

# **HAZARD INSURANCE PROTECTION**

## **Praetorian Insurance Company**

### **FCP 12-07860 (Property Collateral Protection)**

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**QBE FIRST**

- Lender-Placed Insurance Overview
- Praetorian Rating Structure
- Rate Distribution
- Market Analysis
- Hazard Mitigation Effort
- Industry Update
- Florida Foreclosures

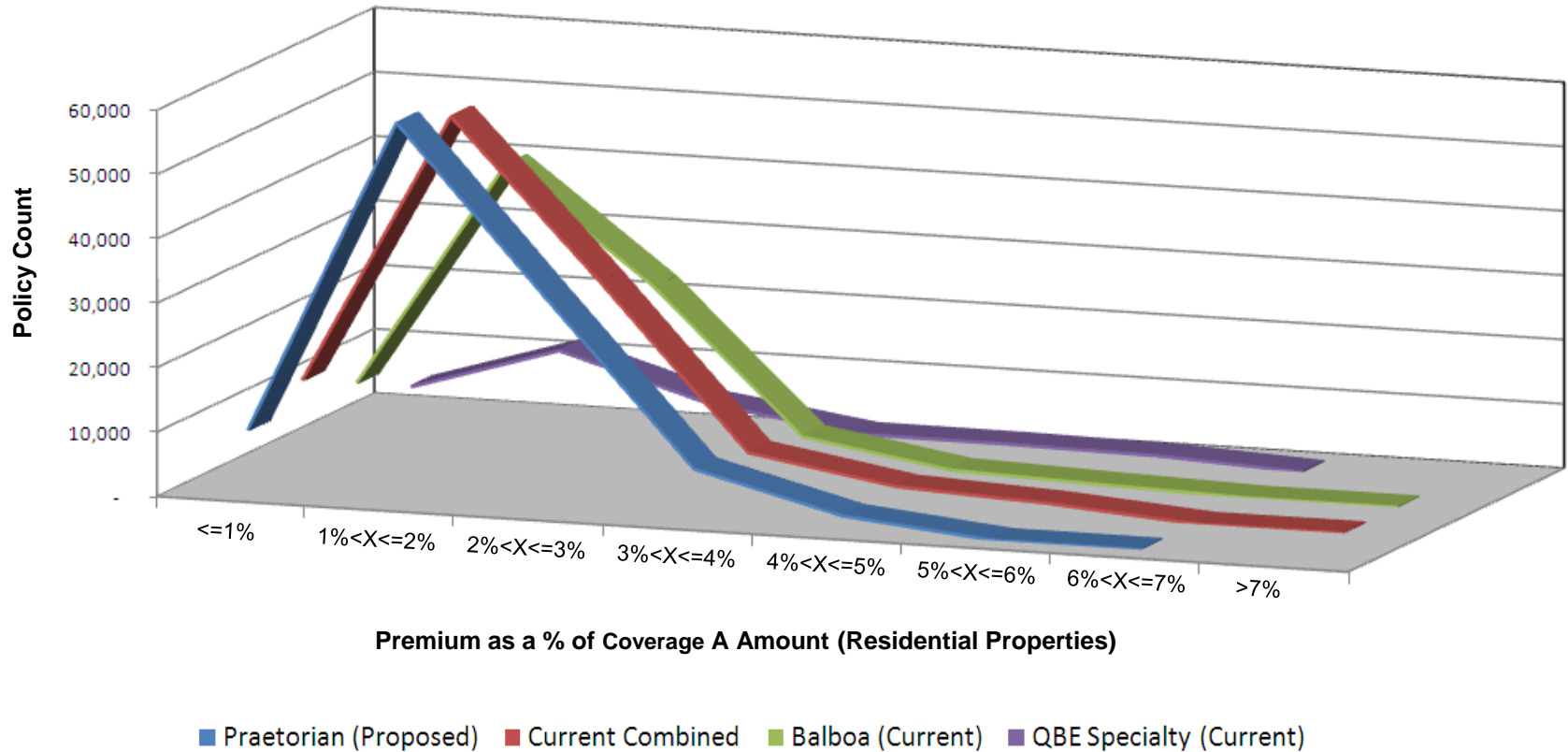
# Lender-Placed Insurance Overview

- Required by operation of mortgage contract
- Investors and regulators audit lenders/services to confirm all mortgage collateral is insured
- Must accept all property risks
  - Vacant properties
  - High-risk (otherwise uninsurable) roofs
  - Dangerous animals
  - High value properties
- No ability to identify windstorm mitigation efforts
- Data limited to loan servicing elements
  - No construction type information
  - No information regarding roof shape
  - Number of stories not known

