

# **LRC Committee on Property Insurance Rate Making**

## **MINUTES**

November 2, 2011

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### **Welcome and Introductions**

The LRC Committee on Property Insurance Rate Making was called to order by Senator Harry Brown at 1:09 PM in Room 544 of the Legislative Office Building. There were six members present including Senator Harry Brown (chair), Representative Jerry Dockham (co-chair), Senator Ralph Hise, Senator Wesley Meredith, Representative Frank Iler and Representative Michael Wray. Research Division Staff members present were Kory Goldsmith, Tim Hovis and Amy Jo Johnson. Jeff Cherry of the Bill Drafting Division was also present. Committee assistants Darryl Black, Beth LeGrande and Elise Quick were also present.

Senator Brown started the meeting by recognizing the Sergeant at Arms and Staff present at the meeting. Senator Brown and Representative Dockham then provided a brief introduction to the committee.

Senator Brown provided a brief introduction to the committee about his experience with property insurance in coastal counties.

Representative Dockham welcomed the committee and stated that this has been a topic of discussion for the twenty plus years he has been a member of the North Carolina General Assembly.

### **Adoption of Proposed Budget**

Tim Hovis, staff attorney for the Research Division, was recognized by Senator Brown to explain the proposed budget and rules for the committee. Mr. Hovis noted that the Property Insurance Rate Making committee is a study committee of the Legislative Research Commission and is limited to meeting four times unless otherwise approved by the chairs of the Legislative Research Commission. Mr. Hovis explained the Legislative Research Commission rules (see attachment 1), the committee's proposed budget (see attachment 2) and noted the authorizing legislation specific to the committee (see attachment 3).

Mr. Hovis explained the committee co-chairs are required to send a draft of the committee report to the committee members and the Commission member responsible for the study at least seven days before the committee's meeting at which the report is to be approved (the final meeting of the LRC Committee on Property Insurance Rate Making). He noted that the actual text of the final report shall be adopted by the committee at its meeting prior to transmittal of the report to the Commission and shall include all recommended legislation. Mr. Hovis also stated the committee's report to the 2012 Session of the 2011 General Assembly shall be submitted to the Legislative Research Commission Chairmen not later than April 27, 2012.

Mr. Hovis briefly explained the committee's proposed budget and explained that the proposed budget of \$12,562 is for four meetings and assumes that all ten committee members are present. He explained that the approximate budget of each meeting is \$3,100. He stated that this is most likely an overestimate because all ten members will probably not be present for every meeting.

Senator Brown called for questions regarding the proposed budget.

Senator Brown recognized Senator Hise who presented a question about section 3a (travel expenses of legislative members) of the proposed budget (see attachment 2). Senator Hise assumed that the number eliminated in the budget totaled \$2,800. Senator Brown recognized Tim Hovis who then explained that the Excel sheet had moved the \$2,800 figure to the total column on the right side of the budget handout.

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Senator Brown asked if there were any further questions. There were no further questions. He then called for a motion to approve the proposed budget. Senator Hise seconded his motion. Senator Brown asked for all in favor to say “aye”. All four members present voted “aye” and the motion was approved.

## **Property Insurance Rate Making Procedure and Factors**

### **North Carolina Rate Bureau**

Senator Brown introduced Ms. Sue Taylor, the Director of Insurance Operations at the North Carolina Rate Bureau.

Ms. Taylor explained she was representing Ray Evans, General Manager of the Rate Bureau, who was out of town. She also noted that Bill Trott, with Young, Moore and Henderson and counsel for the Rate Bureau, was present at the meeting if any legal questions needed to be addressed for the Rate Bureau.

Ms. Taylor provided a brief introduction of her presentation. She stated she will discuss how the Rate Bureau operates, how property and casualty insurance rates are made and the steps the Rate Bureau goes through to file rates and approve them. Ms. Taylor pointed out that the Rate Bureau does not lobby or take any position other than the need for fair and adequate rates. She then began her presentation (see attachment 4) to the committee by explaining the origination of the Rate Bureau, the purpose of the Rate Bureau (specifically addressing that the Rate Bureau is not a state agency) and the numerical breakdown of the insurance companies writing insurance in the state (all of which are members of the North Carolina Rate Bureau).

She explained some companies write all lines of insurance and some only write certain types of insurance. Ms. Taylor also explained that because a company is licensed to write a certain type of insurance does not necessarily mean the company is writing that specific type of insurance- citing the 621 residential property insurance members in the state that are not all writing property insurance.

