

**Hartford Insurance Company of the Midwest  
OIR Filing # 11-07034  
Hearing of June 16, 2011**

Stephen A. Alexander FCAS, MAAA  
Actuary  
Office of the Insurance Consumer Advocate

**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...**

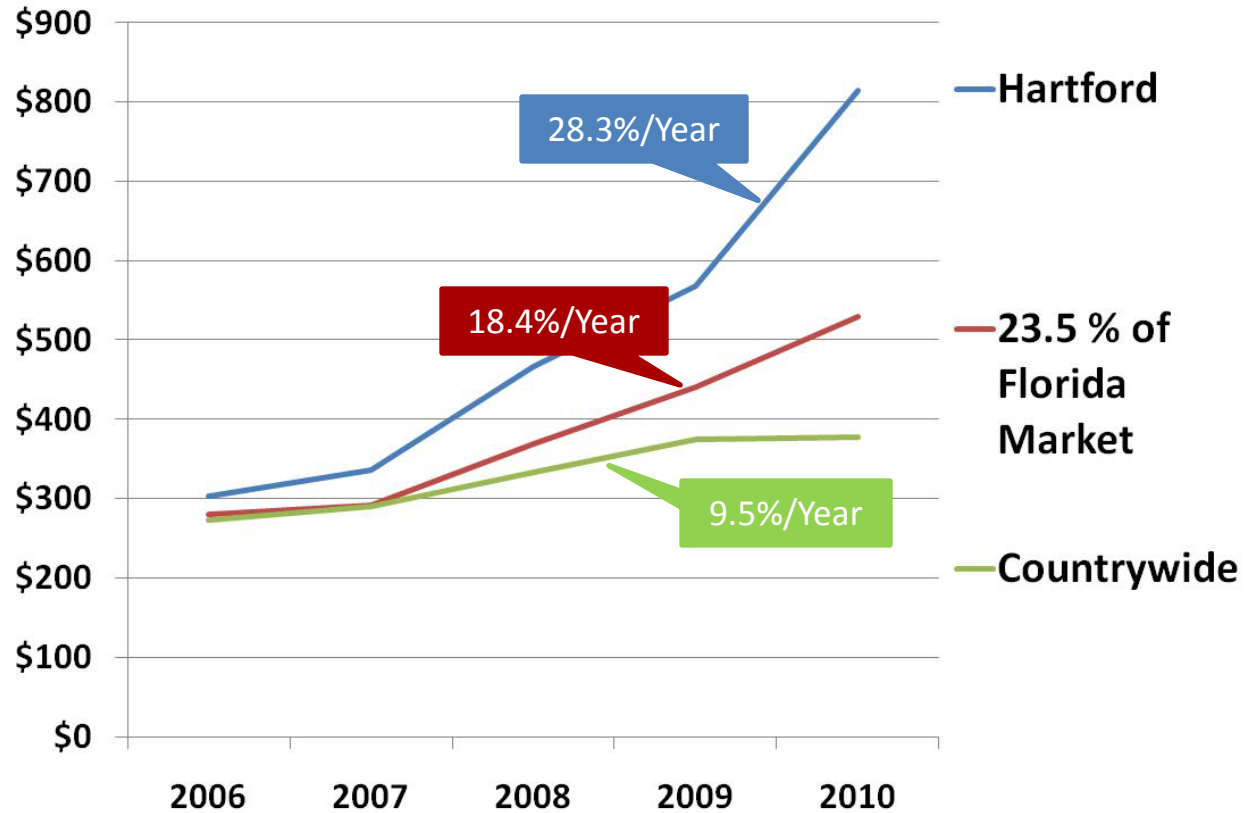
## CERTIFICATION

- 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.

