OFFICE OF INSURANCE REGULATION

PUBLIC HEARING AGENDA

FOREMOST INSURANCE GROUP

Held at City Commission Chamber, City Hall

228 South Massachusetts Avenue

Lakeland, Florida

March 6, 2008

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REPORTED BY:
Evelyn M. Adrean, RPR, FPR
Notary Public
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Esquire Deposition Services
813-221-2535
Esquire Job No.: N922983

ORIGINAL

APPEARANCES

OFFICES OF INSURANCE REGULATION
Belinda Miller, Deputy Commissioner
Ken Ritzenthaler, Actuary
Rhoda K. Johnson, Assistant General Counsel

OFFICE OF THE INSURANCE CONSUMER ADVOCATE
Steve Alexander, Actuary

FOREMOST INSURANCE GROUP PANEL PARTICIPANTS
Mike Cok, Senior Vice President
Marty Brown, Associate General Counsel, Vice President, and Secretary
Leo Mulder, Assistant Vice President
James Nutting, Vice President and Chief Actuary
Scott Slezak, Product Manager

INDEX

MS. MILLER: Good afternoon. Thank you for coming today. We're going to get started on the public hearing. If you have filled out a speaker card, thank you, I have your speaker cards up here. We have about 15 of them so far. If anyone else wants to speak, the speaker cards are at the table in the back with our consumer services rep, and you can get a speaker card and we will take comments from anyone who wants to speak.

We have a relatively short agenda today. We're going to go through the nuts and bolts of this rate filing. We're going to have the company explain to us about their filing, and our actuary in the actuary for the Department of -- for the Consumer Advocate's office is going to also ask some questions and give some points, and then we will open the floor for anyone who has comments. So we appreciate your attendance today, and we'll go ahead and get started.

My name is Belinda Miller, and I'm the deputy commissioner for the Florida Office of Insurance Regulation. For the record, today's date is March 6th, 2008, we're conducting this hearing in The City Commission Chambers in Lakeland, Florida. Notice of this hearing was published in the Florida Administrative Weekly, and the hearing is being recorded by a court reporter. Members of the public may have comments on these filings today or after this hearing; if you have further comments or if you're -- if anyone else that you know wants to make a comment, you can send an e-mail to ratehearing@fldfs -- stands for Florida Department of Financial Services -- fldfs.com, and include the name Foremost so we can match your comments with this rate filing.

I'd like to introduce you to my colleagues on the panel. To my right is Rhoda Johnson who is our assistant general counsel, and to my left is Ken Ritzenthaler who is our actuary for property and casualty product review. To my far right is Mr. Steve Alexander who's an actuary for the Office of the Consumer Advocate.

We're here today to conduct a public rate hearing in accordance with Section 6270629 and 624324 of the Florida Statutes. The subjects of these hearings are the true-up filings that have been submitted by four insurance companies which I will refer to together as the Foremost Companies. I would like to note that together these companies insure just under 30 percent of the 357,000 insured mobile homes in Florida. The companies have requested rate increases and the increases differ for each company. For American Federation, the statewide average increase that has been requested is 72.9 percent. For Foremost Property & Casualty, the statewide average increase has been requested at 14.4 percent, for Foremost Insurance Company, 22.9 percent, and Foremost Signature 31.5 percent.

As a result of legislation that was passed last year in an effort to reduce insurance rates, insurance companies were required to file for rate increases in two steps; first, they were required to make presumed factor filings. Those filings had to be effective for policies new or renewing on or after June the 1st, 2007. These companies made presumed factor findings which were approved as follows: American Federation reduced its rates by 30.2 percent, Foremost Property & Casualty reduced its rates by 20.9 percent, Foremost Insurance Company reduced its rates by 17.5 percent, and Foremost Signature reduced by 9.7 percent. After these presumed factor filings, however, the companies were also required to make true-up filings which were full rate filings in order to reflect all the rate reductions attributable to House Bill 1-A including any further savings that they could attain through their new 2007 at that time re-insurance programs. In this case, the true-up filings were made seeking the increase that I've described.

Under Florida law, the office doesn't set rates, but we review rate filings that are proposed by the insurance company. The rates cannot be excessive, inadequate, nor unfairly discriminatory. Another change that was made at the beginning of this year or at the beginning of 2007 was that after March of 2007, rate filings were required to include sworn statements signed by an actuary and officer of the company. This company -- or this group of companies made filings that didn't include this certification initially. Those findings were disapproved with leave to re-file them, and this is now the re-filing. The corporate officers and actuaries are required by law to swear that the filing does not contain untrue or misleading statements, that the information in the filing fairly presents in all material respects the basis of the filing, and that the filing reflects all the premium savings that are reasonably expected to result from legislative enactments and are in accordance with generally accepted and reasonable actuarial techniques.

This statement was filed in the filings that are under consideration today; therefore, we will be considering matters at this hearing to clarify these filings or explain documents that are contained in the filings. We will take into account public testimony that is offered but we will not be inviting new information that is not contained in the filings because the entire basis of the filings is required to be contained in them already.

I want to thank all of you for coming today for your participation. I know that it's tough to take time from your schedule, and I also want to apologize that you didn't get any further prior notice. I know that some people just heard about this hearing today or yesterday. And the participation of the people who are going to be affected by these filings is absolutely critical, I think, to full consideration of the filings. So if anyone wishes to speak who hasn't already filled out a speaker card, please do, and please try to limit your testimony to areas that other people have not already covered so that we have time for everybody to speak.

At this time I'm going to turn it over to Rhoda Johnson so that she can swear in the witnesses who are planning to testify today, not the public witnesses, but the company witnesses.

MS. JOHNSON: Here to speak on behalf of the Foremost Insurance Group, we have Mike Cok, the senior vice president, Marty Brown, the associate general counsel, vice president and secretary, Leo Mulder, who's assistant vice president, and James Nutting, the vice president and chief actuary, and Scott Slezak, product manager. Is there anyone else to testify? Okay. Would each of you please raise your right hand. Do you swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth? Let the record reflect that each member has stated yes. I do ask that in order to preserve the record, you would identify yourselves before testifying and answering a question. Thank you.

MS. MILLER: And at this time I'll recognize the representative of Foremost Companies to make brief opening remarks. Please keep those remarks to about ten minutes or less if that's possible. Thank you.

MR. COK: Good afternoon. My name is Mike Cok. I'm the senior vice president of Foremost. With me today, as you met, are Leo Mulder, assistant vice president of product management, Scott Slezak, our product analyst, James Nutting, a fellow of Casualty Actuarial Society and vice president of Farmers Insurance, and Marty Brown, associate general counsel for Foremost. And let me add my thanks to all those in attendance today that were able to in relatively short notice, to attend this meeting. Our intention here is to share information and answer questions, and we look forward to that opportunity to do that. Again, Foremost thanks you for being here and for many of you for being our customers.

Again, thank you for the opportunity to present additional information to you in support of the rate filing of the four Foremost mobile home insurance programs. Foremost Insurance has noted over 100,000 Florida mobile homeowners and has been a long time presence in this important market. The increases we requested that have been outlined are reasonable requests especially when the indications -- and indications are what our analytics work with -- actually indicate the adequate rate. And our indications for Foremost Insurance for 40 percent, for Foremost Property & Casualty, 62 percent, for Foremost

Signature, 89 percent, and for American Federation, over 400 percent. We've not taken those indications in our request. Overall, our requested rate increase is an average rate increase in the State of Florida of 22 percent. American Federation has garnered some specific attention with its requested rate increase of 72.9 percent. And we look forward to explaining a little bit more about that significant level in rate increase request.

I should note at this point that American Federation insures approximately 4 percent of the marketplace that we're talking about here in the State of Florida, it's a relatively small amount. And I should also note that American Federation has not had a rate increase in over ten years. You may wonder why we haven't asked for our full indicated rates. The main reason is because of the concern for our policy holder. We have complete confidence in the reasonableness of our indications but are not eager to charge the full amount of our indicated rate increase to our policy holders, but we do recognize the need to move to our fully adequate rates as shown in our rate increases over time.

Our indications are based on our own proprietary internally developed hurricane methodology. I want to make it clear that it's not a computer black box hurricane loss program; instead, it involves a series of equations that are very logical but also completely transparent in the sense that anyone looking at the filing can do all the steps we used to arrive at our indicated rates. Consistent with our 2006 filings, we updated our hurricane methodology to include additional factors such as forward storm progression speed and differences in terrain in order to improve the accuracy of the results produced by the methodology. Ultimately, our rate filing will incorporate input from Florida's public hurricane report, as well.

The equations and the sequencing of our methodology are all set out in our rate filings. Foremost has used the same basic methodology for over 30 years and has been accepted in all of our filings in all of the Gulf Coast and Atlantic states. More important than any consideration -- than any other consideration, our proprietary methodology had been accurate. In the filing, there's a catastrophe model supported document that shows that the Foremost hurricane methodology has been very accurate in estimating hurricane losses where our expected results are compared to actual events. But in the final analysis, we have to look at actual result.

In Chart A that's been handed out to the Florida Office of Insurance Regulation here today and the accompanying graph, we list our actual results since 1993. Importantly, that time span excludes the significant losses associated with Hurricane Andrew in 1992. Even so, our profitability excluding Andrew over that time has been nonexistent. Simply put, we have paid out more in expenses and losses than we have received in insurance premiums. From a rate of return standpoint, we have not earned back our cost of capital, which obviously is negative and is far below an acceptable rate of return, especially considering the significantly increased risk resulting from the insuring catastrophe losses in the catastrophe prone states, and adequate rate of return is mandatory.

To state the obvious, the question of hurricanes hitting Florida is not if, but when. The last two years of profitability do not offset the years of losses. As shown in that Chart A, Foremost loss and loss of adjustment expense ratio for the past 15 years, that is 1993 to the -- to 2007 is 85.9 percent. We can argue about what period of time to use, but if Florida wants insurance to stay for the long term, we must take a look at long-term numbers. While we understand that there's an inherent level of volatility results in catastrophe prone states like Florida, this level of long-term performance is simply not acceptable. That's particularly true when you look at Chart B which from the NOAA website shows hurricane -- historical hurricane landfalls from 1950 to present. And of the 105 named hurricanes for those 57-year period, 31 made landfall in Florida.

Much has been written and much has been discussed about approaches to handling the property insurance issues in the State of Florida. Some argue for a larger role for the public sector to assume the risk of the catastrophe. Some argue that private capital is vital for a long-term solution. Many are rightly concerned over the significant reliabilities the state and its citizens are now exposed to as a result of significant expansion of citizens and the Florida Hurricane Catastrophe Fund. We are interested in being part of the solution. Our rate requests are significant, and we do not make them lightly. Further, we are making rate requests as a part of Florida required true-up filings in a consistent and analytical manner. The catastrophe exposure risk performance is even more elevated given our role of being the leading insurer of manufactured houses which do not perform as well in storm conditions as site-built houses in this catastrophe prone market.

Rest assured that we do not make these decisions lightly. We maintain disciplined approaches and invest significant time and money into our work. Primary in our decision-making is our focusing on commitment to our customers that we make with every policy we sell. Our firm intention is to ensure our customers that we will have the capital, but more importantly, the caring, trained resources available to help our customers restore their homes and belongings when the storms come.

Let me also add that we care deeply about the rate increases on our customers. We're working very hard to balance the need for profit to build surplus for the future on today's impact to our customers' finances. We have not asked for our full indications given our desire to balance at least competing demand and our desire to remain a part of the solution to Florida's property insurance issues. The approach Foremost has had in Florida for decades. In fact, since 2003, and in spite of the turbulent hurricane years of 2004 and 2005, Foremost has doubled the number of mobile home customers we insure in the State of Florida. We have not left the state, and our hope and intention is not to do that. Foremost is not making -- is not asking for rate increases that are not supported by the numbers. What we are asking for are rate increases that allows us to make good on our promises to our customers which is to pay their claims when these hurricanes and other losses and weather related events do occur. While we do write a small amount of insurance on motor homes, motorcycles, travel trailers in Florida, Foremost does not write and cannot rely on automobile insurance to subsidize losses on mobile home insurance policies.

Foremost was founded in 1952 on the principles of integrity and dependability, specifically to write insurance on mobile homes, and these principles guide us today. We want to be part of a long-term solution to the insurance situation in Florida, but we need the Office of Insurance Regulation's help and support and approval of our rate requests to do that.

Let me now turn to James Nutting, a fellow of our Casualty Actuarial Society for some general comments regarding the actuarial aspects of our filings. Then our experts here assembled will discuss these filings to help walk through the questions that you've previously had for us and any other questions that may arise here today. James?

MR. NUTTING: Thank you. This is James Nutting, vice president and chief actuarial for the Farmers Group of Companies. I will try to be very brief. I was asked by Foremost to review their filing as part of --

THE AUDIENCE: We can't hear.

MS. MILLER: You may have to pull it out.

MR. NUTTING: Okay, great. As I was saying, I was asked by Foremost to review their filings as part of the House Bill 1-A certification process. And as I reviewed the filings, I looked for rates that were, as said before, not excessive, not inadequate, and not unfairly discriminatory. And what that usually means is, that we want the price to follow the risk. So that risk primarily in Florida is hurricane. And we think that we are exposed to hurricanes, we need to charge more, and that's one of the approaches taken in the filing. Another thing I did look for was a consistent, unbiased approach; in other words, is the rate methodology used in Florida the same as used in other states effectively, and is it used the same year to year. And they are very consistent. They apply very similar approaches year after year, there is very little that I could find in this filing that's Florida specific in terms of an approach. This is the way they do the mobile home business throughout the country. And finally and most importantly, I wanted to make sure the filings reflected the savings of House Bill 1-A, in particular the savings due to the additional reinsurance from the cat funds. And after my review I did -- I think the filings did meet those goals, I thought their approach was very good, very strong. They have good analysts and they do good work, and I had no trouble signing off on the certification.

MS. MILLER: Thank you. At this time I'm going to recognize Ken Ritzenthaler who has reviewed these filings, and he has some questions that the company is invited to answer.

MR. RITZENTHALER: Okay. First I'm going to ask some kind of more general questions, and then I'm going to get into the rate indications themselves. First of all, can you explain why you use four companies with different rates to write mobile homes in Florida?

MR. COK: Thank you for the question, Ken. I know that can be confusing to see four different companies, and Leo Mulder on my right --

THE AUDIENCE: Can you speak up?

