



I-FILE

Standardized Rate Indication Workbook

Homeowners, Mobile Homeowners, Dwelling Fire

House Insurance & Banking Subcommittee

January 23, 2013

Ken Ritzenthaler, Actuary
Property & Casualty Product Review

Overview of the Property & Casualty Rate Review Process

Philosophy of the Homeowners Rate Review Process:

- The Office's philosophy is guided by Florida's rating law (S. 627.062, F.S.), the Florida Administrative Code, actuarial standards and principles.
- The Office does not "approve" or "disapprove" the method an insurer uses to derive their proposed rates.
- The Office makes a determination during the rate review process as to whether or not the actual proposed rates are excessive, inadequate or unfairly discriminatory.
- The Office must accept a rate filing request if it complies with the law, and is adequately supported by actuarial justification



Overview of the Property & Casualty Rate Review Process

Evaluation Criteria Used During the Process:

The evaluation process involves a review of the company's actuarial justification for a proposed rate increase/decrease, including an analysis of the company's book of business, and the anticipated future expenses.

Some areas for analysis include:

- Past & Prospective Loss Experience
- Past & Prospective Expenses
- Investment Income
- Cost of Reinsurance
- Margin for Underwriting Profit and Contingency
- Other Factors that Influence the Frequency or Severity of Claims



Overview of the Property & Casualty Rate Review Process

Components of a Rate Filing:

A company submits supporting documentation deemed to be relevant to the company's rate request.

Information usually required for any rate filing:

- Cover Letter and Explanatory Memorandum
- Statewide Indication Form to Support Statewide Change
- Territorial Support Information to Show Proposed Rate Adjustments
- Support Documentation for Reinsurance Costs
- Support Documentation for Catastrophe Models Used (if applicable)
- Any Changes to Underwriting Rules
- Underwriting and Pricing Components for Credit Scoring (if applicable)
- Required certifications Signed by Actuaries and Company Officers