# Rating Structure and Impact

Item #	Variable	Balboa Insurance Company						QBE Specialty					
		Current			Proposed			% Change	Current	Proposed			% Change
		Non-Hurricane (\$)	Hurricane (\$)	Total (\$)	Non-Hurricane (\$)	Hurricane (\$)	Total (\$)			Non-Hurricane (\$)	Hurricane (\$)	Total (\$)	
1	Base Rate	622.980	1,992.000		990.580	1,513.260		The current rating plan is based on rate per \$100 Coverage A amount and vary by territory.	990.580	1,513.260			
2	Amount of Insurance	1.142	1.199		1.006	1.021			0.965	0.969			
3	Occupancy Type	2.129	N/A		N/A	N/A			N/A	N/A			
4	Age of Home	0.927	0.891		0.947	0.947			0.975	0.975			
5	Territory	0.893	1.951		0.861	1.977			0.864	1.942			
6	Loan to Value	0.976	N/A		N/A	N/A			N/A	N/A			
7	Square Footage	0.946	N/A		N/A	N/A			N/A	N/A			
8	Deductible	0.989	0.982		0.989	0.982			0.992	0.863			
9	Property Type	1.000	1.000		1.000	1.000			1.029	1.029			
10	Scheduling Rating	0.751	0.751		1.082	1.082			1.086	1.086			
11	# of Property Risks	<u>87,678</u>	<u>87,678</u>		<u>87,678</u>	<u>87,678</u>			<u>26,432</u>	<u>26,432</u>	<u>26,432</u>		
12	Total Premium	74,768,830	277,331,364	352,100,194	74,768,899	277,330,961	352,099,860	0.0%	108,558,904	23,192,851	75,011,419	98,204,270	-9.5%

- Praetorian product utilizes predictive characteristics to deliver flexible rates
- Eliminates significant variability present in Balboa rates in response to data limitations and investor feedback
- Separates catastrophe and non-catastrophe rating to minimize outliers



- Praetorian rating methodology minimizes outlier premiums

# Market Analysis

County Name	Coverage Amt	Praetorian	Citizens	Highest	Company	Companies Higher
MIAMI-DADE	3,056,936,860	\$ 2.92	\$ 3.83	\$ 7.32	United Property & Casualty	22
BROWARD	2,464,600,468	\$ 2.95	\$ 3.14	\$ 6.33	United Property & Casualty	15
PALM BEACH	1,764,270,014	\$ 3.04	\$ 2.81	\$ 4.94	United Property & Casualty	12
HILLSBOROUGH	1,702,017,560	\$ 1.87	\$ 1.15	\$ 2.68	State Farm Florida	6
ORANGE	1,515,785,280	\$ 1.54	\$ 1.11			
LEE	1,032,395,387	\$ 1.83	\$ 1.78	\$ 2.70	Auto Club	18
PINELLAS	1,023,868,661	\$ 2.07	\$ 1.41	\$ 3.16	United Property & Casualty	12
PASCO	769,125,656	\$ 1.88	\$ 2.36	\$ 3.69	State Farm Florida	11
DUVAL	731,730,796	\$ 1.46	\$ 0.78			
POLK	679,808,615	\$ 1.43	\$ 1.40	\$ 2.10	State Farm Florida	9
SARASOTA	645,750,549	\$ 1.91	\$ 1.44	\$ 2.51	Auto Club	10
BREVARD	626,758,522	\$ 1.63	\$ 1.69	\$ 2.40	United Property & Casualty	17
OSCEOLA	614,201,770	\$ 1.57	\$ 1.01			
VOLUSIA	613,026,321	\$ 1.60	\$ 1.15	\$ 1.84	Security First	5
COLLIER	513,236,865	\$ 2.01	\$ 2.62	\$ 3.42	State Farm Florida	23
SAINT LUCIE	477,484,119	\$ 2.02	\$ 3.31	\$ 4.25	Florida Family	20
MANATEE	466,710,693	\$ 1.88	\$ 1.69	\$ 2.53	United Property & Casualty	10
SEMINOLE	423,608,510	\$ 1.57	\$ 1.03			
LAKE	393,462,733	\$ 1.43	\$ 0.96			
MARION	342,433,090	\$ 1.43	\$ 0.98			
CHARLOTTE	272,486,650	\$ 1.87	\$ 1.62	\$ 2.59	Castle Key	16
HERNANDO	238,289,166	\$ 1.86	\$ 1.72	\$ 4.36	State Farm Florida	6
FLAGLER	203,711,690	\$ 1.90	\$ 1.04			
OKALOOSA	197,945,931	\$ 1.90	\$ 2.17	\$ 2.61	Florida Family/United Property & Casualty	13
SAINT JOHNS	192,232,610	\$ 1.89	\$ 0.78			
<b>Top 25 Counties</b>	<b>20,961,878,516</b>	<b>\$ 2.17</b>	<b>\$ 2.12</b>	<b>\$ 3.69</b>		
<b>All Other Counties</b>	<b>2,017,728,157</b>	<b>\$ 1.99</b>	<b>\$ 1.80</b>	<b>\$ 2.68</b>		
<b>Total Florida</b>	<b>22,979,606,673</b>	<b>\$ 2.15</b>	<b>\$ 2.09</b>	<b>\$ 3.60</b>		