MR. COK: Sorry. Foremost has four companies and they have been used over a long term of history for different focuses and different interests. What's important to note right now is, the one company which we're open for some new business in parts of Florida, it is the Foremost Insurance Company. Between Foremost Insurance Company which is our general insurance company for manufactured housing, the next most significant company in the marketplace is Foremost Property & Casualty. That company is specifically associated with the national endorsement that we have from AARP. And historically, Foremost Property & Casualty was used to write the insurance of members of AARP. We also have Foremost Signature which has been closed to new business and has only a renewal book. That was historically -- and by "historic," I'm going back 20 and 30 years -- the primary company for use in certain independent agent programs in the State of Florida. And finally, there was the American Federation Company.

Again, the company where the most significant rate increase is but a very small portion of the business that we currently write not a company open for new business. It was a company that had a special mobile home insurance contract associated with the Florida Mobile Homeowners Association. Those programs, again, go back to the '80's I believe, in their inception. And that program has been closed; quite honestly, that program's been in a run-off mode for us, and I believe at this point approximates about four percent of what's left of the mobile home insurance that we write in the State of Florida. So there are different historical reasons for the company; Foremost Insurance Company is the one company on a go-forward basis that we write our new business policies in.

MR. RITZENTHALER: Can you tell us what, if any, differences there are in the underwriting rules for the four companies?

MR. COK: Largely we follow a very uniform set of underwriting rules across all the different Foremost companies. I'm trying to think specifically if there's -- you know, again, three of the four companies are not open for new business, that would be the most significant underwriting exception. Foremost Insurance Company is open for new business in the central part of Florida territory we call Territory H in our filings. I can't think of any specific differences in underwriting besides that.

MR. RITZENTHALER: Okay. But there is a difference in rates between the four companies. Can you explain why -- how the differences in rates came about knowing that you don't really have any differences in the underwriting criteria as to how someone qualifies for each of these four programs?

MR. MULDER: Over time, and as you can see, we have different indications, also. But we would -- we have the different customer base between the different companies, so -- and we have different distribution base. Also, some of the companies have different aged books, so some of the companies, for example, American Federation, Foremost Signature, they haven't written new business in over ten years, at least in those companies. And as such, that book has aged and has a lower loss clause. Some of it has simply to do with the distribution of the book of business. American Federation has a distribution that is more coastal than, say, Foremost Insurance Companies. So if we look at the rates structures as overall and some of the changes, what you'll see is that more to do with the distribution total than what's going on with the individual rates itself. We are using the same hurricane methodology in all companies and we also have the same premium that's developed on group basis. So from a hurricane standpoint, we're doing exactly the same thing for hurricane methodology for all companies, the only difference between any changes in sense -- of variable sense that I think we need to have for that company.

MR. RITZENTHALER: Okay. And you previously stated you're not writing any new business now in Foremost Property & Casualty, you're not writing business in American Federation, and you're not writing new business in Foremost Signature, but you are writing new business in Foremost Insurance Company itself. So is that -- are you writing new business to basically keep your book is business stable; in other words, as you lose policies, you may go somewhere else, are you writing new business to replace those and try to keep the same level of book, or are you actually trying to grow your book of business in Foremost?

MR. COK: I would largely describe our position as trying to maintain stability. We want, again, to be part of the solution here. When we look at our overall exposure management issues which are critical things we do, we use a hurricane methodology to manage our exposure to catastrophe events. We need to be appropriately diligent to not get ourselves in an overexposed situation that would allow -- that would prevent us from handling that catastrophe when that is necessary when those events do happen. So, Ken, to answer your question, I would largely describe our approach to new business is a desire overall to maintain a relatively stable number of customers in the marketplace. You know, as Belinda mentioned in her opening comments, a third of the market is a significant market share and our approach to is to try and maintain that. But it is also subject to market forces and competitors that may come, competitors that may go as well as solutions in the Citizens' Fund. So we're not in direct control of that, but that would be overall guidelines in that, yes.

MR. RITZENTHALER: Okay.

MS. MILLER: May I interrupt for just a minute for a clarification. Within the four companies, what some people are thinking is, you've asked for a 72 percent increase in one company, the people in that company are the unlucky people in that -- in that frame because others are just getting 14 percent request. And so, you know, they want to know, would it make any difference if you combined those companies or if you model those policies all at once and look to that as if they were the same, would it make any difference; or are the people in the American Federation just paying much lower rates now and then they're being asked to have a big increase all at once. Can you explain to people why, if I'm in one company I get a 72 percent increase, if I'm in another company, I get a 14 percent.

MR. COK: I think the most significant reason for that is, the starting point. The general customer base in American Federation is currently at a much different and lower overall premium level on an annual basis than some of the other companies we have. The methodologies we use, most specifically, most significant exposure here, obviously, being the risk of hurricane, are applied consistently regardless of the company. Within that, though, we look at the loss performance historically of each company, so that also has some bearing to the level of indication. The analytical methodologies we use are consistent, the absolute numbers that go into them can be very different, and therefore produce different percentage changes. But I think basically the most significant thing for American Federation again at the small -- is unfortunate for those customers who have a significant change coming is that they're starting from typically, a lower point. American Federation did go through the presumed factor filings which is not based on our own indications, but -- so rates that have not been adjusted since the mid '90's were actually lowered and then as a result of true-up, the actual indications are going into our request.

MS. MILLER: I'm looking at a document that was submitted as part of the filing for American Federation. And it talks about Polk County, it looks like you have a 53.8 percent on average for Polk County listed. And that brings your average premium from $419 to $618. Is that -- is that about right?

MR. MULDER: Yeah, that is correct. One of the things that I want to just comment on what Mike said, if you look at Polk County, and I don't have -- I just have the actual in front of me, so the average premium of Polk County is $410 for American Federation. We -- $410, that's the average premium, the average premium is 410.

MS. MILLER: I think you're hearing some skeptics. People have seen their premium bills.

MR. MULDER: But if you look at the average premium for Foremost Insurance Company, for Polk County, it's $700. So you have a significant difference just to starting point between the two because of the fact using the same hurricane methodology between the two, that's why you have 50 percent rate increase versus a 20 percent rate increase you'll get in Foremost Insurance Company.

MR. RITZENTHALER: One follow-up to that for American Federation in particular. Your presumed factor filing I believe was 30 percent reduction in American Federation. And you did what we call the short form filing which means you used the factors that the office published. Do you think perhaps by using those factors based on your rate history or your lack of rate history that perhaps you overstated the reduction?

MR. MULDER: Yes, yes. We -- when we look at it, dividends of four percent book of business given the nature of the business, we decided to do the short rate and come back with a true-up filing with the full indications and then take a look at that. Obviously, when you have huge indications like any reduction that would occur in our cost structure because of any change in the legislation, that would reduce our indication but obviously it did not reduce our indications enough to off-set the kind of increase that was conceived.

MR. RITZENTHALER: Do you have any policies that you guarantee to renew?

MR. MULDER: Yes. The American Federation is a guaranteed renewable contract. The Foremost Property & Casualty Insurance Company has what we have called a lifetime continuation agreement, so both of those companies have a guaranteed renewal billing.

MS. JOHNSON: Just to clarify for the people, guaranteed renewal means, just for --

MR. MULDER: Guaranteed renewable basically means that limited reasons within the contract why we can cancel your policy or not renew your policy. Simply, basically a cancelled change in risk, the primary one is you don't pay -- other than that there has to be some other substantial change in risk or some sort of -- some sort of misrepresentation of the risk that was first presented to them.

MR. RITZENTHALER: Are all the policies in both of those companies guaranteed renewable or lifetime continuation, whichever term you want to use?

MR. MULDER: Both Foremost Property & Casualty and American Federation, both have what's called a lifetime continuation.

MR. RITZENTHALER: But for every single policy --

MR. MULDER: Every single policy.

MR. RITZENTHALER: But you're not writing new business in either one of those companies?

MR. MULDER: Currently, no, we are not. It's just a -- it represents roughly 45 percent of our book that's guaranteed.

MR. RITZENTHALER: Would Foremost be the bulk of that 5 percent?

MR. MULDER: The bulk, yeah.

MR. RITZENTHALER: Okay. For each company, can you tell us what the rate level indication is that you calculated and what the proposed increase is.

MR. COK: The indication for Foremost Insurance Company was approximately 40 percent. I've rounded that number. If you need the exact number, we can dig into it here. The requested raise was 22.9 percent.

MR. RITZENTHALER: Can I stop you right there?

MR. COK: Yeah.

MR. RITZENTHALER: You're saying the indication is 40 percent. Is that what's showing up on the rate indication form?

MR. COK: That's on our standard indication analysis.

MR. RITZENTHALER: Okay. Let me ask the question this way: Can you tell us what the rate level indication on the form that you're prescribed to use by the office?

MR. SLEZAK: This is Scott Slezak for Foremost Insurance Company. The rate level indication as shown on the RP form is 22.9 -- I'm sorry, 24.4 percent, and the company selected rate change is 22.9 percent.

MR. RITZENTHALER: Okay. And for Foremost Property & Casualty?

MR. SLEZAK: For Foremost Property & Casualty, the rate level indication is 48.3 percent, and the company selected rate change is 31.5 percent.

MR. RITZENTHALER: All right. Which company is that? I think it was the wrong company. I believe that's Foremost Signature numbers.

MR. SLEZAK: That's correct. That is Foremost Signatures, sorry. Foremost Property & Casualty, the rate level indication is 41.7 percent, and the company selected rate change is 14.4 percent.

MR. RITZENTHALER: Okay. And American Federation Company?

MR. SLEZAK: For American Federation, the rate level indication is 216 percent, and the company rate change is --

THE AUDIENCE: We can't hear you.

MR. SLEZAK: For American Federation, the rate level indication is 216.0 percent, and the company selected rate change is 72.9 percent.

MR. RITZENTHALER: Okay. So we have -- and I'm just going to pick two of the companies here for comparison purposes. So for Foremost, you have an indication of 24.4 percent, and your proposal 22.9 which is very close to the same number. For Foremost Property & Casualty, you have an indication of 41.7 percent, and you're only proposing 14.4. Can you explain why you picked the numbers you did? It doesn't seem to be a consistent relationship between the indications that you've calculated on the rate indication forms and what you're proposing for each company.

MR. MULDER: When we take a look at what we're doing for rates plus standpoint, we're looking at a number of factors. And one of the things that we first start with is that we're looking at our indications based on our internal information, and we're also looking at what is the long term we have and where is the growth of business going to be. We're looking at close to take roughly about a 25 percent indication for all companies under the Foremost Insurance Company because --

MS. MILLER: I don't think that people can hear you very well.

THE AUDIENCE: No. We can't hear at all.

MS. MILLER: We're asking for the microphones to be turned up, but if you can just hold it really close, I think that would help. It does bend up a little bit.

MR. MULDER: First of all, our -- what our rate requests are going to be based on our internal models, not based on the RIF reform -- RIF form. Our internal models have different indications than what the RIF form would have. Basically, we are looking at trying to take anywhere between 20, 25, to 50 percent depending on long term need that we have in this state. One of the things that we looked at is, we're trying to keep a balanced approach to the rate that we take, trying to be -- over time get to what the rate we need to have. So we look at both internal, we look at the RIF form, and we chose to have these type of rate changes.

MR. RITZENTHALER: Okay. I will tell you that our decision is going to be based on the rate indications, the form that you're required to use. You have to use those forms. If you have some issues with the form, you need to tell us why you think it's problematic, but you're required to complete those rate indications, and that's what our decision is going to be based on. Your indications -- and I didn't get all the numbers, but you mentioned them before, but obviously your indications that you've calculated internally are higher than the indications that you've completed with the rate indication form, but I can tell you we're going to start with the rate indication forms to make a determination about your rates, so --

MR. MULDER: I appreciate that, Ken, and I do want to note for the record that in every case we have asked for something less than what's indicated on the state required RIF forms.

MR. RITZENTHALER: And I understand that. And some cases their significantly less. My concern right at this point was kind of how did you decide when to ask for them because there doesn't really seem to be a relationship between what you asked for and what your rate indication says your indication is. But they are less than what is on the rate indication form, that is true.

MS. JOHNSON: I'm sorry, if you would just please pull the mike as close to you as possible. We are trying to do something to adjust the sound so that everyone can hear, but just please pull it as close to you and so we can hear amplified.

MR. RITZENTHALER: For American Federation and Foremost Signature, can you tell us the date of the rate filing that preceded your presume factor filing and what rate change was implemented with that filing?

MR. MULDER: I would not -- I don't have that information with me, but I can -- obviously, I can give it to you when we get back, I can e-mail you that information. I can take a guess.

MR. RITZENTHALER: Well, I believe I heard previously you may not have had rate increases in ten years in any one of those companies.

MR. MULDER: American Federation, I think the last change we made, there was a rate -- required rate reduction from a one percent. I don't recall what it was for. I think that was in 1998. And that was really the last time. And I -- again, I don't have the information in front me, but my recollection is that this is basically the same thing for Foremost Signature. But I'd have to research it.

MR. RITZENTHALER: Okay. I believe you're correct. There was a rate going back -- I don't remember the reason for it at this point. But back about ten years ago, and so you're saying that appears to be the last time you increased rates in either one of those two companies.

MR. MULDER: That's true.

MR. RITZENTHALER: Okay. Have you provided rate certifications over the years for each of these companies?

MR. MULDER: We did not provide rate certifications for American Federation or Foremost Signature in the last round of rate certifications.

MR. RITZENTHALER: You do know that certifications of filing are required by statute.

MR. MULDER: Yes, we do. We had an agreement with the insurance department regarding these rate certifications, and we can address that if you'd like to, also.

MR. RITZENTHALER: Okay. Now I'm going to get into some of the issues of the rate indications themselves. And just kind of -- for the people in the audience, when I talk about a rate indication, the company goes through a calculation of what they need to do to their rates, and it involves a lot of factors and assumptions and formulas. But basically, if they were to come up with an indication of, say, plus 20 percent, what that indication tells them is, that indicates that they need to raise their current rates by 20 percent. As you already heard, they don't necessarily raise the rates or propose a change that's exactly the same as the indication, but the indication is their tool that's used to determine whether those proposed changes are going to be acceptable or not.

