

Olympus Insurance Company
OIR Filing # 11-00692
Hearing of March 10, 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

Issues

- **Loss Trend**

ISO Fast-Track loss trend data relied upon by Olympus represents only 8.1% of the Florida market. Olympus' should have used Fast-Track data representing 23.5% of Florida market.

- **Expenses**

Should be reduced to match countrywide expense levels and should be fixed fees rather than percentages of premium.

- **Profit and Contingency Provision**

In tandem with expense reduction, should be increased to attract and retain more investment capital in Olympus Insurance Co. instead of shifted to its affiliates or up-streamed to its parent through excessive expenses.

- **Square Feet Rating Factor**

Requires more support - overlaps with age of home rating factor.

Issue #1 - Loss Trends

ISO DATA, INC.
HOMEOWNERS
FAST TRACK MONITORING SYSTEM
COMPANIES/GROUPS INCLUDED*

Claim Cost and Claim Frequency

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>			
	<u>All 4</u>	<u>All 4</u>	<u>All 4</u>	<u>All 4</u>	<u>All 4</u>	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
	<u>Qtrs.</u>	<u>Qtrs.</u>	<u>Qtrs.</u>	<u>Qtrs.</u>	<u>Qtrs.</u>	<u>Qtr.</u>	<u>Qtr.</u>	<u>Qtr.</u>	<u>Qtr.</u>
Amica Mutual Insurance Co. (NH, RI)	X	X	X	X	X	X	X		
California State Automobile Association (CA)	X	X	X	X	X	X	X		
Commerce Insurance Company	X	X	X	X	X	X	X		
Concord General Insurance Company	X	X	X	X	X	X	X		
Fireman's Fund Insurance Companies	X	X	X	X	X	X	X		
Hanover Insurance Company	X	X	X	X	X	X	X		
→ Liberty Mutual Insurance Group	--	--	--	--	--	--	--		
Nationwide Mutual Insurance Company	X	X	X	X	X	X	X		
OneBeacon Insurance	--	--	--	--	--	--	--		
→ Selective Insurance Company of America (NJ)	X	X	X	X	X	X	X		
→ The Travelers Companies	X	X	X	X	X	X	X		
→ USAA Group	X	X	X	X	X	X	X		

* A company (or group) is included over the whole experience period with no exceptions by quarter – an “X” signifies inclusion

Note: The companies/groups listed above may not be included for every state where they write Homeowners business

INDEPENDENT STATISTICAL SERVICE, INC.

HOMEOWNERS
FAST TRACK MONITORING SYSTEM
COMPANIES/GROUPS INCLUDED*

Claim Cost and Claim Frequency

	2005	2006	2007	2008	2009	1st	2010		
	All 4	All 4	All 4	All 4	All 4		Qtr.	2nd	3rd
	Qtrs.	Qtrs.	Qtrs.	Qtrs.	Qtrs.	Qtr.	Qtr.	Qtr.	Qtr.
Alfa Mutual Insurance Company	X	X	X	X	X	X	X		
Allstate Country Mutual Insurance Company	X	X	X	X	X	X	X		
Allstate Indemnity Company	X	X	X	X	X	X	X		
Allstate Insurance Company	X	X	X	X	X	X	X		
→ Allstate Floridian Insurance Company	X	X	X	X	X	X	X		
→ Allstate Floridian Indemnity Company	X	X	X	X	X	X	X		
Allstate New Jersey Insurance Company	X	X	X	X	X	X	X		
Allstate Property & Casualty Insurance Company	X	X	X	X	X	X	X		
Allstate Texas Lloyds	X	X	X	X	X	X	X		
American Family Insurance Company	X	X	X	X	X	X	X		
American Family Mutual Insurance Company	X	X	X	X	X	X	X		
Auto Club Insurance Association	X	X	X	X	X	X	X		
Farmers Mutual Insurance Company of Nebraska	X	X	X	X	X	X	X		
Georgia Farm Bureau Mutual Insurance Company	B	B	B	B	B	B	B		
Kentucky Farm Bureau Mutual Insurance Company	X	X	X	X	X	X	X		
Metropolitan Property and Casualty Insurance Group	X	X	X	X	X	X	X		
→ State Farm Fire & Casualty Insurance Company	X	X	X	X	X	X	X		
State Farm Florida Insurance Company	X	X	X	X	X	X	X		
State Farm General Insurance Company	X	X	X	X	X	X	X		
State Farm Lloyds	X	X	X	X	X	X	X		

* All quarters are included unless otherwise indicated.