## Analysis notations:

- Shows Praetorian rates for Choices hypothetical home:
  - \$150,000 single family home built in 1990
  - \$500 deductible and a 2% windstorm deductible
  - No mitigation is known
- Compares to rates of 26 companies [source: [www.floir.com/choices](http://www.floir.com/choices)]
- Rates shown are for \$100 of coverage
- “Companies Higher” represents the number of companies with rates higher than the Praetorian LP program
- Bold font** represents counties where the voluntary market is priced above Praetorian
- Blue highlighting represents extreme hurricane risk
- Red font** indicates severe sinkhole risk
- Totals for the “Highest” rates use Citizens rate wherever Praetorian is the highest county rate

## Findings:

- Over 90% of Praetorian business located in top 25 counties listed
- Praetorian is lower than voluntary market rates in 17 of the top 25 counties
- Praetorian rates are in line with Citizens rates on a state-wide basis

- QBE FIRST takes aggressive actions to move borrowers away from lender placed insurance
- Borrower letters include a phone number to contact a licensed QBE FIRST agent to obtain a voluntary policy quote
- Communications also include the names, addresses and phone numbers of up to 3 independent agents
- Licensed and appointed agent calls Florida borrowers with LP coverage to offer Citizens quotes

# Voluntary Cancellation Analysis

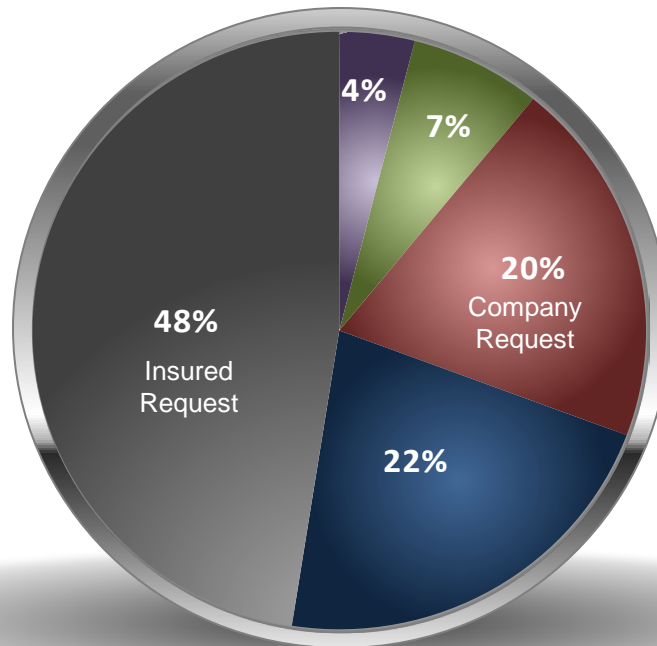
Most cancellations by company request or non-pay require lender placed coverage  
 Some cancellations by insured request require lender placed coverage

## Cancellation Types

■ Agent Request  
 ■ Foreclosure  
 ■ Company Request  
 ■ Non-Pay  
 ■ Insured Request

48% Insured Request	
Home Not Purchased	3%
Property Sold	15%
No Reason Given	25%
Obtained Other Coverage	57%

Obtained Other Coverage Top Carriers	
State Farm	84
Allstate	78
Liberty / Safeco	68
USAA	33
Travelers	32
Farmers	32
Nationwide	23



20% Company Request	
Property Condition	39%
Vacant	18%
Restricted Dog Breed	9%
Unable to Inspect	6%



The lender-placed industry continues to be in a state of flux, mostly driven by non-servicing entities