So most of the rest of my questions are going to be dealing with components of those rate increases to the extent that a component affects the premium side of the rate indication, if the components need to be a higher factor, then it's going to reduce the indication, if it needs to be a lower factor it's going to increase the indication. And if it's on the loss side, if it's going to increase losses, then it's going to increase the indication. And if it's going to decrease the losses, it's going to decrease the indications.

So with that said, the first area is the -- is the trend for all four companies you selected annual loss trends of 4 percent. Can you explain how you determined that 4 percent was a reasonable percentage?

MR. SLEZAK: We use an external index built by the US Census Bureau called the C309W which tracks the changing cost of the construction materials and construction labor. We believe these are the primary drivers of our loss analysis.

MR. RITZENTHALER: Can you explain for us why you ignored your own actual loss data?

MR. SLEZAK: Yes. When we look at our internal loss data for different types -- different segments of the business, we see that the loss trend indicated varies widely for similar types of business. Because of this, we do not think our internal data is consistent enough for developing a loss track.

MR. RITZENTHALER: For each of the companies you assigned a credibility to our overall data and your overall indication. Can you tell us what the credibility was that you assigned for each company?

MR. SLEZAK: For Foremost Insurance Company, we assigned full credibility, for American Federation we assigned full credibility, for Foremost Property & Casualty we assigned full credibility, and for Foremost Signature we assigned full credibility.

MR. RITZENTHALER: So you assigned full credibility or 100 percent credibility to your own indication but yet chose not to use your own actual loss data in developing loss trends?

MR. SLEZAK: That is correct. When we look at the indicated severity trend for each of these company, the result ranges from plus 90 percent annually to a plus 42 percent annually. We do not -- we believe this is an indication that the result is not sufficiently uniform for the company to use as a loss trend.

MR. RITZENTHALER: Have you analyzed the loss trend data, and when I say "loss trend data," both the frequency and severity trend data for a Foremost Group?

MR. SLEZAK: Yes, I believe we have.

MR. RITZENTHALER: And what results did that analysis show you?

MR. SLEZAK: I do not have that information in front of me. I'm sure we can get that to you.

MR. RITZENTHALER: Well, I can tell you that we collect loss trend data for mobile home companies and we have the data for the Foremost Group. We did an analysis of that data with the data was as recent as September 30th, 2007. And we found that it produced an annual loss trend of minus 4.7. So that's a significant difference from the plus 4.0 that you're using in your indications.

MR. SLEZAK: Yes. I -- I believe that is true. However, I also recall that that is, I believe, based on a significant projected and reducing severity for projecting and redoing frequency four at a time, and we have seen our loss frequency decreasing I believe in the last two years and they're now at historic lows and we do not believe this trend will continue.

MR. RITZENTHALER: Okay. Let's move on to the annual premium trend. The premium trend that you've selected for the four companies varies from a low of 1.4 percent to a high of 2.8 percent. Can you explain how you determined the various percentages?

MR. SLEZAK: We calculate a premium trend by looking at how we value -- the business average value in each company evolves over time. Foremost Insurance Company is the one I have in front of me at the moment. And for that I believe we see an increase of 2.1 percent in the values year over year translated into a rate change per each year that's approximately 1.5 percent which we show as our trend data.

MR. RITZENTHALER: Foremost like every other company is required to report what we call a quarterly supplemental report to the office each quarter that shows us coverage amount and policies and number of policies non-renewed and number of policies cancelled, and a lot of information like that. We reviewed that data and we took a look at average coverage costs over the past two years. So we looked at each quarter over the last two years. And that data indicates that your annual premium trends will be significantly higher than what you used in the filing. Can you explain why that would reflect trends that are so much different than what you put in your filing?

MR. SLEZAK: Yes. We are aware of the short term increase in our values. However we believe that for rate purposes, it is more accurate to use a long-term tread. We used a 15 years developing our trend.

MR. RITZENTHALER: 15 years?

MR. SLEZAK: That's correct.

MR. RITZENTHALER: You think that's a reasonable amount of time to use for something like a loss trend when you're trying to project what your rate's going to be for the next year?

MR. SLEZAK: Yes, we do.

THE AUDIENCE: We can't hear.

MR. SLEZAK: Yes, we do. We believe that that accurately reflects what the long-term trend is going to be.

MR. RITZENTHALER: I will tell you that's not a general approach that's used by other companies in the marketplace, not 15 years for a premium trend. We can go back and look at a quasar for more than two years, your actual indication is only five years. So I'm just a little bit concerned about you're trying to use 15 years and the fact that that may be flattening out your premium trend more than is necessary. In your clarification letters, we asked that you provide us with the actual incurred allocated loss adjustment expenses that were included in your indications. You included them with the losses but we wanted to see where they were split out. And I think in your response you indicated you were trying to collect that data. Do you have that information for us today?

MR. SLEZAK: We do not have that. We're in the process of bringing that to you.

MR. RITZENTHALER: As part of a rate indication, the actual non-hurricane catastrophe losses are removed and they're replaced by expected non-hurricane catastrophe losses. For Foremost Insurance Company itself, you removed zero dollars of actual non-hurricane catastrophe losses; in other words, during the five-year experience period, you actually had no non-hurricane catastrophe losses. However, you replaced them at almost five million dollars of expected non-hurricane catastrophe loss. Can you explain how you did this?

MR. SLEZAK: Yes. When we look at our non-hurricane catastrophe losses, we only consider those catastrophes to be significant when the incurred loss dollars exceed five percent of the annual earned premium for that year. There were no such significant catastrophes in the last five-year period. However, we developed our catastrophe load based on 15 years of data and there were several significant non-hurricane catastrophes in that 15-year period.

MR. RITZENTHALER: How many do you mean by several?

MR. SLEZAK: Three.

MR. RITZENTHALER: Three. And how many of those three were -- even had actual non-hurricane catastrophe losses over 100,000?

MR. SLEZAK: I believe all three of them did.

MR. RITZENTHALER: I'm speaking now for Foremost Insurance Company itself.

MR. SLEZAK: Yes. There was one in 1992 where we incurred 2.4 million dollars, in 1993, we incurred 5.5 million dollars, and in 1998 where we incurred $650,000.

MR. RITZENTHALER: But how much was the catastrophe part for each of those years?

MR. SLEZAK: That was the catastrophe part for each of those years.

MR. RITZENTHALER: The part that you're trying to process -- trying to allocate over 15 years.

MR. SLEZAK: Yes. The part that we are trying to allocate over the 15 years are those numbers that I read to you.

MR. RITZENTHALER: Are you sure?

MR. SLEZAK: The non-hurricane catastrophe losses that we're attempting to allocate it over a 15-year period is 2.4 million dollars from a non-hurricane catastrophe in 1992, 5.5 from a catastrophe in 1993, and $400,000 for a catastrophe in 1998.

MR. RITZENTHALER: But that's part that exceeds the five percent that you considered?

MR. SLEZAK: Yes, that's correct.

MR. RITZENTHALER: I'll have to go back and check my notes here because I have lower numbers here in terms of what your actual non-hurricane catastrophe losses were during that period. I thought you were referring to the total loss before you moved the five percent.

MR. SLEZAK: I'd be happy to --

MR. RITZENTHALER: So you're basically saying you had losses in 1992, 1993, and then 1998 I believe was the third year?

MR. SLEZAK: That's correct.

MR. RITZENTHALER: And so you've not had any actual non-hurricane catastrophe losses in ten years, basically.

MR. SLEZAK: That's approximately true. But we do expect that these sorts of losses will happen in the future.

MR. RITZENTHALER: In these calculations, do you use loss trend factors?

MR. SLEZAK: Yes, I believe we do.

MR. RITZENTHALER: Are those loss trend factors the same as the lost trend factors you used in the rate indication forms?

MR. SLEZAK: Yes, I believe so.

MR. RITZENTHALER: I'd like to point out that we've already had a discussion about the annual loss trend, so we'll leave it at that. Can you explain for us how you determined the expected hurricane losses to be used in the rate increases or that were used in the rate increases?

MR. SLEZAK: The expected hurricane losses were calculated by our hurricane methodology that was put out in our filings.

MR. RITZENTHALER: Can you explain briefly for us what that methodology is?

MR. SLEZAK: That methodology is intended to take the frequency of -- the historical frequency of hurricanes hitting different regions of the country, multiplied against what our expected losses are for the area, for the different severity of hurricanes that have been historically observed to hit different areas of the country.

MR. RITZENTHALER: Has that procedure ever been presented to the Florida Commission on Hurricane Non-trajection Methodology?

MR. SLEZAK: No, it has not.

MR. RITZENTHALER: Are you aware of any other insurer who uses that procedure in their rate filings?

MR. SLEZAK: No.

MR. RITZENTHALER: Have you provided any information demonstrating that that procedure is generally accepted in reasonable actuarial technique?

MR. SLEZAK: Can you clarify that?

MR. RITZENTHALER: I -- seems like it's fairly clear. I want to know if you presented any information demonstrating that that's a generally accepted and reasonable actuarial technique.

MS. MILLER: He's asking if there's anything in the filing that demonstrates that that's a reasonable actuarial technique.

MR. COK: It is the methodology that was first developed by Foremost. As you know, Foremost is the first writer of mobile homes. The advent of hurricane methodology is relatively new, yet the creation of our methodology goes back well before the moderate models that are out there or more recent models. We used this approach since the '70's when it was first developed. We have provided some additional explanation of the origins of this methodology. It's also a methodology quite honestly that we've consistently used in the State of Florida in prior filings, as well. James, our actuary, as well, here, our fellow actuary has taken a look at the reasonableness of it, and most importantly to us, we've looked at actual results compared to the methodology, and feel that although there are always key assumptions that go in any model and any manner, there has been a relatively strong prediction of actual results.

MR. NUTTING: Now, I would say I am not and most actuaries are not experts on hurricane models, I don't claim to be an expert on hurricane models. But again, it -- the model is very clearly laid out in the filing. It's certainly -- to my eye it looked like a reasonable approach, it uses the whole 120-year frequency of hurricanes, it doesn't assume global warming; so short-term impacts, it really is just looking at what has happened and saying, you know, what -- can that happen again, but what is the sort of expected situation if we have to -- typical year based on the long-term averages. So it's a very, very straightforward methodology. It's -- again we have a model, but to my idea and thinking, it's a reasonable approach.

MR. RITZENTHALER: Did you find information in the filing that demonstrates that's a generally accepted and reasonable actuary?

MR. NUTTING: No, I did not.

MR. COK: Can I add to that? The question of our hurricane methodology and I mentioned this in my opening statement, as well, that clearly we will also be considering once these results are available, the result of the public file. And I understand that's been requested and we're waiting on that information as we also look forward to receiving that.

MR. RITZENTHALER: Can you identify where in this filing you provided this historical loss development data? And by that I mean the actual dollars of historical losses and allocated loss adjustment expense, the dollars that should be consistent with the incurred losses and allocated loss adjustment expenses excluding catastrophes that you put into your rate indication?

MR. SLEZAK: I do not believe we have provided those calculations with the actual dollars.

MR. RITZENTHALER: You do understand that they're required per the instructions of the rate indication form?

MR. SLEZAK: We will make a note of that and get that to you.

MR. RITZENTHALER: Did you provide supporting data for the fixed and variable expense provisions in your initial filing?

MR. MULDER: No, we did not.

MR. SLEZAK: We did provide our overall expenses as determined or as to -- we took it off the statutory annual statement and the insurance. Subsequent to that, we did provide -- you asked that question, and we provided the calculation of the fixed versus variable expenses.

MR. RITZENTHALER: You do understand that the instructions require that to be in the filing, so it should have been in the initial filing.

MR. MULDER: Well, I do not, Ken.

MR. RITZENTHALER: Well, we talked about a new business and the fact that you're not writing new business through the company but you are writing in Foremost basically to kind of keep your volume stable. Can you give us any reason why we should allow any other acquisition expenses in the rate indication given the fact you're not really writing any new business?

MR. MULDER: We still have a lot of service costs for those businesses, we also have a lot of changes that occurred, there's been a lot of statutory changes, any time you make a statutory, you increase the volume coming out of Florida. So for example, some of the things that we did last year in our volume coming off of Florida was substantially higher because of the activities than prior year. So we have a lot of -- because of the servicing aspects of the book, we still have to have other acquisitions associated with it.

MR. RITZENTHALER: So part of the other acquisition expenses relates to renewal business and a part of it relates to new business?

MR. MULDER: We haven't gone through to gather any numbers looking at renewals. That other acquisition expenses was developed based off of the statutory state which was the countrywide number.

MR. RITZENTHALER: And I understand that. But it just seems like particularly for companies like American Federation and Foremost Signature where you've not been writing new business for an extended period of time, there shouldn't be anything in your rates reflecting costs associated with new business.

MR. MULDER: Again, we look at any type of structure that we have, when we look at our business, probably 20 percent of our book in a given year is new and 80 percent is renewal business. The majority of the business that we have is going to be renewal business. And again, with all the changes that we've had in Florida over the last few years, we're seeing a lot of activity created out of Florida that's creating us a lot of work.

MR. RITZENTHALER: Okay. The order of the office that was issued on February 19th relating to presumed factor filings and rate filings included a number of requirements in

Paragraph F and G in your initial filing. Did you provide all the required information?

MR. MULDER: I'll have to look at that for a second. I know we -- the requirement for schematic which we provided, we provided reinsurance terms, reinsurance slip, we provided in detail all reinsurance contract, we did have an intercompany contract that we in your -- in response to your questions that I don't know if really it's pertinent, but it is a reinsurance contract we had with the inner companies, and I submitted that with the responses. I think the last part was, we had to make a filing before September 30th. We -- all four companies are being filed before September 30th.

MR. RITZENTHALER: And each of these filings you included zero percent provision for the Florida cat fund reinsurance cost. Did you provide supporting data?

MR. MULDER: No, we did not. We -- going through and trying to determine, we were having a difficult time determining what is the net cost for Florida Hurricane Cat Fund. Prior years it's been a positive number. We were again struggling with what the numbers should be, we ended up deciding at this time to set the number to zero and not pass along any costs for hurricane cat fund because of that.

MR. RITZENTHALER: You are aware of the fact of the exempt status of the cat fund?

MR. MULDER: I'm not familiar with that, the cat fund as far as taxes and status.

MR. RITZENTHALER: Mr. Nutting, are you familiar with the tax exempt status of the cat fund?