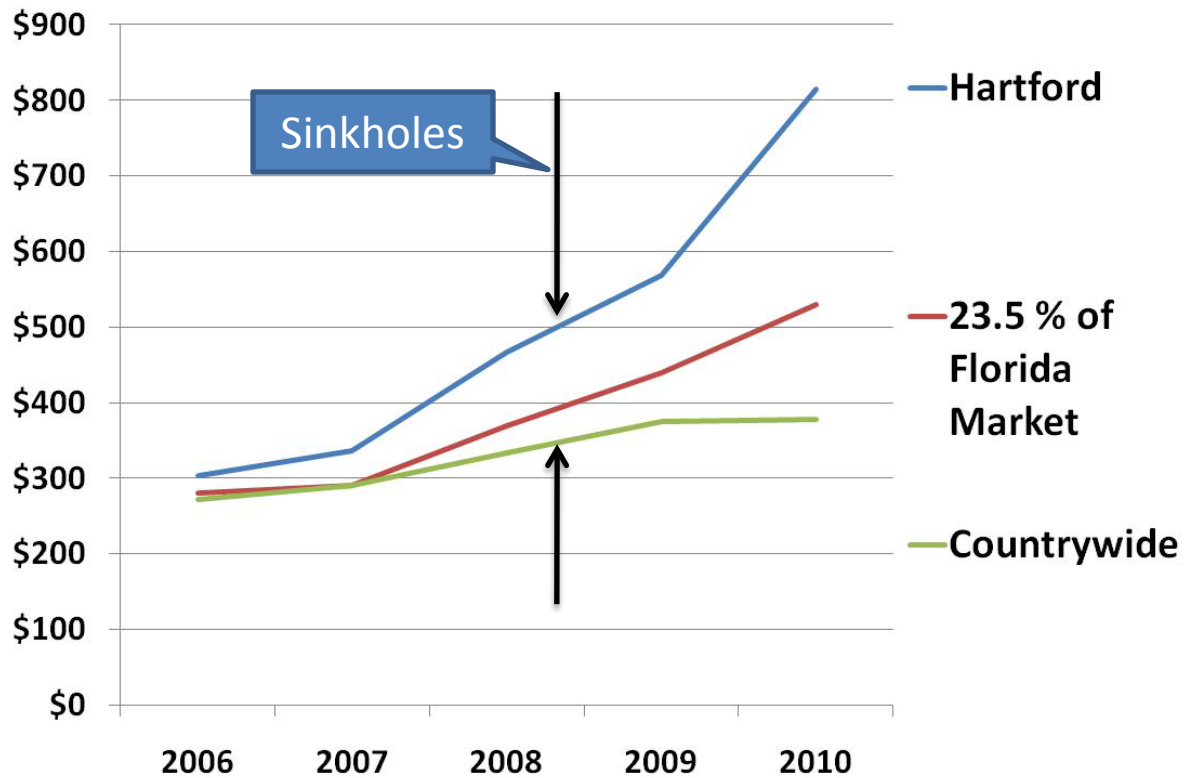


Stephen A. Alexander, FCAS, MAAA, MBA

# Homeowners Insurance Average Loss per Year per Policy Non-Catastrophe Losses



### Homeowners Insurance Average Loss per Year per Policy Non-Catastrophe Losses

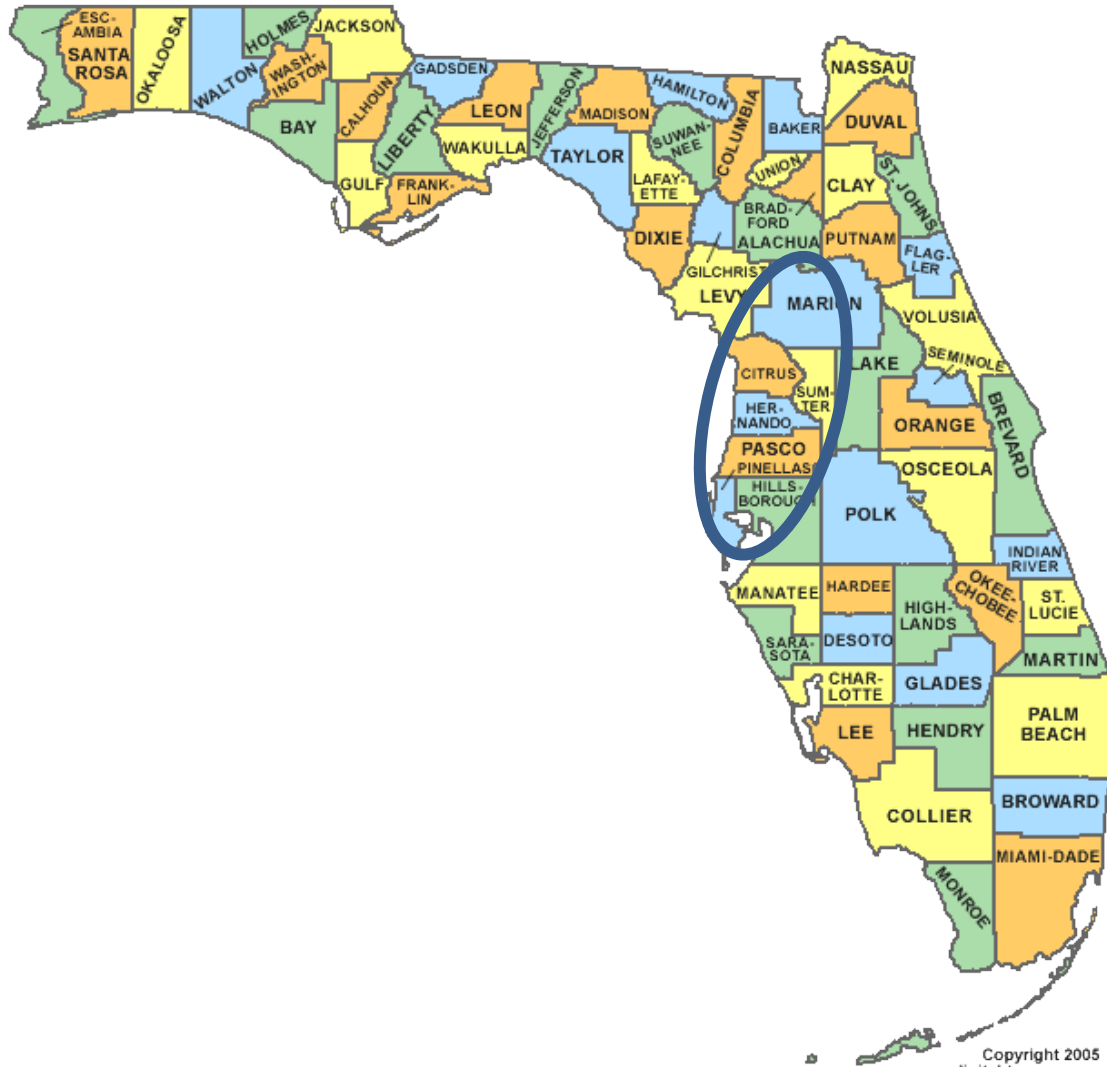


**Hartford Insurance Company of the Midwest  
Homeowners  
Reported Sinkhole Losses as of 9/30/10**

| Territory    | Calendar-Accident Year Ending 6/30 |                  |                  |                  |                   |                   | Total |
|--------------|------------------------------------|------------------|------------------|------------------|-------------------|-------------------|-------|
|              | 2006                               | 2007             | 2008             | 2009             | 2010              |                   |       |
| 15           | 0                                  |                  | 1                |                  |                   | 1                 | 85.6% |
| 16           | 2,087,170                          | 2,687,133        | 4,239,911        | 7,450,712        | 13,338,358        | 29,803,284        |       |
| 21           | 75,594                             |                  | 91,306           | 0                | 190,000           | 356,900           |       |
| 24           | 81,108                             | 88,815           |                  | 466,033          | 431,003           | 1,066,959         |       |
| 34           |                                    |                  | 62,000           |                  | 0                 | 62,000            |       |
| 35           |                                    |                  |                  |                  | 1                 | 1                 |       |
| 37           |                                    |                  | 0                |                  | 1                 | 1                 |       |
| 39           |                                    |                  | 203,874          | 0                |                   | 203,874           |       |
| 44           | 161,384                            | 153,000          |                  |                  |                   | 314,384           |       |
| 47           | 126,246                            | 25,066           | 0                | 100,326          | 378,003           | 629,641           |       |
| 48           | 213,604                            | 223,912          | 346,641          | 240,856          | 453,919           | 1,478,932         |       |
| 49           |                                    |                  |                  | 190,000          |                   | 190,000           |       |
| 50           |                                    | 230,808          |                  | 1                | 65,000            | 295,809           |       |
| 54           |                                    | 0                | 96,000           |                  |                   | 96,000            |       |
| 65           |                                    | 64,009           |                  |                  | 248,500           | 312,509           |       |
| <b>Total</b> | <b>2,745,106</b>                   | <b>3,472,743</b> | <b>5,039,733</b> | <b>8,447,928</b> | <b>15,104,785</b> | <b>34,810,295</b> |       |

Note:

OIR Question 2a\_Final Sinkhole Exhibit provided by Hartford.



