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# **First Home Insurance Company Hearing of December 7, 2010**

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**Stephen A. Alexander FCAS, MAAA, MBA  
Actuary  
Insurance Consumer Advocate's Office**

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**s. 627.0613, F.S.: Consumer Advocate.**

**The Chief Financial Officer must appoint a consumer advocate who must represent the general public of the state before the department and the office. The consumer advocate must report directly to the Chief Financial Officer, but is not otherwise under the authority of the department or of any employee of the department. The consumer advocate has such powers as are necessary to carry out the duties of the office of consumer advocate, including, but not limited to, the powers to:**

**(1) Recommend to the department or office, by petition, the commencement of any proceeding or action; appear in any proceeding or action before the department or office; or appear in any proceeding before the Division of Administrative Hearings relating to subject matter under the jurisdiction of the department or office.**

**(2) Have access to and use of all files, records, and data of the department or office.**

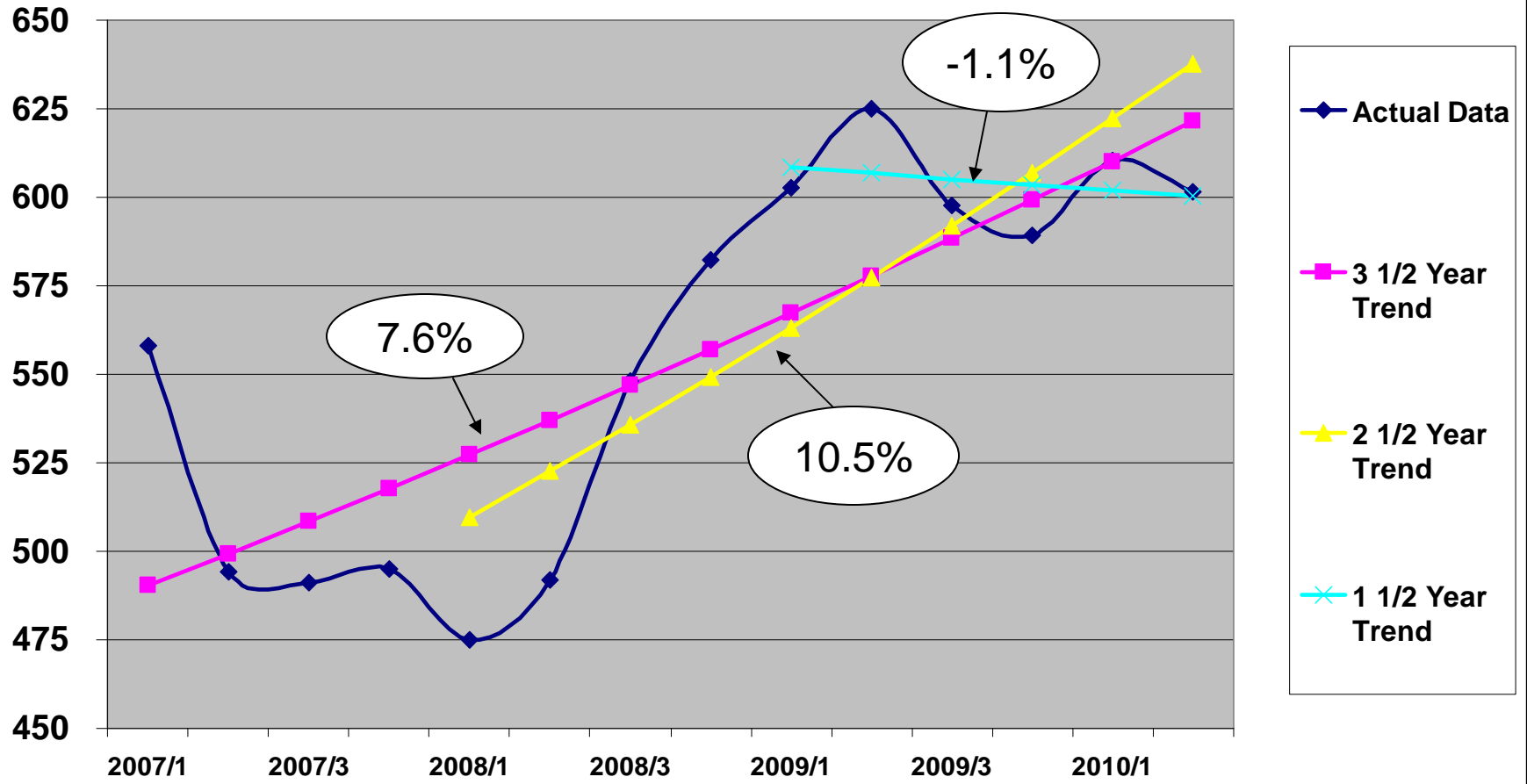
**(3) Examine rate and form filings submitted to the office, hire consultants as necessary to aid in the review process, and recommend to the department or office any position deemed by the consumer advocate to be in the public interest.**