Olympus Insurance Company

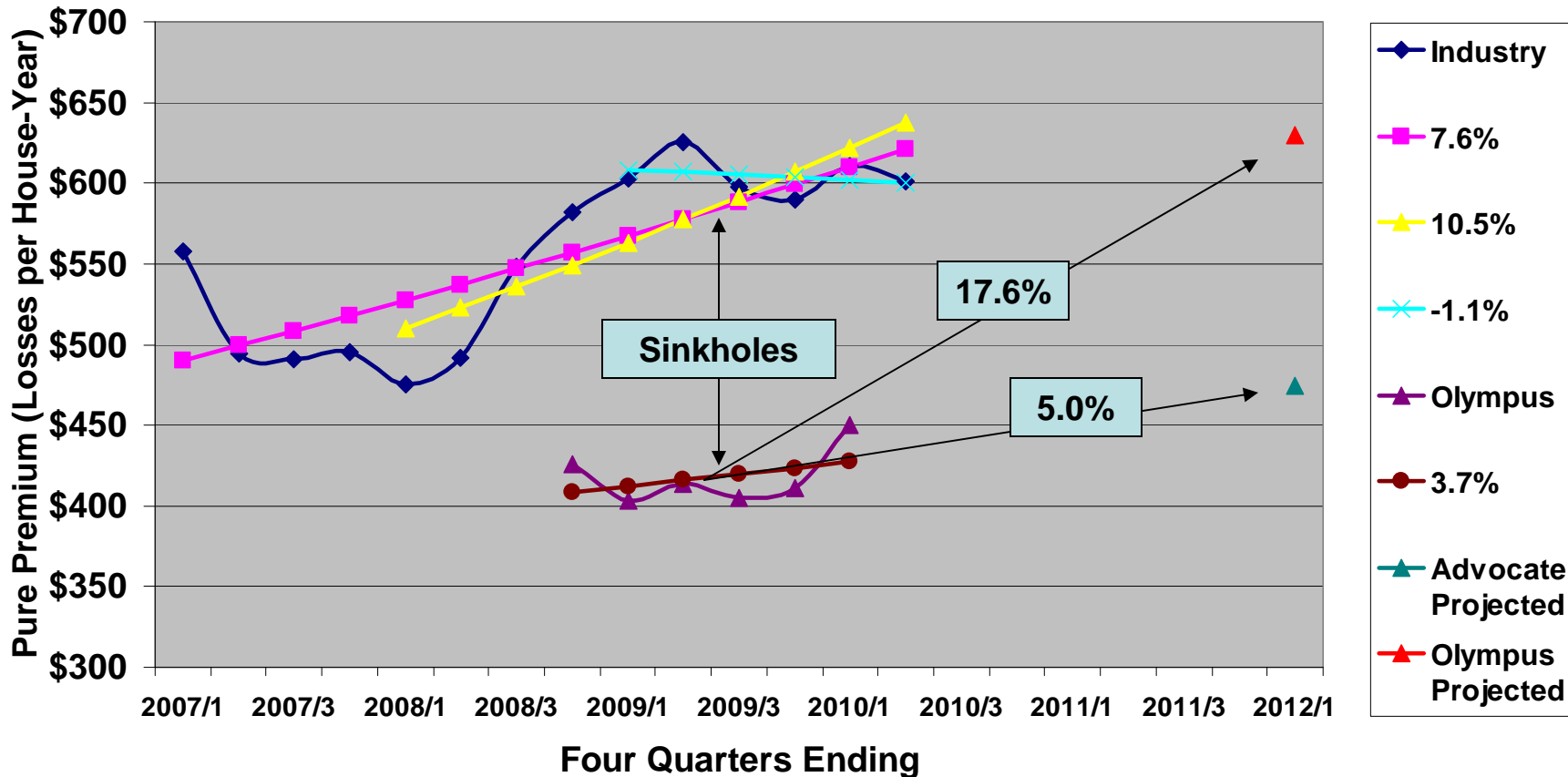
Homeowners Insurance
Fast-Track Data Sources
2009 Market Share

Company Name	Domicile	Direct Premiums Written	Market Share	ISO Market Share	Independent Statistical Service Market Share
State Farm FL Ins Co	FL	888,326	12.8%		12.8%
USAA	TX	216,976	3.1%	3.1%	
Liberty Mut Fire Ins Co	WI	141,887	2.0%	2.0%	
Castle Key Ins Co	IL	137,169	2.0%		2.0%
USAA Cas Ins Co	TX	128,690	1.9%	1.9%	
Castle Key Ind Co	IL	44,667	0.6%		0.6%
First Liberty Ins Corp	IL	41,719	0.6%	0.6%	
First Floridian Auto & Home Ins Co	FL	35,521	0.5%	0.5%	
Others		5,297,317	76.4%		
Total		6,932,272	100.0%	8.1%	15.4%

Pure Premium Trend

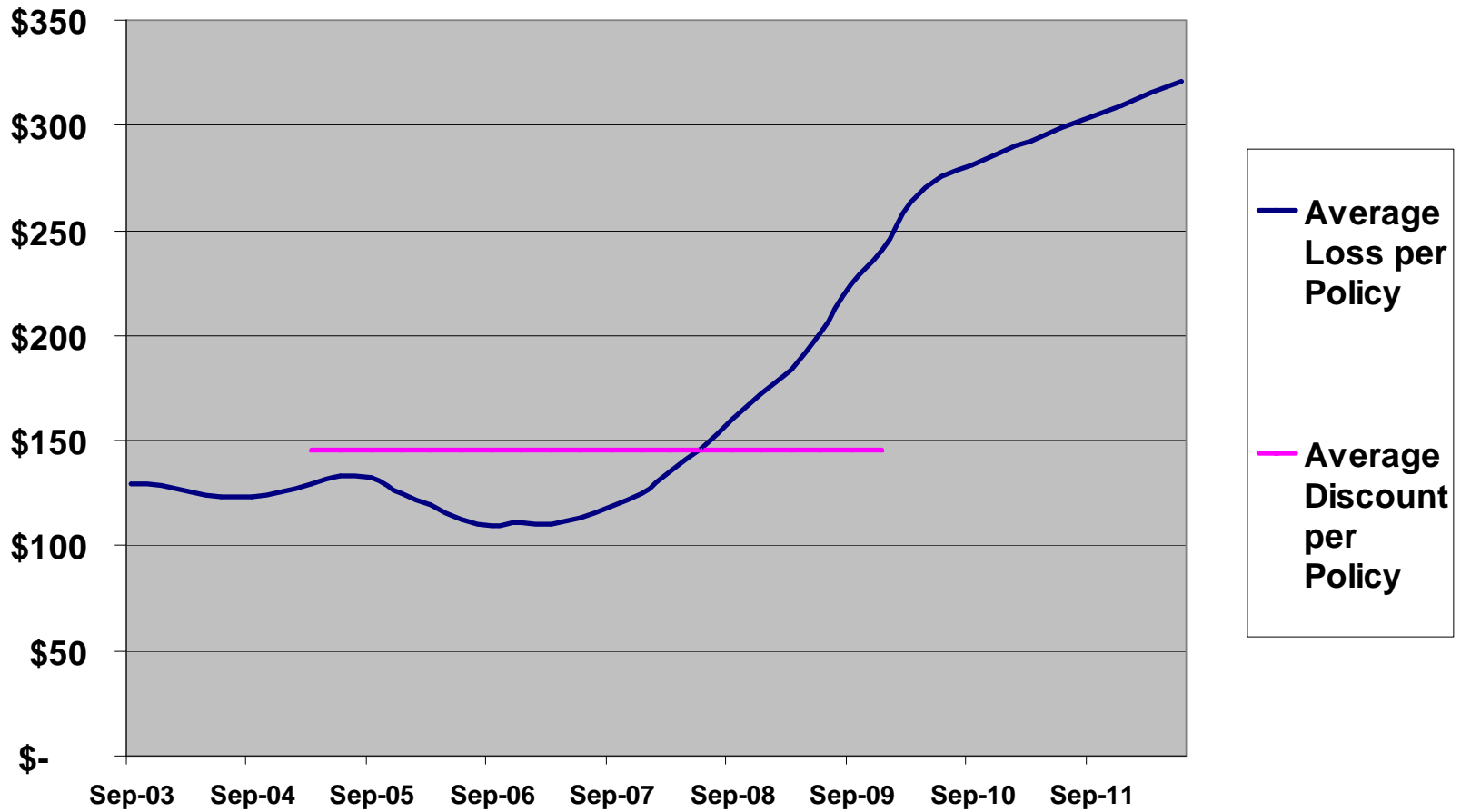
Industry Fast-Track Data vs Olympus Experience