MR. NUTTING: Not intimately familiar, no. I know there is a tax benefit there. I also know they probably really do have some expenses, as well. Our approach was just to make -- pass the net cost on to zero treating all other expenses including taxes as just something we're not going to pass on.

MR. RITZENTHALER: Are you aware of the premiums being charged by the cat fund and the relationship between them and the losses that they expect to pay each year?

MR. MULDER: I have not seen any analysis to that effect.

MR. RITZENTHALER: Okay. I will tell you that they have a website, they have a rate making report that they release each year when they do their rates. And what I'm trying to point out here is, the cat fund, because of the tax exempt status, they can charge a premium and they can cover more expected losses than the premiums they charge during a year because of the tax exempt status. But what that basically translates into is a negative net cost of Florida hurricane cat fund reinsurance. And that's the reason for all these questions. You used zero which on the surface sounds like that's fine, but knowing about the tax exempt status of the cat fund, the relationship between the premiums they charge and the losses they expect to cover, zero may not be the appropriate number.

MS. MILLER: Did you consider using a negative number?

MR. MULDER: No. Again, we were having a very difficult time trying to determine what the number would be for that. We thought it was very prudent on our part saying zero would be a reasonable amount. Obviously, we'll go back and do.

MR. RITZENTHALER: Okay. Let's turn to the proposed changes by territory. Other than the comments that you provided in your response, did you provide any supporting data for your assignment of 100 percent credibility to the annualized hurricane losses to territory?

MR. NUTTING: Yeah. We did assign 100 percent credibility to the cat losses coming out of our hurricane methodology. In addition to being sort of what I think is a standard procedure that's documented in the actuary literature that's on the exams that we take, it also inherently makes sense to me the credibility, the extent to which you believe that methodology versus an alternate methodology. And we don't find a suitable alternate methodology out there that we think would be appropriate for applying credibility to. We think the cat methodology is sufficiently credible.

MR. RITZENTHALER: I think that's essentially what your comment said, and I understand that part of it. But I was asking you if you provided any other supporting data other than those comments.

MR. NUTTING: No. There's no additional supporting data.

MR. RITZENTHALER: Did you consider fixed expenses in your initial territory indications?

MR. MULDER: No, we did not. If you look at our initial territory indications, those were developed on the internal model. And what we did is, we took basically a balanced approach and in all cases; since we were not taking full indications, balanced seemed to work for us.

MR. RITZENTHALER: So in the initial filing, you didn't consider fixed expenses directly, if I might say it that way?

MR. MULDER: Not directly, no.

MR. RITZENTHALER: And in your response did you then consider the fixed expenses after we asked about it?

MR. MULDER: We provided a schedule showing what the indication would be using the RIF methodology on the territory level, yes.

MR. RITZENTHALER: And did you revise any of the proposed changes by territory in your response?

MR. MULDER: No, we did not.

MR. RITZENTHALER: Can you explain why you didn't.

MR. MULDER: We received the questions I think at the beginning of last week. And we really haven't had a chance to -- we spent the entire week just answering questions that were received. And we haven't had a chance to kind of review what the difference would be between those two methodologies. And I think most cases given the indication, most companies more than likely by territory you still end up with a rate less than the indications, the majority of business, the majority of the territories.

MR. RITZENTHALER: Okay. For each company, can you tell us the range of proposed changes; in other words, what was the highest proposed change, the territory in the highest, and what was the lowest, and if we may start with Foremost Insurance Company itself.

MR. MULDER: I can give you average changes by territory. I did not bring any absolute highest and low numbers. I can give you the average. The average is by territory.

MR. RITZENTHALER: Well, if you're referring to the numbers that are on the rate level effects exhibit, that's what I'm looking for. I just want to know what the highest territory, what the percentage is, and the lowest.

MR. MULDER: So you just want us to read it off of the filing itself? I have internal information here. Are you asking us for what was supplied for the filing itself?

MR. RITZENTHALER: Well, if you have information readily available, perhaps you can give us those numbers. I think I know what they are from the rate level effect form. Let's see if they're fairly consistent, anyway.

MR. MULDER: Okay. For Foremost Insurance Company what I have -- and this is -- again, this is an internal information and a little bit different distribution base, little more current distribution base. But the lowest we have is minus 11.3 percent decrease which is in Territory A which is basically Jacksonville area. The -- go down the coast, the next rate increase is a 66 percent rate increase which is along the coast, Volusia County, that kind of thing. Next increase is in Territory C, we have 91 policies in Territory C, and that would be Miami-Dade. Next increase would be 37.8 percent, that would be going along the west coast to Tampa, I'm not sure if Tampa is included in that. The next one is Territory E which goes along the panhandle which is the 29.7 percent increase. Then we have Territory F which is the interior north, non-coastal panhandle, and that's a 21 percent increase. And then we have Polk or Territory H including Polk County, and that's at 23.9 percent increase.

MR. RITZENTHALER: So from your numbers, you're saying the lowest is 11 percent decrease, and the highest was a 90 percent?

MR. MULDER: Highest we have is 78.2 percent Miami-Dade, that would be that we have 91 policies.

MR. RITZENTHALER: Okay. I thought you said 90 before. So the highest is 78 percent.

MR. MULDER: Percent, Miami/Dade.

MR. RITZENTHALER: And that tracks pretty closely with what I saw on the rate effect forms. There we have a big plus 80 to a minus 13, so we have a quite a range. Can you tell me what your two numbers are, the low and high would be for Foremost Property & Casualty?

MR. MULDER: On the high from Foremost Property & Casualty is -- low is again Territory A, it's the loss is -- reduction of the 1.1 percent, and it looks like the highest percent we have is 61.8 percent. We have 79 policies in the Keys with them. We again have Polk County here, the Polk County Territory H is a 12.2 percent proposed increase.

MR. RITZENTHALER: Okay. And for American Federation?

MR. MULDER: American Federation, the highest increase again in Territory C which is Miami-Dade, and we're requesting a high of 70.6 percent. The lowest increase would be in Territory A which is in Jacksonville area, that would be 15.1. If we look at Territory H which is Polk County, we're requesting a 58.9 percent.

MR. RITZENTHALER: And finally for the Foremost Signature?

MR. MULDER: Foremost Signature, the lowest increase is a 1 percent in Territory A, the highest increase it looks like here is in Territory B which is Volusia County, that side of the state, 76.5 percent, and we have 48 policies there. Now, I want to reiterate as we go through here in that both Foremost Signature and American Federation represents roughly three to four percent book and we look at Polk County, for example, with roughly three percent of our policies or three percent book in American Federation. The majority of the book is sitting in Foremost Insurance and Foremost Property & Casualty Company.

MR. RITZENTHALER: And I have for -- I didn't get all these numbers, but basically for policies, what you're talking about is somewhere in excess of 40,000 policies each for Foremost and Foremost Property & Casualty and probably in the neighborhood of 5,000 policies for American Federation and Foremost Signature. Is that ball park?

MR. MULDER: (Nodded head.)

MR. RITZENTHALER: Did you consider specific limits or caps when selecting the proposed changes by territory?

MR. MULDER: The one thing I tried to do when I --

when I looked at is an overall rate change and then try to make sure whatever the rate change I had, I took whatever the indication was, made sure it was consistent across all territories. So if I had an overall rate indication of 50 percent indicated, I tried to make sure as best I could that every territory I take for the rate request 50 percent of the indicated amount.

MR. RITZENTHALER: So that's telling me you didn't consider specific limits or caps?

MR. MULDER: No, I did not. Other than being consistent as far as application.

MR. RITZENTHALER: Here again, if you look at the instructions for proposed change by territory, it does require you to consider caps. If we turn now to the rate collections submission that you provided, and this is a -- this is data that the office requires when companies make rate filings that gives us their distribution to business, where they are, what the changes are, what the differences in base rates are. And this is what we use to compare the indications that the company has calculated. So in this rate collection submission, did you use 12 months' ending data to determine the rate effects?

MR. SLEZAK: Yes, we did.

MR. RITZENTHALER: Did you use 12 months' ending data when you calculated the rate affects by territory?

MR. SLEZAK: That I don't know. It would be consistent.

MR. RITZENTHALER: Well, perhaps you better look again because I don't think it is. If I understood your comments, you did use 12 months' ending data to get to the statewide number once you determine the number by territory and county, but you didn't use 12 months' ending data to determine the various numbers by territory or county. That is a requirement in the rate collection system, that you use 12 months' ending data, you cannot use in force data, and I -- if I'm not mistaken, I believe you tried to use in force data for some of the calculations, and then when you weighted it down, you might have used 12 months, ending data. I think that's all have I on that.

MS. JOHNSON: I just wanted to go back to one thing that Mr. Ritzenthaler had touched on. He asked several questions asking whether the company had provided in their initial filing certain required information. I just wanted to emphasize this point. I think it's important, so important that the legislature has now mandated that filings be complete when they're made to the office. And it is so important that we receive complete information, whole information, and all of -- and certainly all of the required information as mandated in the Florida laws. So I thought that this beared emphasis. And please be mindful when you make your filings in any other certifications that you're going to make with the office.

MR. COK: I appreciate that comment. I want to assure you that we put our best effort and intent to, in fact, do that. We appreciate the questions we received, that allows us to clarify so we better understand some of those requirements. Part of the challenge we face internally, as well, is that our data retrieval system and processes are designed to work throughout the country and so we need to stay and will continue to stay focused on some of the specific things we have to do in the State of Florida. And we appreciate that.

MR. RITZENTHALER: I do have one other question I forgot about. I'd asked you the question about -- we talked about the public data and the fact that you provided that data to us and perhaps look at that data and maybe make some adjustments or whatever with that data. But for American Federation, we asked the question that the data did not appear to be consistent with data that had been reported in your quarterly supplemental report. And I believe your response was that the data that you gave us for the public model purposes was inaccurate. Have you corrected that data, and do you have it with you today?

MR. MULDER: We have requested our IT department to fix the problem that was associated with that data. They have it as their number one priority. Unfortunately, again, it's been less than five days and when they get that information, we will FedEx it to you, send it to whatever bank you want.

MS. MILLER: At this time I want to recognize Mr. Steve Alexander who is an actuarial with the consumer advocate for the State of Florida, the Insurance Consumer Advocate and allow him to give a brief presentation. It is 3:00 and we're going to -- we're going to want to have plenty of time for public comment, so why don't we do this. If we can do this, we'll just take a five-minute break just so that everybody can stretch and then we'll hear from Mr. Alexander briefly, and then the rest of the hearing will be for public comment. Thank you.

(Short recess from 3:00 to 3:09 p.m.)

MS. MILLER: The Office of the Consumer Advocate is an office that is independent of the Office of Insurance Regulation and it's handled right now by acting consumer advocate Terry Butler. He is filling in for Bob Milligan who went to go help out in the SPA. Steve Alexander is the actuary for that office and he reviews the rate filings from the consumer's perspective and participates with us in some of these rate proceedings, keep an eye on us to make sure we don't approve anything that's not right with us knowing that. So Mr. Alexander has a few comments, and I will give the company a chance to respond to his comments after he has finished. Mr. Alexander.

MS. MILLER: Thank you, Belinda. I want to spend some time with Chart A, the chart that you just presented today and your experience here in the State of Florida. You sell all lines of insurance in Florida besides mobile home insurance; right?

MR. COK: That's correct. We sell motorcycle, travel trailer, and some boat policies, roughly about cumulatively in those lines, there's also some collectible auto insurance, just doing a quick look at our recap and premium from 2007, that adds up to about eight million of the one million dollars that we write, so the vast majority of it is manufactured housing.

MR. ALEXANDER: Now, when you look at a customer, you're looking at selling them as many lines of insurance as possible; is that correct?

MR. COK: Obviously, you know, we're in the business to write insurance, Mr. Alexander, so we would love for our customers to insure all of their things with us that we do insure. But we are not an auto or homeowners, we have some specialty lines. Those tend to be in Florida as well as everywhere in the country much more of a model lines solution for our customers, we have less product density in the household than your typical carrier that operates all of the product they're writing.

MR. ALEXANDER: So this chart just shows your mobile home experience; right?

MR. COK: That's correct.

MR. ALEXANDER: And you're showing 85.92 percent loss ratio since 1993. Now for the audience, what that means is that for every $100 that you took in, you paid out $85.92 in losses and loss adjustments, those two things combined. So there was approximately $14 out of every $100 that was left over; correct?

MR. COK: What's left over has to then go to the expenses of the company.

MR. ALEXANDER: Right.

MR. COK: And the expense ratios can just, you know, don't have the exact number. That might have been part of our filing, I'm sure we have it here, but can approach as much as 40 percent.

MR. ALEXANDER: That going's to vary depending on how much commission you're paying and etcetera.

MR. MULDER: May I have just a minute. I just want to clarify something as far as that chart is concerned. That chart is our gross loss loss ratio through those -- that time period, it's our gross loss loss expense ratio. So I just want to clarify that that is what that number represents.

MR. ALEXANDER: So this is before our consideration of reinsurance?

MR. MULDER: It's before consideration of reinsurance, yes. If you look at the result after reinsurance and then if you include the reinsurance cost, the profitability lines would come up about the same, the loss is going to come up about the same.

MR. ALEXANDER: The percentages will be the same, but the dollar amounts will be less premium and losses, okay. Does this chart include investment income? Okay. You make investment income in this state, too; correct?

MR. MULDER: Yes. We would have in those years where we have access, we would put that into our surplus, that would then be reinvested and obviously it's been used to pay claims over the 15-year period. We also have to recognize that over that 15-year period, that we had to pay out more in dollars than the dollars that we received in.

MR. ALEXANDER: Did Florida make a contribution to overhead during that period, did it help pay your general expenses?

MR. MULDER: Yes, it did.

MR. ALEXANDER: Okay. So generally, a company will continue to carry a line if it makes a contribution to overhead, and what you're telling me is, this still contributes to some of your overhead expenses. What does your investment income normally run, 5, 10 percent per year in premium, somewhere in that area?

MR. MULDER: I wouldn't know what that information -- I don't have that information in front of us. If you look at what the current returns on T bills, it would be around, you know, somewhere in the last five years, it's probably five percent.

MR. ALEXANDER: Let me ask your expert that question. What kind of investment income would you expect on mobile home insurance in the State of Florida average percent of premium?

