,884,006,767	313.89%
12/31/06	\$ 809,354,585	\$ 318,299,044	39.33%
12/31/07	\$ 1,005,367,749	\$ 73,301,247	7.29%

Excerpt from data provided by Citizens March 21, 2008





# Coastal Areas: Risky Behaviors

- **627.351(6)(a)6., enacted as part of House Bill 1A in January 2007:**
- **For properties constructed on or after January 1, 2009, the corporation may not insure any property located within 2,500 feet landward of the coastal construction control line created pursuant to s. [161.053](#) unless the property meets the requirements of the code-plus building standards developed by the Florida Building Commission.**
- **Citizens law also requires homes insured for 750,000 or more to be mitigated**



Photos provided  
by Gary  
Appelson

Caribbean  
Conservation  
Corporation  
and Sea Turtle  
Survival League

