

Insurer wants 27% rate hike as hefty profits reported for parent, MGA

By Julie Patel May 13, 2011 02:40 PM

Fidelity National Property & Casualty Insurance wants to raise rates 27 percent on average statewide.

But state documents show the company's managing general agent, or MGA – [an affiliate hired](#) to provide operations services – paid out nearly \$26 million in dividends last year.

That's 29 percent of the \$89 million the MGA, called Fidelity National Insurance Services, collected from Fidelity National P&C and other affiliates. Fidelity National P&C paid about \$31 million in MGA commissions and other services.

What's more the contract between the MGA and the insurer is signed by the same man, Mark Davey, who is president of both companies.

"What we've got is people making agreements with themselves so they're not arms length transactions," said Steve Alexander, actuary for the state's Insurance Consumer Advocate's office said Friday. "It's a mechanism for moving money out of the insurance company, shielding it from hurricane risk – a mechanism for disguising profits."

Fidelity National Financial, the insurer and MGA's parent company, reported a rise in net profit of 66 percent, to \$337 million in 2010. That led the company to pay out incentive bonuses for its officers "at or near maximum levels," making the total compensation for its chairman and president \$10.9 million and \$5.6 million, respectively.

Davey disputed the information Friday saying the MGA and another affiliate it works with to sell homeowners insurance lost \$18 million last year. He said he would review the information and provide a more detailed response. An Office of Insurance Regulation spokeswoman also said she would provide information on losses reported by the insurer.

The office held a rate hearing on Thursday for Fidelity National P&C, which has about home insurance 12,000 policies.

Alexander told regulators at the hearing that Fidelity is precisely the type of company that should be encouraged to sell more policies in Florida. The company sells policies nationwide so it can spread its risk and it has not formed Florida-only subsidiaries like other national companies.

Alexander recommended a 12 percent rate increase for the company, based on lower MGA and administrative costs.

Alexander said MGA commissions should be based on fixed fees instead of a percentage of a premium so that MGA don't get a rate hike every time the insurance company it works for gets an increase.

For instance, Fidelity P&C's MGA would receive about \$462, or a quarter of an average premium, \$1,848, after the rate increase. That's an increase in the average MGA commission of about \$105 per premium, or roughly \$800,000 more total, Alexander said.

Florida legislators passed a [sweeping property insurance bill](#) this year but voted against including a provision to close a loophole in state law that exempts some MGAs, those used exclusively by a Florida-based insurer, from reporting all the financial information required by insurers.

Alexander said 36 of 47 Florida insurers that earn more than \$20 million in premiums each year use affiliates as their MGAs.

Categories: Property Insurance (330)