MR. NUTTING: Investment income, it's a very conservative portfolio, very little stocks, and it's below four percent as a percent investment asset. And because the mobile home business is very fast decline, we don't hold preserves for very long on a mobile home, those payments are made, so there is not a lot of investment income to be had. So as percent of premium, I wouldn't expect it to be more than two or three percent.

MR. ALEXANDER: Okay. Is most of the premium paid up front at the beginning of the year, most of your policies -- most of your policy holders pay the full premium up front?

MR. MULDER: About half of our policy holders pay the full premium up front.

MR. ALEXANDER: So, you're holding that premium until there's claims. And in most years, there's not very many significant claims because most years don't have hurricanes; correct?

MR. MULDER: Correct. The other thing that we have consideration for is cash flow basis whereas we may only pass through a percentage of the net catastrophe cost to us, we incur the full cost and have to pre-fund that, also. So the monies that we pay out for tax free reinsurance, 25 million dollars alone. So we have a hundred million dollar book; every year we pay out 25 million dollars just to the outside, reinsurers, that does not include the cost that we are paying to the hurricane cat fund. So when you look at what money's available, there isn't that much money available to invest.

MR. ALEXANDER: How long do you hold the reinsurance premium before you pay them to a reinsured?

MR. MULDER: We are paying the insured on a quarterly deposited premium basis.

MR. ALEXANDER: Okay.

MS. JOHNSON: Just a reminder to identify yourselves for the court reporter.

MR. ALEXANDER: How would this chart look for all United States that you write business for; if you look at all the hurricane exposed states since 1993, what would the loss ratio be for the those years?

MR. MULDER: Obviously, we haven't done that. We got to remember that Katrina that came through in that time period which was a tremendous loss, we've also had Hurricane Rita that came through which was a tremendous loss, so if you like, we can provide that information to your department, and we can do that when we go back.

MR. ALEXANDER: Yes, I'd like to see that, I think it's, you know, significant, that you're showing this chart, and there were eight hurricanes that hit the State of Florida in 2004 and 2005. Did those -- were all states that you had hurricane exposure in, did all those states have hurricanes in 2004 and 2005?

MR. COK: Clearly, 2004 and 2005 tragically had hurricanes that hit Florida and other states as they reformed, and so clearly the events most notable of Hurricane Katrina, Louisiana, Mississippi, and somewhat Alabama event stands out as a notable one.

MR. ALEXANDER: Well, let's go down these states. Did you have any hurricane losses in New York?

MR. COK: In this time frame?

MR. ALEXANDER: Yes.

MR. COK: New York, no.

MR. ALEXANDER: New Jersey?

MR. COK: No.

MR. ALEXANDER: Delaware?

MR. COK: No.

MR. ALEXANDER: Maryland, Virginia, North Carolina, South Carolina, Georgia, there -- do you write business in all those states?

MR. COK: We write business, yes, in those states.

MR. ALEXANDER: So you make a lot of money in those states on mobile homes?

MR. COK: Well, no. The answer is, define "a lot of money." It's a little bit of a difficult term. What I would say to this -- this is Mike Cok, I'm sorry -- is that each state we look at individually, and we compete in each state. And the history that we're talking about here that goes into the determination of a hurricane load using our methodology is similar, so that when we look at frequencies of events as you move up into the New England states, you go to the mid Atlantic states, there's a different historical pattern; therefore, the pricing that goes for that reflects a different history of events. What we deal with in Florida is a much higher frequency and that's what history has told us. So again --

MR. ALEXANDER: This chart right here shows -- I think you said 33 storms out of 100 storms? So most of the storms hit other states, didn't they?

MR. COK: There were --

MR. ALEXANDER: This is Chart B --

MR. COK: I'm just looking at the actual numbers to restate them. Of the 105 in that 57-year period, 31 made it just one state, the rest spread out in all the states.

MR. ALEXANDER: So if this chart was prepared for -- if the storms of 2004 and 2005 had hit Texas instead of Florida, what would this chart look like?

MR. COK: Well, it didn't hit Texas, so I can't answer it factually. Obviously, Texas has had its history of hurricanes, as well, so I'll answer your question this way: That the history of hurricane landfall in Texas is incorporated into our pricing and the filings we do with the Texas Department of Insurance just like in some of the other states you mentioned, Delaware, New Jersey, New York. They didn't hit Texas, so I can't give you exactly what that chart would look like.

MR. ALEXANDER: So even though you lost money in Florida, you made money on your mobile home insurance in other states, didn't you?

MR. MULDER: This is Leo Mulder. I just -- the other states, we have the same situation as we do in Florida in that we are priced over the long term for hurricanes. So the reality is that we're pricing for the risk and we're pricing for -- just like in Florida, we're pricing for the risk in Florida separate from the price of the risk in North Carolina. So in North Carolina, just because Hurricane Hugo didn't hit last year doesn't mean that I don't have to provide a hurricane load in -- for hurricanes that will happen in North Carolina at some point in time. And those numbers are reviewed and I have the same issue as we have here, the insurance departments review and approve those numbers. So to have a temporary accounting profit in one year in one state and to say that that's something that can be offset is something that we -- that property would simply be the surplus portion of that building for a hurricane that may occur in North Carolina, South Carolina, or Texas. And those numbers are the numbers I need to support the risk in those states.

MR. ALEXANDER: So you can't really look at hurricane risk on a single state basis, can you, it's a multi state phenomena, one year hurricanes in Texas, the next year in North Carolina, maybe the next year it hits in Florida. When you look at a chart like this, this is probably disingenuous, isn't it, to look at hurricane experience for just one state?

MR. MULDER: I will disagree in that when you look at the risk assumed here and you look at the probabilities, anyone going -- the probability going forward would say that Florida because of it's location is going to encounter a higher probability of hurricane loss than those other states.

MR. ALEXANDER: 30 out of 105 is a higher probability?

MR. MULDER: Yes.

MR. ALEXANDER: 30 out of 105, was that the numbers, approximately, so that's only about 30 percent.

MR. COK: In one state, and there are other states.

MR. ALEXANDER: Correct. But it's still less -- I mean, it's still a smaller number when you consider all the states involved. Your hurricane model is based on multiple states; correct? Use your --

MR. MULDER: We have the same methodology, we do have different hurricane zones within the hurricane modeling based on the long-term hits.

MR. ALEXANDER: So this chart really doesn't prove just because you lost money in Florida over the last 15 years, this really doesn't prove that the rate increases, does it?

MR. MULDER: I would respectfully disagree. The -- we go out there and take a look at any individual state, the monies that we have to ultimately pay in that state, the monies that we ultimately need to receive from that state we have to resolve in order to pay the claim for the state. We have to look at the risk based pricing, the risk, is it located in the state. And based on the risk based pricing, we need to go out and make sure that we have an adequate premium and adequate surplus to take the kind of loss that Florida gives. If you look at other states, for example

Georgia, I don't have the concentrations in Georgia that would generate the kind of losses that I get in a state like Florida. And again, a state should stand on its own.

MR. ALEXANDER: Let me ask your actuary. Just because you lost money in one state doesn't necessarily mean that you're increased risk in that state, does it?

MR. NUTTING: That's a -- well, no. That's not the claim we're making here. We have a filing that uses the five years of history, as Florida requires, we've done a reasonable cat methodology, so it's -- that alone does not say that we get a rate increase, there are other factors included in our filing, and it's all there explaining why we do need the rate increase.

MR. ALEXANDER: Thank you. Let's go on. Why has Foremost chosen not to use one of the Florida methodology commission's approved models to estimate its hurricane expected losses?

MR. SLEZAK: This is Scott Slezak. We find that the regulators don't like the companies to use black box models --

THE AUDIENCE: Can't hear.

MR. SLEZAK: We find that regulators do not prefer companies to use black box models, ours is completely open and laid out in the filing, there's no hidden variables or anything in the assumptions. It can be completely filed from what's on the filing. We also chose that industry models are a little more accurate than our model and that our model, methodology is geared towards mobile homes, in specific based on our mobile home data as opposed to homeowners data like models.

MR. ALEXANDER: Have you ever estimated hurricane losses for Florida using other models other than your own model?

MR. MULDER: We have -- this is Leo Mulder. We have been provided by our reinsureds the outcome of their models. Not to the degree from the pricing perspective, but we do know what some projected loss ratios are and we're continually looking at some of the other models that are out there.

MR. ALEXANDER: How do your estimated losses based on your own model compare to the estimated losses from the reinsurers?

MR. MULDER: The models are pretty consistent between each one. If you look at what we're interested right now is, obviously, what our interest right now is the public model and we're looking forward to getting the result and comparing the public model to our internal model. The preliminary indication from what we can gather in the public model is pretty consistent with our model, and we're hoping to have that information available today and that's the model we're going to compare with because that's the model that has been utilized for this state.

MR. ALEXANDER: Did you just tell me that the reinsurers risk many losses about the same -- at about the same level that your own model has to make for that or were they more or less?

MR. MULDER: I -- again, this is a recollection. I don't have the thing in front of me. I did see that from the modeling perspective, they're very similar in results.

MR. ALEXANDER: Do you have that information available?

MR. MULDER: I can provide it to you -- not here, but I can when we go back provide you the information and the output from the models as I received from the -- our reinsurers, and from that I can -- you know, from there we can kind of determine what comparison would be. Again, the information I received isn't detailed much to do great detail.

MR. ALEXANDER: So are you telling me that you have never done a detailed comparison between your own model and a model such as RMS or AIR detailed enough that you can make a comparison?

MR. MULDER: Unfortunately, the person that was really responsible for that couldn't be here today. And so I -- I cannot -- I've not personally done that comparison, no.

MR. COK: This is Mike Cok. The -- what we call the private models you referenced, the AIR or RMS, to my knowledge has just begun to try to better model mobile homes. Most of their data and modeling has been built more on an input of loss performance related to stick-built housing. Again, Foremost developed a hurricane loss methodology that we've been using since the early and mid 1970's that's provided the most consistent approach, it is the approach we've been using since that time in the State of Florida and other hurricane exposed states. The development of models from RMS and AIR are going through some revisions, they come out with new updates and new releases. We're looking at that holistically, but we have confidence in our methodology, and that's what we use.

MR. ALEXANDER: I know that Citizens runs all of its mobile home business through the RMS and the AIR and I believe also the public model. Have you looked at the results that Citizens got from running those models?

MR. MULDER: No, we have not.

MR. ALEXANDER: Wouldn't it be prudent to run your business through these other models just to see what they produce verses your own model; wouldn't that be a prudent actuarial thing to do?

MR. COK: Again, we look at it holistically and

Leo -- this is Mike Cok -- Leo's mentioned that the person that does a lot of our methodology and modeling unfortunately was physically not available to be here. What we can do, Mr. Alexander, is show what we have done with the help of our reinsurer brokerage to approximate that. And again, though, our hurricane methodology has much more history, has much more our data as historical perspective to it and that's what we have used consistently.

MR. ALEXANDER: Okay.

MS. MILLER: Mr. Alexander, I don't want to rush you, but we do need to let some of the people who came to speak have some time, so if you don't mind maybe --

MR. ALEXANDER: Okay.

MS. MILLER: -- wrapping it up after the next couple of questions.

MR. ALEXANDER: Okay.

MS. MILLER: Thank you.

MR. ALEXANDER: I notice that there is significant changes in actual loss densities for some of your hurricanes. Well, for other storms such as Andrew and Charley, actual loss densities did not change, do not change. For example, in your filing in '05 for Foremost Insurance Company, the Hurricane Hugo loss density was $24 per $100 of exposure. And on the OHR it was $11. For Hurricane Jeanne it was $13 in '05 and $5 in '08. For Hurricane Francis it was $25 in

'05 and $9 in '08. But for Hurricanes Andrew and Charley, it was $50 per $100 in both '05 and '08 for Andrew, and $35 per $100 for both -- for Charley in both '05 and '08. Can you explain why the actual loss densities would change over a three-year period for some of these storms?

MR. SLEZAK: This is Scott Slezak. The graph that we provided with the most recent filing needs to be labeled better.

THE AUDIENCE: We can't hear.

MR. SLEZAK: The graph that we provided with the most recent filing, that data needs to be labeled better. We are in that graph -- between those two filings we introduced a new methodology or factor into our hurricane methodology that tracks in speeds -- forward movement speed of hurricanes, and that's in that most recent filing what we are actually showing is the los density occurring for fast-moving storms. So when you prepare from one filing to the next, these storms that had a slow or mid-range speed had their actual loss density adjusted so that they can be compared apples to apples with fast-moving storms.

MR. ALEXANDER: Thank you. And then my last question has to do with the changes that have occurred over the last three years in your estimates of expected hurricane losses per policy. I just want to give you a couple of examples. For the Florida insurance -- for the Foremost

Insurance Company in '05, for the year ending the 12/31/02 you had earned loss years of 23,231, and the expected hurricane losses per policy at that time were $113. The next year in '06 for those same -- for that same accident year in those same mobile homes, the expected hurricane losses per policy were $359. That's about a 300 percent increase. Can you explain how you got that big of an increase from one year to the next for the same homes.

MR. SLEZAK: The majority of that change is coming from the introduction of the forward wind speed or forward hurricane movement speed factor. After the 2004 and 2005 hurricane season, we found that our methodology was not accurately fitting those storms very well. And the reason was because we were not including -- we were not accounting for the fact that slow moving hurricanes tend to sit over a certain area for a longer period of time and cause more damage. So in developing the next version of a model that was used in the '06 filing, we used that methodology with the accounting for the forward wind speed of hurricanes, and how we achieved that result is all in the filing.

MR. ALEXANDER: Okay. I just have just one more follow-up question. If I look at the charts that you filed, the guide, the loss density formula model charts, these two charts right here, this one and this one, which is your standard chart showing all your filings. That model line even though your actual loss densities changed, it appears to me that the fitted model did not change. So how did you get this dramatic increase in expected hurricane losses per policy when your model, the fitted model line, did not change?

MR. SLEZAK: Well, like I said earlier, that the graphs submitted in the most recent filing is not labeled properly and that's actually for the fast moving storms. That loss density occurred is different for mid and slow-moving storms.

MR. ALEXANDER: So are you telling me you made a mistake in your latest filing?

MR. SLEZAK: No. I'm telling you that we mis-labeled that graph.

MR. ALEXANDER: So how should it have been labeled?

MR. SLEZAK: It should have been labeled loss density fast-moving storms.