Sample Company Rate Indication Worksheet*

STATE OF FLORIDA – OFFICE OF INSURANCE REGULATION HOIMPRODF STANDARDIZED RATE INDICATIONS WORKBOOK		RATE INDICATIONS													
GROUP NAME: Homeowners PRODUCT TYPE: Homeowners PRODUCT SUB-TYPE: HA STATE: Florida Experience Only		PROGRAM NAME: Homeowners POLICY TYPE: HO-3 COMPANY(IES):		(A) Latest Accident Year Ending Date: 12/31/11 (B) Annual Premium Trend: 1.1% (C) Annual Loss Trend (Sp-to-Date): 7.4% (D) Annual Loss Trend (Projected): 7.8% (E) Avg. Acc. Date for Proj. Rates: 06/09/14											
PREMIUMS:		NOTES:													
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)								
Accident Year Ending	Months of Maturity	Earned House-Years	Written Premiums (\$000's)	Earned Premiums (\$000's)	Current Rate Level Factors	Premium Trend Factors	Tranded Earned Premiums at C.R.L. (\$000's)								
12/31/2007	63	56,661	\$114,581	\$121,500	1.281	1.079	\$163,241								
12/31/2008	51	55,742	\$4,072	\$0,594	1.364	1.057	147,871								
12/31/2009	39	57,900	\$2,424	\$3,000	1.431	1.055	129,568								
12/31/2010	27	60,834	108,234	100,000	1.397	1.044	145,852								
12/31/2011	15	60,821	109,464	100,000	1.201	1.032	136,928								
TOTAL		251,200	\$519,180	\$226,094			\$733,471								
ACTUAL LOSSES:															
(1)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)		
Accident Year Ending	ACTUAL INCURRED LOSSES (\$000's)				ACTUAL INCURRED ALAE (\$000's)				INCURRED ULAE (\$000's)				Actual Incurred Loss & LAE Excl. Cats (\$000's)		
	Incl. Cats	Non-Hurr. Cat	Hurricane Cat	Excl. Cats	Incl. Cats	Non-Hurr. Cat	Hurricane Cat	Excl. Cats	Incl. Cats	Non-Hurr. Cat	Hurricane Cat	Excl. Cats			
12/31/2007	\$21,517	\$379	\$0	\$21,140	\$2,165	\$0	\$0	\$2,165	\$2,171	\$2	\$0	\$0	\$21	\$23,526	
12/31/2008	29,504	73	0	29,431	3,533	15	0	3,500	299	0	0	0	290	30,004	
12/31/2010	33,208	0	0	33,208	5,072	1	0	5,071	332	0	0	0	332	38,608	
12/31/2011	29,249	1,813	0	27,436	3,979	166	0	3,813	283	0	0	0	274	31,522	
PROJECTED CATASTROPHIC LOSSES:															
(1)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)			
Accident Year Ending	PROJECTED NON-HURR. CAT (\$000's)				POLICY IN-FORCE DATA – INSERT APPLICABLE DATE IN YELLOW HIGHLIGHTED CELL –										
	Losses (\$000's)	ALAE (\$000's)	ULAE (\$000's)	Losses & ALAE & ULAE (\$000's)	12/31/2011	POLICIES IN-FORCE	PREMIUM IN-FORCE AT C.R.L. (\$000's)	PREMIUM IN-FORCE AT C.R.L. (\$000's)	Projected HURRICANE Losses (\$000's)	Projected HURRICANE ALAE (\$000's)	Projected HURRICANE ULAE (\$000's)	Projected HURRICANE Loss & LAE (\$000's)			
12/31/2007	\$1,000	\$0	\$0	\$1,100											
12/31/2008	\$1,204	\$147	\$0	\$1,351											
12/31/2009	\$1,251	\$153	\$0	\$1,404											
12/31/2010	\$1,327	\$162	\$7	\$1,496											
12/31/2011	\$1,122	\$137	\$0	\$1,260											
TOTAL	\$6,911	\$722	\$30	\$8,663	58,235	56,911	\$105,334	\$105,039	\$23,511	\$1,311	\$11	\$25,144			
DEVELOPMENT OF PROJECTED LOSS & LAE RATIO:															
(1)	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)	(44)	(45)			
Accident Year Ending	Actual Incurred Loss & LAE Excl. Cats (\$000's)	Loss & ALAE Development Loss & LAE Excl. Cats (\$000's)	Trend Factors	Trended & Developed Incurred Loss & LAE Excl. Cats (\$000's)	Projected Incurred Loss & LAE Incl. Non-Hurr. Cat (\$000's)	Bad Faith/Punitive Damages Incl. Loss & ALAE Excl. BPPO Factors (\$000's)	Projected Incurred Loss & LAE Non-Hurr. Cat Excl. BPPO (\$000's)	Adjustment for Law Changes, Etc. (\$000's)	Final Adjusted Incurred Loss & LAE Non-Hurr. Cat (\$000's)	Projected Incurred Loss & LAE Ratio	Selected Accident Year Weights	Projected Incurred Loss & LAE Excl. BPPO (\$000's)			
12/31/2007	\$23,526	1,000	1,839	\$38,355	\$39,687	\$0	\$39,687	0.01	\$37,753	23.1%	10.0%	\$0			
12/31/2008	30,004	1,014	1,526	46,448	\$47,807	0	\$47,807	0.95	46,579	30.8%	15.0%	\$0			
12/31/2009	34,038	1,421	1,421	55,110	\$50,632	0	\$50,632	1.02	48,815	33.5%	20.0%	\$0			
12/31/2010	38,608	1,942	1,323	53,209	\$54,735	0	\$54,705	0.900	49,252	33.8%	25.0%	\$0			
12/31/2011	31,522	1,144	1,232	44,453	\$45,718	0	\$45,718	0.939	42,907	31.3%	30.0%	\$0			
TOTAL	\$157,721			\$231,987	\$238,543	\$0	\$238,543		\$222,305	30.3%	100.0%	\$1,311			
PROSPECTIVE EXPENSE PROVISIONS (% OF PREMIUM):															
(46)	(47)	(48)	(49)	DEVELOPMENT OF RATE LEVEL INDICATIONS:											
Category of Expected Expense	Fixed Expense Loading*	Variable Expense Loading	Total Expense Loading	(50)	19.7%	Projected Hurricane Loss & LAE ratio	(51)	51.2%	Proj. Incurred Loss & LAE Ratio (incl. all catastrophes)	(52)	18.4%	Expected Fixed Expense Ratio	(53)	33.1%	Expected Variable Expense Ratio
Commissions	0.0%	0.0%	0.0%	(54)	1.00	Credibility (Supports)	(55)	6.2%	Expected Annual Net Trend (i.e., Projected Loss Trend Net of Premium Trend)	(56)	6.2%	Expected Net Trend Since Last Rate Review (Value receives complement of credibility)	(57)	1.00	Assumed Number of Years Since Last Rate Review
Other Acquisition	0.0%	1.0%	1.0%	(58)	6.2%	Credibility-Weighted Rate Level Indication	(59)	6.7%	Cost of Reinsurance to Replace available TICL Coverage including the TICL Reduction	(60)	10.8%	Rate Level Indication including (SNA)	(61)	10.8%	Company Selected Rate Change
General	0.2%	0.7%	0.9%												
Profit & Contingency	0.0%	4.1%	4.1%												
Contingent Commissions	0.0%	0.0%	0.0%												
Non-FHCF Reins. Cost***	16.5%	3.2%	19.7%												
FHCF Reins. Cost	1.7%	0.0%	1.7%												
Other Expense (Specify*)	0.0%	0.0%	0.0%												
TOTAL EXPENSES	19.4%	33.1%	52.5%												
PERMISSIBLE LOSS & LAE 48.5%															
* - Must reflect trend and/or other adjustments since last filing															
** - (Specify in detail here)															
*** This cost must exclude the Cost of Reinsurance to Replace available TICL Coverage including the TICL Reduction. The Cost of Reinsurance to Replace available TICL Coverage including the TICL Reduction must be included in (SNA).															