ISO and Independent Statistical Service Combined
Florida Homeowners Insurance



Olympus data from Exh 9, Page 4, Column (13) of OIR Filing # 11-00692

State Farm Florida Insurance Company Homeowners Estimated Average Sinkhole Losses per Policy



Olympus Insurance Company
HO-3 Policies

Summary of Sinkhole Claim Experience from Company Start-Up in 2007

	<u>Sinkhole Claims</u>		<u>Non-Sinkhole Claims</u>		<u>All Claims</u>	
	<u>Number Reported</u>	<u>Incurred Loss & LAE</u>	<u>Number Reported</u>	<u>Incurred Loss & LAE</u>	<u>Number Reported</u>	<u>Incurred Loss & LAE</u>
	31	\$3,001,000	2,278	\$28,559,000	2,309	\$31,560,000
% of Total	1.3%	9.5%	98.7%	90.5%	100.0%	100.0%
Average Claim Size		\$96,806		\$12,537		\$13,668
Earned House-Years		65,080		65,080		65,080
Average Loss per House-Year		\$46		\$439		\$485

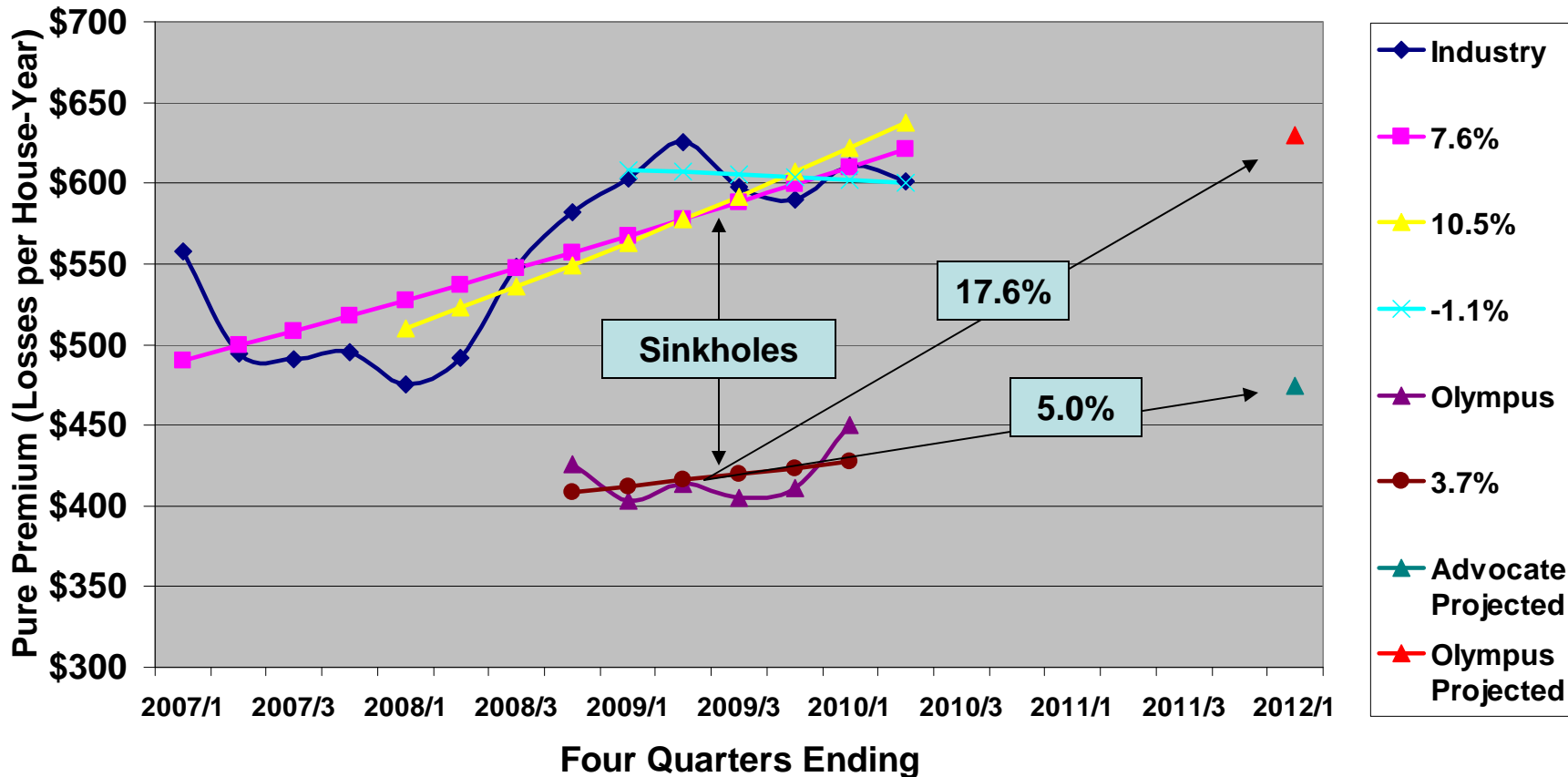
Note:

Based on Olympus Exhibit 17, Page 4

Pure Premium Trend

Industry Fast-Track Data vs Olympus Experience

ISO and Independent Statistical Service Combined
Florida Homeowners Insurance



Olympus data from Exh 9, Page 4, Column (13) of OIR Filing # 11-00692

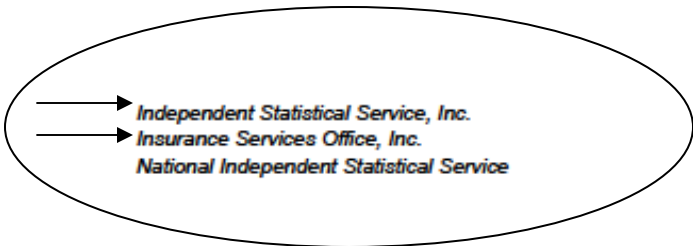
**FAST TRACK MONITORING SYSTEM
HOMEOWNERS (INCLUDING CATASTROPHES)
POLICY FORMS 1, 2, 3 AND 5 COMBINED**

9 - FLORIDA

Prior 4 Qtrs. Ending	Qtr.	Earned Years	No. of Paid Claims	Paid Losses	Paid Claim Freq.	Pct. Chg. From Same Qtr. Prior Year	Avg. Loss	Pct. Chg. From Same Qtr. Prior Year	Pure Prem.	Pct. Chg. From Same Qtr. Prior Year
2005	4TH	1,606,052	227,807	\$2,501,470,122	14.18		\$10,981		\$1,557.53	
2006	1ST	1,598,362	233,406	\$2,445,092,457	14.60		\$10,476		\$1,529.75	
2006	2ND	1,585,998	219,755	\$2,257,024,825	13.86		\$10,271		\$1,423.09	
2006	3RD	1,568,062	182,742	\$2,023,772,168	11.65		\$11,074		\$1,290.62	
2006	4TH	1,549,606	94,762	\$1,316,347,512	6.12	-56.8	\$13,891	26.5	\$849.47	-45.5
2007	1ST	1,529,315	54,661	\$853,318,431	3.57	-75.5	\$15,611	49.0	\$557.97	-63.5
2007	2ND	1,501,028	49,379	\$741,999,417	3.29	-76.3	\$15,027	46.3	\$494.33	-65.3
2007	3RD	1,461,596	48,533	\$718,069,035	3.32	-71.5	\$14,795	33.6	\$491.29	-61.9
2007	4TH	1,424,352	48,756	\$705,190,991	3.42	-44.1	\$14,464	4.1	\$495.10	-41.7
2008	1ST	1,379,389	47,157	\$655,318,828	3.42	-4.2	\$13,897	-11.0	\$475.08	-14.9
2008	2ND	1,327,656	46,659	\$653,131,679	3.51	6.7	\$13,998	-6.8	\$491.94	-0.5
2008	3RD	1,275,847	54,774	\$699,470,845	4.29	29.2	\$12,770	-13.7	\$548.24	11.6
2008	4TH	1,217,905	54,862	\$709,138,987	4.50	31.6	\$12,926	-10.6	\$582.26	17.6
2009	1ST	1,164,591	54,061	\$701,716,156	4.64	35.7	\$12,980	-6.6	\$602.54	26.8
2009	2ND	1,120,147	57,056	\$700,113,274	5.09	45.0	\$12,271	-12.3	\$625.02	27.1
2009	3RD	1,085,017	48,397	\$648,570,200	4.46	4.0	\$13,401	4.9	\$597.75	9.0
2009	4TH	1,052,925	46,315	\$620,594,920	4.40	-2.2	\$13,399	3.7	\$589.40	1.2
2010	1ST	1,024,127	46,304	\$625,017,652	4.52	-2.6	\$13,498	4.0	\$610.29	1.3
2010	2ND	997,608	42,081	\$599,972,465	4.22	-17.1	\$14,258	16.2	\$601.41	-3.8

Losses exclude all loss adjustment expenses.

FORM-CAT05A



 Independent Statistical Service, Inc.
 Insurance Services Office, Inc.
 National Independent Statistical Service

Issue #2 - Expenses

Excessive Profit or Excessive Expenses = Excessive Rates

- **“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.” (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**

Loss Adjustment, Commission and Brokerage, General and Other Acquisition Expense Per Policy

