



SEAN MICHAEL SHAW, ESQ.
INSURANCE CONSUMER ADVOCATE

VIA ELECTRONIC TRANSMISSION

February 11, 2010

Mr. Michael Milnes, Deputy Director
Property and Casualty Product Review
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399-4206

RE: In the Matter of First Home Insurance Company
OIR Filing No.: 09-23287
Written Comments and Actuarial Expert Testimony

Dear Mr. Milnes:

I respectfully submit the attached written comments and actuarial expert testimony related to the above referenced matter authored by Mr. Stephen A. Alexander, FCAS, MAAA, MBA actuary for the Office of the Insurance Consumer Advocate. These written comments and actuarial expert testimony are to clarify and amplify Mr. Alexander's oral testimony given at the hearing on February 10, 2010.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sean Michael Shaw".

Sean Michael Shaw, Esq.
Insurance Consumer Advocate

cc w/ attachments: Kevin McCarty, Insurance Commissioner
Belinda Miller, Deputy Commissioner
Robert Lee, Actuary, Office of Insurance Regulation

REPRESENTING ALEX SINK, CHIEF FINANCIAL OFFICER, STATE OF FLORIDA
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The provision in the company's catastrophe load for losses in excess of the company's surplus and reinsurance (11.7% of catastrophe losses and 2.3% of current premiums excluding non-renewals) should not be loaded into the company's rates, because these losses will not be paid by First Home Insurance Company (First Home).

Such losses will be paid by either all the policyholders in the state of Florida through assessments on their policies made by the Florida Insurance Guaranty Association (FIGA) or, for losses not reimbursed by FIGA, will be retained by First Home policyholders. In essence all assessable policyholders in the state of Florida or the company's own policyholders provide reinsurance for this excess layer of loss.

This treatment of FIGA benefits is consistent with the Casualty Actuarial Society's *Statement of Principles Regarding Property and Casualty Insurance Ratemaking*:

Principle 1: A rate is an estimate of the expected value of future costs.

Principle 2: A rate provides for all costs associated with the transfer of risk.

First Home's expected value of future costs does not include excess losses that the company does not have the capacity to pay. Furthermore, the risk of losses in excess of the company's ability to pay is not being transferred to First Home, but will be assumed by FIGA in the event the company becomes insolvent.

The loss indemnification relationship between FIGA and First Home and its policyholders is not strictly reinsurance, because there is no reinsurance contract between First Home and FIGA and First Home pays no reinsurance premium to FIGA. Nevertheless, FIGA will pay losses that exceed the company's reinsurance limits and surplus, which results in policyholder benefits similar to reinsurance. Therefore, the loss reimbursement potential of FIGA should be treated in the same way as reinsurance and should be included as a negative fixed expense in the First Home rate indication.

Florida law provides that "the cost of reinsurance" be considered in each rate filing (627.062(2)(b)8 F.S. OIR has consistently interpreted this provision of the law to mean that the net cost of reinsurance may be loaded into rates. The net cost of reinsurance is computed as the reinsurance premium less expected reinsurance recoveries. In the case of losses in excess of the company's surplus and reinsurance, First Home pays no reinsurance premium and the expected recoveries from FIGA or retained by the company's own policyholders are simply the expected losses in the excess layer.

It is believed that this treatment of losses in excess of the company's surplus and reinsurance is not a violation of 627.0628(3)(d) F.S., because it does not "modify or adjust" a hurricane model but simply accounts for expected recoveries from a statutorily provided mechanism similar to reinsurance for insolvent insurers just as the expected recoveries are accounted for from private reinsurers and the Florida Hurricane Catastrophe Fund (FHCF).

Office of the Insurance Consumer Advocate
First Home Insurance Company
Rate Filing 09-23287

Net Cost of Reinsurance

	(1)	(2)	(3)	(4)
	Layer	Premium	Average Annual Losses	Net Cost
(5)	Retention	-	2,173,152	n/a
(6)	Cat Layer 1	10,793,985	4,633,853	6,160,132
(7)	RPP Layer 1	4,615,508	280,111	4,335,397
(8)	Cat Layer 2	2,850,560	281,358	2,569,202
(9)	RPP Layer 2	507,856	16,847	491,009
(10)	FHCF + TICL	6,499,633	4,167,180	2,332,453
(11a)	Available Surplus		140,459	
(11b)	FIGA	-	1,552,206	(1,552,206)
(12)	Total	25,267,542	13,245,166	14,335,987
(13)	ICA Net Cost Excluding FHCF			12,003,534
(14)	First Home Net Cost Excluding FHCF & FIGA			13,555,740
(15)	Reinsurance Net Cost Adjustment Factor			88.5%
(16)	First Home Non-FHCF Net Reinsurance Cost			19.9%
(17)	ICA Non-FHCF Net Reinsurance Cost			17.6%

Notes:

- (1) - (4) First Home exhibit titled: "FHIC - Net Cost of Reinsurance for Rate Filing -at 6.30.09"
- (11a) Exhibit 1, Sheet 2, Row (4)
- (11b) 1,692,665 - (11a)
- (13) (12) - (10)
- (14) (12) - (10) - (11)
- (15) (13) / (14)
- (16) First Home Exhibit 1, Sheet 1, Column (47)
- (17) (15) x (16)

Office of the Insurance Consumer Advocate
First Home Insurance Company
Rate Filing 09-23287

Net Cost of Reinsurance

(1) Surplus @ 9/30/2009	19,045,926
(2) Retention	5,000,000
(3) Available Surplus	14,045,926
(4) Expected Annual Losses to Available Surplus	140,459

Notes:

- (1) First Home statutory quarterly statement
- (2) First Home exhibit titled: "FHIC - Net Cost of Reinsurance for Rate Filing -at 6.30.09"
- (3) (1) - (2)
- (4) (3) / 100 based on Craig W. Bissell testimony at hearing on 2/10/10 that First Home purchases reinsurance up to 100 year