MR. ALEXANDER: So there's two charts now, one for slow and one for fast?

MR. SLEZAK: They all differ from a constant factor.

MR. ALEXANDER: So you didn't include two charts?

MR. SLEZAK: That's correct.

MR. ALEXANDER: Okay. Thank you.

MS. MILLER: Thank you. I think at this point we need to give the people who have taken up time from their schedules to come here who have expressed a desire to speak an opportunity to do that. I think to make this go smoothly, our consumer services representatives have a portable microphone and they'll just bring it to you. So if you will, when I call your name from the speaker card, please raise your hand and we'll bring the microphone and you can speak from where you are or if you'd be more comfortable, please feel free to stand up. And these are not in any particular order, but we're going to try to give everybody time to speak. And if you've gotten your question answered and you don't need to ask anything or you don't want to speak, then just let us know that. Mr. David Young, is he still here?

MR. YOUNG: Yes. I've been here all day since nobody else had a chance to ask any questions. But I realize that there are people that do have some of the similar complaints. One of the questions I have for the gentlemen are: Will you be continuing to rate policies through AARP?

MR. COK: We are a product to be the endorsed carrier from the AARP. We intend to continue to provide a mobile home insurance policy that serves the members of AARP and we look forward to being able to do that.

MR. YOUNG: While having been in business, I understand the volume discount business. What you're telling us here, however, is that those of us who don't take our policy through AARP are going to take it through one of the other insurers, is that we're going to end up paying a premium and at a minimum, I think it's something in the neighborhood of 10 or 12 percent. So, you know, I would certainly like the commission to take a look at that as to why they are entitled to such a sizeable discount particularly when some of us are paying yearly $1,200 a year for our insurance, by the way. Secondly, I ask you in looking at your models, I don't know much about the insurance business to think of these model, however, I wonder if you have taken into consideration in your modeling the homes that have been built both under the HUD specifications in 1984 and also the additional specifications that went into effect after Hurricane Andrew here in Florida giving us homes that I would quite frankly challenge your comment that mobile homes are manufactured homes or manufactured homes, if you will, are less stable than site-built homes because there were an awful lot more -- as an example here in Polk County, there were a lot more blown roofs on site-built homes than there were on mobile homes. So I thoroughly question your methodology of whether you're taking those types of characteristics into consideration.

MR. COK: Thank you for that. We absolutely look very closely at our historical data in determining what our appropriate pricing needs to be. The comments about durability in manufactured housing has improved; the insurance that we write, though, is for mobile home insurance regardless of age. And -- but we do look at different performance by age. And that is a factor in our loss trends analysis.

MR. YOUNG: And one last question from my perspective. Have you taken into consideration or are you taking into consideration the providing discounts for those of us that have our homes that have been hardened, if you will, and that under the state law that has provided monies for additional people to harden their homes so that they are now even safer from the hurricanes? I'm wondering if any of that, we can look forward to in the future.

MR. COK: And I sincerely appreciate that question. A week before last I was in Orlando, Florida for a meeting involving the public sector, the private sector, reinsurance sector, and most importantly, the focus was on hurricane risk mitigation. We think being part of the long-term solution to the insurance issues in the State of Florida means that we have to work with these different entities, and there's been some terrific things done specifically in the State of Florida about safer home construction, risk avoidance through that, that might save Florida homes specifically. It's an outstanding program. And we will be looking at how performance and these risk categories changes over time and very much will be considering how that can be a solution to some of the insurance issues that we face. They're very important considerations. And I will tell you that the public and private sectors in the -- and the support of both see that as a very critical solution long term to the issues that we all face together. Yes, we're looking at performance, lots of performance, lots and lots of data about the performance in our -- we will absolutely change our pricing as the performance is substantiated through this data that we analyze, absolutely.

MS. MILLER: Mr. Young, are you finished with your questions?

MR. YOUNG: Yes, ma'am. Thank you.

MS. MILLER: The next is Pat Diller? And I apologize in advance if I mispronounce your name.

MR. DILLON: You did. Thank you. My name is Pat Dillon. I'm president HOA of Lakeland Estates here in Florida in Lakeland. I first of all want to thank Ken and Steve for asking all those embarrassing questions that you guys stumbled on; it's good to know that there are some good bean counters around, that they're not all bad. Some of you guys, there's an old adage that figures don't lie, but liars figure, and I think you guys sometimes fit the bill for that. But these percentages kind of get me, so I'm -- I have Foremost insurance, in fact, I've got it on two homes. I've got it on my home up north, I've got it on my home down here. That doesn't really mean anything because I don't get any consideration for that. They send me flyers once in a while telling me if I insure my car with them, they'll give some insurance consideration for that, but they don't because I own two mobile homes and you've got to have a regular home to get the car rebate. So that doesn't do any good if you do have a car and insured with Foremost because they won't give you any other consideration if you own a mobile home. Now, an old adage that all these percentages going, that you have one foot on hot coals and one in a bucket of ice water, that on the average you're going to be all right. I want to thank you guys, the commission here, for the opportunity to express ourselves to the -- to you people and to Foremost. I wish I had that same opportunity for the price of gas, but we don't have that opportunity. I really think that we're getting ripped off, I don't think you ought to allow these increases. Thank you.

MS. MILLER: Thank you. William Yaubits?

MR. YAUBITS: Yes. I'm currently a policy holder and have been for 15 years. I think it's kind of funny you're asking for an increase; my 2007 bill was $799 and my this year's bill is 1,086. That's a 30 percent increase when I went to school, don't need a calculator to figure that one out. So why would mine go up; I've got perfect credit, got a mobile home that's fairly new, built by the strictest standards, an excellent credit rating, and no claims. So why would mine go up 30 percent in one year and you're asking now for an increase? I've got the bill right here.

MR. COK: And we can specifically follow up with unit changes that went into your specific policy. The numbers that we are talking about are averages, that also means that there are ranges on either side of that. One thing you did mention is excellent credit. Credit is more of a tool utilized for loss prediction in the insurance industry, we do not use credit in manufacturing housing, we do not use that in the State of Florida for manufacturing housing. The difficulty in answering your specific question is, there's lots of specific situations, and if you have a copy or an e-mail, we'll look into specifically the timing and changes and all the different filings that had somewhat of an affect, the effective dates, the original filings that -- the most recent filings which were presented in 2006 for adoption in March of 2007. There was a presumed factor finding that came in as of June 1 effective dates. And here we are now, as well, talking about true-up filings, so there's a lot of timing that's going on here, as well, but we'd be happy to look into your individual situation.

MR. YAUBITS: As a follow-up, I'd actually like to know what to do; I have written several letters, got no response, made several phone calls, have not spoken to anybody that could explain it. So what do I need to do?

MR. MULDER: After the meeting, just -- I'll stop by, give me the information, e-mail address, I'll at least go in, take a look at what it is. I do have a question, that's: What is your policy effective date?

MR. YAUBITS: I think it's March, 2007/March 2008.

MR. MULDER: All right. One of the things that we have to recognize here, and I think it's one of the things that got lost in all this, is that there are two parts to this whole thing. One of the things is that we have filed for a decrease is the first part of this and now we're filing for rate increase. Overall -- so one of the things that we have to recognize is that the first part of this process we went through and we lowered our rates. In many cases, you know, we have rate increases prior to that, obviously, but we lowered our rates, and then now we're kind of almost just trying to do the same rate back, trying to get back to where we were. And so some of the times when you look at it, it gets kind of convoluted, it's difficult to kind of sort through. But in your situation, you give me your policy number, and when I get back, I'll take a look at it.

MS. MILLER: It might be useful at that point to explain -- the reason that the rates had to be lowered last year was that the State of Florida expanded the cat fund which offered companies the opportunity to buy cat fund coverage for less money than they would have to pay for private reinsures. The legislature expected that to allow companies to reduce their rates, and so last year companies including these filed for rate decreases. The question is: Why, then, are you trying to get back to what you had before, doesn't that 12 million dollars do you any good for this company in the cat fund? And that's one of the issues that the legislature's been looking at, why didn't that enable you to lower your rate and keep them lower. It may help to go ahead and explain.

MR. COK: The presumed factor filings were just that, they were presumed, of course, and we adopted and applied those, as well. We then through the true-up filing are going back to our actual data. Part of your question, Ms. Miller, was addressed -- this is Mike Cok -- addressing the -- our -- did we get benefit from that. Well, we fully incorporated the expected coverage that the Florida hurricane cat fund did provide. One thing that we did not do, if I can make this part clear, is, we did not use this as an opportunity to go buy more reinsurance. We have seen some of that happen or attempt to happen. Our reinsurance level, excess catastrophe treaty that we maintained is the similar treaty that we've been maintaining all the way through. So again, there's lots of variations based on the company, there's lots of variation based on indications, and it was our actual data and consistent application of that data that's used in the true-up filing.

MS. MILLER: Okay. Thank you. Continuing with speakers. Alexander Lei?

MR. LEI: Thank you. I'm a policy holder, also. I need to clarify a little bit what Mr. Young said. The answer to his question about are you going to take into consideration hardening of homes that people do proactively and voluntarily, you give an answer of, we look at long-term performance. When we voluntarily harden our homes, we're already looking at information that you people say works, we look at information that certified engineers say works, and we do it, we put out money, and yet you say, we need performance data. Well, is this certification by engineers not valid? I have over two dozen homes in my community that due to my urging and knowledge that we passed in the Federation of Manufactured Homeowners to harden their tie-downs to 1994 standards, over two dozen people did that. And I said to them, you're probably going to get a discount in your insurance. And when I did that, I put out $1,200. You, Foremost, said, I'm sorry, thank you, but you don't get a discount. And yet our state insurance commissioner says, that was encouraged because they're working -- they're hoping that you, the insurance industry, would respond by encouraging this proactive activity. Thank you.

THE AUDIENCE: What's your answer?

MR. COK: Those are very appropriate comments, those are very appropriate questions. We will continue to analyze that, and I'm not trying to dodge the question. But the realities are that we do have to look at actual data. We will continue to study that. The aspect of discounts is a function of -- at the end of the day what the total rate needs to be. And that is incorporating all of our performance data that we do have. I do encourage what you've done, I applaud it. That will bear fruit, and we will work to try to determine how to take advantage of that in discount opportunities. The actual performance is important to our determine our approach to determine indications. So we do take a look and will continue to take a look at that.

MS. MILLER: Ruth Muller?

MS. MULLER: Yes. I was former president of Lake Juliana Landings Homeowners Association for six years. And this question that Alex just brought up was a question after he promoted this throughout the park and encouragement through FMO, our manufactured homes association. He got bad-mouthed because these people didn't get that refund that he suggested that perhaps the insurance company would do, the discount, that's one question. My other question is -- well, the question there is: Where is the -- where is the discount? My other question is: Do you think other companies dropping out of the insurance industry in Florida after the hurricanes, you say you insured more manufactured homes, therefore, you receive more premium money. And you also got more surplus as it has not been used in the last four years for hurricane prevention. You say that in three different occurrences of non-hurricane problems, you paid out monies. I'd be interested in knowing what those three occurrences were. Also, you say that there's three of your companies that they're not open for new business, but AARP is one that you said will and you quoted that it would be the Foremost Insurance and Casualty -- Property & Casualty. Most of us are insured through Foremost Company and if you're not insuring through AARP, they -- right now it's through the casualty part, I believe, for AARP, it's the combination.

MR. MULDER: I'm writing down questions, and I apologize for that. Well, let's go backwards, and for the most recent we are writing -- we're no long writing new business in our Foremost Property & Casualty Insurance Company. Traditionally that's where we would have written the AARP member, we are now writing the AARP member through Foremost Insurance Company. So I'm trying to consolidate all this into one company and one presence in the state. So that's why you're seeing Foremost Insurance Company, but the AARP member will -- frankly, AARP members as far as a policy we will write through the Foremost Insurance Company. This whole issue of discounts I feel kind of that same situation. You know, it's an assumption that was made, if I did this, then the insurance company would do that, which we had been contacted previous and we had discussed the situation. And I don't know how -- you keep talking about, well, we need to take a look at. Well, in this state most of this business is sitting in parks. And reality is, is this a community thing -- I applaud you for that. But what happens is, 12 percent of the people improve their tie-downs, that means in the park, 88 percentage of the people did not. And when it's -- when an event occurs, yeah, your home might be sedentary, but the damage caused by the debris field is going to be tremendous. So the loss costs that are saved has -- we have to think in terms of getting people to the 88 percent solution versus the 12 percent solution. So we just have to understand that there's more things than simply the home itself, it's all the homes, the surrounding terrain, and the surrounding homes around that. So there's a lot more considerations than simply heightened improvement, I've improved my tie-downs. So that's why Mike keeps saying, we need some time to look at this, we need to find out. Unfortunately, we need an event to see; nobody wants to have an event here to see what really happens. And that's what when Mike keeps talking about, we need to see that,

that's why we need to see how strong this would be.

MR. COK: This is Mike Cok. The other aspect of your question, category in my mind had to deal with surplus, and the build-up of surplus in Florida. You know, the realities are that we have not built up surplus in Florida; in fact, we've lost a tremendous amount of surplus because -- so surplus has gone down, has gone down dramatically in the years 2004 and 2005 and that's why we didn't go back all the way to post Andrew where there was some profitability to try and show the picture. But it would be very easy to show you just the last three or four years, and that would be a dramatically negative picture. But it is our intention to continue to provide a solution, be part of the solution. But surplus has taken a hit as a result of what's happening.

MS. MILLER: Next speaker is Carol Harris.

MS. HARRIS: I live in Hickory Hills Manor Mobile Home Park, and I've been a full-time resident for 12 years. I thank being cancelled by my four other companies, and I actually have something good to say about Foremost. I'm glad all you guys are sitting down. Anyway, I've only been a policy holder with Foremost Property & Casualty for one year because like I said I was cancelled; I paid my premium on time, I never had a claim, but they kept dropping out, so I got cancelled. So anyway, I was really happy to find out and I wish I had found out in 1996 that you had a renewal policy for guaranteed renewal. I wish I had known that. But now, is it my understanding that that has been dropped, Foremost is not doing that or they do it? I had other questions originally, but they've all been answered, so this is a new one. Thank you.

MR. MULDER: We do not have a lifetime continuation agreement in our Foremost Insurance Company contract. Do you have Foremost Property & Casualty?

