

**St. Johns Insurance Company**  
**Homeowners Program**  
**Rate Change Filing Effective February 15, 2022 (new and renewal)**  
**Explanatory Memorandum**

**Table of Contents**

Introduction.....	1
Background.....	2
Enclosed Exhibits.....	2
Rate Proposals.....	3
HO-3.....	3
HO-6.....	4
Actuarial Opinion.....	4
Rate Indications .....	4
Data .....	5
Discussion .....	5
HO-3 .....	5
HO-6.....	16
Manual Pages.....	16
Rate Collection System (RCS).....	17

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

**Introduction**

On behalf of St. Johns Insurance Company (St. Johns), Milliman, Inc. (Milliman) has developed statewide and territorial rate

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

St. Johns' primary goal with this filing is to transition Wind, AOP<sup>1</sup> and Sinkhole perils toward the indication.

**Background**

St. Johns has provided Florida homeowners insurance since 2004. St. Johns currently writes homeowners insurance in Florida and South Carolina, and dwelling fire insurance in Florida.

***Rate History.*** The company's rate history is documented in Exhibit 2 of the rate indications. St. Johns' most recently implemented rate filing, 21-025375, which revised base rates and a few reversals in the Age of Roof factors, with a rate change of +8.8% effective for new business on September 1, 2021. The current filing is for annual certification of the rates.

***Contents of Filing.*** This filing includes experience reviews of Forms HO-3 and HO-6. The experience reviews were performed by peril: for HO-3 the perils are Wind, AOP (excluding sinkhole) and Sinkhole; and for HO-6, the perils are Wind and AOP (sinkhole included). The experience includes five complete accident years ending June 30<sup>th</sup> of 2017 to 2021, with losses evaluated as of September 30, 2021.

The proposed changes are based on St. Johns' experience.

***Effect of Re-Underwriting.*** The company has represented that its historical and ongoing marketing and underwriting may be considered normal business practice so that all historical experience may be used to evaluate the current rates. In the rate indications, the accident year weights were selected based on trended, on-level earned premiums.

**Enclosed Exhibits**

The following exhibits support Milliman's rate indications and St. Johns' rate selections. Footnotes document the information sources and calculations. Unless otherwise noted, we provided these exhibits separately for the Wind, AOP, and Sinkhole (for HO-3) portions of the business.

The exhibits are presented in separate files for HO-3 and HO-6.

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

*Indication Exhibits*

OIR Rate Indication Forms (RIFs)

Wind

AOP

Sinkhole (HO-3 only)

Exhibit 1 – Written and Earned Premiums

Exhibit 2 – Current Rate Level Factors

Exhibit 3 – Premium Trend Factor

Exhibit 4 – Reported Loss and Allocated Loss Adjustment Expense (ALAE)

Exhibit 5 – Unallocated Loss Adjustment Expense (ULAE)

Exhibit 6 – Non-Hurricane Catastrophe Loss and LAE

Exhibit 7 – Expected Hurricane Loss and LAE Ratios

Exhibit 8 – Selected Loss and ALAE Development Factors

Exhibit 9 – Pure Premium Trend Factors

Exhibit 10 – Accident Year Weights

Exhibit 11 – Expenses and Reinsurance Summary

Exhibit 12 – Credibility

Exhibit 13 – Territorial Rate Indications by Peril

Exhibit 14 – Territorial Rate Indications and Proposals by Peril

The exhibits have been provided in Excel in Insurance Regulation Filing System (IRFS).

**Rate Proposals**

This section provides an explanation of the overall approach to selecting the proposed rates. The “Rate Indications” section gives additional details regarding our analysis and supporting exhibits, and St. Johns’ proposals.

**HO-3**

As shown in Exhibit 14, St Johns’ proposed HO-3 rate changes were selected by peril, with tempering to reduce policyholder dislocation. St. Johns is targeting a 12.0% increase overall and the dislocation chart on Page 7 shows that approximately 75% of policyholders would receive a rate increase of less than 15%.

For Wind, on Pages 3w-4w and AOP, on Pages 3a-4a, the proposed change is the experience indication, tempered by a factor of 0.890. For Sinkhole, on Pages 3s-4s, the proposed change is 0%. The tempering of the territorial changes was intended to control policyholder dislocation.

Additional details on the proposed rates and factors are in later sections of this memorandum.

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

HO-6



St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

**Exhibit 2** shows the earned premium by territory, unadjusted and at current rate level. St.

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

Non-hurricane catastrophe includes losses from storms that were classified by St. Johns as catastrophes.