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## Issue Impacts on Rate Indications

	<b>Wind</b>	<b>All Other Perils</b>	<b>Overall</b>
<b>Company Indication</b>	<b>87.0%</b>	<b>4.3%</b>	<b>41.4%</b>
<b>Trends</b>	<b>-4.1%</b>	<b>-16.2%</b>	<b>-10.8%</b>
<b>Credibility</b>	<b>21.0%</b>	<b>0.0%</b>	<b>9.4%</b>
<b>Expenses</b>	<b>-15.3%</b>	<b>-9.6%</b>	<b>-12.2%</b>
<b>LAE</b>	<b>-2.8%</b>	<b>-5.1%</b>	<b>-4.1%</b>
<b>Catastrophe Load</b>	<b>-4.3%</b>	<b>0.0%</b>	<b>-1.9%</b>
<b>ICA Preliminary Indication</b>	<b>71.0%</b>	<b>-25.0%</b>	<b>18.1%</b>

## Pure Premium Trend Florida Homeowners Insurance



## Trends

ICA	Wind	All Other
	<u>Wind</u>	<u>Perils</u>
Premium Trend	0.0%	1.0%
Loss Trend (Up to Date)	0.0%	5.0%
Loss Trend (Prospective)	0.0%	5.0%
<b>First Home</b>		
Premium Trend	-1.3%	1.0%
Loss Trend (Up to Date)	16.5%	16.5%
Loss Trend (Prospective)	16.5%	16.5%

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## **Fast Track Data**

### **Insurance Services Office (ISO) Data, Inc.**

**Fireman's Fund Insurance Companies**

**Liberty Mutual Insurance Group**

**USAA Group**

**The Travelers Companies**

### **Independent Statistical Service, Inc.**

**Allstate Floridian Insurance Company**

**Allstate Floridian Indemnity Company**

**Metropolitan Property and Casualty Insurance Group**

**State Farm Florida Insurance Company**

**DEVELOPMENT OF RATE LEVEL INDICATIONS:**

(50)	<u>50.0%</u>	Projected Hurricane Loss & LAE ratio	
(51)	<u>56.4%</u>	Proj. Incurred Loss & LAE Ratio (Incl. all catastrophes)	
(52)	<u>77.0%</u>	Expected Fixed Expense Ratio	
(53)	<u>18.9%</u>	Expected Variable Expense Ratio	
(54)	<u>64.5%</u>	Rate Level Indication (Before Credibility)	
(55)	<u>1.00</u>	Credibility (SUPPORT!)	
(56)	<u>0.0%</u>	Expected Annual Net Trend (i.e., Projected Loss Trend Net of Premium Trend)	
(57)	<u>1.00</u>	Assumed Number of Years Since Last Rate Review	
(58)	<u>0.0%</u>	Expected Net Trend Since Last Rate Review (Value receives complement of credibility)	
(59)	<u>64.5%</u>	Credibility-Weighted Rate Level Indication	
(59A)	<u>6.5%</u>	Cost of Reinsurance to Replace available TICL Coverage including the TICL Reduction	(SUPPORT!)
(59B)	<u>71.0%</u>	Rate Level Indication including (59A)	
(60)	<u>87.0%</u>	Company Selected Rate Change	