MS. HARRIS: Correct.

MR. MULDER: Well, you have a lifetime continuation, as long as you keep paying.

MS. HARRIS: As long as I keep paying, send me the bill.

MS. MILLER: Next, Mallon Durr? Again, I apologize if I mispronounce the name.

MR. DURR: That's all right. Everybody does it. Okay. And can you hear back there now? Thank you. First, I might say that I once had your insurance in Indiana for 28 years, fine, you know. And then I come down to Florida, and I'm going to need new insurance down here for a new home down here. And so I happened to see an ad in AARP, I think it was, magazine for -- now I can't say the company, Foremost. And so I dial the phone number, talked to some young lady, and she asked what park I was in, and I told her, so, that's great, that's one of our number one parks, blah, blah, blah.

And then as you know in Florida we have a few lakes, especially around Central Florida. I don't live on one of them, but we got all scads of them. And this lady asked me, are you near any water or do you have any water near you, or something like that. And I said, yes, we do, but I don't live on the water. And she said, well, if you live near the water, I can't insure you, forget it. So I went elsewhere and got an insurance policy, matter of fact, with the dealer herein Lakeland. And that went for a few years, and then that company decided they were no longer going to insure in the State of Florida, so they let me know. Thankfully they let me know about a month before the hurricane hit me. And so they paid for that and they didn't question it, no problem. But that was the end of that policy and that insurer. So then again I got to find another insurer. So I called the company here in Lakeland that -- they're not an insurance company, but they -- I don't know what the terms are, but they sell different policies, you know, for different companies. So -- and he was aware of my particular problem, so he called me and said he'll try to find us -- and it was hard to do then, but he'll try to find me another company. So in a couple of weeks he called me and said, I got somebody for you, Foremost Insurance, how does that sound to you; I said, it sounds great to me. The only thing was, that cost me a little bit of a premium, you probably know why, I'm not certain why. AARP, I know that their's was cheaper; why, I don't know. But I throw that out for what it's worth, and thank you. We don't get discounts. And that -- by the way, that represented locally here. I don't know what you're giving them as discount, something, I'm sure. But considering what I just told you about what he went out -- I felt out of his way to get me new insurance and get in a hurry, it's worth a little something to me. Thank you.

MS. MILLER: Thank you. Jeremy Hart?

MR. HART: Hello. I live in Woodland Lakes Park. I'm only a resident for approximately a year-and-a-half, and a snowbird to boot. And in any event, I think the commission people here have done a great job. And I think you gentlemen have a lot of funny things to answer. Why do you have four companies; are you each a separate stock company, do you consolidate your earnings, do you consolidate your loss, how do we know who you are? Very strange. You know, Ford Motor Company has four cars, ten cars, but they're still Ford. There's something not quite right when an insurance company consolidates all the losses, charges all the premium, and then get an administrative fee. It's that simple. But yet you have odds for one, risk factor for another, and a special population who gets a break, AARP. Doesn't sound right, guys; in fact, it kind of stinks. Anyway, thank you.

MS. MILLER: Does the company want to respond to that?

MR. COK: Try it as best I can given the complexity to explain the four companies that we write owner-occupied mobile home insurance in the State of Florida. A lot of that is a lot of history. Historically going back decades, 20 and 30 years ago, different companies structures were set up to handle different targeted types of risks, capital allocation funds. Quite honestly, a move to have Foremost Insurance Company as the place where in selected territories to be open for new business is just that, to simplify things. So a lot of that legacy and history is still in place, so we have to maintain those programs, as well. But that is part and parcel why Foremost Insurance Company is the company, the one company now that we do use for maintaining new business in our exposure levels in the state. So there's lots of history, it's well before my time in the company, as well. There is, though, a consolidated role in that we do look at all of the capital is there; these insurance companies work together so that they protect each other with supporting each other when the time comes, the claims reps are trained to handle it when the time comes, but some of that simplicity is what we're after, as well, and some of that legacy from a long time ago is not necessary in today's approach.

MS. MILLER: Wilbur Baker?

MR. BAKER: I have only one question right now is: I'm a policy holder of yours, and my premium went up $200 also like the gentleman back here in the back. Now, you asked this gentleman to bring you up his policy. He's fortunate enough to have it with him. What about us people that got that raised premium, can we go to our agent, can you supply them something that would help us?

MR. COK: Yes. If you have an agent and you work with an agent, they perform a very vital service for you, they provide advice and counseling, they can provide you facts of the matter. We work with all of our appointed agents in the State of Florida. They contact us daily, regularly, and we've provided answers to them, and I would encourage you, in fact, to do that, absolutely contact your agent.

MR. BAKER: I have spoken to them already, and they say there's nothing they can do.

MR. COK: To specifically write a piece of business with Foremost --

MR. BAKER: The reasoning why it went up $200.

MR. COK: Is that not a -- you said you were not a Foremost policy holder?

MR. BAKER: I am.

MR. COK: You are a Foremost policy holder. Again, I think if we can just get your name and we can try to do some follow-up with you.

MS. MILLER: I think one of the explanations that you're probably going to hear from your agent is that there was a rate increase previously that has cycled through and you have been renewed now in that rate increase, but your renewal was probably before June the 1st of 2007, was it?

MR. BAKER: March 15th.

MS. MILLER: March 15th. So it will be, you know, June -- the policy that starts renewing in June got the decrease that went into effect last year, so some policy holders have not seen that decrease yet. But you're March 15th of '08?

MR. BAKER: Yes.

MS. MILLER: So you should have --

MR. BAKER: I've already paid the premium.

MS. MILLER: But that decrease should be reflected in your policy, so you should contact your agent.

MR. BAKER: So I should get a rebate?

MS. MILLER: I don't know what your specific situation was, but timing does create these issues. But I don't know why you wouldn't have gotten the decrease that would be implemented in June of 2007. You should have gotten that for March of 2008.

MR. BAKER: It should have went down instead of up.

MS. MILLER: Should have, yes, sir. So if there's nothing else that changes, and that's other issue. So I think that what probably you can do is, one, go to your agent, and the other is, if you want to give your contact information to the consumer services rep in the back of room, they will make sure that the company responds to you with that information.

MR. MULDER: Just a quick question. Is that a Foremost Insurance Company policy or Foremost Property & Casualty Insurance Company policy?

MR. BAKER: Foremost.

MR. MULDER: Property & Casualty or Foremost Insurance --

MR. BAKER: Foremost Insurance -- I'm not positive it is. I don't know what all of it is.

MR. MULDER: Okay.

MR. BAKER: I know it's just Foremost.

MS. MILLER: Leon Vickers?

MR. VICKERS: Ms. Miller, Johnson, Mr. Alexander, my name is Leon Vickers, I am a Foremost policy holder. I'm also the president of Skyview Neighborhood and Associates Parks. We have seven mobile home parks, we have numerous homes, manufactured homes put on individual lots. We have approximately 5,000 citizens in our area. Mr. Cok, I have a question for you. How many of you gentlemen reside in Florida?

MR. COK: I reside in Michigan. It's a lot colder in Michigan right now.

MR. VICKERS: Yes. How about the other gentlemen? Do any of you reside in Florida?

MR. COK: No.

MR. VICKERS: The reason for my question is, you said you did corporate diligence. Corporate diligence means a little different, you really check out what you're doing, you're sure of what you're doing, you're sure of your business. We'll look at -- you started out by saying mobile homes. Back in the 30's and right after the Second World War, they were trailers on wheels. Early 50's, the wheels disappeared, they were tie-down. Then they became manufactured homes. They are manufactured homes. They are not mobile homes. They don't travel, they're stationary. And for some reason the insurance company says, they're not the same as a regular stick-built home on site. You're right, they are not. They are much better. If you have gone to the manufacturers and watch the way these homes are manufactured, there are codes, different codes, and they have government inspectors, which you don't have on individual sites; so therefore, you have a better home. Why is it that the insurance companies will not say that the home is better if it's put on a foundation. They say it's still a manufactured home. It doesn't matter if you put it on a foundation, it's a lot better. I don't understand that.

The other problem is, we have 357,000 manufactured homes in this state. Your policies and your prices go up and down like the one-armed bandit. Very important thing is, hurricanes. You say the hurricanes create additional problems for us here in Polk County. We have 550,000 residents in this county. And many of them like the whole State of Florida started by the individual came after the Second World War, they came here to come here for the winter months. Now we have snowbirds and full-time residents that have retired. And to have 357,000, that's a lot of people, multiplied by 2, by 3.5 it's really a lot of people. The important thing is that here in Polk County, if a hurricane hits either coast, east or west coast at 150 miles and hour, by the time is reaches here it's approximately 60 miles an hour. You must know that if you've done your due diligence, you know that. So why are the rates jumping from 23.9 to 58.9 percent? That'S irresponsible on your side. I realize you're in business to make money, but I also realize that numbers are numbers, and you can make and say anything from 216 percent, or we don't mean that, to minus 304 percent, you certainly don't mean that.

Now, the average of manufactured homes go up to 200,000 -- matter of fact, I just visited one last weekend; it had three bedrooms, 3.5 bathrooms, it was three wide, 4,800 feet. That's a very large home. That is a home, gentleman. It's not a mobile home. Change your philosophy. There are mobile homes everywhere, they have tie-downs, the tie-downs are better than four posts in the average house or six cement blocks but nothing tying it down, they're not required to be tied down, but manufactured homes are. The other problem is, of course, the number of insurance companies in this state have dwindled down to where we're being held hostage by the insurance companies, we have no say. Automobiles, if you have one, two, or three automobiles, you get a discount. That's one of your questions, what do you mean, discount. Some people have homes up north, they have homes here. Should they get a discount, yes, why shouldn't they. I'm sure that all you gentleman at home are pleased with yourselves. You say that in '06 you had $359 loss per policy. Is that over and above the insurance policy that you charged, or was that part of it?

MR. COK: Do you mean does that take into account --

MR. VICKERS: The insurance policy, the premium paid.

MR. COK: Net losses in those years includes the revenue from the premium.

MR. VICKERS: Yet in '92 it was 2.4 million, in '93 it was 5.5 million, in '95 it was 600,000, in '98 it was 400,000 but you had increases all the way across the board up to, what, 72.9 percent. Something doesn't add up here, gentleman, it just doesn't add up.

MR. COK: There are a lot of numbers in our filing. Some of the numbers you just rattled off --

MR. VICKERS: I just got them here today. I happened to watch the television news -- that's something else you have to do. If you're going to do something like this, advertize it, let us know you're going to do something so at least we can prepare, find out. I've just been taking notes haphazardly trying to figure out, gee, did I miss this one, did I catch that one. The most important thing is your terminology. Get outside and say they're manufactured homes. They're a lot better than any stick-built home. If any of you gentleman have a stick house, you thought your bedroom was 10 x 10, you find it's 9.8 x 9.6, that happens. Not in a manufactured home, it doesn't happen.

MR. COK: To the comment of terminology, I appreciate the comment. By no means when we use the term "mobile home" are we at all thinking disparagingly about that. Foremost was the first to insure this type of risk. The reason Foremost existed in 1952 is because some companies that you're referring to would not, they looked at this as a special risk, these trailers to them were unacceptable.

That's why we started, that's why we're here today, it's why we're still here talking to you, because we want to be part of the solution. We have incurred losses and you have incurred financial hardship. To the terminology of it, I think you make an important point about the term of manufactured homes is a more appropriate term. Quite honestly, our reference, we use both of those terms synonymously when we do our own market research, still a vast majority of our customers call them mobile so we talk to them in terms they're familiar with. But I want to acknowledge that I, like you, am very proud of what we insure and very proud to do it. And I like the progression and terminology towards manufactured home, absolutely.

MR. VICKERS: I have another question for you: Age discrimination -- wait, I mean manufactured homes. Why do you have that? Why do you have age discrimination; was it built before '87, was it built prior to '92, oh, we're not going to do it anymore if it's six years old. Why is that?

MR. MULDER: Yeah. What we have basically, sir, is that if the home is a 1985 model year older, that we require it to be having the current tie-down standards. So we're not saying we won't write it, we're just saying that from an underwriting standpoint, a home that old needs to be brought up to current tie-down standards.

MR. VICKERS: But many of them do; matter of fact, they -- half the parks here in Florida had assistance by federal government known as state to add the tie-downs. And apparently they're not adhered to, you're not concerned about that. You don't acknowledge.

MR. MULDER: Well, no. We're saying that as long as someone can come and tell us if they have been upgraded -- tie-downs are upgraded and that it's acceptable risk to us. It is -- we do not discriminate based on the age of the home other than -- discrimination is such a poor word.

MR. VICKERS: That's what it is.

MR. MULDER: So -- but what we're trying to do is say that a home that has been cited for that old we just want to make sure that it meets current tie-down standards, that's our underwriting department.

MR. VICKERS: Yet someone asked a question, 12 percent of the area had changed it -- but you said what happened to the other 88 percent, did you ask?

MR. MULDER: That was an example. And I got the example from the numbers that -- I guess I was incorrect. I don't know from the other gentleman that it was a 12, you know, a portion of his park had the tie-downs put in. And I'm saying from an underwriting standpoint that we would -- if they were asking for insurance if it was in an area that we were writing new business, then we would write that particular policy if it met the current tie-downs.

MR. VICKERS: Would you notify them of that position or would you just say, well, I'm sorry, we don't take policies in your area?

MR. MULDER: If a customer called us, under the underwriting screen they ask the question. And if the customer says, yes, then they ask for verification. And we will sent out -- there's a letter that goes out to the customer.

MR. VICKERS: Do you ensure regular stick homes?

MR. MULDER: In Florida, no.

MR. VICKERS: Elsewhere?

MR. MULDER: We have other programs we call special programs for stick-built homes.

MR. VICKERS: Are the stick-built homes, are you concerned about the date they were manufactured?

MR. MULDER: I'm not very familiar with that business.

MR. VICKERS: I have a reason for the question, obviously.

MR. COK: We write in states other than Florida. A much smaller amount, but we write what we call specialty dwelling product. And that's again a product not designed to cover the traditional site-built home but a home that has different usages like a landlord property or that type of thing. Do we consider the quality of the home, absolutely.

Every one of those homes written on the site-built program are individually inspected before we rule on the policy of insurance.

