

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

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**Introduction**

On behalf of St. Johns Insurance Company (St. Johns), Milliman, Inc. (Milliman) has developed statewide and territorial rate indications for St. Johns' Florida Homeowners program. Based on the rate indications, St. Johns proposes to modify its rates for HO-3 and HO-6 on a Use & File basis. The proposed effective date for new and renewal business is February 15, 2022. St. Johns' Homeowners program has no HO-4 business.

Table 1, on the same basis as RCS, summarizes the indicated and proposed rate changes for forms HO-3 and HO-6, including and excluding policy fees (including policy fees is on the same basis as RCS):

<b>TABLE 1: SUMMARY OF INDICATED RATE CHANGES</b>					
<b>Form</b>	<b>Peril</b>	<b>Earned Exposures (RIF)</b>	<b>On-Level Premium (RIF)</b>	<b>Rate Indication (RIF)</b>	<b>Rate Proposal (RIF)</b>
HO-3	Wind	141,927	\$247,151	18.8%	16.7%
	AOP	142,431	228,451	8.0%	7.2%
	Sinkhole	42,006	295	1.3%	0.0%
	Total, Excluding Policy Fees	142,431	\$475,896	13.6%	12.1%
	Total, Including Policy Fees			\$479,742	13.5%
HO-6	Wind	26,557	\$14,987	12.3%	11.0%
	AOP	26,904	26,812	20.5%	17.5%
	Total, Excluding Policy Fees	26,904	\$41,799	17.6%	15.2%
	Total, Including Policy Fees			\$42,526	17.3%
All Forms Combined	Total, Excluding Policy Fees	169,335	\$517,696	13.9%	12.4%
	Total, Including Policy Fees			\$522,268	13.8%

Notes:

1. Data provided by St. Johns.
2. Dollar amounts are in thousands.
3. Premiums at the peril level exclude policy fees which are \$27 per policy.

The rate level analysis is based on St. Johns' exposure and loss experience through June 30, 2021, evaluated as of September 30, 2021. Expected hurricane losses and reinsurance expense reflect July 1, 2021 exposures and treaty year 2021-2022 reinsurance contracts, utilizing the latest accepted AIR model.

The Indicated and Proposed changes are calculated in the Office of Insurance Regulation's (OIR's) rate indications workbook, reflecting the prescribed methodology for aggregating the territorial data into statewide totals.

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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.

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<sup>1</sup> Unless otherwise specified, in this document, AOP excludes Sinkhole.

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*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.

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HO-6

As shown in Exhibit 14, St Johns' proposed HO-6 rate changes were selected by peril, with tempering to reduce policyholder dislocation. As shown in the dislocation chart on Page 7, approximately 84% of policyholders would receive a rate increase of less than 15% based on St. Johns' proposed changes.

For Wind, on Pages 3w-4w, the proposed territorial change is the experience indication tempered by a factor of 0.900. For AOP, on Page 3a-4a, the proposed territorial change is the experience indication tempered by a factor of 0.855.

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

Actuarial Opinion

Based on the information provided for our review, given the inherent uncertainty in our estimates and explicitly considering St. Johns' transition plan towards rate adequacy, it is our opinion that the rates and indications contained in this filing are not excessive, inadequate, or unfairly discriminatory and comply with the laws of Florida.

**Rate Indications**

Milliman performed the enclosed rate level review of St. Johns' HO-3 and HO-6 policies. We developed experience indications by peril of the rate adjustments needed to meet St. Johns' loss ratio goals, using St. Johns' own claim experience and exposures and assuming a rate change New Business effective date of February 1, 2022. We believe the impact of the difference between the assumed effective date and the proposed effective date to be immaterial, since the impact on the indication due to revising the effective date is small and would not have changed St. Johns' selected rate change, described below. The statewide and territorial rate indications are expected value estimates that lie within a range of reasonable estimates above and below the indications.