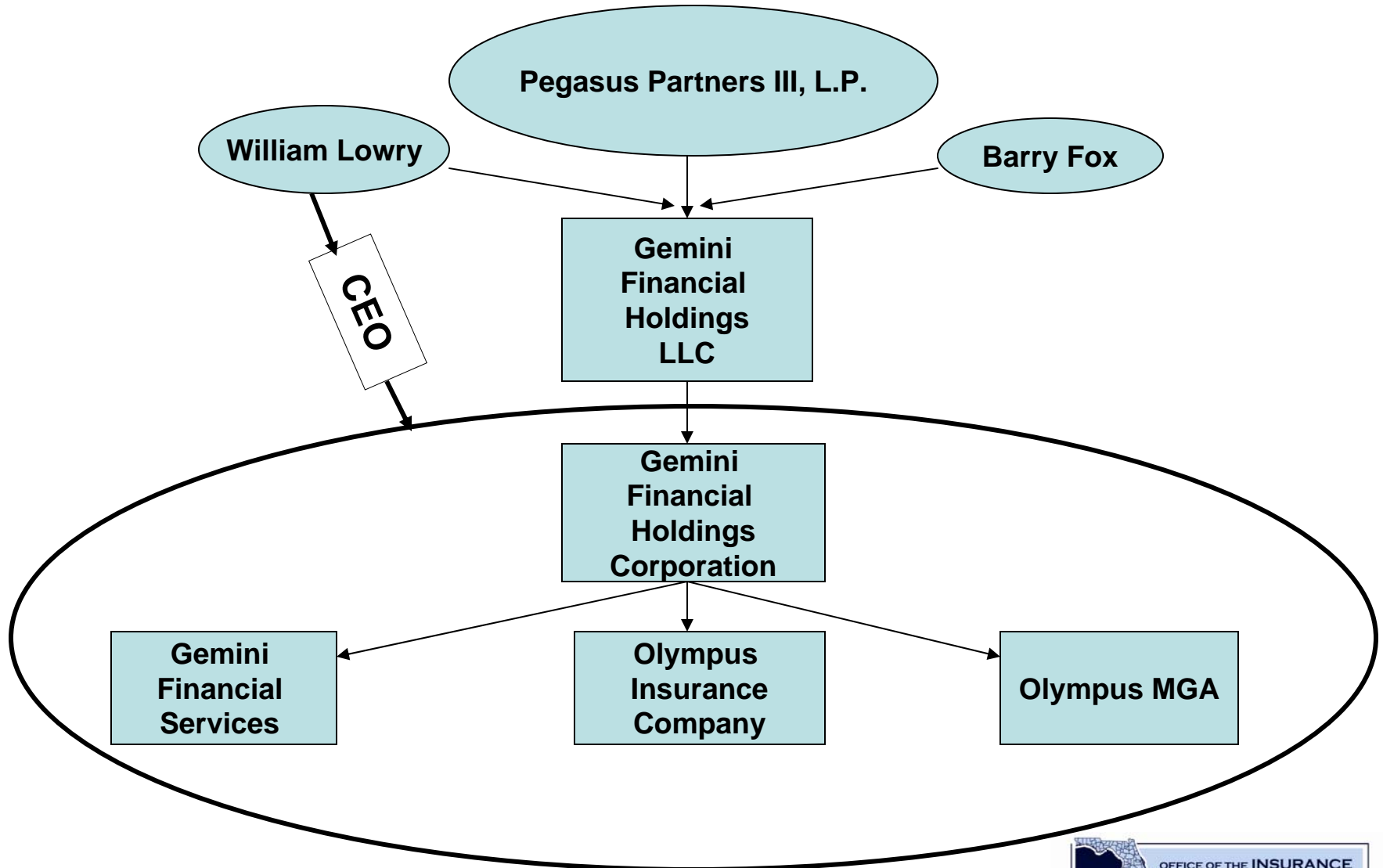
Rank	Company	In-Force Direct Written Premium @ 12/31/09	Number of Policies @ 12/31/09	Average Premium @ 12/31/09	Total Expense Ratio	Average Expense Per Policy	MGA
1	Privilege Underwriters Recp Exch	25,247,413	2,719	9,286	37.9%	3,522	No
2	Argus Fire & Cas Ins Co	41,724,028	20,388	2,046	42.4%	868	Yes
3	Gulfstream Prop & Cas Ins Co	49,290,346	25,747	1,914	39.5%	757	Yes
4	United Prop & Cas Ins Co	137,795,663	84,207	1,636	43.5%	712	Yes
5	First Home Ins Co	33,098,769	20,933	1,581	41.8%	661	Yes
6	Federated Natl Ins Co	86,185,770	52,606	1,638	37.1%	608	Yes
7	Florida Peninsula Ins Co	172,125,038	107,050	1,608	37.3%	600	Yes
8	Olympus Ins Co	73,143,476	48,384	1,512	39.3%	594	Yes
9	Homewise Ins Co	34,760,936	26,346	1,319	44.3%	585	Yes
10	Fidelity Fire & Cas Co	36,900,199	20,381	1,811	32.1%	582	Yes
11	Sunshine State Ins Co	96,359,986	60,279	1,599	36.2%	579	Yes
12	First Protective Ins Co	77,353,956	42,268	1,830	31.2%	570	No
13	Security First Ins Co	94,526,310	60,467	1,563	34.1%	533	Yes
14	Universal Ins Co of NA	115,162,014	80,628	1,428	35.8%	512	Yes
15	American Integrity Ins Co of FL	60,611,369	39,720	1,526	32.1%	489	Yes
16	State Farm FL Ins Co	992,753,679	765,998	1,296	37.7%	488	No
17	St Johns Ins Co Inc	278,047,508	194,527	1,429	34.1%	488	Yes
18	ASI Preferred Ins Corp	42,464,552	37,463	1,134	40.5%	459	Yes
19	Edison Ins Co	50,482,581	26,161	1,930	23.3%	449	Yes
20	Homewise Preferred Ins Co	154,486,866	108,003	1,430	31.3%	447	Yes
21	Southern Fidelity Ins Co Inc	71,697,047	52,536	1,365	32.2%	439	Yes
22	Tower Hill Select Ins Co	70,373,731	44,704	1,574	27.4%	432	Yes
23	Royal Palm Ins Co	158,767,264	96,233	1,650	25.6%	423	Yes
24	Peoples Trust Ins Co	36,394,650	30,965	1,175	35.7%	420	Yes
25	Cypress Prop & Cas Ins Co	53,728,330	48,206	1,115	37.6%	419	Yes

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

Loss Adjustment, Commission and Brokerage, General and Other Acquisition Expense Per Policy