*The following slides show enlarged portions of this worksheet.

Sample Company Rate Indication Worksheet

STATE OF FLORIDA -- OFFICE OF INSURANCE REGULATION
HO/MHO/DF STANDARDIZED RATE INDICATIONS WORKBOOK

RATE INDICATIONS

GROUP NAME:	
PRODUCT TYPE:	Homeowners
STATE:	Florida Experience Only

PROGRAM NAME:	Homeowners
POLICY TYPE:	HO-3
COMPANY(IES):	

(A) Latest Accident Year Ending Date:	12/31/11
(B) Annual Premium Trend:	1.1%
(C) Annual Loss Trend (Up-to-Date):	7.4%
(D) Annual Loss Trend (Projected):	7.4%
(E) Avg. Acc. Date for Proj. Rates:	06/01/14

PREMIUMS:

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Accident Year Ending	Months of Maturity	Earned House-Years	Written Premiums (\$000's)	Earned Premiums (\$000's)	Current Rate Level Factors (SUPPORT!)	Premium Trend Factors	Trended Earned Premiums at C.R.L. (\$000's)
12/31/2007	63	56,662	\$114,987	\$121,508	1.246	1.079	\$163,242
12/31/2008	51	55,745	94,012	101,594	1.364	1.067	147,870
12/31/2009	39	57,909	92,424	93,059	1.421	1.055	139,568
12/31/2010	27	60,830	108,294	100,006	1.397	1.044	145,852
12/31/2011	15	60,053	109,464	109,878	1.207	1.032	136,938
TOTAL		291,200	\$519,180	\$526,045			\$733,471