**Exhibit 5** derives estimated incurred ULAE, as well as St. Johns' expected ratio of ULAE / Loss for non-catastrophe and catastrophe losses. Non-Catastrophe Incurred ULAE equals the product of a selected ratio applied to the combined loss and ALAE. The selected ratio is derived on page 3 and reflects St. Johns' experience and TPA agreement. The TPA agreement changed in 2021. This analysis is consistent with the last filing.

As shown on Page 4, the selected ratio for Catastrophe claims is 0%. The contractual fee of 2% is included with ALAE results.

**Exhibit 6** derives the estimated ultimate loss and LAE for non-hurricane catastrophe. The estimates are the product of the trended ultimate total non-catastrophe ex-sinkhole losses and a selected excess wind ratio. Page 1 estimates the total ultimate and distributes it to loss, ALAE and ULAE components based on the underlying incurred amounts. Page 2 shows that the selection of 9.8% is a combination of St. Johns' experience (14.5%) and the prior filing (21-025375) selection of 7.7%.

**Exhibit 7** shows the calculation of expected hurricane catastrophe loss and LAE by territory. As previously noted, losses were estimated using AIR v17.0.1, assuming long-term frequency, with demand surge, and without storm surge. The losses by territory were taken directly from the model results, without adjustment. They were then loaded for LAE using the selected catastrophe LAE loads shown on Page 5. The catastrophe LAE loads reflect St. Johns' companywide homeowners experience with past hurricanes. The ULAE component of LAE is 0% because the cost of handling catastrophe claims is included with ALAE.

**Exhibit 8** derives loss development factors by peril (wind, fire & lightning, water, other



St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

**Exhibit 9** estimates Non-Hurricane loss trend factors for historical and prospective periods by peril. When selecting trends, we considered trends indicated by accident year and calendar year methods as well as the Styrsky Method. Page 2 for each peril shows trends indicated under each of the methods examined.

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

Page 4b: Allocation of Net Reinsurance Cost to Program for Non-Wind  
Page 5: Estimated Net Cost of Reinsurance by Coverage  
Page 6: FHCF Premium, Retention and Limit  
Page 7: Estimated Net Cost for Quota Share  
Page 8: Summary of Private Reinsurance Contracts  
Page 9: Reinsurance Chart for 2021-22 Program

St. Johns' reinsurance expense was calculated as a net expense factor in accordance with the methodology prescribed by the OIR.

We based the reinsurance costs on the 2021-22 treaty year. The reinsurance structure is consistent with the prior filing. We have updated the premiums at current rate level for the prior filing and reflected the latest premium figure for the FHCF.

Exhibit 11, Page 4a shows that the wind reinsurance cost is allocated to form based on AAL for costs associated with catastrophe XOL and FHCF, premium for Quota Share (QS) and TIV for Per Risk. QS cost is treated as variable expense in the rate indication while other reinsurance expenses are treated as fixed.

Exhibit 11, Page 4b shows that the AOP reinsurance cost is for QS and Per Risk, allocated to form based on premium for QS and TIV for Per Risk. QS cost is treated as variable expense in the rate indication.

Exhibit 11, Page 5 shows that the reinsurance cost has been calculated as a net expense factor per OIR instructions. The reinsurance expense equals reinsurance plus reinstatement

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

For the 2021-22 contract year, St. Johns purchased 90% FHCF coverage. As represented by St. Johns, it is our understanding that there is no duplication of coverage between private and FHCF reinsurance.

Exhibit 11, Pages 7a-7c derive the net cost of the company's QS treaties, calculated in accordance with the contractual reinsurance terms. The portion of the net cost of QS reinsurance is estimated to be +6.6% and +5.8% for the wind and AOP portions of the QS premium respectively.

There are both catastrophe and non-catastrophe loss components to these treaties, shown on Pages 7a and 7b. The catastrophe component equals hurricane loss from AIR v17.0.1 including a 10% LAE load + non-hurricane catastrophe loss based on 7.8% of the non-catastrophe ceded loss & LAE. Page 7c derives the non-catastrophe expected loss ratio using this filing's HO-3 experience.

Exhibit 11, Page 8a summarizes the limits, attachment points, placement percentages and deposit premiums for each of St. Johns' private reinsurance contracts. The associated contract names and reference pages are also provided. Because Layers of the Cat XOL contract apply to Florida and South Carolina combined, Page 8b shows that the premium for those layers was allocated to state in proportion to AAL.

Exhibit 11, Page 9 displays the reinsurance chart for the 2021-22 program.

Exhibit 11 includes an FHCF workpaper, which displays the typical OIR calculation of the FHCF recovery ratio. The recovery ratio of 77.4% was used in Exhibit 11, Page 5 to derive the indication shown in the summary.