Rank	Company	In-Force Direct Written Premium @ 12/31/09	Number of Policies @ 12/31/09	Average Premium @ 12/31/09	Total Expense Ratio	Average Expense Per Policy	MGA
26	Florida Family Ins Co	66,953,053	59,459	1,126	37.1%	418	Yes
27	Tower Hill Preferred Ins Co	72,302,817	45,081	1,604	24.8%	399	Yes
28	American Strategic Ins Corp	72,315,227	61,397	1,178	33.4%	393	Yes
29	First Floridian Auto & Home Ins Co	37,175,636	25,656	1,449	26.8%	389	No
30	Tower Hill Prime Ins Co	92,851,726	63,406	1,464	26.0%	381	Yes
31	First Community Ins Co	30,246,387	28,957	1,045	34.5%	361	Yes
32	Northern Capital Ins Co	68,729,375	48,622	1,414	25.2%	357	Yes
33	Nationwide Ins Co Of FL	131,122,614	112,723	1,163	29.7%	346	No
34	Florida Farm Bureau Cas Ins Co	65,485,825	53,738	1,219	28.2%	344	No
35	Universal Prop & Cas Ins	524,180,864	479,807	1,092	31.1%	340	Yes
36	Southern Oak Ins Co	65,817,681	40,783	1,614	20.4%	329	Yes
37	ASI Assur Corp	88,212,313	73,668	1,197	27.4%	328	Yes
38	Modern USA Ins Co	26,383,109	30,589	863	36.5%	315	Yes
39	Citizens Prop Ins Corp	774,727,709	518,846	1,493	20.8%	310	No
40	Florida Farm Bur Gen Ins Co	34,928,159	33,745	1,035	25.4%	263	No
41	American Traditions Ins Co	39,189,923	47,939	817	30.0%	246	Yes
42	Castle Key Ins Co	141,790,449	150,094	945	25.8%	243	No
43	Capitol Preferred Ins Co	32,767,638	31,407	1,043	21.6%	226	Yes
44	Hillcrest Ins Co	25,302,462	16,177	1,564	14.0%	219	Yes
45	Omega Ins Co	38,436,766	37,300	1,030	18.2%	188	Yes
46	Homeowners Choice Prop & Cas Ins Co	137,648,255	75,630	1,820	10.1%	184	No
47	Castle Key Ind Co	46,585,212	76,536	609	29.5%	180	No
	Grand Total	5,656,634,681	4,208,479	1,344	31.2%	420	

The Third Party Investors are sophisticated investors, comprised of U.S. individuals, U.S. corporations, U.S. tax-exempt investors, and non-U.S. investors. Three of these investors have capital commitments to the Fund that represent greater than 10% of the total capital commitments in the Fund: a public pension fund represents 15.8%, a corporate pension fund represents 11.1%, and an endowment fund represents 22.3%. The Third Party Investors, as a group, as limited partners of the Fund, represent 97% of the capital commitments in the Fund.



**Homeowners (Excluding Tenants and Condo) and Dwelling Insurance
Average Premiums and Expenses per House-Year**

Countrywide	2006	2007	2008	Average	Est 2011
Average Premium	801	816	788	802	802
Loss Adjustment Expense	67	67	81	72	72
General Expense	37	36	36	36	36
Selling Expense	167	172	166	169	169
Total Expenses	272	275	284	277	277

Florida	2006	2007	2008	Average	Est 2011
Average Premium	1,377	1,539	1,399	1,438	1,745
Loss Adjustment Expense	74	72	81	76	92
General Expense	63	68	64	65	79
Selling Expense	273	306	281	287	348
Total Expenses	410	446	427	428	519

Notes:

- (1) Average premium sources are the NAIC reports for 2006, 2007 and 2008 titled: "Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance, Market Distribution and Average Cost by Policy and Amount of Insurance". Average premiums are for the following policy forms: DW, HO-1, HO-2, HO-3, HO-5, and HO-8 .
- (2) Expense sources are the NAIC 2007, 2008 and 2009 Profitability Reports for the 2006, 2007 and 2008 calendar years.
- (3) Florida data for 2006 through 2008 excludes Citizens Property Ins. Corp. Estimate for 2011 includes Citizens Property Ins. Corp.
- (4) Excludes commercial residential policies.

Olympus Insurance Company
HO-3 Policies

Average Expenses per House-Year

	2009 Calendar Year	2011 Olympus Proposed	% Change
Premiums Written	1,518	2,315	52.5%
Loss Adjustment Expense	79	102	28.3%
General Expenses	127	-42	-132.9%
Selling Expense	391	644	64.6%
Total Operating and Sales Expenses	597	704	17.9%

Olympus Insurance Company

Average Operating and Selling Expenses per House-Year

	<u>Countrywide</u>	<u>2011 Olympus Proposed</u>	<u>Ratio</u>
Premiums Written	802	2,315	288.8%
Loss Adjustment Expense	72	102	141.9%
General Expense	36	-42	-114.7%
Selling Expense	169	644	381.7%
General & Selling Expense	205	602	293.7%
Total Operating and Sales Expenses	277	704	254.3%

Note:

Countrywide includes DW, HO-1, HO-2, HO-3, HO-5, and HO-8 policy forms. Olympus includes only HO-3 policies.

Issue #3 - Profit

Financial Strength Ratings

Demotech		
Rating	Description	Risk of Ruin
A"	Unsurpassed	0.00%
A'	Unsurpassed	1.00%
A	Exceptional *	3.00%
S	Substantial	5.00%
M	Moderate	10.00%
L	Licensed	not available
NR	Not Rated	not available
N/A	Ineligible	not available

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

Notes:

* Demotech "Exceptional" rating description meaning: "Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety-seven percent of the insurers receiving a Financial Stability Rating of A are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment."

** Weiss "Weak" rating description meaning: "The company currently demonstrates what we consider to be significant weaknesses, which could negatively impact policyholders. In an unfavorable economic environment, these weaknesses could be magnified."

Statement of Principles Regarding Property and Casualty Insurance Ratemaking

(Adopted by the Board of Directors of the Casualty Actuarial Society, May 1988)

Risk -

- ✓ The rate should include a charge for the risk of random variation from the expected costs.
- ✓ *This risk charge should be reflected in the determination of the appropriate total return consistent with the cost of capital and, therefore, influences the underwriting profit provision.*

Olympus Insurance CompanyInsurance Consumer Advocate Recommended
Underwriting Profit and Contingency Provision

(1)	Equity Risk Premium	5.20%
(2)	Risk of Ruin	5.00%
(3)	Risk Charge	10.00%
(4)	Risk Free Rate	0.50%
(5)	Required Return on Surplus after Federal Income Tax (FIT)	20.70%
(6)	Average FIT Rate	20.00%
(7)	Required Return on Surplus before FIT	25.88%
(8)	Direct Written Premium	\$83,557,396
(9)	Policyholder Surplus	\$21,328,228
(10)	Required Return on Premium before FIT	6.60%
(11)	Net Investment Income before FIT	0.80%
(12)	Underwriting Profit & Contingency Provision before FIT	5.80%