Sample Company Rate Indication Worksheet

STATE OF FLORIDA -- OFFICE OF INSURANCE REGULATION

HO/MHO/DF STANDARDIZED RATE INDICATIONS WORKBOOK

RATE INDICATIONS

ACTUAL LOSSES

(1)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
	ACTUAL INCURRED LOSSES (\$000's)				ACTUAL INCURRED ALAE (\$000's)				INCURRED ULAE (\$000's)				Actual
Accident													Incurred
Year		Non-Hurr.	Hurricane			Non-Hurr.	Hurricane			Non-Hurr.	Hurricane		Loss & LAE
Ending	Incl. Cats.	Cat.	Cat.	Excl. Cats.	Incl. Cats.	Cat.	Cat.	Excl. Cats.	Incl. Cats.	Cat.	Cat.	Excl. Cats.	Excl. Cats.
									(SUPPORT!)	(SUPPORT!)	(SUPPORT!)		(\$000's)
12/31/2007	\$21,517	\$378	\$0	\$21,140	\$2,185	\$8	\$0	\$2,177	\$213	\$2	\$0	\$211	\$23,528
12/31/2008	29,053	2,173	0	26,879	3,249	371	0	2,878	280	11	0	269	30,026
12/31/2009	29,904	73	0	29,831	3,923	15	0	3,909	299	0	0	298	34,038
12/31/2010	33,208	5	0	33,203	5,072	1	0	5,071	332	0	0	332	38,606
12/31/2011	29,248	1,813	0	27,436	3,979	166	0	3,813	283	9	0	274	31,523
TOTAL	\$142,930	\$4,441	\$0	\$138,489	\$18,408	\$560	\$0	\$17,847	\$1,407	\$22	\$0	\$1,385	\$157,721



Sample Company Rate Indication Worksheet

STATE OF FLORIDA -- OFFICE OF INSURANCE REGULATION
 HO/MHO/DF STANDARDIZED RATE INDICATIONS WORKBOOK

RATE INDICATIONS

PROJECTED CATASTROPHE LOSSES:

(1)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)
PROJECTED NON-HURR. CAT (\$000's)					--- POLICY IN-FORCE DATA --- INSERT APPLICABLE DATE IN YELLOW HIGHLIGHTED CELL ---							
Accident Year Ending	Losses	ALAE	ULAE	Losses & ALAE & ULAE	12/31/2011	POLICIES IN-FORCE	PREMIUM IN-FORCE	IN-FORCE AT C.R.L.	Projected HURRICANE Losses (\$000's)	Projected HURRICANE ALAE (\$000's)	Projected HURRICANE ULAE (\$000's)	Projected HURRICANE Loss & LAE (\$000's)
	(SUPPORT!)	(SUPPORT!)	(SUPPORT!)			ALL POLICIES	ALL POLICIES	ALL POLICIES				
12/31/2007	\$1,005	\$123	\$5	\$1,132		INCL WIND	INCL WIND					
12/31/2008	\$1,206	\$147	\$6	\$1,359								
12/31/2009	\$1,251	\$153	\$6	\$1,410								
12/31/2010	\$1,327	\$162	\$7	\$1,496								
12/31/2011	\$1,122	\$137	\$6	\$1,265			(SUPPORT!)	(SUPPORT!)	(SUPPORT!)	(SUPPORT!)	(SUPPORT!)	
TOTAL	\$5,911	\$722	\$30	\$6,662	58,235	56,313	\$129,594	\$126,039	\$23,511	\$1,911	\$118	\$25,540



Sample Company Rate Indication Worksheet

STATE OF FLORIDA -- OFFICE OF INSURANCE REGULATION
HO/MHO/DF STANDARDIZED RATE INDICATIONS WORKBOOK

RATE INDICATIONS

DEVELOPMENT OF PROJECTED LOSS & LAE RATIO:

(1)	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)	(44)	(45)
Accident Year Ending	Actual Loss & LAE Incurred Excl. Cats. (\$000's)	Loss & ALAE Development Factors (SUPPORT!)	Loss Trend Factors	Trended & Developed Incurred Loss & LAE Excl. Cats. (\$000's)	Projected Incurred Loss & LAE Incl. Non-Hurr Cat (\$000's)	Bad Faith/Punitive Damage Loss & ALAE Incl. in (34) (\$000's)	Projected Incurred Loss & LAE Incl. Non-Hurr Cat. Excl. BF/PD (\$000's)	Adjustment Factor for Law Changes, Etc. (SUPPORT!)	Final Adjusted Expected Incurred Loss & LAE (\$000's)	Projected Incurred Loss & LAE Ratio Incl. Non-Hurr Cat (\$000's)	Selected Accident Year Weights (SUPPORT!)	Weighted Proj. Incurred Loss & LAE Incl. Non-Hurr Cat Excl. BF/PD
12/31/2007	\$23,528	1.000	1.639	\$38,555	\$39,687	\$0	\$39,687	0.951	\$37,753	23.1%	10.0%	
12/31/2008	30,026	1.014	1.526	46,448	\$47,807	0	47,807	0.953	45,579	30.8%	15.0%	
12/31/2009	34,038	1.018	1.421	49,222	\$50,632	0	50,632	0.925	46,815	33.5%	20.0%	
12/31/2010	38,606	1.042	1.323	53,209	\$54,705	0	54,705	0.900	49,252	33.8%	25.0%	
12/31/2011	31,523	1.145	1.232	44,453	\$45,718	0	45,718	0.939	42,907	31.3%	30.0%	
TOTAL	\$157,721			\$231,887	\$238,549	\$0	\$238,549		\$222,305	30.3%	100.0%	31.5%



Sample Company Rate Indication Worksheet

STATE OF FLORIDA -- OFFICE OF INSURANCE REGULATION
HO/MHO/DF STANDARDIZED RATE INDICATIONS WORKBOOK

RATE INDICATIONS

PROSPECTIVE EXPENSE PROVISIONS (% OF PREMIUM):

(46)	(47)	(48)	(49)
Category of Expected Expense	Fixed Expense Loading * (SUPPORT!)	Variable Expense Loading (SUPPORT!)	Total Expense Loading
Commissions	0.0%	22.5%	22.5%
Other Acquisition	0.0%	1.0%	1.0%
General	0.2%	0.7%	0.9%
Premium Taxes	0.0%	1.6%	1.6%
Misc. Licenses & Fees	0.0%	0.0%	0.0%
Profit & Contingency	0.0%	4.1%	4.1%
Contingent Commissions	0.0%	0.0%	0.0%
Non-FHCF Reins. Cost***	16.5%	3.2%	19.7%
FHCF Reins. Cost	1.7%	0.0%	1.7%
Other Expense (Specify**)	0.0%	0.0%	0.0%
TOTAL EXPENSES	18.4%	33.1%	51.5%
PERMISSIBLE LOSS & LAE			48.5%

* - Must reflect trend and/or other adjustments since last filing

** - (Specify in detail here)

*** This cost must exclude the Cost of Reinsurance to Replace available TICL Coverage including the TICL Reduction. The Cost of Reinsurance to Replace available TICL Coverage including the TICL Reduction must be included in (59A).

DEVELOPMENT OF RATE LEVEL INDICATIONS:

(50)	19.7%	Projected Hurricane Loss & LAE ratio
(51)	51.2%	Proj. Incurred Loss & LAE Ratio (Incl. all catastrophes)
(52)	18.4%	Expected Fixed Expense Ratio
(53)	33.1%	Expected Variable Expense Ratio
(54)	4.1%	Rate Level Indication (Before Credibility)
(55)	1.00	Credibility (SUPPORT!)
(56)	6.2%	Expected Annual Net Trend (i.e., Projected Loss Trend Net of Premium Trend)
(57)	1.00	Assumed Number of Years Since Last Rate Review
(58)	6.2%	Expected Net Trend Since Last Rate Review (Value receives complement of credibility)
(59)	4.1%	Credibility-Weighted Rate Level Indication
(59A)	6.7%	Cost of Reinsurance to Replace available TICL Coverage including the TICL Reduction (SUPPORT!)
(59B)	10.8%	Rate Level Indication including (59A)
(60)	10.8%	Company Selected Rate Change



Proposed Average Premium Breakdown

Statewide, Palm Beach (Rem. Terr. 38), Alachua (Terr. 192)