**Exhibit 12** shows our state-wide credibility calculations.

For AOP (Exhibit 12a), credibility is based on the square root rule using a full credibility standard of 40,000 earned house years. By this standard, every individual year for St. Johns is fully credible. For wind (Exhibit 12w), credibility is based on an in-force standard of 8,000 earned house years. The in-force exposures are fully credible.

For Sinkhole (Exhibit 12s), we calculated credibility based on both exposure and claim count standards. The exposure standard is the same as in 12a; the claim count standard uses the square root rule and a full credibility standard of 1,082 claims. The exposure standard implies credibility is 100%, the claim count standard implies 10.1%. We selected 10.2% as the Sinkhole state-wide credibility.

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

By peril, **Exhibit 13** derives the indicated territorial rate changes. The territorial indications are based on relativities applied to the statewide change.

For Wind, **Exhibit 13w** contains the following pages:

Indicated Rate Change. Pages 1-2 show that the territorial indicated rate change equals the statewide indication of 18.8% times a territorial ~~relativity~~ ~~relativity~~. The ~~ity~~ ~~ity~~

it M



St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

For a territory with no historical exposures, the weighted loss ratio equals the credibility-weighted loss ratio for the territory group that is shown in Page 5. These are different than the territory group ratios in Page 8, which are stated before the application of credibility weighting.

Territorial Loss and LAE Ratio. Pages 6-7 show that the territorial loss & LAE ratios equals Column (15) of Pages 11-12.

Group Loss and ALAE Ratio. Page 8 shows the territory group loss and ALAE experience. This page is a summary by group of the territorial results shown in Pages 6-7.

Trended On-Level Earned Premium and Earned Exposures. Pages 9-10 show trended on-level earned premiums and exposures by territory and year. The trended on-level premiums equal Exhibit 2 current level premiums multiplied by the premium trend factors from Exhibit 3.

Trended Ultimate Loss and LAE. Pages 11-12 show that the ultimate limited loss & LAE equals the accident year “limited” reported loss and ALAE adjusted by the statewide factors (trend, LDFs, and ULAE %) plus an excess loss load. A flat excess load of 9.0% has been added to each territory’s results to account for limiting reported losses to \$100,000 per claim. Loss limiting is used to improve the stability and credibility of the territorial results; the limits were selected judgmentally based on a review of St. Johns’ large loss history.

Reported AOP Loss and ALAE Experience. Pages 13-14 show the reported loss and ALAE experience on a gross and excess basis. Individual claims underlying the excess experience are shown on Pages 15-18.

For Sinkhole, **Exhibit 13s** follows the design of Exhibit 13a. It differs from Exhibit 13a because of credibility and territory groups.

As shown on Exhibit 13s, Pages 3-4, **credibility** is based on the square root rule applied on a less base ~~rule~~ <sup>3</sup>

St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

because that is the level of detail available from the data underlying the OIR report. Though the territory groups have not been updated, we believe the groups are reasonable; we would also note that sinkhole claim activity is much less significant post SB 408.



St. Johns Insurance Company  
Homeowners Program  
Explanatory Memorandum

Column 3 displays St. Johns' *initial* selection which is the experience indication tempered by a factor of 0.890.

Column 4 equals Column 3.

Columns 6 and 7 are the territory and territory group credibilities used in column 8.

Column 9 is the proposed base rate change which equals Column 4.

Pages 3a-4a show proposed AOP changes, which has a layout similar to Wind. Material comments on AOP are as follows:

Column 3 displays St. Johns' *initial* selection which is the experience indication tempered by a factor of 0.890.

Pages 5-6 show the current and proposed base rates by peril, based on the selections from Pages 3-4.

Page 7 shows the policyholder dislocation based on July 1, 2021 in-force exposures. Approximately 75% of policyholders will receive a rate increase of less than 15% based on St. Johns' proposals and 34% of policyholders have a change less than 10%.

## **HO-6**

HO-6 generally follows the layout of the HO-3 exhibits. Key differences between the two analyses are as follows:

The HO-6 perils are Wind and AOP because HO-6 includes sinkhole in base coverage without a buy-back.

Exhibit 3 premium trend is based on changes in Coverage A+C.

The HO-6 credibility standard is 25,000. This is lower than the HO-3 standard and is the same as used in prior St. Johns' filings. Based on this standard, the rate indication is 100% credible.

HO-6 Exhibit 14 has the following pages:

Pages 1-2: Indicated and Proposed Changes – All Perils

Pages 3w-4w: Indicated and Proposed Changes – Wind

Pages 3a-4a: Indicated and Proposed Changes – AOP

Pages 5-6: Current and Proposed Base Rates

Page 7: Policyholder Dislocation

## **Manual Pages**

St. Johns' manual pages have been updated to reflect the proposed changes. A comprehensive list of the changes has been submitted with the filing.

St. Johns Insurance Company