Notes:

- (1) "Market Risk Premium Used in 2010 by Analysts and Companies: A Survey with 2,400 Answers", Pablo Fernandez and Javier del Campo
- (2) Based on Demotech Rating of "A" and Weiss Research Rating of "D" and actuarial judgment
- (3) Based on actuarial judgment
- (4) Estimated one year Treasury Bill yield
- (5) (1) + (2) + (3) + (4)
- (6) Based on actuarial judgment
- (7) (5) / (1 - (6))
- (8) & (9) Olympus quarterly financial statement as of 9/30/2010. Direct written premium of \$62,668,047 for 3 quarters annualized by a factor of 4/3.
- (10) ((9) / (8)) x (7)
- (11) Based on actuarial judgment
- (12) (10) - (11)

Olympus Insurance Company
Total Return Analysis

(1)	Number of House-Years	32,669	
(2)	Direct Written Premium before Rate Increase		\$59,368,553
(3)	Direct Written Premium after 27.9% Rate Increase		75,950,883
(4)	Underwriting Profit @ 3.7%		2,810,183
(5)	Investment Income @ .8%		607,607
(6)	Olympus Proposed Average Expense per House-Year	704	
(7)	Countrywide Average Expense per House-Year	<u>277</u>	
(8)	Excess Average Expense per House-Year	<u>427</u>	
(9)	Excess Expense		<u>13,950,582</u>
(10)	Total Return		17,368,372
(11)	Policyholder Surplus		\$21,328,228
(12)	Total Return on Surplus		81.4%

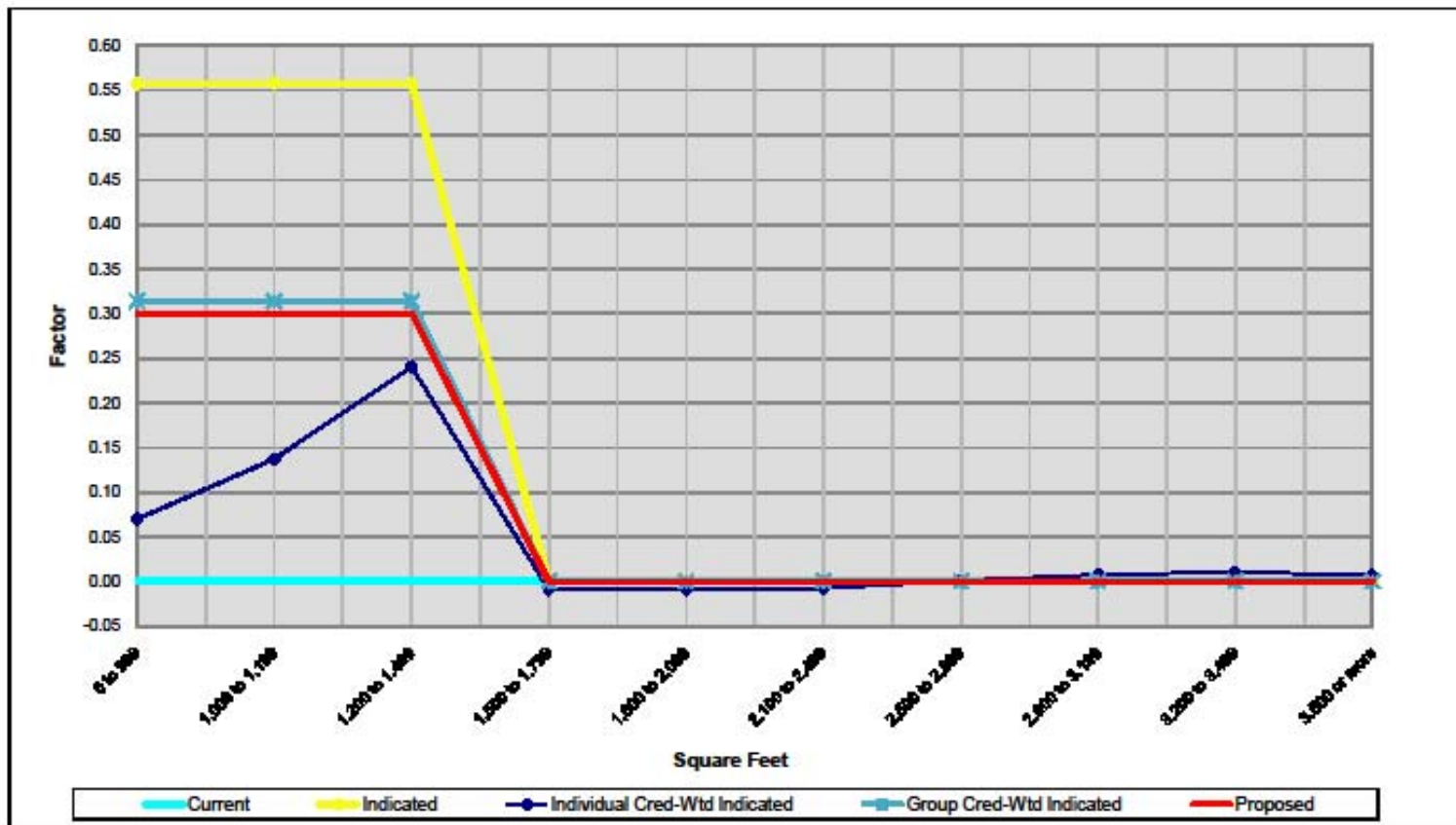
Notes:

- (1) & (2) HO-3 Policies, Olympus Rate Filing OIR # 11-00692
- (3) (2) x 1.279
- (4) (3) x .037
- (5) (3) x .008
- (6) & (7) Exhibit 4
- (8) (6) - (7)
- (9) (1) x (8)
- (10) (4) + (5) + (9)
- (11) Olympus quarterly financial statement as of 9/30/2010
- (12) (10) / (11)