## Financial Strength Ratings

<b>Demotech</b>	
<b>Rating</b>	<b>Risk of Ruin</b>
A''	0.00%
A'	1.00%
<b>A</b>	<b>3.00%</b>
S	5.00%
M	10.00%
L	not available
NR	not available
N/A	not available

<b>Weiss</b>	
<b>Rating</b>	<b>Risk of Ruin</b>
A+	0.06%
A	0.19%
B	0.75%
C	2.06%
C-	2.74%
D +	3.41%
<b>D &amp; D-</b>	<b>6.02%</b>
E +	7.27%
E & E-	not available
F	not available



### Five-Year Historical Data

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross Premiums Written	42,607,234	41,314,274	32,764,405	38,084,458	46,060,116
Ceded Premiums Written	25,947,570	17,392,543	15,265,678	23,909,755	33,397,846
Net Premiums Written	16,659,664	23,921,731	17,498,727	14,174,703	12,662,270
Investment Income	1,239,333	1,440,188	1,719,560	1,164,287	157,378
Underwriting & Other Income	-9,057,294	-6,617,893	-5,101,143	1,364,856	-6,405,262
Federal Income Tax	-1,036,559	3,321	45,174	0	0
Net Income	-6,781,402	-5,181,026	-3,426,757	2,529,143	-6,247,884
Surplus As Regards Policyholders	17,879,702	44,421,235	49,090,115	7,745,984	5,227,327
Investment Income (Before FIT)	2.9%	3.5%	5.2%	3.1%	0.3%
Investment Income (After FIT)	1.9%	2.3%	3.4%	2.0%	0.2%

## Underwriting Profit Provision

Equity Risk Premium	5.20%
Risk of Ruin	5.00%
Risk Free Rate	0.28%
Required Return on Surplus after FIT	<u>10.48%</u>
Gross Written Premium	42,607,234
Policyholder Surplus	17,879,702
Required Profit as % of Premium	4.40%
Investment Income after FIT	<u>-2.00%</u>
Underwriting Profit Provision	2.40%
Average FIT Rate	35.00%
Underwriting Profit Provision Before FIT	3.69%

Rank	Company	Premiums Written	Premiums Earned	Loss Adjustment Expense	Commission and Brokerage Expense	General Expense	Other Acquisition Expense	Expense Ratio
1	American Modern Ins Co of FL	3,707	2,976	4.3%	32.5%	16.2%	4.7%	57.6%
2	Avatar Prop & Cas Ins Co	9,564	7,987	4.9%	12.9%	29.2%	5.1%	52.1%
3	Auto Club Ins Co of FL	16,274	8,978	3.6%	15.2%	20.3%	11.4%	50.5%
4	Ark Royal Ins Co	13,696	7,298	3.6%	13.0%	9.1%	24.4%	50.2%
5	Homewise Ins Co	38,927	23,729	3.4%	12.4%	19.8%	8.8%	44.3%
6	Homesite Ins Co of FL	2,472	2,780	20.6%	5.7%	1.5%	16.4%	44.2%
7	United Prop & Cas Ins Co	134,906	129,348	8.1%	13.4%	17.4%	4.6%	43.5%
8	American Bankers Ins Co Of FL	144,718	144,803	7.1%	23.3%	5.9%	6.6%	42.8%
9	Argus Fire & Cas Ins Co	34,322	23,679	11.2%	19.1%	11.9%	0.2%	42.4%
10	First Home Ins Co	32,483	34,823	7.9%	28.1%	4.7%	1.0%	41.8%
11	ASI Preferred Ins Corp	42,059	26,958	2.4%	17.6%	13.6%	7.0%	40.5%
12	Gulfstream Prop & Cas Ins Co	47,953	40,357	12.6%	17.9%	3.8%	5.2%	39.5%
13	Olympus Ins Co	71,456	60,705	5.2%	20.2%	8.3%	5.5%	39.3%
14	Privilege Underwriters Recp Exch	39,926	32,640	2.2%	11.7%	24.0%	0.0%	37.9%
15	State Farm FL Ins Co	888,326	959,833	11.9%	13.2%	2.3%	10.3%	37.7%
16	Cypress Prop & Cas Ins Co	52,720	52,119	5.7%	19.0%	7.9%	5.0%	37.6%
17	Florida Peninsula Ins Co	173,244	157,048	9.9%	9.5%	7.8%	10.1%	37.3%
18	Federated Natl Ins Co	67,386	61,648	14.3%	17.9%	4.9%	0.0%	37.1%
19	Florida Family Ins Co	66,212	67,762	4.1%	18.6%	14.3%	0.0%	37.1%
20	Modern USA Ins Co	25,596	22,068	4.2%	23.6%	3.8%	4.9%	36.5%
21	Sunshine State Ins Co	95,921	86,694	11.8%	10.4%	5.3%	8.7%	36.2%
22	Universal Ins Co of NA	112,222	118,454	9.5%	13.1%	1.9%	11.3%	35.8%
23	Peoples Trust Ins Co	36,344	36,584	3.7%	24.7%	6.4%	0.9%	35.7%
24	American Southern Home Ins Co	47,365	42,785	1.6%	22.3%	7.2%	3.8%	34.8%
25	First Community Ins Co	30,383	27,431	4.8%	17.4%	7.5%	4.8%	34.5%
26	Security First Ins Co	93,783	82,722	4.9%	9.2%	17.6%	2.4%	34.1%
27	St Johns Ins Co Inc	271,371	275,647	6.7%	25.3%	2.1%	0.1%	34.1%
28	Safe Harbor Ins Co	13,141	11,910	7.7%	22.3%	3.6%	0.2%	33.8%
29	American Strategic Ins Corp	77,542	77,863	3.5%	19.4%	3.9%	6.6%	33.4%