Based on our review, we estimate that St. Johns needs a statewide rate increase of +13.8% to achieve its target loss ratio (see Table 1; this includes policy fees).

The rate level indications include reinsurance expense based on St. Johns' purchased reinsurance program for the 2021-22 contract year.

Private catastrophe excess of loss reinsurance premiums equal the deposit amounts; the FHCF premium was estimated.

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All modeled results in this filing are based on AIR Hurricane Model Version 17.0.1, in Touchstone 7.3.0, assuming July 1, 2021 exposures, long term frequency, demand surge and no storm surge. AIR 17.0.1 is the AIR model which recently expired November 1, 2021 while completing this analysis. This filing is being submitted during the 120-grace period of acceptability by the Florida Commission on Hurricane Loss Projection Methodology and acceptable for use in Florida filings.

At placement, St. Johns purchased to approximately a 1 in 109 PML based on PMLs estimated by AIR Hurricane Model Version 17.0.1, in Touchstone 7.3.0, and including a 10% LAE load.

St. Johns has included direct Florida premium and loss experience in its rate indication. The experience period consists of five complete accident years ending June 30<sup>th</sup> of 2017 through 2021, with losses evaluated as of September 30, 2021. The date of in-force exposures used in catastrophe modeling is July 1, 2021.

#### Data

St. Johns provided policy level records for premium and claim level records for loss and ALAE. Milliman calculated earned premiums and exposures from the policy detail, and loss and ALAE from the claim records. The premium files contained sufficient detail to allow re-rating (based on the current rating algorithm and rates) using an extension of exposures technique. The claim detail included catastrophe code and cause of loss for mapping to the loss categories used in the experience reviews. St. Johns also provided in-force records as of July 1, 2021.

#### Discussion

We analyzed St. Johns' experience by peril: for HO-3, we reviewed Wind, AOP ex Sinkhole and Sinkhole; and for HO-6, we reviewed Wind and AOP. Based on the credibility standards in this filing, Wind and AOP for both HO-3 and HO-6 are fully credible; Sinkhole is less than fully credible, as explained in the discussion of Exhibit 12 below.

#### **HO-3**

The rate indication for HO-3, exclusive of policy fees, is +13.6% consisting of +18.8% Wind, +8.0% AOP, and +1.3% Sinkhole.

Additional comments regarding Exhibits 1 through 14 are as follows:

- As shown in the RIF pages and the supporting Exhibits 1 through 12, the statewide rate indication is based on the methodology prescribed by the OIR.

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- **Exhibit 2** shows the earned premium by territory, unadjusted and at current rate level. St. Johns' current rate level premiums are calculated by extension of exposures. Exhibit 2, Page 2 provides the rate history and parallelogram estimates of the statewide changes for earned and in-force premiums.
- Annual premium trend is estimated in **Exhibit 3** based on St. Johns' earned and in-force experience. Trends are selected on Page 3 for Wind, AOP, and Sinkhole separately. For AOP and Sinkhole, there is one component, the trend in Coverage A. For Wind, there are two components, the trend in Coverage A and the trend in the Wind Mitigation credit.

Page 4 shows changes in Coverage A amounts based on company experience and Page 7 shows changes by territory based on the latest ISO building index. The ISO (Xactware) building index is used by St. Johns to automatically increase Coverage A on renewal.

Our historical year over year selections on Page 4 reflect an average of the all-policy earned and renewed in-force values. The all-policy values reflect changes in mix as well as inflation; the renewed-policy values are closer to pure inflationary trend. Averaging the two is comparable to weighting between company and industry values. For the prospective period, we selected 3.4%, based on average of latest historical period selection and indicated inforce trend.

Changes in the wind mitigation discount are shown on Page 6. We reviewed on-level results for renewed policies at in-force dates ending June 30<sup>th</sup> (the latest period ends December 31<sup>st</sup>). Our selections equal the experience for all but the prospective selection for which we choose 75% of the most recent value. The on-level mitigation credits in this exhibit reflect St. Johns' approved mitigation table. Therefore, year over year changes in the retained wind percentage represent shifts in mitigation utilization and features, not revisions to mitigation credit tables.