**PROPOSED AVERAGE PREMIUM BREAKDOWN
HOUSE INSURANCE AND BANKING SUBCOMMITTEE
JANUARY 23, 2013**

	STATEWIDE		Palm Beach, Rem. Terr 38		Alachua, Terr 192	
	PERCENT	PROPOSED AVERAGE PREMIUM	PERCENT	PROPOSED AVERAGE PREMIUM	PERCENT	PROPOSED AVERAGE PREMIUM
Total Premium		\$2,483		\$4,115		\$1,559
MGA fee		\$25		\$25		\$25
Premium minus MGA fee		\$2,458		\$4,090		\$1,534
Commissions (MGA)	22.5%	\$553	22.5%	\$920	22.5%	\$345
Other Acquisition	1.0%	\$25	1.0%	\$41	1.0%	\$15
General	0.9%	\$22	0.9%	\$37	0.9%	\$14
Premium Tax	1.6%	\$39	1.6%	\$65	1.6%	\$25
Total Expenses	26.0%	\$639	26.0%	\$1,063	26.0%	\$399
Profit & Contingency	4.1%	\$101	4.1%	\$168	4.1%	\$63
Non-FHCF Reinsurance	19.7%	\$484	22.8%	\$933	12.6%	\$193
FHCF Reinsurance	1.7%	\$42	2.6%	\$106	0.7%	\$11
Cost of TICL Replacement	6.7%	\$165	8.0%	\$327	3.8%	\$58
Total Reinsurance	28.1%	\$691	33.4%	\$1,366	17.1%	\$262
Losses	41.8%	\$1,027	36.5%	\$1,493	52.8%	\$810
Total	100.0%	\$2,458	100.0%	\$4,090	100.0%	\$1,534

TERRITORY DEFINITIONS:

Palm Beach, Remainder, Territory 38 is defined to be all areas west of the Intracoastal Waterway in Palm Beach County.
Alachua, Territory 192 is defined to be all of Alachua County.



Contact Information:

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APPENDIX



DEFINITIONS:

- **Accident Year Data** – a method of arranging loss and policy data so that all losses associated with accidents occurring during a given calendar year and all premium earned during that same calendar year are being compared.
- **Earned House Years** – that portion of the total number of policies written for which coverage has already been provided as of a specified point in time.
- **Written Premium** – total premium associated with policies that were issued during a specified time period.
- **Earned Premium** – that portion of the written premium for which coverage has already been provided as of a specified point in time.
- **Current Rate Level (C.R.L.)** – premium data must be brought to the current rate level by adjusting historical premiums for rate changes that have happened since the premium was collected. These adjustments are made using Current Rate Level Factors.
- **Premium Trend** – the average premium level can change over time due to changes in the characteristics of the policies written (e.g., the amount of homeowners insurance purchased increases annually with inflation). Premium Trend Factors are used to adjust the earned premium to incorporate these expected changes.
- **Loss Trend** – changes in the historical experience of claim size and claim frequency. Loss Trend Factors are used to project historical losses into the future.
- **Actual Incurred Losses** – the total amount of paid claims and loss reserves associated with a specified time period.
- **Projected Incurred losses** – estimate of what the total paid claims and loss reserves would be for a specified time period.
- **ALAE** – Allocated Loss Adjustment Expenses are claim related expenses that are directly attributable to a specific claim (e.g., fees associated with outside legal counsel hired to defend a claim).
- **ULAE** – Unallocated Loss Adjustment Expenses are claim related expenses that cannot be directly assigned to a specific claim (e.g., salaries of claim department personnel).
- **LAE** – Loss Adjustment Expense is the cost of settling claims; includes allocated loss adjustment expenses (ALAE) and unallocated loss adjustment expenses (ULAE).
- **In-Force Premium** – total premium for all active (in-force) policies at a specified time.
- **In-Force Policy Count** – total number of active (in-force) policies at a specified time.
- **Loss & ALAE Development** – as claims mature, payments are made and additional information is gathered about the value of the loss until a final payment is made and the ultimate amount is known. This process can take some time, so Loss & ALAE Development Factors are used to adjust historical losses to their ultimate level.
- **Fixed Expense** – an expense that does not vary with the amount of premium collected (e.g., rent, utilities, salaries).
- **Variable Expense** – an expense that does vary with the amount of premium collected (e.g., commission).
- **Credibility**—based on the size of the observed data set, credibility is a measure of how much “belief” you have in your data. This measure is used to blend the observed data with other related data to improve the estimate.