Rank	Company	Premiums Written	Premiums Earned	Loss Adjustment Expense	Commission and Brokerage Expense	General Expense	Other Acquisition Expense	Expense Ratio
30	Old Dominion Ins Co	2,599	2,567	9.1%	13.6%	4.9%	5.5%	33.1%
31	Southern Fidelity Ins Co Inc	87,198	79,042	4.5%	12.8%	3.5%	11.4%	32.2%
32	Fidelity Fire & Cas Co	47,573	39,805	3.7%	12.1%	12.9%	3.5%	32.1%
33	American Integrity Ins Co of FL	59,841	59,125	8.0%	12.0%	3.8%	8.3%	32.1%
34	Homewise Preferred Ins Co	150,782	167,149	6.8%	12.7%	8.6%	3.2%	31.3%
35	First Protective Ins Co	82,043	81,575	5.5%	11.6%	10.6%	3.5%	31.2%
36	Universal Prop & Cas Ins	513,341	492,283	7.5%	15.8%	1.6%	6.2%	31.1%
37	American Traditions Ins Co	40,379	40,029	4.4%	19.8%	2.3%	3.6%	30.0%
38	Nationwide Ins Co Of FL	128,325	136,166	9.9%	9.6%	5.5%	4.7%	29.7%
39	Castle Key Ind Co	44,667	45,239	6.3%	12.3%	4.4%	6.5%	29.5%
40	American Federation Ins Co	11,745	14,007	3.5%	9.4%	2.8%	13.5%	29.2%
41	Florida Farm Bureau Cas Ins Co	65,359	63,157	10.1%	9.5%	2.5%	6.1%	28.2%
42	ACA Home Ins Corp	8,078	8,413	4.2%	17.4%	2.6%	4.0%	28.2%
43	Tower Hill Select Ins Co	68,767	69,650	5.2%	20.2%	0.9%	1.1%	27.4%
44	ASI Assur Corp	87,245	92,587	2.9%	18.9%	1.5%	4.1%	27.4%
45	First Floridian Auto & Home Ins Co	35,521	37,517	2.7%	13.6%	5.6%	5.0%	26.8%
46	Tower Hill Prime Ins Co	90,474	91,487	4.3%	19.7%	0.9%	1.1%	26.0%
47	Castle Key Ins Co	137,169	144,523	8.7%	11.2%	-0.4%	6.3%	25.8%
48	Royal Palm Ins Co	153,912	168,372	3.6%	18.0%	2.4%	1.6%	25.6%
49	Florida Farm Bur Gen Ins Co	34,922	33,820	7.3%	9.5%	2.5%	6.1%	25.4%
50	Northern Capital Ins Co	103,482	88,656	6.5%	18.7%	0.0%	0.0%	25.2%
51	Tower Hill Preferred Ins Co	70,353	71,961	5.7%	17.6%	0.6%	0.9%	24.8%
52	Edison Ins Co	52,223	56,353	3.9%	17.2%	1.4%	0.8%	23.3%
53	Capitol Preferred Ins Co	38,998	39,002	4.2%	11.6%	0.4%	5.4%	21.6%
54	Citizens Prop Ins Corp	790,756	882,462	7.7%	7.4%	5.3%	0.4%	20.8%
55	Southern Oak Ins Co	52,674	54,489	4.8%	10.8%	4.9%	0.0%	20.4%
56	Omega Ins Co	38,031	36,698	3.8%	13.7%	0.6%	0.2%	18.2%
57	Hillcrest Ins Co	25,592	24,801	1.8%	12.1%	0.0%	0.0%	14.0%
58	Homeowners Choice Prop & Cas Ins Co	92,683	68,555	1.5%	8.6%	0.0%	0.0%	10.1%
	<b>Grand Total</b>	<b>5,798,751</b>	<b>5,817,119</b>	<b>7.6%</b>	<b>14.3%</b>	<b>4.6%</b>	<b>4.8%</b>	<b>31.2%</b>