MR. VICKERS: Well, I think if you went throughout the State of Florida you will find that many of the homes that are maybe just ten years old or eight years old have been rebuilt. And so there's '88's and '75's that I've seen that look as great as any house on the market. So you really have to review your position, gentlemen. Thank you.

MS. MILLER: Thank you. Next is Gerald -- appears to be Yurn?

MR. YURN: Welcome, gentlemen. I live in a community of 190 homes south of here about 30 miles. And one of our neighbors was telling us today that she has a home that is -- I believe it's probably somewhere around '95, '96, somewhere in there. It's a manufactured home, it has tie-downs, she's paid a premium, she's been a good girl, the whole nine yards. And now Foremost says they're not going to renew her. And you're saying you do renew. I guess I would like to have an explanation why she would be picked out as not being able to be renewed. If you could answer that as one of my parts of the question.

MR. COK: We -- it's another one of those very specific situations. We have to look at her individual case. The general position that we are in here is, we are renewing our customers. It's important that our customers pay their premiums, it's important that they pay them on time. But we have not taken the approach that some other companies have, in particular as it relates to manufactured housing or some of the other property products here that we have continued to renew our customers. And so we'd have to look at her individual situation for her specific facts.

MR. YURN: I guess, who would I have her contact to straighten this out? You give me an e-mail address or --

MR. MULDER: I can give you an e-mail address for consumer advocates, gather the same information -- it's your choice. Give me your information, I'll give you my e-mail address, and you give me the specifics, and I can follow up. And the policy would be to go through a consumer advocate, do it the same, either way.

MR. YURN: I guess the other thing -- comment that I'd like to say, that if you operated for 12 years or whatever at a loss, I commend you for being able to pull it off because it -- if I run a business for ten years at a loss, I think I'd probably be doing something different. I think you done well to come though it. Thank you.

MS. MILLER: Ms. Ardell McKenzie?

MS. McKENZIE: Hello. My name is Ardell McKenzie. I live in Woodland Lakes in Lake Alfred. I am the FMO representative from my park. I am also the prior section director. I'm on the board for the FMO in Florida, and I'm very proud to live in a manufactured home. They're wonderful homes. And the first thing, I'll kind of change things around. I listened to all these questions. Is this -- this past Monday morning, I was over in Largo at a joint committee of FMO and FMHA, those are the manufactured homeowners, park owners. And about ten of ten we were talking about other issues, and one of the gentlemen looks at his watch and he says, I've got another issue when we finish this one, and he tells us all about this meeting. That's totally inappropriate. I had two days, and many of us had two days to get a hold of people in our parks to get notified. We deserve more days than this. A number of years ago -- and I believe some of the people sitting back there were part of the State Farm Insurance, we were talking about that -- we went over to Largo, we had a whole, whole packed room of people. We had time, and we need to be given time to say our due. We are citizens of this country, and I would hope the next time this kind of conversation comes up, we are given time, it's written up in the paper, and it's gotten out. And I -- we deserve that.

The next thing I want to bring up is about Foremost. My gosh, I wanted Foremost insurance; I have Citizens. After the hurricanes, my insurance policy was dropped; they said, get Foremost, get Foremost, I tried, could not get Foremost. So I got Citizens. And as a representative, an FMO representative, I was told by a number of people, those above me, too, tell people, don't drop that Foremost, don't drop that Foremost. I told him, what, two months ago, don't drop that Foremost. Right then look at me and him. And anyways, you know, it was a great insurance. And now you're putting it to us. You're putting it to people who are retired, who are on fixed incomes. I understand you gentleman aren't, but some day you will be. And even if you have beautiful, big homes like I did up in Ohio, I don't now and I don't have those funds, though I get a good retirement from my teacher's salary. I still am on fixed incomes.

And we understand -- we're very intelligent people sitting in this room -- that things go up, okay. We accept it to a point. But you're going far and far beyond the point putting it to these parents and grandparents and great grandparents that have worked many, many years and deserve to be heard, one, and deserve some intelligence for what you're putting it to and the amount of money you're doing -- asking for, the increase. It's just totally unacceptable. When I got this information out, we went around, I e-mailed people in my own community, and I told some people that -- in my park about this. And one man said -- just looked at the letter that I handed to him and he said -- he just dropped the letter on the ground. He said, Ardell, I cannot have another big increase, I will have to drop Foremost, I will -- and I had my, you know, I thought this was the best insurance, we were told that, we were told that, and I can't afford this kind of thing, I will go with no insurance. This is a retired couple, well into their '80's, it's going to go with no insurance, isn't going to be able to go back home because there is no back home. So if that hurricane comes around -- and how do we ever know about that. If that hurricane comes around, they're done.

Now, I know that insurance companies, there's other businesses don't look at people, they're looking at things and money. But we should be looked at as people. We are important, our manufactured homes are beautiful, if you haven't gone through one, take a look at it. As the gentleman said, it's a great home. And I thank you very much for your time, but I really wish you would go back and talk about us. We would have been five times this in number, maybe more than that. How many of you were there at the State Farm? I know there were some of us there, you know, a number of years ago. Thank you very much.

MS. MILLER: Thank you. Linda Broushka?

MS. BROUSHKA: Well, it's Linda Broukta, but that's all right, everyone makes a hash out of my name. I, too, am from Woodland Lakes and like Ardell, I was the FMO representative back in formation years of our park, back in the '80's. I've lived in that park for over 25 years. I'm the third oldest longevity-wise in our park of 167 homes. And I'm quite proud and happy to still be there, and I love my park, and I love my home. And prior to that period of time, I had Foremost insurance on our family's RV back in the '70's when we were from Michigan. And I have an American Federation policy and I'm lucky to have had it and I feel blessed because the two benefits of being in the extra home back in the early '80's was the access to the American Federation Insurance Company's homeowner's and automobile policy and the ability to join the MacDill Federal Air Force Credit Union. So I did all of the above.

And one of the gentleman here said today that their average premium for American Federation is $410. My premium currently is more than double that. And it hasn't been that low since 1994. And I'm just wondering because one of the gentlemen mentioned that they have groups for -- or American Federation is mostly over in the coast region where FMO was hit harder. So I'm in Central Florida. Am I paying a coastal risk rate on my policy where I'm here in Central Florida having had it for 25 years? And it was also mentioned by one of the gentlemen that the American Federation carries three to four percent of the book of their insurance in this state, and one of the benefits of American Federation -- and I was always so pleased to have that, and I always swore I would never let it go because of a guaranteed lifetime renewability clause in that policy. And also, one of the gentleman mentioned that the American Federation policy now is kind of in a run-off mode. And I sure don't want to be run off from my lifetime renewability. And I do feel that this 72.9 percent increase that they're requesting is totally unreasonable and it's just an effort to run those of us who have that wonderful policy out so that they can close the book. Thank you.

MS. MILLER: Do you want to respond to that, trying to run people off?

MR. COK: There was a question in the middle, so maybe I'll pull that out. The living in the central part as opposed to coastal, no. These hurricane methodologies consider how your proximity to coast is, on the coastline the risk is much higher than it is in inland territories. As to the terminology "run off," that's a term that we use for books of business that don't have new business. It is not our intention to run off customers that have that provision. So, you know, that is a term that -- that doesn't reflect you as a customer and our intention to keep that provision of your contract in place. So the rate increase in that program is not an intention to run customers off, either. It's a reflection of the underlying indications for that book of business. So a couple of things I would pick out that turned -- used in the question format. But that's our approach to those.

MS. BROUSHKA: But I believe I did hear one of you say that each sector or sectors in the state have different values of risk for hurricane, and I think Central Florida would be at less risk --

MR. COK: It is.

MS. BROUSHKA: -- than the coast --

MR. COK: It is.

MS. BROUSHKA: -- and if you base that charge on the risk involved overall for that company which I would say American Federation, then I would be kind of placed in that risk factor of being over Tampa -- Tampa Bay area which may be more risky than living here. That's what I wanted to state.

MR. COK: Okay. The approach to hurricane risk which is the coastal exposure is done through the hurricane methodology that looks at how far you're in the risk -- how much closer to the coast line, there's a lot more risk than those that would be inland like what we are here. So there is a variation in the risk assessment in our decisions there. So it's not lumped in with the coastal business, it looks at the actual territory that you're in.

MS. BROUSHKA: But it just seems to me that your old methodology for evaluating the amount of risk in these different sectors is rather shaky.

MR. COK: Well, I sure won't try to convince you, but it's the way we've been using this methodology for a long time and it's proved to be as reliable of a tool that we have, so I appreciate your opinion, though.

MS. MILLER: We have two more speakers this evening. Judy Callerelli?

MS. CALLERELLI: At this point, I guess it's good evening. I did have a question with Ken. He was asking you about annual premium trends. I guess I don't understand that, 1.5 percent. I have been here -- this is starting my fourth year. My policy with Foremost started January 1st, again renewed. But this year it went up 25 percent, last year, 16, the year before, 16. The reason on this year's policy at the bottom of the premium said that I was -- a percentage of it went to Citizens to help bail them out of, I guess, some problem, and the second thing it said was, helping people that have no insurance at all. And that was the explanation of the increase. But now another 23.9 percent may be possible. And I guess I don't understand annual premium trend of 1.5 percent.

MR. SLEZAK: The premium trend refers only to --

THE AUDIENCE: We can't hear you.

MR. SLEZAK: Sorry about that. The premium trend only refers to the portion of your premium increase that's due to the increasing value of your home. And I think there's some confusion between that and the underlying rate increase that hopefully we could shed some light on. But that 1.5 percent premium trend, I believe -- do our policies in Florida have the -- yeah. Our policies in Florida have a built-in factor where, you know, your home value increases over time. And your policy adjusts to reflect that. And that's what the premium trend is measuring, not the other rate increases.

AUDIENCE MEMBER: You don't say the manufactured home increases, you say they decrease that, so you don't say that. They shouldn't go down.

MR. COK: It's a little technical, but let me try to help with this. The underlying settlement methodology even of a total loss is the agreed amount of insurance on the declaration page. There were a number of customers, and this is -- I don't have the exact statistic for the State of Florida, but on average, 40 to 50 percent of our customers also purchased optional replacement cost which provides additional coverage up to 120 percent of the amount of insurance. When replacement cost is purchased, that's more, you know, keeping current. So those types of policies receive an increase in the amount of insurance valuation because it's trying to keep up with the average increase.

AUDIENCE MEMBER: Are these policies available for manufactured homes?

MR. COK: Yes. That's what I'm referring to.

MS. MILLER: Sherry Beline?

MS. BELINE: Once again, I'm Sherry Beline from Jack's Insurance Agency. And as an agent, I would like to say a couple things. First of all, all of the Foremost renewals are increasing by at least that $200, so for that to be a surprise, it's not a surprise. When they call our agency like this gentleman here was saying and the gentleman behind us, we don't have any answers for them. When we call Foremost, the answer we get is, it's a rate increase. And so that's our answer to the customer. So as far as telling them to call the agent, it's a rate increase. And now they're all concerned about what are we going to do, how are we going to pay this, if there's another rate increase, I can tell you the customers aren't going to pay, that's for sure. And the second thing is, you're running new business in Florida, we've been representing your company product here for 30 years, why don't we now? Is this only through AARP? And when we do refer customers to AARP, they tell us that -- because we do like to refer people to your company, it's a wonderful company. But they tell us they have to be put on a waiting list and you're only accepting four policies a month or something. So I think it's false pretense to say you're writing new business like an open book.

MR. COK: We are writing business in Territory H, we do not write business on the coastlines because of our all exposure issues.

MS. BELINE: Central Florida?

MR. COK: Central Florida, that's correct. The provisions are a part of our endurance program with AARP and part of why it isn't more robustly open is the cold, hard reality for us of exposure management. When we look at how much can happen in the event of a large storm, we need to be sure that we're there to respond. And that's why certain parts of the state are restricted for new business and certain parts are open for new business. As to some of these rate increases, sometimes some of the rate you're paying are for assessments. We don't have choices in that, as well. Some of that language you're referring to -- and I point back to your question -- is assessments that we're told to pass through to you as part of that program. So --

MS. BELINE: When you say you're open to new business, that's four policies a month through AARP?

MR. COK: No, there's no four policies a month. I'm not sure what --

MS. BELINE: That's what the agents are saying of AARP, four policies per month.

MR. COK: We'll follow up on that. It's a territory-based approach to exposure management to make sure we're there in the event of a bad storm.

MS. BELINE: Also, just to be -- since we're being so badly picked on, just so everyone knows, as far as the discount for hardening of the home, we write -- like I said, we've been in business for 30 years, I've personally been there for 13, and we have four companies that are now writing, most of them have dropped out. Four -- actually, let me say five. None of the five give discounts for hardening the home. And they are all singing the same song about if it was 90 percent of the park that they would consider it. So maybe next time you can find that information out first. And the second thing is that -- I just wanted to say that if you are writing new business, we would sure love to know, especially since we've been writing for you for 30 years since the very beginning. And AARP, I don't think they have been for 30 years, so we would sure love to know it. Thank you.

MR. COK: In relationship -- just for fact, the relationship with AARP, we were first and we've been the only endorsed manufactured housing insurer since 1989. And so it's been a long term relationship for us.

MS. BELINE: We've been around since 1979.

MR. COK: Right, I understand. I'm just providing a fact as to how long that relationship has been.

MS. MILLER: Does anyone else wish to be heard?

Okay. Well first of all, I want to thank everybody again for taking time out of their schedules to come here. I know that you have other things to do, and we appreciate your participation in this process. Your comments will certainly be taken into account and made a part of the record of this proceeding. I also want to thank the officers of Foremost for coming and for facing your policy holders and giving us answers; that is more than a lot of other companies are willing to do, and we thank you for coming, too.

Just to wrap up, the record of this proceeding will not be held open. If anybody wants to send e-mail comments, you can send them to ratehearing@fldfs.com and put Foremost in the subject line. Thank you for your participation. This hearing is adjourned.

(The hearing adjourned at 4:50 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF POLK)

I, Evelyn M. Adrean, RPR, FPR, certify that I was authorized to and did stenographically report the commission meeting, and that the foregoing pages are a true and complete record of my stenographic notes taken during said commission meeting.

I further certify that I am not a relative, employee, attorney, or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

Dated this 6th day of March, 2008.

Evelyn M. Adrean, RPR, FPR
Notary Public
State of Florida at Large
My Commission Number: DD 360489
Expires: October 5th, 2008