Ms. Taylor stated that the Rate Bureau provides personal and commercial insurance rates for private passenger auto insurance, residential property insurance and worker’s compensation insurance. She emphasized the Rate Bureau’s mission is to ensure that rates are adequate, not excessive and not unfairly discriminatory.

Ms. Taylor explained the Bureau was created by North Carolina G.S. 58-36-1 “to assume the functions formerly performed by the North Carolina Fire Insurance Rating Bureau, the North Carolina Automobile Rate Administrative Office and the Compensation Rating and Inspection Bureau of North Carolina. Ms. Taylor stressed the Bureau’s statutory responsibility to “promulgate and propose rates for insurance against loss to residential real property...”.

She stated that statute and the Bureau’s constitution requires every company in North Carolina be a member of the Bureau. The companies pay an annual membership fee and an annual assessment based on their premium volume in the state. Ms. Taylor then explained the Rate Bureau is managed by several committees (auto committee, property committee, workers compensation committee) composed of skilled technical members from the insurance industry. Ms. Taylor emphasized that the Governing Committee has the final authority and all recommendations from each of the committees go to the Governing Committee. She explained the Governing Committee is made up of 12 members from the insurance industry (6 stock companies, 6 non-stock companies) each of which has one vote. She stated there are two public company members appointed by the Governor and the members are rotated off after two three-year terms.

Ms. Taylor then discussed the role of the Rate Bureau, the definition of residential property and the types of residential property insurance policies available. She provided an example of a notice sent to ensure the consumer understands exactly what is covered under the policy (see attachment 4). North Carolina’s property insurance policies were then provided and the general ratemaking process was discussed. Ms. Taylor explained that after a rate

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filing is made with the Commissioner of Insurance it is made available to the public online, in two newspapers and in the North Carolina Register within ten business days after the filing.

Ms. Taylor outlined the Ratemaking Formula as rates set so that the premiums collected are sufficient to pay all of the expected losses and all of the expected expenses while leaving a fair and reasonable profit for the companies writing insurance coverage, or  $\text{premiums} = \text{losses} + \text{expenses} + \text{profit}$ . Ratemaking standards were explained briefly and the approval process was discussed (see attachment 4).

She stated that after a filing is made and approved there are Bureau factors that help determine the rate; some of which are determined by the applicant (deductible and coverage) and some determined by the characteristics of the property such as the construction of the dwelling. Ms. Taylor continued by explaining each Bureau factor, starting with policy form which she explained as the type of coverage a consumer wants or needs- homeowners, renters, etc. She mentioned that even within homeowners the consumer can have different types of coverage, whether limited or broad coverage in which the price varies depending on the amount of coverage.

Ms. Taylor continued by explaining the next Bureau factor: amount of insurance. She stated that the consumer should make sure the amount of insurance purchased is sufficient enough to cover the cost of the home. Ms. Taylor then defined the term 'deductible' as the portion of each covered claim a person is responsible for paying. She mentioned that a higher deductible reduces the cost of a policy but increases the amount one pays in the case of a loss.

Ms. Taylor briefly defined the construction of the house as the material it was assembled from; for example, a brick frame.

She then explained that fire protection class is determined by the State Fire Marshal and depends on where a person lives. She stated that during periodic inspections, fire marshals look at the quality of fire departments across the state and review factors such as available equipment, water sources and staff training.

Ms. Taylor pointed out that the state is divided into 18 territories for homeowners and that policy holders in each area have generally the same expected losses. She explained larger metropolitan areas (Charlotte, Raleigh, Durham, Greensboro and Winston-Salem) have their own rates separate from the county in which they are located.

Ms. Taylor emphasized the fact that individual companies have ways in which they can provide different rates from the average rate that the Bureau determines and these are accounted for as discounts or deviations. She provided examples of these discounts including a discount for residents 55 and older or a multi-policy discount. Ms. Taylor stated that the Rate Bureau has no authority over approving deviations and, although they are filed with the Bureau, as well as the Department of Insurance, the Department of Insurance has the final approval authority. She explained that companies can charge more than the approval rate on a policy basis by obtaining approval from the policyholder.

