

**Fidelity National Property and Casualty
Insurance Company
OIR Filing # 11-04301
Hearing of May 12, 2011**

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

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...

CERTIFICATION

- I, Stephen A. Alexander, Actuary with the Office of the Insurance Consumer Advocate do certify that, based on my knowledge, my recommendations are consistent with accepted actuarial principles and Florida law.



Stephen A. Alexander, FCAS, MAAA, MBA

Fidelity National Property and Casualty Insurance Company
OIR Rate Filing # 11-04301

Financial Strength Ratings

| AM Best | | | Weiss | | |
|----------------|--------------------|---------------------|---------------|--------------------|---------------------|
| Rating | Description | Risk of Ruin | Rating | Description | Risk of Ruin |
| A+ | Excellent | 0.06% | A+ | Excellent | 0.06% |
| A | Excellent | 0.19% | A | Excellent | 0.19% |
| B | Good | 0.75% | B | Good | 0.75% |
| C | Fair | 2.06% | C | Fair | 2.06% |
| C- | | 2.74% | C- | | 2.74% |
| D+ | Weak | 3.41% | D+ | Weak | 3.41% |
| D & D- | Weak ** | 6.02% | D & D- | Weak | 6.02% |
| E+ | Very Weak | 7.27% | E+ | Very Weak | 7.27% |
| E & E- | Very Weak | not available | E & E- | Very Weak | not available |
| F | Failed | not available | F | Failed | not available |

Issues

- **Less than arms-length transactions are occurring between the company and its managing general agent (MGA).**
- **Unless the company can show that its expenses are reasonable in relation to services rendered, they should be reduced to match those of the most efficient Florida insurers.**
- **The MGA will reap windfall profits from the proposed rate increase. Consequently, the MGA's compensation should be changed from a percentage of premium to a fixed fee basis.**

Excessive Expenses

- ***“Rates shall be deemed excessive if ... expenses are unreasonably high in relation to services rendered.”***
 - (s. 627.062(2)(e)1., F.S.)

Florida Exclusive Residential Property Insurers
 In-Force Direct Written Premium Greater Than \$20 Million
 2009 Calendar Year
 Homeowners, Mobile Homeowners, Tenants and Condos

