



Consumer Federation of America

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FLORIDA SHOULD REQUIRE PRAETORIAN INSURANCE TO CUT RATES CHARGED TO HOMEOWNERS BY AT LEAST 44 PERCENT

In [testimony](#) filed today, the Consumer Federation of America (CFA) called for the Florida Office of Insurance Regulation (OIR) to require Praetorian Insurance Company to cut homeowners' insurance rates by at least 44.1 percent. Praetorian sold in excess of \$430 million in "force placed" insurance in Florida in 2011, as Balboa Insurance Company and QBE Specialty Insurance Company. Praetorian has requested that the rates for the largest insurer in the group, Balboa, remain unchanged.

The rates under review are for force-placed insurance -- an insurance policy imposed by a lending institution on a borrower's property -- when a borrower does not keep his or her fire insurance in force. Due to the recent tough economic and housing situation, many more policies are now force-placed. The number of homes insured by Balboa nationally increased dramatically from 3,598 in 2005 to 319,926 in 2010, according to available data.

"A major problem with the use of FPI insurance is 'reverse competition', which drives rates up for consumers," said J. Robert Hunter, CFA's Director of Insurance and former Texas Insurance Commissioner, who authored CFA's testimony. "Reverse competition occurs when insurers compete to get lenders to allow them to sell coverage by providing financial considerations to the lender, including commissions, subsidized services, and other things of value. These expenses are included in the premiums charged to borrowers, which makes the prices much higher," Hunter said.

Hunter, an actuary, pointed out that, "The rate filing is a massive actuarial overreach. For every dollar Praetorian charged consumers between 2007 and 2011, it paid out only four and one-half cents in claims payments! The rest of the money went for either excessive profits for the insurer or kickbacks to banks and other lenders."

CFA calculated the 44.1 percent rate reduction by removing kickbacks and other improper actuarial assumptions from rates being charged. Moreover, the recommended price cut is based on only a partial review of the filing, since all material related to hurricane CAT pricing, including the charge for reinsurance, is not available to the public because Praetorian claimed this information as a "trade secret."

"If Praetorian used the same type of actuarial overreach in these hidden documents as they did in the public documents, a rate decrease of much more, up to 85 to 90 percent, would be

justified,” said Hunter. “Partial availability of the data upon which a rate filing is based is a disservice to the people of Florida. I recommend changing this practice so that interested parties can see the entire case made by insurers for the rates that Floridians must pay.”

“Making rate filings for force-placed insurance known to produce excessive prices for the borrower is a practice that has gone on for decades,” said Hunter. “It is time to stop this sham. The Commissioner should send a message that protects Floridians and can be used as a beacon for all states as they strive to fix these outrageous practices.”

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The Consumer Federation of America is a non-profit association of some 280 national, state, and local pro-consumer organizations founded in 1968 to promote the consumer interest through research, education and advocacy.