Ms. Taylor started her conclusion by emphasizing her simplification of the ratemaking process; she explained the entire process takes many months in order to make one rate filing due to the statutes and regulations surrounding the filing process. She concluded by saying she hoped her presentation helped the committee understand the purpose of the Rate Bureau and the ratemaking process. She told the chair she would be happy to answer questions from the committee.

### *Questions for the Rate Bureau*

Senator Brown opened the floor for questions, recognizing Senator Hise for the first question.

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Senator Hise asked about the simplified formula for premiums provided by Ms. Taylor. He asked if there are any other 'pools' for property insurance to cover hurricane relief similar to the 'pools' for automobile insurance to cover drivers who exceed rates.

Ms. Taylor responded by stating that the committee will hear from the Beach Plan later in the meeting, which is a pool.

Senator Brown cited that Ms. Taylor had mentioned consent to increase of rates by the property owner. He asked her to explain the notification process.

Ms. Taylor explained that there is a formal notification letter sent to the insured letting them know their rate will be increased and they have the option to sign that document and send it back to the insurance company (and the rate will be increased).

Senator Brown then asked what would happen if the insured did not sign the document.

Ms. Taylor stated that, if the insured does not sign the document, they have the option of going to another insurance company for coverage.

Senator Brown asked how many of the 621 residential property insurance companies registered in the state are actually writing policies.

Ms. Taylor said there are 621 companies that are members of the Rate Bureau and she did not know the number actually writing policies but would be happy to get an answer for Senator Brown.

Senator Brown continued by referring to the ratemaking formula,  $\text{premiums} = \text{losses} + \text{expenses} + \text{profit}$ , and asked if claim history had any impact on the rate.

Ms. Taylor responded that ratemaking for insurance mainly looks forward, although the Bureau does look at the past three years of experience of the insured. She said the Bureau is looking backward but also projecting forward as to what the losses may be.

Senator Brown recognized Representative Iler for a follow-up on his question. Representative Iler cited that, regarding expected losses, it is widely believed modeling plays a huge role on coastal counties and actual losses play a lesser role. Representative Iler asked if someone will give the committee a regional or overall explanation of how actual and expected losses are determined.

Ms. Taylor said she's not sure if the Beach Plan or Department of Insurance will cover expected loss and modeling information in their presentations but the Rate Bureau could provide an answer at a later presentation if the committee wishes.

Senator Brown then recognized his co-chair, Representative Dockham.

Representative Dockham asked Ms. Taylor to explain the expenses of a company (focusing on what the Rate Bureau looks at when expenses are submitted in a rate filing). Representative Dockham specifically asked how the Rate Bureau defines and determines a reasonable profit.

Ms. Taylor explained that expenses are the operating costs of the insurance company and can include the overhead and/or agent's commissions.

Representative Dockham asked if there was a standard that the Rate Bureau refers to in regards to the rate filing.

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Ms. Taylor stated that the Rate Bureau does have guidelines but with such a large number of insurance companies it is difficult to make sure the standards are met.

Representative Dockham pointed out that companies are in business to make a profit and asked how the Rate Bureau incorporates that aspect into their ratemaking process.

Ms. Taylor said the Rate Bureau looks at a 'fair and reasonable profit' and that looks at companies with like risk.

Representative Dockham asked if companies with like risk are those with a large number of policy holders or companies that only write certain lines of insurance.

Ms. Taylor explained that companies outside of the industry could have similar risk.

Representative Dockham followed-up by asking how the Rate Bureau looks at rates filed for the coastal territory. Representative Dockham asked if the Bureau uses losses for certain areas (along the coast) in comparison to losses for the western part of the state or rates looked at from a statewide perspective to determine rates.

Ms. Taylor responded that the Bureau looks at all losses throughout the state on a territory basis.

Senator Brown then asked who determined the territories and Ms. Taylor stated that the property committee within the Rate Bureau determines the territories based on county lines. She said the territories are created by county lines because the boundaries are very clear cut and easy to understand but the Bureau does have the larger metropolitan areas of the state grouped separately with a separate rate from the county.

Senator Brown asked if there was a discussion on a coastal county in comparison to a county in the western part of the state in the ratemaking process using one of the counties he represents as an example. Senator Brown explained that Onslow County is in both territory 8 and territory 52 and he wanted to know what determined in which territory Onslow County was included.

Ms. Taylor stated that the area east of the Intracoastal Waterway is considered beach territory and west is coastal, etc. In this case, the Intracoastal Waterway was the boundary that specified Onslow County as a coastal territory.