Expense per Policy

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|------|----------------------------------|---|--------------------|-------------------------------|---|---|--|--|
| Rank | Company | In-Force Direct Written Premium @ 12/31/09 | Average Premium | Loss Adjustment Expense | Commission, Other Acquisition and General Expense | Average Loss Adjustment Expense Per Policy | Average Commission, Other Acquisition and General Expense per Policy | Total Loss Adjustment, Commission, Other Acquisition and General Expense |
| 1 | Privilege Underwriters Recp Exch | 25,247,413 | 9,286 | 2.2% | 35.7% | 204 | 3,318 | 3,522 |
| 2 | Argus Fire & Cas Ins Co | 41,724,028 | 2,046 | 11.2% | 31.2% | 230 | 638 | 868 |
| 3 | Gulfstream Prop & Cas Ins Co | 49,290,346 | 1,914 | 12.6% | 26.9% | 241 | 515 | 757 |
| 4 | United Prop & Cas Ins Co | 137,795,663 | 1,636 | 8.1% | 35.4% | 133 | 579 | 712 |
| 5 | First Home Ins Co | 33,098,769 | 1,581 | 7.9% | 33.9% | 125 | 536 | 661 |
| 6 | Federated Natl Ins Co | 86,185,770 | 1,638 | 14.3% | 22.9% | 234 | 375 | 608 |
| 7 | Florida Peninsula Ins Co | 172,125,038 | 1,608 | 9.9% | 27.4% | 159 | 440 | 600 |
| 8 | Olympus Ins Co | 73,143,476 | 1,512 | 5.2% | 34.1% | 79 | 515 | 594 |
| 9 | Homewise Ins Co | 34,760,936 | 1,319 | 3.4% | 40.9% | 45 | 540 | 585 |
| 10 | Fidelity Fire & Cas Co | 36,900,199 | 1,811 | 3.7% | 28.4% | 67 | 515 | 582 |
| 11 | Sunshine State Ins Co | 96,359,986 | 1,599 | 11.8% | 24.4% | 189 | 390 | 579 |
| 12 | First Protective Ins Co | 77,353,956 | 1,830 | 5.5% | 25.7% | 100 | 470 | 570 |
| 13 | Security First Ins Co | 94,526,310 | 1,563 | 4.9% | 29.2% | 76 | 457 | 533 |
| 14 | Universal Ins Co of NA | 115,162,014 | 1,428 | 9.5% | 26.3% | 136 | 376 | 512 |
| 15 | American Integrity Ins Co of FL | 60,611,369 | 1,526 | 8.0% | 24.0% | 123 | 367 | 489 |
| 16 | State Farm FL Ins Co | 992,753,679 | 1,296 | 11.9% | 25.8% | 154 | 334 | 488 |
| 17 | St Johns Ins Co Inc | 278,047,508 | 1,429 | 6.7% | 27.5% | 95 | 392 | 488 |
| 18 | ASI Preferred Ins Corp | 42,464,552 | 1,134 | 2.4% | 38.1% | 27 | 432 | 459 |
| 19 | Edison Ins Co | 50,482,581 | 1,930 | 3.9% | 19.4% | 75 | 374 | 449 |
| 20 | Homewise Preferred Ins Co | 154,486,866 | 1,430 | 6.8% | 24.4% | 97 | 350 | 447 |
| 21 | Southern Fidelity Ins Co Inc | 71,697,047 | 1,365 | 4.5% | 27.6% | 62 | 377 | 439 |
| 22 | Tower Hill Select Ins Co | 70,373,731 | 1,574 | 5.2% | 22.2% | 82 | 350 | 432 |
| 23 | Royal Palm Ins Co | 158,767,264 | 1,650 | 3.6% | 22.0% | 60 | 363 | 423 |
| 24 | Peoples Trust Ins Co | 36,394,650 | 1,175 | 3.7% | 32.0% | 43 | 377 | 420 |

Florida Exclusive Residential Property Insurers
 In-Force Direct Written Premium Greater Than \$20 Million
 2009 Calendar Year
 Homeowners, Mobile Homeowners, Tenants and Condos