## Fannie Mae

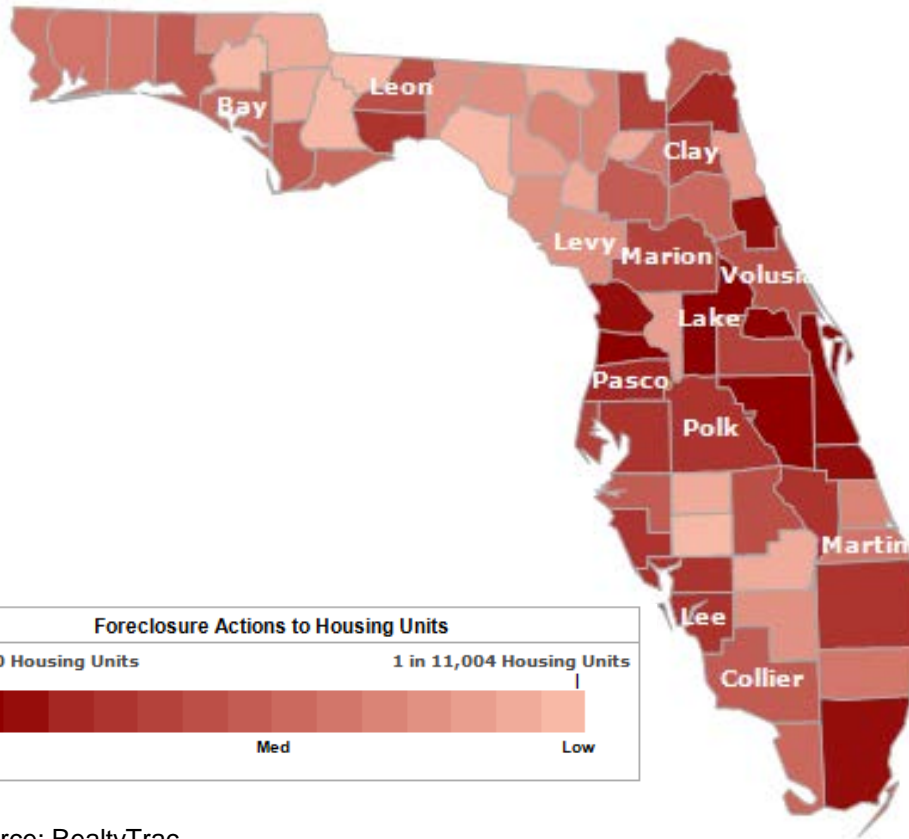
- Servicing Guide Announcement SVC-2012-04
  - Requires programs be written by admitted carriers
  - Requires premium rates must be commercially reasonable and competitively priced
  - Requires coverage amount changes based on loan delinquency status
  - Requires all vendors to create tiered deductibles programs
  - Requires additional borrower notification
  - On 23 May 2012, Fannie Mae postponed implementation deadline; however servicers are directed to move forward with implementing the requirements as soon as “practically feasible”
- Lender Placed Request For Proposal
  - Responses submitted 23 March 2012
  - Fannie continues to evaluate responses to determine next steps

## Freddie Mac

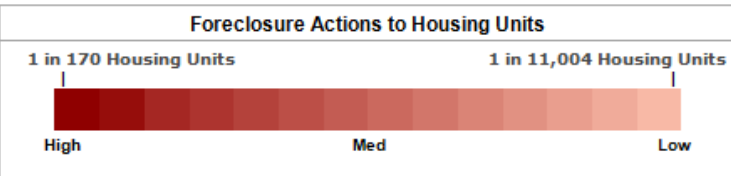
- Working with MBA to develop lender placed insurance cost solution
- QBE FIRST has been actively involved with the MBA to craft a proposed structure

# Florida Foreclosure Rate – May 2012

1 in every 340 housing unit received a foreclosure filing in May 2012



May Foreclosures		
County Name	# of Foreclosures	Rate
BREVARD	1,592	0.59%
OSCEOLA	731	0.57%
HERNANDO	460	0.54%
SEMINOLE	977	0.54%
LAKE	637	0.44%
INDIAN RIVER	327	0.43%
CITRUS	326	0.42%
FLAGLER	195	0.40%
MIAMI-DADE	3,860	0.39%
PASCO	850	0.37%
DUVAL	1,440	0.37%
PALM BEACH	2,346	0.35%
WAKULLA	45	0.35%
OKEECHOBEE	64	0.35%
POLK	971	0.34%
HILLSBOROUGH	1,815	0.34%
SARASOTA	702	0.31%
LEE	1,139	0.31%
CHARLOTTE	305	0.30%
CLAY	223	0.30%



Source: RealtyTrac