Senator Brown then asked what determines how much flexibility the company has on deductibles.

Ms. Taylor explained the company has flexibility, but the insured also has flexibility in regards to deductibles. She emphasized that the Rate Bureau offered a number of deductibles (up to \$10,000).

Senator Brown then asked Ms. Taylor how annual increases/ cost of living increases (normally 3 percent) are determined.

Ms. Taylor said the Bureau makes a rate filing annually and the Bureau looks at what they anticipate the losses will be in the future (which is determined by actuaries on the Bureau's committees).

Senator Brown asked if there were any further questions.

Jeff Cherry of the Bill Drafting Division cited that G.S. 58-36-1 contains a section stating the Bureau shall provide reasonable means for persons affected by a rate or loss cost to be heard in person before the Rate Bureau. Mr. Cherry asked how that statutory mandate is carried out in addition to the filing and public review process.

Ms. Taylor stated the Rate Bureau has not had anyone that has had a complaint brought to the Bureau recently for property insurance. She gave an example of the process for a complaint pertaining to other lines of insurance. Ms. Taylor explained the insured person would first bring the complaint to the Bureau and, if it can be worked out with

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the company, the Bureau will work with the individual insurance company to resolve the complaint. She explained that, if the complaint is not resolved in this manner, the complaint will go to one of the Bureau's committees for discussion. She said it depends on the type of complaint and line of insurance involved.

Senator Brown closed the question session and thanked Ms. Taylor for her presentation.

### **North Carolina Department of Insurance**

Senator Brown introduced the next speaker, Rose Vaughn-Williams, the Legislative Counsel to the Department of Insurance.

Ms. Rose Vaughn-Williams provided a brief history of ratemaking in North Carolina and a brief overview of the ratemaking process from the Department of Insurance perspective (see attachment 5). Ms. Vaughn-Williams explained how state regulation of property insurance began and how policies like the Beach and FAIR (Fair Access to Insurance Requirements) Plans were created. She noted legislation that changed insurance policies throughout the state since 1913.

Ms. Vaughn-Williams then discussed the ratemaking process as it pertains to the Department of Insurance. She provided a summary of the process including the filing, review and hearing steps (see attachment 5).

Ms. Vaughn-Williams presented an example of a filing made in January 2011. She explained the lengthy process and showed an example of the large volume of paperwork associated with a filing.

She explained that, after the hearing, the Commissioner of Insurance issues an order and either approves or disapproves the filing (see attachment 5).

Ms. Vaughn-Williams emphasized that after rates are established individual companies may deviate downward from those rates. She noted that the individual companies may charge more than the set rate, only with written consent from the policyholder.

Ms. Vaughn-Williams concluded by thanking the committee for giving her the opportunity to present the ratemaking process from the Department of Insurance's perspective.

### *Questions for the Department of Insurance*

Senator Brown recognized Senator Hise for the first question.

Senator Hise asked when the last filing for property insurance rate changes was presented to the Department of Insurance.

Ms. Vaughn-Williams stated that there was a homeowner's filing in 2008 and a dwelling filing (mentioned briefly earlier in her presentation) made in January 2011. She stated that prior to the 2008 filing the last filing was in 2006.

Senator Hise asked if it is fair to assume that the state is looking at a general two to three year interval between filings. He also asked about realized losses meeting expected losses.

Ms. Vaughn-Williams referred the question to the Rate Bureau. The Bureau did not have an answer for Senator Hise.

There were no other questions.

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## **North Carolina Insurance Underwriting Association (NCIUA) (Beach Plan)**

Senator Brown introduced the next presenter, Mr. Lee Dunn, Assistant General Manager of the Beach and FAIR Plans.

Mr. Dunn thanked the committee for allowing the North Carolina Insurance Underwriting Association (NCIUA/Beach Plan) and the North Carolina Joint Underwriting Association (NCJUA/FAIR Plan) to present information. He provided a brief history of both the Beach and FAIR Plans, a general overview of the operations of each plan, the association's annual growth and the 2011 Fiscal Year financial status of each plan.

Mr. Dunn explained the purpose and members of the NCIUA/ Beach Plan (all of which are authorized by the Commissioner of Insurance) the history of the plan, the governing board and rate determination for the plan (see attachment 6). Mr. Dunn noted that the NCIUA does not set rates; all rates are set by the Rate Bureau (for personal insurance) or the Insurance Services Offices (ISO) (for commercial insurance).

