Office of Public Insurance Counsel

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Via Hand Delivery

J'ne Byckovski, FCAS, MAAA
Chief Actuary, Property and Casualty
Texas Department of Insurance
333 Guadalupe Street, MC 105-5F
Austin, TX 78701

Re: American Bankers Insurance Co. of Florida
Residential Property Rate Filing
TDI Link # S645619

Dear Ms. Byckovski:

Pursuant to TEX. INS. CODE ANN. Section 2251.106, the Office of Public Insurance Counsel (OPIC) objects to this residential-property rate filing because it produces rates that do not comply with rating standards set forth in TEX. INS. CODE ANN. Sections 2251.051, 2251.052, and 560.002.

The proposed 7.6% increase, effective January 1, 2018 for new business and February 1, 2018 for renewals, is insufficiently supported and likely excessive. Below are several issues we have with the filing.

1. Unsupported Catastrophe Losses

In the filing, projected catastrophe losses account for 45% of total projected losses, but there is no data that supports these losses whatsoever. This obviously makes evaluating the filing difficult, if not impossible.

2. Financial Statement Data Does Not Support a Rate Increase

The data that is provided indicates the company's five-year loss and DCCE (defense and cost containment expenses) ratio to earned premium, *which includes 2016 data*, is 47.4%. Based on the expenses stated in the filing, this level of incurred loss is indicative of high profitability. While unadjusted financial statement data is not a basis for ratemaking, this data is far more suggestive of rate excess than a need to increase rates. As stated above, the lack of catastrophe loss support complicates the filing analysis.

3. Selected Loss Trends are a Function of High Volatility in a Very Sparse Data Set

We believe the filed data's apparent support for selected loss trends is largely a function of high volatility in a very sparse data set affected by catastrophe losses in 2016.[1] For example, the company's losses per exposure range from $67 to $431 (543%) over the data period provided. For recent industrywide data, the spread is $276 to $384 (39%).[2] Sparse data become less reliable as time periods becomes shorter. In addition, the highest claim frequency in the company data is Spring 2016 while the highest claim severity is the quarter immediately following Spring 2016. Both figures are extremely high compared to the average and notably bias the short-term trend indications.

To the extent the company's trend data should be relied on at all, the longer trend series indications should be used. Using either the longer-term company trend indications or industrywide trend data over any reasonable time period would yield lower trend selections than those used in the filing, particularly on a prospective basis.

Data / Trend Period	Indicated Annual Trend[3]	Selected Past / Prospective
Company 4 Year	+3.4%	+5.1% / **+9.8%**
Company 3½ Year	+3.7%	
Company 3 Year	+5.3%	
Fast Track 4 Year	+0.8%	
Fast Track 3 Year	+1.1%	
Fast Track 2 Year	+3.6%	

Summary

While a full review of the filing is not possible due to the lack of data, OPIC notes the company's statewide Exhibit 1 yields a rate indication of +7.4% using the permissible loss and LAE ratio shown on Exhibit 19. That is already slightly lower than the company proposes to implement. Given the financial statement and loss trend data, the company's catastrophe loss support needs to be extremely convincing to support the rate increase proposed. The filing in its present form fails to do so.

Sincerely,

Joe Matetich
Deputy Public Counsel

[1] Though trend data is catastrophe adjusted it is well documented the procedures are imperfect and trend data will typically bias high after significant cat events.
[2] ISO Fast Track, Texas catastrophe adjusted loss costs through 1Q 2017, all forms combined.
[3] Company data are compiled from filing using exponential trend.

cc: Tina Walker, Sr. Product Compliance Analyst
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