**Hartford Insurance Company of the Midwest  
HO-2,3,5  
Territorial Experience**

| (1)       | (2)  | (3)          | (4)  | (5)                     |
|-----------|--|--------------|--|-------------------------|
| Territory | 5-Year Earned<br>Premium at<br>Present Rates | %<br>Premium | 5-Year<br>Uncapped Non-<br>Catastrophe<br>Losses | % Non-<br>Cat<br>Losses |
| 16        | \$ 26,970,939                                | 6.2%         | \$ 33,069,492                                    | 31.3%                   |
| All Other | \$ 408,748,619                               | 93.8%        | \$ 72,704,878                                    | 68.7%                   |
| Total     | \$ 435,719,558                               | 100.0%       | \$ 105,774,370                                   | 100.0%                  |

Notes:

(1), (2) & Source is Hartford's Rate Support by Territory Exhibit.

- (4)
- ▶ (3) (2) / (2) Total
- ▶ (5) (4) / (4) Total

# Hartford Cost Shifting

- Hartford Method:
  - Limit (cap) each sinkhole loss at \$75,000.
  - Cap Territory 16 rate change at 10.0% more than statewide average.
- Advocate's Opinion:
  - Capping of individual sinkhole losses should only be used to limit the impact of rare large random events.
  - The large number of large sinkhole losses in Territory 16 indicates that the sinkhole experience is predictive of future losses, and should be fully reflected in Territory 16 rates after adjustment for Senate Bill 408.

**Hartford Insurance Company of the Midwest  
HO-2,3,5  
Hartford's Proposed Base Rate Increases**

| (1)       | (2)  | (3)                     | (4)                      | (5)           |
|-----------|--|-------------------------|--------------------------|---------------|
| Territory | 5-Year Earned<br>Premium at<br>Present Rates | Current<br>Base<br>Rate | Proposed<br>Base<br>Rate | %<br>Increase |
| 16        | \$ 26,970,939                                | 790                     | 1,115                    | 41.1%         |
| All Other | \$408,748,619                                | 964                     | 1,220                    | 26.6%         |
|           | \$435,719,558                                | 951                     | 1,212                    | 27.5%         |

Notes:

Source is Hartford's Rate Support by Territory Exhibit.

**Hartford Insurance Company of the Midwest  
HO-2,3,5  
Advocate's Preliminary Base Rate Increases**

| (1)       | (2)  | (3)   | (4)                             | (5)                              | (6)                     | (7)                      |
|-----------|--|---|---------------------------------|----------------------------------|-------------------------|--------------------------|
| Territory | 5-Year Earned<br>Premium at<br>Present Rates | Preliminary<br>Indicated<br>Base Rate<br>Increase | Impact of<br>Senate Bill<br>408 | Indicated<br>Base Rate<br>Change | Current<br>Base<br>Rate | Proposed<br>Base<br>Rate |
| 16        | \$ 26,970,939                                | 105.2%  | -25.0%                          | 53.9%                            | 790                     | 1,216                    |
| All Other | \$408,748,619                                | 15.5%   | -5.0%                           | 9.7%                             | 964                     | 1,113                    |
|           | \$435,719,558                                |   |                                 | 17.5%                            | 953                     | 1,119                    |

Notes:

- (2) & (6) Source is Hartford's Rate Support by Territory Exhibit.
- (3) Hartford's Rate Support by Territory Exhibit, Territorial Bldgs tab, substituting uncapped losses for \$75K capped losses. All Other Territories based on Exhibit 5.
- (4) Based on very preliminary actuarial judgment. Hartford should review its sinkhole claim files and estimate impact.
- (5)  $(1 + (3)) \times (1 + (4)) - 1$ , assumes (3) for Territory 16 is 100% credible
- (7)  $(1 + (5)) \times (6)$