He then described the surcharges of the NCIUA (see chart in attachment 6). Mr. Dunn noted the 5%, 15% and 5% surcharges for dwelling wind, homeowner and homeowner wind insurance, respectively. He stated each of the surcharges are required by statute.

Mr. Dunn emphasized the determination of policy forms for the NCIUA and noted that separate Wind Hail policy forms must be approved by the Commissioner of Insurance and are modeled after the ISO. He also pointed out a required 1% "Named Storm deductible" applicable to all policies in the beach area. He stated that there is an overall minimum deductible of \$500 for commercial and residential policies; and for Wind Hail policies the 1% deductible is applied. Mr. Dunn defined a "Named Storm" as a hurricane, tropical storm or tropical depression.

He explained the maximum policy limits for the NCIUA and the regulatory oversight of the Beach Plan.

## **North Carolina Joint Underwriting Association (NCJUA) (FAIR Plan)**

Mr. Lee Dunn also discussed the NCJUA or FAIR Plan. Mr. Dunn discussed the purpose and members of the NCJUA. He pointed out that the governing board of the NCJUA is composed of the same type of members as the NCIUA/ Beach Plan; seven insurance industry members, four agent members and three public members. He also stated the NCJUA does not set rates; rates are determined in the same manner as the NCIUA (from the Rate Bureau).

He explained the NCJUA can apply condition-driven surcharges; for example, the NCJUA can apply a limited surcharge and then give the insured an opportunity to improve the property and the surcharges would be subsequently removed after the improvement.

Mr. Dunn stated policy forms for the NCJUA are the same as the NCIUA policy forms (and minimum policy deductibles for the NCJUA still include a minimum of one percent of the insured value for Named Storm in the coastal areas). He explained that for personal lines (applicable in the coastal area) and commercial lines (applicable statewide) the deductible would be determined either by the Rate Bureau or the Insurance Services Office.

Mr. Dunn mentioned the NCJUA has recently (since legislation was passed in 2009) been required to follow the maximum policy limits in the NCIUA. He noted regulatory oversight of the NCJUA is the same as the oversight in the NCIUA.

Mr. Dunn then presented charts that displayed the growth of each policy (NCJUA/FAIR Plan and NCIUA/ Beach Plan) (see attachment 6). He started by showing the number of NCJUA (FAIR Plan) policies in existence in 1996, 1998, 2003 and 2011. He said approximately 50,000 policies existed in 1996; 60,000 in 1998; 71,000 in 2003 and

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around 69,000 in 2011. He explained that from 1996-2011 the policy growth is due to the NCJUA policies in the 18 coastal counties.

He then showed the number of NCIUA (Beach Plan) policies in existence in 1996, 1998, 2003 and 2011. He said approximately 27,000 policies existed in 1996; 37,000 in 1998; 69,000 in 2003 and around 189,000 in 2011. He explained this was caused by an evaluation in the market and the concern for rate adequacy.

Mr. Dunn explained a chart detailing NCJUA and NCIUA premiums for the years 1996, 1998, 2003 and 2011 (see attachment 6). He showed the amount of NCJUA (FAIR Plan) premiums were \$9 million in 1996; \$13 million in 1998; \$20 million in 2003 and \$25 million in 2011.

Mr. Dunn subsequently showed the amount of NCIUA (Beach Plan) premiums in 1996, 1998, 2003 and 2011 which were \$24 million, \$34 million, \$75 million and \$303 million, respectively. He stated the premium amounts follow the policy growth explained in the last chart.

Senator Brown then recognized Senator Hise for a question. Senator Hise asked why the years 1996, 1998, 2003 and 2011 were selected to create the graphs.

Mr. Dunn explained that the year 1996 was represented on the graph due to a large named storm, Hurricane Fran; 1998 was selected because there was a legislative change to the Beach Plan in House Bill 452; the homeowners wind and hail policy changed in the year 2003 and the year 2011 is represented to give the committee an idea of the current statistics for each policy.

He then discussed the graph for NCJUA (FAIR Plan) and NCIUA (Beach Plan) exposure. He stated that for the NCJUA in 1996, there was \$2 billion in exposure; in 1998, \$2.5 billion; in 2003, \$4 billion and in 2011, \$4.6 billion. He stated growth is directly caused by the NCJUA policies in the 18 coastal counties, not the policies in the western part of the state.