For Wind, Page 2 shows that an overall single trend value of 1.68% was selected as the combination of the Coverage A and wind mitigation components by period. A single trend is selected to accommodate the format of the OIR's RIF. It produces the same trended premium as the more detailed selections.

AOP and Sinkhole trends include only the impact of changes in Coverage A. As shown on Page 2, the balanced AOP and Sinkhole trend selections equal 3.09%.

- **Exhibit 4** provides summaries of reported loss and ALAE by year, peril and cause of loss. The causes of loss are the RIF categories: non-hurricane catastrophe, hurricane and non-catastrophe. Page 1 summarizes loss results; Page 2 summarizes ALAE; and the subsequent pages show territorial results for Wind, AOP and Sinkhole.

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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 AOP, and sinkhole).

We considered the following sources when selecting the development factors:

- St. Johns Experience (Page 8a.2 for AOP, Page 8w.2 for Wind, Page 8s.2 for Sinkhole)
- St. Johns Homeowners Schedule P (Page 4)

The selections are based on St. Johns' by-peril experience; the alternate sources were used as reasonability checks. The by-peril development factors are used in the determination of the by-peril trends shown in Exhibit 9. Page 3 for all perils shows St. Johns' claim count development. These are used in the frequency trend analyses in Exhibit 9.



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- **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.

Exhibit 9w, Page 2 shows that the selected historical and prospective trends of 10.0%, were judgmentally selected given the volatility in the most recent 1-year and 2-year periods. We do not expect the recent trends to continue at the same pace and have therefore capped the prospective trend selection.

- **Exhibit 10** shows the selected premium weights by accident year. For wind and AOP, the weights were selected based on the distribution of trended on-level earned premiums. For sinkhole, the accident years were weighted evenly.
- **Exhibit 11** shows selected expense ratios. As shown on Page 1, St. Johns' expense provisions include an underwriting profit provision of 4.2%, consistent with the latest OIR consent order. Other expense selections are discussed below.
- Exhibit 11, Page 2 shows support for the expense selections other than reinsurance and profit. The 2018-2020 columns are based on St. Johns' Insurance Expense Exhibit (IEE) data with premiums and commissions adjusted to remove policy fees. The methodology for total selected expenses is documented in the footnotes. It is our understanding that the expense selections appropriately reflect the services provided to St. Johns by external parties without duplication. For Commission, due to the approximate \$13M MGA expense forgiveness in 2020, we have selected to use a 2-year average for commissions, excluding 2020, consistent with the prior filing. For further details, please see Page 2a.

St. Johns' taxes, licenses, and fees provision is 2.0% which reflects the premium tax rate of 1.75% and calculation of other fees and credits from the DR908 forms. Consistent with the prior filing, we have selected the 2.0% based upon the 2020 tax year. For further details, please refer to Page 2b.

- Exhibit 11, Page 3 provides support for the selected "Other" expense. Because the company considers this information to be proprietary, we have provided the supporting exhibit separately under Supplementary Information in IRFS, accompanied by an affidavit regarding its trade secret designation.
- The remaining pages of Exhibit 11 develop St. Johns net reinsurance cost and are as follows:
  - Page 4a: Allocation of Net Reinsurance Cost to Program for Wind

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- 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 premiums less ceding commissions less expected loss and LAE recoveries. The catastrophe modeling underlying the reinsurance cost by layer was provided by St. Johns' reinsurance broker.

St. Johns' net reinsurance costs in this exhibit are based on St. Johns' purchased reinsurance program for the 2021-22 contract year. The exhibit has four sections corresponding to FHCF, private catastrophe excess of loss (XOL) contracts, quota share and per risk excess. A tower chart depicting the retentions and limits for the treaties in St. Johns' reinsurance program is included on Page 9 (the chart has been submitted on a confidential basis with Page 8, the list of the contracts and terms).