AMENDMENT TO Exhibit A of Managing Agency Contract

Exhibit A of the Managing Agency Contract between First Home Insurance Company (the "Company") and First Home Insurance Agency, LLC ("the Manager") is amended effective August 5, 2009 and retroactive to January 1, 2009 as follows:

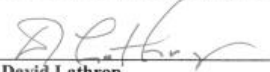
Compensation

The Manager shall deduct and retain Compensation in all lines of Insurance the Company is authorized to transact unless specifically excluded from this Agreement of 23% of direct written premium, written and collected hereunder for all business originated or produced and services rendered, negotiated, or retained by the Manager.


All other provisions of Exhibit A are unchanged.

IN WITNESS WHEREOF, each of the parties has executed this agreement by its authorized officers as of August 5, 2009.

FIRST HOME INSURANCE COMPANY

BY:   
NAME: David Lathrop  
TITLE: Secretary

FIRST HOME INSURANCE AGENCY, LLC ←

BY:   
NAME: W. Michael Lefler  
TITLE: President/Assistant Secretary

**AMENDMENT TO Service Agreement**

Item 3- Compensation of the Service Agreement between First Home Insurance Company, Inc. (the "Company") and First Home Financial Corporation ("Financial") is amended effective August 5, 2009 and retroactive to January 1, 2009 as follows:

**Compensation:**

Company shall pay Financial (a) an administrative fee of 1.5% of the Direct Written Premium for all policies issued, renewed or serviced by the Company. "Direct Written Premium" means the direct written premium from policies issued or assumed plus any additional premium for endorsements, less return premiums for endorsements and cancellations.

All other provisions of the Agreement are unchanged.

IN WITNESS WHEREOF, each of the parties has executed this agreement by its authorized officers as of August 5, 2009.