Expense per Policy

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|------|-------------------------------------|---|--------------------|-------------------------------|---|---|--|--|
| Rank | Company | In-Force Direct Written Premium @ 12/31/09 | Average Premium | Loss Adjustment Expense | Commission, Other Acquisition and General Expense | Average Loss Adjustment Expense Per Policy | Average Commission, Other Acquisition and General Expense per Policy | Total Loss Adjustment, Commission, Other Acquisition and General Expense |
| 25 | Cypress Prop & Cas Ins Co | 53,728,330 | 1,115 | 5.7% | 31.9% | 64 | 356 | 419 |
| 26 | Florida Family Ins Co | 66,953,053 | 1,126 | 4.1% | 33.0% | 47 | 371 | 418 |
| 27 | Tower Hill Preferred Ins Co | 72,302,817 | 1,604 | 5.7% | 19.1% | 92 | 307 | 399 |
| 28 | American Strategic Ins Corp | 72,315,227 | 1,178 | 3.5% | 29.9% | 41 | 352 | 393 |
| 29 | First Floridian Auto & Home Ins Co | 37,175,636 | 1,449 | 2.7% | 24.2% | 39 | 350 | 389 |
| 30 | Tower Hill Prime Ins Co | 92,851,726 | 1,464 | 4.3% | 21.7% | 64 | 318 | 381 |
| 31 | First Community Ins Co | 30,246,387 | 1,045 | 4.8% | 29.7% | 50 | 310 | 361 |
| 32 | Northern Capital Ins Co | 68,729,375 | 1,414 | 6.5% | 18.7% | 92 | 265 | 357 |
| 33 | Nationwide Ins Co Of FL | 131,122,614 | 1,163 | 9.9% | 19.8% | 115 | 231 | 346 |
| 34 | Florida Farm Bureau Cas Ins Co | 65,485,825 | 1,219 | 10.1% | 18.1% | 123 | 221 | 344 |
| 35 | Universal Prop & Cas Ins | 524,180,864 | 1,092 | 7.5% | 23.6% | 81 | 258 | 340 |
| 36 | Southern Oak Ins Co | 65,817,681 | 1,614 | 4.8% | 15.6% | 77 | 252 | 329 |
| 37 | ASI Assur Corp | 88,212,313 | 1,197 | 2.9% | 24.5% | 35 | 293 | 328 |
| 38 | Modern USA Ins Co | 26,383,109 | 863 | 4.2% | 32.3% | 36 | 279 | 315 |
| 39 | Citizens Prop Ins Corp | 774,727,709 | 1,493 | 7.7% | 13.1% | 114 | 196 | 310 |
| 40 | Florida Farm Bur Gen Ins Co | 34,928,159 | 1,035 | 7.3% | 18.1% | 75 | 187 | 263 |
| 41 | American Traditions Ins Co | 39,189,923 | 817 | 4.4% | 25.6% | 36 | 210 | 246 |
| 42 | Castle Key Ins Co | 141,790,449 | 945 | 8.7% | 17.1% | 82 | 161 | 243 |
| 43 | Capitol Preferred Ins Co | 32,767,638 | 1,043 | 4.2% | 17.4% | 44 | 182 | 226 |
| 44 | Hillcrest Ins Co | 25,302,462 | 1,564 | 1.8% | 12.1% | 29 | 190 | 219 |
| 45 | Omega Ins Co | 38,436,766 | 1,030 | 3.8% | 14.4% | 39 | 149 | 188 |
| 46 | Homeowners Choice Prop & Cas Ins Co | 137,648,255 | 1,820 | 1.5% | 8.6% | 27 | 157 | 184 |
| 47 | Castle Key Ind Co | 46,585,212 | 609 | 6.3% | 23.3% | 38 | 142 | 180 |
| | Grand Total | 5,656,634,681 | 1,344 | 7.6% | 23.6% | 102 | 318 | 420 |
| | Top Third (ex #1) | | 1,644 | 8.3% | 29.3% | 136 | 482 | 619 |
| | Middle Third | | 1,373 | 5.0% | 26.8% | 68 | 368 | 436 |
| | Lowest Third | | 1,182 | 5.7% | 18.9% | 68 | 224 | 291 |

Notes:
 (1) - (3) OIR, 12/31/09 QUASR Report
 (4) & (5) NAIC I-Site Database, 2009 Insurance Expense Exhibits
 (6) (3) x (4)
 (7) (3) x (5)
 (8) (6) + (7)



Fidelity National Property and Casualty Insurance Company

OIR Rate Filing # 11-04301

Loss Adjustment Expense

| | | Industry |
|---|-----------|-----------------|
| (1) Fidelity National Average Premium | 1,428 | 1,182 |
| (2) Efficient Company LAE Ratio | 5.7% | 5.7% |
| (3) Efficient Company LAE per Policy @ 9/30/2009 | 81.70 | 67.66 |
| (4) Variable LAE | 40.85 | |
| (5) Fixed LAE | 40.85 | |
| (6) Variable LAE Trend Rate | 15.9% | |
| (7) Trend Period Start Date | 9/30/2009 | |
| (8) Trend Period End Date | 2/29/2012 | |
| (9) Trend Period (Years) | 2.42 | |
| (10) Trend Factor | 1.43 | |
| (11) Trended Variable LAE | 58.36 | |
| (12) Fixed LAE | 40.85 | |
| (13) Efficient Company LAE per Policy @ 2/29/2012 | 99.20 | |

Notes:

- (1) Exhibit 5, as of 9/30/2009
- (2) Exhibit 2, lowest third of Florida exclusive writers in 2009
- (3) (1) x (2)
- (4) Assumes 50% of LAE varies with losses based on actuarial judgment
- (5) Assumes 50% of LAE is fixed based on actuarial judgment
- (6) RIF2, Row (D)
- (9) $((8) - (7)) / 365$
- (10) $(1 + (6))^{(9)}$
- (11) (10) x (4)
- (12) (5)
- (13) (11) + (12)

Fidelity National Property and Casualty Insurance Company
OIR Rate Filing # 11-04301
Comission, General, Other Acquisition and Loss Adjustment Expense

Company

| | <u>Before Rate Change</u> | | <u>After Rate Change</u> | | <u>Change</u> | |
|---------------------------------------|-------------------------------|--------------|------------------------------|--------------|---------------|--------------|
| Average Premium | 1,428 | | 1,848 | | 420 | 29.4% |
| MGA Commission | 357 | 25.0% | 462 | 25.0% | 105 | 29.4% |
| Other Acq. And General Expense | 17 | 1.2% | 20 | 1.1% | 3 | 14.7% |
| Loss Adjustment Expense | 167 | 11.7% | 167 | 9.0% | 0 | 0.0% |
| Total Expense | 541 | 37.9% | 649 | 35.1% | 108 | 19.9% |

Windfall

Advocate

| | <u>Before Rate Change</u> | | <u>After Rate Change</u> | | <u>Change</u> | |
|---------------------------------------|-------------------------------|--------------|------------------------------|--------------|---------------|--------------|
| Average Premium | 1,428 | | 1,599 | | 171 | 12.0% |
| MGA Commission | 207 | 14.5% | 207 | 12.9% | 0 | 0.0% |
| Other Acq. And General Expense | 17 | 1.2% | 17 | 1.1% | 0 | 0.0% |
| Loss Adjustment Expense | 99 | 6.9% | 99 | 6.2% | 0 | 0.0% |
| Total Expense | 323 | 22.6% | 323 | 20.2% | 0 | 0.0% |

**GENERAL AGENCY AGREEMENT
SCHEDULE A**

- I. **Territory:** All states where FNPAC is authorized to transact property and casualty insurance business.
- II. **Line of Business:** All approved programs, except for business under the National Flood Insurance Program.
- III. **Commission:** New Business – ~~25%~~
Renewal Business – ~~25%~~
Fees – 97.5% to General Agent, and 2.5% to Company
- IV. **Definitions:** Net Premiums. Written premiums less cancellations and commissions.
Installment Premiums. Net premiums received over a predetermined timeframe.
- V. **Terms:** General Agent will remit to Company Net Premiums and fees within 30 calendar days following the last day of the month in which the premium is recorded by the Company.

**Amend to \$224 per policy as
condition of rate approval unless
company can prove reasonable**



General Agent will remit to Company installment premiums as earned within 30 calendar days following the last day of the month in which the premium is recorded by the Company.

Company will remit to General Agent Company commissions earned within 30 calendar days following the last day of the month in which the premium is recorded by the Company.

business.

P. TIME OF ESSENCE. Time is of the essence regarding the provisions of this Agreement.

Q. BINDING EFFECT. This Agreement shall inure to the benefit of and be binding upon the parties and their respective heirs, parent, affiliates, subsidiaries, successors and assigns.

R. SEVERABILITY. If any provision or provisions in this Agreement is deemed to be invalid or inoperative for any reason by a court of competent jurisdiction, that provision shall be deemed modified to the extent necessary to make it valid and operative, or, if it cannot be so modified, then that provision shall be severed from this Agreement, and the remainder of the Agreement shall continue in full force and effect, as if the Agreement had been executed with the invalid portion so modified or severed, as the case may be.

S. TERM: This Agreement shall be for a term not to exceed five years from the date first written above.

T. HEADINGS. The headings and captions of Articles in the Agreement are for the convenience and reference only and in no way define, limit or describe the scope or intent of this Agreement or the provisions of such Articles.

IN WITNESS WHEREOF, General Agent and Company have caused this Agreement to be executed by the undersigned duly authorized persons.