He said the NCIUA (Beach Plan) had \$4.2 billion in exposure in 1996; \$6 billion in 1998; \$17 billion in 2003 and \$71 billion in 2011.

Mr. Dunn then discussed NCJUA(FAIR Plan)/NCIUA(Beach Plan) market share information based on reported premium writings for calendar year 2011. These percentages include the premiums for the FAIR and Beach Plan. As of 2010, the NCJUA and NCIUA write 71% of premium for the beach area; 37% for the coastal area and 13% statewide.

Senator Brown asked Mr. Dunn for his definition of the terms “beach area” and “coastal area”.

Mr. Dunn defined the “beach area” generally as the Outer Banks, everything east of the Intracoastal Waterway and the “coastal area” as including the entire 18 coastal counties covered under the Beach Plan.

Mr. Dunn continued by discussing the reinsurance structure of the NCJUA and NCIUA. He explained that due to the increase in policies and premiums there is a concern with adequacy of coverage and this concern is the reason for the NCJUA and NCIUA reinsurance structure. He explained that in 2007, the Beach Plan started obtaining reinsurance. He explained the current reinsurance program is a \$4 billion total risk financing. He emphasized reinsurance does not take effect until after the \$1.3 billion attachment point.

He concluded his presentation with a chart containing information on the 2011 Fiscal Year financial status of the NCJUA and NCIUA (see attachment 6). Mr. Dunn noted the data in the chart includes premiums, expenses and losses as a result of Hurricane Irene but some undeveloped losses are not included.



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### *Questions for the NCJUA/NCIUA*

Senator Brown asked for the retained earnings/ balance for the plans at the current time. Mr. Dunn stated, based on the numbers in the chart provided, the balance of the plans would be \$750 million less approximately \$39 million in losses from Hurricane Irene.

Tim Hovis asked Mr. Dunn to verify that as of 2009, after the passage of House Bill 1305, all profits are retained and not distributed to member companies.

Mr. Dunn verified all of the profits of the Beach Plan are retained by the association.

Senator Brown asked how deductibles two to five percent of the value of the property are determined.

Mr. Dunn responded that, other than the mandated deductibles (the one percent named storm deductible), a deductible of two to five percent would be allowed based on a consumer decision.

Senator Brown asked how a deductible amount over one percent of the value of the property would be explained to the consumer.

Mr. Dunn stated that from the NCJUA/ NCIUA's perspective, deductible options are clearly discussed between the consumer and company.

Senator Brown provided an example of a \$200,000 home with a five percent deductible (\$10,000 deductible). He said most consumers don't understand that's their deductible. He explained this is very unclear to most policyholders and this may be something to research for later meetings.

Mr. Dunn pointed out the one percent deductible that comes from the association and dollar amount applicable is shown on the policy form when the consumer signs the paperwork.

Senator Brown asked for an explanation of the losses the insurance companies paid out in the counties other than the coastal counties not in the Beach Plan after Hurricane Irene.

Ms. Rose Vaughn-Williams responded to the question. She said the answer to the question can be obtained from the Insurance Services Office (ISO) but she did not know the answer at the time.

Representative Iler asked how "loss cost", "expected losses" and "loss experiences" are calculated.

Mr. Dunn said the "expected losses" are part of the ratemaking process so Representative Iler's question should be deferred to the Rate Bureau. He said loss cost applies to commercial lines of insurance; they develop a loss cost that is purely loss data and does not include any expenses of the company. He noted ISO loss cost is used and then the NCJUA/ NCIUA expenses (cost of operations, claims expenses, cost of commission) are applied to loss cost. He simplified this statement by stating:  $\text{rate} = \text{ISO loss cost} + \text{NCJUA/ NCIUA company expenses}$ .

Representative Iler followed up by asking how the expected loss figure is calculated and how much of that is modeling and how much is experienced losses.

Mr. Dunn deferred the question to Ms. Sue Taylor of the Rate Bureau.

Ms. Taylor of the Rate Bureau stated the Rate Bureau has actuaries that assist them in determining the expected losses and the Bureau also uses modeling losses.

Representative Iler then asked what portion is based on modeled losses versus expected losses.

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Ms. Taylor did not know the answer to the question but stated she would determine the answer and respond to Representative Iler at a later date.

Representative Iler asked Ms. Taylor the difference between claim history and modeling.