**FIRST HOME INSURANCE COMPANY, INC.** ←

BY: W. Michael Lefler  
NAME: W. Michael Lefler  
TITLE: President

**FIRST HOME FINANCIAL CORPORATION**

BY: G.W. Atkinson  
NAME: G.W. Atkinson  
TITLE: \_\_\_\_\_

Exhibit B

**Expenses per Policy**

<b>Year</b>	<b>Average Premium</b>	<b>Loss Adjustment Expense Ratio</b>	<b>General Expense Ratio</b>	<b>Selling Expense Ratio</b>	<b>Total Expense Ratio</b>	<b>Total Expenses per Policy Excluding Reinsurance</b>	<b>% Higher Expenses</b>
<b>Countrywide</b>							
<b>2006</b>	<b>801</b>	<b>8.4%</b>	<b>4.6%</b>	<b>20.9%</b>	<b>33.9%</b>	<b>272</b>	
<b>2007</b>	<b>816</b>	<b>8.2%</b>	<b>4.4%</b>	<b>21.1%</b>	<b>33.7%</b>	<b>275</b>	
<b>2008</b>	<b>788</b>	<b>10.3%</b>	<b>4.6%</b>	<b>21.1%</b>	<b>36.0%</b>	<b>284</b>	
<b>Average</b>	<b>802</b>	<b>9.0%</b>	<b>4.5%</b>	<b>21.0%</b>	<b>34.5%</b>	<b>277</b>	
<b>Est 2011</b>	<b>802</b>	<b>9.0%</b>	<b>4.5%</b>	<b>21.0%</b>	<b>34.5%</b>	<b>277</b>	

Expenses per Policy

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Est 2011	802	9.0%	4.5%	21.0%	34.5%	277	
<b>Florida</b>							
2006	1,377	5.4%	4.6%	19.8%	29.8%	410	51.1%
2007	1,539	4.7%	4.4%	19.9%	29.0%	446	62.3%
2008	1,399	5.8%	4.6%	20.1%	30.5%	427	50.4%
<b>Average</b>	<b>1,438</b>	<b>5.3%</b>	<b>4.5%</b>	<b>19.9%</b>	<b>29.8%</b>	<b>428</b>	<b>54.7%</b>
Est 2011	1,720	5.3%	4.5%	19.9%	29.8%	512	84.9%



## Expenses per Policy

Year	Average Premium	Loss Adjustment Expense Ratio	General Expense Ratio	Selling Expense Ratio	Total Expense Ratio	Total Expenses per Policy Excluding Reinsurance	% Higher Expenses
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Average	1,438	5.3%	4.5%	19.9%	29.8%	428	54.7%
Est 2011	1,720	5.3%	4.5%	19.9%	29.8%	512	84.9%
<b>First Home</b>							
No Increase	1,280	10.5%	4.8%	25.9%	41.2%	528	90.6%
Increase	1,811	7.4%	4.5%	25.6%	37.6%	681	145.9%
ICA	1,512	5.3%	4.6%	13.0%	22.9%	346	25.1%

**Uninsured Catastrophe Losses**

<b>Probability of Non-Exceedance</b>	<b>Return Time (Years)</b>	<b>Loss Net of Deductible</b>	<b>Average Annual Losses in Layer</b>	<b>Percentage of Uninsured Catastrophe Losses</b>
99.99%	10,000	\$549,164	\$45	
99.95%	2,000	378,534	85	
99.90%	1,000	308,974	70	
99.80%	500	243,223	132	
99.60%	250	181,004	249	
99.50%	200	162,809	91	
99.00%	100	114,780	480	
98.00%	50	78,494	726	
96.00%	25	51,148	1,094	
95.00%	20	43,779	368	
90.00%	10	24,309	1,947	
20.00%	5	18,877	4,345	
			<b>\$9,632</b>	
99.02%	102	\$115,871	\$1,141	11.8%
Reinsurance Surplus Retention	81	\$100,991		
		17,880		
		-3,000		
	102	<b>\$115,871</b>		

## Issue Impacts on Rate Indications

	<b>Wind</b>	<b>All Other Perils</b>	<b>Overall</b>
<b>Company Indication</b>	<b>87.0%</b>	<b>4.3%</b>	<b>41.4%</b>
<b>Trends</b>	<b>-4.1%</b>	<b>-16.2%</b>	<b>-10.8%</b>
<b>Credibility</b>	<b>21.0%</b>	<b>0.0%</b>	<b>9.4%</b>
<b>Expenses</b>	<b>-15.3%</b>	<b>-9.6%</b>	<b>-12.2%</b>
<b>LAE</b>	<b>-2.8%</b>	<b>-5.1%</b>	<b>-4.1%</b>
<b>Catastrophe Load</b>	<b>-4.3%</b>	<b>0.0%</b>	<b>-1.9%</b>
<b>ICA Preliminary Indication</b>	<b>71.0%</b>	<b>-25.0%</b>	<b>18.1%</b>