FIDELITY NATIONAL PROPERTY AND CASUALTY INSURANCE COMPANY

By:

Mark O. Davey
President

FIDELITY NATIONAL INSURANCE SERVICES, INC.

By:

Mark O. Davey
President and Chief Executive Officer

2010 SCHEDULE Y PART 2 - 095
16578 - Fidelity Natl Prop & Cas Ins Co

| Insurers & Affiliates | Shareholder Dividends | Capital Contributions | Purchases Sales Other Investments | Management Agreements and Service Contracts | Income / (Disbursements) Incurred Under Reinsurance Agreements | Any Other Material Activity Not in the Ordinary Course of the Insurer's Business | Totals | Reinsurance Recoverable / (Payable) on Losses and/or Reserve Credit Taken/(Liability) |
|--|-----------------------|-----------------------|-----------------------------------|---|--|--|--------------|---|
| Fidelity National Title Insurance Compan | -19,585,760 | -14,116,939 | -26,413,500 | -267,643,042 | 10,000 | 0 | -327,749,241 | 0 |
| Alamo Title Insurance | -4,600,000 | 0 | 0 | -480,759 | 21,000 | 0 | -5,059,759 | 0 |
| Chicago Title and Trust Company | 112,506,918 | 0 | 0 | -15,320,455 | 0 | 0 | 97,186,463 | 0 |
| Chicago Title Insurance Company | -204,663,156 | -91,148,896 | 26,800,851 | -499,476,414 | 295,000 | 0 | -768,192,615 | 0 |
| Commonwealth Land Title Insurance Co | -12,770,470 | -6,285,066 | 0 | -63,184,941 | -64,000 | 0 | -82,304,477 | 0 |
| Fidelity National Insurance Company | 0 | 0 | 0 | -3,355,999 | 25,687,903 | -23,798,749 | -1,466,845 | -69,622,000 |
| Fidelity National Property and Casualty | 0 | 0 | 0 | -13,789,371 | -18,650,818 | -17,071,450 | -49,511,639 | 52,282,000 |
| Fidelity National Indemnity Insurance Co | 0 | 0 | 0 | -29,714,126 | -7,037,085 | -7,078,718 | -43,829,929 | 17,340,000 |
| Fidelity National Insurance Services | -25,567,820 | 0 | 0 | 41,036,639 | 0 | 47,948,917 | 63,417,736 | 0 |
| Chicago Title Company | -30,000,000 | 3,000,000 | 0 | 0 | 0 | 0 | -27,000,000 | 0 |
| Property Insight LLC | -8,000,000 | 0 | 0 | 0 | 0 | 0 | -8,000,000 | 0 |
| Real Estate Index | 0 | 0 | -387,351 | 0 | 0 | 0 | -387,351 | 0 |
| CATCO Inc | -1,785,000 | 0 | 0 | 0 | 0 | 0 | -1,785,000 | 0 |
| Chicago Title of Michigan | -3,450,000 | 0 | 0 | 0 | 0 | 0 | -3,450,000 | 0 |
| Security Title Co of Phoenix | -5,300,000 | 0 | 0 | 0 | 0 | 0 | -5,300,000 | 0 |
| Fidelity National Management Services LL | 0 | 0 | 0 | 647,095,084 | 0 | 0 | 647,095,084 | 0 |
| FNF Canada Company | -10,295,073 | 0 | 0 | 0 | 0 | 0 | -10,295,073 | 0 |
| Fidelity National Home Warranty Co | 0 | 0 | 0 | -13,839,288 | 0 | 0 | -13,839,288 | 0 |
| Fidelity National Disclosure Source, LLC | -6,000,000 | 0 | 0 | 0 | 0 | 0 | -6,000,000 | 0 |
| Fidelity Asset Management Inc | 0 | 0 | 0 | 10,521,600 | 0 | 0 | 10,521,600 | 0 |
| Fidelity National Title de Mexico S.A., | 0 | 18,000 | 0 | 0 | -262,000 | 0 | -244,000 | 0 |
| AmTitle Company | -2,286,485 | 0 | 0 | 0 | 0 | 0 | -2,286,485 | 0 |
| Rocky Mountain Support Services | 0 | 0 | 0 | 263,354,891 | 0 | 0 | 263,354,891 | 0 |
| Lawyers Title Company | -17,430,047 | 0 | 0 | 0 | 0 | 0 | -17,430,047 | 0 |
| Gateway Title Company | -5,677,116 | 2,956,030 | 0 | 0 | 0 | 0 | -2,721,086 | 0 |
| Lawyers Title of Arizona, Inc. | -1,000,000 | 0 | 0 | 0 | 0 | 0 | -1,000,000 | 0 |
| Lawyers Title of Nevada, Inc. | -2,100,000 | 0 | 0 | 0 | 0 | 0 | -2,100,000 | 0 |
| Fidelity National Financial, Inc. | 300,034,916 | 0 | 0 | -55,203,819 | 0 | 0 | 244,831,097 | 0 |
| Fidelity National Title Group, Inc. | -30,730,907 | 0 | 0 | 0 | 0 | 0 | -30,730,907 | 0 |
| FNF Control I, Inc. | 31,820,880 | 94,433,962 | 0 | 0 | 0 | 0 | 126,254,842 | 0 |
| FNF Control II, Inc. | 0 | 11,142,909 | 0 | 0 | 0 | 0 | 11,142,909 | 0 |
| Chicago Land Trust Co | -2,900,000 | 0 | 0 | 0 | 0 | 0 | -2,900,000 | 0 |
| Alamo Title Holding Company | -50,220,880 | 0 | 0 | 0 | 0 | 0 | -50,220,880 | 0 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