- Exhibit 11, Page 6 shows that the FHCF retention and limit are based on values published by the FHCF; the estimated premium was provided by St. Johns. The rate on line (ROL) for the contract reflects the FHCF's tax-exempt status and is lower than the ROL for private reinsurance for comparable coverage.

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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.

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- 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. The territorial relativity is based on weighted loss & LAE (plus reinsurance expense for Wind) which is developed in Pages 3-16.
- Weighted Loss & LAE Ratio. Pages 3-8 derive the weighted loss & LAE ratio. Pages 3-4 show that the weighted loss & LAE ratio is based on the following three-way credibility procedure:

$W_t = [z_t \times L_t + (1-z_t) \times L_g + (1-z_g) \times L_s] \times \text{off-balance}$ , where

$W_t$  = territorial credibility weighted loss & LAE ratio,

$z_t$  = territory credibility,

$z_g$  = territory group credibility,

$L_t$  = territory loss & LAE ratio,

$L_g$  = territory group loss & LAE ratio,

$L_s$  = statewide loss & LAE ratio, and

off-balance = factor to balance to the statewide loss & LAE ratio.

In all cases, credibility is based on the square root rule applied to inforce exposures and an 8,000 full credibility standard. Inforce counts are shown on Pages 3-4.

The three-way procedure was developed by Milliman as an enhancement to the more common procedure which applies the complement of credibility entirely to the statewide results. The groups include territories within the same geographic region and with similar hurricane propensity (for example, Tri-County coastal territories are all within the Southeast Coastal group). In practical terms, the credibility procedure assumes that the credible experience (both actual and modeled) of nearby territories is a more relevant complement than the statewide experience.

The IRFS document on “Support for Rates by Territory” states that “if the actual experience lacks credibility, it may be supplemented with a competitive analysis.” Instead of the competitive comparison, the loss and LAE ratio used as the complement of credibility is the statewide average change. This is a very common actuarial technique.

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

- Territorial Loss and LAE Ratio. Pages 6-7 show that the territorial loss & LAE ratio equals the sum of estimates for non-hurricane catastrophe, hurricane (Exhibit 7) and non-catastrophe wind (Pages 12-13). The non-hurricane catastrophe ratio is a flat load of 7.8% equal to the statewide result (estimated trended ultimate non-hurricane catastrophe loss & LAE divided by the trended on-level earned premiums = total RIF 25 / total RIF 8).

The hurricane loss and LAE ratio equals the modeled AAL loaded for LAE divided by the current level in-force premium, as shown in Exhibit 7. No adjustment was made to the hurricane model output (AAL) other than to include LAE which was not modeled.

- Group Loss and LAE Ratio. Page 8 shows the territory group loss and LAE experience. This page is a summary by group of the territorial results shown in Pages 6-7.
- Reinsurance Expense Ratio. The reinsurance expense ratio is derived in Page 9 and varies by territory group. The total cost of reinsurance was allocated to groups based on the distribution of AAL because wind reinsurance costs are expected to be proportional to AAL. The reinsurance ratio was limited to be within 25 percentage points of the overall ratio of 23.7%.
- Trended On-Level Earned Premium and Earned Exposures. Pages 10-11 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 Non-Catastrophe Wind Loss and LAE. Pages 12-13 show that the non-catastrophe loss & LAE wind equals the accident year “limited” reported loss and LAE adjusted by the statewide trend factors, LDFs, and ULAE factor plus an excess loss load. A flat excess load of 2.6% has been added to each territory’s results to account for limiting reported losses to \$100,000 per claim and 40% of territorial premium. Loss limiting was used to improve the stability and credibility of the territorial results.

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Reported Non-Catastrophe Loss and LAE Experience. Pages 14-15 show the reported loss and LAE experience on a gross and excess basis. For Wind, 46 individual claims were subject to the \$100,000 loss limitation, as shown on page 16. Excess losses also include losses that exceed 40% of territorial premium.