Issue #4 – Square Foot Surcharge

Olympus Insurance Company
Homeowners - Ex Non-Renewed
HO-3 Combined

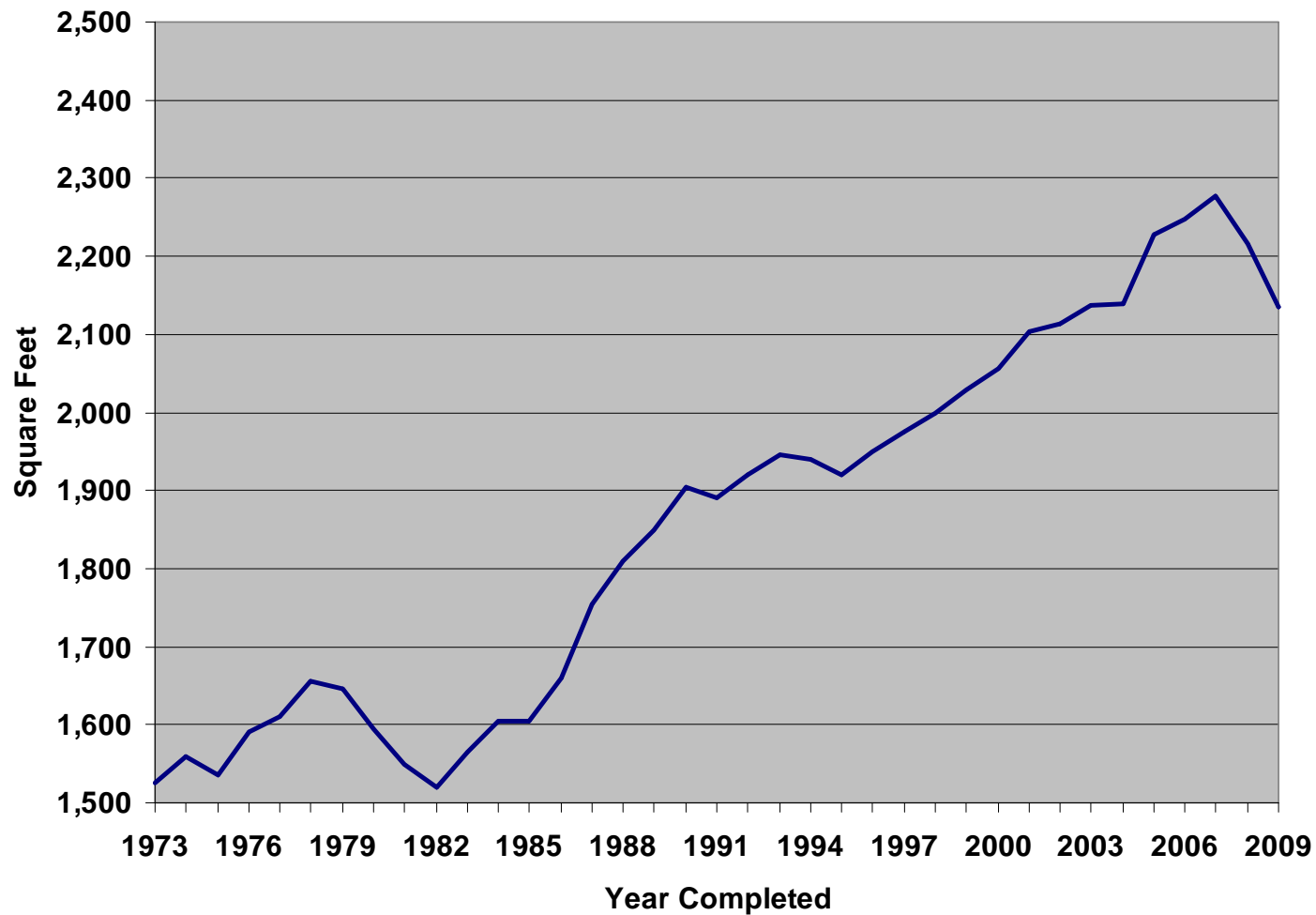
Square Feet Credits/Debits - Non-Hurricane



Source: Page 7 of this exhibit.

Milliman

Median Square Feet of Floor Area in New Single-Family Houses in the United States



<http://www.census.gov/const/www/charindex.html>

Summary

Olympus Insurance Company

Assumption Changes

	Olympus	Insurance Consumer Advocate
Loss Trend	17.6%	5.0%
Expenses	26.0% Variable	15.2% Fixed
Profit and Contingency	3.7%	5.8%

Olympus Insurance Company

MGA Fee per House-Year

	<u>Current Average Premium</u>	<u>2011 Olympus Proposed Average Premium</u>	<u>Increase</u>
Premiums Written	1,810	2,315	27.9%
Variable MGA Fee @ 25.0% of Premium	453	579	27.9%
Fixed MGA Fee @ 14.2% of Current Average Premium	258	258	0.0%

Olympus Insurance Company

Selected Overall Average Rate Change

Policy Type	On-Level Earned Premium (\$000's)	Company Indicated	Company Selected	ICA Indicated & Selected
Wind	25,204	88.5%	61.9%	56.1%
All Other Perils	34,164	4.0%	2.9%	-24.9%
	59,369	39.9%	27.9%	9.5%

Olympus Insurance Company

Issue Impacts on Rate Indications

Company Indication	39.9%
Loss Trend	-10.2%
Expenses	-14.7%
Profit and Contingency	2.2%
ICA Preliminary Indication	9.5%

Recommendations and Conclusions

- **Approve average rate increase of 9.5% subject to the following:**
 - ✓ **Amend MGA agreement to a fixed fee of \$258 per policy (14.2% of current premiums) rather than 25.0% of projected premiums.**
 - ✓ **Restrict general and other acquisition expense to \$18 per policy (1.0% of current premiums).**
 - ✓ **Increase Profit and Contingency Provision from 3.70% to 5.80%.**
- **The above changes will provide an expected after-tax return on surplus of 20.7%, which will accrue to Olympus Insurance Company rather than its affiliates or parent.**
- **Eliminate double counting of age effect in square footage surcharge.**