## Senate Bill 408

- “Allows carrier to restrict sinkhole loss coverage and catastrophic collapse to the principal building as defined in the policy.
  - *In some cases claims were paid involving the entire premises value even when there were only cracks to a well, small out-building, or detached garage.*
- Defines structural damage based on technical definitions under the Florida Building Code (FBC).
  - *This should go a long way to clarifying that cracks in drywall are not structural damage. Carriers are concerned their expenses to make such determinations may rise, however.*
- Requires policyholder to pay 50 percent of the cost of the analysis or \$2,500, whichever is less. But, the insurer shall reimburse if there is a loss due to sinkhole.
  - *Puts some skin in the game for policyholder.*
- Requires insured to repair sinkhole or catastrophic collapse in accordance with the insurer's engineer's recommended repairs. But, if it cannot be done within the policy limits, insurer can tender the policy limits and repair is not required.
  - *If done according to insurer's experts, it may create liability for insurer if later damage appears. It is hoped this change will work to eliminate frivolous claims and PA abuses and, hopefully, curtail undo pressure to settle because payouts often exceed policy limit and/or the value of home.”*

*Source: Florida Association of Insurance Agents*

**Hartford Insurance Company of the Midwest**  
**HO-2,3,5**  
**Advocate's Preliminary Indicated Average Rate Increase**  
**All Territories Excluding Territory 16: Citrus, Hernando & Pasco, Non-Coastal**

|  | Accident<br>Year Ending<br>6/30/2006 | Accident<br>Year Ending<br>6/30/2007 | Average |
|--|--------------------------------------|--------------------------------------|---------|
| (1) Estimated Ultimate Non-Hurricane Loss & LAE Ratio at Current Rates | 23.1%                                | 22.5%                                | 22.8%   |
| (2) Midpoint of Experience Period                                      | 12/31/2005                           | 12/31/2006                           |         |
| (3) Midpoint of Prospective Rate Period                                | 9/27/2012                            | 9/27/2012                            |         |
| (4) Countrywide Annual Trend Rate                                      | 9.5%                                 | 9.5%                                 |         |
| (5) Trend Period (Years)   | 6.75                                 | 5.75                                 |         |
| (6) Trend Factor   | 1.845                                | 1.684                                |         |
| (7) Projected Non-Hurricane Loss & LAE ratio                           | 42.5%                                | 37.9%                                | 40.2%   |
| (8) Projected Hurricane Loss & LAE ratio                               |                                      |                                      | 25.8%   |
| (9) Projected Incurred Loss & LAE Ratio                                |                                      |                                      | 66.0%   |
| (10) Expected Fixed Expense Ratio                                      |                                      |                                      | 36.2%   |
| (11) Expected Variable Expense Ratio                                   |                                      |                                      | 11.5%   |
| (12) Preliminary Indicated Rate Increase excluding Territory 16        |                                      |                                      | 15.5%   |

## Notes:

This indicated rate increase is very preliminary, because Hartford's rate filing does not exclude sinkhole claims. Accident years ending 6/30/2006 and 6/30/2007 were used, because losses are relatively free of sinkhole claims. It is assumed the countrywide trend is more appropriate than the Florida trend for non-sinkhole losses. Because of the lack of a separate analysis of sinkhole experience, it is recommended that this filing be disapproved and Hartford refile separate rates for sinkhole and non-sinkhole coverage.

- (1) Hartford RIF1, Column (43) / Column (36)
- (3) Hartford RIF1, Row (E)
- (5) ((3) - (2)) / 365
- (6) (1 + (4))^(5)
- (7) (1) x (6)
- (8) Hartford RIF1, Row (50)
- (9) (7) + (8)
- (10) Hartford RIF1, Row (52)
- (11) Hartford RIF1, Row (53)
- (12) ((9) + (10)) / (1 - (11)) -1

# Summary

- Sinkhole losses concentrated in three counties are distorting statewide loss trends.
- Methodology used by Hartford of capping sinkhole losses and the indicated rate change for Citrus, Hernando and Pasco Counties (Territory 16) will result in cost shifting to other areas of the state, which is unfairly discriminatory.
- A rate structure is unfairly discriminatory if the insurance premium differences between policyholders does not reasonably correspond to differences in expected insurance costs.
- Therefore, filing should be disapproved, and Hartford should evaluate impact of Senate Bill 408 on its sinkhole claims experience and re-file separate rates for sinkhole and non-sinkhole coverage.