For AOP, **Exhibit 13a** contains the following pages:

- Rate Indications. Pages 1-2 show that the territorial indicated rate change equals the statewide indication of 8.0% times a territorial relativity based on a weighted Loss & LAE relativity. The weighted loss & LAE ratios are developed on Pages 3-8.
- Weighted Loss & LAE Ratio. Pages 3-4 shows that the weighted loss & LAE ratio is based on the following three-way credibility procedure:

$W_t = [z_t \times L_t + (z_g - z_t) \times L_g + (1 - z_g) \times L] \times \text{off-balance}$ , where

$W_t$  = territorial credibility weighted loss & LAE ratio,

$z_t$  = territory credibility,

$z_g$  = territory group credibility,

$L_t$  = territory loss & LAE ratio,

$L_g$  = territory group loss & LAE ratio,

$L$  = statewide loss & LAE ratio, and

off-balance = factor to balance to the statewide loss & LAE ratio.

In all cases, credibility is based on the square root rule applied to earned exposures and a 40,000 full credibility standard. The earned exposures are shown on Pages 9-10.

The three-way credibility procedure is an enhancement to the more common procedure which applies the complement of credibility entirely to the statewide results. The groups include territories within the same geographic region and with a similar hurricane propensity (for example, the tri-county coastal territories are all within the Southeast Coastal group). In practical terms, the credibility procedure assumes that the credible experience of nearby territories is a more relevant complement than the statewide experience.

The IRFS document on “Support for Rates by Territory” states that “if the actual experience lacks credibility, it may be supplemented with a competitive analysis.” Instead of the competitive comparison, the rate change used as the complement of credibility is the statewide average change. This is a very common actuarial technique.

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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 to a 1,082 claim full credibility standard. Claim counts by territory are shown in Column 2. We use a claim count standard for sinkhole territorial rating because sinkhole claims are concentrated in certain areas.
- Exhibit 13s, Page 5 shows the **territory groups** selected by Milliman. These are based on our review of the data underlying the OIR’s “Report on Review of the 2010 Sinkhole Data Call”. The sinkhole territorial groups are defined by county

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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.

- Exhibit 13s, Pages 11-12 show that limited losses have been adjusted for trend, development, and ULAE.
- Exhibit 13s, Pages 13-15 show the effect of **capping** large claims. Pages 13-14 display gross and excess reported loss and ALAE. Actual excess experience is replaced with a flat load of 33.1% based on a per claim limit of \$100,000. Page 15 shows St. Johns' large claim history; four historical claims in the experience period are excess of \$100,000.
- **Exhibit 14 – Proposed Changes.** Exhibit 14 contains St. Johns' proposed rate changes by territory and 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 3s-4s: Indicated and Proposed Changes - Sinkhole
  - Pages 5-6: Current and Proposed Base Rates
  - Page 7: Policyholder Dislocation

Pages 1-2 show results by peril and in aggregate. The RCS rate changes equal the last column of Pages 1-2, adjusted for \$27 policy fees. Additional comments on these pages are as follows:

- Premiums in Columns 2 – 5 reflect on-level earnings for the latest year included in the rate indications.
- Indicated changes in Columns 6 – 8 are based on Exhibit 13; the totals in Column 9 reflect the premium distribution in Columns 2 – 5; other totals in Columns 13 and 17 are derived similarly.
- Proposed Changes in Columns 10 – 12 reflect St. Johns' selections from Pages 3-4.
- Proposed Base Rate Changes in Columns 14 to 16 are the changes needed to achieve the proposed rate changes as selected by St. Johns.

Pages 3w-4w show Wind indications and proposals.

Additional comments on Wind Pages 3-4 are as follows:



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- 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.

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**Rate Collection System (RCS)**

RCS has been updated to reflect St. Johns' rate proposals. Current level earned premiums and earned exposures are based on data for the year ending December 31, 2020.