Ms. Taylor did not know the answer and said she would find the answer by the next meeting.

Representative Iler then asked about the "Named Storm deductible".

Mr. Lee Dunn explained the "Named Storm deductible" is mandated by statute and the consumer has no voice in the one percent deductible. The deductible will apply if the National Weather Service declares a storm a hurricane, tropical storm or tropical depression. The consumer can choose an overall deductible level for any other catastrophe not declared a "Named Storm" as long as the deductible is \$500 or more.

Senator Brown pointed out the "Named Storm deductible" only applies to the 18 coastal counties covered in the Beach Plan.

Representative Dockham then asked what effect House Bill 1305 has had on premiums for the coast and for the state.

Ms. Taylor stated House Bill 1305 helped the insurance industry but it would be better to have a representative from the insurance industry comment.

Representative Dockham asked if House Bill 1305 has made the rates decrease.

Ms. Taylor said when rates are calculated the limit for the insurance companies is accounted for and has helped the Rate Bureau with filing.

Senator Brown mentioned, in five years, his insurance in Jacksonville had gone from \$1,600 to \$3,900.

Representative Dockham asked (again) if House Bill 1305 had made the rates decrease.

Bill Trott, with Young, Moore and Henderson and counsel to the Rate Bureau, introduced himself and said the expert economist of the most recent rate filing analyzed what the rates would have been with and without the passage of House Bill 1305. He noted that without the passage of House Bill 1305 there would be about 21% increase in rates in the wind portion of the filing and after the passage of House Bill 1305 that number was 5.3%. He concluded that House Bill 1305 has helped North Carolinians maintain lower rates.

Representative Dockham clarified that the rates have not gone down- they've just not gone up as much as they would have had House Bill 1305 not passed.

Mr. Trott responded that Representative Dockham's assumption was correct.

Senator Brown stated he thought that the reason rates do not go up depends on where you live in the state.

Jeff Cherry of the Bill Drafting Division stated that House Bill 1305 also called for the development of a schedule of mitigation and construction features. He asked for an update on where that effort stands.

Ms. Sue Taylor of the Rate Bureau answered that the mitigation credits went into effect May 1, 2011 and companies can offer mitigation credits to companies meeting the criteria established.

Senator Brown asked Mr. Cherry and/ or Ms. Taylor to explain the criteria mentioned.

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Ms. Taylor said the Rate Bureau uses the Institute for Business and Home Safety which has certifications for a bronze, silver and gold discount level. She mentioned, in addition, the Rate Bureau offers discounts for opening coverage (shutters over doors and windows, etc.).

Senator Brown followed up on Ms. Taylor's response by stating that building codes on the coast have become more stringent as far as the wind policy. He asked how the strict building codes have affected the rates on the coast and what has been done about the strict building codes on the coast.

Ms. Taylor said she had heard the building codes are improving and, over time, this improvement will lower the rates.

Senator Brown asked if she knew of any cost deduction for any policyholder that has taken place as of now.

Senator Meredith asked for the definition of the "bronze, silver and gold" levels Ms. Taylor mentioned in reference to rate discounts.

Ms. Taylor stated she would provide the answer to Senator Meredith's question at a later date.

Senator Brown asked for further questions. Hearing none he thanked Mr. Lee Dunn for his presentation.

### **Committee Discussion and Directions to Staff**

Senator Brown asked the committee what type of discussion they would like to hear at the next meeting.

Representative Iler asked that the information he asked for in the meeting regarding modeling losses versus experienced losses be presented to the committee in the next meeting.

Senator Brown stated that he and Representative Dockham would discuss with Staff what they would like to see on the agenda for the next meeting.

Senator Brown said he would like information regarding building codes on the coast and he also wanted to know if the state is looking to expand the 18 coastal counties covered under the Beach Plan or drop any of the counties covered in the Beach Plan.

Mr. Dunn stated that would have to be done through the Rate Bureau or set in statute.

Senator Hise asked that factors used in determining an expected loss on a property be discussed in the next meeting.

Senator Brown asked the committee to contact Representative Dockham or himself if any other topics need to be discussed at the next meeting. He also mentioned a notice for the upcoming meeting will be sent out soon.

There being no further questions or comments, Senator Brown adjourned the meeting at 2:34 PM.

Respectfully submitted this 17th day of November, 2011

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Darryl Black and Elise Quick, Committee Assistants

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Senator Harry Brown, Committee Chair