First Community Insurance Company
OIR Rate Filing # 11-04301
Rate Indications

Assumption Differences

| | Company | Advocate |
|------------------------------|----------------------|-------------------------|
| MGA Commission | 25.0% | \$224 |
| Non-Hurricane LAE | 11.7% | \$99 |
| Accident Year Weights | Selected | Premium Weighted |
| HO-3 & HO-6 | 0% Loss Trend | 15.9% Loss Trend |

Fidelity National Property and Casualty Insurance Company
OIR Rate Filing # 11-04301

Issue Impacts on Rate Indications

| | |
|--|---------------|
| Company Indication | 29.9% |
| MGA Commission | -13.0% |
| Non-Hurricane LAE | -3.0% |
| Accident Year Weights | 1.9% |
| HO-3 & HO-6 | 0.4% |
| Advocate Preliminary Indication | 12.0% |

Note:

$$(1+.299) \times (1-.130) \times (1-.030) \times (1+.019) \times (1+.004) - 1 = .120$$

Fidelity National Property and Casualty Insurance Company
OIR Rate Filing # 11-04301

Overall Rate Change Indications and Selections

| | Earned Premium (\$000's) | Earned House- Years | Company Indication | Company Selection | Advocate Indication |
|------------------|---|------------------------------------|-------------------------------|------------------------------|--------------------------------|
| HO-3 AOP | \$8,963 | 7,439 | 32.6% | 31.0% | 11.2% |
| HO-3 Wind | \$2,298 | 2,555 | 25.9% | 25.9% | 14.7% |
| HO-4 | \$26 | 100 | 0.0% | 35.6% | 13.4% |
| HO-6 | \$473 | 698 | 0.0% | 16.9% | 14.1% |
| Total | \$11,760 | 10,791 | 29.9% | 29.4% | 12.0% |

Summary

- **Less than arms-length transactions are occurring between the company and its MGA.**
- **Unless the company can show that its expenses are reasonable in relation to services rendered, they should be reduced to match those of the most efficient Florida insurers.**
- **Compensating the MGA as a percentage of premium creates windfall profits when rates increase and is therefore anti-consumer.**
- **MGA compensation should be on a fixed fee basis and reviewed for appropriateness as part of the annual rate review process.**